WORLD FINANCIAL ORDERS
AND
WORLD FINANCIAL CENTRES

An Historical International Political Economy

Paul Langley

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Abstract

Attempts to comprehend contemporary world finance are confronted by a dual problematic: inquiry encounters not only significant change that cannot easily be captured, but also the predominance of neo-classical economics as a mode of knowledge. By taking as its starting point existing research in the field of International Political Economy (IPE) and grounding inquiry in an 'Historical IPE' approach, 'World Financial Orders and World Financial Centres' offers an alternative mode of knowledge of contemporary world finance.

An Historical IPE of world finance proceeds by focusing upon the changing organisation of world credit practices since the seventeenth century. World credit practices are organised in the context of the structures of power in successive social orders, that is, world financial orders. Relative stability in world financial orders is reproduced by structures of authority which articulate interdependent relationships between state, civil and market institutions in the organisation of world credit practices. World financial centres (WFCs) are identified as necessary to an understanding of world finance in two main senses. First, WFCs are the key social spaces for world finance, where world credit practices and the material, ideational and institutional forces that frame them become centralised. Second, WFCs are key spaces of authority in world finance, the social loci for the reproduction of world financial orders. It is shown that periods of relative stability in successive world financial orders tend to coincide with the dominance of a single WFC. With the present standing of New York, London and Tokyo as a 'triad' of WFCs, contemporary world finance is characterised by its 'unstable reproduction'.

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INTRODUCTION

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The Problematics of Apprehending World Finance

> "Worrying about international financial markets is a thriving industry of its own, quite literally for financial journalists as well as for bankers who write for the financial press while also advertising in it. But it is significant that the focus of anxiety keeps shifting in a neurotic way, never fixing permanently on any single aspect. Many people have an instinctive feeling that they *should* be troubled by markets which have grown so quickly, which are so big and in many ways so little understood. But they are unsure precisely what it is they ought to be nervous about and so a limited number of topics succeed each other endlessly as the fashionable concern of the moment. Each is discussed learnedly, exhaustively, and inconclusively until attention switches to the next" (Mendelsohn 1980:45 *original emphasis*).

"Worrying" and "anxiety" about world finance that is "so little understood" is to be expected. In a simple sense, the struggle to apprehend world finance would appear to result from a structural transformation in the very nature of contemporary world finance that cannot easily be captured. Further, attempts at comprehension are straight-jacketed by the predominant 'mode of knowledge'.[1] Endeavours to apprehend contemporary world finance encounter not only significant structural change, but also the imperialism of neo-classical economics amongst western bankers, financial journalists, and across the social sciences.[2] Within the social sciences in particular, the teleology of neo-classical economics is extended by the use of 'globalisation' as an arresting metaphor to provide explanation and understanding of the nature of contemporary capitalism (Amoore *et al* 1997). Under this reading, structural changes in contemporary world finance - as in so many areas of social life - are captured under the rubric of globalisation. The neo-classical globalisation of world finance is effectively naturalised, cast as the benign and inevitable result of the expansion of the

[1] The notion of different 'modes of knowledge' is taken from Cox (1985/1996:51). The existence of different modes of knowledge is a recognition that different understandings are built upon different ontological, epistemological, and theoretical grounds.

[2] 'Economic imperialism' is "the attempt to extend the core ideas of neoclassical economics to cover the social sciences as a whole. ... It is based on the belief that the idea of 'rational economic man' is appropriate to social science as a whole" (Hodgson 1994:21).

rational logic of the market mechanism as the most efficient means of allocating resources. Under the predominant mode of knowledge, then, "worrying" is necessarily perpetuated at the margins as no research agenda is suggested which addresses the sources of "anxiety".

As the recent wave of chaos in world finance emanating from the Asian region has once again illustrated, however, contemporary world finance is far from benign (Goldstein 1998; Haggard & MacIntyre 1998; Bevacqua 1998). "Worrying" and "anxiety" at the margins in itself becomes insufficient. Explanations of world finance that naturalise structural change and reify the market 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.[3] The neo-classical facade is questioned once world finance is recognised to be historically constructed and resting on social and power relations. In moving beyond "worrying" and "anxiety" to have some influence over future structural change, or at least to work towards forestalling the worst eventualities of change, alternative modes of knowledge which apprehend world finance are essential. It is against this backdrop of the dual problematics of world finance - that is, inquiry encounters not only significant structural changes that cannot easily be captured, but also the predominance of neo-classical economics as a mode of knowledge - that this thesis should be seen.

Apprehending World Finance: The Prospects of International Political Economy

The mode of knowledge of world finance offered 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

[3] Of course, the capacity of an alternative mode of knowledge to hold an emancipatory and transformative potential is likely to rest upon connections to shifting social and power relations. As Gill (1997:6) asserts, "A widespread sense of transformation may provide no more than the opportunity for theoretical innovation - and thus fall short of emancipatory potential - unless innovations-in-thought are related to and rooted in the real movement of social and political forces, institutionalised in civil society ...".

IPE as a field of inquiry lay in the crisis of the discipline of International Relations (IR) in the early 1970s (Payne & Gamble 1996:3).[4] The breakdown of the world economy during this period could not be accounted for within IR's research agenda that was locked into Cold War security concerns (Ashley 1986). IPE emerged to fill the gap which resulted from the neglect of 'the economic' as an area of international study. Given that the collapse of the Bretton Woods fixed-exchange arrangements was a key feature of the breakdown of the world economy, IPE has become established as a central avenue for inquiry that seeks to apprehend world finance. In practical terms, then, IPE provides fertile soil from which to begin to account for contemporary world finance.

In addition to the more practical benefits of engaging with the existing body of scholarship of world finance that IPE has to offer, our concern here with the need to establish an alternative mode of knowledge when apprehending world finance are assisted by ontological, epistemological and theoretical debates within IPE.[5] While IPE is widely accepted as a field of inquiry and set of questions, such debates create considerable disagreement amongst 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 that seeks to apprehend 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 & Tooze 1991; Payne & Gamble 1996:3-10). It is the way that ontology, epistemology and theory come together for each of these loose groupings that give 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-classical economics, the critique of these features of orthodox IPE offered by new IPE offers a firm basis from which to begin to generate an alternative mode of knowledge of world finance.

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[4] Clearly, however, the intellectual and historical roots of IPE stretch back to the seventeenth and eighteenth centuries to debates over national development and wealth creation, the division of labour and comparative advantage initiated by the mercantilists and carried through by Adam Smith, Karl Marx and Friedrich List among others. For an introduction to IPE that emphasises the intellectual and historical roots of IPE, see Pettmann (1994).

[5] 'Epistemological' questions are concerned with how we know what we know, while 'ontological' questions with how we configure what we want to know within an assumed basic structure of the significant entities and the relationships between them (Murphy & Tooze 1991; Cox 1992/1996:144). Of course, such debates within IPE also reflect wider debates across the social sciences.

Orthodox IPE and World Finance

The ontology of orthodox IPE is derived from neo-classical economics. This suggests that the international economy is the cumulative product of exchange between national communities of rational individuals. When combined with a state-centric understanding of politics received from the ascendant theory of neo-realism within IR, the ontology of orthodox IPE tends to be expressed as the 'politics of international economic relations' (PIER) (Strange 1988:12). The central object for inquiry becomes the manner in which the politics of national economic policy-making and international economic agreements impinge upon the exchange relations between national economies. Although they are considered together, then, politics and economics or states and markets remain largely opposed forms of social organisation (Gilpin 1987:4).

In epistemological terms, orthodox IPE tends to share with IR a combination of empiricist epistemology with positivist methodology (Smith, Booth & Zalewski 1996). Subject and object are separated in inquiry so that the truth of a theoretical statement is determined by how well it corresponds to an objective material reality (Krasner 1996:108-9).[6] Under the individualism of positivist methodology and informed by assumptions of utility maximisation derived from neo-classical economics, the object of inquiry is explained in terms of the rational and egoistic action of 'individual' agents. Framed by the theories of orthodox IPE, the 'individual' agents are usually either states, in line with neo-realism, or a wide range of institutional actors, in line with liberal institutionalism (Krasner 1994:14).[7] The legitimacy of the knowledge created by orthodox IPE is, then, "primarily and initially derived from mainstream economics" (Murphy & Tooze 1991a:17).

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6 Orthodox IPE has not remained isolated from epistemological debates across the social sciences. However, even when confronted by the importance of subjective ideas as suggested by the hugely influential work of Kuhn (1962/1970), ideas tend to remain purely in the subjective realm and divorced from objective reality under orthodox IPE (Murphy & Tooze 1991a:22-3). The result is an endless debate between realism, liberalism and Marxism as the three main sets of theory in which none can be held to be wrong other than in terms of capacity to reveal truth through testable hypotheses. This leads to what Strange (1991:34) has termed "a dialogue of the deaf" within orthodox IPE.

7 Where agents are recognised to exist within context of structures, for instance research which has built on the influential work of Waltz (1979), structures themselves are theoretically posited unchanging laws.

In terms of apprehending world finance, orthodox IPE has yielded a fairly distinct mode of knowledge. Guided by its ontological basis, the principal concern for orthodox IPE has been with understanding the creation and maintenance of stable international monetary relations (Cohen 1977; Block 1977; Calleo 1982). The concern with international monetary relations follows from the neo-classical privileging of exchange, as monetary arrangements are defined as "the sum of all the devices by which nations organize their international economic relations" (Block 1977:1). In this sense, "international money matters" because stable international monetary relations are "the critical nexus" which facilitates stable exchange relations (Gilpin 1987:118).[8] Informed by a positivist search for observable laws, international monetary stability tends to be held by orthodox IPE to hinge upon the provision of certain key prerequisites as 'public goods'. These include a supply of adequate liquidity for balance-of-payments financing, an appropriate adjustment mechanism to resolve national balance-of-payments disequilibria, and confidence in the reserve currency or currencies (Cohen 1977:28; Gilpin 1987:118-9). It is the changing patterns of domination, co-operation and conflict between the principal states as rational agents which determine the availability or otherwise of the key prerequisites.

Theoretically, building on a seminal analysis of the inter-war years by economist Charles Kindleberger (1973), orthodox IPE accounts of international monetary stability have been dominated by hegemonic stability theory (HST). Indeed, such has been the theoretical grip of HST that orthodox IPE more broadly "has become a discourse constructed around a particular view of the hegemonic state" (Payne & Gamble 1996:4). HST suggests that a states system in which a single state is hegemonic is the most conducive to the provision of the public goods necessary for stable international monetary relations.[9] As Gilpin (1987:74) asserts,

[8] In this sense, then, the concern of orthodox IPE with international monetary relations supplements the main focus of orthodox IPE which, following neo-classical assumptions, has been international trade relations. For the classic statement of the centrality of international trade to orthodox IPE inquiry, see Cohen (1990).

[9] For a wide-ranging discussion of hegemonic stability theory and its development in IR, see Guzzini (1992).

> "...the hegemon or leader has the responsibility to guarantee provision of the collective goods of an open trading system and stable currency. ... a liberal economic system cannot be self-sustaining but must be maintained over the long term through the actions of the dominant economy" (Gilpin 1987:74)).

As a consequence, periods of instability - such as the inter-war years - reflect a leadership vacuum generated by the decline of one hegemonic state and the rise of another. The changing distribution of wealth and power between states is linked to changes in economic efficiency that generate divergent national growth trajectories. As such, in the absence of a hegemonic state in the contemporary era of international capital mobility, international co-operation and co-ordination of national monetary policies becomes essential in contributing towards economic stability (Goodman 1992; Webb 1994).

In our terms, the utility of orthodox IPE accounts of world finance lies in the raising of questions as to the patterns of domination and subordination in world finance. In particular, there is a questioning of how these patterns are reflected in the authority and roles of actors in the organisation and management of world finance (Walter 1993:27). However, the effective separation of politics and economics restricts the capacity of orthodox IPE to reflect upon the questions which it raises. While states are indeed likely to be of central importance, states tend to be assumed to be the only actors capable of exercising authority in the organisation of world finance regardless of historical and structural context.

Further, as a mode of knowledge, an orthodox IPE of world finance tends not to question or consider alternatives to neo-classical economics. The "problem-solving" (Cox 1981/1996) bias of orthodox IPE, deeply rooted in empiricist epistemology and positivist methodology, tends to legitimate inquiry that acts as an adjunct to neo-classical economics.[10] Guided by problem-solving

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[10] The notion of "problem-solving theory" is taken from Cox (1981/1996). Problem-solving theory "takes the world as it finds it, with the prevailing social and power relationships and the institutions into which they are organized, as the given framework for action (1981/1996:88). Cox counters the purposes of problem-solving theory against "critical theory", which is "critical in the sense that it stands apart from the prevailing order of the world and asks how that order came about. ... It is directed toward an appraisal of the very framework for action, or problematic, which problem-solving theory accepts as its parameters" (1981/1996:88). The two-types of theory are not mutually exclusive, but lend themselves to addressing different concerns within the overall process of critical inquiry. Problem-solving theory lends itself to limited spheres of action "which are amenable to relatively close and precise examination" (1981/1996:88). Critical theory leads to consideration of "a larger picture of the whole of which

theory, the general aim of inquiry is to make existing "relationships and institutions work smoothly by dealing effectively with particular sources of trouble" (Cox 1981/1996:88). The predominant neo-classical mode of knowledge of world finance becomes supplemented by orthodox IPE accounts that suggest that the sources of instability in world finance are to be found in the system of states, and not within the contradictions of world finance itself.[11] As such, according to orthodox IPE, the problems of instability in contemporary world finance can be 'solved' by increased international co-operation in key policy areas in the absence of a single hegemonic state.

New IPE and World Finance

In contrast to the mode of knowledge offered by orthodox IPE, accounts of world finance in new IPE have been built upon alternative ontological, epistemological and theoretical foundations. In ontological terms, new IPE rejects neo-classical understandings of its subject mater. For new IPE, the sum of the basic structure that is the field of IPE is both greater than its national parts and subject to considerable change over time. New IPE has expressed this variously through concerns with, for instance, "global political economy" (Gill & Law 1988), "world systems" (Wallerstein 1974) and "world orders"(Cox 1987). While remaining diverse in the concepts used, new IPE scholars are, in the main, ontologically united by a belief in the need to move beyond the PIER approach to capture the transnational nature of the enterprises, social movements, social forces, and markets that they wish to study (Strange 1988:21).

In epistemological terms, new IPE has embraced a wide range of post-positivist epistemologies that are all willing to recognise the essential subjectivity of the social sciences (Murphy & Tooze 1991:6). As Payne and Gamble (1996:6-7) note, the work of Robert Cox (1981/1996) proved especially significant in liberating new IPE from the confines of the empiricist epistemology and positivist methodology of orthodox IPE. As a consequence, there is an acceptance that inquiry is open to claims and counter-claims, and that

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the initially contemplated part is just one component, and seeks to understand the processes of change in which both parts and whole are involved" (1981/1996:89).

[11] In this sense, the original assumptions of Kindleberger's (1973) analysis which suggested that a hegemonic state was necessary to bring about international monetary stability due to the inherent instability of financial markets is effectively turned on its head. For Gilpin (1987) and other orthodox IPE scholars, the need for a hegemonic state to bring about international monetary stability results not from inherent instability in financial markets, but from instability generated by the assumed anarchical nature of the states system.

such debate is part of the processes of knowledge construction that have important political implications for society at large. In addition and in opposition to the individualism of positivist methodology, new IPE has sought to engage with debates across the social sciences which have addressed the problematic inseparability of structure-agency (Cerny 1990; Jones 1995). Here, structures become recognised as changing constraints and opportunities expressed through political agency (Gamble 1995:522).

Finally, in theoretical terms, new IPE has sought to challenge the theoretical closure that results from retaining close links to IR. As with its ontological and epistemological bases, new IPE seeks to retain an essential 'openness' to cross-disciplinary theoretical insights (Strange 1984). New IPE remains, however, united in its commitment to what could be termed 'genuine political economy'. New IPE shares with orthodox IPE a belief in the inseparability of politics and economics. The genuine political economy of new IPE nevertheless rejects the assumption of orthodox IPE that politics and economics are opposed forms of social organisation (Gilpin 1987:4). The genuine political economy of new IPE recognises politics and economics to be united as part of the same processes of social and historical change.

In terms of apprehending world finance, the alternative ontologies of new IPE have informed alternatives to orthodox IPE at three interrelated levels. First, new IPE accounts of world finance have tended to assert that international monetary relations can only be apprehended in the context of contemporary global financial relationships in which transnational markets predominate (Cerny 1993; Underhill 1997). In short, "structural change" in world finance realises "paradigmatic muddle" for orthodox IPE (Cerny 1994).[12] Second, given that "separate national currencies themselves are increasingly inextricably locked into wider financial trends and structures" (Cerny 1994:591), it follows that the focus for inquiry should not be on 'money' narrowly defined as the determination of currency values and the system used to exchange currencies. Instead, the focus of new IPE accounts has been upon "the field of finance", that is, "the system by which credit is created, bought and sold and by which the direction and use of capital is determined" (Strange 1990:259). Finally, taking as a starting point the wider angle of vision suggested by their alternative ontologies, some new IPE scholars have critiqued the explanatory power of

[12] For a partial rejection of this ontological position by an orthodox IPE scholar, see Cohen (1996:295-6).

orthodox IPE in apprehending world finance prior to the contemporary era (Walter 1993; Germain 1997). Transnational financial relationships are recognised to have existed and impinged upon international monetary relations for centuries, and the mode of knowledge represented by orthodox IPE is rejected for apprehending both past and present.

Stemming from a theoretical commitment to what has been termed here 'genuine political economy', new IPE accounts of world finance have been largely shaped by concerns with the restructuring of inter-relationships between states and markets in the organisation of world finance. While rejecting HST, states and markets approaches have tended to concur with the orthodox IPE view that the foundations of contemporary world finance are largely a political creation. Market and technological forces of change are held as significant, but states, as the principal aggregations of political power, constitute the 'bottom line' in determining the nature of market structures (Frieden 1987; Helleiner 1994; Sobel 1994; Strange 1986).[13] The key distinction from orthodox IPE is, however, that markets are recognised as necessarily socially and politically embedded (Underhill 1991). In short, the 'states and markets' approach of new IPE contrasts with the 'states against markets' approach of orthodox IPE.[14] Against this theoretical backdrop, the contemporary coexistence of transnational markets and nationally-bounded state authority has stimulated concerns with both the potential loss of state authority in finance (Frieden 1991), and the new political arrangements through which world finance is organised. These new arrangements incorporate a range of state, inter-state and non-state institutions (Porter 1993; Underhill 1997a). Instability in world finance tends to be held to result from the inability of existing political arrangements to both prevent

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[13] Considerable debate does, however, surround the motivations behind state official's decisions to change financial market structures. For instance, contemporary world finance has been marked by the liberalisation and deregulation of national financial market structures. For Helleiner (1994), these decisions were taken by the American and British state officials to further their respective national interests, which in turn generated structural pressures on other state officials to follow suit. Alternatively, for Sobel (1994), the decisions were motivated by a reordering of domestic societal forces that pushed the interests of financiers onto the political agenda. Cohen (1996) labels these alternative approaches respectively the 'outside-in' and 'inside-out' models of change.

[14] The notions of 'states and markets' (Strange 1988) and 'states against markets' (Boyer & Drache 1996) are taken from the titles of two IPE publications. For orthodox IPE, debate centres on "the role of markets versus the role of governments in the management of international capital" (Cohen 1996:280), while for new IPE, "markets and politics are not opposing principles" (Underhill 1997:3).

speculative excess in the financial markets, and ensure that the credit needs of society are met (Strange 1986).

Building on the capacity of the states and markets approach to illustrate that the political foundations of world finance extend well beyond state institutions, some new IPE scholars have begun to disaggregate 'states' and 'markets' as analytical categories to reveal their various and changing social and institutional bases. The focus for inquiry becomes the actual practices of credit creation themselves and the public and private institutions of finance through which they are organised. For instance, Porter (1993) has linked contemporary changes in the organisation of credit practices through market institutions to changes in regulatory practices organised through civil, state, inter-state and transnational institutions. Not dissimilarly, Germain (1997) has focused on the changing roles of public and private monetary agents within institutionalised credit networks. It is these credit networks, and in particular the way in which they come together in principal financial centres, which form the basis of the international organisation of credit. Disaggregating states and markets in this way means that the social and power relations which underlie the organisation of world finance can be shown to take a wide range of institutional forms across different periods, and be related to the changing nature of credit practices themselves.

Outline of the Thesis

In the context of the dual problematics of apprehending contemporary world finance, then, attempts to apprehend world finance by new IPE scholars provide an appropriate starting point for inquiry here. The seven chapters that constitute the main body of this thesis are divided into three substantive Parts. Part I, comprising chapters one and two, begins the processes of (re)thinking world finance necessary for the articulation of an alternative to the predominant mode of knowledge derived from neo-classical economics. Considerable ontological, epistemological and theoretical debates within new IPE itself ensure important variations across new IPE as a mode of knowledge. Chapter one moves through and in support of an existing 'historical turn' in new IPE to develop what is termed an 'Historical International Political Economy'. This looks to history to provide an ontological and epistemological anchor for new IPE, rooted in a recognition of the epistemological consequences of an ontology of historicity that extends beyond the agents that are the object of inquiry to the historian or social scientist. The result is an 'historical' warrant for alternative knowledge claims to those legitimated by empiricist epistemology and positivist methodology. From this basis, five principal interrelated dimensions that are the primary concern of Historical IPE inquiry are isolated: Structured Social Practices; Social Change; Social Space; Social Time; and Social Orders. Each dimension is rounded out theoretically through relevant new IPE scholarship.

Chapter two continues the processes of (re)thinking world finance by pursuing an approach to world finance which follows from the five principal interrelated dimensions that are the primary concern of an Historical IPE. Inquiry proceeds by focusing since the seventeenth century on the organisation of modern world credit practices in the context of successive social orders, that is, world financial orders. World credit practices are held to be organised through the structures of power and authority within a world financial order, which is itself part of the wider world order. A relatively stable world financial order, recognisable as a coherent conjunction between the material, ideational and institutional structural forces that frame world credit practices, is reproduced through authority relations. World financial centres (WFCs) are identified as significant in successive world financial orders in two senses. First, WFCs are the key social spaces for world credit practices, where practices become centralised. Second, WFCs are key spaces of authority in world financial orders, the social loci for the reproduction of relatively stable world financial orders. It is posited that a relatively stable world financial order coincides with the dominance of a single WFC and that a relatively unstable world financial order, in which world credit practices undergo considerable restructuring, is marked by the decentralisation of the order between two or more centres at the apex of the hierarchy.

Part II, comprising chapters three, four and five, shifts to consider 'World Financial Orders and World Financial Centres' in more concrete terms. The successive Amsterdam-centred (1600-1815), British (1815-1931), and American (1931-1973/4) world financial orders are addressed in turn. Inquiry proceeds across each world financial order by reflecting on: the rise of Amsterdam, London and New York respectively as the single, dominant WFCs; the predominant forms taken by world credit practices; the structures of power and their relationships to the making of the orders; the wider world order of which each order is part; the structures of authority and their relationships to the organisation of world credit practices and relatively stable reproduction of the orders; and the unravelling of the orders and the associated decentralisation and restructuring of world credit practices. Throughout Part II, a comparative historical form of inquiry ensures that close attention is paid to both the continuities and differences that mark each world financial order.

Four related historical insights emerge from the chapters that comprise Part II which, in turn, guide inquiry into the contemporary world financial order. First, by comparison with the American world financial order in which world credit practices effectively took the form of inter-governmental and corporate capital exports, world credit practices have undergone intense restructuring to take the predominant forms of banking and capital and equity market practices. Second, the unravelling of the American world financial order was particularly distinctive. In contrast to the unravelling of the Amsterdam-centred and British world financial orders, the demise of the American world financial order was not simply characterised by the decline of New York and the rise to dominance of another WFC. New York has retained its standing as a WFC in the contemporary world financial order alongside a re-emergent London, with both joined in the 1980s by Tokyo to make a 'triad' of WFCs. Taken together, these first two historical insights prompt inquiry to consider the relationships between the changing forms of world credit practices and the emergence of the 'triad' of WFCs as key social spaces. This is the task of chapter six, the opening chapter of Part III, which begins to reveal the structural changes of contemporary world financial order and to generate an 'historical' alternative to the predominant mode of knowledge derived from neo-classical economics.

The third insight to emerge from Part II that guides inquiry into the contemporary world financial order is concerned with the making of world financial orders. Part II shows that the making of previous world financial orders was characterised by a hierarchical structure of power. The social forces associated with Amsterdam, London and New York respectively occupied pivotal positions in the making of world financial orders. This reflected their material power, itself a consequence of the tendency for capital, knowledge and technology to be centralised in the dominant WFC of each order. Social and political power relations and the structures of the wider world order also framed the making of world financial orders. As a result, the unravelling of world financial orders - in which new WFCs rose to the apex of the hierarchy - were driven by the rise of competing state and societal forces. However, chapter five shows that the US state and New York' social forces remained pivotal to the unravelling of the American world financial order and the restructuring of credit practices. Inquiry into the structure of power in the contemporary world financial order is, then, essential to apprehending the making of the order.

Fourth, Part II shows that the reproduction of relative social stability in successive world financial orders rested upon a structure of authority centralised respectively in the dominant WFCs of Amsterdam and London and the Washington-New York axis. The institutionalised and less formal dimensions of the structure of authority came together, articulating interdependent relationships between state, civil and market forms of authority in the organisation of world credit practices. The unravelling of world financial orders coincided with the decentralisation of those orders and the proliferation of financial centres at the apex of the hierarchy. Inherent contradictions came to the surface in the absence of a centralised structure of authority to reproduce relative stability, reflected in the restructuring of world credit practices. Given the 'triad' of WFCs at the apex of the contemporary world finance, the contemporary world financial order would seem to contain an inherent contradiction that renders its reproduction relatively unstable. Taken together, the third and fourth historical insights prompt inquiry to consider the relationships between the decentralised structures of power and authority and the making and reproduction of the contemporary world financial order. This is the task of chapter seven, the final chapter of Part III, which closes our attempt to generate an alternative to the predominant neo-classical mode of knowledge of contemporary world finance.

The thesis concludes by reflecting upon the prospects and problematics of an Historical IPE of world finance. In particular, this centres on the claim that the utility of an historical mode of knowledge of world finance lies in three main features. First, in contrast to the predominant knowledge derived from neo-classical economics and building upon existing new IPE scholarship, it is the social and political foundations of the organisation of world finance that are emphasised. The organisation of world credit practices is problematic and not the functional outcome of the operations of the international economy as assumed by neo-classical economists. Second, in contrast to the majority of existing new IPE scholarship, the social and political foundations of world finance are recognised to extend beyond the intersection of states and markets. 'States' and 'markets' as categories are disaggregated to reveal their various and changing social and political bases. States and markets are unpacked by an Historical IPE of world finance through concern with world credit practices themselves and the material, ideational and institutional forces framing them; the social and power relations shaping the organisation of world credit practices; and the relationships between authority relations and the reproduction of world finance. Third, an Historical IPE of world finance offers a mode of knowledge of contemporary structural change that is anchored in history. The resulting historical mode of knowledge holds the potential of appropriating knowledge about the past in order to interpret that knowledge and so inform an emancipatory future.

PART I
(Re)Thinking World Finance

CHAPTER ONE

Towards an Historical International Political Economy[1]

Introduction

In this opening chapter we begin the processes of (re)thinking world finance. We have already highlighted the dual problematic of apprehending contemporary world finance: that is, inquiry encounters not only significant structural changes which cannot easily be captured, but also the predominance of neo-classical economics as a mode of knowledge. It was suggested that the field of International Political Economy (IPE) offered an appropriate avenue for inquiry in the light of this dual problematic. Apprehending world finance from within IPE offers the practical benefits of a strong body of existing scholarship concerned with world finance. In addition, given the close association of 'orthodox IPE' with neo-classical economics, the critique of orthodox IPE by 'new IPE' on ontological, epistemological and theoretical grounds provides a starting point from which to begin to construct an alternative mode of knowledge of world finance. Taking this starting point, the broad aim of this chapter is to advance what is termed an 'Historical International Political Economy'. An Historical IPE provides the ontological, epistemological, methodological and theoretical bases from which an alternative mode of knowledge of world finance will be generated in the subsequent chapters.

An Historical IPE develops through, and necessarily supports, an existing 'historical turn' amongst new IPE scholars. Two related threads of this call to history in new IPE are distinguishable, united in their belief that history has more to contribute to the social sciences than simply providing a large body of facts against which existing theories can be tested. First, a recent call has been made to 'historicise' the field of IPE (Amin & Palan 1996). Here "Historicising IPE means seeing the present as a set of social practices situated in time and space", creating an IPE which is "deeply sensitive to the influences of context on issues examined ..." (Amin & Palan 1996:212). In line with

[1] This chapter draws upon discussions with the other members of the Newcastle International Political Economy Working Group as part of a project entitled 'Historical Paths to International Political Economy'. Group meetings were held between October 1997 and June 1998. My thanks go to Louise Amoore, Richard Dodgson, Randall Germain, Barry Gills, Elizabeth Pallister, and Iain Watson for participating fully in the Group's work. The 'Historical International Political Economy' approach developed here is, however, my own responsibility. For an example of the Newcastle Group's earlier work, see Amoore *et al* (1997).

historicism and a broadly based institutionalist perspective, it is the essential historicity of the "agents-in-institutions" and "institutions-in-agents" involved in social practices which is emphasised.[2] The concerns of this thread of the historical turn in new IPE tend to be shared by historical sociologists who have sought to 'bring history back in' to IR (Hall 1996:24-9; Hobson 1997:19-20).

Second, the work of Cox (1976/1996, 1981/1996, 1985/1996), Gill (1991, 1997) and Germain (1996, 1997) has looked to history to provide an ontological and epistemological anchor for new IPE. Here the call to history is more ambitious. It constitutes one form of broadly critical reasoning that challenges the claims of orthodox IPE as to the focus of inquiry and the knowledge which it accepts as legitimate.[3] This thread of the historical turn builds on the writings of Giambattista Vico, Antonio Gramsci and Fernand Braudel and the work of historians engaged in the philosophy of history. The key to the resulting "Coxian historicism" (Mittelman 1998; Sinclair 1996:6-8) or "historical mode of thought" (Cox 1981/1996:91; Germain 1997:174) is an ontology of historicity. This extends not only the agents and institutions that are the object of inquiry, but simultaneously to the historian or social scientist. As such, while the first thread of the call to history in IPE addresses largely methodological concerns, the second thread combines these with the epistemological issues raised by human beings participation in history and their unique position to understand and communicate its contours. It is through and in support of this second thread specifically that the Historical IPE approach outlined here is developed.

Part I of the chapter addresses and expands upon the notion of an historical mode of thought. An ontology of historicity is explored through an engagement with the philosophy of history, and the epistemological and methodological implications elaborated upon. The result is an 'historical'

[2] 'Historicism' in this sense is "the belief that an adequate understanding of the nature of any phenomenon and an adequate assessment of its value are to be gained through considering it in terms of the place it occupied and the role which it played within a process of development" (Mandelbaum 1971, in Ankersmit 1995:143-4). Such an understanding of historicism is in contrast to that of Popper (1957/1960) which critiques historicism as the belief that prediction is the main aim of history and the social sciences, and that the so-called speculative philosophies of Hegel, Marx or Spengler offer such predictions.

[3] As Germain (1996:202, 221) has observed, by seeking a mode of knowledge in IR and IPE that rests on a commitment to accept the epistemological and methodological consequencies of the historicity of thought and action, this thread of the call to history is complementary with applications of both Habermasian Critcal Theory (Linklater 1996) and constructivism (Burch & Denemark 1997).

warrant for alternative knowledge claims to those legitimated by an empiricist epistemology which underpins positivism as the methodology of neo-classical economics and orthodox IPE. Part II, 'An Historical International Political Economy' develops an approach to IPE inquiry which is ontologically consistent with an historical mode of thought. As such, an Historical IPE is illuminated along the five principal interrelated dimensions which are its primary concern: Structured Social Practices; Social Change; Social Space; Social Time; and Social Orders. Each dimension is rounded out with reference to relevant existing new IPE scholarship. This serves to highlight the extent to which the ontological concerns of an Historical IPE resonate with existing new IPE inquiry, and to provide theoretical concepts to facilitate inquiry.

Part I - An Historical Mode of Thought

History

To begin it is clearly appropriate to question the reasons for grounding a mode of knowledge of IPE in history. First, in a simple sense, the call to history is supportive of IPE's aspirations as an open and interdisciplinary field of inquiry (Strange 1984).[4] Following Braudel (1980:26, 38), history can be seen as uniquely placed amongst the social sciences to seek "an explanation of society in all its reality". The vast expansion of the subjects studied by historians in the twentieth century beyond traditional concerns with 'great men', such as kings, generals and popes, has rendered history often indistinguishable from the rest of the social sciences in terms of subject matter (Stanford 1994). As Wallerstein (1979:ix) has argued, history and the social sciences are "one subject matter", requiring "historical social science".

Second, the call to history in IPE forms part of a general dissatisfaction with the predominant mode of knowledge of the international realm that rests upon empiricist epistemology and positivist methodology (Smith, Booth & Zalewski 1996). As Smith (1996:11-14) makes clear, this predominance has implications not only for questions of epistemology and methodology, but also shapes what can be studied as it determines what things exist as knowable.[5] For

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[4] The opening editorial statements of several of IPE's recently launched journals provide clear expressions of these interdisciplinary aspirations. See *Review of International Political Economy* launched in 1994, and *New Political Economy* launched in 1996.

Cox (1981/1996:86-7), for example, an historical mode of thought is a necessary accompaniment of shifting inquiry from the traditionally narrow focus of IR on inter-state relations towards a wider focus on global power relations in which state-society complexes are the basic entities. Similarly, in seeking to "illuminate and explain the present global transformation", Gill (1997:5 *original emphasis*) calls for "*a historical perspective*, drawing upon the imaginations of historians and critical theorists of the past".

This second reason for grounding a mode of knowledge of IPE in history becomes more apparent once we ask E.H Carr's (1964) prescient question 'what is history?'. It is through reflection upon this question that history becomes " a *way* of knowing, or a mode of knowledge" (Stanford 1994:112 *original emphasis*). What Carr (1964:9) called the "commonsense view of history" suggests that history is the past, reconstructed by narrative accounts based on documented facts that tell it like it was. Such an understanding of history in these terms is underpinned by the epistemology of empiricism derived from Locke and Hume.[6] Carr's (1964) purpose, however, was to question what it is about the past that makes it knowable to historians. This led him to recognise the dual meaning of history as both the past and the study of the past in the present. History becomes neither one nor the other, but "an unending dialogue between the present and the past" (Carr 1964:30). Other historians who have also effectively sought to question 'what is history?' and, therefore, engaged with the philosophy of history, have broadly supported Carr's work.[7] For instance, Collingwood (1946:2), elaborating on Croce's famous dictum that 'all history is contemporary history', holds that history "is neither the past by itself,

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[5] In this sense, the call to history is part of a wider project that seeks to bring "post-positivism" to bear in International Relations in order to open up the field of inquiry to previously neglected issues such as development (Dickson 1997).

[6] "The empirical theory of knowledge presupposes a complete separation between the subject and object. Facts, like sense-impressions, impinge on the observer from outside, and are independent of his consciousness. The process of reception is passive: having received the data, he then acts on them. ... History consists of a corpus of ascertained facts" (Carr 1964:3).

[7] The term the 'philosophy of history' was first used by Voltaire, and is taken by Carr (1964:19) to mean his answer to the question 'what is history?'. The explicit engagement with the philosophy of history of which Carr (1964) is part only really began in the early twentieth century with the work of Croce in Italy. This intensified in the 1920s and 1930s as part of the wider questioning of the self-confidence which had marked the liberal nineteenth century (Carr 1964:20-1). The philosophy of history forms the third of the three major veins of historiography identified by Stanford (1994:5). The first two are "descriptive historiography" and "historical historiography" concerned, respectively, with the methods of historical writing and the different ways history has been written across time and space. The third, "analytical or critical historiography ... discusses the concepts and philosophical problems arising from history".

... nor the historians thought about it by itself, ... but the two things in mutual relation". Post-modern writers such as Jenkins (1991:5-26) have taken this one step further, arguing that history is not the past but a range of competing discourses about the past. In short, by posing the question 'what is history?', the utility of an historical mode of thought for legitimating a different kind of knowledge claim in IPE to that which is legitimated by an empiricist epistemology begins to be revealed.

Historicity

The critique of an empiricist epistemology by an historical mode of thought provides the foundations for an alternative to positivist forms of knowledge (Cox 1976/1996).[8] At the roots of this critique is the recognition of the coexistence of past and present in historical inquiry, an ontology of historicity which recognises the reflective agency of both the human agents in the past that are the object of inquiry and the historian him/herself in the present (Carr 1964:31-55). Both human agents and the historian are necessarily reflective, as 'historicity' is not only being situated historically but also the awareness of that situation (Stanford 1994:50-1). Marx's famous dictum that 'Men make their own history ... but under the given and inherited circumstances with which they are directly confronted' operates, then, in both past and present. The historicity of human thought and actions will be explored below through an engagement with the philosophy of history.

As Collingwood (1946:9) has emphasised, history in the first instance is the "science of *res gestae,* the attempt to answer questions about human actions done in the past". An historical mode of thought identifies the historicity of human thought and actions that are necessarily concretely situated in time and

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[8] Following Smith (1996:14-18), 'positivism' is recognised as having three main chronological variants. First, that developed by Auguste Comte in the early nineteenth century as a project of applying the methods of the natural sciences to society in the search for causal laws to explain phenomenon. Second, that of 'logical positivism' that emerged in the 1920s as the starkest form of positivism which denied all knowledge that was not scientifically observable. Third, the form of positivism that has been dominant in the social sciences over the last fifty years associated with the work of Hempel and Popper that combines deductive logic, emprical verification to find the truth, the separtion of theory and observation, and the belief that causation is the result of relationships between observed events. As such, positivism becomes understood as "a methodological view that combines naturalism (in either its strong (ontological and methodological) or its weak (methodological) sense), and a belief in regularities. It is licensed by a strict empiricist epistemology itself committed to an objectivism about the relationship between theory and evidence. ... which grounds our knowledge of the world in justification by (ultimately brute) experience and thereby licensing methodology and ontology in so far as they are empirically warranted" (Smith 1996:17).

space. For instance, for Carr (1964:33) 'human nature' is "a historical phenomenon shaped by prevailing social conditions and conventions". Similarly, for Thompson (1978:200) human beings are necessarily part of the wider and changing processes of "social being" which inform the conditions, concepts and expectations for human experience. Not only do the "prevailing social conditions" and "social being" frame human actions as social actions, but the 'social' is "in constant process of creation and transformation by man himself" (Carr 1964:138). An historical mode of thought is concerned, then, with the changing relationships between social actions and the societies within which they take place.

The relationships between social actions and the societies within which they take place have usually been expressed in the social sciences as a concern with the agency-structure problematic.[9] The recognition of the essential historicity of social actions and thought by the historical mode of thought informs a particular approach to the agency-structure problematic. First, in contrast to both atomism and structuralism, agency and structure are acknowledged as inseparable in order to reveal the ways in which social structures are constructed and reconstructed by social thought and actions. Structures are patterns of constraints and opportunities both real and perceived by agents themselves which, in turn, may change over time as a result of social actions.[10] Second, a significant aspect of the historicity of social thought and actions is the human capacity to reflect on structural conditions. Structures are recognisable as the appreciation of relative constraints and opportunities by reflective agents themselves within a particular context. In this sense, the object of inquiry for an historical mode of thought extends beyond the relationships between individual agents and material structures to what Braudel (1980:39) has termed the "unconscious history", that is the social reality that stands behind and gives meaning to human actions as social actions.[11]

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[9] For an overview of attempts to address the agency-structure problematic across the social sciences, see Hay (1995).

[10] In this sense, an historical approach to agency-structure complements and reinforces other currents of thought across the social sciences that share the goal of linking agency and structure in dialectical synthesis. See, for example, Anthony Gidden's theory of structuration and its development by new IPE scholars (Cerny 1990; Porter 1993).

[11] In this sense, an historical approach to agency-structure shares many of the concerns of constructivism. Constructivism is "the view that *the manner in which the material world shapes and is shaped by human action and interaction depends on dynamic normative and epistemic interpretations of the material world*" (Alder 1997:322 *original emphasis*). For constructivist

Third, the demand of an historical approach for inquiry into the processes whereby agents reflect upon their structural circumstances throws open promising avenues for consideration of the individual and collective nature of agency. Individual reflection does not and cannot take place in isolation. Everyday individual social actions are necessarily informed by collectively held assumptions and perceptions within a wider social order (Collingwood 1946:223). Material conditions may be confronted in different ways by different sets of collective assumptions. As Braudel's (1980:39) notion of unconscious history suggests and as Carr (1964:48-9) affirms, individuals often do not act upon motivations of which they are fully conscious. The notion of 'social practices' will be employed here, then, as recognition of the influence of collectively held assumptions and perceptions on sets of everyday structured social actions within a social order. Furthermore, the identification of the historicity of thought and action also highlights the contingent nature of collective forms of agency such as classes and institutions. As Thompson's (1963) notion of 'social consciousness' in the making of the English working class illustrates, the formation of conscious collective agency requires shared self-awareness of existing social relations to form collective motivations. It is the widespread absence of such 'social consciousness' that persuades Carr (1964:50) that it may be more appropriate to consider 'social forces' - that is, "individuals acting more or less unconsciously, together ..." - rather than classes as collective forms of agency.

The main elements of the historical approach to the agency-structure problematic outlined above all rest on a clear sense that the changeable relationships between social actions and social structures are, at once, part of and contribute to the processes of historical change. In this sense, then, an historical mode of thought is concerned with historical change understood in the first instance as social change (Carr 1964:55; Hobsbawm 1997:72-5). Drawing on historical materialist historiography, social change is understood as the outcome of an historical dialectic. Existing structures contain contradictions and sources of conflict. For Marx, contradictions and conflicts originated in the economic base and 'the contradictions of capitalism' narrowly defined. However, as Collingwood (1946:123) has posited, the processes of history are constituted by a number of interdependent and parallel histories - social,

approaches to IPE, see Jones (1995) and Burch and Denemark (1997). For an alternative "strategic-relational" approach to agency-structure in sociology that also emphasises the relative nature of structures and the reflective quality of human agency, see Jessop (1995).

economic, political, religious, artistic and so on - each of which is connected to the others in an "organic unity". As Gramsci's notion of 'organic crises' suggests, contradictions and crises can arise amongst any aspect of these parallel histories.[12] It is reflection upon these contradictions and the resolution of conflicts within an existing social order which generate structural and social change.

In addition, the processes of social change are recognised to contain continuities as well as discontinuities, the "general" and the "unique" (Carr 1964:62-6). In the course of social change, structures are both transformed and preserved, containing within them further contradictions and sources of conflict. Amongst historians, Braudel's (1980:27-33) notion of the plurality of social time facilitates consideration of the complex interplay of continuity and discontinuity in the relationships between social actions and social structures. Braudel distinguished between three speeds of the experience of social time by agents. First, "*l'histoire évenmentielle*", that is, the "short-time span, proportionate to individuals, to daily life, to our illusions, to our hasty awareness ..." (Braudel 1980:28). Second, "conjunctural" time, that is, cycles, movements and perceptible rhythms which tend to span between ten and fifty years. Third, the "*longue durée*", that is, those routinised patterns of action and thought which establish the 'limits of the possible' of social life across centuries. What clearly interested Braudel was the way in which the structures of the *longue durée*, which changed only very slowly, interacted with the more immediate and flexible constraints and opportunities of the medium- and short-time spans. In our terms, then, over the *longue durée* social practices are likely to display considerable continuities, while exhibiting considerable conjunctural discontinuities.

A defining feature of an historical mode of thought is that the historicity of human thought and action identified above is extended to the thought and action of the historian him/herself. As Carr (1964:24) asserts, "The historian is of his own age, and is bound to it by the conditions of human existence". Similarly, Hobsbawm (1997:229) highlights that "Every historian has his or her

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[12] As Murphy (1994:27) has observed of Gramsci, "He argued that ideas, culture, politics, and laws are more than simple functions of economic interests and the powers granted to people by their roles in production; these superstructures have an independent existence and force. Moreover, Gramsci believed that no economic system can fully develop - not even the contradictions within its inner logic can fully develop - outside of a conducive political and cultural environment".

own lifetime, a private perch from which to survey the world". The historicity of the historian as a social scientist necessarily has ramifications for his thought and action, as perceived and real structures frame his "angle of vision over the past" (Carr 1964:36). Both interpretations of the past and the manner in which they are communicated are manifestations of the values, ideas and analytical tools of the social scientist as opposed to those of the past social practices that are the focus of inquiry (Carr 1964:36). Accounts of the past become an expression of the pre-occupations of the present (Thompson 1978:211; Collingwood 1946:233). As such, historians who have either denied or lacked an awareness of the historicity of their own writings have been criticised for consciously and unconsciously contributing to the reproduction of the social relations within which they are embedded (Jenkins 1991:20-21). For a genuinely historical mode of thought, then, the identification of the historicity of human thought and action undeniably extends to both observer and observed.

Historical Knowledge

Rooted in an ontology of historicity, an historical mode of thought also provides the epistemological and methodological warrant for the construction of a certain kind of knowledge. Following Collingwood (1946:218), we shall term this "historical knowledge", a mode of knowledge which contrasts with that which tends to be generated on the basis of empiricist epistemology and positivist methodology.

To begin, epistemological and methodological implications stem from the historicity of those human thought and actions that are the focus of inquiry. The individualism of positivism in both its ontological and methodological forms is rejected. Ontological individualism, sometimes referred to as strong naturalism, tends to be posited by more extreme forms of positivism and suggests an unchanging essence of 'human nature'.[13] As Collingwood (1946:205-9) highlights, such a "science of human nature" cannot be conducted once the historicity of human thought and action is accepted. Similarly, methodological individualism, or weak forms of naturalism, which rest upon the assumption of empiricist epistemology that, as unobservable phenomenon, social structures do not form part of legitimate inquiry is also overturned.

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[13] The view that individual human nature is key to understanding human actions stems from the Renaissance and spiritual individualism in the western world, later becoming re-cast under capitalism, Protestantism and liberal theories of utilitarianism. In each instance, individualism appealed to those groups within society whose interests in served (Carr 1964:33-5).

Further, the identification of the historicity of thought and action also provides the basis for objections to positivist approaches to causation. Rooted in empiricist epistemology, positivism reduces historically situated human thought and action to events as externally observable phenomenon. Causation is explained through the relationships between events. As a consequence, the interplay of agency and structure in social change is denied (Cox 1976/1996:64). For Collingwood (1946:213), it is the inability of positivist methodology derived from the natural sciences to link events to actions and thought that distinguishes what he terms "historical science" from natural science. Historical science seeks understanding of the meaning of historical change, not causation. Finally, the recognition of the historicity of human thought and action also leads to a rejection of the belief in regularities or universalism of positivism. Such universalism assumes that society contains a rationality that can be discovered through the identification of regularities among observable phenomenon. The discovery of regularities allows the formulation of general laws in the form of consequences that are believed to be predictable under prescribed conditions (Cox 1976/1996:63). Once again, this search for laws contrasts with the demand of an historical mode of thought for the understanding of social change as the interplay of structure and agency.

The objections to positivist methodology through the recognition of the historicity of social practices are suggestive, essentially, of a rejection of the application of the methods of the natural sciences to the social sciences. This critique is elaborated once the historicity of the social scientist is incorporated. Positivist methodology is built around the separation of subject and object in inquiry, the division of observer from observed. An historical mode of thought, by contrast, posits the inseparability of subject and object (Carr 1964:119-132). In the first instance, this inseparability stems from the qualitative difference between the social and natural sciences. As Vico highlighted in the eighteenth century by distinguishing between human history and natural history, the social sciences are unique in involving human actions and thought as both subject and object (Carr 1964:73). The human thought and actions done in the past which are the focus of inquiry for an historical mode of thought have necessarily taken place and, as such, are not an object in the same sense as the objects of inquiry for the natural sciences (Thompson 1978:209; Collingwood 1946:218). In the construction of historical knowledge, subject and object effectively belong to the same category and are reciprocally related to one another in the course of inquiry.

The reciprocal relationship between subject and object in an historical mode of thought leads to a rejection of the empiricist distinction between fact and value. Historical knowledge is necessarily not objective knowledge as fact and value are intertwined.[14] In rejecting the objectivity of knowledge, however, an historical mode of thought does not descend into "hapless relativism" which suggests that any one interpretation is as valid as another (Jenkins 1991:25). Instead, following the insights of Croce (Rowse 1963:124-5), the attempt to generate historical knowledge which explains historical change is held to be part of a wider attempt to foster "human self-knowledge" (Collingwood 1946:10) which is capable of informing those conscious subjects who actually effect the future. As Carr (1964:27) asserts, "Knowledge is knowledge for some purpose. The validity of knowledge depends upon the validity of purpose". The purpose of historical knowledge lies in the appropriation of the past to inform the present and future (Carr 1964:121-2; Jenkins 1991:59-70). It is in these terms that the value of historical knowledge is to be judged. In particular, the explicit recognition of the significance of the connection between human action, knowledge and reflection by an historical mode of thought opens the potential for a politically motivated, transformative form of historical knowledge. Such a transformative historical knowledge translates an emancipatory commitment by the historian, which itself emerges out of his/her "moral involvement" (Carr 1964:125) in history, into a challenge to existing and dominant modes of knowledge which legitimate existing social power relations. At the same time, transformative historical knowledge must remain sensitive to the historicity of the present and not be utopian in form.

In methodological terms, the creation of this form of historical knowledge begins with "a reflective three-way dialogue" (Germain 1997:175) between the meanings and understandings attached to social practices by human agents themselves, the evidence pertaining to the focus of inquiry, and the commitments and perspective of the historian or social scientist. The historian

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[14] In this sense, then, an historical mode of thought should not be confused with those historians who, while recognising the essentially subjective nature of historical knowledge, have effectively sought to maintain the fact/value distinction of empiricist epistemology by appealing to methodological rigour. Central here has been the claim of responsiveness to the 'facts' of the past in an effort to minimise the intrusion of the subjective and give legitimacy to their claims to the truth. See, for example, Marwick (1970) and Hobsbawm (1997:266-277).

is dealing with what Anthony Giddens termed "a pre-interpreted world", in which the meanings and understandings of active subjects enter into the actual construction of that world (in Trimberger 1984:229). It follows that social practices are meaningless to the historian unless he/she can understand the thought processes that lay behind them (Carr 1964:22), and that "Thought and being inhabit a single space, which space is ourselves" (Thompson 1978:211). As Collingwood (1946:218) asserts,

> "Historical knowledge is the knowledge of what mind has done in the past, and the same time it is the redoing of this, the perpetuation of past acts in the present. Its object is therefore not a mere object, something outside the mind which knows it; it is an activity of thought, which can only by known in so far as the knowing mind re-enacts it and knows itself as so doing. To the historian, the activities whose history he is studying are not spectacles to be watched, but experiences to be lived through his own mind; they are objective, or known to him, only because they are also subjective, or activities of his own".

The inclusion of evidence within the three-way dialogue is likely to assist in inquiry. The reconstruction of individual conscious thoughts will necessarily be incomplete and is unlikely alone to reveal the unconscious history behind motivations and intentions that are formed within societies (Carr 1964:51-2). Indeed, given that "the historian is necessarily selective" (Carr 1964:6), what constitutes evidence and its interpretation is also open to debate. It is the self-referential nature of this methodology that ensures its consistency with an ontology of historicity in the creation of historical knowledge.

For historical knowledge to realise a transformative dimension also requires the incorporation of a comparative historical method. Comparison between the past and present and the present and the past generates historical knowledge that can inform future social action (Carr 1964:66-8; Collingwood 1946:10; Hobsbawm 1997:24-36). As Braudel (1980:37) asserts, "Past and present illuminate each other reciprocally". A comparative historical method should not be confused in this sense with the assumption that past and present are in some way the same. Past and present are not examined through the application of a pre-given theory or to produce a fixed general theory to guide future social action. Instead, the value of comparative history lies in the capacity of the use of historically informed theoretical concepts to realise a transformative mode of knowledge. Given that theoretical ideas should seek to illuminate the "development potential" (Cox 1985/1996:53) of present structures, this may seek to challenge the mechanisms by which present structures are reified and naturalised by existing and predominant (ahistorical) modes of knowledge. Alternatively, it may be possible to highlight potential "structural opportunities" (Gills 1994) which may be utilised through social action to help transform the very structures which frame social life.

In sum, then, the defining feature of the historical knowledge generated by an historical mode of thought follows from an ontology of historicity. While this has the epistemological and methodological implications addressed above, it also has considerable consequences for our main concerns in IPE as a field of inquiry. Following from an ontology of historicity, five principal interrelated dimensions are held as guiding the focus for inquiry of an Historical IPE: Structured Social Practices; Social Change; Social Space; Social Time; Social Orders. Each of these dimensions is rounded out below with reference to relevant existing new IPE scholarship. While not providing the only historical pathway to new IPE inquiry, this serves to highlight the extent to which the ontological concerns of an Historical IPE resonate with existing new IPE inquiry and provides theoretical concepts to facilitate inquiry.

Part II - An Historical International Political Economy

Structured Social Practices

History as the science of *res gestae* leads an Historical IPE to, in the first instance, focus inquiry upon structured social practices. In this sense, the field of IPE becomes revealed across time as human experience, which itself is understood through the actual historical subjects who are constituted through collectively imbricated structured social practices. A focus for IPE inquiry upon structured social practices raises the question as to which practices, if any, are to be privileged. New IPE scholars tend to be united in their opposition to the privileging of the practices of both security and trade which have marked traditional IR and orthodox IPE inquiry respectively (Murphy & Tooze 1991a:24-7). Alternatively, new IPE scholars of different hues have asserted a variety of different sets of social practices as primary. For instance, new IPE approaches drawing on new institutional economics suggest a broad focus upon economic practices as social practices embedded in institutionalised social and cultural relations (Tool 1994; Hausner 1995). From a materialist position, Cox (1987) and other historical materialists (Rupert 1995) have focused on the social practices that constitute collective human responses to the production and reproduction of material life. However, constructivists (Burch and Denemark 1997) and the critique of historical materialism by Habermasian Critical Theorists (Linklater 1996:284-290) effectively remind us that the privileging of certain sets of social practices risks marginalising the experiences of women and other minorities that tend to be excluded by the major ontologies of IR and IPE.

It is in this spirit of openness and eclecticism that Strange (1988) identifies the practices of security, production, finance and knowledge as together constituting the four intersecting principal structures of IPE. While inquiry into other sets of structured social practices remains legitimate, ultimately this has to be related to the intersection of the four principal structures. This serves to reinforce Cox's (1981/1996:85) point that the study of sets of structured social practices is an "initial subdivision of reality" which should not be treated as "separated objects of knowledge", but as a starting point "for constructing a structural and dynamic view of large wholes". In addition, as Strange (1988:25-6) highlights, the utility of a focus on structured social practices and the social and power relationships involved in their organisation also lays in prompting inquiry which cuts across the false dichotomy between politics and economics which is maintained by IR's narrow focus on the security structure.

The ontology of historicity of an historical mode of thought demands a certain understanding of agency-structure in social practices. This diverges most sharply with understandings of agency-structure which tend to be present amongst orthodox IPE scholars. In the main, orthodox IPE draws upon realist and liberal institutionalist theory to generate atomistic approaches which assert the "independent standing" (Krasner 1994:14) of its agents (Murphy & Tooze 1991a:19-21). Alternatively, where structures are identified, as under Waltz's (1979) influential realist structuralism and by world-systems theorists (Wallerstein 1979), they tend to exist prior to investigation as abstract systemic properties and structural constraints which determine social and political action regardless of historical context (Jones 1995:187; Amin & Palan 1996:210). In contrast, new IPE scholars, drawing variously upon structuration theory (Cerny 1990), constructivism (Jones 1995), and institutionalism (Amin & Palan 1996), tend to recognise a reciprocal relationship between agency-structure. Not surprisingly, however, it is Cox's (1981/1996:97-101) notion of "historical structures" which draws on an historical mode of thought that provides the most appropriate conceptualisation of agency-structure for an Historical IPE.[15]

For Cox (1981/1996:100) an historical structure constitutes an 'abstract', ideal-type representation of a "limited totality ... a particular sphere of human activity in its historically located totality". In our terms, then, it can be seen as a snap shot of persistent social thought and actions, constraints and incentives - in short, equivalent to a set of structured social practices. Historical structures are, however, 'real' and concrete in that they are produced by recurrent social practices as agents respond to the actual or imagined circumstances they face. As abstract representations, Cox (1981/1996:98-9) identifies three categories of forces - material capabilities, ideas, and institutions - as the reciprocally related basic components that interact within an historical structure. While historically situated shared ideas shape and hold the potential to change social practices, practices must draw upon existing material capabilities; be grounded in new ideas which give meaning and may justify innovation; and relate to or challenge existing institutions, as social practices are more often than not institutionalised.

Material capabilities are "productive and destructive potentials" (Cox 1981/1996:98) that include dynamic capabilities, in particular technology; accumulated resources which dynamic capabilities can transform, such as natural resources, industrial and military equipment; and funds, both capital and credit, capable of commanding and mobilising these. Material capabilities establish the "material limits of the possible" (Murphy 1994:30) for social practices.[16] Cox (1981/1996:98-9) identifies two types of ideas which, while never wholly distinct, are distinguished for analytical clarity - intersubjective meanings and rival collective images of social order. Intersubjective meanings tend towards universality, shaping shared norms, values, consciousness and, thereby, defining social and historical reality.[17] Rival collective images of social

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[15] For a wide ranging overview of the agency-structure problematic which asserts it centrality to IR and IPE inquiry, see Wendt (1987)

[16] The notion of 'material limits of the possible' would appear to have its theoretical roots in Braudel's (1981:27) notion of "the limits of the possible". He states "Can it not be said that there is a limit, a ceiling which restricts human life, constraining it within a frontier of varying outline, one which is hard to reach and still harder to cross? This is the border which in every age, even our own age, separates the possible from the impossible, what can be done with little effort from what cannot be done at all. ... And men did not even explore the limits of what was possible".

order, or competing "world views" (Augelli & Murphy 1993:131), are propagated in an historical structure and serve to highlight the congruence between the aspirations of the social forces they serve and the wider interests of societies. In effect, competing world views legitimate alternative forms of prevailing social and power relations, as they are specific to the material, social and political conditions of social forces.[18] Social institutions, both 'public' and 'private', are "the broadly understood and accepted ways of organizing particular spheres of social action ... social practices ... routinized into specific sets of rules" (Cox 1992/1996:149).[19] As such, the processes of institutionalisation reflect the inequalities of social and power relations that exist at their point of construction, embedding and perpetuating a social order. As rules sustained by sanctions which may range from the pressure of opinion to enforceable law, institutions may become naturalised, coming to "take on a life of their own; they become the battleground for opposing tendencies, or rival institutions may reflect different tendencies" (Cox 1981/1996:99). As a research program, then, an Historical IPE, seeks in the first instance to reveal the sets of structured social practices framed by material, ideational and institutional forces which are characteristic of particular eras.

Social Change

Following from an historical mode of thought, an Historical IPE is concerned with historical change. In particular, interest extends to the changeable relationships between social actions and social structures that are, at once, part of and contribute to the processes of social change. A concern with social change resonates clearly with the attempts of new IPE scholars to get 'beyond' IR and orthodox IPE (Murphy & Tooze 1991a:29). Indeed, the emergence of new IPE has been necessarily intertwined with seeking

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[17] Some parallels can be drawn between intersubjective meanings and the 'informal' social institutions highlighted by new institutionalism that realise correlated behaviour. See, for example, Tool (1994:409-10).

[18] Cox's concern with competing collective images of social order strikes a chord with a wide body of research across the social sciences. For instance, see Gidden's (1979:193-5) work on dominant discourses. Competing world views cannot, of course, be simply imposed by prevailing social forces. This is illustrated by Drainville's (1994:111-4) analysis of neo-liberalism as the world view propagated by social forces associated with transnational money capital in the late twentieth century. While neo-liberalism as an abstract idea contains universalist tenets, these manifest themselves differently across time and space as they cannot be separated from the material limits of the possible and the institutions of concrete historical structures.

[19] For a new IPE analysis of the expansion of industrial capitalism that emphasises the interdependent nature of 'public' and 'private' institutions, see Murphy (1994).

understanding of contemporary structural change (Gill & Mittelman 1997). Frustration with the inability of the predominant neo-realist theory of IR and orthodox IPE to sufficiently address social change has not, however, been limited to new IPE scholars. IR writers themselves have been aware of the essentially ahistorical nature of much IR inquiry, and of its inability to conceptualise historical change (Buzan & Jones 1981; Ruggie 1985; Little 1994). Following Scholte (1993), four main interrelated reasons are identifiable for the widespread underdevelopment of the study of social change in the international realm. First, the ontology of statism that pervades in IR and orthodox IPE leads to a concern with inter-state relations and not social change. Second, the concern with inter-state relations leads to a focus upon politics narrowly defined, not upon societies. Third, for atomistic neo-realist IR and orthodox IPE the principal agents are states, and "other actors are a manifestation of the preferences and capabilities of states" (Krasner 1994:14). As a consequence, the 'whole' is conceptualised as constituted by inter-state relations, preventing the study of transnational societal relations.[20] Fourth, the epistemological and methodological warrant for neo-realism provided by the combination of empiricism and positivism translates into the positing of fundamental continuities, such as the rise and fall of the great powers and the anarchy of the inter-state system. These lead to the acceptance of the possibility of social change, but the negation of social change as structural change. The transience of social forms is, thus, effectively denied.

The study of social change is, then, incompatible with the conceptualisation of the subject matter of IPE offered by orthodox approaches (Cox 1985/1996:52-3; Gill 1997:7-8). In response, new IPE scholars have offered a range of alternative ontologies that share the purpose of casting the subject matter of IPE as a social entity at a world or global scale. These have included, for instance, world orders (Cox 1987), world-economy (Germain 1996), global political economy (Gill & Law 1988) and global order (Underhill 1994). Such ontologies have been essential to facilitating the study of social structural change in a manner that accepts the interconnectedness of the domestic and international, politics and economics. States are not displaced from the centre of IPE inquiry, but re-conceptualised as part of wider social and power relationships that exist from the global to the local scales. For instance, Cox (1987) focuses on the changing forms of states under pressure from

[20] See, for example, Bull's (1977) influential work on international society, where society is understood as a society of states.

structural changes in both their respective civil societies and wider world orders. Not dissimilarly, the first order question of neo-structuralist IPE is to ask "how global processes interact with other processes of state-societal transformation occurring at many other levels of the world system" (Gills & Palan 1994:3). States are the key focal points for social conflict and the main institutional means for the exercise of authority in the course of global social change.

For an Historical IPE, then, an understanding of change within a set of structured social practices requires that this is related to an understanding of wider structural change at a world-scale. Following Cox (1981/1996), this is facilitated by an ontology of 'world orders'.[21] Change within an historical structure cannot be isolated from wider world order change. Further, remaining consistent with an historical mode of thought, an Historical IPE asserts the interplay of agency-structure in social change. Once again, there is a wide body of new IPE scholarship which, from a variety of perspectives, serves to reinforce this claim. For instance, approaches drawing upon new institutional economics have sought to advance an "interactive" approach to social change which highlights the interplay of "agents-in-institutions" and "institutions-in-agents" (Hausner 1995; Amin & Palan 1996). Not dissimilarly, neo-Gramscian IPE posits that "history is always in the making, in a complex and dialectical interplay between agency, structure, consciousness and action" (Gill 1993:8-9). In our terms, and following Cox (1985/1996:53-4; 1976/1996:77-8), existing historical structures have inherent contradictions and give rise to social conflicts which are central to their transformation. Attempts to resolve these antagonisms are bound by wider social and power relations in the prevailing world order. Not only does the research program of an Historical IPE seek to reveal those sets of structured social practices which characterise specific eras, but also to trace their dialectical transformation as part of wider social change.

Social Space

An historical mode of thought insists on the historicity of social thought and action in time and space. The spatial dimension of historicity has, however, tended to be overlooked by new IPE scholars generally and even by those who

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21 "'World' designates the relevant totality, geographically limited by the range of probable interactions (some past 'worlds' being limited to the Mediterranean, to Europe, to China, etc.). 'Order' is used in the sense of the way things usually happen (not the absence of turbulence); thus disorder is included in the concept of order. ... The term is used in plural to indicate that particular patterns of power relationships which have endured in time can be contrasted in terms of their principal characteristics as distinctive world orders" (Cox 1981/1996:116-7).

have been part of IPE's 'historical turn'. Drainville (1995) has recently highlighted this spatial deficit amongst new IPE scholarship. While new IPE has offered a variety of ontologies that effectively define the subject matter of IPE as a world-scale social phenomenon, the space of social relations tends to be assumed rather than viewed as constituted through social processes. Recent cross-disciplinary debates illustrate that a clear, explicit conception of space forms an indispensable part of any social theory (Simonsen 1996). IPE, however, tends to implicitly adopt what Agnew (1994) has termed "the territorial assumptions of IR", whereby space is equated with territory. Such a state-centric conceptualisation of space sits awkwardly with new IPE ontologies that go beyond the inter-state system in their definition of the subject matter of IPE.

For an Historical IPE, space is understood not in the sense of the geographical environment which conditions social actions. Such a conceptualisation of space presents it as both passive and ahistorical, as the things and substances used in social actions regardless of historical context. Instead, following the philosopher and sociologist Henri Lefebvre (1991) and the development of his work in IPE by geographers Agnew and Corbribge (1995), space is understood as 'social space'. That is, space is recognised as an integral part of all social actions - "a *dimension* of all social life" (Simonsen 1996:505 *original emphasis*). Therefore, social space is itself produced and reproduced over time through social processes. As Lefebvre (1991:73) asserts,

> "(Social) space is not a thing among other things, nor a product among other products: rather, it subsumes things produced, and encompasses their interrelationships in their coexistence and simultaneity - their (relative) order and/or (relative) disorder. It is the outcome of a sequence and a set of operations, and thus cannot be reduced to the rank of simple object. ... Itself the outcome of past actions, social space is what permits fresh actions to occur, while suggesting others and prohibiting yet others".

Space is recognised as fashioned, shaped and invested with social thought and action, inseparable from it and, as such, only understandable in its historically concrete existence as social space. For Agnew and Corbridge (1995), such a conceptualisation of space both exposes the implicit territorial assumptions of IR and supports the view that the division of the world into discrete territories has been a matter for social construction.[22]

Lefebvre (1991) has developed a 'conceptual triad' which provides the basis for his understanding of the production and reproduction of social space. The three concepts - 'spatial practice', 'representations of space', and 'representational space' - are dialectically related, none is given primacy and each is suggested by the others. Each contributes to the production of space in different ways according to their qualities and attributes, to the society in question, and to the historical moment concerned (Lefebvre 1991:46). First, the inseparability of social action and social space is made explicit through the notion of 'spatial practice'. Spatial practices are the material flows and interactions of a society which are the fundamental features of economic production and social reproduction, and which necessarily have, and develop, spatial contexts (Lefebvre 1991:38). In our terms, sets of structured social practices are spatial practices because they are embedded in the perceptions of space generated by this dialectical interaction.

Second, 'representations of space' are "conceptualised space", the codes and terms which shape the understandings of space embodied in spatial practice, forming and expressing the spatial element of the dominant discourse of society (Lefebvre 1991:38). For an Historical IPE, such representations of space form part of the intersubjective meanings which frame sets of social practices. Finally, Lefebvre's notion of 'representational space' introduces conceptualisations of space which are likely to constitute a challenge to dominant representations of space. Agnew and Corbridge (1995:7) summarise representational space as "'imagined geographies' that inspire changes in the representation of space with an eye to the transformation of space practices". For an Historical IPE, such representational space may form part of world views propagated by social forces to legitimate social and power relations which themselves entail a restructuring of a set of social practices as spatial practices.

Social space is a generic term encompassing the uncountable sets of social space generated by different sets of social practices (Lefebvre 1991:86). Within each set of social practices and their associated social space, key

[22] In this sense, an Historical IPE's concern with social space may open up potential linkages with those scholars engaged critically in re-interpreting International Relations in a rapidly changing world (for overview, see George 1994). Overcoming the territorial assumptions of IR here is a key problematic. For instance, Walker's (1993:ix-x) work is informed by "a sense that our understanding of these transformations, and of the contours of alternative political practices, remains caught within discursive horizons that express the spatio-temporal configurations of another era".

interconnected 'social spaces' emerge as the "social locus" for social practice (Lefebvre 1991:87). The primacy of these social spaces is likely to be reinforced by those representations of space that form the dominant conceptualisation of space with regard to the set of social practices concerned. Key social spaces cannot, however, be considered in isolation of the wider social space of which they are part. As Lefebvre (1991:86-7) asserts, "Social spaces interpenetrate one another and/or superimpose themselves upon one another". Contrary to the territorial assumptions of IR and orthodox IPE, the key social spaces for sets of structured social practices may not correspond to the boundaries of territorial states.[23]

Social Time

An historical mode of thought posited the utility of Braudel's (1980:27-33) notion of the plurality of social time to facilitate consideration of the complex interplay of continuity and discontinuity in the changing relationships between social actions and social structures. In particular, for an Historical IPE, social change is to be considered over the long-time span of the *longue durée*. In this sense, an Historical IPE shares a time frame for inquiry with world-systems analysis (Wallerstein 1974; Chase-Dunn 1989). Unlike the appropriation of Braudel's work by world-systems scholars, however, an Historical IPE seeks to maintain the original historicity of Braudel's concepts. World-systems scholars have tended to adopt Braudel's concepts in such a manner as to render them abstract and ahistorical, as historicity is sacrificed for definitional precision (Germain 1996:204). An Historical IPE recovers Braudel's concepts by remaining consistent with an historical mode of thought and, in this sense, pays close attention to the appropriation of Braudel's notion of the plurality of social time by new IPE scholars who have already contributed to the field's historical turn.

The notion of *durée* itself signifies lived experience, the speed of social time over which it is fitting to consider sets of structured social practices (Cox 1996a:150, 1996b:25). Considered over the *longue durée*, social practices retain a distinctive sense of continuity represented by the enduring features of what

[23] As Lefebvre (1991:42) asserts, "We should have to study not only the history of space but also the history of representation, along with that of their relationships - with each other, with practice, and with ideology. History would have to take into account not only the genesis of these spaces, but also, and especially, their interconnection, distortions, displacements, mutual interactions, and their links with the spatial practice of the particular society or mode of production under consideration".

Braudel termed the *mentalité*, that is, "the mental framework which guides the way human collectivities exploit their natural and social circumstances" (Germain 1996:206). As such, for an Historical IPE, the length of the *longue durée* depends upon the sets of social practices that are the initial focus of inquiry. Further, capturing change in sets of structured social practices requires the inclusion of Braudel's notion of the conjuncture. As the neo-structuralist approach to IPE has highlighted by elevating the concept of the "historical conjuncture" to assist in apprehending structural change, a set of social practices over the *longue durée* does not dance to "the tune of one logic and uniform rhythm" (Gills & Palan 1994:7). Social practices in different periods display variations in the meanings and values that inform and shape them.[24] Following Cox (1996b:25), for an Historical IPE, conjunctural time corresponds to the irregular span of those historical structures which together comprise a world order. Conjunctural time is, therefore, effectively re-conceptualised not simply in Braudelian terms as the ten to fifty year span of an economic cycle, but as the span of a configuration of social and power relations which is less predictable in duration.[25]

Conjunctural inquiry into a set of social practices as an historical structure and wider world orders proceeds along two dimensions. As Sinclair (1996:8) has noted, the notion of historical structures is designed to incorporate and integrate both the static, or synchronic, and dynamic, or diachronic, aspects of structures. The synchronous corresponds to *l'histoire évenmentielle,* the simultaneous realm of events and individuals. In this sense, synchronic inquiry into an historical structure involves explanation within its own, day-to-day terms of the thought and action of social practices. The diachronous dimension is that of re-curing social patterns, the exact form of which remains historically specific. In this sense, diachronic inquiry into an historical structure relates day-to-day practices to the development potential of the structure (Sinclair 1996:8).

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[24] This point is informed by Strange's (1988:17) concern with variations in the hierarchy of values of security, freedom, wealth and justice at different periods. While the essence of social practices may change only slowly from the perspective of the *longue durée*, considerable variations in values are visible at different historical conjunctures.

[25] This understanding of conjunctural time is also informed by the work of Overbeek (1990). Overbeek (1990:22-3) identifies what he terms "stages of development" as the realm of the medium-term perspective, where "Stages of development are distinguished by specific configurations of social and political institutions, each with their own characteristics. More precisely, stages of capitalist development are defined by reference to a historically specific combination of relations between social classes and class fractions, forms of state power and ideological hegemony, and of the capitalist world economy and the inter-state system".

In short, diachronic understanding focuses upon potential and actual structural change and those social and power relations that underpin and determine social change (Cox 1996a:150). Such diachronic understanding is likely to be facilitated by comparative historical inquiry between successive historical structures over the *longue durée*. As Cox (1985/1996:54) has noted, diachronic inquiry which seeks to understand "the contradictions and sources of conflict within existing structures ... may be aided by an understanding of how structural transformations have come about in the past".

Social Orders

A diachronic understanding of historical structures requires not only that the dialectical transformation of a structure is related to wider social change in the corresponding world order, but that a historical structure itself is recognised as a complex of social and power relations which contribute to directing change. In short, in diachronic terms, an historical structure can be seen as a social order. For an Historical IPE, such a concern with historical structures as social orders is clearly rooted in an historical mode of thought. In particular, an historical mode of thought is aware that social actions are informed by collectively held assumptions and procedures which, themselves, are manifestations of the social and power relations of a social order (Collingwood 1946:223). Social and power relations surround the manner in which sets of social practices come to be organised.

An understanding of social and power relations in an historical structure as a social order requires that the significance attached to material capabilities, ideas and institutions as the forces that interact within a structure is extended to the diachronic moment. In a diachronic sense, material capabilities are not a neutral requirement of social practices, but potential sources of power with dominating and subordinating dimensions. Power relations surround material resources, conferring material power on those who occupy positions of ownership, control or access. Material power relations combine with social and political power relations to engender social forces.[26] A basic structure of power

[26] "The notion of social forces represents an attempt to go beyond the conventional Marxist notion of the social relations of production, although clearly this is its conceptual source. ... a social forces approach is concerned with the intersection of three dimensions of power: (1) that concerning the productive process, (2) that concerning the relations between classes - social power, and (3) that encompassing political power - control over the state. It is from this power matrix, ... that particular constellations of social forces emerge in the world" (George 1994:178). See also Cox (1987), especially chapters 1 and 10.

emerges within a social order, then, which holds an "enforcement potential" (Cox 1981/1996:99) which ensures the domination of the strong over the weak in the organisation of social practices.

However, a social order characterised by domination alone is likely to be rendered relatively unstable by social conflict.[27] As Maier (1987:154) has asserted, relative stability in a social order is not simply a matter of "societal inertia", but itself has to be produced and reproduced. It is for this reason that, following Gramsci, Cox (1981/1996:99-100) seeks to distinguish between hegemonic and non-hegemonic historical structures, where a hegemonic structure is marked by the integration of social forces and widespread acceptance of prevailing social and power relations as legitimate.[28] Hegemony is identifiable in an historical structure as "a coherent conjunction or fit between a configuration of material power, the prevalent collective image of world order ... and a set of institutions which administer the order with a certain semblance of universality" (Cox 1981/1996:103). The coming together of material, ideational and institutional forces into a 'fit' corresponds to periods of hegemony, while non-hegemonic periods realise an unravelling of this 'fit' and contradictions and conflicts emerge. In seeking to explain relative stability and instability of successive world orders, Cox (1987) focuses on the changing intersection between historical structures corresponding to the three spheres of production, forms of state, and world order. On the one hand, his inquiry considers how the wide range of social relationships generated by production processes as the primary sets of structured social practices engender social forces that can become the bases of power in states and world orders. On the other hand, the reverse is considered in terms of how power institutionalised in world orders and states shape and control the development of production relations.

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[27] The need to extend consideration to the relationship between the structure of power in a social order and the manner in which social practices come to be organised is informed by Mann's (1986:2-3 *original emphasis*) concern with what he terms "a more concrete, *sociospatial* and *organizational* level of analysis. The central problems concern *organization, control, logistics, communication* - the capacity to organize and control people, materials, and territories, and the development of this capacity throughout history".

[28] "Gramsci's hegemony is the ability of a social group to exercise the function of 'political and moral direction' in society. Other groups acknowledge the hegemon as having a leading role in society and a relatively wide political consensus supports the hegemon's policy goals" (Augelli & Murphy 1993:130). Gramsci's notion of hegemony is rooted in a Machiavellian understanding of power, whereby rule by force and/or fraud and deception alone is classed as domination, while hegemony necessarily involves consent as well as coercion (Cox 1983/1996:126-7).

For an Historical IPE, the utility of Cox's approach to understanding the relative stability or instability of an historical structure as a social order is mainly two-fold. First, the need to consider a social order in the context of wider forms of state and world order is reinforced. Although inquiry for an Historical IPE begins with a structured set of social practices, understanding change within these practices cannot be divorced from wider changes in social and power relations. Second, through Gramsci's notion of hegemony, attention is drawn to the necessity of the legitimation of prevailing power relations if a social order is to be relatively stable. Specifically, this is shown to entail a coherent fit between the material, ideational and institutional forces of an historical structure. However, as Maier (1987:262) has asserted, a stable social order implies a tendency to reproduce itself. Cox's approach lends itself particularly to inquiry into the making and unravelling of social orders, but not necessarily to the reproduction of social orders. An Historical IPE is concerned as much with continuity in the organisation of sets of structured social practices as with discontinuity.

In an attempt to facilitate greater understanding of the more continuous tendency of social orders to be reproduced, an Historical IPE effectively historicises or disaggregates the coherent fit between the material, ideational and institutional forces of a hegemonic historical structure. In particular, it is asked how this fit manifests itself in terms of the daily organisation of social practices. Put another way, there is greater integration between synchronic and diachronic explanations. To do this, an Historical IPE concerns itself with what is termed here a 'structure of authority' in a social order. This is underpinned by Moore's (1987:2) assertion that arriving at an explanation of the relatively stable reproduction of a social order requires an understanding of "social relationships of authority".[29] Power relations are always present in a social order, but tend to be visible as binding authority relations in a relatively stable social order. Power relations shape the form of a social order, but not its content as a set of structured social practices.

[29] Moore's (1987) work itself draws upon a wide-ranging tradition within philosophy that tends to invoke the notion of authority "to help define the nature of the cohesion or unity characteristics of human societies. Neither coercion nor rational argument, nor both together, seem capable for accounting for the co-ordination of wills required for a society to exist" (Frieden 1990:57-8).

The 'meaning' of authority as a notion has been greatly disputed in both philosophy and across the social sciences (Friedman 1990:56). Cutler (1997), following Friedman (1990:59), isolates the state-centric nature of authority and its identity as a social construction as the two significant inseparable elements that tend to be shared by predominant liberal understandings of authority. In the first instance, authority by its nature requires the "surrender of private judgement" (Friedman 1990:65-8) not as a result of coercion but as consequence of a recognition that others are entitled to obedience. Authority can, therefore, only be exercised through the state as, under liberalism, private individual judgements are essential to freedom and justice within society. Such an understanding of authority forms the 'common sense' in IPE inquiry. Strange (1988:22), for instance, talks of changes in "the authority-market and the market-authority nexus". In the second instance, authority is a social construct, as the recognition that others are entitled to obedience stems from a "normative arrangement" (Friedman 1990:71) amongst the members of a social order.

As Cutler (1997) emphasises, two principal problems stem from this essentially liberal understanding of authority. First, it rests upon a separation of the public and private spheres that is unsustainable. Second, it obscures the extent to which asymmetrical power relations determine the nature of 'normative arrangements' through which authority is constructed. State and society are necessarily intertwined. While authority exercised through the state is likely to be significant, this is also likely to be interdependent with other non-state (both civil and market) institutional forms of authority in the organisation of social practices in a stable social order. As Weber's notion of "legal authority" suggests, normative arrangements that legally legitimate the exercise of authority through institutions are not reserved to state institutions (Blau 1963:308-9). The manner in which state, civil and market forms of authority are articulated will be specific to different social orders and different periods. Central to this articulation will be the processes whereby a predominant world view informs the normative arrangements upon which the exercise of authority is based.

Following Moore (1987:14-5) and Gill (1991:282), then, a structure of authority is held to embody intertwined but analytically separate 'formal' and 'informal' dimensions.[30] It is the way that formal and informal authority come

[30] The identification of the formal and informal dimensions of authority is also built upon a recognition that the scope of authority extends across both 'action and belief'. As Friedman

together in different periods that determines the structure of authority in a social order. Formal authority is authority that is consciously exercised through socially accepted state, civil and market institutions in the organisation of social practices. Informal authority is that which is found in a variety of social mechanisms, including institutions, that mould those social convictions which frame social practices around prevailing norms, values and meanings. The notion of informal authority is effectively a recognition that those institutional and ideational forces that frame social practices have a degree of autonomy. All institutions cannot be simply reduced to an expression of power relations and distributional conflicts. Similarly, while reflecting changing social and power relations, shifting patterns of shared meanings and understandings are not simply directed in a 'top down' manner by dominant social forces. An explanation of a structure of authority within a social order requires that both the formal and informal dimensions of authority are considered, as concern lies with how the reproduction of a stable social order manifests itself in the organisation of social practices.

Conclusions

In sum, this chapter has undertaken the beginnings of the groundwork necessary for the (re)thinking of world finance. From within the field of new IPE, and particularly in support of an historical turn amongst new IPE scholars that has looked to history to provide an epistemological and ontological anchor for inquiry, an Historical IPE approach has been advanced. An Historical IPE takes as its starting point an ontology of historicity which forms the key plank of an historical mode of thought. The historicity of social thought and action is recognised to extend to both the thought and actions that are the focus of inquiry, and the thought and action of the historian him/herself. Following from the historicity of social thought and action, structured social practices, social change, social space, social time and social orders are developed as the main interrelated dimensions along which Historical IPE inquiry is pursued.

An Historical IPE proceeds by focusing over the *longue durée* upon sets of social practices conceptualised as successive historical structures which span

(1990:57) asserts, "... a person may be said to 'have authority' in two distinct senses. For one, he may be said to be 'in authority', meaning that he occupies some office, position, or status which entitles him to make decisions about how other people should behave. But, secondly, a person may be said to be 'an authority' on something, meaning that his views or utterances are entitled to be believed (including, to complicate matters, beliefs about the right and wrong way of doing things)".

irregular conjunctures. In synchronic terms, social practices are identified as framed by and drawing upon material, ideational and institutional forces. Social practices also necessarily assume and entail social space which itself is constituted through social processes. In diachronic terms, an historical structure is identified as a complex of social and power relations, that is, as a social order. As such, social practices come to be organised in the context of a social order. While power relations are always present, authority relations tend to characterise the reproduction of a relatively stable social order in which a coherent conjunction emerges between the material, ideational and institutional forces of a historical structure. In different periods and different social orders, this conjunction is disaggregated through the notion of a structure of authority. The manner in which the formal and informal dimensions of a structure of authority come together manifests itself in the organisation of social practices. A coherent conjunction of forces unravels as a consequence of a combination of the dialectical transformation of an historical structure, in which inherent contradictions and conflicts surface, and social change in the wider world order.

The 'historical knowledge' that is produced by an Historical IPE rests on an alternative epistemological and methodological warrant to that which underpins the ahistorical knowledge claims of neo-classical economics and orthodox IPE. An ontology of historicity leads to a critique of empiricist epistemology and positivist methodology that, in particular, posits the reciprocity of subject and object and the subjective dimension of all historical knowledge. The value of historical knowledge lies in its contribution to human self-knowledge, the appropriation of the past to inform the emancipatory transformation of the present. Such knowledge is based upon a methodology that combines a comparative historical method with a reflexive three-way dialogue between the thoughts of social agents that are the focus of inquiry, the perspective of the historian, and the evidence. For such a mode of knowledge of world finance to be offered requires that the utility of the categories along which Historical IPE inquiry proceeds are developed further. This is the purpose of the following chapter, which will complete the groundwork necessary for (re)thinking world finance.

CHAPTER TWO

An Historical International Political Economy of World Finance

Introduction

This chapter will continue the processes of (re)thinking world finance. The broad aim is to develop the utility of an Historical IPE approach for apprehending contemporary world finance in the light of the dual problematic identified at the outset of this thesis: that is, inquiry encounters not only significant structural changes that cannot easily be captured, but also the predominance of neo-classical economics as a mode of knowledge.

From within the field of IPE, the Historical IPE approach outlined in the previous chapter looked to history to provide the ontological and epistemological anchor for IPE inquiry. Following from the identification of historicity of social thought and actions, structured social practices, social change, social space, social time, and social orders were isolated as the main interrelated dimensions for inquiry. An Historical IPE proceeds by focusing over the *longue durée* upon sets of social practices conceptualised as successive historical structures which span irregular conjunctures. In synchronic terms, social practices are identified as framed by and drawing upon material, ideational, and institutional forces. Social practices also necessarily assume and entail social space that itself is constituted through social processes. In diachronic terms, an historical structure is identified as a complex of social and power relations, that is, as a social order. As such, social practices come to be organised in the context of a social order. While power relations are always present, authority relations tend to characterise the reproduction of a relatively stable social order in which a coherent conjunction emerges between the material, ideational and institutional forces of a historical structure. In different periods and different social orders, an Historical IPE unpacks this conjunction through the notion of a structure of authority. The manner in which the formal and informal dimensions of a structure of authority come together manifests itself in the organisation of social practices. A coherent conjunction of forces unravels as a consequence of a combination of the dialectical transformation of an historical structure, in which inherent contradictions and conflicts surface, and social change in the wider world order.

This chapter is subdivided into three main parts. Following an Historical IPE approach, the starting point for inquiry is to clearly ascertain the set of structured social practices that comprise world finance. In Part I, an understanding of finance in terms of credit practices is presented. In particular, five sets of credit practices undertaken at a world scale are identified as together constituting world finance: commercial credit practices, the practices of international clearance, money-market practices, corporate credit practices, and sovereign credit practices. Considered over the *longue durée* of social time, these world credit practices are held to have taken on their contemporary, modern configuration in the seventeenth and eighteenth centuries. The notion of 'forms of credit' is utilised to reflect conjunctural variations in credit practices, that is, periodic differences in the nature of the credit instruments employed and the institutionalised forms which credit practices take. In addition, reflecting an Historical IPE's concern with social space, world financial centres are identified as the key social spaces for credit practices.

In Part II, the credit practices of world finance are conceptualised as successive historical structures that span irregular conjunctures. In synchronic terms, credit practices are framed by and draw upon material capabilities, ideas and institutions as the basic forces of an historical structure. The specific nature and configuration of these forces is recognised to differ considerably in concrete terms. Nevertheless, a somewhat abstract understanding is developed of the relationships of credit practices to capital, knowledge and technology as material capabilities; intersubjective meanings and world views as types of ideas; and market, state and civil institutions. Material, ideational and institutional forces are held to tend to become centralised in world financial centres as the key social spaces for credit practices.

Part III develops an Historical IPE's concern with social change and social orders. In diachronic terms, historical structures are conceptualised as complexes of social and power relations, that is, social orders, within which credit practices come to be organised. As such, modern world finance becomes understood as successive world financial orders that span irregular conjunctures. A stable world financial order is held to reflect the emergence of a coherent fit between the material, ideational and institutional forces within that order. It is the structure of authority in each world financial order that ensures its relatively stable reproduction, facilitating the organisation of world credit practices. Given that material, ideational and institutional forces tend to be centralised in world financial centres, world financial centres are identified in diachronic terms as key spaces of authority in world financial orders, the social loci for the reproduction of relatively stable world financial orders. Ultimately, it is posited that a relatively stable world financial order coincides with the firm centralisation of that order in a single world financial centre. The unravelling of a world financial order, in which relatively unstable dialectical structural transformation takes place, is held to coincide with the fall of the previously dominant world financial centre and the rise of one or more others. Both the relative stability and instability in world financial orders are related to the changing social and power relations of wider world orders.

Part I - The Social Practices of World Finance

Credit Practices

In seeking to isolate the structured social practices that comprise world finance, the wide-ranging body of IPE scholarship in this area provides a touchstone from which to begin. Aside from orthodox IPE concerns with international monetary relations (Cohen 1977; Block 1977; Calleo 1982), two broad threads of IPE research into world finance are distinguishable.[1] First, orthodox IPE research into world finance has tended to follow from an understanding of finance derived from neo-classical economics. The primary function of international finance for neo-classical economics is "to transfer accumulated capital to where the marginal rate of return is highest and where it can therefore be employed most efficiently" (Gilpin 1987:306). In the contemporary era, such an understanding of international finance has translated into research into international capital mobility and the consequences for national economic wealth and national state policy-making of increased cross-border capital flows (Goodman & Pauly 1993; Andrews 1994; Webb 1994). Second, Strange's (1990:259) definition of "the field of finance" as "the system by which credit is created, brought and sold and by which the direction of the use of capital is determined" has tended to guide new IPE inquiry. In the contemporary era, the result is concern with the volatility of world finance and its consequences for the wider world order (Strange 1986; Cerny 1993; Helleiner 1994; Underhill 1997; Germain 1997).

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[1] Orthodox IPE's attention to international monetary relations follows from the neo-classical privileging of exchange, whereby the international economy as the proper subject matter of IPE is understood as the cumulative product of exchange between national communities of rational individuals. Monetary relations form the "critical nexus" (Gilpin 1987:118) which facilitates international economic exchange.

In our terms, the utility of IPE research in world finance is three-fold. First, new IPE scholars draw attention to the organisation of the practices that create, allocate, buy and sell credit as constituting world finance. The capital flows that are the focus of orthodox IPE inquiry into finance are effectively revealed by new IPE as structured social practices. Second, new IPE scholarship in world finance recognises the consequences of the organisation of world finance for wider world orders. This is rooted in the ontological assumption of new IPE that the proper subject matter of inquiry is not the international economy as conceived by neo-classical economics, but what Cox (1987:244) terms the "world-economy model". In short, "Where the international-economy model focuses on exchange, the world-economy model focuses on production" (Cox 1987:244). New IPE scholars of world finance tend, then, to share an awareness of the social and economic significance of credit which extends beyond its contribution to exchange to include its importance to production. The pioneering work of Susan Strange (1986, 1990, 1998) has, in particular, been central to the development of this awareness.[2] Third, both orthodox and new IPE are attentive to the inequalities that abound in world finance. This takes various forms. For example, substantial debate surrounds the relative power in world finance of America and Japan as the principal states (Gilpin 1987; Strange 1990; Helleiner 1992), the power of private financial markets over public authorities (Cerny 1993; Germain 1997), and the 'structural power of capital' more broadly considered (Gill & Law 1989). The three-fold utility of IPE research into world finance is pursued in greater detail below as the basis for a working conceptualisation of 'finance'.

Derived from new IPE scholarship, an understanding of world finance as credit practices contrasts sharply with conceptualisations of money and credit in neo-classical economics. As Guttmann (1994:16, 22) notes, neo-classical economists begin from the assumption that money is just another good which

[2] In seeking to place finance at the heart of IPE inquiry, Strange has engaged with understandings of credit from across the social sciences. This has led her to assert that "Every materialist society, whether capitalist or socialist or a mixture of both, has to have a system for creating credit. Credit is literally the lifeblood of a developed economy. Like blood in the human anatomy, money in the predominant form of credit has to reach and renew every part of the economy. It has to circulate regularly and reliably. It has to stay healthy and stable or the society suffers, just as the body suffers if there is disorder in the blood or too much or too little of it" (1988:89-90). For a review of Strange's work that emphasises her contribution in bringing finance to the centre of new IPE inquiry, see Cox (1992a/1996).

provides its holders with liquidity to facilitate exchange. The supply of the stock of money is fixed by the monetary authorities of a state - the so-called 'state theory of money' (Walter 1993:29). As a consequence, the existence of money as a good only affects price levels and has no long-term impact on equilibrium conditions in the 'real' spheres of production and exchange. For neo-classical economists, money merely facilitates exchange and, therefore, has four main functions - a medium of exchange, a means of payment, a unit of account and a store of value. When credit is considered, it effectively becomes the use of holdings of money as a store of value (i.e. savings) to facilitate further exchange. As Guttmann (1994:28) asserts,

> "According to neoclassical theory, credit has a stabilizing influence. It mobilises otherwise unutilized funds, which as savings would leak out of circulation, to finance current spending. Credit is treated here as a passive residual, an automatic transfer mechanism which equates saving and investment (at a market-clearing rate of interest) and thereby maintains macroeconomic equilibrium".

The identification of finance as a set of credit practices also stands in direct contrast to neo-classical economist's understandings of credit as an automatic passive residual. As research into the sociology of money and finance highlights, credit itself is a resource that is socially constructed specific to different times and different places (Mizruchi & Brewster Stearns 1994). Credit rests upon both a set of social practices which actually create and allocate it, and wider norms and values which render the creation of credit socially acceptable. Credit creation is, then, far from automatic and "embodies a social relation of interdependence and conflict" (Guttmann 1994:28). Creditors and debtors are interdependent is the sense that they both share the gains and losses associated with credit, while conflicts surround the rate of interest, size and length of a stream of credit. At the heart of social relations of interdependence and conflict would appear to lie the inherent risks of credit creation. Contrary to neo-classical economics, an essential property that distinguishes the creation of credit from the creation of commodities is that the former involves "an exchange of funds by one party for a *promise* of a return in the future" (Stiglitz 1989:59 *original emphasis*). Risk is involved in the creation of credit that is not present in the exchange of commodities, as uncertainty necessarily surrounds the future capacity of borrowers to fulfil their obligations. At different times and in different places, credit is socially constructed in specific ways as different sets of credit practices which organise the social relations of credit and which seek to overcome the inherent risks of credit creation.[3]

New IPE scholarship's awareness of the social and economic significance of credit to the world economy is suggestive of a connection with Marxist and neo-Marxist understandings of credit. Central to Marx's critique of the classical liberal political economy of Smith and Ricardo was a belief that money, particularly in its credit form, was a central unifying element of political economies. Following Marx, Harvey (1982:262-70) has identified four principal contributions of credit to the capitalist mode of production. First, it enables the mobilisation of capital for productive purposes that would otherwise lay idle. Second, it reduces the time and cost of the circulation of commodities in a manner that money in its commodity or fiduciary forms cannot. Third, credit accelerates the rate of commodity production and consumption by both providing for productive investment and granting purchasing power. Finally, credit facilitates the creation of 'fictitious capital', whereby capital usually made available for productive investment is extended indefinitely (typically through the issue of shares). New IPE accords with the Marxist attention to credit practices as facilitating both production and exchange.

Credit, then, holds the potential to make the material life of societies a great deal easier. As Galbraith (1975:70-1) has pointed out,

> "The function of credit in a simple society is, in fact, remarkably egalitarian. It allows the man with energy and no money to participate in the economy more or less on par with the man who has capital of his own. And the more casual the condition under which credit is granted and hence the more impecunious those accommodated, the more egalitarian credit is".

The potential contributions of credit to social life also extend beyond the material to the political realm. As both Plato and Aristotle long ago recognised, credit potentially facilitates political freedom within societies that seek to extend individual liberty alongside economic wealth, promoting a shift from oligarchy to democracy (Millet 1991:6). However, societies are far from "simple". As IPE research into power in world finance has emphasised, vast inequalities both

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[3] As Thrift and Leyshon (1994:302) assert, assessing and dealing with risk are dynamic and ever-changing social processes, whereby risk becomes "a shifting ensemble of meanings about the timing and spacing of credit and debt that depict whether a credit/debt relation is viable".

in terms of the creation of and access to credit have ensured that its allocation has proved neither "casual" nor "egalitarian". In sum, 'finance' is constituted socially in specific ways by unevenly distributed sets of social practices that organise the social relations through which credit as a key resource in social life is created, allocated, brought and sold.

World Credit Practices

An understanding of world finance derived from such a conceptualisation of finance as constituted by unevenly distributed sets of credit practices requires that inquiry focuses upon those credit practices which are organised at a world scale.[4] Five sets of world credit practices are identified here through consideration of the inter-linkages between world finance and wider world orders. In particular, consideration of the relationships of world finance to the international economy of commodity exchange, the world economy of production, and state-societies is central to the formation of the focus of inquiry. The five sets of credit practices outlined below that constitute world finance are commercial credit practices, the practices of international clearance, money-market practices, corporate credit practices and sovereign credit practices. They are held to have taken on their contemporary, modern form in the specific setting of seventeenth and eighteenth century Europe.

Thrift's (1987) analysis of what he terms the "international intermediary economy" is informative as to the inter-linkages between world finance and the international economy of commodity exchange. This is a close set of relationships, reflected in the majority of early modern financiers beginning as merchants before moving into the financial side of commerce (Braudel 1977:61; Kindleberger 1974/1978:72; Bagehot 1873/1991:5). This is the realm of 'commercial capital' broadly defined which mediates in the circulation of commodities and credit for a fee, including both merchant capital and money-dealing capital.[5] From Thrift's (1987:206-8) analysis of commercial capital, three sets of credit practices are identified as significant here. First, the delay between the production and consumption of commodities traded over long

[4] "... geographical scale is the focal setting at which spatial boundaries are defined for a specific social claim, activity or behaviour" (Agnew 1997, in Hudson 1998:537).

[5] "... commercial capital mediates in the circulation of commodities for a fee. It does not retain any direct or long-term ownership or control of these commodities. Commercial capital can be subdivided into merchant capital which mediates in the circulation of commodity capital of various kinds, and money dealing capital which mediates in the circulation of money capital of various kinds ..." (Thrift 1987:204).

distances and the resulting lag in payment establishes a demand for a set of credit practices concerned with the mediation of commodity exchange. Such commercial credit practices have contributed considerably to the expansion of international trade. Commercial credit practices include the creation of credit through bank loans, short-term capital market instruments (most notably bills of exchange), associated secondary trading practices, and commodity futures contracts.[6]

Second, as credit facilitates commodity exchange, a set of credit practices that organise the clearance of payments is indispensable in world finance. While clearance practices are usually regarded as contributing to international monetary arrangements in the sense that they act to organise payment (Guttmann 1994:27), they are also essential to the realisation of the claims and obligations arising from credit practices (Kindleberger 1984/1993:19). In addition, as Braudel's (1981:470) notion of "scriptual money" suggests, by contributing to the efficiency of credit practices, clearing practices actually facilitate the creation of credit on a scale that would not otherwise be possible.[7] The increasing division of the world into state-societies from the seventeenth century has also involved an expansion of clearance practices (Ingham 1984:94-5). The denomination of credit in different currencies ensures a close relationship between clearance practices and those associated with foreign exchange.

Third, the holding of working balances of capital to fulfil outstanding obligations by all parties engaged in credit relations has stimulated another significant set of credit practices. Money-market practices enable otherwise idle working balances to be put to profitable use. Money-market practices stand at the nexus between other credit practices, "lending to those who lend" (Bagehot

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[6] Bills of exchange are promissory notes created through commercial credit practices given by the purchaser of a commodity to the vendor (Michie 1992:70; Kindleberger 1984/1993:41). Once created, bills of exchange could be sold by the vendor at a discount on their face value through secondary trading practices (hence 'discount market') in order to obtain immediate payment for goods sold. Meanwhile, the purchaser was given time to dispose of their goods and the holder of the bill obtained renumerative employment for his temporary funds, measured in terms of the level of discount obtained. Commodity futures are fixed-time, fixed-price contracts which can be used to insure against price fluctuations, or are alternatively purchased for speculative purposes through secondary trading practices.

[7] "Scriptual money" or "book money" is "created by the process of book-keeping, by transferring money from one bank account to another" (Braudel 1981:470).

1873/1991:3). The coming together of capital facilitates money-market practices that, in turn, support practices that provide commercial, sovereign and corporate credit. As a consequence, money-market practices are often referred to as the inter-bank market. As Bagehot (1873/1991:8-10) emphasised of Lombard Street as the London money-market in the late nineteenth century, the great contribution of money-market practices to world finance lies in their capacity, through the continual manipulation of capital, to support long-term credit creation through short-term capital.

Consideration of the inter-linkages between world finance and the productive practices of the world economy is illustrative of a fourth set of credit practices as significant to world finance, that is, corporate credit practices. Since the beginning of industrial production, capital for large-scale productive investment that necessarily precedes revenues has been facilitated through recourse to long-term credit.[8] A wide range of literature concerned with comparative state-finance-industry relations illustrates (see, for example, Zysman 1983; Cox, A 1986) that such industrial credit practices have tended to be organised at a national-scale, a consequence of variations in patterns of industrialisation and the processes of the consolidation of state-societies as national political economies. However, long-term industrial credit has been organised at a world-scale to service the capital requirements of multinational corporations (MNCs).[9] Such corporate credit practices facilitate the expansionary strategies of MNCs whether pursued through foreign direct investment (FDI), foreign acquisitions, or cross-border joint ventures.

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[8] "Long- is ordinarily distinguished from short-term capital by the nature of the financial instrument, with long-term capital operating through equities and debt instruments of more than one year's maturity. ... The usual division of long-term capital is into new issues, trade in existing securities, both bonds and shares, and direct foreign investment" (Kindleberger 1987:13).

[9] There is a long history of production spanning across politically demarcated spaces. For instance, during the fourteenth century the Hanseatic League organised German merchants in the conduct of west European and Levantine commerce that, in addition to commodity exchange, involved them in agricultural production, iron smelting and general manufacturing (Hirst & Thompson 1996:18-19). Similarly, while the great Dutch and British joint-stock companies of the seventeenth and eighteenth centuries were primarily engaged in commodity exchange, they also organised limited productive ventures. However, as Hirst and Thompson (1996:19-20) observe, "... it is generally agreed that manufacturing multinationals appeared in the world economy after the mid-nineteenth century and that they were well established by the First World War. International business activity grew vigorously in the 1920s and the truly diversified and integrated MNC matured, but it slowed down during the depressed 1930s and war-torn 1940s, and began a fluctuating expansion again after 1950".

Finally, consideration of the inter-linkages between world finance and state-societies in successive world orders illustrates the significance of sovereign credit practices to world finance. For states, the making of war and the construction of human (education, health, welfare, law and order) and physical (transportation and communication) infrastructures alongside insufficient revenues from their respective societies has necessitated recourse to long-term sovereign credit (Walter 1993:29-31). In addition, sovereign credit practices have also provided short-term credit for balance-of-payments deficits. Most twentieth century political economists writing on financial matters have tended to play close attention to the provision of sovereign credit and, in particular, to the relationship between 'finance and foreign policy' (Feis 1930/1964; Polanyi 1944; Chapman 1984). For instance, Feis's (1930/1964) detailed study of British, French and German investment from 1870 to 1914 illustrates the extent to which governments sought to link private finance to the affairs of state. Not dissimilarly, with reference to contemporary world finance, IPE scholars have traced inter-linkages between the restructuring of state-societies to the re-organisation of world credit practices (Frieden 1987; Underhill 1991; Helleiner 1994).

An Historical IPE suggests that the five sets of credit practices which constitute world finance and form the focus of inquiry here should be considered over the *longue durée*. De Goede's (1998) analysis of world finance as a discourse is particularly informative as to the formation of the *mentalité* that frames contemporary world credit practices. De Goede (1998) holds that the contemporary concepts and values which frame both the organisation of world credit practices and the understandings of the purposes to which credit is put emerged in the specific setting of seventeenth and eighteenth century Europe. While these concepts have been dynamically articulated and re-articulated since, leading to considerable conjunctural variations in the forms of credit practices, the essentially modern nature of contemporary world finance can be dated from this point. For the first time, world credit practices became subject to the modern assertions of rationality and reason associated with the collapse of medievalism (Neal 1990).[10] Rationality and reason facilitated the invention of

[10] The view that world credit practices became subject to the assertions of rationality and reason in this historical setting is clearly not meant to imply that decisions regarding the creation, allocation buying and selling of credit were actually made on a rational basis. As Guttmann (1994:21) asserts, it is "futile to assume, as the neo-classicists do, that individuals form 'rational' expectations which do not correspond to their own experience. Nor can we argue that the economy will follow automatic rules, detached from subjective and inherently volatile assessments of its participants". As Pohle (1995) has argued with reference to nineteenth

risk as a calculable entity as distinct from general uncertainty. The professional financier became viewed as dealing in risk, undertaking increasingly sophisticated practices including insurance, commodity futures, short-selling and puts and calls (options to buy or sell credit instruments at a stipulated price over a stipulated period of time). As such, the professional financier became perceived as distinct from the gambler who dealt in uncertainty (Leyshon & Thrift 1997:17). In our terms, then, the *mentalité* which has framed modern world credit practices over the *longue durée*, effectively establishing the 'limits of the possible', dates from this time.[11]

Forms of Credit

While an Historical IPE of world finance proceeds by focusing over the *longue durée* upon the sets of credit practices outlined above, conjunctural variations in credit practices are recognised. The notion of 'forms of credit' is utilised to reflect these variations, that is, differences in the nature of the credit instruments employed and the institutionalised forms which credit practices take. In different periods, different forms of credit tend to predominate.

Credit practices exist in many forms, the simplest of which is loans. Savings created through capital accumulation become reserves against which credit in the form of loans is created and allocated to a borrower, in return for principal and interest repayments over the short- or long-term. The practice of creating credit in the form of a loan tends to be institutionalised through the financial market institutional networks of banks.[12] Contrary to the neo-classical

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century finance in Western Europe, it is through the appeal to rationality and reason in legitimating credit practices that rationality becomes significant.

[11] The subjecting of the credit practices of world finance to rationality and reason clearly formed part of the wider social processes of the onset of modernity. As Carr (1964:135) notes, "In the seventeenth and eighteenth centuries man had already become fully conscious of the world around him and of its laws. They were no longer the mysterious decrees of an inscrutable providence, but laws accessible to reason". The distinction made here between here between pre-modern and modern finance on the basis of the influence of rationality and reason of credit practices contrasts with distinctions which typically hinge upon "the predominance of the monetarized sector of the economy and the presence of fiduciary money issued by a central bank, or of a decentralized banking system performing a corresponding function, and of organisations such as corporations enjoying limited liability" (Goldsmith 1987:3). Based on such a distinction, modern finance dates roughly from the early eighteenth century in western Europe, the late eighteenth century in the rest of Europe and the Americas, and the nineteenth century in Australia and south and east Asia.

[12] In specific conjunctures, loans as a form of credit practices have also been institutionalised within state and inter-state institutions. For instance, in the post-1945 era, the International Monetary Fund and World Bank have provided short-term loans to states experiencing balance-of-payments deficits, long-term loans to facilitate state-societal restructuring in response to

portrayal of banks as intermediaries that intervene in the re-cycling of capital by aggregating the deposits of individuals for the purpose of lending, banks are more than simple intermediaries. The granting of loans through a bank involves the creation of credit, not simply the equation of savings with investment (Guttmann 1994:33). As a consequence, bank's standard operating procedures of short-term lending on long-term deposits, undertaken in an attempt to minimise the risks associated with loans as a form of credit, can have considerable repercussions for the availability or otherwise of credit.

Credit practices also take the form capital and equity market instruments, institutionalised within a wide range of market and civil institutions. A vast array of capital market instruments provide streams of credit of varying size and length. For instance, short-term commercial credit has traditionally been provided through the issuing of bills of exchange. Bills of exchange were quickly joined by finance bills, effectively bills that were drawn but not based on any underlying commercial transaction. Alternatively, long-term corporate and sovereign credit has been provided through bonds, that is, fixed-term loans that are issued and can be traded but with no right to claim ownership on a borrower's assets. The value of a bond to its holder at any one moment is the future stream of interest payments, with the return of the principal becoming due at the bond's maturity. The practices of creating both short- and long-term capital market instruments tend to be institutionalised within the market networks of investment banks. In addition, corporate credit is also raised through equities that match long-term capital requirements with short-term funds via their issue on a stock exchange as a civil institution. Equities do not entail any obligation for the repayment of funds, but usually involve an ownership claim on the issuer.

Further, two other key features distinguish capital and equity markets from loans as forms of credit. First, unlike loans, capital and equity market forms of credit tend to involve the practices of buying and selling of credit instruments.[13] Such exchanging of ownership claims through so-called 'secondary markets' is an essential feature of capital and equity market forms of credit, increasing liquidity and facilitating a diversification of the holdings of

adjustment problems and financial crises, and long-term loans to facilitate economic development.

[13] A caveat here is that since the early-to-mid 1980s, a range of existing loans have become 'securitised', that is, collectively re-packaged as financial assets to be brought and sold on secondary capital markets. For details of the contemporary 'securitisation', see Sinclair (1994a).

investors (Stiglitz 1989). Increases in liquidity allow for an even larger inverted pyramid of credit to be created on top of a capital base (Dow 1994:155). However, there is a long history of speculation and arbitrage in secondary markets which, while generating massive short-term returns, can destabilise credit practices as expectations surrounding future gains collapse (Kindleberger 1978; Portes & Swoboda 1987). Second, equity market forms of credit in particular differ from loans in the manner in which they seek to overcome the risks inherent in credit creation. While risk is shared between the bank and borrower under loans as a form of credit, risk is distributed more widely amongst the holders of shares under equity forms of credit.

World Financial Centres: Key Social Spaces

An Historical IPE advanced a concern with social space as a principal dimension along which inquiry should proceed. In terms of world finance, this leads to the recognition of the inherent spatiality of world credit practices. Spatiality tends to be omitted from inquiry into world finance across the social sciences.[14] Credit practices necessarily assume and entail social space at a world scale, with key interconnected social spaces emerging as the social loci for credit practices. As such, world financial centres (WFCs) are conceptualised here as the key social spaces for credit practices. The significance of WFCs as key social spaces has been recognised by the dominant representations of space in modern world finance which frame comprehension of the relationship between credit practices and space. The status of a WFC corresponds to the domination of the sets of world credit practices outlined above. As such, alternative WFCs emerge in different periods. It becomes possible to distinguish WFCs from national and regional financial centres, and to arrange financial centres in a hierarchy.

A conceptualisation of WFCs as social spaces contrasts with those understandings of financial centres present in economics. As Reed (1981:1)

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[14] The general absence of concern with spatiality is reflected in the exclusion of financial centres from inquiry. As both Kindleberger (1974/1978) and Reed (1981) have highlighted, financial centres as a phenomena fall between the mainstream reference points of the disciplines of economics and urban studies in the social sciences. Within IPE, scholars tend to recognise the significance of WFCs but tend to omit them from study. For instance, the introduction to a recent edited volume in IPE concerned with contemporary world finance described New York and London as "the crucibles of global trends" (Underhill 1997:6), but none of the following twelve chapters addressed world financial centres directly. In the main, the absence of financial centres from IPE inquiry in world finance reflects the failure of IPE to take questions of space and spatiality seriously (Drainville 1995). For a notable exception, see Germain (1997).

observes, financial centres are usually defined in economics as "a central location where the financial transactions of an area are co-ordinated and cleared". This is illustrated by Kindleberger's (1974/1978:71) somewhat functional definition of financial centres, whereby

> "Financial centres are needed not only to balance through time the savings and investments of individual entrepreneurs and to transfer financial capital from savers to investors, but also to effect payments and to transfer savings between places. Banking and financial centres perform a medium-of-exchange function and an interspatial store-of-value function".

Not dissimilarly, a conceptualisation of WFCs as the key social spaces for world credit practices also contrasts with understandings of financial centres suggested by the 'world cities paradigm' in economic geography and urban studies (Knox & Taylor 1995; Sassen 1991, 1994). Defined as "centres of transnational corporate headquarters, of their business services, of international finance, of transnational institutions, and of telecommunications and information processing" (Knox 1995:6), world cities are understood as key spaces in structural as opposed to social terms.[15] As with economic definitions of financial centres, the result is a somewhat 'functional' understanding of WFCs that contrasts with the more 'political' conceptualisation of WFCs as social spaces.[16] As social spaces, WFCs are neither reified by analysis of world finance nor configured homogeneously in a structural relationship to world finance that is the likely outcome of a functional understanding of WFCs. As Pryke and Lee (1995:333-4) have asserted, financial centres "are dynamically reproduced, not merely in a mechanical way, through their success in sustaining accumulation, but socially and culturally". Through a conceptualisation of WFCs as social spaces, an Historical IPE demands that inquiry acknowledges

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[15] Structural conceptualisations of space view geographical entities such as cities as having spatial effects that stem from their interrelationships to one another (Agnew 1994). Such an understanding of space is present in the world cities paradigm, where world cities become the nodal points for global control and a pre-requisite for the continuation of capital accumulation in the world-system as a result of their structural relationships to peripheral geographical areas.

[16] As Palmer and Friedland (1987:146) highlight, approaches to the study of cities tend to diverge between what they term 'functional' and 'political' theories - "Functional theories tend to focus upon the way social activities are organised in a social system without regard for the actors or structures which control these activities. When functional theories do examine structures, these structure's attributes (including their location) are derived from the functions they perform for the system. Political theories tend to focus upon actors or structures whose interests and powers and the conflicts between them, shape the organisation of activity and hence the system ...". In this sense, the approach to financial centres here is essentially 'political'.

the social processes which produce and reproduce specific WFCs and the relationships of these processes to the making and unravelling of world finance as a social order.

Part II - The Structures of World Finance

An Historical IPE approach conceptualises those sets of social practices which, considered over the *longue durée,* form the focus of inquiry as successive historical structures which span irregular conjunctures. In synchronic terms, social practices were identified as framed by and drawing upon material capabilities, ideas and institutions as the basic forces of an historical structure. It is these forces as categories that are elaborated upon here in relation to credit practices. Capital, knowledge and technology are identified below as the principal material capabilities, intersubjective meanings and world views distinguished as ideas, and market, civil and state institutions detailed. Following from the inherent spatiality of credit practices, it is held that the material, ideational and institutional forces of world finance as an historical structure tend to come together and are centralised in WFCs as the key spaces in world finance. Given that the specific nature and configuration of structural forces in world finance varies considerably across different conjunctures, it is accepted that the understanding of the structures of world finance developed will be somewhat abstract.

Capital

The basic material resource that both frames credit practices and upon which credit practices must draw is accumulated capital in its monetary form. Credit practices in the form of loans are reliant upon the concentration of capital as deposits, with the volume of loans that can be granted limited by the scale of deposits. While in the contemporary era banks have expanded the volume of credit created against their capital bases (Dow 1994:155), capital as deposits continues to constitute the "raw material" of credit practices in the form of loans (Guttmann 1994:32). Similarly, credit created through capital and equity market practices is reliant upon the availability of capital on a sufficient scale. Individual and, increasingly, institutional investors such as pension funds, insurance companies and hedge funds mobilise much of the capital upon which capital and equity market practices rest.

Considerable temporal and spatial dynamics surround capital as a material resource for world credit practices. Periods of sustained capital accumulation in the world economy expand the material basis for credit creation, simultaneously generating incentives to create credit in the expectation of future economic growth. On the other side of the coin, periods of economic stagnation and slow growth limit the availability of capital as a material resource and realise disincentives for credit creation. These temporal variations in terms of capital as a material resource are closely related to spatial dynamics. Vast inequalities in rates of wealth creation across the world economy - which Storper and Walker (1989) have termed "the inconstant geography of capitalism" - ensure that the capital upon which world credit practices rest tends to be concentrated in different regions at different times.[17] Given that accumulated capital has become concentrated in the national networks of retail banks and institutional investors with the development of state-societies and consolidation of national political economies since the seventeenth century (Epstein 1996; Bosworth 1993), world credit practices during different periods tend to be dominated by the institutions of ascendant national political economies (Helleiner 1993a).

In spatial terms, capital as a material resource also tends to become centralised in world financial centres as the key social spaces for world credit practices. The centralisation of capital in WFCs is partly related to the 'inconstant geography of capitalism', as the rise of national financial centres to world status corresponds with the ascendancy of their respective national political economies. Capital becomes centralised in national financial centres as the likely 'hubs' of national retail banking networks and the sites of major securities exchanges, with the potential effect that the financial centre of an ascendant national political economy is catapulted to world status (Kindleberger 1974/1978). However, the capital that becomes centralised in WFCs also emanates from two other main sources. First, WFCs tend to be world centres for commodity exchange. Amsterdam, London and New York are all examples. Capital accumulated through world trade is centralised in WFCs, reflected in the

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[17] "The geography of capitalism is uneven, to be sure; but it is, above all, inconstant. The dynamism of capitalist growth keeps industries on the move, and periodically send them hurtling down new paths of spatial development. ... each new wave of industrialisation brings into existence new growth centers and growth peripheries, stimulates disinvestment in some areas and the radical restructuring of others, and reshuffles spatial production relations and patterns of territorial income distribution and politics. In doing so, it gives new life to capitalism" (Storper & Walker 1989:4-5).

long tradition of merchants turning their backs on trade in favour of credit practices (Kindleberger 1983:79-80). Second, assuming an 'open' world economy in which restrictions on the movement of capital are largely absent, capital becomes centralised in WFCs as a consequence of what Brown (1940:154), with reference to London as the WFC of the nineteenth and early twentieth centuries, terms "deposit-compelling power". Foreign capital is directed to and maintained in a WFC as a consequence of the capacity of the credit practices centralised there, in particular money-market practices, to offer relatively high rates of return on capital investment.

Knowledge

While the availability or otherwise of capital is likely to establish the material baseline for credit practices, knowledge also constitutes a key resource. As Dodd (1994) argues, social networks of knowledge allow credit practices to take place, as knowledge networks facilitate the collective assessment of the risks inherent to the creation, allocation, buying and selling of credit. While varying in nature according to the borrower concerned, the significance of knowledge as a material resource stems from the need for qualitative and quantitative information which spans the micro-, meso- and macro-economic dimensions in the support of credit practices. As Sinclair (1994:143) asserts, contrary to neo-classical economics, information is necessarily imperfect and often vague, ambiguous and difficult to interpret. Consequently, "raw information is not the most important consideration". Ideas in the form of texts, analytic frameworks and less formal social advice establish shared meanings that bring understanding, with the effect that information becomes knowledge. Knowledge is not simply being able to gain access to the 'facts', but "understanding their causal and consequential relationships" (Strange 1988:118). Knowledge networks, then, not only hold necessary but imperfect information for credit practices, but also the capacity to communicate information successfully as knowledge.

The availability of knowledge as a material resource for credit practices remains relatively simple while credit practices are localised at a small scale, wherein the personal face-to-face exchange of knowledge is both sufficient and relatively unproblematic. For credit practices organised at a world scale, however, access to knowledge becomes more problematic. This is reflected in the identification by neo-classical economists of information as an important cost in financial markets. Improvements in information flows leading to greater market efficiency develop from external economies of scale, which themselves emerge out of the spatial proximity of financial market institutions to competitors and firms engaged in related activities (Davis 1990; Grilli 1989). In our terms, then, the networks that provide knowledge as a significant material resource for world credit practices tend to become centralised in WFCs.

The conceptualisation of WFCs as the key social spaces for world credit practices leads to the recognition that the informational economies of scale in financial centres identified by neo-classical economists are themselves a matter for social production and reproduction (Thrift 1994; Pryke & Lee 1995). The communication of information as knowledge as a material resource is also a social process, involving "the creation of networks of interpersonal and intercorporate communication" (Pryke & Lee 1995:330). The centralisation of knowledge in WFCs results from the overlapping of knowledge networks that include civil, commercial, corporate and financial institutional networks. Building upon Smith's (1984) notion of Amsterdam as an "information exchange" in the seventeenth century, it becomes possible to identify WFCs as standing as the principal 'knowledge exchanges' in world finance.

Technology

Technology potentially constitutes the most dynamic material resource which both frames credit practices and upon which they must draw. The significance of technological change is not limited to the contemporary period where scholars have identified close linkages between changes in world credit practices and the emergence of a global information and telecommunications infrastructure based around telematics (Warf 1995; McKenzie & Lee 1991; Wriston 1988).[18] For instance, as Parsons (1989) has observed, the development of telegraphy in the 1880s facilitated the internationalisation of economic information. In terms of world credit practices, innovations in information and communications technologies have, in particular, facilitated the movement of funds (both capital and credit), the creation and communication of knowledge, the development of new and complex credit instruments, and increases in the speed and volume of practices.

Strange's (1990) distinction between modes, means and channels of communication can be utilised to illustrate the impact of technology on world

[18] 'Telematics' is the linkage of computerised and digital data banks to telecommunications technologies (Graham & Marvin 1996:14).

credit practices in different periods.[19] Technological innovations in the means and channels of communication have tended to encourage the expansion of the numerate mode of communication in modern world finance. For instance, the twice-weekly criss-crossing of mail packet boats between Amsterdam and London in the eighteenth century carried price details that ensured that the stock markets of the two financial centres became reasonably well integrated (Neal 1990). During the nineteenth century the introduction of the telegraph across the USA encouraged the rapid assessment of shares on the New York Stock Exchange through a series of numerical indicators (Hamilton 1986:41). The initial introduction of computers within financial market institutions in the 1960s sought to improve the efficiency of numerate modes of communication by easing the massive flows of paper involved in credit practices (Hamilton 1986:33). Similarly, the automation and computerisation of clearing practices has allowed accounts to be credited and debited electronically. Since the late 1970s, digitalised technologies have reinforced the predominance of the numerate mode of communication further. Essentially, these technologies allow types of knowledge to be processed and transmitted in the form of the 'bit' steams of binary code used in computers - i.e. as a series of zeros and ones.

It is held here that contrary to predictions of their demise in the face of contemporary technological innovations (O'Brien 1992), WFCs have and continue to be the main spaces within which technological innovations in world finance have become centralised. As the sites of the latest technical skills and scientific knowledge (Braudel 1977:89-90), world financial centres constitute the "technopoles" (Petrella 1991; Castells & Hall 1994) of world finance in two interrelated senses. First, technological innovations have tended to become centralised in WFCs in order to facilitate credit practices within the space of the centre itself. For instance, on its completion in 1903, the New York Stock Exchange building in Broad Street included massive annunciator boards that were backed by 247 miles of wiring and 6 miles of pneumatic tubes within the walls and ceilings. This carried trading reports from the trading floors to the ticker tape system (Buck 1992:95-6). Similarly, while the contemporary period

[19] Modes of communication are the signs, literate modes (languages and words), and numbers through which people communicate; means of communication are employed for literate and numerate modes of communication and "include speech, both face-to-face and at a distance ... and writing both by hand and by various kinds of machine beginning with the printing press and going on to typewriters and computers"; and channels of communication are the methods through which "speech and writing are transmitted from person to person when these are not face to face", including postal services, telegraph cables, radio, telephone lines, satellites and fibre-optics (Strange 1990:263).

has been marked by the emergence of electronic exchanges existing in 'hyper-space' and accessed by apparently footloose computer terminals, such as NASDAQ (North American Security Dealers Automated Quotation System), the vast majority of trading is undertaken from the dealing rooms of market institutions centralised in the major financial centres.[20] Second, technological innovations have tended to become centralised in WFCs as the key social spaces for credit practices to facilitate inter-linkages with the wider social space of world finance. For instance, the automated Clearing House Interbank Payments System (CHIPS) founded by the New York Clearing House Association in 1970 enabled claims and obligations arising from dollar-denominated credit created elsewhere in the Euromarkets to be cleared more efficiently. As Moss (1987) stresses, the reach of telecommunications outwards from WFCs in the contemporary period has provided the channels for the increased interconnectedness and integration of world credit practices.

Ideas

Material capabilities that frame world credit practices and upon which they must draw cannot be separated from the ideational forces of world finance as successive historical structures. Shared or intersubjective meanings effectively frame the terrain of world finance, establishing widely held understandings as to the parameters and motivations of credit practices and the language with which they are discussed. A simple historical comparison between pre-modern and modern intersubjective meanings is illustrative of their significance. For instance, in ancient Athens the idea of reciprocity was central to informing attitudes to, and understandings of, credit. The equivalent Athenian term for credit - 'pistis' - implied trust, faith, belief, confidence, honesty, proof and pledge (Millet 1991:7). In contrast, modern attitudes to and understandings of credit tend to be dominated by narrow rational economic calculations of the efficient allocation of credit and associated concerns with risk, obligation and rates of interest (de Goede 1998).

The research of IPE scholars is suggestive of an interaction between competing collective images of social order - world views - and intersubjective meanings in the latter's transformation in modern world finance as a succession of historical structures. For instance, Ruggie (1982) and Strange (1994:51) stress the inseparability of support for 'embedded liberalism' by the principal

[20] On this point I am indebted to the insights of a representative of a London-based, American-owned investment bank. Confidential interview, London, 2nd June 1998.

western states and social forces in the post-1945 era from the close reign of state institutions over credit practices. Not dissimilarly, Kapstein (1992) and Helleiner (1994) highlight the impact upon contemporary world credit practices of the propagation of a neo-liberal world view by an 'epistemic community' of central bankers engaged in the monthly meetings of the Bank of International Settlements (BIS).[21]

Unpacking the interaction between changes in intersubjective meanings and world views in concrete terms requires, however, that inquiry moves beyond the propagation of world views by dominant social forces to consider the processes of belief and value formation.[22] In this respect, Parsons (1989) analysis of the role of the financial press since the early nineteenth century as "a platform for the dissemination of economic theories and discourse" (1989:4) is informative. Through fluctuations in the content of the financial press, Parsons (1989) highlights that points at which shared meanings surrounding world credit practices began to change coincided with economists entering into social and political debates through the financial press. Parsons (1989) work is illustrative of the need to move beyond the existing IPE agenda in world finance that focuses primarily on the propagation of world views through state institutions.

Those social processes associated with the interaction between intersubjective meanings and world views in world finance also contain a spatial dimension. This can be seen at two interrelated levels. First, as key social spaces in terms of knowledge and communication in world financial orders, world financial centres become key social spaces for the propagation of world views. To become dominant, a world view must become embedded in those texts, mental frameworks and social networks which are contained in the intersubjective meanings which surround the construction of knowledge and its communication. In this sense, world financial centres constitute important "epistemic communities" in world finance, defined as "occupational communities with their own specialised vocabularies, rhetorics, knowledges,

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[21] 'Epistemic communities' are "networks of knowledge based experts" or "thought collectives" (Haas 1992).

[22] This point is informed by Drainville's (1994:116) research into the contemporary propagation of neo-liberalism as a world view. He asserts "Neo-liberalism is not a constituted project implemented in the world economy, a thing that fills structures. As a political reality, neo-liberalism is both a broad strategy of restructuring and a succession of negotiated settlements, of concessions to the rigidities and dynamics of structures, as well as to the political possibilities of the moment".

practices and texts" (Thrift & Leyshon 1994:349-50). This is reinforced by the centralisation of channels of communication in world financial centres, as gaining access to these is essential to the wider propagation of a world view. Included within these processes are the international financial press which in contemporary world finance includes Euromoney, The Banker, The Economist, and The Financial Times, all based in London.

Second, those intersubjective meanings that define credit practices contain, albeit often implicitly, representations of space that constitute the dominant conceptualisation of the relationships of credit practices to social space. Consequently, the centralisation of world credit practices in world financial centres has tended to be reinforced by representations of space that offer understandings as to why such a centralisation is necessary. For instance, while offering alternative interpretations, public policy guidelines (CRP 1995), economists (Davis 1990) and academics from across the disciplines concerned with world financial centres have all tended to contribute to this representation of space in the contemporary period. Alternative conceptualisations of social space - i.e. representational spaces - have, however, also been put forward as part of the wider challenge of an alternative world view. This suggests that given the mobility and fungibility of finance capital, technological changes are likely to generate a 'deterritorialisation' (Agnew & Corbridge 1995) of financial activity. However, as Sassen (1991) argues, far from 'deterritorialisation', contemporary world finance has been marked by an intensification of the centralisation of world credit practices in the principal WFCs.

Institutions

Within world finance as a succession of historical structures, institutional forces stand alongside material capabilities and ideas in framing credit practices. Indeed, world credit practices have and continue to be institutionalised within the social institutions of market, state and civil society. The relative significance of market, state and civil institutions has waxed and waned in different periods of modern world finance, with the nature of the interplay between them tending to be formalised through regulation (Strange 1988:88). A focus here on the conjunctural manner in which credit practices become institutionalised and their relationships to material and ideational forces contrasts with existing research in IPE which demands that state-market relations are the proper object of inquiry.[23] Following an Historical IPE approach, it is the actual practices of world finance that are the focus of inquiry in the first instance, not their institutional manifestations. 'State' and 'market' as overarching analytical categories are effectively unpacked to reveal their institutional, material and ideational bases.

The analytical distinction made here between market, state and civil institutions builds upon a reading of the identification by Gramsci of three major interconnected realms of social life, that is, economic, political and civil society. Market institutions are those which are the broadly understood and accepted as ways of organising social practices in the economic realm undertaken for profit. State institutions are those which are the broadly understood and accepted ways of organising social practices in the political realm undertaken to administer social life.[24] Civil institutions are those which are the broadly understood and accepted ways of organising social practices in the civil realm undertaken voluntarily in support of socio-economic aspirations.[25] As such, social institutions are distinguished not by the functions they perform in any abstract sense, but in terms of how they are understood and accepted in specific historical contexts.

By way of illustration, central banks are often classified by somewhat ahistorical, functional explanations of the social institutions of finance to be state institutions regardless of historical and social context. The alternative basis for distinguishing between social institutions utilised here facilitates the recognition that the identity of central banks as social institutions is often more problematic. For instance, the Bank of England in the nineteenth century is usually regarded as an institution of the British state. However, Bagehot's (1873/1991) account of 'Lombard Street' has a strong sense of the troublesome identity of the Bank, fearing that its private structure did not necessarily serve its public responsibilities. In our terms, the Bank could be viewed as a market

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[23] For recent reviews of IPE literature in world finance that emphasise and reassert this commanding orthodoxy, see Cohen (1996) and Dombrowski (1998).

[24] 'Political society' was equated by Gramsci with the 'state proper', that is the administrative, executive and coercive institutions of government within a society (Cox 1987:409).

[25] For Gramsci, "civil society is the social realm in which abstract economic interests ... take on their actual, concrete, and particular forms as specific aspirations linked to specific world-views. It is the realm of voluntary associations, of the norms and practices which make them possible, and of the collective identities they form, the realm where 'I' becomes 'we'" (Murphy 1994:31). Murphy (1994:14) extends Gramsci's notion of national civil society to the international level, whereby international civil society consists of those institutions through which national civil societies have been linked for several centuries.

institution, a joint-stock company concerned with profitability and dividend payments. Further, the Bank could also be held to be a civil institution. The Court of Directors that managed the Bank's affairs were drawn, in the main, from the ranks of London's most prominent merchants and financiers, representing their perceived shared interests. Classifying the institutions that contribute to framing world credit practices remains an historical question.

Market Institutional Networks

Throughout modern world finance, credit practices have been institutionalised within financial market institutions. The notion of market institutional networks reflects the extent to which undertaking credit practices at a world scale has involved networks of institutions which extend throughout the relevant geographical range of world credit practices in different periods (Sassen 1991:104; Pryke & Lee 1995:337). The identification of the significance of market institutional networks is also recognition of the collective and hierarchical nature of world financial markets. Contrary to understandings of markets offered by neo-classical economists as the interaction of individuals as rational utility maximisers, world credit practices tend to be collectively organised through a relatively small number of market institutions. For instance, Braudel's (1977, 1984) analysis of world finance between the thirteenth and nineteenth century stresses the domination of credit practices by the major European financial families. In the contemporary era, large market institutions that enjoy so-called advantages of scale which lower the risks involved in credit creation continue to dominate (Strange 1988:131). Typically, the top twenty market institutions within any sector of credit practices account for between forty and sixty percent of world-wide transactions (Smith 1992). As Braudel (1977:111) asserts, financial market institutions have always circumvented the market understood in neo-classical terms.

Another aspect of the collective and hierarchical nature of world financial markets that is often overlooked is the manner in which linkages with national political economies tend to underpin the relative standing of specific market institutional networks. The notion of 'stateless' market institutions pursuing opportunities for profit the world over is something of an oversimplification. Given the inconstant geography of capitalism, relatively high rates of economic growth in a national political economy tend to act as a 'springboard' for the financial market institutions embedded in that economy to dominate world finance.[26] Capital in the form of money has and continues to reside within national retail market institutions (Germain 1996:214-5; Zysman 1996:173). The linkages of market institutional networks to their respective 'home' political economies consequently impacts on their strategies and competitiveness at a world scale (Smith 1992; Martin 1994:265-6). Modern world finance has been dominated in different periods, then, by Dutch, British, west European, American and Japanese market institutional networks.

While market institutional networks tend to be united by their organisation of credit practices based on changing perceptions of the potential profits and risks involved, market institutions have traditionally specialised in different sets of credit practices. Commercial banks have tended to be involved in taking largely retail deposits, granting overdrafts and issuing primarily short-term corporate loans. Merchant banks have tended to take wholesale deposits, issue large loans to corporate and sovereign customers, and underwrite the issue of short- and long-term capital and equity market credit. Investment banks have tended to act as brokers, dealers and underwriters in capital and equity markets.[27] In contemporary world finance, these traditional demarcations have, at least to some extent, become undercut by a wide range of processes including 'disintermediation' and 'decompartmentalisation'. Disintermediation, whereby the flow of funds between borrowers and lenders avoids the direct use of banks as financial intermediaries (Sinclair 1994:136), erodes the capacity of commercial banks in particular to collect deposits and grant loans (Economist 1992). Decompartmentalisation, whereby regulatory barriers subdividing credit practices by institution that were erected in an attempt to prevent a crisis in one sector spreading to another are removed (Cerny 1993a:54), offers opportunities for market institutions to establish financial conglomerates and broaden the range of credit practices which they organise (Economist 1994).

The institutionalisation of world credit practices within market institutional networks also has a significant spatial dimension. The principal

[26] On the 'embeddedness' of multinational enterprises within their respective national political economies see Sally (1994) and Pauly and Reich (1997).

[27] A more precise breakdown of the specialisations of market institutional networks is mitigated against by the impact of the emergence of state-societies and the consolidation of national political economies on the identities and strategies of market institutions. See, for instance, Zysman's (1983) comparative typology of the historical development of distinct configurations of state-finance-industry relations as 'capital market systems', 'negotiated credit systems', and 'credit-based systems'.

market networks in different periods of world finance have tended to centralise their credit practices in the world financial centre of the period. Explanations of this centralisation in neo-classical economics draw upon discussions of informational economies in dispersed markets, whereby the search for the lowest price by buyers and the search for buyers by sellers are identified as important costs incurred in a market. The centralisation of market institutional networks is thus seen as reducing the costs of access to market information, realising external economies of scale (Davis 1990:7). In our terms, however, as key social spaces for world credit practices, the external economies of scale in world financial centres are a matter for social construction and reproduction. As Pryke & Lee (1995:330-1) assert, "... external economies do not just happen to exist in the air or appear automatically as geographical clustering proceeds within financial centres; they are socially generated ...". Such social construction and reproduction rests on the centralisation of material and ideational forces in WFCs, and the wider production and reproduction of WFCs as part of world finance as a social order.

State and Civil Institutions

At the outset of modern world finance in seventeenth century Europe, world credit practices were largely institutionalised within market institutional networks and enjoyed "a certain latitude" from state institutions (Abu-Lughod 1989:17). As Braudel (1984:50) has noted, at this time states lacked the "diabolical power" of penetration into world credit practices. Practices were, however, also institutionalised within civil institutions, in particular, stock exchanges and clearing houses. Stock exchanges provided important institutional parameters within which capital market practices were organised, standing at once as markets, self-regulatory institutions and cartels (Lütz 1997:6-10). Clearing houses meanwhile provided the institutional parameters for the organisation of payment practices, effectively supervising the meeting of obligations arising from the practices of creating credit which were themselves institutionalised within market networks.

While the extent to which world credit practices have been institutionalised within state institutions has fluctuated since it is clear that, from the 'financial revolution' of the eighteenth and nineteenth centuries, state institutions have become increasingly involved in world finance (Dickson 1967; Gilpin 1987:122). The financial revolution involved the issuing of fiduciary money in which credit also became denominated. Credit practices, therefore, affected the value of fiduciary money. Given that financial market institutions are first and foremost in competition in the pursuit of profits, market institutions required regulation and supervision to hopefully prevent 'over-banking' and the imprudent expansion of credit (Strange 1988:95; Leyshon & Thrift 1997:49). In the absence of such management by state institutions, the value of fiduciary money may be brought into question.

While the penetration of credit practices by state institutions has followed diverse patterns across national political economies, "operational capacity" and "design capacity" stand out as two common features of state institutions (Vipond 1993:187). The former concerns attempts to control the levels of credit creation in response to monetary and growth targets, the preserve of central banks based upon the granting of monopoly privileges in the issuing of fiduciary money and government debt.[28] Central banks seek to restrain the over-banking tendency by manipulating the cost of borrowed reserves in the form of fiduciary money and thereby emitting interest rate signals (Dow 1994:155). In the advent of panic surrounding the solvency of financial market institutions, central banks may also perform the role of 'lender of last resort' by injecting liquidity (Gilpin 1987:309). At a world scale, credit creation and commodity transactions in different periods have tended to be largely denominated in a single national currency as 'world money' (Strange 1976). The central banks with monopoly over the issue of world monies have, therefore, been key state institutions framing world credit practices. The operational capacity of key central banks has been assisted by co-operative monetary arrangements and institutions, such as those associated with the international gold standard in the nineteenth and early twentieth centuries, and macro-economic policy co-ordination.

The "design capacity" of states concerns the establishment of the rules and regulations governing financial market institutions. It is this aspect of the

[28] As Walter (1993:37) summarises, "A basic theme of modern monetary theory is that an economy in which there was no central bank money but only credit money issued by individual banks would be inherently unstable, as individual banks would have no incentive to limit credit creation and prices would tend to infinity. Monetary stability is seen to derive from the central bank's ability to control the overall level of credit creation by the banking system, by determining bank's reserve ratios (the ratio of required holdings of central bank money to deposits). In this orthodox view, financial hierarchy and in particular the central bank's monopoly on the issue of base money are prerequisites for monetary stability". For a radical challenge to the monopoly privilege enjoyed by central banks since the seventeenth century based upon the ideas of Hayek, see Dowd and Timberlake (1998).

framing of world credit practices by state institutions which has received most attention from IPE scholars (Underhill 1991; Helleiner 1994). Drawing largely on the insights of Karl Polanyi (1944) into the necessary role of the state in establishing and maintaining markets, what this vein of research serves to highlight is the extent to which state policies frame the manner in which credit practices become institutionalised within market institutions.[29] Once regulatory parameters have been established by the state, much of the day-to-day supervision of credit practices institutionalised within market networks has traditionally been organised through a complex and nationally diverse mix of civil institutions. Lütz (1997:10-15) characterises this predominance of civil institutions as "self-regulated cartels". The combination of widespread national deregulation and the global extension of market institutional networks in the contemporary period has both transformed and transplanted these arrangements. A range of inter-state arrangements has emerged which regulates and supervises world credit practices that themselves are institutionalised within market networks (Porter 1993; Underhill 1997b). According to Moran (1991) and Lütz (1997), this has involved a growing codification, institutionalisation and juridification of many previously self-regulatory arrangements as cartels have been broken up.

Part III - World Financial Orders: Authority, Stability and Instability

This final Part of the chapter develops the concerns of an Historical IPE with social change and social orders with reference to world finance. Following an Historical IPE, the conceptualisation of modern world finance offered here as a succession of historical structures that span irregular conjunctures is extended to the diachronic moment. World finance becomes a succession of social orders - what will be termed 'world financial orders' - that is, complexes of social and power relations which shape the manner in which world credit practices come to

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[29] Cerny (1993b:155 *original emphasis*) provides an excellent summary of the insights of Karl Polanyi in this respect. What Polanyi pointed out was that "the establishment of a capitalist market economy, and of the kind of financial system that is needed to create and sustain it, does not happen by itself. It is a political act, in two complementary ways. In the first place, the capitalist market is only one concrete dimension or potential form of social organization, and its predominance over other dimensions and forms requires the necessary norms and structural conditions be imposed or collectively adopted. In the second place, a range of critical and necessary *preconditions* for the organization and operation of a stable and efficient market require the backing of the state. These include the establishment within a circumscribed territory of clearly defined and enforceable property rights, common standards of value such as weights and measures, a currency for exchange and accumulation, a system of contracts, a legal system to enforce the above, and a coercive state apparatus to sanction predators".

be organised in different conjunctures in the context of wider world orders. Each world financial order, then, has a structure of power.

Structures of Power

Power in world finance has tended to be understood by IPE scholars in largely state-centric terms. Helleiner's (1993a) inquiry into the nature of what he terms "financial power" provides a clear and typical example. Helleiner (1993a:208) identifies five common features of the United Provinces, Britain and the United States as the successive hegemonic states in world finance. First, each was the leading creditor economy of its period. Second, each had the key public institutions in the organisation of world finance. Third, each was 'home' to the dominant market institutional networks. Fourth, each was host to the dominant world financial centre. Fifth, each of their respective currencies operated as world money.

While illustrative of the diverse sources of power in world finance, such a state-centric approach remains problematic. For instance, drawing on Weber, Ingham (1994) highlights the problems of equating market forms of power, that is, the first, third and fourth common features of financial power identified by Helleiner, with state power in the organisation of world finance. In our terms, state-centric approaches to power in world finance collapse material and political power into state power. The significance of social power is also neglected, particularly in terms of its contribution to shaping the purposes to which political power is put. As Ruggie's (1982) analysis of world financial and monetary arrangements in the nineteenth and twentieth centuries recognises, the "social purposes" which frame the exercise of political power has significant bearing on the manner in which world finance comes to be organised. The pattern of interacting social forces underpinning the 'purpose' of state policy cannot be captured by state-centric approaches where the purpose of state policy is assumed and unchanging in an anarchical system of states. Following Cox (1981/1996:103 *original emphasis*), an Historical IPE approach embraces a genuinely political economy understanding of the structure of power in a world financial order. Here "power is seen as *emerging* from social processes rather that taken as given in the form of accumulated material capabilities, that is the result of these processes".[30] The exercise of political power through states in

[30] On the 'emergent' nature of power from concrete social relationships, see also Mann (1986:4-6).

world financial orders is therefore not the sole explanatory factor, but a significant part of what is to be explained.

Material power in successive world financial orders emerges from social relations surrounding capital, knowledge and technology as the principal material capabilities of world finance. In a diachronic sense, material capabilities are not a neutral requirement of world credit practices, but potential sources of material power. Social relations surrounding material capabilities ensure that power is conferred upon those who occupy positions of ownership, control or access to material resources. In terms of capital, vast inequalities and variations in rates of accumulation realise changing patterns of material power both within and across state-societies. The material power of social forces in world finance is also related to their capacity to hold, manipulate and communicate knowledge. As Sinclair (1994:143-4) has asserted, knowledge is "a form of social organisation with dominating and subordinating dimensions". Strange's (1988:117) notion of the 'knowledge structure' captures the significance of the social and power relations surrounding knowledge which "... determine what knowledge is discovered, how it is stored, and who communicates it and by what means to whom and on what terms". Power is drawn, in particular, from the ability to deny others access to knowledge. Further, unequal social relations surrounding access to new technology also confer material power upon social forces. Technological innovation is not exogenous to society but fully inscribed in social relations (Castells 1989). In world financial orders, access to state-of-the-art technologies provides social forces with the material power to change the manner in which credit practices come to be organised.

Further, the centralisation of material capabilities in world financial centres as key social spaces leads to a spatial dimension to material power relations in world financial orders. The capacity of social forces to exercise material power in world finance becomes in large part determined by their ability to access key social spaces. Traditionally, those social forces that, through their material power, have dominated in world financial orders have also been associated with the dominant WFC. Polanyi (1944) effectively captured this in his analysis of the Hundred Years Peace (1815-1914). He identified the position of *haute finance* as social forces which, alongside state and inter-state institutions, contributed to the production and reproduction of the Peace. For Polanyi (1944:17), *haute finance* was understood not as a factor of production as under neo-classical economics, but as "a specific entity", as a class and political category (Gill 1991:282; Arrighi 1990:372). At the roots of the formation of the perceived shared interests of *haute finance*, and of their position within the world financial order and wider world order of the period, was their centralisation in London. As Polanyi (1944:11) asserted, London stood as "the international center, *haute finance* proper".

In addition to material power emerging from the unequal social relations surrounding material capabilities, social and political power also contribute to the basic structure of power in a world financial order. The capacity of the dominant social forces of *haute finance* in a world financial order to exercise material power is dependent upon wider social and political power relations. Social power emerges from the patterning of social forces, that is the manner in which different social forces come together. Social power relations impinge on the way in which world finance comes to be organised. For instance, despite the material predominance of New York's social forces in the post-1945 world financial order, the manner in which the order came to be organised did not reflect their perceived shared interests. The integration of other social forces including industrialists and organised labour both within American society and across western Europe undercut the social power of New York's social forces (Ruggie 1982). Further, given the significance of state institutions in framing world credit practices, whoever holds political power, that is "the power to control the machinery of the state or to influence government policy" (Cox 1987:18), is likely to be of particular importance. For the social forces of the dominant WFC to occupy a strong position within the structure of power requires that they hold considerable political power. As Braudel (1977:64) posits, "Capitalism only triumphs when it becomes identified with the state, when it is the state".[31] An understanding of the forms of state emerging from state-societal relations and the relationships between material, social and political power is essential, then, to identifying the structure of power within a world financial order.

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[31] It should be noted that Braudel's (1977) usage of 'capitalism' differs considerably from its usual identification with a mode of production. For Braudel, capital is identified with capital goods (especially money) that are invested for their reproduction, while 'capitalists' are those, primarily merchants and financiers, who seek to reproduce their own capital for the purpose of accumulation. Hence 'capitalism' describes one realm of social life, not its totality as implied by the notion of the capitalist mode of production (Germain 1996:224).

Following an Historical IPE approach, the structure of material, social and political power in a world financial order is understood in the context of the corresponding wider world order. Aside from wider social and political power relations, of particular significance for world financial orders is the nature of inter-state relations. At the most extreme, periods of international war can have major implications for world financial orders. As Kindleberger (1984/1993:7) asserts, "Financial history cannot escape dealing with war. War is a hothouse and places enormous strain on resources, which finance is used to mobilise. Financial innovation occurs in wartime". In our terms, major international wars tend to contribute to a broad re-articulation of power relations that resonates through a world financial order as part of the wider world order of the period in question. Alternatively, periods in which there is an absence of major international conflict tend to present opportunities for inter-state co-operation. For instance, the agreement concluded at the Bretton Woods Conference of 1944 between the governments of the western states to establish a fixed-exchange rate system and the resulting commitment to extend wartime capital controls into peacetime had major consequences for the post-war world financial order.

Structures of Authority

An Historical IPE approach also suggests, however, that a relatively stable social order does not simply result from the enforcement potential of a structure of power. While power relations are always present within a relatively stable social order, power relations tend to be visible as binding authority relations that render them legitimate. Following Cox (1981/1996:103), an Historical IPE identifies a relatively stable social order as one in which a coherent 'fit' emerges between the material, ideational and institutional forces of that order. It is also posited that to understand how this fit is reproduced in a stable social order and manifests itself in the organisation of social practices requires attention to the formal and informal dimensions of the structure of authority.

Material, ideational and institutional forces in world financial orders tend to be centralised in the dominant world financial centre. Authority relations in world financial orders legitimate the prevailing social and power relations that emerge from these forces considered in diachronic terms. It is largely as a consequence of the formal and informal authority of the dominant social forces associated with the dominant WFC that a relatively stable world financial order is reproduced. To return to Polanyi (1944:18), in the organisation of world credit practices *haute finance* held both formal authority, as exercised through the principal market institutional networks such as that of Rothschilds, and the informal authority to shape "the universally accepted principles upon which this organization rested". Formal and informal authority come together in a structure of authority which organises world credit practices in a manner consistent with a coherent fit between the material, ideational and institutional forces of a world financial order. In addition to their standing as key social spaces for world credit practices, then, world financial centres are key spaces of authority in world financial orders, social loci for the reproduction of relative stability. It is posited, therefore, that a relatively stable world financial order coincides with the predominance of a single WFC as a key space of authority.

A somewhat fragmentary body of research broadly supports the notion of world financial centres as key spaces of authority in the reproduction of relatively stable world financial orders. Ingham (1994) highlights the significance of WFCs for understanding the stable reproduction of world monetary orders by stressing the detrimental consequences of the failure of New York between 1945 and 1971 to replicate the role played by London between 1870 and 1914. Further, subsequent to the publication in 1973 of his classic *The World in Depression*, Kindleberger (1974/1978; 1983) seems to have revised his initial state-centric argument that relative instability in world money and finance was caused by the absence of a single hegemonic state. Although based on a somewhat functional understanding of WFCs, this leads him to suggest that the manner in which state, civil and market authority comes together in the dominant financial centre is pivotal to an understanding of relative stability in world finance.

> "... the financial centre associated with the leading currency had certain functions to perform: the distribution of additions to world reserves, the accumulation and allocation of short- and long-term capital and, in time of crisis, serving as lender of last resort" (Kindleberger 1983:87).

Hence, for Kindleberger (1983:82), the Great Depression was not understandable simply in terms as a consequence of the transfer of power and responsibility from the British to American state, but occurred "in the midst of the transfer of financial leadership from London to New York". Brown's (1940) research is, perhaps, the most supportive. Having established that the most significant factors facilitating the smooth operation of the pre-1914 international gold standard were efficient movements of credit for adjustment, Brown (1940) argues that the very efficiency of movements of credit resulted from the firm centralisation of what he terms the 'world credit structure' in London. For Brown (1940), the key to the disruptions to the international gold standard caused by the First World War therefore lay in the subsequent decentralisation of the world credit structure between London and the emergent New York.

Not only does a relatively stable world financial order tend to coincide with the dominance of a single WFC as a key space of authority, then, but the unravelling of a world financial order coincides with the decentralisation of the order and proliferation of financial centres at the apex of the hierarchy. Inherent contradictions within a world financial order come to the surface in the absence of a centralised structure of authority to reproduce relative stability. The rise and fall of WFCs echoes conflicts between ascendant and descendent social forces which themselves reflect slowly shifting patterns of power relations. As Braudel (1984:32) highlights, the rise to prominence of one financial centre and the decline of another "always meant a massive historical shift of forces, revealing the precariousness of the previous equilibrium and the strengths of the one it was replacing". A decentralised world financial order is characterised by relative instability and the intense restructuring of credit practices.

'Crises' of world finance are, therefore, conceptualised as largely a diachronic development associated with "structural disruptions" to the regularities of world credit practices and not "superficial fluctuations" (Overbeek 1990:19). This contrasts with usual understandings of 'financial crises' as a largely synchronic development, the outcome of a shift from euphoria to panic in the psychology of market actors (Kindleberger 1978; Portes & Swoboda 1987; Dombrowski 1998:5-6).[32] Financial crises understood in the latter sense as "superficial fluctuations" are likely regardless of whether world financial orders are relatively stable or unstable. The wider significance of financial crises in this sense does, however, depend largely on the extent to which a world financial order is centralised in a single WFC. A financial crisis that occurs within a centralised world financial order is, by virtue of the capacity

[32] For instance, Eichengreen and Portes (1987:10) define 'financial crises' as "a disturbance of financial markets, associated typically with falling asset prices and insolvency among debtors and intermediaries, which ramifies through the financial system, disrupting the markets capacity to allocate capital within the economy. In an international financial crisis, disturbances spill over national borders, disrupting the markets capacity to allocate capital internationally".

of the structure of authority to reproduce relative stability, likely to bring about only a temporary change in credit practices. In a centralised world financial order, the authority relations that frame the organisation of credit practices are not in question. A financial crisis within a decentralised order, on the other hand, is capable of reinforcing diachronic crisis tendencies towards structural transformation.

Conclusions

Following from the ontological significance attached to the historicity of social thought and actions by an Historical IPE approach, Historical IPE inquiry is concerned with five main interrelated dimensions of world finance: structured social practices, social change, social space, social time, and social orders. An Historical IPE of world finance proceeds by focusing since the seventeenth century upon commercial credit, corporate credit, sovereign credit, money-market and clearance practices as the principal social practices which constitute modern world finance. World finance is conceptualised in both synchronic and diachronic terms as a succession of historical structures that span irregular conjunctures. In synchronic terms, world credit practices are framed by and draw upon capital, knowledge and technology as material resources; intersubjective meanings and world views as ideational forces; and market, state and civil institutional forces. In diachronic terms, world finance is understood as a succession of social orders, that is, world financial orders. World credit practices come to organised in the context of the structures of power and authority within a world financial order which itself forms part of a wider world order. A relatively stable world financial order in which a coherent conjunction emerges between material, ideational and institutional forces is reproduced by the coming together of the informal and formal dimensions of the structure of authority.

An Historical IPE of world finance identifies the significance of world financial centres in world financial orders in two senses. First, in synchronic terms, WFCs stand as the key social spaces for world credit practices. The practices that create, allocate, buy and sell credit on a world-scale and the material, ideational and institutional forces which frame these practices tend to be centralised in a WFC. Second, in diachronic terms, WFCs are key spaces of authority in world financial orders, the social loci for the reproduction of relatively stable world financial orders. Rooted in the centralisation of material resources in WFCs, those social forces that dominate world financial orders tend to be associated with the dominant WFC. It is through the informal and formal authority of these social forces that a relatively stable world financial order is reproduced. Consequently, a relatively stable world financial order coincides with the predominance of a single WFC, while a relatively unstable world financial order in which credit practices are restructured is marked by decentralisation between two or more financial centres at the apex of the hierarchy.

In terms of apprehending contemporary world finance, then, the potential utility of an Historical IPE is primarily three-fold. First, in contrast to predominant understandings of world finance derived from neo-classical economics and building upon existing IPE scholarship, it is the social and political foundations of the organisation of world finance that are emphasised. It is suggested that the organisation of world credit practices is essentially problematic and not the functional result of the operations of the international economy. Second, in contrast to the majority of IPE scholarship, the social and political foundations of world finance are held to extend beyond the intersection of 'states and markets'. 'State' and 'market' as analytical categories are unpacked through a focus upon world credit practices themselves, the material, ideational and institutional forces framing practices, the social and power relations shaping the organisation of world credit practices, and the relationship between authority relations and the relatively stable or otherwise reproduction of world finance. In each respect, pivotal to moving beyond states-markets is the recognition of the centrality of world financial centres to world financial orders. Third, an Historical IPE of world finance offers the potential of an historical mode of knowledge of world finance capable of appropriating the past to inform the future. In particular, comparative historical inquiry across concrete world financial orders is likely to advance emancipatory understanding. It is to such concrete inquiry that Part II of this thesis now turns.

PART II

World Financial Orders and World Financial Centres

CHAPTER THREE

Amsterdam: The Making and Unravelling of the Amsterdam-Centred World Financial Order

Introduction

Through an Historical IPE approach, Part I developed the tools to facilitate the apprehension of contemporary world finance. This followed in the light of the dual problematic identified at the outset: that is, inquiry encounters not only significant structural changes which cannot easily be captured, but also the predominance of neo-classical economics as a mode of knowledge. An Historical IPE approach to world finance focuses over the *longue durée* upon commercial, corporate, sovereign, money-market and clearing practices as the principal sets of social practices which comprise world finance. Modern world finance since the seventeenth century is conceptualised as a succession of historical structures that span irregular conjunctures. In synchronic terms, world credit practices are framed by and draw upon material capabilities, ideas and institutions as the basic forces that interact in an historical structure. World financial centres are identified as the key social spaces for world credit practices, the spaces where the practices and forces of world finance as a historical structure become centralised. In diachronic terms, world finance is posited to be a succession of social orders, that is, world financial orders. World credit practices are seen to be organised in the context of the structures of power and authority within a world financial order, which itself forms part of a wider world order. It is postulated that a relatively stable world financial order is identifiable as a coherent conjunction between material, ideational and institutional forces, reproduced by the coming together of the informal and formal dimensions of a structure of authority in the organisation of world credit practices. World financial centres are perceived as key spaces of authority, the social loci for the stable reproduction of a world financial order. Ultimately, it is proposed that a relatively stable world financial order coincides with the dominance of a single WFC, while a relatively unstable world financial order is marked by the decentralisation of that order between two or more financial centres at the apex of the hierarchy.

This chapter initiates our concrete historical inquiry into world financial orders and world financial centres, beginning with Amsterdam as the WFC in the seventeenth and eighteenth centuries. The 'Amsterdam-centred world financial order' is the appropriate point for inquiry over the *longue durée* to commence, as an Historical IPE approach to world finance suggests that world credit practices took on their 'modern' form in the seventeenth and eighteenth centuries - becoming for the first time legitimated by the principles of rationality and reason (Neal 1990; de Goede 1998). However, in terms of the relationships of world financial centres to world finance, the Amsterdam-centred world financial order was a continuation of the tendency since the fourteenth century for great mercantile cities to rise to the position of WFC - fourteenth and fifteenth century Venice, Antwerp and Genoa in the sixteenth century (Braudel 1977; Arrighi 1994; Amin 1996; Goldsmith 1987:198). As such, despite world credit practices taking on their modern form in the Amsterdam-centred world financial order, world finance from the fourteenth to eighteenth centuries maintained a broad structural coherence. Further, the unravelling of the Amsterdam-centred world financial order during the late eighteenth century, and the concurrent rise of London as the WFC of the 'British world financial order' which became established in the first decades of the nineteenth century, marks a structural transformation in the nature of world financial orders. In addition to its position as the centre for world trade, London stood, first and foremost, as the financial centre of the British national political economy (Braudel 1984:35; Kindleberger 1974/1978:79-83). From the nineteenth century, with the increased interpenetration between states and societies as part and parcel of the processes of the making of state-society complexes, consolidated national political economies came to form the foundations of both the world financial order and the world economy more broadly.

Inquiry into the making and unravelling of the Amsterdam-centred world financial order, then, facilitates an understanding of modern world credit practices, the significance of the centralisation of a world financial order in a single WFC for relative stability, and the "massive shift of historical forces" (Braudel 1984:32) which coincides with the fall from predominance of a single WFC and relative instability in a world financial order. The latter is particularly informative as to the structural transformation that marks the end of the Amsterdam-centred world financial order and the beginning of the British world financial order that followed. To these ends, the chapter is divided into three main parts. The focus for Part I is the rise of Amsterdam as a WFC, the predominant forms of credit practices, and the material capabilities that framed credit practices in the Amsterdam-centred world financial order. Part II moves to consider the structures of power and authority in the Amsterdam-centred world financial order and their relationship to the relatively stable making and reproduction of the Amsterdam-centred world financial order in the context of the wider world order. Finally, Part III concentrates on the simultaneous rise of London and decline of Amsterdam as WFCs and the associated unravelling of the Amsterdam-centred world financial order.

Part I - Amsterdam: Key Social Space

From the early seventeenth century there appears little doubt that Amsterdam stood at the pinnacle of the hierarchy of financial centres, *the* world financial centre. The stream of cosmopolitan financiers and merchants into Amsterdam, including French Protestants, Antwerpers, and Jews from Spain and Portugal, who brought with them capital, knowledge and expertise, was both symbolic of Amsterdam's rise and contributed to its rapid take-off (Braudel 1984:147; Barbour 1963:56-7; Kindleberger 1984/1993:41). As the key social space, the world credit practices associated with commercial credit, sovereign credit, corporate credit, money-markets and the clearance of credit transactions all became centralised in Amsterdam. Other financial centres, most notably London, Paris, Genoa, Geneva and Frankfurt were all significant as spaces for social practices, but none rivalled the dominance of Amsterdam.

Forms of Credit

Amsterdam's position as the entrepôt centre for world trade ensured the domination of commercial credit practices throughout the seventeenth century. The bill of exchange remained the pre-eminent instrument for the creation of commercial credit. The associated secondary trading practices including the discounting of bills that lead to their circulation far beyond the original creditors and debtors through endorsement were well established in Amsterdam before 1700 (Riley 1980:31). In no other financial centre "was the bill of exchange used so freely and flexibly, and no other city in this century had a business in them equal to Amsterdam's" (Barbour 1963:53-4). The key practices in the provision of commercial credit for world trade were in the so-called 'commission' and 'acceptance trades' (Braudel 1984:241-5; Chapman 1984:1-3).[1] Commission agents utilised commercial credit for both the purchase and

[1] The commission trade meant the handling of goods on the behalf of another person, while the acceptance trade focused on the underwriting of bills of exchange.

sale of goods, either granting credit to others when purchasing goods or advancing proportions of payments when receiving goods for sale.

Despite the declining comparative position of Amsterdam as a centre for world trade from the end of the seventeenth century, the centralisation of the practices of the acceptance trade in Amsterdam ensured continued dominance of commercial credit practices (Riley 1980:28; Chapman 1984:1-2).[2] Acceptance houses centred in Amsterdam institutionalised the creation, allocation, buying and selling of commercial credit throughout much of the eighteenth century. Merchants engaged in world trade, for instance British merchants in London, sought the endorsement of their bills of exchange by Amsterdam's acceptance houses in order to make them acceptable both to their debtors and to bankers at home or abroad. Merchants drew a bill of exchange (usually of three or six months duration) on Amsterdam with payment becoming due when the bill matured, while the acceptance houses occasionally held the bill until maturity but more often than not discounted it with bill traders. The growing significance of the acceptance trade during the eighteenth century mirrored the wider shift in the nature of Amsterdam from an entrepôt world mercantile and financial centre to a WFC of a more pure, specialised form.

Closely associated with Amsterdam's domination of commercial credit practices was the firm centralisation of clearance and money-market practices in Amsterdam throughout the seventeenth and eighteenth centuries. Clearance practices concerned with the settlement of credit obligations served to integrate transfers of bullion and specie with commercial and sovereign credit creation. Clearing practices were institutionalised largely with the Amsterdam Exchange Bank, supplemented by private cashiers who acted as agents of collection and payment (Riley 1980:28). Formed in 1609, the Exchange Bank effectively became the world's clearing house and, as a consequence, the most important dealer in precious metals. This has led Goldsmith (1987:214-6) to describe the Amsterdam Exchange Bank as the world's most significant financial institution of the seventeenth and eighteenth centuries. The City of Amsterdam decreed that all bills of exchange of 600 florins or more issued in Amsterdam be cleared through the Bank (Kindleberger 1984/1993:50). As such, the Bank acted to both transfer obligations through its books, with the volume of transfers through

[2] For a brief summary of debates surrounding the economic decline of the United Provinces generally and particularly in relation to the position of Amsterdam in world trade, see Kindleberger (1996:100-4).

the Bank's books standing at 10-12 million florins a day in 1776, and as a secure depository for payments (Riley 1980:28). At any one point in time, the Bank covered outstanding obligations with coins, bullion and securities to maintain confidence in the system. As a secure depository, the Exchange Bank effectively stood as the key institution for money-market practices, attracting capital from all over Europe that sought a safe haven from social and political upheaval (Barbour 1963:44-6; Wallerstein 1980:57-8). The Bank's role as a depository, then, reinforced its capacity to stand as the world's clearing house for commercial and financial obligations.

Sovereign credit practices were also centralised in Amsterdam during this period, particularly, although not exclusively, in the latter half of the eighteenth century. During the seventeenth century the ease with which the state officials of the United Provinces could raise sovereign credit through Amsterdam was unrivalled by the other European states (Barbour 1963:81-2).[3] In addition, substantial foreign sovereign credit was provided to the Brandenberg elector and the royal and princely borrowers of Denmark, Sweden, Britain, Hamburg, Bremen, Emden and East Friesland (Chapman 1984:2; Barbour 1963:106-11). This often led to the situation where sovereign credit created in Amsterdam was supporting both sides in a war. Defaults were common, however, and despite the backing of sovereign credit with collateral including land, jewels, bullion and coins, the risks involved ensured that the provision of foreign sovereign credit remained relatively unattractive in Amsterdam during the seventeenth century (Riley 1980:5). An escalation of wars between the European sovereigns by the latter half of the eighteenth century, combined with the changing horizons of Amsterdam's financiers as part of the shift of Amsterdam to an entrepôt WFC of more pure form, led to a rapid expansion in the provision of foreign sovereign credit (Braudel 1984:246-7; Arrighi 1994:142; Riley 1980:14-16). By the 1780s states including Britain, Sweden, Austria, Denmark, Russia, Poland, Spain, France and the United States had become the principal debtors on the Amsterdam capital market, institutionalised through the Amsterdam bourse. In addition, Amsterdam-based market institutional networks such as Hope & Co. organised sovereign credit issues throughout Europe, channelling Dutch capital into foreign issues abroad (Chapman 1984:3). By 1790, the Dutch held between 500 and 700 million

[3] For instance, in 1664 when war with England was looming, a sovereign loan of one million florins to the United Provinces at three percent interest was subscribed within Amsterdam in two days (Barbour 1963:81-2).

florins worth of foreign assets, of which around 200 million florins represented issues and loans raised on the Amsterdam capital market (Kindleberger 1984/1993:211-2; Goldsmith 1987:214).

The sovereign credit of the European states was not, of course, provided single-handedly through credit practices centralised in Amsterdam (Braudel 1982:395; Riley 1980:8). With the exception of the United Provinces, the large-scale sovereign credit requirements of the European states could not be fulfilled completely from within their own societies. Practices institutionalised at a world-scale and incorporating the main financial centres of Europe were a necessary feature of sovereign credit provision. For instance, during the middle period of the eighteenth century Genoa rivalled Paris as the main financial centre for those practices that created French sovereign credit. Frankfurt and Vienna were also important centres for foreign sovereign credit practices (Riley 1980:8). However, Amsterdam remained at the pinnacle of the hierarchy of Europe's financial centres in terms of sovereign credit creation. Amsterdam stood as the "pivot" (Braudel 1982:395) around which foreign sovereign credit practices were organised. Based upon Amsterdam as a foundation stone, those market institutional networks through which foreign sovereign credit practices were undertaken extended across Europe's other main financial centres.

Corporate credit practices remained relatively small-scale during the seventeenth and eighteenth centuries when compared to their explosion during the industrialisation of the nineteenth and twentieth centuries. However, the Amsterdam Bourse was the first stock market in permanent session (Arrighi 1994:138-40). Shares on the Bourse were the first to take the form of a permanent investment, that is, modern 'fictitious capital', as opposed to recoverable subscription money (Barbour 1963:79). Listed on the Amsterdam Bourse, the Dutch East and West Indies Companies, with share capitals of six and seven million florins respectively, were the only two institutions in the seventeenth century that approximated to the form of the modern corporation (Goldsmith 1987:219).[4] Alongside these innovations, the form of capital and

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[4] The earliest forms of business organisation included sole proprietorships, partnerships, silent partnerships, and loose and temporary federations of merchants. The joint-stock company developed in response to the large-scale capital and credit necessities of long distance trade. While joint stock companies had existed before as temporary federations, formed in 1602 the Dutch East India Company (sometimes referred to as the VOC, that is, Verenigde Oost-Indische Compagnie) was the first permanent joint-stock company. While the use of stock in corporate credit practices was not widespread in Amsterdam, the techniques developed were utilised on a

equity practices themselves underwent considerable change. Secondary trading practices in corporate and sovereign credit based upon perceptions of risk began to take hold. Initially, investors and speculators tended to trade in equities in an attempt to profit from potential price fluctuations, but by the latter half of the eighteenth century so-called 'speculation in the wind' took off (Barbour 1963:76; Riley 1980:29-30; Kindleberger 1984/1993:209). Speculative practices in this sense involved the buying or selling of actions - that is, options to buy or sell - by persons who did not actually own equities but sought to profit from risk-taking on potential future price fluctuations.

Capital

The rise of Amsterdam as the key social space for the predominant forms of world credit practices was underpinned by the centralisation in Amsterdam of capital, knowledge and technology as the material resources upon which these practices drew. The relative abundance of capital in Amsterdam ensured that from the mid-seventeenth to the mid-eighteenth century at least, rates of interest on credit were lower in Amsterdam than elsewhere in Europe (Braudel 1982:386; Goldsmith 1987:218). Based upon Dutch naval and shipping supremacy, the centralisation of capital in Amsterdam was first and foremost the outcome of its position as a mercantile entrepôt centre, "the warehouse of the world" (Braudel 1984:184) by the early seventeenth century. The capital that became centralised in Amsterdam as a result of these mercantile networks was supplemented by the more immediate sources of the high rates of saving amongst the Dutch populace and the profits from Dutch high quality textile production (Barbour 1963:28-9; Braudel 1984:179).

Three great mercantile trading networks overlapped in Amsterdam in terms of exchange and distribution (Germain 1997:40). First, the Baltic trade in fish, salt, grain, timber and shipbuilding materials was warehoused in Amsterdam and distributed throughout Europe and the Americas (Braudel 1984:190, 207; Arrighi 1994:132). Second, Amsterdam was the pole around which the North Atlantic trade and exploitation of the 'New World' revolved, especially the shipment of bullion and plantation products from the Americas. Third, the Far East trade in luxury goods such as pepper, spices, silks and pearls was largely monopolised during the seventeenth century by the Dutch East Indies Company that was based in Amsterdam (Israel 1995; Goldsmith

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large scale in London to finance industrial expansion during the nineteenth century (Neal 1990:226; Riley 1980:242-9).

1987:219-20). Significantly, the intersection of the three great trading networks proved mutually reinforcing (Germain 1997:41). The bullion from the New World that was used to pay for goods warehoused in Amsterdam flowed onwards to the Far East to purchase luxury goods which were, in turn, shipped to Amsterdam.

From the turn of the eighteenth century, Amsterdam's position as an entrepôt centre for world trade became increasingly undercut, by-passed by the trading networks established by British, French and German competitors. Having effectively served their apprenticeship to the Dutch in the seventeenth century, British merchants and joint-stock companies in particular came to dominate the great trading networks in the course of the eighteenth century.[5] Significantly, however, despite the gradual erosion of Amsterdam's commercial predominance and the potential decentralisation of capital away from Amsterdam, world credit practices all remained centralised in Amsterdam throughout the eighteenth century. This highlights that as part of a slow shift in the nature of Amsterdam during the eighteenth century from an entrepôt centre for trade and finance to an entrepôt WFC of more specialised form, something of a virtuous circle of expansion was generated. World credit practices centralised in Amsterdam themselves generated capital as investments brought returns (Wallerstein 1980:57). Further, the Amsterdam-centred credit practices also expanded the demand for capital, serving to encourage the "mobilisation and rerouting of surplus capital from all over Europe" to the Exchange Bank, Bourse and their associated market institutional networks (Arrighi 1994:138). In short, Amsterdam displayed "deposit-compelling power" broadly comparable with that of London in the latter half of the nineteenth century (Brown 1940:154). As a consequence, until the last decades of the eighteenth century, Amsterdam remained the key space where mobile capital in search of profitable use - upon which credit practices are based in an entrepôt WFC - became centralised.

[5] Amsterdam's position as the world's mercantile entrepôt centre had been visible in the breakdown of British trade at the end of the seventeenth century, when the United Provinces were Britain's principal export market, receiving goods valued at £1,500,000 out of the total value of British exports of £3,500,000. By 1775 a major transformation had taken place as British exports and re-exports had become firmly centralised in London and Liverpool, with only £1,000,000 worth of British exports bound for the United Provinces out of a total value of £14,800,000 (Haley 1988:160-1).

Knowledge and Technology

The centralisation of information in Amsterdam, its collation and analysis to realise knowledge, also provided an essential material resource for Amsterdam-based credit practices. Smith (1984) has highlighted that a series of more or less institutionalised networks served to establish Amsterdam as an "information exchange" during the seventeenth century. These included private mercantile networks which extended across Europe, the Far East and the Americas; networks of financiers and financial market institutions centralised in the Exchange Bank and the Bourse; the vast institutional edifice of the Dutch East Indies Company; and the active commercial press that both informed and fed off these networks. Information concerning economic and political conditions throughout the world was processed both privately and publicly in Amsterdam yielding, for instance, the commodities price list of the Amsterdam Exchange as a key source of knowledge for the world's merchants (Goldsmith 1987:217). Further, while few innovations were made in information and communications technologies during the seventeenth and eighteenth centuries, existing lines of communication of packet boats and stage coaches which carried regular postal correspondence between Europe's major cities ensured flows of knowledge in, through and out of Amsterdam (Israel 1995a; Neal 1990:20).

Alongside Amsterdam, London also developed as a 'knowledge exchange' that enabled credit practices during the seventeenth and eighteenth centuries. Indeed, share and bond prices appear to have been systematically publicly listed in London from the late seventeenth century, well in advance of a similar service in Amsterdam (Neal 1990:27-9; Braudel 1982:103). The flows of knowledge between Amsterdam and London largely carried by the twice weekly criss-crossing of mail packet boats ensured that, except for disruptions caused by wars, trade disturbances and financial panics, the stock market practices of the two centres became reasonably well integrated during the eighteenth century (Neal 1990). Throughout the period, however, it was Amsterdam's knowledge exchange that provided much of the knowledge which informed world credit practices relative to London's more nationally-based knowledge networks (Meyer 1991:101). Linkages with London did become increasingly important for Amsterdam-based credit creation, especially as under British domination the great trading networks came to be centred in London and Liverpool, but it appears that Amsterdam retained much of the knowledge essential for credit creating practices on a world-scale up until the turn of the nineteenth century.

Part II - The Making and Reproduction of the Amsterdam-centred World Financial Order

While the centralisation of material capabilities in Amsterdam was vital in terms of the synchronic, day-to-day practices of credit creation, in diachronic terms, capital, knowledge and, to a lesser extent, technology provided the basis for the material power of social forces associated with Amsterdam. The social relations surrounding material resources ensured that power was conferred upon those social forces in Amsterdam which occupied positions of ownership, control and access to the material resources centralised there. From these material roots, the social forces of Amsterdam were able to authoritatively influence the nature of those ideational and institutional structures that framed the practices of credit creation throughout the seventeenth and eighteenth centuries. Shared norms and meanings surrounding credit practices centralised in Amsterdam became diffused throughout the world financial order; the values and ideology of Amsterdam's social forces became imprinted on the world financial order; and the major civil and market institutions centred in Amsterdam served to stabilise the world financial order through their position in the organisation of world credit practices. As such, the centralisation of ideational and institutional forces in Amsterdam, alongside material resources, can be seen as the realising a coherent conjunction of forces upon which the status of Amsterdam as the key space of authority in the reproduction of the world financial order rested. The standing of Amsterdam as the key space of authority was underpinned by the structures of the wider world order of the seventeenth and eighteenth centuries and, in particular, by the relationships of the Dutch state and Amsterdam's social forces to that order.

Informal Authority

Those intersubjective norms and meanings that informed Amsterdam-centred credit practices became diffused and emulated somewhat fitfully throughout the world financial order, particularly during the eighteenth century.[6]

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[6] Neal (1990:5-9) has shown that outside of Amsterdam, social practices associated with commercial, sovereign and corporate credit and the clearance of credit transactions "were

On the one hand, the norms and meanings surrounding credit practices in Amsterdam were fairly similar to those which had predominated in the major financial centres of Europe since at least the fourteenth century (Braudel 1977:66-7). On the other hand, however, innovations were made in Amsterdam that contributed towards the transformation of understandings of the practices of credit creation and the motivations that lay behind them. Credit practices became subject to calculations of risk rooted in assumptions of rationality. For instance, Joseph de la Vega published his *Confusion de Confusions* in Amsterdam in 1688, the first treatise on futures contracts, hedging, and options for puts and refuses (Neal 1990:16). This coincided with a universalisation and intensification of world credit practices which served to set the Amsterdam-centred world financial order apart from pre-modern world finance (Braudel 1982:390-5, 1984:244; Barbour 1963:140, 142).

In the context of the endemic European wars of the eighteenth century, two related developments appear to have lay at the cutting edge of the diffusion of modern understandings of credit practices. First, European state elites sought to emulate the large-scale expansion of the sovereign credit of the United Provinces through Amsterdam. Second, the overthrow of absolutism and the creation of limited monarchies reduced the risks associated with sovereign credit practices (Leyshon & Thrift 1997:18-19). Europe's governments, either chronically bankrupt like Spain and Austria, or tottering on the edge of bankruptcy like Stuart England, came to recognise their disadvantage in war making when compared to the United Provinces (Barbour 1963:80; Arrighi 1994:140; Cox 1987:115). From the seventeenth century changes in the nature of warfare between states had taken place which conferred considerable benefits on the Dutch state, holding as it did close relationships with the Amsterdam capital market and the sovereign credit that this provided.[7] For Europe's

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adopted only fitfully by other European states over the course of the seventeenth century". Further, even during the eighteenth century, the diffusion and emulation of norms and values from Amsterdam through the world financial order was far from uniform. For instance, the intersubjective meanings surrounding credit creation in Amsterdam contrasted throughout the nineteenth century with the almost restricted organisation of the creation of credit in Paris, where social norms discouraged lending and borrowing (Braudel 1982:389).

[7] The significance of reliable access to sovereign credit in state war making had been noted prior to the seventeenth century. For instance, Sir Thomas Gresham, an English merchant and financier, had noted in the course of the crash of Antwerp (1557-62) that reliance upon foreign sources of sovereign credit was a serious weakness of both the English state and English finance. This led him to propose a mutual alliance between financiers and state to Elizabeth I and to set about establishing a bourse in London in response. The bourse became known as the Royal Exchange, reflecting this mutual alliance (Arrighi 1994:190-1). As the nature of warfare changed in the course of the seventeenth and eighteenth century, the need for such a mutual

governments, the raising of wartime sovereign credit had traditionally been associated with a combination of emergency borrowing from a narrow pool of loyal lenders and recourse to foreign credit (Riley 1980:2-3). As such, sovereign credit practices were widely regarded as hazardous and defaults were common. However, within Amsterdam during the seventeenth century an alternative set of shared norms and meanings informing sovereign credit creation developed (Barbour 1963:80-1). Buoyed by rational assumptions that the risks of credit creation were calculable, particularly for limited monarchies, sovereign credit practices came to be regarded as a relatively safe investment. This facilitated both a widening of the pool of lenders upon which sovereign credit was based throughout the United Provinces, and longer-term credit planning by the Dutch state through instruments which included annuities, bonds and lottery loans (Riley 1980:3).[8] It was these alternative arrangements for sovereign credit, and the modern norms and meanings upon which they rested, that that other European governments, more or less consciously and with varying success, sought to emulate alongside continued recourse to the foreign sovereign credit provided by Amsterdam's merchant bankers.

Amsterdam's social forces also perceived a set of shared values regarding the organisation of credit practices which became imprinted on the world financial order more generally, contributing to Amsterdam's standing as a key space of authority. The cosmopolitan make-up of Amsterdam's financiers was reflected in their cosmopolitan values. Any loyalties to native towns and provinces had tended to be severed by the seventeenth century wars of religious convictions. Consequently,

> "The Dutch investor of the seventeenth century was uninhibited by considerations of patriotism or economic nationalism. In this period the Dutch were content to trade with the enemy and even invest in privateers that would not hesitate to attack Dutch shipping" (Kindleberger 1984/1993:212).

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alliance became intensified and was confirmed by the successes of the United Provinces. As Neal (1990:12) notes, "Starting with the Thirty Years' War (1618-48), the wars of the seventeenth and eighteenth centuries were increasingly international in scope, even world-wide, because armed conflicts could occur anywhere that citizens of the warring nations came into contact. Within Europe, men and arms on a large scale had to be moved quickly to distant battle sites, and military success usually depended on the success of merchant bankers in moving funds to purchase and sustain mercenaries near the enemy's strong points". For an approach to inter-state conflict that emphasises the significance of the availability of sovereign credit in successful war-making, see Kennedy (1989:98-111).

[8] Kindleberger (1984/1993:156) has suggested that 65,000 different individuals invested in Dutch government securities.

Even the provision of sovereign credit for enemies in times of war did not escape these cosmopolitan values. For instance, Amsterdam's financiers provided sovereign credit for the British government during the seventeenth century and the French at the turn of the eighteenth century (Barbour 1963:131).

The cosmopolitan values of Amsterdam's social forces became taken up by the Dutch state as the central tenet of what Riley (1980:17) has termed "a mercantilist expedient approach to state finance".[9] The beliefs of the Dutch state elite that the power and prosperity of the state could be enhanced by the accumulation of capital had its roots in the bullionist doctrine of state-making of the late sixteenth century. However, the Dutch state differed in that for other states the bullionist doctrine tended to inform a policy of accumulating capital by importing specie and precious metals with the effect of generating a balance of payments surplus. For the Dutch, the 'mercantilist expedient approach' was associated with the free flow of specie and credit to foreign borrowers in order to accumulate capital (Braudel 1984:170).[10] As Wallerstein (1980:58) has asserted,

> "Regarding the restrictions on the export of bullion, the United Provinces was the great exception among states in the era of mercantilism: bullion could flow out of the United Provinces quite as easily as it could flow in. This was precisely why so much of it flowed in, and of course this policy was only possible when bullion did flow in".

For instance, as early as 1586 to 1659, of the 2.5 million florins worth of coins minted by the Dutch every year, between two- and three-fifths were exported (Goldsmith 1987:213). The mercantilist expedient approach both reinforced the deposit-compelling power of Amsterdam and, in the process, the authority of Amsterdam's social forces to organise the world financial order.

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[9] "In the vast welter of explanations of mercantilism in the seventeenth century, two aspects of this concept are agreed on by virtually everyone. Mercantilism involved state policies of economic nationalism and revolved around a concern with the circulation of commodities, whether in terms of the movement of bullion or in the creation of balances of trade (bilateral or multilateral). What the facts were regarding the true relation of 'profit and power' is what the debate is about - among men of the time and among analysts today" (Wallerstein 1980:37-8).

[10] Ingham's (1984:100) distinction between "early mercantilism", "where national wealth was achieved through hoarding precious metals and heavy taxation was levied to meet current expenditure", and "developed mercantilism", in which "precious metals are also seen as instruments of the pursuit of trading surpluses", is also illustrative of this point. On the unique nature of Dutch mercantilism during the seventeenth century, see also Kindleberger (1996:97).

That the financial policies of the Dutch state reflected and effectively reinforced the authority of Amsterdam was part and parcel of the political and social power of Amsterdam's social forces within the somewhat fragmentary state-society of the United Provinces. Amsterdam's merchants and financiers, along with the merchants of the towns across the United Provinces, had realised a commonality of interests with the dynastic social forces of the Regent House of Orange and the anti-Rome sentiments of the Calvinists during the Dutch revolt against Spanish rule (1572-1609) which led to the establishment of the United Provinces.[11] Thereafter, although struggle between Amsterdam's merchants and financiers and the House of Orange were endemic (Braudel 1984:193-5), the fragmented institutional structure of the state apparatus and the linkages between the wealth of Amsterdam and the power of the Dutch state ensured that "the aristocracy of the Regents governed for the benefits and even according to the directives of the businessmen, merchants, and money-lenders" (Braudel 1977:64-5).[12]

Wider World Order

The cosmopolitan values of Amsterdam's social forces and of the Dutch state also resonated with the intellectual and moral climate of inter-state relations within the wider world order. The notion of 'freedom' had been a key ideological tenet upon which the Dutch revolt against Spanish rule had been based (Israel 1995:4). This appeal to 'freedom' was taken up by the leaders of Europe's other dynastic states and found its expression in the Treaty of Westphalia (1648), which effectively came to define the nature of inter-state relations during this period. The Treaty was based upon the acceptance of, and provided the legitimisation for, several broad principles including religious toleration, the recognition of the respective rights of governments over mutually exclusive territories, and the associated understanding that civilian nationals were not necessarily involved in the conflicts of sovereigns.

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[11] In the course of the war of independence against the Spanish Hapsburgs, the Union of Utrecht (1579) effectively established the United Provinces as consisting of the seven provinces of Holland, Zeeland, Utrecht, Gelderland, Overijessel, Friesland and Groningen.

[12] The focal institution within the "jerry-built and seemingly ineffectual state machinery" (Wallerstein 1980:38) of the United Provinces was the States General comprised of delegates from the seven provinces. Legislation depended upon the unanimous consent of delegates from throughout the provinces. The merchant and financial interests of the provinces of Holland and Zeeland could not be easily compromised by the interests of the House of Orange which dominated the other five provinces (Riley 1980:10; Tilly 1990:32; Kennedy 1989:85-6; Wallerstein 1980:62-4).

Significantly for the Amsterdam-centred world financial order, the principle that civilian nationals were not necessary involved in the conflicts of sovereigns extended to finance and commerce. Confronted by states such as France, Britain and Spain which were more powerful militarily, the Dutch state retained a "neutral foreign policy" (Helleiner 1993a:220) with regard to world credit practices. This led broadly to a "divorce of international finance from diplomatic considerations" (Riley 1980:58). The effect was in large part to insulate credit practices from territorial wars and, significantly, to reinforce the authority of Amsterdam in the organisation of social practices. As E.H Carr noted,

> "The eighteenth century witnessed many wars; but in respect of the freedom and friendliness of intercourse between the educated classes in the principal European countries, with French recognised as the common language, it was the most 'international' period of modern history, and civilians could pass to and from and transact their business freely with one another while their respective sovereigns were at war" (in Arrighi 1990:381).[13]

That the climate of inter-state relations mirrored the cosmopolitan values of Amsterdam's social forces and supported Dutch mercantilist expediency has tended to be interpreted as the outcome of the hegemony of the United Provinces. Wallerstein (1980) and Arrighi (1990, 1994), for instance, in the company of other world-systems writers have suggested that the central position of the Dutch state in the wider world order constituted a hegemonic position. This was developed by "leading a large and powerful coalition of dynastic states toward the liquidation of the medieval system of rule and the establishment of the modern interstate system" (Arrighi 1990:380). However, whether the United Provinces can be seen as hegemonic continues to be debated even amongst world-systems scholars themselves. For instance, Amin (1996:234) comments that "To speak of the hegemony of the ... Netherlands, ... ignores the realities dictating the insertion of these countries into the systems (regional, and, particularly, global) of the time".

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[13] Considerable debate does surround this point. Polanyi (1944:15) suggests that trade in the seventeenth and eighteenth century was subject to greater mercantile interference relative to the free trade of the nineteenth century. He asserts with reference to the nineteenth century that "In the past the organisation of trade had become military and warlike; it was an adjunct to the pirate, the rover, the armed caravan ... the colonial armies of the chartered companies. Now all of this was forgotten. Trade was now dependent upon an international monetary system which could not function in a general war".

It is clear that the Dutch state elite and the social forces of Amsterdam had strong common interests with the other Dynastic states in 'modernisation' and the destruction of the claims to rule of the pope and emperors based upon divine right. While the Dutch state was not hegemonic, it was clearly central to the wider world order. Inter-state relations in this period were 'multi-polar', dominated not by a single state but by the short-term inter-state alliances of war. Regular inter-state wars were in this sense 'coalition' wars, with the United Provinces pivotal (Kennedy 1989:94).[14] As Braudel (1984:256-60) suggests, the pivotal position of the United Provinces stemmed from the commercial and financial strengths of the Dutch form of state. These effectively undercut the capacity of the more overtly mercantilist English and French forms of state to transform the nature of inter-state relations. Policies of disrupting Dutch commercial and financial networks tended to harm the English and French as much as they did the Dutch. In terms of the relationship of the Amsterdam-centred world financial order to the wider world order, then,

> "The connection with the ring of second-rank powers, that is Europe, operated smoothly with no need for undue pressure: the attraction and mechanisms of exchange, the interplay of capital and credit sufficed to keep it in working order" (Braudel 1984:263-6).

However, as English and French commercial and financial strength increased, particularly from the 1720s and 1730s, the prevalence of cosmopolitan values in inter-state relations did gradually erode.

Formal Authority

The capacity of Amsterdam-centred market and civil institutions to contribute to the relative stability of the world financial order as a key aspect of Amsterdam's standing as a space of authority was underpinned, then, by the prevalence of cosmopolitan liberal values across the wider world order. The authority of Amsterdam was effectively guaranteed by the authority of the Dutch state and its position in the wider world order. The networks of market institutions that emanated from Amsterdam, in particular the major merchant banks such as Hope and Co., provided the institutional basis through which

[14] For much of the eighteenth century up until 1770s, United Provinces had tended to side with Britain against France, an alliance that had been cemented by the accession to the British throne of William and Mary in the Glorious Revolution of 1688. Siding with a British state that was characterised by "the principles of financial rectitude and 'economical' government" (Kennedy 1989:103) tended to reinforce position of Amsterdam's social forces and the Dutch form of state.

formal authority was exercised, manifested in their role in the organisation of world credit practices throughout the world financial order.[15] As had been the case with the networks of the Bardi and Peruzzi of fourteenth century Florence and the networks of the *nobili vecchi* of sixteenth century Genoa, large-scale demands for credit could not be met without their capital, family contacts and expertise (Braudel 1982:392-5; Arrighi 1994:167-9). For instance, given the uncertainties and risks surrounding the direct issue of credit by sovereign borrowers, institutions such as Hope and Co. organised the technicalities of both the issue and placement of bonds directly and via the principal stock exchanges (Born 1977:28).

The intersection of Amsterdam's market networks with the Exchange and Bourse as civil institutions in the organisation of world credit practices further contributed to the relative stability of the world financial order. The clearing of credit claims through the Exchange Bank acted as an unofficial form of regulation of world credit practices (Born 1977:27). Risks were reduced by ensuring that obligations were met. This providing a level of security and adjustment that was rare in this period (Barbour 1963:44-7; Riley 1980:28-9). Such security was particularly significant in the context of the economic slowdown in the world economy in the seventeenth century and its associated monetary disturbances (Wallerstein 1980:57). In a not dissimilar vein, the Bourse, as the key institutional edifice through which the capital necessary for long-term credit creation was mobilised, acted as "the central regulatory mechanism through which idle capital was rerouted" (Arrighi 1994:140).

The intersection of market and civil institutions also lay at the heart of ad-hoc attempts to manipulate the organisation of world credit practices in periods of superficial financial crises. Market institutional networks mobilised their capital resources in support of those institutions whose assets inspired potential confidence (Riley 1980:32). Further, during the 1763 crisis the Exchange Bank took the unprecedented step of accepting gold and silver ingots in an attempt to increase the coverage of outstanding claims and, thereby, to increase confidence (Braudel 1984:269). Superficial crisis management was supported by the 'reach' of the Amsterdam-centred structure of authority throughout the world financial order. This tended to encourage the support of

[15] Hope and Co. stood as Amsterdam's major merchant bank, based on private capital that grew rapidly in the latter half of the eighteenth century. Between 1762 and 1769, the capital of Hope and Co. increased from 4.3 million florins to 6.8 million (Riley 1980:13).

London-centred institutions in instances of crisis. For example, in the course of the crisis of 1763, the Bank of England and London-centred market institutional networks granted credit to their counterparts from Amsterdam. The volume of the credit created was greater than that which had previously been allocated to Amsterdam. Similarly, when the 1772 financial crisis reached its peak in January 1773, the Bank of England allowed specie to be drawn on the presentation of Dutch government stock certificates (Kindleberger 1978:183-4). In our terms, London-centred assistance was significant as it reflected the relative stability of the Amsterdam-centred world financial order. Not only did London's social forces not question the Amsterdam-centred structure of authority that reproduced the order, but moved in support of it.

Further, the intersection of market institutions with civil institutions reinforced the capacity of Amsterdam's social forces to authoritatively organise the world financial order. The clearance of transactions through the Exchange Bank gave increased flexibility and rapidity of turnover to the practices of Amsterdam's market institutions, extending their authority (Braudel 1984:240). The capacity of the Exchange Bank to capture and hold massive volumes of specie both maintained confidence in Amsterdam-centred credit creation and limited the basis upon which credit could be created in and through rival centres such as London and Genoa (Kindleberger 1984/1993:52). In the context of the relatively stable world financial order, then, the authority of Amsterdam's social forces over the organisation of social practices in the world financial order rested in the first instance upon their own market institutional networks. A complex intersection was also generated between Amsterdam's market networks and the civil institutions of Exchange Bank and Bourse. The structure of authority that reproduced the relative stability of the world financial order was firmly centralised in Amsterdam, interdependent with the structures of the wider world order and the position of the Dutch state within that order.

Part III - The Unravelling of the Amsterdam-Centred World Financial Order: The Decline of Amsterdam and the Rise of London

The relative stability of the Amsterdam-centred world financial order was based upon the centralisation of the material, ideational and institutional forces of that order in Amsterdam as the single, predominant WFC, underpinned by the structures of the wider world order and the position of the Dutch state within that order. The centralisation of these forces led to a coherent conjunction between them that found expression in the informal and formal authority of Amsterdam' social forces over the organisation of world credit practices. Despite the decline of Amsterdam as a commercial centre during the eighteenth century, this conjunction was maintained through until the 1780s by the virtuous circle that developed, particularly from the 1740s, in which mobile capital was re-routed to Amsterdam. As a consequence, Amsterdam was able to stand as the key space of authority in the world financial order for several decades after it had lost its position at the apex of world trade.

On the one hand, then, attracting mobile capital formed a virtuous circle upon which Amsterdam maintained its position as the WFC in the latter half of the eighteenth century. As Wallerstein (1980:57) notes, the shift of Amsterdam from an entrepôt commercial and financial centre to a more specialised entrepôt WFC that this entailed was a sign of the strength of Amsterdam in attracting accumulated capital. On the other hand, however, this capital provided the material resources for a 'vicious circle' of speculative expansion.[16] From the 1740s, credit creation in Amsterdam "seems to have enjoyed a degree of autonomy vis-à-vis the economy in general" (Braudel 1984:267), whereby credit expanded and nourished itself. Indeed, such speculative expansion and the potential profits on offer formed a necessary feature of continuing to attract mobile capital to Amsterdam. Amsterdam underwent a gradual shift from an entrepôt commercial and financial centre to an entrepôt WFC which specialised increasingly in the provision of foreign, particularly sovereign credit (Riley 1980:25). Amsterdam's merchants became the first masters of a set of social practices that in the nineteenth century were to become known as merchant banking (Chapman 1984).

From a world-systems perspective, Arrighi (1994:87) characterises this vicious circle of Amsterdam-centred speculative expansion as one instance of a recurring "financial expansion" that he views "as announcing not just the maturity of a particular stage of development of the capitalist world-economy, but also the beginning of a new stage".[17] Arrighi draws directly on Braudel

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[16] Keynes distinguished between two different types of economic expansion - what he termed 'virtuous' (productive expansion) and 'vicious' (speculative expansion). Vicious circles of expansion were seen as profoundly destabilising to both government policy-making and economic activity generally. For an understanding of contemporary world finance building upon this aspect of Keynes work, see Henwood (1997).

[17] From a similar perspective Amin (1996) characterises instances of speculation in world financial orders as the process of a "financialization of capital". However, Amin doubts the

(1984:246) who casts "the stage of financial expansion" in Amsterdam as "a sign of autumn". The utility of this understanding of the unravelling of the Amsterdam-centred world financial order lies in highlighting the emergence of an inherent contradiction in the final decades of the order. The continued centralisation of the order in Amsterdam rested upon attracting large volumes of accumulated capital that fed speculative practices. This was revealed by a series of sporadic financial crises. In each instance, crisis was followed by attempts to encourage inflows of capital in the form of silver and gold in order to try to restore confidence. The crises, then, can be read as the immediate manifestations of the contradictory nature of the vicious circle of speculative expansion through which the material basis of Amsterdam's authority had been maintained since the 1740s.

The first crisis came in 1763 in the aftermath of the Seven Years War. During wartime, the United Provinces had remained 'neutral' throughout and Amsterdam-centred practices had provided much of the sovereign credit needs for Britain and France. Fears that the resulting obligations could not be met in peacetime, as the war had led to disruptions to trade networks, commodity prices and flows of bullion, revealed themselves in the bankruptcy of two of Amsterdam's major financial market institutions A. Joseph & Co. and de Neufville (Braudel 1984:269-70; Riley 1980:32-3). In the second crisis of 1772-3, Clifford and Zoonen, one of Amsterdam's most prestigious financial market institutions, was forced to suspend payments. Clifford's solvency was eroded as obligations resulting from plantation loans were not met and sharp falls in the value of British East India Company stock damaged its capital base (Braudel 1984:270-2; Riley 1980:33-4).

Not dissimilarity to the previous crises, in the course of the fourth Anglo-Dutch war of 1780-83, the market institution of van Faerelinks was forced into bankruptcy after an over extension of credit. Significantly, however,

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cyclical nature of such "financializations" and seeks to differentiate between them both in their nature and consequences for the world-system. Debates surrounding the nature of 'financial expansions' amongst world-systems scholars arise from a wider set of assumptions surrounding hegemonic cycles, whereby financial hegemony is viewed as the final stage of state hegemony. Wallerstein (1980:38) provides a useful summary - "The pattern of hegemony seems marvellously simple. Marked superiority in agro-industrial productive efficiency leads to dominance in the sphere of commercial distribution of world trade, with correlative profits accruing both from being the entrepôt of much of world trade and from controlling the 'invisibles' - transport, communications, and insurance. Commercial primacy leads in turn to control of the financial sectors of banking (exchange, deposit, and credit) and of investment (direct and portfolio). These superiorities are successive, but they overlap in time".

two aspects of this crisis proved destabilising for the Amsterdam-centred world financial order. First, the intricate Amsterdam-centred institutional edifice which had managed previous superficial crisis was found wanting. The Exchange Bank failed as unprecedented extensions of credit in support of the Dutch East Indies Company undermined confidence in its capacity to cover outstanding deposits (Kindleberger 1984/1993:50). Second, unlike in the previous two major crises, London-centred support for crisis management failed to materialise. This was not surprising given the on-going Anglo-Dutch war (Kindleberger 1978:184). As Amsterdam-centred credit creation became increasingly speculative and the reproduction of the relative stability of the Amsterdam-centred world financial order became dependent upon inflows of capital, then, the very speculative nature of credit practices proved contradictory. In the absence of institutions to reign in speculation, this "basic instability" (Riley 1980:34) did gradually undermine Amsterdam's position as the key space of authority in the latter half of the eighteenth century. However, it was only in the course of the financial crisis of the 1780s that this contradiction came to the surface, as the capacity of the Amsterdam's formal authority to stabilise the order through the manipulation of the organisation of world credit practices failed.

The incapacity of the Amsterdam-centred structure of authority to continue to reproduce the relative stability of the world financial order was itself related to three structural changes in the wider world order. Elements of the wider world order that had previously underpinned the Amsterdam-centred world financial order were no longer present. First, the rise of London and the British national political economy challenged the material basis of the Amsterdam-centred world financial order. World-systems explanations of the rise tend to emphasise Amsterdam's 'financial expansion' as providing the basis for the rise of the British national political economy. For instance, Wallerstein (1980:281) posits a "symbiotic relationship" between the United Provinces and England, which provided "graceful retirement income for the one and a crucial push forward against its rival for the other". Amsterdam-centred credit creation had contributed to the sovereign credit needs of the British state following the Glorious Revolution of 1688, expanding rapidly from the 1720s through to the 1770s (Haley 1988:165; Riley 1980:14). Clearly, the expansion of credit allocated to Britain - particularly through its contribution to the financing of wartime sovereign credit, the Bank of England, British East India and South Sea companies - did give the British state an advantage in their on-going wars with the French state (Braudel 1984:261-2). Contemporary observers did recognise the significance of Amsterdam-centred credit creation in supporting British victories over France in the wars of 1739-48 and 1756-63 (Haley 1988:167).[18] Such an understanding, however, fails to recognise the extent to which the rise of London at the heart of the British national political economy was largely independent of the vicious circle of speculation centred in Amsterdam. As Chapman (1984:9) notes of the rise of London in the eighteenth century,

> "It had been steadily gaining ground on Amsterdam for much of the century, but in the last two decades several developments accelerated this process. The diversion of capital across the Atlantic during the American War of Independence curtailed the supply to London, and the French Wars almost severed it altogether, forcing London into independence. Meanwhile, the 'take-off' of British industrialisation further reduced British dependence on Dutch supplies and opened up other export markets".

In our terms, then, a narrow focus on Amsterdam-centred 'financial expansion' alone is insufficient to explain the unravelling of the Amsterdam-centred world financial order.

Second, the United Provinces began to lose its pivotal position in inter-state relations as the English and French mercantilist forms of state gained ground. From the 1770s, the close alliance between the United Provinces and Britain in opposition to France that had marked inter-state relations for nearly a century unwound. This culminated in the Dutch entering the American War of Independence in 1780 on the French side. As a result, credit practices effectively became bifurcated between the Amsterdam-centred creation of foreign sovereign and corporate credit for speculation, and the largely independent London-centred creation of credit to finance British trade and sovereign spending.[19] An uneasy coexistence began to emerge in which both Amsterdam and London stood at the pinnacle of the hierarchy of financial centres, a situation that was to remain until the defeat of Napoleon in 1815. Further, British and French mercantilist expansionism also disrupted Dutch commerce that, in turn, undercut the material basis of relative stability in the

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[18] For details of capital and credit flows from Amsterdam to London during the Dutch world financial order, see Haley (1988), Barbour (1963:125), Arrighi (1994:207) and Riley (1980:14).

[19] For instance, the demands of the British state for credit to finance the Napoleonic wars were met without much recourse to foreign borrowing, with only £20 million out of a total national debt of £500 million under foreign ownership in 1807-10 (Haley 1988:168-9).

world financial order. For instance, the collapse of the Amsterdam Exchange Bank amidst the financial crisis that coincided with the Fourth Anglo-Dutch war was closely associated with attacks on shipping of the Dutch East Indies Company by the British navy. It was these attacks that had stimulated the emergency step by the Exchange Bank of extending credit in the first place.

Third, the relative success of the British and French form of state exposed relative weaknesses in the United Provinces which, in turn, undermined the Amsterdam-centred world financial order. The somewhat fragmentary machinery of the Dutch state did not lend itself to the intensified mercantilist rivalry. As Kindleberger (1996:103) notes, in contrast to the seventeenth century, federalism "was inadequate to the changed circumstances". As the scale and nature of warfare placed increased demands upon Amsterdam-centred credit creation, traditional arrangements for raising Dutch sovereign credit were found wanting. Insufficient capital was centralised in Amsterdam to cope with these demands, particularly with the outbreak of the Napoleonic wars in 1793 (Riley 1980:198). In contrast, London, as the financial centre of the British national political economy that was becoming consolidated through the mercantilist policies of the British state, could draw on material resources for credit creation which dwarfed those centralised in Amsterdam. For instance, in 1793 sovereign credit was raised in London by the Austrian government which was the equivalent of 36 million florins, far outstripping the regular issues of 3 million florins worth of sovereign credit raised in Amsterdam (Riley 1980:197-8).

The transformation that these structural change in the wider world order implied for the nature of world financial orders - i.e. that national political economies were to stand as the foundations for future world financial orders - was, however, far from inevitable. It was to take the dramatic changes in the wider world order brought about by the Napoleonic wars, and their consequences for the world financial order, to bring about the conditions for such a transformation. The Napoleonic wars had three principal sets of consequences that fed the concurrent processes of the unravelling of the Amsterdam-centred world financial order and establishment of the London-centred British world financial order. First, the Napoleonic wars dissolved the social and political power of Amsterdam's social forces within the United Provinces which had previously underpinned their authority in the Amsterdam-centred world financial order. The French invasion of Amsterdam and the ensuing establishment of the 'Batavian Republic' served to restrict Amsterdam-centred foreign credit creation (Kindleberger 1984/1993:7; Neal 1990:225-6). Through a series of forced loans, levies and the regulation of foreign loans, the Dutch state gained considerably greater authority over credit creation in Amsterdam. The share of sovereign credit created in Amsterdam that was allocated to the Dutch state increased from 33% (1787-95) to 80% (1795-1802) (Riley 1980:197).

Second, the wars led to the destruction of the institutional networks that had manipulated and stabilised credit creation in the Amsterdam-centred world financial order. The upheaval throughout Europe during wartime fuelled the disintegration of the networks of financiers that had spread across Western Europe in the previous two centuries. While Europe's cosmopolitan financiers did, in the main, become centralised in London to shelter from Napoleonic expansion (Neal 1990:198), an institutional edifice capable of stabilising the world financial order did not become centralised in London during wartime. For instance, in terms of the practices of clearing credit obligations, the Hamburger Bank flourished between 1795 and 1805 when the Amsterdam Exchange Bank was forced to suspend its operations (Born 1977:27).

Third, the victory of the dynastic British state over the Napoleonic empire finally sealed the fate of the Amsterdam-centred world financial order and heralded the beginning of a transformation in the foundations of future world financial orders. While the French state remained reliant upon foreign sovereign credit, the victory of the British state over the French rested largely upon the its independence from the Amsterdam-centred world financial order (Kennedy 1989:101-3). The material resources of the British national political economy, and the particularly the capacity of the British state to draw on them through direct taxation introduced under the exigencies of war, provided the basis for this independence (Riley 1980:199-200). As such, British victory displaced the assumed benefits of the 'mercantilist expedient approach to state finance' and the relations between state and society that this entailed which had been pre-eminent in the Amsterdam-centred world financial order. From the nineteenth century, with the increased interpenetration of states and societies as part and parcel of the processes of the making of state-society complexes, consolidated national political economies came to form the foundations of both the world financial order and the world economy more broadly. British victory in the Napoleonic wars finally shattered the broad structural coherence that had marked successive world financial orders since the fourteenth century.

Conclusions

In synchronic terms, Amsterdam has been shown to have been the key social space for world credit practices and the space where the material, ideational and institutional forces that frame credit practices became centralised from the early seventeenth century to the final decades of the eighteenth century. In diachronic terms, the centralisation of material, ideational and institutional forces in Amsterdam led to a coherent conjunction between them and a relatively stable world financial order, reproduced through the authority of Amsterdam's social forces. The standing of Amsterdam as the key space of authority in the reproduction of the Amsterdam-centred world financial order was underpinned by the social and political power of Amsterdam's social forces within the United Provinces, and the position of the Dutch state within the wider world order. In particular, the significance of the authority of Amsterdam's social forces is revealed by the continued position of Amsterdam as the social locus for the reproduction of the world financial order for several decades after the commercial standing of the city had been eclipsed. Despite its decline as a commercial centre from early in the eighteenth century, Amsterdam continued to stand as the key space of authority in the world financial order through to the final decades of the eighteenth century. The utility of placing WFCs conceptualised as key spaces of authority at the heart of an understanding of the relative stability of world financial orders is illustrated, as such insights could not have been gleaned from approaches which focus on state-market relations.

The unravelling of the world financial order and the relative instability that marked the final decades of the eighteenth century and the first decades of the nineteenth century has been shown to have been closely related to the simultaneous decline of Amsterdam and rise of London as WFCs. Neither stood as predominant during this period. The relative stability of the Amsterdam-centred world financial order was undercut by a combination of both contradictions in the order itself, and structural changes in the wider world order. Attracting mobile capital to Amsterdam on the basis of the potential returns offered by speculation proved destabilising for the world financial order. An uneasy coexistence emerged in which credit creation became decentralised between Amsterdam-centred speculative practices in the creation of foreign sovereign and corporate credit, and the largely independent London-centred creation of British commercial and sovereign credit. This reflected structural changes in the wider world order that were eventually to lead to national political economies becoming the foundations of world financial orders. However, the conditions for such a transformation were only confirmed by British victory in the Napoleonic wars and the consequences that this had for the world financial order. Indeed, British victory itself was greatly assisted by the independence of British commercial and sovereign credit requirements from the Amsterdam-centred world financial order. Only after 1815 did the London-centred British world financial order that is the subject of our next chapter become consolidated.

CHAPTER FOUR

London: The Making and Unravelling of the British World Financial Order

Introduction

The previous chapter initiated our concrete historical inquiry into world financial orders and world financial centres through an explanation of the rise and demise of the Amsterdam-centred world financial order of the seventeenth and eighteenth centuries. This illustrated the significance of world financial centres for an explanation of the organisation of world financial orders. In synchronic terms, Amsterdam was shown to have been the key social space for world credit practices and the space where the material, ideational and institutional forces that framed those practices became centralised. In diachronic terms, the centralisation of material, ideational and institutional forces in Amsterdam led to a coherent conjunction between them. As such, the relative stability of the world financial order was understood to rest upon the centralisation of the order in Amsterdam, reproduced through the authority of Amsterdam's social forces.

The Amsterdam-centred world financial order, however, coincided with the end of a period from the fourteenth to eighteenth centuries which has been characterised from a broad range of perspectives as the era of city-centred world economies (Braudel 1977; Tilly 1990; Cox 1987:117). As our account of the demise of the Amsterdam-centred world financial order suggested, the rise of London as a WFC to challenge Amsterdam - and the relative instability that this generated in the world financial order - marked a structural transformation in the nature of world financial orders. The London-centred, British world financial order that was produced and reproduced after 1815 had at its foundations the consolidated national political economies that emerged out of the increased interpenetration of states and societies within the wider world order. With the consolidation of national political economies and, in particular, through the development of 'state' or 'fiduciary' money which formed an important element in the processes of consolidation (Giddens 1985),[1] state institutions are widely

[1] Gidden's (1985) argues that alongside the development of centralised arrangements for legal affairs and taxation, the emergence of fiduciary money, organised and policed through state institutions, formed a key element in the emergence of nation-states.

assumed to have gained increased authority over organisation of credit creation. For instance, Leyshon and Thrift (1997:18-20) have termed the nineteenth century the era of 'state credit money'. Not dissimilarity, Gilpin's (1987:308-9) state-centred approach to the explanation of successive world financial orders leads him to date "the first era of international finance" from the latter half of the nineteenth century.

For our purposes, then, concrete inquiry into the making and unravelling of the British world financial order is crucial to developing further our understanding of the significance of WFCs in the organisation of world financial orders. How was London's position at the apex of the hierarchy of financial centres related to the British national political economy? In what ways did London's standing as a key space of authority in the reproduction of the British world financial order interact with new state-based forms of authority in the reproduction of a relatively stable world financial order? Part I of the chapter provides an explanation of the rise of London as a WFC. In synchronic terms, London is shown to have been the key social space for the predominant forms of world credit practices. In addition, London was the space where the material, ideational and institutional forces that framed credit creating practices were centralised from the early nineteenth century through to the outbreak of World War I in 1914. The standing of London as the WFC of the British world financial order rested upon the dominant position of London within the British national political economy and the ascendance of the British national political economy in the world economy.

Part II moves to consider the making and reproduction of the British world financial order. In diachronic terms, the centralisation of material, ideational and institutional forces in London is shown to have led to a coherent conjunction between them and a relatively stable world financial order. The relative stability of the British world financial order is shown to have been reproduced by the authority of London's social forces, underpinned by the policies of the British government and the position of the British state within the structures of the wider world order. In contrast to the popular portrayal of the British world financial order as the era of 'state credit money', it is the interdependent nature of state and London-centred market and civil forms of authority which is emphasised in leading the reproduction of the British world financial order.

Part III of the chapter develops an explanation of the unravelling of the British world financial order. The First World War is held to have irretrievably ruptured the relative stability of the British world financial order. The war heralded structural changes which both brought to an end the coherent conjunction of forces centralised in London. It also undermined the conditions in the wider world order that had supported London's standing as a key space of authority in the reproduction of the order. While the British national political economy had been declining relative to the American and German political economies prior to the war, it was only in the course of the war that New York began to challenge London at the apex of the hierarchy of financial centres. The gradual unravelling and restructuring of the British world financial order after 1918 took place, then, in a 'decentralised' (Brown 1940) world financial order in which an uneasy co-existence developed between London and New York as the WFCs at the apex of the order. The decentralisation of the British world financial order is held to have been pivotal in leading to the relative instability of the post-1918 British world financial order and the eventual collapse of the order amidst the European financial crisis of 1931.

Part I - London: Key Social Space

In the aftermath of the Napoleonic wars, London stood at the apex of the hierarchy of the world's financial centres, a position that it was to occupy throughout the 'hundred years peace' between 1815 and 1914. This standing as the WFC of the period rested upon both the rise of London as the financial centre of the emergent British national political economy, and the centralisation in London of the business operations of Europe's great merchant and financier families. London had a tradition as a centre for trade and finance that stretched back centuries (Kindleberger 1974/1978:76-83). However, as part and parcel of the increased interpenetration of British state-society and the emergence of a genuinely integrated national political economy, London became the key social space for the financing of British trade with the rest of the world by the last quarter of the eighteenth century (Chapman 1984:9). Given British dominance of the great trading networks, the upheavals of the Napoleonic wars in continental Europe produced a migration to London and Britain's other commercial centres of Ashkenazi Jews and merchants of German dissent. The immigrants brought with them capital, expertise in credit creation, and experience and contacts in commercial trading networks that, hitherto, had been lightly touched by British-based merchants and financiers (Meyer 1991:101;

Chapman 1984:4). London, as the financial centre of the leading national political economy and the world's commercial centre, became the key social space for world credit practices.

Considerable academic debate surrounds whether London shared its position as at the apex of the hierarchy of WFCs with Paris during the British world financial order, evidenced in the main by the consistently lower levels of short-term interest rates in Paris up to 1914. However, as Walter (1993:89) highlights, lower short-term interest rates in Paris are illustrative of the greater liquidity of the Paris money-markets, based on the higher levels of gold reserves maintained by the Bank of France, rather than the pre-eminence of Paris as a financial centre. Interest rates on long-term credit were consistently lower in London than Paris, reflecting the greater efficiency of London's credit practices. This view is supported by Kindleberger (1984/1993:263) who states that

> "London was a world financial center; Paris was a European financial center. London was an efficient financial market, handling an enormous body of transactions on a small money base. Paris was a rich money and capital market, efficient in the sense that it could mobilise savings and pour them in a given direction, such as the Thiers rente or czarist bonds, but inefficient in its much higher ratio of gold reserves to total financial transactions as compared with London".

Paris may have stood alongside London at the pinnacle of the hierarchy of financial centres for a brief period from the 1850s through to the Franco-Prussian war and the suspension of the convertibility of the franc in 1870 (Bagehot 1873/1991:63; Kindleberger 1996:136).

London was the key space for world credit practices, then, and Paris and Berlin formed, at least from the last quarter of the nineteenth century, a second tier of regional financial centres on the European continent. London retained a near monopoly on the provision of long-term credit and capital exports on the European continent up until the 1850s, from when the main focus for London-centred credit practices began to shift to North America and the territories of the British Empire (Born 1977; King 1990:78).[2] Credit practices in Paris were dominated by servicing the needs of French trade and industry, although after 1870 long-term credit practices became increasingly subject to the

[2] The declining allocation of credit to the European continent is reflected in the figures for British foreign investment in Europe, which fell from 66% of total foreign investment in 1830, to 55% in 1854, 25% by 1870 and as low as 5% in 1900 (figures from Kindleberger 1996:135).

considerations of French foreign policy that led to large extensions of sovereign credit to Russia. Similarly, Berlin-centred credit practices remained orientated to the needs of German trade and industry, while relatively small amounts of long-term credit were created for Russia and the Near East after 1890 (Germain 1997:55-6). Some of the remaining 'third tier' European financial centres developed niche positions. For instance, Brussels became established as the key centre for the issue of tramways securities (Michie 1992:110).

Forms of Credit

London stood as the key social space for world commercial credit practices. The predominant form of commercial credit practices was the issue if bills of exchange, institutionalised in London-centred merchant banking networks. London's standing as the key space for commercial credit practices was an outcome, in the first instance, of the symbiotic relationship between commercial credit provision and trade. London was the world's commercial centre, and commercial credit was necessary for both the 'direct' involvement of London's merchants in the handling of goods and their more 'indirect' involvement in the futures trade in commodities such as cocoa, rubber, tin, copper, lead, zinc and oil (Michie 1992:30-3, 52-3). Commercial credit practices centred in London were not, however, solely devoted to servicing the credit requirements of London's merchants. In the first decades of the nineteenth century, London had emerged as the key space for the provision of commercial credit for British exports, particularly from Liverpool and Manchester. London's merchant banks which specialised in commercial credit - so-called acceptance houses such as Barings, Brown Shipley & Co., and Wiggin Wilson and Wildes – co-ordinated British exports closely with networks of commission agents spread throughout the world's commercial centres (Chapman 1984:8-15).[3] From this initial development of London as a national financial centre for commercial credit provision, the gradual institutionalisation of commercial credit practices within the expanding networks of London's merchant banks across Europe, North and South America saw London emerge as an entrepôt centre in the financing of the world's trade by the latter half of the nineteenth century. Of the commercial bills outstanding in London which totalled £518 million in 1913-4, two-thirds represented credit allocated for trade

[3] The acceptance houses both accepted bills for consignments of goods to be shipped to all parts of the world, and created the credit through which the commission agents were able to provide British producers with the advances they expected. The commission agents charged a fee to British producers in return for effecting foreign transactions, while London's bill brokers prospered through the discounting of acceptance bills.

that did not touch British shores, even for re-export (Michie 1992:72-3). This compared to commercial credit practices in Paris and Berlin which tended to finance the commerce of their respective countries, particularly within the continent of Europe (Cassis 1991:54).

Sovereign credit practices were also centralised in London during this period. London-centred sovereign credit practices had remained domestically-orientated during the eighteenth century (Riley 1980:8; Arrighi 1994:160). As such, the demands of the British mercantilist state for credit to finance the Napoleonic wars were met without much recourse to foreign borrowing, with only £20 million out of a total national debt of £500 million under foreign ownership in 1807-10 (Haley 1988:168-9). The growing volume of sovereign credit creation associated with the Napoleonic wars also fuelled the emergence of a group of London-based sovereign credit contractors.[4] The merchant banks of Barings, Rothschilds and JS Morgan (which became Morgan Grenfell after 1869) all emerged from the war as the key institutions through which London-centred sovereign credit practices were organised. It was through these institutions, and their networks which came to expand across Europe, North and South America in the first half of the nineteenth century, that foreign sovereign credit creation in the form of bond issues would come to be organised for much of the next one hundred years. Indeed, the role of Barings in leading the organisation of the credit for French, Russian, Prussian and Austrian loans in the aftermath of the Napoleonic wars had the effect of broadening the mental and institutional horizons of British investors and merchant banks to the opportunities for returns presented by sovereign credit creation for foreign governments (Kindleberger 1984/1993:214-5). This was reflected in the surge of sovereign credit created in London for the former Spanish and Portuguese colonies in Latin America in the 1820s (Kindleberger 1996:135).

In addition to the provision of sovereign credit, London-centred long-term credit creation also provided the backing for large-scale industrial ventures, particularly from the latter half of the nineteenth century. Most productive ventures in Europe and North America were either self-financed or based on short-term local credit arrangements between private banks and producers while textile production stood at the 'cutting edge' of industrialisation during the first decades of the nineteenth century (Born 1977:46-52). As such, sovereign credit

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[4] According to Bank of England figures, the number of people dealing in government bonds increased from 430 in 1792 to 726 by 1812 (Chapman 1984:4).

dominated long-term credit provision in London during this period.[5] Corporate and sovereign credit practices in London did, however, provide large volumes of the credit necessary for railway construction and other long-term infrastructural undertakings throughout Europe, Africa, North and Latin America. Between 1865 and 1914, £4.1 billion worth of securities of foreign corporations and governments were issued in London, of which 70% went to finance infrastructural development. These issues were organised through the institutional networks of London's great merchant banks and their linkages with their foreign counterparts, in conjunction with the brokers and jobbers of the London Stock Exchange (Michie 1992:109). For instance, a near-complete network of railway lines across Europe stretching from Paris and Madrid in the west, Leige and Magdeburg in the north, Lemberg and Kronstadt in the east, and Marseilles and Bari in the south emerged which was all financed by the Rothschilds (Born 1977:43).

Aside from the provision of credit for major infrastructural developments, London-centred corporate credit practices did, however, remain fairly limited at a world-scale. As part and parcel of the consolidation of national political economies, the increased demands for credit associated with more capital-intensive industrial production such as mining, iron and metal working across Europe and North America were largely satisfied by nationally-orientated corporate credit practices, institutionalised within joint-stock and universal banks (Born 1977:46-52). Corporate credit creation in London came in the latter stages of the hundred year's peace to focus, in the main, on the provision of credit for productive ventures that sheltered under the umbrella of British imperial expansion.

Given London's dominance of world credit creation, clearance practices were also centralised in London. As such, Braudel's (1984:608) claim, supported by other French historians, that for much of the nineteenth century Paris stood as the centre for international clearance between Britain, continental Europe and the United States rather "stretches belief" (Kindleberger 1996:136).

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[5] The dominance of sovereign credit creating practices during this period is apparent in the changing nature of the London Stock Exchange. Up to the middle of the nineteenth century, the Stock Exchange had been essentially an institution through which sovereign credit practices were organised, as the share of British sovereign credit of the nominal value of securities quoted on the exchange stood at around 70% (1850). By 1913 this figure had fallen to 10%, reflecting the declining demand for sovereign credit in a period of general international peace and the increased role of the exchange in the organisation of corporate credit provision (Michie 1992:104).

London had already become established as the leading centre for the clearance of payments in the British national political economy in the eighteenth century, as banks centred their clearing practices in London by settling balances with each other both on their own accounts and through Bank of England notes. These practices became institutionalised in the London Clearing House in Lombard Street from 1773, which reinforced their intense centralisation (Leyshon & Thrift 1997:25-6).[6] After the Napoleonic wars London came to stand as the "one major clearing house of universal scope" (Anderson 1987:33), where the world's bullion and credit markets met (Brown 1940:142). As Brown (1940:xv) asserts of the period up to 1914,

> "London was the world's clearing center before the war. The process of remittance from country to country was simplified to perfection by the fact that, notwithstanding the existence of numerous different currencies, the transfer of funds the world over could, from the point of view of banking technique, ultimately be effected by the debit and credit entries on the books of banking institutions in the one world center, London".

The London Clearing House and its membership of 'clearing banks' institutionalised the practices of clearing the claims and obligations of the world's merchants, bankers and central bankers who maintained large sterling-denominated working balances in London.[7] As Bagehot (1873/1991:17) noted, "At whatever place many people have to make payments, at that place those people must keep money". These balances formed a kind of revolving fund of working capital that was used in the conduct of clearing operations (Brown 1940:10-11; Germain 1997:51). The centralisation of clearing practices brought increased efficiency to London-centred credit creation that, in turn, extended the cumulative range and extent of credit practices.

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[6] "Clearing was clearly slow to form in London but in time it became an institution, based on a tightly regulated micro-space of specific distances (only offices within one-halfamile of the clearing house were allowed in the system) and specific times (the afternoon settlement deadline), integrated by the 'walks' of messengers and couriers around the offices picking up drafts and cheques to take to the clearing house for settlement" (Leyshon & Thrift 1997:26).

[7] The London Clearing House cleared the settlements between its members at the close of the day and balanced the accounts of its members every evening. Payments were settled in Bank of England notes and later, following the Bank of England's membership of the Clearing House in 1864, through transfers with the Bank. Membership was restricted, and the considerable concentration of British banking in the latter stages of the nineteenth century realised a fall in members from 125 (1867) to only 17 (1913). The remaining 'clearing banks' earned commission for clearing the settlements of the other merchants, banks and central banks which centralised their settlement practices in London.

The working capital balances of merchants, banks and central banks held in London provided much of the material basis for money-market practices. Given London's dominance of international clearance, the London money-market was by far the largest.[8] As Bagehot (1873/1991:3) notes, the important feature of these balances held on 'Lombard Street' was that, in the main, they were "borrowable money". The idle balances became an important source of credit themselves, as the money-market institutions were able to match the supply of short-term funds searching for returns with the demand for long-term credit (Brown 1940:142, 535). As such, Brown (1940:xvii) has characterised the London money-market as "where the whole world was both borrower and lender". In particular, the jobbers of the London Stock Exchange borrowed short-term through money-market practices at a lower rate of interest and invested long-term in securities that potentially yielded a higher rate of interest. As such, they played the risk of price fluctuations off against the possible profits to be made from interest rate differentials (Michie 1992:75-7).

Capital

London's rise as the key social space for world credit practices rested upon the material resources of capital, knowledge and technology centralised in London. In a not dissimilar manner to Amsterdam in the seventeenth century, the relative abundance of capital centralised in London during the nineteenth century was in part a result of London's standing as the world's commercial centre. London's merchants had been pivotal in establishing British dominance over the Baltic and Atlantic trading networks in the course of the eighteenth century, controlling supplies of fish, salt, tobacco, cotton, sugar, gold and slaves (Arrighi 1990, 1994; Amin 1996). However, as Braudel (1984:35) notes of the rise and fall of successive world commercial and financial centres, "With London, we move into a completely different context; this great city had at its command the English national market ...". The centralisation of capital in London was an outcome not simply of its own predominant position in the world's trading networks, but the degree to which London dominated the British national political economy which, in turn, dominated industrial production and trade for much of the nineteenth century (Germain 1997:44-5).[9] As such, the

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[8] Bagehot (1873/1991:2) suggests that based on those banks that published figures for deposits, London held balances to the value of £120 million, compared with £40 million for New York and £13 million for Paris.

massive sums of capital which became centralised in London by virtue of Britain's position as 'the workshop of the world' were far in excess of those that had been at the disposal of Amsterdam's financiers a century earlier. The capital accumulated throughout the British national political economy was channelled to London through the institutional networks of the private 'country banks', which also organised credit provision throughout Britain (Kindleberger 1984/1993:79-81). From the latter stages of the nineteenth century the networks of the London-centred joint-stock banks undertook a similar role (Michie 1992:70-1).[10] The effective extension of the British national political economy through the British Empire further expanded the volume of capital that became centralised in London.[11]

From its position as 'the workshop of the world', the British national political economy began a period of relative decline in the 1870s. The standing of the British political economy was undercut by German industrial exports in continental Europe and the consolidation of the American national political economy. This relative decline did not result, however, in a weakening of the volumes of capital centralised in London.[12] Indeed, somewhat paradoxically, the "high period" (Germain 1997:47) of London's standing as a WFC from 1870 to 1914 coincided with the relative decline of the British national political economy and the associated unravelling of the '*Pax Britannica*' (Imlah 1958;

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[9] This view is supported by Kindleberger (1996:128) who states that "Along with the French commerce, British trade boomed in the eighteenth century, but British primacy cannot be said to have begun until the industrial revolution".

[10] According to Michie (1992:68-71), by 1913 the 8910 bank branches in Britain held £1032 million in deposits of which around half swelled the capital available in London's money-markets.

[11] On the British Empire, see Barrat Brown (1988) for an approach that emphasises the agricultural and industrial importance of the Empire, and Anderson (1987) for a reading emphasising the commercial and financial aspects of Empire. On the significance of the linkages with the British Empire for the rise of London as a commercial and financial centre, see King (1990).

[12] The relative decline of the British national political economy from the 1870s is visible in terms of the British share of world industrial production. In 1870, the British national political economy generated 32% of world industrial production, compared with 23% for the United States, 13% for Germany and 10% for France. By 1913, Britain's share had fallen to 14%, compared with 30% for the United States, 16% for Germany and 6% for France (Walter 1993:87). Britain did retain its position as the most important importer and exporter of industrial goods and importer of raw materials up until 1914, whereupon Britain's involvement in world trade was paralleled in terms of share of total trade by Germany. However, the maintenance of this position relied increasingly heavily on trade within the British empire - by 1913 40% of British exports were made to Canada, Argentina, South Africa, Australia and New Zealand (King 1990:76-7) - while British exporters were unable to compete in the 'cutting edge' electrical and chemical industries.

Polanyi 1944:19; Cox 1987:151). As both Brown (1940:159) and Feis (1930/1964:16-17) have identified, after 1870 something of a gradual transition took place in the nature of the capital centralised in London. Credit creation in London became materially less reliant upon capital newly accumulated through the trade and industrial production of the British national political economy and took place largely on the back of mobile capital in general, and particularly that generated by and through previous rounds of credit creation.[13]

As had happened to Amsterdam during the latter half of the eighteenth century, albeit in a different context, London underwent a gradual shift from a world commercial and financial centre to an entrepôt WFC of a more pure, specialised form. At the heart of this shift lay a virtuous circle whereby London's position as the key social space for world credit practices both generated capital and attracted mobile capital in search of the most profitable returns. As Michie (1992:75) has asserted, "it was only London that could offer the blend of liquidity, security, mobility and return that allowed otherwise idle funds to be employed ...". London displayed what Brown (1940:154) has termed "deposit-compelling power", whereby capital was attracted to and maintained in London principally on the basis of the efficiency of London-centred money-market practices and their capacity to offer relatively high returns. The material basis of London's high period as a WFC was not, then, simply a continued reflection of its standing as the financial centre of the British national political economy, but also closely related to its own 'independent' development as an entrepôt WFC.[14]

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[13] The build up of the deposits of foreign and colonial joint-stock banks in London, totalling £1.9 billion by 1914 (almost twice the level of British bank deposits), is illustrative of the general inflow of mobile capital into London (figures from Michie 1992:74). The particular significance of the centralisation of capital in London generated by previous rounds of foreign lending is visible in terms of the breakdown of British foreign earnings. By 1913, around £200 million net in interest, dividends and repayments were returning to Britain from abroad, accounting for 22% of British foreign earnings in that year (figures from Michie 1992:111).

[14] It was not the simple case that London-centred credit creation was based materially upon purely British capital up until the 1870s, as is illustrated by Britain's position as a marginal net-debtor state in the short-term throughout much of the nineteenth century (Germain 1997:54). See Imlah (1958:42-81) for details of British balance-of-payments between 1816 and 1913. However, the significance of foreign capital centralised in London did clearly increase, reflected in the growing significance of the invisible earnings generated by London-centred credit creation in British the balance-of-payments (Cassis 1994:7).

Knowledge and Technology

The information centralised in London, and its analysis to realise knowledge, was also a key material resource upon which world credit practices were based. As a 'knowledge exchange', London rivalled Amsterdam by the end of the eighteenth century and had surpassed both Amsterdam and Paris by the conclusion of the Napoleonic wars (Neal 1990:20). Several more or less institutionalised networks overlapped in London, ensuring the centralisation of knowledge. Merchant networks tended to be centralised in London's Baltic Exchange, generating "a commercial intelligence network unrivalled anywhere else in the world" (Michie 1992:41). London's mercantile networks were supplemented by the closely related practices of insurance and shipping, with insurance practices, in particular, gathering information and creating knowledge in order to make assessments of risks. The world's insurance market centred on and was co-ordinated through Lloyds of London (Michie 1992:148-54). More specialised networks also existed which provided knowledge specific to world credit practices. London's merchant banking networks were themselves able to base their practices upon a detailed knowledge of foreign finances, built up over generations through the increasingly institutionalised networks of family relations which spread across Europe, North and Latin America (Cassis 1994:43). The position of the London Stock Exchange at the centre of the network of the world's stock exchanges, linked by market institutional and telegraph networks, also reinforced the centralisation of knowledge in London (Michie 1992:148-54). Knowledge-intensive 'client service' practices and institutions in London, most notably accountancy, provided knowledge of the financial positions of joint-stock companies through both general audits and assessments in times of potential bankruptcy, merger, and new credit issue (Michie 1992:176-7). London's financial press, especially the Economist (1843) and the Financial Times (1888), both supplemented these networks and reported their knowledge throughout London (Parsons 1989).

In addition, significant technological innovations in the second half of the nineteenth century with the introduction of the telegraph and telephone generated a variety of communications networks. The centralisation of these communications networks in London ensured that London was at the centre of the processes of an internationalisation of economic knowledge (Parsons 1989). The telegraph was first used by Paul Reuter in 1851 to exchange stock prices between London and Paris, while a permanent telegraph link was established between London and New York in 1866 (Michie 1992:184-5; Thrift 1994:344).

The first telephone exchange in Britain was introduced in London in 1879 - only three years after the telephone had first been tested - with the number of subscribers reaching 10,000 by 1910 (Thrift 1994:344). The significance of these communications networks lay in their capacity to enable the more rapid transfer of knowledge in, through and out of London. Such knowledge informed London-centred world credit practices.

Part II - The Making and Reproduction of the British World Financial Order

While providing the material resources framing world credit practices, the centralisation of capital, knowledge and technology also conferred material power upon social forces associated with London in diachronic terms. In a similar manner to the position of Amsterdam's social forces in the Dutch world financial order, albeit in a different context, this material power provided the basis for London's social forces to establish London as a key space of authority in the world financial order during the hundred years peace.[15] The ideational and institutional structures that framed the practices of credit creation in the British world financial order were centralised in London, subject to the authoritative influence of London's social forces and their perceived shared interests. The result was a coherent conjunction between the material, ideational and institutional forces that structured the British world financial order that contributed to the making of a relatively stable order. The shared norms, meanings and values of London's social forces became diffused throughout the British world financial order, and the civil and market institutions centralised in London served to manipulate and manage the British world financial order. The resulting cumulative standing of London as the social locus for the reproduction of the British world financial order further rested upon the relationships of London's social forces to the British state, and the position of the British state in the structures of the wider world order.

[15] The significance attributed here to the authority of London's social forces in contributing to the organisation of the British world financial order is both informed and supported by the inspirational analysis of Karl Polanyi (1944). Polanyi highlighted the position of what he termed *'haute finance'* as a class of London-centred financiers who contributed to the social and political organisation of the hundred years peace by the formal exercise of authority through a variety of private institutional networks, including the merchant banking networks of the Rothschilds, and by the more informal shaping of "the universally accepted principles upon which this organisation rested" (1944:18). In a similar vein, Cox (1987:147) casts London's social forces as "the managers of the world economy".

The emphasis placed here upon the role of London as key space of authority in the reproduction of relative stability in the British world financial order, and the intersection of London's social forces with the British state and the wider world order, contrasts with conventional understandings in IR and IPE. The key to understanding the organisation of credit practices in this period is usually held to be the international gold standard as the institutional infrastructure through which the hegemonic British state actively managed the organisation of international monetary relations (Kindleberger 1973; Gilpin 1987).[16] Enabled by the gold standard, the British state is viewed as providing an adequate supply of liquidity, overseeing international adjustment, playing the role of lender-of-last resort in periods of crisis, and stimulating confidence by maintaining the convertibility of sterling to gold at a fixed rate. However, as Walter (1993:90) asserts in his excellent critique of the capacity of this conventional wisdom to explain the organisation of world credit practices, "... Britain's international financial dominance, while indisputable, needs to be qualified".

It is held here that the first step of such a 'qualification' is the recognition that the gold standard developed within and as part of the British world financial order, and the material, ideational and institutional forces that framed that order. This view is effectively supported by those who have identified that the gold standard was, in practice, a sterling exchange standard (Brown 1940; Ingham 1994).[17] An adequate supply of liquidity was dependent upon the provision of sterling-denominated credit, rooted in world-wide confidence in the convertibility of sterling to gold. The second step is to

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[16] This conventional wisdom itself is based on a critique of the classical theory of the gold standard which, resting on Hume's identification of the specie-flow mechanism, identified the automatic adjustments of the gold standard as bringing about monetary stability. Eichengreen and Flandreau (1997:3 *original emphasis*) provide a concise summary of the classical theory of the gold standard - "Each country's money supply was linked to its gold reserves, and balance-of-payments adjustment was accomplished by international shipments of precious metal. Each country being subject to the same gold discipline, the system brought about a *de facto* harmonization of policies and an admirable degree of exchange rate stability". For Kindleberger (1973), the hegemony of the British state is held as a necessary feature of monetary stability given the inherent instability of international monetary order, while for Gilpin (1987) the need for a hegemonic state to generate a stable international monetary order results from the presumed anarchy of the system of states (see Walter 1993).

[17] This view is also supported in quantitative terms by the declining significance of specie money during the British world financial order. In 1800, credit in the form of bank notes and demand deposits accounted for less than half of the total monetary gold and silver in Europe. By 1913, notes and deposits were nine times in excess of the metallic money in use (Walter 1993:36).

acknowledge that, contrary to Hume's specie flow mechanism, balance-of-payments disequilibria were adequately met largely by short- and long-term advances of credit and the clearance of credit and debt obligations (Brown 1940:775, 777). According to Michie (1992:78), from the latter decades of the nineteenth century, the increased used of finance bills, not trade bills, indicates that "the London money market was now more concerned with the maintenance of international equilibrium than the simple finance of commerce".[18] Given that London was the key social space for world credit practices during the British world financial order, these two steps of qualification bring London to the heart of an understanding of financial and monetary order in this period.[19]

The third step of qualification is to problematise the assumed authority of the British state as a unitary actor in the reproduction of the world financial order. The conventional wisdom tends to assume that the hegemonic British state, through the Bank of England, more or less consciously managed the world financial order through the manipulation of domestic and international interest rates, leading to the stabilisation of currency values and credit creation (Kindleberger 1973). This view is underpinned by the assumption that as part of the consolidation of national political economies, the issue of state-backed fiduciary money as legal tender and the development of facilities to create public debt gave governments increased authority over money and credit creation (Kindleberger 1984/1993:155-72). However, such a view tends to obscure the interlocking and mutually reinforcing nature of state, civil and market authority in the organisation of the British world financial order. The British world financial order - as part of the wider world order - saw a coming together of public and private and formal and informal authority in an interdependent relationship involving state, civil and market institutions (Gill 1991:282). As

[18] "... trade bills were based on goods and commodities in existence but not yet finally disposed of, ... finance bills represented loans where securities were the collateral. With many securities traded on more than one market, and simultaneous buying and selling made easy with telecommunications contact, a purchase in the securities market of one country and the sale in that of another would produce a transfer of funds in the direction of sale. The rights to these funds could then be sold in the form of a finance bill, created in response to a demand to make a payment in that centre, while the resulting easing or tightening of credit would produce the desired structural adjustment" (Michie 1992:78). On the use of finance bills, see also Germain (1997:52) and Brown (1940:549-50).

[19] This view is supported and informed by Brown's (1940) monumental two volume study of the functioning of the gold standard in practice as part of what he terms the 'world credit and clearing structure'. He draws a distinction between the stability of the pre-1914 gold standard that operated within a world credit structure that was firmly centralised in London, and the instability of the post-1918 gold standard which operated within a decentralised world credit structure in which neither London or New York stood as the predominant WFC.

Cox (1987:111) has contended, in general terms, "... the world economy functioned through private agencies, centred mainly in the City of London, that were symbiotically related to the British state and to the Europe-centred state system". Given London-centred authority over the organisation of world credit practices, the reproduction of the social stability of the British world financial order rested on the intricate edifice of London as a space of authority, backed and guaranteed by the British state as part of the wider world order. This intricate edifice manifested itself in what Ingham (1984:128-151) terms the 'City-Bank-Treasury' nexus. The authority of the City of London and the Bank of England and the state-based authority of the Treasury all became in part dependent upon the authority of the others for the reproduction of the British world financial order.

Informal Authority

The modern meanings, norms and values surrounding credit creation in London in the nineteenth century bore close resemblance to those that had predominated in Amsterdam in the seventeenth and eighteenth centuries. Indeed, in the processes of diffusion of shared understandings and values during the Amsterdam-centred world financial order, London's social space had stood as something akin to an absorbent sponge. In part the diffusion processes were directly related to the movement of merchants and financiers from Amsterdam to London in the wake of the Glorious Revolution of 1688 (Neal 1990:17). More broadly, the shared understandings and values surrounding credit creation in London reflected the relative success of British state officials and financiers in emulating the sovereign credit arrangements which had prevailed in the United Provinces.[20]

While the cosmopolitan values of Amsterdam-centred world financial order were at the roots of the meanings and understandings surrounding credit creation in London in the nineteenth century, these were given a more precise formulation by the rise of liberalism within British state-society. The liberalism of Adam Smith and David Ricardo gave a theoretical underpinning to more long-standing cosmopolitan values. This suggested that political restrictions on international loans were both harmful to the prosperity and power generated by world trade, and served to prevent them from assisting in bringing about an

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[20] Cox (1987:115) identifies British success in emulating the sovereign credit arrangements of the United Provinces as a key reason for the success of the British state in emerging victorious from the Napoleonic wars.

equilibrium in the world's balance-of-payments (Brown 1940:157-8).[21] Further, the *laissez-faire* values of London's social forces also found expression in debates surrounding the restoration of the convertibility of sterling to gold in the aftermath of the Napoleonic wars, as underlying monetary stability was essential for credit creation. As such, under the intellectual and political leadership of Ricardo, London's social forces proved successful in achieving the restoration of convertibility that was maintained by the British state through to the first decades of the twentieth century.

The liberal values that informed credit practices in London were supported and reinforced by the liberal form of the British state (Cox 1987:111-150). This was reflected in the economic policies of successive British governments from the 1840s that supported the movement to free trade, the adoption and promotion of the gold standard, and the maintenance of a balanced budget (Cassis 1994). The repeal of the Corn Laws in the 1840s and the Navigation Acts in the 1850s provided the basis for British free trade which was maintained thereafter without reciprocity, even following the widespread adoption of protectionism in continental Europe from the late 1870s (Kindleberger 1996:129-32). The adoption and promotion of the gold standard by the British state formed part of a deeper commitment to the maintain the value of sterling that stretched back to the sixteenth century, and was a necessary feature of sustaining confidence in sterling-denominated credit (Goldsmith 1987; Braudel 1984:356; Arrighi 1994:190). The tight control over public expenditure maintained by the Treasury limited the demands made by the British state for London-centred sovereign credit creation (Ingham 1994:36-7).

Through the combination of these liberal economic policies, British state officials sought to operationalise the separation of politics from economics which liberalism demands. Significantly for the British world financial order, this separation meant that the British state did not encroach significantly upon the organisation of world credit practices. In contrast to the political restrictions placed on credit creation by the governments of continental Europe (Brown

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21 Liberal values did not inform 'rational' decisions regarding everyday credit allocation as suggested by neo-classical economics. Decisions regarding creditworthiness appear likely to have been taken on the basis of the reputation of potential debtors when assessing the risks involved in credit creation, underpinned by common class, educational and social affiliations of London's social forces (see Pohle 1995; Cassis 1994:139). The prevalence of liberal values, then, is of greater significance in diachronic terms as legitimating the more formal exercise of authority through market institutions.

1940:158; Feis 1930/1965:83-186), for British state officials "financial pressure was not a suitable instrument of foreign policy" (Imlah 1958:10). For instance, financial obligations to Russia were still honoured despite involvement in the Crimean war. Such a separation of politics from economics served to enable and reinforce the authority of those London-centred civil and market institutions that lay at the heart of the reproduction of the British world financial order. As Cox (1987:107) asserts,

> "... with the sponsorship and political support of the most powerful state, the world economy achieved autonomy, such that its own laws began to constrain state policies, particularly through the workings of international finance centred in the City of London".

That successive British governments pursued liberal economic policies which supported the values of London's social forces and reinforced the authority of London's civil and market institutions over credit creation should not, however, be equated with the domination of the machinery of the British state by London's social forces in an instrumentalist sense.[22] A series of complex changes in British state-society relations from the 1820s appears to have underpinned the emergence of the liberal form of state. The interaction of the interests of various social forces in these processes does not, after close scrutiny of the social and political power of London's social forces, seem to reveal that the adoption of liberal policies is reducible to the triumph of those interests which either perceived or later accrued benefits from them (Anderson 1987; Cassis 1994; Ingham 1984:101-116). As Cassis (1994:4) has asserted, "It is pointless to deny that the City bankers enjoyed a very high social status and that they were close to political power. But it is equally dangerous, on the basis of this evidence, to reinterpret British history in terms of the domination of City interests". For instance, while the extension of the British empire from the latter stages of the nineteenth century clearly generated considerable sums of capital which became centralised in London (King 1990), this expansion seems likely to have been driven by the general threat to British trade of increased protectionism across continental Europe (Ingham 1984:125-6). The significance of the liberal policies of the British state, then, lies not so much in the manipulation of the British state by London's social forces, but in the manner in which they did not restrict the role of London as the key space of authority in the reproduction of the world financial order.

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[22] For such an instrumentalist view, see Arrighi (1994).

Wider World Order

The liberal values of London's social forces and the capacity of London to stand as the key space of authority in the reproduction of the British world financial order were also underpinned by the structures of the wider world order, and the position of the British state within that order. The chief characteristic of the wider world order was not the 'hegemony' of the British state, as has been suggested by realist (Gilpin 1987) and world-systems (Arrighi 1994; Taylor 1996) writers. Rather, the wider world order was characterised by an inter-state balance of power in Europe in which the British state was pivotal (Polanyi 1944; Cox 1987; Imlah 1958). Re-establishing a balance of power in Europe had been a main objective of British state negotiators at the peace settlement following the Napoleonic wars, what Foreign Secretary Lord Castlereagh had called a 'just equilibrium' (Imlah 1958:2). Indeed, British participation in the Napoleonic wars was framed within an understanding that Napoleonic expansionism had destroyed the previous balance of power (Cox 1987:123-4). In terms of inter-state relations, the post-1815 balance of power rested upon British naval superiority and diplomatic manoeuvrings through the Concert of Europe (Polanyi 1944). Wider state-societal transformations were underway in the nineteenth century which also provided, more broadly, the "sociopolitical conditions for existence" (Gill 1991:280) of the wider world order. The rise of mass politics across Europe and increased political freedoms of the press and judiciary - under the influence of classical statements of liberal political economy such as JS Mill's 'On Liberty' which resonated with the doctrines of the natural rights of man which had risen to prominence in France in 1789 - contrasted sharply with the reactionary, interventionist and militaristic nature of Napoleonic expansion that preceded the nineteenth century balance of power (Gill 1991:280; Imlah 1958:6).

British centrality within the balance of power was rooted in the capacity of British state officials to draw on the economic and social resources of the consolidated British national political economy. However, this centrality did not find direct expression in the imposition of liberal economic policies upon the state governments of continental Europe. As Walter (1993:90-1) has identified, within the British world financial order, the British state did not dictate the terms for economic policy-making. For instance, the British state proved unable to either undermine the assumption across continental Europe that credit allocation could be politically directed, or to arrest the shift to protectionism following Bismark's Tariff of Rye and Iron in 1879. Instead, the structures of wider world order underpinned the liberal values of London's social forces and the position of London as the key space of authority somewhat indirectly through the adoption of the gold standard by the governments of continental Europe. Within the framework of the balance of power, Europe's governments adopted the gold standard once it became perceived as desirable as a means of emulating British economic and commercial success, as providing a potential solution to the maintenance of fixed exchange rates, as a means of competing for international financial business, and to improve their international creditworthiness (Walter 1993:91-2, 250-1). As Polanyi (1944:14) stresses, the widespread adoption of the gold standard by the principal states effectively served to institutionalise the values of London's social forces across the British world financial order. A European balance of power subject to the constraints of the gold standard also served to insulate the authority of London from political disturbance. No single state could establish the Napoleonic-style empire to redirect the centralisation of capital from London and articulate an alternative to liberal political economy, both of which would have been necessary to undermine London's authority.

Formal Authority

The Bank of England stood at the heart of the intricate institutional edifice through which London, as the key space of authority, was able to reproduce the British world financial order. The Bank of England is conceptualised here as, first and foremost, a civil institution during the British world financial order. While the Bank as a joint-stock company could be regarded in functional terms as a market institution or, more typically, as a state institution granted a monopoly over the issuing of sterling as legal tender, those individuals who voluntarily participated in the Bank's operations broadly understood it to be necessary to support their socio-economic aspirations. The Court of Directors who managed the Bank, including the governor and deputy governor, were in the main recruited from London's most prominent merchants and financiers and, as such, represented the interests of London's social forces (Cassis 1994:85-91). There was broad social acceptance of the Bank's standing as a civil institution, but considerable debate surrounded whether this contradicted its wider public responsibilities (Bagehot 1873/1991). This became reflected in the controversy surrounding the Bank Act of 1844 that separated the Bank's issuing and banking departments.

While the significance of the contribution of the Bank of England to the reproduction of the British world financial order is widely acknowledged - the 'conductor of the international orchestra' in Keynes' famous phrase - existing accounts have tended to focus rather narrowly upon the position of Bank within the gold standard. This leads to an emphasis on the role of the Bank in the manipulation of liquidity through the Bank rate to set national and effectively international interest rates in the management of international adjustment (Gilpin 1987:124); on the leadership role of the Bank in establishing a set of practices through the manipulation of gold points and gold devices that led to the long-term adherence to the discipline of the gold standard (Eichengreen & Flandreau 1997:15-18); and upon the standing of the Bank as an international lender of last resort in the management of financial crises (Kindleberger 1973). However, given that the Bank's potential and actual sterling liabilities to foreigners were vastly in excess of its gold reserves (de Cecco 1974), the capacity of the Bank to provide liquidity and manage international adjustment, maintain the convertibility of sterling and gold, and act as lender of last resort appears to have rested more broadly on its position within London as a WFC (Williams 1963:513-4).[23] As such, the contribution of the Bank of England to the reproduction of the British world financial order through the manipulation and management of the organisation of world credit practices was dependent upon the interlocking relationships of the Bank to the other market, civil and state institutions centralised in London.

Alongside this wider support, the material basis for the practices of the Bank of England lay in its relationship to the institutions that organised clearing and money-market practices centralised in London. The capacity of the Bank to manipulate liquidity through the Bank rate rested broadly on the 'deposit-compelling power' of London at the apex of the hierarchy of financial centres.[24] The deposit-compelling power of London did not mean, however, that increases in the rate of interest in London and the subsequent effects on international adjustment translated into deflation across the main national political economies

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[23] Fears that the Bank of England's gold reserves may be insufficient were present in debates from the 1890s up to 1914 amongst British financial intellectuals and politicians (Cassis 1994:82-3; de Cecco 1974:101-2).

[24] The 'deposit-compelling power' of London meant that, particularly from the 1870s, the 'market rate' became increasingly significant, as opposed to the Bank rate, in determining foreign exchanges and therefore capital movements. As a result, the Bank was only be able to make the Bank rate effective at the high price of borrowing in the market to raise the price of money or by limiting the export of gold (Cassis 1994:81-2).

of continental Europe.[25] The position of Paris and Berlin as second-tier regional financial centres and their ability as social spaces to attract capital from the third-tier centres of central Europe - the majority of which stood as the financial centres of national political economies which consistently ran payments surpluses up to 1914 - mitigated against the spread of deflationary pressures (Walter 1993:102-3).[26] As Walter (1993:104-5) emphasises, the provision of liquidity through an intricate institutional edifice centralised in London was clearly not the same as the Bank of England acting as the proxy central bank of the British world financial order.

The capacity of the Bank to maintain confidence in the British world financial order, and to manipulate the organisation of world credit practices in times of crisis, also rested upon its relationship to the other market, civil and state institutions centralised in London. The careful regulation of the expansion of credit through London's merchant banks by the encouragement of sound banking practices contributed both to effective management of the organisation of world credit practices (Germain 1997:48-9). This view is supported by Brown's (1940:778) identification of "the development, empirically, under the leadership of the Bank of England, of a stable and conservative type of banking management" as one of the two "foundation stones" of the British world financial order. Such regulation by the Bank gave the authority of London a prudent edge, generating trust and confidence which appears to have acted as something of a substitute for gold reserves in the organisation of world credit practices (Ingham 1994:34).

Further, at points of crisis in the organisation of world credit practices, the Bank was reliant upon close co-operation with market, civil and state institutions centralised in London to manage these superficial fluctuations. For instance, when the solvency of Barings was threatened in 1890 following an over extension of credit to Argentina, the Governor of the Bank established an underwriting syndicate to prevent bankruptcy which included the Treasury,

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[25] Clearly, the deposit-compelling power of London did, however, have detrimental consequences for those national political economies particularly outside Europe with balance-of-payments deficits before 1914 (Eichengreen & Flandreau 1997:10).

[26] Indeed, as Brown's (1940:7-8) description of the international movements of gold and capital during the months immediately preceding the outbreak of the First World War illustrates, there may be a sense in which the hierarchical relationships between the world's financial centres mutually reinforced the stability of the British world financial order, particularly in Europe and North America.

Rothschilds and other leading market institutions (Ingham 1984:165-6; Cassis 1994:6). Ultimately, as the crises of 1890, 1907 and 1914 all illustrate, it was the deposit-compelling power of London that enabled the Bank to attract gold and internationally mobile capital to London in times of crisis without undermining the wider provision of credit to the world economy.

The position of the Bank of England as a key institution for the formal exercise of authority in the British world financial order also has to be seen in the context of the European balance-of-power in the wider world order which, through the adoption of the gold standard by the principal states, served to somewhat indirectly reinforce the authority of London. In short, the 'reach' of the London-centred structure of authority extended throughout the British world financial order. As Kindleberger (1978:183-90, 1983) effectively highlights, the commitment to the gold standard translated into support for the authority of the Bank of England in the management of the organisation of world credit practices by other European central banks. This was particularly the case during brief periods of financial crisis when the deposit-compelling power of London alone proved insufficient. Between 1824 and 1914, national central banks came to the assistance of the Bank of England on four principal occasions. First, in 1825 the Bank of France channelled £400,000 worth of gold sovereigns to the Bank of England via the market institutional network of Rothschilds. Second, between 1836 and 1839, the Bank of England was able to draw credit of £400,000 and £2 million from Paris and £900,000 from Hamburg in support its own liquidity. Third, in 1890, as the Bank of England prepared to announce the collapse of Barings, it was able to gain assurances from the Russian government that it would not withdraw £2.4 million worth of deposits that it held with the Bank while securing £3 million worth of loans from the Bank of France. Finally, the Bank of France assisted the Bank of England in 1906-7 by selling gold in the London markets.

Within the institutional edifice of London's authority over the organisation of credit practices in the British world financial order, "The banks at the heart of the City were the cornerstone of the whole edifice ..." (Cassis 1994:5). The specialised market institutional networks centralised in London formed something of a complementary intersection in the organisation of world credit practices (Cassis 1994:5-6). The clearing banks cleared obligations, provided short-term loans, and collected deposits that the discount houses accessed through money-market practices to discount bills of exchange. The acceptance of bills of exchange, along with the prudent organisation of foreign sovereign and corporate credit practices, was the preserve of the great merchant banks of Rothschilds, Barings, C.J Hambro and Kleinworts (Germain 1997:48-50). Securities issued through the merchant banks were, in turn, placed through the jobbers and brokers of the London Stock Exchange (Michie 1992:109). Through institutional networks extending across continental Europe, North and South America, London's merchant banks dominated the creation of foreign sovereign and corporate credit during the British world financial order (Born 1977:31, 53, 116).[27] Between 1860 and 1904, Barings and Rothschilds alone undertook 250 sovereign and corporate issues with a value of £1.9 billion (Michie 1992:111). In the British world financial order, then, decisions regarding the creation and allocation of credit were largely institutionalised within the market networks of London-centred banks and financial houses. The institutional edifice of London's authority guaranteed these decisions.

The role of London's merchant banking networks in the organisation of sovereign credit practices has, in particular, tended to inform a widespread perception of their 'political identity'.[28] For instance, based on a reading of Polanyi (1944), Arrighi (1994:167) suggests that *haute finance* as a class dominated by London's merchant bankers acted as "the 'invisible hand' of an imperial organisation", part of "the power apparatus through which Britain ruled the world". Born (1977:34-5) highlights that London's merchant banking networks, largely as a consequence of their sovereign lending to Europe's governments, sought to maintain peace throughout Europe. Not dissimilarly, Polanyi (1944:10) asserts that "the secret of the successful maintenance of general peace lay undoubtedly in the position, organization, and techniques of international finance". The common feature of these perceptions is an assumption that London's merchant banking networks contributed not only to the organisation of world credit practices as part of the reproduction of the relative stability of the British world financial order, but to the balance of power within the wider world order more generally. In our terms, not only did London's authority rest upon the wider world order, but it also contributed to the maintenance of a balance of power within that order.

[27] London-centred banks had institutional networks world-wide that included between 1500 and 2000 foreign branches by 1913 (Cassis 1991:55).

[28] The phrase 'political identity' and its application to market institutions is taken from Sally (1994).

Alongside the Bank of England and the networks of London's market institutions, the London Stock Exchange (LSE) also formed part of the intricate institutional edifice through which London stood as the key space of authority in the reproduction of the British world financial order. The LSE was the institution through which the capital necessary for long-term credit creation was mobilised. In particular, it was through the LSE that the vast sums of short-term capital residing in London's money-markets became organised for long-term credit creation. From the middle of the nineteenth century, the LSE emerged as the central institution in a reasonably well integrated world securities market. The significance of the civil authority of the LSE lay not in the universalisation of long-term credit creating practices around the LSE as a 'model', as the norms and meanings that informed the practices of stock exchanges tended to reflect local conditions. Instead, the authority of the LSE was rooted in its domination of long-term credit creating practices in the British world financial order, as the practices, and to some extent capital and price movements, of other stock exchanges were defined in relation to the LSE (Michie 1992:134). The position of the LSE in the organisation of the world's long-term credit provision itself was underpinned by the rules and norms of the LSE, especially its limited regulations, negotiable structure for commissions, and willingness to expand membership to include foreign nationals.

Part III - The Unravelling of the British World Financial Order: The Decline of London and Rise of New York

It has been suggested here that the relative stability of the British world financial order rested upon the centralisation of the material, ideational and institutional forces of the order in London. This realised a coherent conjunction of forces in the British world financial order that was reproduced through London's authority over the organisation of world credit practices. The cumulative standing of London as the key space of authority was underpinned by the policies of the British government and the position of the British state within the structures of the wider world order. Given that the British world financial order was underpinned by the wider world order, however, the course of the First World War was to irretrievably rupture the relative stability of the British world financial order. The war had the effect of 'telescoping' structural changes that both undermined the conditions in the wider world order which supported London's authority, and ended the coherent conjunction of forces centralised in London. As Brown (1940:xiii) has asserted, the real significance of the war for the British world financial order was the destruction of the high degree of centralisation of that order in London. The gradual unravelling of the British world financial order after 1914 and the associated restructuring of the organisation of world credit practices took place in a 'decentralised' (Brown 1940) world financial order, as an uneasy co-existence developed between London and New York as the WFCs at the apex of the order. The decentralisation of the British world financial order would, then, appear to be pivotal to an explanation of the relative instability of the order after 1914. Neither London's social forces or those associated with New York were able to command sufficient material resources, articulate sets of ideas, or access the institutional means to claim the authority necessary to organise world credit practices after 1914.

World War I and the peace settlement concluded at Versailles led to three sets of developments which were the immediate concerns of the governments of the major states in the post-1918 British world financial order, all of which hampered attempts to organise of world credit practices. These were the threat of inflation; the payment of inter-allied war debts and German reparations; and the restoration of the gold standard. First, the widespread printing of money by Europe's governments to fund their war efforts combined with the pent up demand of wartime to generate a brief inflationary economic boom between 1920 and 1921 (Kindleberger 1973:32). As Germain (1997:59-61) has noted, the use in line with liberal orthodoxy of high interest rates to curb inflation led to 'tight' conditions for the creation of credit which continued into the 1930s.

Second, the war had been fought by the allied powers on an edifice of foreign sovereign credit organised largely through the New York capital market by the American government - so-called inter-allied debts - which required repayment in peacetime (Kindleberger 1973:34-9).[29] The allied national political economies that had been devastated by war were unable to accumulate sufficient capital for repayment. As such, the British and French governments in particular became reliant on receiving German reparations in order to fulfil their obligations. As Born (1977:206) stresses, "the American government's

[29] The distinctive feature of inter-allied war debts was that they were "'political' debts" (Born 1977:204), in the sense that they were direct inter-state lending from government to government. The United States government was the principal lender and the only government to emerge from the war without any debt repayments.

unbending insistence on the repayment of inter-Allied debts resulted in the Europeans being no less flexible over German reparations". The result was a veritable "merry-go-round" (Born 1977:227) of capital and credit flows, whereby New York-centred credit creation provided for German reparation payments that eventually found their way back, in theory at least, to the American government via the allied governments. Despite the Dawes Plan of 1924 and the Young Plan of 1929 which attempted, with limited success, to address the problems of inter-allied war debt and German reparations, long-term credit creation in the post-1918 British world financial order remained greatly restricted by the burden of wartime debt.

Third, the governments of the major states shared the assumption that the key to restoring the organisation of world credit practices in the post-1918 British world financial order lay in the restoration of the international gold standard (Brown 1940:165-74; Helleiner 1993:21). Restoration was complicated by the devastation of Europe's national political economies during the war and by inflationary pressures which had eroded the value of the world's gold stocks. In response and following the Geneva conference of 1922, it was recognised that the reconstructed gold standard would take the form of 'gold exchange standard', in which central banks increasingly held reserves in the form of balances in foreign currencies in addition to gold. While after 1925 the return to the gold exchange standard did appear to generate confidence in currency values, the gold exchange standard remained something of a "facade" (Brown 1940:389). The commitment to the restoration of the gold standard obscured the relative instability that was rooted in the decentralised nature of the post-1918 order and its consequences for the organisation of world credit practices. As Brown (1940:137-8) has posited,

> "At the close of hostilities it was impossible to see the consequences of this decentralization. ... A whole new set of relations with the dollar was suddenly superimposed upon the old set of relations with sterling. The old sterling relations were based upon a long historical development and appropriate institutional techniques were established to regulate them. The new relationships with the dollar were emergency relations created by the sudden upheaval. *They were not solidified by an appropriate credit system*" (*my emphasis*).

The mythic proportions of the gold exchange standard concealed the degree to which monetary stability was contingent upon the relative stability of the British world financial order which itself had begun to unravel through the processes of decentralisation. It is to the post-1914 emergence of this duality of London and New York as WFCs and its relationship to the unravelling of the British world financial order that we now turn.

On the eve of the First World War in 1913, the United States produced over a third of the world's industrial output, just under the combined total of Britain, Germany and France (Hobsbawm 1994:97). Despite the huge volumes of capital generated by the US national political economy, however, New York remained largely a national and regional financial centre, standing as a key social space for practices which provided credit for the United States and Latin America (Kindleberger 1974/1978:114-19).[30] World credit practices remained embedded in the institutions centralised in London, despite the relative weakness of the British national political economy from the 1870s. While the simultaneous rise of New York's social forces and decline of London's social forces was inextricably bound up with the relative strengths and weaknesses of their respective national political economies as part of the contradictions of the "inconstant geography of capitalism" (Storper & Walker 1989),[31] it was to take the major upheavals of world war to offer New York's social forces a 'structural opportunity' to engage in credit creation on a world-scale.[32]

The roots of the rise of New York lay firmly in the wartime expansion of commercial credit and foreign sovereign credit practices in New York. The war effectively brought a temporary closure of London as a WFC as part of the British state's attempts to finance its war effort. New York was the key social space for the creation of the foreign sovereign credit that was channelled to the

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[30] Aside from London's continued predominance, the limited role of New York as a key social space for world credit practices prior to 1914 was also related to the processes of the consolidation of the American national political economy. In particular, New York's standing was undercut by the absence of a central banking system. Prior to the Federal Reserve Act of 1913 there were major restrictions on the creation of bankers acceptances which mitigated against the development of New York as a key space for world commercial credit and money-market practices (Madden & Nadler 1935/1994:164; Nadler, Heller & Shipman 1955/1994:190-1).

[31] "The geography of capitalism is uneven, to be sure; but it is, above all, inconstant. The dynamism of capitalist growth keeps industries on the move, and periodically sends them hurtling down new paths of spatial development. ... each new wave of industrialisation brings into existence new growth centers and growth peripheries, stimulates disinvestment in some areas and the radical restructuring of others, and reshuffles spatial production relations and patterns of territorial income distribution and politics. In so doing, it gives new life to capitalism" (Storper & Walker 1989:4-5).

[32] The notion of a 'structural opportunity' is taken from Gills (1994).

belligerent and neutral states of Europe by the American government (Brown 1940:143-5). New York was also the key social space for the creation of commercial credit during wartime. By 1917 there were $1 billion worth of dollar-denominated outstanding acceptances generated by commercial credit practices in New York, two-thirds of which were for foreign trade (Brown 1940:149). In addition, as a result of heavy allied purchases from the American political economy during the war, the working balances of foreign financial market institutions and central banks became centralised in New York (Brown 1940:152-3).

The wartime growth in the significance of New York as a social space for world credit practices was to prove more than a temporary expediency. From 1918 New York stood as the key social space for long-term credit creation in the British world financial order. Between 1921 and 1924, the value of new issues of foreign securities in New York totalled $2,373 million, compared with $917 million in London (Germain 1997:63). Similarly, from 1925 to 1929, foreign lending out of New York totalled $6,400 million, compared with $3,300 million from London (Kindleberger 1973:56). Long-term foreign credit created in New York tended to be allocated to Europe, North and South America, while that created in London tended to be allocated to the regions of the British empire.[33] In addition, long-term credit creation in London became increasingly orientated to the credit needs of the British national political economy. Between 1924 and 1928, foreign issues on the LSE accounted for only 45% of total issues, compared with 82% in 1913 (Michie 1992:113). Of the total securities listed on the LSE, the percentage of foreign securities fell from 60% in 1910 to 43% by 1920 and 30% by 1938 (Michie 1992:135-6).

London, however, recovered in large measure its position as the key space for commercial credit practices in the British world financial order in the aftermath of the war (Born 1977:228). The clearance of credit obligations and associated money-market practices became somewhat decentralised in the post-war years (Brown 1940:538), although the restoration of the convertibility of sterling to gold in 1925 did lead to a partial re-centralisation of working

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[33] Of the total foreign lending out of New York of $6,400 million between 1925 and 1929, $2,957 million was allocated to continental Europe, $1,597 million to Latin America and $1,231 million to Canada and Newfoundland. The breakdown of the foreign credit of $3,300 million created in London during the same period was $1,365 allocated to Asia and Oceania, $706 million to Europe, $528 million to Latin America and $437 million to Africa (figures from Kindleberger 1973:56).

balances in London.[34] The competitive duality of WFCs at the apex of the post-1914 British world financial order realised something of a "division of labour, which clearly indicated the different orientations of the two centres" (Ingham 1994:42). London remained, by and large, the key social space for short-term commercial credit, clearing and money-market practices. This was reflected in the relatively high rates of interest in London that attracted short-term mobile funds from New York. Meanwhile, New York was largely the key social space for long-term credit creation, reflected in the relatively low rates of interest that facilitated long-term borrowing.

The duality of WFCs at the apex of the post-1914 British world financial order reflected a partial decentralisation of material resources from London. At the roots of the partial decentralisation of capital lay the relative decline of the British national political economy in terms of world trade and industrial production (Ingham 1984:174). This undermined the capacity of London-centred credit practices to continue to satisfy demand for credit. For instance, portions of the $128 million worth of sovereign credit raised by the British state to finance its Boer War effort at the turn of the twentieth century were provided through New York. This was the first time since the Seven Years War of 1756-63 that a significant share of British sovereign credit had been provided for by foreign sources (Burk 1992:359-60).

After 1914, increased competition from New York as a WFC undercut the deposit-compelling capacity of London to attract internationally mobile capital, further undermining the centralisation of material resources in London (Brown 1940:157). Such a partial decentralisation of material power was problematic for the organisation of world credit practices, as essentially it generated a "conflict between the technical requirements of the banking process itself and the actual distribution of resources" (Brown 1940:533). The "critical mass" (Germain 1997:65) of material resources necessary for world credit practices was no longer centralised in London, reflected in the short-term nature of credit creation.[35] In particular, the centralisation of internationally mobile

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[34] For instance, following the restoration of sterling convertibility in 1925, German and Dutch working balances were increasingly held in sterling, returning from New York to London (Kindleberger 1973:44).

[35] For example, when the European financial crisis of 1931 broke out, the short-term nature of credit creation was revealed as 57.8% of Germany's foreign debts were repayable within three months (Born 1977:228).

capital in London that had tended to provide the resources for the manipulation of the organisation of world credit practices in times of crisis prior to 1914 had come to an end. London's loss of its deposit-compelling power led to a centralisation of capital in London that could only be retained by "deposit-attracting policies" of relatively high interest rates (Brown 1940:157). In the context of a world economy in which the European political economies were slow to come to grips with the dislocation of wartime, such high rates of interest tended to translate into a deflationary spiral and detrimental consequences for world credit practices. In addition, the maintenance of large working balances in both London and New York in order to transact clearing operations also led to increased inefficiencies in world credit practices, as international adjustments became harder to offset (Brown 1940:538). As Burk (1992:364) notes of the decline of London and rise of New York, "in the end, capital told".

The relative instability associated with the unravelling of the British world financial order after 1914 was also related to the loss of the institutional means through which London's social forces had been able to organise of world credit practices previously in the British world financial order. The war shattered the London-centred market institutional networks that had been built up throughout the nineteenth century and had formed an essential element of the institutional edifice of London's pre-1914 authority. Further, British state authority over London-centred credit creation increased (Born 1977:231-55). Wartime demands for sovereign credit had led to an expansion in the use of treasury bills on the London money-markets at the expense of finance bills (Brown 1940:156). In the post-1918 era the Bank of England continued to attempt to restrict the use of finance bills in favour of treasury bills (Michie 1992:79-80). The effect was to restrict the capacity of London-centred commercial credit practices to provide for world trade (Buck 1992:121). This change of policy reflected a subtle transformation in the nature of the City-Bank of England-Treasury nexus that had underpinned the authority of London in the organisation of world credit practices prior to 1914. The Bank of England after the War came consistently to express the 'Treasury view' (Ingham 1994:36-7; Brown 1940:160-61). In the context of relative economic decline, the Treasury sought to tie credit creation in London to the needs of the British government and national political economy to a greater extent. As a consequence, the standing of London as the key space authority in the reproduction of the British world financial order was partially undercut.

The increase in British state authority over credit which undercut the formal authority of London's market and civil institutions in the reproduction of the British world financial order itself reflected state-societal changes in the wider world order. In short, the "sociopolitical conditions for existence" (Gill 1991:280) which had prior to 1914 underpinned the British world financial order had changed. World War I accentuated what Polanyi (1944) termed the "double movement" within state-societies, with attempts by social forces to resist and reverse the logic of the self-regulating market gaining ground. This had considerable consequences for the manner in which national political economies came to be organised after 1918. As Ingham (1984:170) notes,

> "The First World War appeared to have hastened the transition from the competitive market capitalism of free trade under the discipline of the gold standard to a more controlled economic order eventually based on protection and state intervention in industry, which was now characterised by monopolies and joint stock companies".

Drawing on Polanyi's (1944) analysis of this 'great transformation', Ruggie (1982) highlights the consequences of these changes for the British world financial order. The liberal ideas that were the basis for London-centred informal authority in reproduction of the British world financial order prior to 1914 now "stood in contradiction to the transformation in the mediating role of the state between market and society, which altered fundamentally the social purpose of domestic and international authority" (Ruggie 1982:392).

While London's standing as the key space of authority in the British world financial order had been undercut in material, institutional, and ideational terms, then, Ingham (1994:41) suggests that after 1918 New York's social forces also lacked the institutional means with which to construct an alternative American world financial order in the image of the British world financial order. Given the isolationist sentiments of American farmers, organised labour and medium-sized industrialists (Block 1977:18), the US state neither facilitated the authority of New York's social forces nor encouraged or directed the prudent form of international lending that had marked the pre-1914 British world financial order. As a consequence, New York-centred world credit practices expanded "with much enthusiasm, no experience, and little in the way of guiding principles" (Kindleberger 1973:32). New York-centred world credit practices were often highly speculative and irresponsible (Block 1977:20-21). Any potential for the development of New York's standing as the key space of authority in a reconstituted American world financial order - based on the vast material resources of the US national political economy - was finally blown away by the Wall Street crash of October 1929 and the subsequent New Deal legislation (Glass-Steagall Act of 1933 and Banking Act of 1935) which strengthened the authority of the US state over American credit creation.

The duality of London and New York as WFCs at the apex of the post-1914 world financial order manifested itself in relative instability, and the reproduction of the order became increasingly problematic. It was the crises of 1931 that marked the apogee of the London-centred, British world financial order (Michie 1992:80-1; Williams 1963). The roots of the European financial crisis of 1931 appear to have lay in the Wall Street crash of 1929 and the depression which followed feeding into the world economy (Block 1977:22; Helleiner 1993:21-2).[36] In the context of falling industrial production and commodity prices and the near collapse of world trade that followed the Wall Street crash (Hobsbawm 1994:91-4), the indebted European national political economies were clearly vulnerable to defaulting on existing obligations. The conditions necessary for capital accumulation on a sufficient scale to service credit obligations had been swept away by the crash. The Austrian and German national political economies were particularly vulnerable due to the relatively large size of their short-term foreign credit obligations. For instance, Germany's short-term obligations were between $2.5 and $3 billion in 1931 (Block 1977:22). It was from the immediate threat of Austrian default that the crisis emanated. A series of loans organised through international central bank co-operation did prove successful in preventing an Austrian default. However, the relative instability associated with the decentralisation of the order combined with sensitivity over German reconstruction and continued inter-governmental wrangling between the US, France and Britain over inter-allied war debts and German reparations to ensure that a similar rescue package failed to materialise to prevent a German default (Born 1977).

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[36] While considerable academic debate surrounds the question of whether the Wall Street crash actually caused the depression that followed (Kindleberger 1973:108-127), what is clear is that it further complicated attempts to reproduce the world financial order in the context of relative instability. As Henwood (1997:234) asserts, "... the crash is best seen as the opening movement of the broader crisis - the unravelling of a monstrously leveraged financial structure. Credit had served to push stocks to unsustainably high levels; it had also allowed production to expand beyond the limits of consumption. The crash exposed these limits, announced the unsustainability of promises to pay, and rendered investments unprofitable and debts unserviceable".

The response by the German government was to introduce exchange controls and protectionist policies, effectively insulating the German political economy from the world economy and the world financial order. With the insulation of the German political economy, the crisis moved to London as confidence in the stability of sterling evaporated (Roberts 1991:63-4). British liquid assets in Germany had been frozen and Europe's commercial banks, who had themselves lost liquidity as a result of German bad debts, sold sterling in an attempt to increase their gold reserves (Kindleberger 1973:158). In contrast to the pre-1914 British world financial order, London's social forces did not posses the material resources or institutional edifice to prevent these disturbances in world credit practices from reinforcing the more structural crisis tendencies of the post-1914 British world financial order. As Williams (1963:519) posits,

> "In the face of external pressure, London had previously responded to demands for finance at times of general difficulty in two ways. First, by reducing its long-term foreign investment, while tending to maintain - or even increase - short-term foreign investment, and, secondly, by attempting to increase its borrowing from abroad. In the 1929-31 crisis London was successful in changing the structure of its foreign investment but failed to attract greater foreign investment in London. Only one part of the pre-1914 machinery was operative".

In our terms, London's social forces had lost the deposit-compelling power that had enabled them to attract sufficient internationally mobile capital to manage crises prior to 1914. Further, reflecting the subtle changes in the nature of the City-Treasury-Bank of England nexus after 1918, the Bank of England was unable to increase the Bank rate in an effort to manage the crisis as concerns with the detrimental consequences for the British political economy had become increasingly prevalent. As Roberts (1991:65) asserts, 1931 was "the end of an epoch" for London and its relationship to world finance.

Conclusions

While the British world financial order marked a structural transformation in the nature of world financial orders, London's position as the key social space in the British world financial order paralleled Amsterdam's position in the world financial order of the seventeenth and eighteenth centuries in several senses. In synchronic terms, London was the key social space for the world credit practices during the Hundred Years Peace. The material, ideational and institutional forces that framed credit practices were also centralised in

London as the key social space. In diachronic terms, the centralisation of material, ideational and institutional forces led to a coherent conjunction between them and a relatively stable world financial order up to 1914 which was reproduced by London's social forces through a centralised structure of authority. London's standing as the key social space and space of authority rested upon the dominant position of London as the financial centre of the British political economy, the ascendance of the British political economy in the world economy, the policies of the British government, and the central position of the British state within the structures of the wider world order. Significantly, in a similar manner to Amsterdam from the 1740s through to Napoleonic wars, London retained its standing as the WFC of the British world financial order for over three decades after the relative decline of the British political economy began in the 1870s. For our purposes, then, this suggests that while the rise of WFCs is intimately related to patterns of capital accumulation emanating from world trade and industrial production, an understanding of the 'independent' development of a WFC as an entrepôt financial centre may also be significant in arriving at an explanation of continued dominance.

The British world financial order saw an increase in the importance of state-based forms of authority in the reproduction of a relatively stable world financial order when compared to the Amsterdam-centred world financial order. However, as the continued standing of London as a WFC and space of authority after 1870 illustrates, interdependence between state, market and civil forms of authority remained essential to the reproduction of a stable world financial order in the era of 'state credit money'. In contrast to orthodox IPE explanations of the relative stability of successive world financial orders that typically focus upon the rise and fall of states and the organisation of their wealth and power, inquiry into the British world financial order appears to confirm the utility of focusing, in the first instance, on the hierarchical social organisation of world financial orders.

Given that the British world financial order was underpinned by the structures of the wider world order, the relative stability of the British world financial order was irretrievably ruptured by the First World War. The War fed structural changes in both the financial order and wider world order. These served to both decentralise the credit practices and the material, ideational and institutional forces of the British world financial order between London and New York, and to provide New York's social forces with a structural opportunity to catapult New York up the hierarchy of financial centres. The resulting duality of WFCs fed relative instability in the British world financial order after 1918. Neither London's nor New York's social forces held the material, ideational and institutional resources necessary for the reproduction of a stable world financial order. As such, while the centralisation of a world financial order in a single WFC appears to be a necessary condition for a stable world financial order that is, in turn, reproduced by the authority of that WFC, both remain subject to the limitations and potential dislocation imposed by the structures of the wider world order. The relative instability associated with the decline of London and the unravelling of the British world financial order became intense with the crises of 1929-1931. The crisis of 1931 that marked the apogee of the London-centred British world financial order heralded a virtual collapse of credit creation at a world-scale. Governments of the major states increasingly looked 'inwards' to their respective national political economies for solutions to economic depression and credit shortages. Economic growth was to return to the principal national political economies during the late 1930s, but only came with large-scale military expenditures in the run up to the outbreak of the Second World War. It was only in the post-1945 era that the foundations for the production and reproduction of a relatively stable New York-centred, American world financial order were to be put in place.

CHAPTER FIVE

New York: The Making and Unravelling of the American World Financial Order

Introduction

The previous chapter continued our concrete historical inquiry into successive world financial orders, focusing on the London-centred British world financial order between 1815 and 1931. The British world financial order marked a structural transformation in the nature of world financial orders in the sense that it saw an increase in state-based forms of authority over the organisation of credit creation at a world scale. It is suggested, however, that arriving at an understanding of the reproduction of the period of relative stability in the British world financial order requires attention to the interdependent nature of state authority with civil and market forms of authority centralised in London. As such, it was the decentralisation of the British world financial order between New York and London that, in the first instance, lay at the heart of the relative instability that marked the period 1914-1931. Neither the social forces associated with London nor New York possessed the material, ideational and institutional resources to authoritatively reproduce a relatively stable world financial order. The financial crisis of 1931 confirmed both the end of the British world financial order and the fall of London from the pinnacle of world finance.

Although New York was the principal WFC from the 1930s, the making of a relatively stable American world financial order did not begin in earnest until 1947 with the granting of Marshall Plan aid. Not only did it take the Great Depression and the Second World War, it also took perceptions of a deepening crisis of post-war west European reconstruction and the Cold War before the foundations of the American world financial order became solidified. For the best part of the next three decades, the American world financial marked "a new phase in international finance" (Nadler, Heller & Shipman 1955/1994), "a structural transformation in the organization of credit of the first order" (Germain 1997:71). Three main interrelated elements are highlighted here as the key features of the structural transformation that marked the American world financial order.

The chapter is divided into three main parts. Part I develops an explanation of New York as the key social space for world credit practices in the American world financial order. This illuminates the first, synchronic feature of the structural transformation that characterises the American world financial order. The predominant form of credit practices in the American world financial order contrasts sharply with earlier world financial orders. Capital market and bank lending forms of credit that had been predominant previously became secondary to bilateral and multilateral government transactions and corporate foreign direct investment (FDI). As such, long-term inter-governmental and corporate capital outflows from the US national political economy were a defining characteristic of the American world financial order.

Part II moves to consider the position of New York's social forces in the relatively stable making and reproduction of the American world financial order. Relative stability in previous world financial orders has been shown to have rested on a coherent conjunction between the material, ideational and institutional forces of the order, reproduced largely through the civil and market authority of the social forces associated with the dominant WFC. Viewed in comparative historical terms, this illuminates two diachronic features of the structural transformation that characterises the American world financial order. First, informal authority in the American world financial order rested not with New York's social forces, but with an intersection of social forces associated with American industry and labour. As a result, world credit practices came to be organised within the context of an "embedded liberal" (Ruggie 1982) world view rather than the liberal world view of New York's social forces. Second, and reflecting embedded liberalism, the American world financial order was largely reproduced by formal authority exercised through US state, corporate and inter-state institutions. In short, the structures of power and authority within the American world financial order diverged considerably from those of previous world financial orders. Reflecting the subordinate and yet supportive role of New York's social forces within the structure of authority, it was what will be termed the 'Washington-New York axis' that reproduced relative stability in the American world financial order. The reproduction of the American world financial order by the Washington-New York axis rested on US state-society relations and the position of the US state in the structures of the wider world order.

In sum, Parts I and II argue that the relative stability of the American world financial order was reproduced through the Washington-New York axis that organised long-term US capital outflows, all resting on US state-society relations and their insertion into the structures of the wider world order. In the context of our inquiry into world financial orders and world financial centres, this raises important questions as to the position of New York as the WFC within the American world financial order. It is argued that given the transformation of the forms of credit, the significance of New York's standing as the key social space for those practices was more 'indirect' than the position of WFCs in previous world financial orders. While New York remained the key social space for credit creation and the clearance of credit transactions, the allocation of credit was subject to the largely state-based structure of authority that characterised the reproduction of the American world financial order. As such, the authority of New York's social forces played a more subordinate role as part of the Washington-New York axis by underpinning state-based forms of authority in the reproduction of the American world financial order, than, for instance, that of London's social forces in the British world order. Concrete inquiry into the American world financial order reminds us, then, that the standing of a WFC within a world financial order - that is, whether as a key social space or as a social locus for the reproduction of an order - must itself be produced and reproduced as part of the order.

Part III considers the unravelling of the American world financial order. The roots of the unravelling of the American world financial order are held to lay in two key interrelated structural contradictions within the order. First, as Robert Triffin famously identified in 1960 through the so-called 'Triffin dilemma', long-term US capital outflows could not be maintained alongside continued confidence in the value of the dollar in which they were denominated. US capital outflows manifested themselves in continual long-term balance of payments deficits that had to be maintained by foreign holdings of dollar-denominated assets.[1] Second, the Washington-New York axis failed to articulate sufficiently a role for the authority of New York's social forces in the reproduction of the American world financial order. The authority of New

[1] Germain (1997:7) provides a concise overview of Triffin's position - "He argued that continued US balance of payments deficits would create a dollar overhang that must inevitably outgrow US gold stocks and prompt a crisis in the fixed value of dollar related to gold. The solution to this problem became known as the 'Triffin Dilemma', on the basis that any attempt to narrow or eradicate the US balance of payments deficit would necessarily compromise the provision of credit to the international economy".

York's social forces was only supportive of the reproduction of the American world financial order while credit creation remained centralised in New York. The perceived shared interests of New York's social forces were not met by the American world financial order once the US state responded to the Triffin dilemma by imposing capital controls from 1963, limiting New York-centred credit practices. The structure of authority framing the organisation of world credit practices subsequently became decentralised, as formerly New York-centred credit practices became organised through the civil and market authority of the off-shore Euromarkets.

The destabilising consequences of these two contradictions were intensified by US state policies which adopted unilateral capital controls and supported the emergent Euromarkets. US state policies themselves contributed to the unravelling of the American world financial order. This combination of contradictions and policies presented London's social forces with a structural opportunity to re-establish London as the key social space for Euromarket credit practices. The partial decentralisation of the American world financial order between Washington and New York on the one hand and the London-centred Euromarkets on the other heralded the gradual unravelling of the order during the 1960s. It was not until 1973-4 amidst the relative instability of the wider world order, the disintegration of the Bretton Woods monetary order, and the liberalisation of US financial policy that the American world financial order finally collapsed.

Part I - New York: Key Social Space

In the context of the Great Depression and the Second World War, credit creation at a world scale remained limited throughout the 1930s and the first half of the 1940s. The fall of London from the pinnacle of the hierarchy of WFCs and the final collapse of the British world financial order amidst the crisis of 1931 had left New York, at the heart of the predominant US national political economy, as the most significant WFC. However, credit creation in New York lay virtually dormant, crippled by bad debts accumulated through a combination of the Wall Street crash and the crisis of 1931. For example, 70% of the foreign credit created in New York between 1926 and 1929, excluding that allocated to Canada, became bad debt (Henwood 1997:107). By 1936 three-quarters of all US loans to Latin America and half of those extended to Europe were in default (Frieden 1987:51).

A relatively stable American world financial order only emerged after 1947. The predominant form which world credit practices came to take contrasted sharply with the previously ascendant capital market and bank lending forms of credit. As Mendelsohn (1980:53) notes, the world's capital markets played only "a residual role" in the American world financial order. While short-term commercial credit practices remained organised through the institutional channels of the financial markets, long-term sovereign and corporate credit practices centred in New York created credit that was effectively allocated outside America through inter-governmental transactions and US corporate FDI. As Gill (1991:284) asserts, "the system was driven by the supply of international liquidity in the form of US capital exports, overseas military expenditures, and direct transfers". As such, in comparison with previous world financial orders, these changes in the predominant form of world credit practices were representative of the broad structural transformation which marked the American world financial order.

The transformation of the predominant form of long-term credit practices under the American world financial order rendered New York only 'indirectly' significant as the key social space for world credit practices. Foreign sovereign credit was mediated by US state and inter-state institutions, tending to take the form of bilateral and multilateral aid and loans rather than more direct issues and loans in New York.[2] In this sense, "the government defined itself, rather than Wall Street, as the world's central bank" (Hawley 1987:8). For instance, in raising capital for the Marshall Plan in 1947, the Truman administration issued government bills and bonds in New York which were purchased by US banks and institutional investors. Once created, the credit was allocated by the Economic Co-operation Administration. New York's financial market institutions, then, tended to occupy a subordinate position in the allocation of sovereign credit.

Not dissimilarly to this somewhat indirect position as the key social space for sovereign credit practices, an "ambivalent relationship" (Germain 1997:81-2) existed between New York and US MNC FDI which effectively

[2] The limited significance of New York as a social space for the creation of foreign sovereign credit is also reflected in the combination of the regional orientation and circumscribed nature of those issues that did take place. For instance, of the $14 billion worth of foreign issues in New York between 1946 and 1963, over half were shared between Canadian borrowers and the World Bank (Mendelsohn 1980:209).

dominated corporate credit provision world-wide. On the one hand, the prevalence of direct investment as opposed to large-scale foreign corporate issues, loans and portfolio investment weakened the significance of New York as a social space, ensuring that the subsequent development of New York as a WFC would be subject to competitive pressures from London and elsewhere (Germain 1997:82-3). On the other hand, however, given both the centralisation of the headquarters of many US MNCs in New York (Sassen 1991) and the pivotal position of New York's commercial and investment banks and Stock Exchange in the provision of American corporate credit, the prevalence of US MNC FDI was accompanied by the development of extensive networks of New York-centred market institutions. In particular, as the scale of US MNC FDI increased,

> "Traditional methods, such as the use of an agency to represent interest abroad or a correspondent to deal with transactions, were no longer sufficient. In order to finance the multinationals, the banks were forced to follow their customers and set up branches or obtain direct stakes in banks in the countries where the former had subsidiaries. The multinationalization of banks followed upon the multinationalization of industry" (Born 1977:307).[3]

In short, on the one hand, New York was "an international capital market only at one remove" (Mendelsohn 1980:54). On the other hand, New York-centred market institutional networks predominated in the provision of corporate credit. New York tended to underpin rather than dominate the outflows of long-term sovereign and corporate capital from the United States that characterised the American world financial order.

Forms of Credit

Sovereign credit practices in the American world financial order effectively took forms that were new to peacetime, such as aid and military assistance. The allocation of sovereign credit came to be organised through inter-state institutions and bilateral inter-state loan agreements. The $15 billion

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[3] By 1971, the thirty largest US financial market institutions had over one hundred foreign branches in Europe alone (Born 1977:307). Once affiliates are included, the true extent of New York-centred market institutional networks can be comprehended. For instance, between 1955 and 1965 the number of overseas offices and affiliates of the market leader Citibank had tripled to 163 (Frieden 1987:77). Further, New York-centred market institutions had undergone a period of concentration (for example, the 1955 merger between Chase National Bank and the Bank of Manhattan to create Chase Manhattan) from the immediate post-war years through to the mid-1950s which underpinned their world-wide dominance (Born 1977:308-9).

of aid provided by the Marshall Plan to the governments of Western Europe dominated long-term outflows of funds from the USA between 1947 and 1952. As such, the Marshall Plan can be seen as the defining feature of sovereign credit creating practices in the initial years of the American world financial order. Whether viewed as a fundamental factor in west European reconstruction, or as cementing an economic recovery that was already underway by providing 'offsetting finance' to relieve balance of payments problems, it is clear from the volume of Marshall aid that it formed a central plank of the response the dollar shortage during this period.[4]

Marshall aid was primary amongst the wider practices of the effective provision of sovereign credit by the US state. As Burk (1992:365) posits, "Public rather than private money was now the fuel". Between 1947 and 1950 alone, US government long-term aid totalled $18 billion, compared with $10.5 billion of long-term private outflows (Germain 1997:78). The domination of US state authority over sovereign credit creation also took the form of military expenditure and grants. The disproportionate share of the financing of western military security accounted for by the US throughout the Cold War provided, *de facto,* a source of credit for other western governments.[5] For instance, between 1951 and 1954, US grants and military supplies and services provided to other states totalled $11 billion. Meanwhile official purchases of foreign goods and services by the US military combined with the purchases of US military personnel stationed abroad to total a further $8 billion (Nadler, Heller & Shipman 1955/1994:195).

While Marshall aid and US military grants and expenditures were significant, other state-based capital flows organised through the US-influenced

[4] In challenging the orthodox view that stresses the fundamental contribution of Marshall aid to west European economic reconstruction (see, for example, Kindleberger 1987a), Milward (1984) has highlighted that recovery was already underway. This was based upon high rates of domestic capital formation and the booming West German political economy providing both markets for European exports and relieving European dependence upon imports of US capital goods. In this context, the effect of the Marshall plan was to provide 'offsetting finance' which resolved balance of payments problems generated by a thirst for US imports. Helleiner (1994:58-62) builds on Milward's (1984) revisionism by highlighting the large volumes of west European capital flight to the US which coexisted alongside Marshall aid. Hence, for Helleiner (1994:58-9), "the economic significance of Marshall Plan aid was, in effect, simply to compensate for the US failure to institute controls on inflows of hot money from Western Europe".

[5] Of the total increases of US GNP between 1950 and 1969, 15% were accounted for by defence spending. This was more than twice the level of the equivalent figures for Western Europe's major national political economies (Brett 1983:164).

International Monetary Fund (IMF) were also important sources of sovereign credit during the American world financial order.[6] For example, between 1947 and 1954, the IMF made a total 107 loans to the value of $2 billion to provide 36 countries experiencing trade imbalances with offsetting finance (Nadler, Heller & Shipman 1955/1994:195-6). By the 1960s, offsetting finance provided through the IMF and co-ordinated through the Bank of International Settlements (BIS) was extended to cover imbalances generated by short-term capital flows as well as trade (Helleiner 1994:96-9). In contrast, the World Bank, which remained reliant upon private capital markets for credit, proved an inadequate source of long-term sovereign credit (Walter 1993:159; Frieden 1987:63). In short, during the American world financial order, sovereign credit creation was dominated by capital outflows from the US political economy. Allocation was organised through US state institutions, such as the Economic Co-operation Administration under the Marshall Plan, and US-influenced inter-state institutions such as the IMF and World Bank.

From the middle period of the 1950s, the long-term capital outflows from the US political economy that characterised the American world financial order became predominantly private in nature. Nadler, Heller and Shipman (1955/1994:196) have calculated that by the end of 1953, almost 60% of total net capital outflows from the US were private. Private long-term capital outflows from the US were dominated by US MNC FDI, in effect contrasting sharply with the provision of corporate credit under previous world financial orders. Between 1950 and 1954, US MNC FDI totalled $5.4 billion compared with portfolio investment valued at $1.2 billion over the same period (Nadler, Heller & Shipman 1955/1994:196). US MNC FDI continued to be the major source of US long-term capital outflows throughout the American world financial order, with net outflows growing to $7717 million by 1971 (Germain 1997:79; Cooper 1968:82). That the effective extension of foreign corporate credit took the form of US MNC FDI as opposed to bank lending, foreign securities issues or portfolio investment was a result of a range of factors: the inter-war experience of bond defaults; the erection of a common tariff around the European Common Market; the nature of US corporate and commercial expansion driven by 'Fordist' mass production and mass consumption dynamics; the restoration of currency convertibility from 1958 which guaranteed the unrestricted repatriation of FDI earnings; and the unilateral imposition of

[6] On US influence over the IMF via the voting structure that gave the US a veto, see Frieden (1987:65-6).

capital controls in the United States from 1963 that both increased the costs of portfolio forms of investment and further advantaged FDI as a form of investment which rendered close state-based regulation problematic (Germain 1997:79-80, 124; Hawley 1987:45-86; Cooper 1968:84-90; Frieden 1987:76). The expansion of US MNCs, then, stood alongside the more state-based forms of sovereign credit provision as one of the major sources of the long-term US capital outflows that were pivotal in the American world financial order.

In line with the structural transformation of the predominant form of credit practices in the American world financial order, clearing practices during the first decade of the order were also organised through state and inter-state institutions to a much greater extent than previously. Part and parcel of the first round of Marshall aid allocated to western Europe in 1948 was the establishment of an intra-European clearance mechanism called the European Payments Union (EPU). The EPU had been proposed by the US Economic Co-operation Administration as a way of moving beyond strict bilateral accounting payments between national central banks to a set of multilateral arrangements (Germain 1997:83-4). The EPU, organised through the BIS and the Organisation for European Economic Co-operation (OEED), gave monthly bilateral accounts of each member state and managed an initial $350 million worth of revolving credit facilities provided by the US state to assist deficit countries (Born 1977:298). The EPU had the effect of establishing par values between European currencies and the provision of credit as revolving facilities constituted "a genuine addition to international liquidity" (Cooper 1968:39-49). As such, Walter (1993:162) describes the consequences of the EPU as "a major step in the liberalisation of trade and payments within Europe and beyond".

It was only with the adoption of full currency convertibility by the major west European states from 1958 that clearing practices came to take a similar form to that which had characterised previous world financial orders (Cooper 1968:40). London's position as the principal European financial centre and the continued denomination of around 40% of world trade in sterling ensured that the clearance of European transactions once again became centralised in London (Nadler, Heller & Shipman 1955/1994). However, given the continued pivotal position of the US political economy in world trade and the associated institutionalisation of the US dollar as 'world money' (Strange 1976) under the Bretton Woods arrangements, New York remained the key social space for clearing practices during the American world financial order (Germain

1997:85). Significantly, even with the emergence from the late 1950s of Euromarket[7] credit practices centralised in London, the dollar-denomination of this credit ensured that these transactions to had eventually to be cleared through New York (Klopstock 1973/1994:215).[8]

Knowledge and Technology

A significant factor in New York's standing as the key social space for world credit practices was the centralisation of knowledge as a material resource upon which credit creating practices must draw. The centralisation of knowledge in New York was an outcome of the overlapping of four more or less formalised institutional networks. First, New York stood as "the commercial heart of an expanding world economy" (Germain 1997:87) throughout the 1950s and 1960s, a commercial centre linking the most significant national political economy to the world economy (Shefter 1993). As a consequence, commercial networks centralised in New York provided a welter of knowledge on the conditions of world trade. Second, commercial networks were closely related to the expanding institutional networks of the many US MNCs based in New York. These provided a steady inflow of knowledge regarding political and economic developments in the wider world order and, in particular, informed world-wide corporate investment strategies. Third, the networks of New York's financial market institutions themselves ensured a centralisation of knowledge in New York. While in part this was related to the roving pre-eminence of New York-centred commercial banks such as Citibank, their increasingly multinational institutional networks also led to the accessing of knowledge centralised in other key banking centres such as London (Reed 1981). In particular, these financial market institutional networks provided US MNCs with knowledge of the economic, legal and regulatory conditions of foreign political economies that facilitated there multinational production strategies (Nadler, Heller & Shipman

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[7] The term 'Euromarket' is used here as a generic term to describe offshore finance, that is, credit creating practices which take place beyond the reach of the regulations which apply in the 'home' national political economy of the currency in which the credit created is denominated. Within the Euromarkets, distinctions are made between 'Eurocurrency markets' (offshore money-markets), 'Eurobonds' (offshore bond issues and trading) and 'Eurocredits' (offshore bank lending) (Mendelsohn 1980). What distinguishes the Euromarkets is that while banks have accepted deposits in non-local currencies for centuries, credit denominated in non-local currencies (especially US dollars which dominate the Euromarkets) is created instead of returning deposits to their respective money-markets (Strange 1976:180).

[8] As Bareau (1979:57) has noted, "it is self-evident that for every such 'offshore' deposit there must be, at the end of the line of re-depositors, a deposit with a bank in the country of the currency's origin".

1955/1994:198-206). Fourth, the centralisation of a wide range of significant civil, state and inter-state institutions in New York also manifested itself in a centralisation of knowledge. These included the NYSE (Buck 1992), the Wall Street Journal and New York Times (Parsons 1989), the US Federal Reserve, and the IMF and World Bank.

Capital

Given that one of the defining characteristics of the American world financial order was outflows of long-term capital from the United States, it is clear that credit creation rested in large part on the capital accumulated in the US national political economy as a material resource. US predominance in the world economy was based upon a combination of the competitive advantages accrued from labour productivity, the organisational and technological leadership associated with the techniques of 'Fordist' mass production, and the sheer size of the US political economy (Rupert 1995). Consequently, in 1950, the GDP of the United Kingdom was less than a quarter of US GDP, while that of France and Germany was less than one-fifth (Walter 1993:153). This predominance translated into the centrality of the US political economy in world trade.

Massive volumes of capital accumulated in the US political economy did become centralised in New York, providing an essential material resource for New York-centred credit creation.[9] However, given the sheer size of the American political economy and its greater self-sufficiency when compared, for instance, with the British political economy, the tendency for American capital to become centralised in New York as the national financial centre was to some extent undercut (Mendelsohn 1980:205-6; Helleiner 1993a:220; Ingham 1994:41). This contrasts with the greater centralisation in London of capital accumulated in the British political economy under the British world financial order. As such, Mendelsohn (1980:205) suggests that the more even distribution of accumulated capital in the American political economy acted as a structural constraint that may have manifested itself in the more 'indirect' significance of New York as the key social space in the American world financial order.

[9] The centralisation of the capital accumulated in the US political economy in New York is reflected in the 'depth' of the New York capital markets. During the American world financial order new securities issues valued at between $50 and $100 million were routinely absorbed in New York, compared with between $30 and $45 million in London which was New York's leading challenger at the apex of the hierarchy of WFCs (Cooper 1968:131-2).

Further, and perhaps more significantly, a greater centralisation of capital in New York was mitigated against by the structures of power and authority in the American world financial order. This can be clearly seen in the brief period between 1958 and 1963 when New York did appear to be developing a position of more 'direct' significance as the centre for world credit practices in the American world financial order. On the basis of an increased centralisation of capital in New York and buoyed by the restoration of currency convertibility by the major west European states from 1958, New York-centred foreign securities issues, portfolio investment and bank lending began to expand. As Helleiner (1994:85) has noted, in this period "New York's bankers ... had finally achieved the position of lender to the world ...". In 1960, US banks had $8 billion worth of foreign loans outstanding and loans to the rest of the world were running at around $1 billion a year. Foreign bond issues added another $600 million a year.[10] By 1963, new foreign bond issues and lending by US banks totalled over $2 billion (Frieden 1987:77, 84). Net US foreign portfolio investment accelerated dramatically during this period. Having averaged just $0.3 billion a year between 1950 and 1953 and reaching $1.1 billion by 1957, net US foreign portfolio investment exploded to $4.1 billion by 1964 (Cooper 1968:114).

The material basis for this expansion of foreign lending was an increased centralisation of domestic and foreign capital in New York. The combination of the restructuring of American finance - leading to the rising profile of institutional investors - and a boom in Wall Street throughout the 1950s led to increased amounts of the capital accumulated in the US political economy becoming centralised in New York (Buck 1992:182). The boom on Wall Street lasted for much of the 1950s, with 1954 standing out as one of the great bull market years in the history of the NYSE as stock prices rose by 40% and finally surpassed the levels of 1929 (Burk 1992). The capital upon which the boom was based was linked to a restructuring of American finance that saw the rise to prominence of institutional investors. By the end of the 1950s institutional investors accounted for one-quarter of trading on the NYSE, with the value of

[10] Mendelsohn (1980:54) suggests that the comparative weakness of foreign securities issues in New York in this period reflected some US investor resistance, the tough disclosure requirements imposed on securities issues by the Securities and Exchange Commission, and the authoritative scrutiny of New York's credit rating agencies Moodys and Standard & Poors.

pension fund holdings of stock alone increasing from $1 billion to $12 billion between 1953 and 1959 (Bernstein 1992:109-10).

Following the restoration of convertibility by the major western European states and the associated removal of capital controls on current accounts, the 'deposit-compelling power' of New York began to be felt as short-term European capital in particular became centralised in New York in search of profitable returns (Cooper 1968:132-4).[11] The holding of working balances in New York by west European central banks, financial market institutions and corporations meant that short-term capital outflows from Europe to the US far exceeded counter short-term flows during this period. Such deposit-compelling power had formed a significant aspect of the material basis of London's position as the WFC during the British world financial order.

This brief period of more direct significance for New York as the key social space for world credit practices was eroded from 1963 by the imposition by the US state of a series of capital controls which restricted New York-centred world credit practices. In short, the indirect significance of New York as a key social space for much of the American world financial order was largely an outcome of structures of power and authority that, for the most part, restricted its role. As Mendelsohn (1980:208) notes of the period from the 1930s through to the 1970s, "New York dominated the international capital market whenever it was allowed to and whenever there was an international capital market to be dominated". An explanation of the position of New York in the making and reproduction of the American world financial order, then, requires greater attention to the diachronic dimension of that order. The changed form of world credit practices in the American world financial order and the more indirect significance that this implied for New York as the key social space needs to be related to the diachronic realm of social power relations which shape historical structural change.

[11] The notion of the 'deposit-compelling power' of a WFC is taken from Brown (1940:154).

Part II - The Making and Reproduction of the American World Financial Order

In the aftermath of the collapse of the British world financial order in 1931, the prospects for a New York-based, liberal American world financial order that mirrored the previous British world financial order were bleak. Within US state-society, the response to the Wall Street Crash and the Depression that followed was a series of legislative moves that increased state-based regulatory authority over credit creation and formed a major plank of the 'New Deal'.[12] As Buck (1992:152) asserts, "These were stormy times in the relationship between the financial community and Washington, as both sides felt their way in the new era of sharply increased Federal regulation of markets". Across Europe a similar societal and legislative backlash against 'open' and 'liberal' approaches to finance formed part of a reversal of macroeconomic policy priorities. The maintenance of an international balance as an important priority under the influence of liberal economic orthodoxy now took second place to the creation and maintenance of high levels of domestic employment under Keynesian policies. The use of capital controls alongside trade protectionism in support of the new priorities of what Cox (1987) has termed the "welfare-nationalist" form of state became, for the first time, a permanent feature of the peacetime structures of the world financial orders (Helleiner 1993:22-3). That the organisation of banking and finance within the confines of 'closed' national political economies could not be reconciled with the creation of credit at a world-scale was reflected in the failure of inter-state agreements, such as the 1933 London Monetary and Economic Conference, to address the shortfalls in world-wide credit creation.

The failure to establish a relatively stable American world financial order continued into the immediate post-war years. This view contrasts with those who cast the American world financial order as part of the liberal international economic order or 'Bretton Woods system' established at the Bretton Woods Conference of 1944 (Krasner 1976). It is supported by writers

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[12] The Banking Act of 1933 (commonly known as the Glass-Steagall Act) divorced deposit taking by commercial banks from investment banking. The Securities Act of 1933 required that all new securities issues were registered and that basic disclosure procedures were followed to increase investor protection and transparency. The Securities and Exchange Act of 1934 tightened regulation at the Federal level by establishing a new regulatory institution - the Securities and Exchange Commission (SEC) - and empowering the Federal Reserve to regulate stock exchange profit margin rates.

such as Helleiner (1993, 1994) who, concerned primarily with the organisation of world credit practices during the post-war world order, highlight the unilateral use of capital controls as one of the defining features of that order. In this sense, then, to cast the American world financial order as part and parcel of a liberal world order established under the auspices of the 'Bretton Woods system' is misleading.

Equally, however, the Bretton Woods agreement did not institutionalise a relatively stable alternative to liberal economic orthodoxy in the American world financial order. Informed by the Wilsonian tradition and Keynesian economics, the US delegation at Bretton Woods led by Harry Dexter White clearly identified the rise of trade protectionism in the 1930s as exacerbating the Great Depression and leading to an escalation of inter-state conflict which culminated in the Second World War (Maier 1987:122-3; Leyshon & Thrift 1997:261).[13] White and the chief British negotiator, John Maynard Keynes, were united in attempting to establish a multilateral framework for trade and payments while at the same time retaining a large degree of national macroeconomic policy-making autonomy.[14] However, Keynes' proposals to include within the agreement the subordination of the freedom of capital to the multilateral framework for trade and payments through co-operative capital controls, and a genuinely multilateral framework for credit creation under the auspices of his 'Clearing Union', were both rejected by the US delegation. Consequently, the Bretton Woods agreement failed to address sufficiently the organisation of world credit practices in the post-war era.

The US national political economy emerged from World War II as the dominant creditor economy to such an extent that the majority of capital goods necessary for European reconstruction could only be imported from the US. After the war the European political economies were in no position to generate large amounts of foreign exchange and, consequently, there was a massive demand for dollar-denominated credit to pay for imports from the USA.[15]

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[13] The Wilsonian commitment to free trade had previously been confirmed amongst the allies by the Atlantic Charter (1941) that had established trade liberalisation as amongst their war aims (Frieden 1987:61-2).

[14] For excellent overviews of the negotiations at Bretton Woods and the commitments embodied in the agreement, see Ruggie (1982) and Helleiner (1993).

[15] Between 1946 and 1949, foreign countries purchased $72 billion worth of US goods and services (not including military goods shipped under aid programs), while the value of US

However, under the Bretton Woods agreement, little had been done to address this 'dollar shortage' (Walter 1993:160; Germain 1997:70). Credit was to be provided by bilateral loans between creditor and debtor states, inter-state institutions with insufficient resources, and through the usual channels of the institutional networks of the principal financial market institutions. Given that market institutional networks had been shattered by war and that world credit practices remained severely restricted by wartime capital controls and their likely continuation, the Bretton Woods agreement fell far short of providing the requirements for a relatively stable American world financial order (Brett 1983:38). It was only with a significant departure from the Bretton Woods arrangements by US policy-makers that the foundations for a relatively stable American world financial order were finally laid. This took the form of Marshall Plan aid, granted amidst a perceived deepening of the crisis of west European reconstruction and a solidifying of Cold War tensions

In the course of 1947, with the granting of Marshall Plan aid by the US state to the governments of western Europe, the foundations which were to become the defining characteristics of the American financial order were finally laid.[16] Over the next twenty-five years the American world financial order assumed a structural form which was "a complete reversal of matters in comparison with the post First World War period" (Burk 1992:365) and, as such, marked the fall from ascendancy of classical liberal economic orthodoxy in guiding understandings of the organisation of world finance. State-based forms of authority in the organisation of credit practices ensured that a key feature of the American world financial order was its "quasi-public form" (Germain 1997:71). Under the American world financial order, civil and market forms of authority were largely subordinated to state-based authority, especially that of the United States. The main mechanism for the subordination of civil and market forms of authority to the state-based authority was the unilateral

imports of foreign goods and services over the same period was less than half this amount (Nadler, Heller & Shipman 1955/1994:194).

[16] The view that the foundations of the American world financial order did not become established until 1947 is both informed and supported by Cerny (1993:12-13). He has identified three sets of beliefs as coming to dominate in US policy circles from the 1930s. First, the Wilsonian belief in free trade as contributing towards world-wide economic growth and peace. Second, the need to institutionalise these beliefs officially at an international level. Third, an awareness of the need to use the authority and resources of the United States to underpin and guarantee these institutions. The final belief did not take root in concrete form until the extension of Marshall aid.

adoption of capital controls, both by the majority of the major states throughout the American world financial order and by the United States after 1963.[17]

Informal Authority

In previous world financial orders, the material, social and political power of the social forces of the predominant WFC had manifested itself in their 'informal authority' - that is, their capacity to propagate the predominant world view which guides understandings of the manner in which world credit practices come to be organised, leading to the centralisation of the ideational structures of successive world financial orders in the principal WFC. However, under the American world financial order, the "embedded liberalism" (Ruggie 1982) that characterised the order contrasted with the liberal orthodoxy of New York's social forces.[18] As Hawley (1987:7) notes, capital was not accorded the same status as, and became subordinated to, movements of goods and services through the use of unilateral capital controls. As such, the American world financial order was characterised not by the liberal principles that were applied in trade.

Embedded liberalism became established in the American financial order only after 1947, as New York's social forces continued to hold informal authority in the immediate post-war years. While a broad-based consensus had existed in US policy-making circles with the regard to the significance of multilateral exchange and currency convertibility, this did not extend to the organisation of world finance (Maier 1987:124-34, 136-8; Frieden 1987:64). New York's social forces sought orthodox liberal solutions to post-war reconstruction which, given the strength of the US national political economy, would place New York-centred market institutional networks firmly at the heart of world-wide credit creation. The views and objectives of New York's social

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[17] Even after the fixed exchange rate monetary system became operative following the restoration of currency convertibility by western governments from 1958, unilateral capital controls tended to remain in place on capital accounts. These prevented the purchase of foreign securities and the making of foreign loans. The only exception was West Germany that restored convertibility on both current and capital account. Having restored currency convertibility in 1964, Japan retained even more restrictive controls as all current and capital account transactions were carried out through state institutions or authorised foreign exchange banks (Helleiner 1994:71-5).

[18] What Ruggie (1982:393) describes as the "essence" of "embedded liberalism" was that "unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism".

forces contrasted with the 'New Dealers' of the US State Department and Treasury (Cox 1987:213-4; Henwood 1997:93; Maier 1987). Despite the increased regulation of their activities in the mid-1930s, New York's social forces had retained sufficient social power and political power institutionalised through the Federal Reserve Bank of New York to ensure that "the social and economic reforms of the New Deal had lacked ideological consistency and programatic coherence" (Ruggie 1982:394). The pattern of ideological inconsistency and programmatic incoherence of the US New Deal became largely mirrored in the Bretton Woods arrangements for credit creation at a world-scale. Through an important amendment to the original Bretton Woods proposals of White and Keynes and in conjunction with their counterparts in western Europe, New York's social forces succeeded in preventing US policy-makers from adopting unilateral capital controls at Bretton Woods. As a consequence, rights to permanent capital controls and US involvement in a more co-operative form of capital control program were also precluded (Helleiner 1993:30-37; Gill 1991:284; Leyshon & Thrift 1997:283). The 'embedded liberal' world financial order initially promised at Bretton Woods proved a false dawn.

The continued position of precedence enjoyed by the orthodox liberal approach of New York's social forces to the organisation of world finance in the immediate post-war years, and its deficiency in the face of the scale of economic dislocation emanating from the war, can be clearly seen in the failure of the British Loan of 1945-6. Huge sterling balances held in London by foreign governments and colonial firms had been frozen at the outset of the war. Given the wartime debts incurred by the British state and the inability of the crippled British political economy to generate sufficient foreign exchange to fulfil her obligations, unfreezing these balances in peacetime was highly problematic (Born 1977:299-300; Walter 1993:158). The British state agreed an emergency loan of $5 billion in December 1945, three-quarters of which was to be provided by the US and the remainder by Canada, alongside an agreement to cancel British war debts. In return, Britain accepted the condition that sterling convertibility would be restored by July 1947. Such a condition had been a central plank of the 'Key Currency Plan' that the Federal Reserve Bank of New York had put forward, with the full support of New York's social forces, as an alternative to the Bretton Woods framework. Underlying the Key Currency Plan was the assumption that rapid re-establishment of sterling convertibility would allow London to re-emerge as a centre for the creation of the credit necessary for

European reconstruction (Frieden 1987:65). The restoration of sterling convertibility in July 1947 proved disastrous. Capital flight prompted efforts to prop up the value pound which, combined with purchases of imports, ensured that the loan was all but frittered away and that Britain was forced to impose exchange controls and import restrictions (Born 1977:300-1). The British loan served to illustrate the essential inadequacy of the Bretton Woods arrangements and the orthodoxy of New York's social forces for the provision of credit in the post-war context.

The emergence of the American world financial order as "a new phase in international finance" (Nadler, Heller & Shipman 1955/1994) rested on the sidelining of the orthodoxy of New York's social forces within US state-society. In addition to the fiasco of the British loan, several other factors brought about the disintegration-reintegration of social forces within US state-society that underpinned the change in US financial policy towards the embedded liberalism of the Marshall Plan. The consequence of the war for the national political economies of Western Europe was an economic and political crisis of reconstruction that deepened in 1947. Constrained by welfare-nationalist forms of state-society relations, west European governments seemed to have little choice but to sacrifice their tentative commitment to the emerging multilateral framework of trade and payments in favour of 'closed' solutions to reconstruction (Brett 1983:162; Germain 1997:70-1). In US state-society, perceptions that the Bretton Woods arrangements were in jeopardy combined with fears of a threat to US interests by the Soviet Union, as the contours of the Cold War began to solidify under the Truman Doctrine, to produce a shift in state-society relations (Leyshon & Thrift 1997:284; Frieden 1987:67-70; Maier 1987:139). An unlikely internationalist coalition of US social forces emerged uniting industrialists, labour, New Dealers, liberal internationalists and forces of the right concerned with the perceived Soviet threat. New York's social forces were unable to prevent the displacement of liberal economic orthodoxy over US foreign economic policy in the face of such a coalition.[19] The granting and organisation of Marshall Plan aid to Western Europe finally marked the application of the principles of embedded liberalism to the American world financial order.

[19] In addition to the impact upon the organisation of the American world financial order, the manner in which the crisis of post-war economic reconstruction and the Cold War resonated with changes in US foreign economic policy effected other areas. For instance, by 1948 the anti-monopoly thrust of much post-1945 US policy had been dropped (Maier 1987:132-4).

Wider World Order

Embedded liberalism legitimated the exercise of formal authority through US state institutions in Washington. The position of these institutions at the forefront of the reproduction of relative stability in the American world financial order also rested upon and reflected the insertion of US state-society into the wider world order. The wider world order itself was characterised by the bi-polarity of the Cold War, with the western sphere distinguished by the *Pax Americana.* As a consequence, US policy-makers sought to maintain an 'open', liberal world order in the western sphere where US business could dominate and prosper, while simultaneously protecting that sphere from Soviet domination. The *Pax Americana* itself was distinguished not just by a simple predominance of US material resources (Keohane 1984:37), but by an internationalisation of US state-society relations across the western sphere (Cox 1987:211-268; Rupert 1995:57). The processes of internationalisation were mediated by existing welfare-nationalist forms of state in the western sphere which were established in the course of the 'great transformation' of the 1930s and '40s (Polanyi 1944; Maier 1987). As Ruggie (1982:388) has noted,

"The extension of the suffrage and the emergence of working-class political constituencies, parties, and even governments was responsible in part; but demands for social protection were very nearly universal, coming from all sides of the political spectrum and from all ranks of the social hierarchy (with the possible exception of orthodox financial circles). ... the post-war international economic order would have to reflect this change in state-society relations if the calamities of the interwar period were not to recur".

The Cold War and *Pax Americana* structures of the wider world order had, then, a considerable impact on the organisation of the American financial order (Walter 1993; Germain 1997:71-2). US state-directed flows of sovereign credit, whether in the form of aid or military expenditure, tended to have conditions attached that sought to reinforce the liberal multilateral framework for trade and payments and the *Pax Americana* more broadly. For instance, attached to Marshall Plan aid to Western Europe was conditional membership of the Organisation for European Economic Co-operation (OEEC) which worked towards the liberalisation of intra-European trade (Cooper 1968:39; Cox 1987:214-5; Rupert 1995:58). Further, the structures of the wider world order also framed the distribution of long-term US corporate capital outflows.

Outflows of US MNC FDI into Latin America, Africa and the former colonial areas of Asia such as South Korea and Taiwan were backed by informal guarantees of US military might and direct interventionism (Augelli & Murphy 1993; Gills 1994).

Formal Authority

The principles of embedded liberalism contributed to and helped to legitimise the partial displacement of the more 'formal authority' of New York's social forces. Embedded liberalism underpinned a largely-state based structure of authority in the reproduction of the American world financial order, leaving the civil and market institutions centralised in New York to play a subordinate and yet supportive role. Particularly in the first decades of the American world financial order, the US Treasury, State Department and Economic Co-operation Administration stood at the apex of the order, effectively managing and manipulating world credit practices (Cox 1987:300; Helleiner 1994). While often created through the civil and market institutions of New York, the effective allocation of long-term sovereign credit was subject to the authority of US state institutions. US state influence over the IMF also ensured that its formal authority extended into the provision of offsetting finance (Frieden 1987:65). In contrast to the firm centralisation of authority in London under the British world financial order, then, a 'Washington-New York axis' in which the former predominated characterised the structure of authority under the American world financial order.[20]

In sum, alongside the eventual adoption of the Bretton Woods framework by the major western states, the relative stability of the American world financial order was reproduced through the largely state-based structure of authority of the Washington-New York axis which organised long-term US capital outflows, all resting on US state-society and its insertion into the structures of the wider world order. The material (capital, knowledge and technology), ideational (embedded liberalism) and institutional (US state, US MNCs, inter-state and New York-centred civil and market) forces of the American world financial order were broadly centralised in the US state and

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[20] The notion of a 'Washington-New York axis' is an attempt to capture the interdependent nature of state, civil and market authority under the American world financial order while recognising that US state authority centralised in Washington predominated. The roots of the notion are in a reversal of Shefter (1993:11) who talks of a post-war "New York-Washington Axis", as "... New York and Washington were complementary, not competing, centers of power during the New Deal and the post-war decades" (Shefter 1993:15).

economy. The coherent conjunction generated by the centralisation of these forces in the US state and economy was reproduced by the 'Washington-New York axis'. Drawing on the material resources of the US economy and informed and legitimated by an embedded liberal world view, US state and societal forces reproduced the American world financial order through a largely state-based structure of authority. US state, corporate and inter-state institutions exercised formal authority in manipulating the organisation of the long-term capital outflows from the US national political economy which marked the American world financial order. Within this structure of authority, the authority of New York's social forces played a subordinate and yet supportive role.

Part III - The Unravelling of the American World Financial Order: The Rebirth of London

The roots of the unravelling of the American world financial order lay in two main interrelated contradictions that struck right at the heart of the manner in which the order was reproduced. First, as Robert Triffin highlighted, the reliance of the American world financial order on long-term US capital outflows could not be maintained alongside continued confidence in the value of the dollar. Outflows manifested themselves in continual long-term balance of payments deficits that could only be maintained by foreign holdings of dollar-denominated assets. Second, the largely state-based structure of authority of the Washington-New York axis failed to articulate sufficiently a role for the authority of New York's social forces. The authority of New York's social forces was only supportive of the reproduction of the American world financial order while credit creation remained centralised in New York. Once the perceived self-interests of New York's social forces were undermined by the imposition of US capital controls in 1963, state, civil and market forms of authority no longer displayed the interdependent coherence necessary for the stable reproduction of the American world financial order.

These two contradictions were exacerbated and their destabilising consequences intensified by US state policies that actually contributed to the unravelling of the American world financial order. Taken together, the main contradictions of the American world financial order combined with the adoption of unilateral capital controls and support for the emergent Euromarkets by the US state to present London's social forces with a structural opportunity to re-establish London as a key social space for credit creation. The decentralisation of the American world financial order between Washington and New York on the one hand and the London-centred Euromarkets on the other heralded the gradual unravelling of the order during the 1960s. It was not until 1973-4 amidst increased relative instability in the wider world order, the collapse of the Bretton Woods system of fixed exchange rates, and the liberalisation of US financial policies, however, that the final remnants of the American world financial order were blown away.

The first contradiction which marked the American world financial order lay in the reliance of the order on the large volumes of long-term capital outflows from the USA and, therefore, on the ability of the US to run a continual long-term balance of payments deficit. Given the predominance of the US political economy in the world economy and the widespread adoption of unilateral capital controls which restricted other potential sources of international liquidity, the relative stability of the American world financial order was marked by US exports of long-term capital that provided economies with the means to purchase the products of US producers. Long-term US capital outflows manifested themselves in continual long-term balance of payments deficits. These were effectively financed by the willingness of foreign central banks to hold dollars as reserves and of individuals and firms to transact their business in dollars (Hawley 1987; Cooper 1968:42-3). As Hawley (1987:8 *original emphasis*) notes, "These *de facto* loans by foreign governments, individuals, and firms transformed the United States into a *de facto* central bank able to create global liquidity, promote trade expansion, and simultaneously run a long-term payments deficit". In short, as the effective demand for dollar-denominated credit increased in a world economy experiencing unprecedented levels of growth, so to did the US deficit.

While confidence in the convertibility of the dollar into gold remained, so to did the willingness of foreigners to hold dollar-denominated assets. However, from the early 1960s confidence in the value of the dollar began to slowly evaporate, reflected in a series of speculative attacks, and with it the willingness of foreigners to hold dollars. As Ingham (1994:44) posits, in contrast to the London-centred British world financial order, under the American world financial order "Liquidity and confidence were inversely related ...". The creation of this dangerous 'dollar overhang' by US capital outflows was recognised in the early 1960s by Robert Triffin in his reports to the US Congress (Ingham 1994:44). While rebuilding confidence in the US dollar and ultimately in the system of fixed exchange rates required a reduction in the long-term US deficit, this would effectively undermine the US long-term capital outflows organised through the relative stable American world financial order.

The gradual realisation of this contradiction in the American world financial order resulted itself from a combination of the dynamics of "the inconstant geography of capitalism" (Storper & Walker 1989) with the nature of US state-society relations and their insertion into the wider world order. The continuation of the long-term US capital outflows rested upon the continued dominance of the US political economy within the world economy (Brett 1983:163; Swyngedouw 1996:141). While the US political economy continued to dwarf the other major industrial economies well into the 1970s (Walter 1993:190), by the 1960s German and Japanese economic growth was outpacing American economic growth. This manifested itself in an increase in levels of US imports that placed further pressures on US balance of payments. For instance, during the 1960s the percentage of imported automobiles in the US increased from 4% to 17% and consumer electronics from 4% to 31% (Rupert 1995:177).

Alternative policy options to capital controls for alleviating the pressures on US balance of payments would not have to undermined the US long-term capital outflows which marked the American world financial order. However, such alternatives were constrained by US state-society relations and their insertion into the structures of the wider world order. Policies aimed at restructuring the US political economy to encourage exports and dampen imports would have entailed large wage cuts. Such restructuring would have constituted a direct challenge to the welfare-nationalist form of state and "the politics of productivity" (Maier 1987) which characterised US state-society relations. Cutbacks in military expenditure against the backdrop of US Cold War aspirations were equally unattractive (Calleo 1982). In the light of these constraints, a capital controls program was undertaken from 1963 that attempted to restrict US capital outflows.

Ingham's (1994) comparison of the British and American world financial orders is suggestive of a second and related contradiction in the American world financial order; that is, that the state-based structure of authority that characterised the reproduction of the American world financial order failed to integrate sufficiently state, civil and market forms of authority in the reproduction of the order. In Ingham's (1994:45) terms, there was "a basic dislocation of state and market in the Bretton Woods system ...". While civil and market authority within the Washington-New York axis remained centralised in New York it remained subordinated to, and broadly supportive of, the largely state-based structure of authority which reproduced the order. However, the unilateral imposition of capital controls in the US from 1963 threatened to subordinate the authority of New York's social forces still further. Restrictions on US capital outflows simultaneously generated a demand for alternative sources of dollar-denominated credit that were not met by state-based structures of authority. Hampered from conducting New York-centred credit creation, New York's bankers began to create credit through the London-centred offshore Euromarkets that circumvented both US and British capital controls. The gradual break up of the Washington-New York axis throughout the 1960s, then, saw the emergence of an alternative offshore space of credit creation centred in London and organised world credit practices through largely civil and market forms of authority. The institutional edifice that reproduced the American world financial order began to unravel as the order became increasingly decentralised between New York and London.

While the roots of the unravelling of the American world financial order lay in these two principal contradictions, their destabilising consequences were intensified by the unilateral adoption of capital controls and support for the Euromarkets by the US state. As already noted, the immediate context for the unilateral adoption of controls on capital account was an attempt to reduce US long-term balance of payments deficits and shore up confidence in the value of the dollar. The relative stability of the American world financial order was effectively sacrificed in favour of US macroeconomic policy-making autonomy and support for the multilateral framework for trade and payments established at Bretton Woods (Hawley 1987:7-8). The imposition of capital controls and the motivations which underpinned the decision reflected the predominance of the US Treasury in the making of foreign economic policy (Mendelsohn 1980:35), which, in turn, rested on US state-society relations that tended to isolate the interests of New York's social forces (Helleiner 1994:86-7; Hawley 1987:21, 64-5). Taken together, the Interest Equalisation Tax (IET), Voluntary Credit Restraint Program (VCRP) and Mandatory Control Program (MCP) which formed the major legislative planks of US capital controls served to generate a gradual decentralisation of credit creation in the American world financial order.[21] As Frieden (1987:82) has asserted, "... American international banking was pushed out of Wall Street by a US government afraid of its domestic consequences".

The outflows of US long-term capital that characterised the American world financial order became increasingly supplemented by dollar-denominated short- and medium-term credit based upon short-term holdings of dollars already residing offshore in the Eurocurrency markets. While partly a consequence of foreign dollar holdings such as those of the Soviet Union and communist China (Frieden 1987:81), the build up of offshore short-term dollar deposits was also a consequence of the profit-making aspirations of US bankers. This led to the identification of the returns available by circumventing the Federal Reserve's Regulation Q that dated from the 1930s. Regulation Q imposed interest rate ceilings on short-term deposits of less than 90 days, whereas dollar deposits in foreign banks were not subject to the same ceilings. While short-term rates were negligible between the 1930s and mid-1950s this difference mattered little. It became significant as interest rates increased and US banks held short-term dollar deposits in foreign accounts to gain greater returns, effectively shifting a large part of the US money-market to the Eurocurrency market. In short, while Regulation Q had stimulated the growth of the Eurocurrency markets, US capital controls built on this and stimulated the issuing of Eurobonds and Eurocredits (Cooper 1968:118-9; Strange 1976:180; Mendelsohn 1980:23-25).

The significance of the emergent Euromarkets lay in the structural transformation that they implied, and the contribution that this made, to the unravelling of the American world financial order. The very offshore nature of the Euromarkets meant that credit practices could circumvent the state-based structure of authority that reproduced the relative stability of the American world financial order. In this sense, it is tempting to cast the Euromarkets as supranational and 'stateless' (Wachtel 1990). The Euromarkets, however, are not stateless. Governments often searching for an alternative source of sovereign credit to finance imbalances did little to control, and much to encourage, the formation of these markets (Ruggie 1982:403; Frieden 1987:116). In particular, alongside British policy makers seeking to establish London as the key social space for Euromarket practices, US policy makers did

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[21] For a detailed review of US capital controls, see Hawley (1987).

little to restrict and actually gave their blessing to Euromarket practices (Strange 1986:47-50; Helleiner 1995:320-1).

Given the contribution of the Euromarkets to the unravelling of the American world financial order, US state support for the Euromarkets would seem somewhat paradoxical. Yet, US support for the Euromarkets reflected the very contradictions of the American world financial order. This is illustrated by the two main motivations of US policy makers in their support for the Euromarkets (Helleiner 1995:321; 1994:84-91). First, the attractive rates of interest available in the Eurocurrency markets encouraged foreigners to hold US dollars which, in turn, allowed US policy makers to maintain greater autonomy, postpone addressing the US long-term deficit and maintain the dollar's position in the fixed exchange rate monetary order.

Second, following the imposition of capital controls from 1963, US policy makers recognised that the Euromarkets were necessary to finance the continued overseas expansion of US MNCs. Facilitating the Euromarket practices of New York-centred financial market institutions also ensured that they retained their dominant position in world finance. For instance, Mendelsohn (1980:33) describes the 1967 decision to exempt the dollar-denominated Eurocredits of US banks from the IET as "the most important single development in the birth and initial growth of international medium-term Eurocredit bank lending". By 1970, for every dollar US banks lent abroad from US soil, they were lending between six or seven in the Euromarkets (Frieden 1987:85). The reliance of US MNCs on Euromarket credit practices more broadly is evidenced by their domination of Eurobond issues. Between 1965 and 1974, US MNCs accounted for one-third of all Eurobond issues valued at $9 billion out of a total of $27 billion (Mendelsohn 1980:136). In a similar manner to the adoption of capital controls, then, US support for the Euromarket exacerbated the existing contradictions that lay at the roots of the unravelling of the American world financial order.

The contradictions of the American world financial order combined with US capital controls and support for the Euromarkets to present London's social forces with a 'structural opportunity' to re-establish London as a WFC.[22] The London-centred Euromarkets and the resulting decentralisation of the American

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[22] The notion of a 'structural opportunity' is taken from Gills (1994).

world financial order were not the inevitable outcome of the contradictions of the order. They also entailed both support for London's standing as a WFC from British state officials and the initiative of London's merchant and overseas bankers in developing Euromarket practices (Zysman 1977:212; Mendelsohn 1980:19-20).[23] The capacity of London to stand as the key social space for Euromarket credit practices and related practices such as foreign exchange dealing rested on the continued promotion of London as a WFC by the 'City-Bank-Treasury' nexus (Ingham 1984) throughout the first decades of the American world financial order.[24] Harold Wilson as President of the Board of Trade had allowed the post-war re-opening of London's commodity markets for international trading in 1951, effectively re-opening London as a financial centre for sterling-denominated commercial credit creation and foreign exchange dealing (Strange 1986:37-8). However, a series of sterling currency crises ensured that maintaining London's position as a principal financial centre through the conventional creation of sterling-denominated credit was problematic. In contrast to the rise of London as a WFC in the late eighteenth and early nineteenth centuries, it was the nature of the response to this problematic that facilitated the standing of London as the centre of the Euromarkets. As Moran (1991:85) posits,

> "When London re-emerged in the 1950s as a great world centre it did so in a very different way. London's new prominence rested neither on the strength of the British economy, nor on the competitive capacities of British firms. It was, instead, largely a regulatory creation: the informal and consensual style practised by the Bank of England made London attractive to the emerging 'Euromarkets', especially to the American institutions trying to escape a complex home regulatory system".

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[23] London's position as the key social space for Euromarket credit practices is reflected in the domination of Euromarket transactions. Born's (1977:307) claim that 75-80% of all Euromarket transaction were conducted in London in the 1960s does, however, seem overstated. While Eurodeutschmark transactions were centralised in Luxembourg and Eurosterling in Paris, London predominated as the key space for Eurodollar transactions. London's domination of the Euromarket, then, reflected the prevalence of Eurodollar business within the Euromarkets. For instance, between 1963 and 1977, 60% of Eurobond issues were denominated in dollars (Mendelsohn 1980:137). Therefore, Germain's (1997:89) suggestion that by 1971 40% of all Euromarket transactions took place in London is probably an accurate representation of London's dominance.

[24] Following from London's dominant standing as the key space for Euromarket practices was its ascendancy as a space for foreign exchange trading practices. This was a consequence of the nature of Euromarket practices - i.e. borrowing on the Euromarkets for the purpose of re-lending to 'onshore' banks and businesses required the 'swapping' of dollar-denominated Eurocredits and Eurobonds for domestic currencies. By the late 1960s, around one-third of all world-wide foreign exchange trading took place in London (Cooper 1968:125-6; Coakley 1992:62).

In particular, London's standing as the key space for the Eurocurrency markets rested upon the decision in 1957 by the Bank of England to permit London's market institutions to organise clearance and commercial credit practices in US dollars. This followed the suspension of both the clearance of sterling transactions and the creation of sterling-denominated commercial credit for third party trade. The suspension of the international clearance of sterling transactions and the creation of commercial credit for third party trade by the Bank of England was motivated by attempts to prepare for currency convertibility in a situation of depleted reserves. The depletion of Bank of England reserves was an outcome of both a run on the pound amidst the fall out from the Suez crisis and a shift to deutschmark-denominated assets amidst rumours of revaluation (Strange 1976:180, 1986:36-7; Cooper 1968:117-8; Mendelsohn 1980:19-20). Similarly, the decision by the Bank of England in 1962 to permit foreign market institutions to organise the issue of foreign securities denominated in foreign currencies stimulated the growth of London-centred Eurobond practices (Burn 1997). As Helleiner (1994:84) notes, "By shifting their business to a dollar basis, the London operators found a way to preserve their international business without being encumbered by British capital controls". London's social forces and British state officials ensured that the structural opportunity offered to them by the contradictions of the American world financial order was seized by producing and reproducing London as an entrepôt financial centre for offshore, dollar-denominated practices.

In our terms, the decentralisation of social practices from New York from the late 1950s and particularly after 1963, and the associated unravelling of the American world financial order that this implies, would appear to suggest that by the mid-1960s an alternative London-centred, offshore world financial order was being established. Clearly the Euromarkets were an alternative, offshore social space. Euromarket credit creating practices were organised through a largely civil- and market-based structure of authority around liberal, as opposed to embedded liberal, norms and values. The major market institutions that now predominated in the organisation of world credit practices were indeed centralised in London. However, insufficient capital as a material resource was centralised in London in the mid-1960s for such an alternative world financial order to become established. The capital centralised in London that formed part of the material basis of Euromarket practices was largely short-term in nature, residing in the Eurocurrency markets. This restricted the volume of long-term credit creation in the Euromarkets throughout the 1960s and into the early 1970s.[25] For instance, in 1970, 86% of all UK bank assets in the Euromarkets matured in less than one year, while 93% of liabilities were guaranteed for less than one year (Germain 1997:89-90).

The short-term nature of capital deposits in the Euromarkets was reflected in the very nature of the credit created and the manner in which credit practices were organised. Up to the early 1970s, as much as half of the credit creating transactions were money-market practices to facilitate inter-bank transactions for the profitable use of short-term funds (Germain 1997:89-90; Frieden 1987:79; 93-4; Born 1977:306). Medium- and, to a lesser extent, long-term corporate credit creation was organised through a series of innovations including syndicated loans, floating rates of interest and 'roll over' loans all aimed at minimising the risks of borrowing short and lending long in a more volatile environment.[26] As such, given their short-term nature, up to the early 1970s the London-centred Euromarkets did not constitute an alternative to the American world financial order. Rather, the Euromarkets remained subsumed within the American world financial order, the movements of short-term funds that characterised them contributing to the partial decentralisation of the order between London and New York.

In the course of the 1960s, then, despite the relative instability of the American world financial order associated with its partial decentralisation and the rise of the London-centred Euromarkets, the order retained its broad structural contours. As Helleiner (1994:82) has noted of the 1960s, "The decade was one of transition", marked as much by continuity as change. Despite the imposition of capital controls from 1963, the US political economy remained a net provider of long-term capital. This has led Germain (1997:88-9) to assert that New York maintained its position throughout the 1960s as the key social space for the recycling of capital. Given the dollar-denomination of credit

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[25] The short-term nature of capital deposits in the Euromarkets has led Born (1977:306) and Strange (1976:176-9) to include the short-term nature of the Euromarkets within their respective definitions.

[26] Syndicated lending marked an increase in co-operation between financial market institutions in credit creation. Individual institutions came together to form a syndicate or consortia, effectively pooling the capital required for credit creation (Born 1977:308). Mendelsohn (1980:65-6) describes the use of floating rates of interest linked to the prevailing rate for short-term deposits as "the single most important feature of the Eurocredits market ... the foundation of its existence". 'Roll over' loans were effectively the renewal of a loan every six months, with the terms of repayment re-negotiated accordingly through floating rates of interest.

created through Euromarket practices, New York remained the key social space for clearing practices (Frieden 1987:102-3). The relatively high rates of interest in the Euromarkets compared with rates for new long-term bond issues in New York also reinforced New York's position (Cooper 1968:132). It was only in the course of 1968 that new issues of Eurobonds marginally exceeded new foreign issues in New York (Mendelsohn 1980:211).

In addition, embedded liberal frameworks of thought continued to inform policy makers in the major states. As such, the largely state-based structure of authority remained, albeit despite the wavering commitment of US and British state officials. Unilateral controls on capital accounts were held in place in an attempt to preserve policy-making autonomy and exchange rate stability in the face of the increased volatility of short-term capital flows carried through the institutional channels of the Euromarkets (Helleiner 1994:91-5). This was accompanied by increased recourse to sovereign credit for offsetting finance, provided through the expanded borrowing of the IMF and BIS. This served to circumvent the need to impose exchange controls to maintain macroeconomic policy-making autonomy in the face of disequilibrating short-term capital flows (Helleiner 1994:96-9).

The gradual unravelling of the American world financial order culminated in its final collapse in 1973-4 amidst the disintegration of the Bretton Woods monetary order, increased relative instability in the wider world order, and the liberalisation of US financial policy.[27] As Strange (1986:5-6) has noted in her examination of the relationship of world financial and monetary orders to the crisis of the wider world order in the early 1970s, 1973 was a benchmark year that "seemed to mark a sort of change of gear, as the system moved from a more stable period into a much more unstable one". The post-1973 collapse of the American world financial order was closely related to the disintegration of the Bretton Woods monetary order. In August 1971 the so-

[27] Following Cox (1987:270-9) and Rupert (1995:175-6), the world economic crisis of 1973-4 notable in terms of the oil crisis and the combination of inflation and stagnation ('stagflation'), is viewed in diachronic terms as representative of an increase in the relative instability of the wider world order. This suggests that increased inflation and indebtedness were the principal indicators of an intensification of social and political conflict associated with the contradictions of welfare-nationalist state-society relations. Inflationary pressures were internationalised through the US balance of payments deficit, increased raw material prices (including oil), and the institutional channels of the Euromarkets. For a theoretical approach to inflation that explains the need to view inflation in social and political terms in the first instance, see Maier (1987:187-224).

called 'Nixon shock' saw the US government suspend the convertibility of the dollar into gold. Attempts to maintain the fixed exchange rate system through the Smithsonian agreement, which negotiated the realignment of the US dollar to the Japanese yen and German deutschmark, finally collapsed in 1973 with the adoption of floating exchange rates. Against a background of relatively high domestic inflation and unemployment, a combination of heightened speculation against the dollar carried through the Euromarkets, the inability of the US state institutions to manage US balance of payments, and the perception that a worsening of the latter and a weakening of US international manufacturing competitiveness was a result of an overvalued dollar all served as motivations behind the Nixon shock (Germain 1997:97; Maier 1987:151; Brett 1983:164).

While 1971 may have been a watershed year marking the end of the post-war monetary order established at Bretton Woods (Cerny 1993:13; Born 1977:305; Brett 1983:1), the Nixon shock did not in itself destroy the foundations of the American world financial order broadly considered. In our terms, its significance lies in the increase in civil and market authority over the organisation of world credit practices that it both reflected and contributed to in the American world financial order (Germain 1997:98-9; Walter 1993:209-10).[28] The Nixon shock stood alongside other key monetary policy 'non-decisions' by US state institutions both not to support the Smithsonian agreement by engaging in central bank co-operation, and to advocate floating exchange rates in generating increased civil and market authority over the organisation of world credit practices (Strange 1986:38-41).[29] As Frieden (1987:88) asserts, the move to floating exchange rates "reinforced the position of financial markets in the world economy ...". In short, the collapse of the Bretton Woods monetary order precipitated by US policy makers was a necessary precondition for the final collapse of the American world financial order.

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[28] Between 1969 and 1975, global liquidity measured in dollars trebled from $78 billion to $225 billion, "the overwhelming source of this explosion was in foreign exchange, primarily in the Eurocurrency system" (Hawley 1987:19).

[29] For Strange (1986) 'Non-decisions' are those made by states that increase non-state and, in particular, market forms of authority. For Strange (1986:7), the immediate motivation for these non-decisions in monetary policy represented a belief "that the markets could be used as allies, helping the United States to engineer a devaluation of the dollar which other countries could neither resist nor match". Under floating exchange rates, the burden of international adjustment was effectively turned on its head, with countries in current and capital account surplus with the US now expected to face adjustment pressures rather than the deficit prone US political economy.

The largely state-based structure of authority which had been significant in the reproduction of the relative stability of the American world financial order was paralysed by the crisis of the wider world order, and it was left to the largely civil and market authority of the London-centred Euromarkets to organise the creation of the credit necessitated by the crisis (Strange 1986:71).[30] The four-fold increase in the price of oil from late 1973 generated both a demand for credit to maintain consumption amongst oil importers, and a supply of capital accumulated by oil exporters. Much of the capital accumulated by oil exporters became centralised in the Euromarkets and formed the material basis for sovereign and corporate credit creation in the wake of the crisis - so-called 'petrodollar re-cycling'. In 1974 alone, $30 billion worth of deposits in the Euromarkets from the Organisation of Petroleum Exporting Countries (OPEC) provided the material basis for $60 billion worth of credit creation (Frieden 1987:88).[31] This built dramatically on a surge of credit creation already underway in the Euromarkets in 1972-3, fuelling and responding to the world economic boom of that year (Mendelsohn 1980:41). In terms of sovereign credit practices, the Euromarkets displaced the authority of the IMF in financing balance of payments deficits after 1974 (Germain 1997:92-3). In particular, the governments of underdeveloped state-societies expanded their borrowing dramatically which was to culminate in the so-called 'debt crisis' of the early 1980s.[32] In terms of corporate credit practices, the London-centred Euromarkets provided much of the credit for MNC restructuring. For instance, new issues of Eurobonds increased dramatically from $2.1 billion in 1974 to $8.6 billion in 1975, $14.3 billion in 1976 and $17.6 billion in 1977 (Mendelsohn 1980:211).

What is particularly significant about the unravelling of the American world financial order is that although it was associated, in the first instance, with a partial decentralisation between New York and the London-centred

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[30] Strange (1986:43-5) links the paralysis of the state-based structure of authority in the American world financial order and the resulting high profile position of the non-state authority of the Euromarkets to two key related 'non-decisions' by US state officials. First, in the immediate aftermath of the oil price hikes, the US government chose not to directly negotiate with OPEC leaders. Second, the US failed to act on British and French government proposals to expand the capital resources of the IMF and World Bank to cope with the problems experienced by the non-oil producing countries

[31] Overall, Frieden (1987:88) has calculated that between one-half and one-third of a total of $150 billion of OPEC surpluses between 1974 and 1980 were absorbed by the Euromarkets.

[32] In the course of the 1970s the governments of underdeveloped state-societies borrowed $200 billion from offshore markets (Frieden 1987:88).

Euromarkets, pivotal in shaping the very nature of the unravelling of the order were the policies of the US state in the context of the crisis of the wider world order. As Walter (1993:240-4) suggests, in contrast with the unravelling of previous world financial orders, the unravelling of the American world financial order tended not to be driven by the rise of other state and societal forces. US 'structural power' (Strange 1988) in world finance ensured that the changed policies of the US state would be of prime importance in contributing to both the unravelling of the American world financial order and the making of the contemporary world financial order. Underlying the changed policies of the US state was a reconfiguration of US state-society relations which manifested itself in policies which sought to broadly liberalise the American world financial order. The integration of US societal forces which had underpinned the embedded liberalism of American financial policies since the 1930s began to disintegrate from the mid-1960s as financial and corporate interests coalesced around support for the Euromarkets (Helleiner 1994:100). The alternative reintegration of US societal forces around a liberal approach to the organisation of world finance that this implied was reinforced by the views of US state officials. US Treasury officials in particular held that a liberal financial and monetary order would preserve US macroeconomic policy-making autonomy in the face of growing trade and budget deficits (Helleiner 1994:112-5; Strange 1986:7). In addition, liberal approaches gained credence amidst the rupture of the wider world order that revealed itself in the world-wide economic crisis of 1973-4.

The liberal thrust of US financial policies took three main interrelated forms. First, US state officials took the lead in maintaining the organisation of the existing Euromarkets when they were threatened with potential collapse in 1974 by the foreign exchange losses of two medium-sized Euromarket institutions, Bankhaus I.D Herstatt and the Franklin National Bank (Frieden 1987:117-9). Second, US state officials effectively vetoed several sets of proposals made by their west European and Japanese counterparts which would have strengthened the state-based structure of authority which had characterised the American world financial order. This included opposition to more co-operative forms of capital controls (Helleiner 1994:102-111), reigning in the Euromarkets (Helleiner 1994:104-6), and proposals which would have placed the IMF at the heart of a 'quasi-public' recycling of petrodollars (Helleiner 1994:111-2). Third, US state officials liberalised the unilateral capital controls that had been place since 1963 and set about the deregulation of American finance to encourage its international competitiveness. The dismantling of capital controls had been planned for the end of 1974, but in the wake of the oil crisis in the latter months of 1973 it was brought forward to January 1974 "so that the US banking system could play its part in the recycling of oil exporting countries newly enlarged surplus earnings" (Mendelsohn 1980:209). May Day 1975 saw the deregulation of the New York Stock Exchange and the beginning of a deregulation of American finance which continued throughout the 1970s and 1980s (Moran 1991; Vogel 1996). Taken together, then, the liberalisation of US financial policy shaped the nature of the intense restructuring which accompanied the final collapse of the American world financial order.

Conclusions

This chapter has argued that although New York was the principal WFC from the 1930s, the making of a relatively stable American world financial order did not begin in earnest until 1947. The structural transformation that characterised the American world financial order from 1947 was associated with a change in the predominant form of those credit practices which generated the long-term US capital outflows to the western world and which were a defining feature of the order. As a consequence, in contrast to the standing of WFCs in previous world financial orders, New York was of more 'indirect' significance as a key social space for credit practices. In diachronic terms, the centralisation of material, ideational and institutional forces in the US state and economy realised a coherent conjunction that was reproduced through the largely state-based structure of authority of the Washington-New York axis. This rested on US state-society relations and their insertion into the Cold War and *Pax Americana* structures of the wider world order. Within the Washington-New York axis, the authority of New York's social forces played a subordinate and yet supportive role.

Two contradictions within the American world financial order were posited to be at the roots of the unravelling of the order: the inability to maintain both long-term US capital outflows and the value of the dollar, and the failure to articulate sufficiently a role for the authority of New York's social forces in the reproduction of the order. The adoption of unilateral capital controls after 1963 combined with support for the emergent Euromarkets by the US state to intensify the destabilising consequences of these contradictions, offering London's social forces a structural opportunity to re-establish London as a key social space for Euromarket practices. The partial decentralisation of the American world financial order between New York and London throughout the 1960s contributed to a gradual unravelling of the order, as the largely state-based structure of authority of the Washington-New York axis was undermined. The final collapse of the American world financial order came with the disintegration of the Bretton Woods system of fixed exchange rates, the liberalisation of US financial policy and the relative instability of the wider world order which, taken together, confirmed the rise of London-centred civil- and market-based forms of authority over the organisation of world finance.

From this and the preceding two chapters, then, four related historical insights have been generated that will inform future research into the contemporary world financial order which has been in the making since 1973-4 are thus generated. First, in contrast to the American world financial order in which world credit practices effectively took the predominant form of inter-governmental and corporate capital exports, the contemporary world financial order has been marked by a transformation in the predominant forms of credit. While world credit practices have once again come to take the form of banking and capital market practices as during the Amsterdam-centred and British world financial orders, the exact form of practices has several distinctive features. Second, the corresponding unravelling and making of previous world financial orders have tended to be characterised by the decline of one WFC and the rise of another as the key social space for world credit practices - i.e. shifts from Amsterdam to London to New York. In the American world financial order, however, the rebirth of London as the key social space for the Euromarkets did not mark the permanent decline of New York. Both London and New York have stood as WFCs in the contemporary world financial order, joined in the 1980s by Tokyo as a third WFC. In our terms, a first order question must be to seek to explain the appearance of a 'triad' of WFCs at the apex of the contemporary world financial order as key social spaces for newly predominant forms of credit practices. This is the task of the chapter six, the opening chapter of Part III.

Third, the hierarchical organisation of world credit practices in which a single WFC stands as the key social space has been shown to be shaped by the material, social and political power of the social forces associated with the dominant WFC, resting on the structures of the wider world order. Consequently, transformations in the organisation of world credit practices which coincided with the unravelling of both the Amsterdam-centred and British world financial orders - in which a new WFC rose to the apex of the hierarchy of financial centres - have been shown to have been driven by the rise of other state and societal forces. However, pivotal to the unravelling of the American world financial order and the associated re-organisation of world credit practices has been the continued power of New York's social forces and the US state. Inquiry into the structure of power in the contemporary world financial order is, then, essential to an understanding of the making of the contemporary world financial order in which the organisation of world credit practices has been transformed.

Fourth, and most significantly, the reproduction of periods of relative stability in world financial orders in which market, civil and state forms of authority come together in the organisation world credit practices have been shown to be centralised in a single WFC as a key space of authority. As the unravelling of the American world financial order once again illustrates, state, civil and market forms of authority would appear to be interdependent and mutually reinforcing in the reproduction of relative stability in a world financial order. Given the 'triad' of WFCs at the apex of the contemporary world financial order, contemporary world finance seems to contain an inherent contradiction that renders it relatively unstable. How does the decentralised structure of authority in the contemporary world financial order relate to the relative instability of the order, and what new forms of authority have been established in an attempt to organise world credit practices? An explanation of the structures of power and authority in the making and reproduction of the contemporary world financial order is, then, the task of chapter seven, the concluding chapter of Part III.

PART III
Contemporary World Finance

CHAPTER SIX

The 'Triad': New York, London, Tokyo and Contemporary World Credit Practices

Introduction

This and the following chapter utilise the insights generated through an Historical IPE reading of previous world financial orders to apprehend contemporary world finance. Consequently, an 'historical' alternative is offered to the predominant mode of knowledge derived from neo-classical economics. We begin here by addressing the relationships between the changing forms of credit practices and the emergence of New York, London, and Tokyo as the 'triad' of world financial centres in the contemporary world financial order. As a starting point for apprehending contemporary world finance, this follows clearly from an Historical IPE approach. An Historical IPE began by identifying the ontological significance of the historicity of human thought and action, developing a focus for inquiry which, in the first instance, is concerned with structured social practices. In terms of inquiry into world finance, this led to a conceptualisation of world finance as constituted over the *longue durée* by five sets of world credit practices - commercial, sovereign, corporate, clearing and money-market practices. A synchronic understanding of changes in world credit practices across the Amsterdam-centred, British and American world financial orders has subsequently been offered by utilising the notion of the forms of credit. This has facilitated the capturing of conjunctural variations in both the nature of credit instruments employed and the manner in which credit practices become institutionalised. Further, given the inherent spatiality of structured social practices, such an understanding of world finance has necessarily entailed concern with world financial centres. Amsterdam, London and New York have been shown to have been the key social spaces for world credit practices in successive world financial orders. The resulting explanation of world credit practices in their own, synchronic terms has proved a necessary prelude to a diachronic understanding of the organisation of world credit practices. This has revealed the power and authority relations that have shaped the manner in which practices have been organised in successive world financial orders.

Part I of this chapter begins, then, by illuminating the changes in the forms of credit in the contemporary world financial order. At first glance, the prevalence of bank loans and capital and equity market practices is suggestive of both a contrast with the American world financial order, in which corporate FDI, bilateral and multilateral inter-governmental loans predominated, and considerable parallels with the Amsterdam-centred and British world financial orders in which these forms of credit also predominated. However, it is the conjunctural distinctiveness of contemporary forms of credit that is emphasised through the isolation of six major interrelated dimensions of change - marketisation and dollar-denomination; syndication; disintermediation and securitisation; decompartmentalisation and institutional re-organisation; expansion and innovation; globalisation, regionalisation and bifurcation.

Part II of the chapter moves to consider the standing of New York, London and Tokyo as the 'triad' of WFCs in the contemporary world financial order. Each is examined as a key social space for world credit practices in the light of the changing forms of credit. As such, close attention is paid to the differences between each of the triad of WFCs. Despite its displacement from the apex of the hierarchy of WFCs as part and parcel of the unravelling of the American world financial order, New York continues to be a key social space for world credit practices in the contemporary world financial order. This is rooted in the lasting primacy of dollar-denominated credit, the significance of New York-centred financial market institutions, and the sheer depth and liquidity of New York's capital and equity markets. London's standing as a key space in the contemporary world financial order, meanwhile, is founded on its position as an offshore entrepôt for Euromarket practices, a position which was established in the last decades of the American world financial order. London continues to be the key space at a world scale for the issue and trading of bonds, the trading of equities, foreign exchange dealing, and international bank lending. New York and London were joined as WFCs by Tokyo during the 1980s. Based upon the large capital surpluses of the Japanese political economy and the corresponding expansion of Japanese MNCs and financial market institutional networks, Tokyo has been the key space for both practices of capital allocation in support of securities issues and trading in New York and London, and regionally-orientated banking practices in Asia.

Part I - The Changing Forms of Credit

Since 1974 world credit practices have taken forms which contrast sharply with the corporate FDI, bilateral and multilateral inter-governmental loans which predominated during the American world financial order. The contemporary world financial order has been marked in different periods by a prevalence of both bank loans and capital and equity market practices as the predominant forms of credit. Considered over the *longue durée*, considerable parallels can be drawn between the predominant forms of credit in the contemporary world order and those of the Amsterdam-centred and British world financial orders from the sixteenth to early twentieth centuries. However, contemporary transformations in the nature of credit instruments employed and the manner in which credit practices become institutionalised are also pivotal to an understanding of the changing forms of credit. In order to capture the distinctiveness of contemporary forms of credit, then, six interrelated major dimensions of change are outlined below. These are marketisation and dollar-denomination; syndication; disintermediation and securitisation; decompartmentalisation and institutional re-organisation; expansion and innovation; globalisation, regionalisation and bifurcation.

Marketisation and Dollar-denomination

In most general terms, world credit practices in the contemporary world financial order have become 'marketised', that is, increasingly institutionalised within the networks of the principal financial market institutions. This contrasts with the American world financial order in which the practices of allocating credit in particular were largely organised through institutional networks dominated by the US state. Given the "design capacity" (Vipond 1993:187) of states over financial market structures, IPE scholars have been at pains to stress that the marketisation of credit practices has rested on the widespread policies of deregulation and liberalisation pursued by the major states (Strange 1986; Underhill 1991; Helleiner 1994).

Whilst commonly understood in qualitative terms by notions such as the increased 'structural power of capital' (Gill & Law 1989), increased marketisation can also be illustrated quantitatively in the changing private and public shares of net long-term capital movements. Under the American world financial order, the ratio of private to public was approximately 1:1. During the period 1972-76 this was transformed to roughly 2:1, and by 1992-3 stood at 83% private and 17% public (Germain 1997:119). The marketisation of credit creating practices is shown more specifically by what Walter (1993:199) has termed a "lack of quantitative power on the part of central banks", represented by the shifting ratio of official reserves to bank assets. Based on the assets of the fifty largest banks headquartered in the USA, UK, Germany, France and

Japan and the total official reserves of their corresponding central banks, the ratio of official reserves to bank assets has fallen from 11% (1972) to 3% (1995) (Germain 1997:120).

While the contemporary world financial order has been marked by a marketisation of the predominant forms of credit when compared with the American world financial order, then, credit has continued to be largely denominated in US dollars. As Walter (1993:190) has asserted, "the growing role of private financial markets did not remove a fundamental asymmetry in the structure of the system: the key role which the US financial system and its offshore adjuncts play in the system as a whole". The continued standing of the dollar as 'world money' is clear from the share of dollar-denominated official central bank reserves and world trade (Frankel 1995).[1] The position of the dollar as world money is, however, less apparent from the breakdown of the main forms of credit by currency. As Table 1 below illustrates, since the mid-1980s the dollar-denomination of international bank loans has fluctuated and international bond issues have become diversified away from the dollar.

Table 1 - Dollar-denominated Share of Forms of Credit

Year	% dollar denominated of total international bank loans	% dollar denominated of total international bond issues
1985	62.5	70.9
1988	64.2	35.4
1989	70	45.9
1990	58.9	33.3
1991	84.5	28.5

Adapted from Walter (1993:199).

Changes in dollar-denominated rates of interest clearly contributed to changes in the dollar-denomination of both forms of credit. However, the apparent decline of the share of international bond issues denominated in dollars

[1] Public and private working balances have been held predominantly in dollars throughout the contemporary world financial order, despite some fall since the late 1970s. For instance, by the late 1980s, around 60% of official reserves remained dollar-denominated, compared to 19% deutschmark-denominated and 8% yen-denominated (Helleiner 1993a:214). Similarly, world trade transactions for goods and services remain largely denominated in dollars (Walter 1993:200-1).

obscures the practice of quickly 'swapping' bonds issued in other currencies into dollars (Walter 1993:199-200).[2] For example, 80% of the 3.5 trillion yen worth of Euroyen bond issues in 1989 were accompanied by swaps into dollar-denominated bonds (Nakao 1995:84). The combination of the dollar standing on one side of 83% of foreign exchange transactions and over half of foreign exchange turnover being accounted for by 'forward' business, which is principally swaps related, is also illustrative of these practices more broadly (Bank of International Settlements 1996:7). In the contemporary world financial order, the US dollar remains the principal currency in which reserves, transactions and credit are denominated.

Syndication

During the period from the mid-1970s through to the early 1980s, sovereign credit practices in particular predominantly took the form of bank loans. The distinctive feature of sovereign bank lending was that credit practices were 'syndicated': institutionalised within syndicates or consortia of financial market institutions. At the forefront of syndication were the Euromarket branches of the major market institutions - especially the American 'money centre' banks such as Citicorp and BankAmerica - that were able to access the vast pools of 'petro-dollars' generated by the oil crises which resided off-shore in the Eurocurrency markets.[3] Alongside innovations in loans as credit instruments which included the use of floating rates of interest and the 'roll-over' of existing loans (Mendelsohn 1980:65-6), the syndication of sovereign bank lending sought to minimise the risks involved in lending over the long-term.

A combination of negative real interest rates and stagflation in the developed national political economies encouraged syndicated sovereign credit practices to focus primarily on the provision of credit to the governments of the underdeveloped political economies of the 'third world' (Frieden 1987:88).[4]

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[2] A 'swap' is "a financial transaction in which two parties agree to exchange a predetermined series of payments over time ... which serves to circumvent market imperfections and inefficiencies" (Leyshon & Thrift 1997:125). In this instance, 'imperfections and inefficiencies' stem from the perceived exchange rate risk of holding yen-denominated bonds.

[3] By 1979, the value of outstanding syndicated loans organised through the Euromarkets stood at $80 billion (Leyshon & Thrift 1997:120).

[4] Between 1970 and 1979 the value of the Euromarkets grew from $57 billion to $475 billion (Walter 1993:182). During this period, less developed country borrowing in the Euromarkets totalled around $200 billion (Frieden 1987:88).

However, the provision of sovereign credit more broadly took the form of Euromarket practices. For instance, the Euromarkets displaced the IMF as the main source of short-term offsetting finance for alleviating balance-of-payments problems (Helleiner 1994:114). This formed part of a wider dominion of Euromarket institutions and instruments in shaping the predominant forms of credit during this period. Corporate and commercial practices that provided long- and short-term credit respectively for the corporations of the OECD political economies also took the form of Euromarket practices, a greater universalisation of the move to off-shore corporate credit which was begun by American financial market institutions and their customers during the 1960s. Nevertheless, unlike sovereign credit practices, corporate and commercial credit practices in support of the multinational expansionary strategies of OECD corporations increasingly came to take the predominant form of issues of Eurobonds and short-term debt instruments as opposed to syndicated loans (Walter 1993:217). The 'disintermediation' of world credit practices that this entailed became far more widespread from the early 1980s, engulfing sovereign and corporate credit provision both on- and off-shore.[5] As such, as Cerny (1993a:59 *original emphasis*) asserts, the Euromarkets played "a central role ... in shifting the *composition* of financial exchanges away from loans to negotiable securities".

Disintermediation and Securitisation

Disintermediated practices organised through the institutions of the capital and equity markets have been the predominant forms of world credit practices since the early-to-mid 1980s, displacing bank lending. This can be seen in the changing breakdown of world capital movements during the contemporary world financial order. Bank lending has fallen from a peak of 37% of total capital movements (1977-81) to 14% (1982-6) and between 5 and 10% in the early 1990s, while portfolio investment has grown from 36% of total capital movements (1972-76) to between 60 and 65% in the early 1990s. Direct forms of investment which prevailed for much of the post-war American world financial order have come to account for between 30 and 35% of world capital movements in the early 1990s (Sinclair 1994:136-7; Germain 1997:124).

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[5] Credit practices become 'disintermediated' when "... flows of funds between borrowers and lenders avoid direct use of financial intermediaries, for instance, in cases in which companies withdraw their funds from banks and lend them directly to each other, or when corporations issue commercial paper that may be merely underwritten by a bank or investment bank" (Sinclair 1994:136). Commercial paper is "an unsecured, short-term debt obligation, which matures within one year of issue" (Sinclair 1994:155).

The debt crisis of 1982, in which many underdeveloped states threatened to default on their syndicated loans, proved to be the "watershed" for bank lending as the predominant form of sovereign credit (Plender 1987:43). Leyshon and Thrift (1997:120-1) provide a concise summary of the consequences of the debt crisis for syndicated lending;

> "Developing debtor countries were severely affected by the worldwide deflationary trend that followed the oil price rise from 1981 onwards, which brought in its wake high real interest rates and damaging new repayment obligations. Furthermore, the monetarist policy of the Reagan administration and its expansion of the US budget deficit simultaneously pushed interest rates higher and strengthened the dollar, which further increased the real repayment cost of dollar-denominated debt. Consequently, borrowers started to suspend payments in 1982. In doing so they immediately revealed the vulnerability of the leading banks who had become dangerously exposed to repayment default as a result both of their imprudence in lending and their involvement in oversyndication. By 1984 some thirty-five sovereign borrowers were unable to service their debt ...".[6]

By the mid-1980s syndicated international bank loans were largely restricted to renewals and rescheduling of previous rounds of credit creation.[7] Other factors including relatively high inflation and nominal interest rates, the deregulation of national securities markets, the widespread privatisation of nationalised industries, new capital market instruments and improved information and trading technologies all further encouraged the disintermediation of the predominant forms of credit during the 1980s (Sobel 1994:51; Noyelle 1989a:95; Walter 1993:203).

Against the backdrop of disintermediation, long-term sovereign and corporate credit practices have increasingly been organised through the institutional networks of capital and equity markets. Capital and equity markets bring together a wide range of market, civil and state institutions. These include investment banks, fund managers, institutional investors, commercial banks,

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[6] The significance of the debt crisis for the displacement of bank lending as the predominant form of credit creation is reflected in the sudden nature of the collapse in the volume of foreign bank lending from $124 billion in 1981 to only $19 billion by 1985, the lowest level since syndicated bank lending had began to take hold in 1972 (Sassen 1990/1994:261).

[7] By 1985, of the $167.7 billion total worth of new credit creation at a world scale, 81% was accounted for by interest bearing bonds, especially Eurobonds (Leyshon & Thrift 1997:121).

stock exchanges, credit rating agencies, inter-state organisations, state institutions and MNCs (Germain 1997:125). Closely intertwined with the disintermediation of world credit practices has been the 'securitisation' of the claims and obligations arising from the creation of credit.[8] While essential to providing sufficient liquidity for primary issues of capital and equity market instruments (Cerny 1993a:62-3), securitisation has also enabled the dramatic growth in speculative secondary trading practices.[9] Consequently, the portfolio forms of investment which dominate total world capital movements under disintermediated forms of credit are the collective outcome of *both* the creation of fresh credit and the arrangement and re-arrangement of ownership claims. The newly predominant disintermediated forms of credit focused on the provision of sovereign and corporate credit for the developed political economies of North America and Western Europe throughout the 1980s (Leyshon & Thrift 1997:121, 201), embracing the so-called 'emerging markets' of underdeveloped political economies from the late 1980s and early 1990s (Krugman 1995).

Decompartmentalisation and Institutional Re-organisation

The predominance of disintermediated forms of credit from the early-to-mid-1980s broadly undermined the traditionally strong position of the market networks of commercial banks in the organisation of world credit practices (The Economist 1992). In particular, regulations framing market practices in national political economies which approximated to the 'Anglo-American' and 'Roman Law' models restricted the ability of commercial banks to organise disintermediated practices. The practices of commercial banks in Anglo-American political economies, particularly the US, Britain and Australia, which tended to collect retail deposits and provide short-term loans for companies were separated from capital and equity market practices institutionalised within investment banks (Underhill 1997b:109). Meanwhile, a combination of substantial elements of state ownership of financial market institutions and strict

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[8] 'Securitisation' is "a process whereby a financial instrument is created on the value of another asset. In the event of default, the underlying asset stands as security against the liability of the financial instrument created" (Budd 1995:360). For example, mortgage-backed securities are bonds issued on the basis of a future stream of mortgage payments.

[9] "A speculative market can be defined as one in which prices move in response to the balance of opinion regarding the future movement of prices, as distinct from normal markets in which prices move in response to objective changes in the demand for, or supply of a useable commodity or service" (Strange 1986:111). Speculative trading practices are also known as 'arbitrage', that is, the buying of assets in one market for rapid sale in another market at a higher price.

legal and regulatory codes in Roman Law political economies such as Japan, France and Italy once again constrained the capacity of commercial banks to participate in disintermediation (Underhill 1997b:108). The position of commercial banks in both Anglo-American and Roman Law political economies contrasted with those domiciled in 'universal banking' political economies, particularly Germany, Canada and the Netherlands, where "banks performed all manner of financial operations, from consumer lending to stock market issuance and secondary trading" (Underhill 1997b:108).

A central pillar of the regulations that restricted the ability of commercial banks in Anglo-American and Roman Law to organise disintermediated credit practices was the 'compartmentalisation' of credit practices, especially the institutionalised separation of commercial banking from investment banking (Cerny 1993a:54).[10] Compartmentalisation had been a preventative type of regulation, mitigating against disturbances in one sector of credit practices from affecting other sectors, the emergence of conflicts of interests within financial market institutions, and the destabilising consequences of intense competition (Cerny 1993a:56). 'Decompartmentalisation' was necessary if commercial banks in particular were to respond to disintermediation and the competitive pressures emanating from the relative freedoms enjoyed by Euromarket practices.

The decompartmentalisation of credit practices across different national political economies has been a divergent, uneven and incomplete set of processes (The Economist 1994; Cerny 1993a:59-60).[11] It has, nevertheless, provided a necessary prelude to the institutional re-organisation of credit practices in the contemporary world financial order. While clearing the ground for so-called 'non-banks' to institutionalise credit practices, decompartmentalisation has in many instances enabled commercial banks to extend their operations on both sides of their business into practices traditionally

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[10] As Cerny (1993a:56-7) notes, 'compartmentalisation' in different national political economies was not restricted to the sectoral separation of commercial and investment banking practices, but also included geographical separation (for example, prohibitions on inter-state banking within the US) and separation within sectors (for example, the polarisation of stock broking from jobbing in Britain).

[11] Decompartmentalisation has not only been the result of national legislative changes governing the institutionalisation of credit practices. For instance, within the European Union the Second Banking Directive implemented in January 1993 "represented a clear victory for the universal banking principle of the northern European states" (Underhill 1997b:110).

institutionalised within other market institutions.[12] In terms of liabilities, many commercial banks have come to offer new savings products, insurance and pension schemes. In terms of assets, commercial banks have tended to expand their investment banking, fund and risk management practices. National alliances, cross-border alliances, national mergers and acquisitions, and cross-border mergers and acquisitions have all facilitated this institutionalised reorganisation of credit practices (Leyshon & Thrift 1997:101-9). National level alliances and mergers and acquisitions have tended to be largely defensive in nature, undertaken by commercial banks which already focused primarily on retail credit practices bounded largely within their 'home' political economy. Meanwhile, cross-border alliances, mergers and acquisitions have tended to develop linkages between commercial banks and investment banks, as such re-organising the institutionalisation of world credit practices. Ultimately, such institutional re-organisation has tended to intensify the collective and hierarchical tendencies of financial markets (Smith 1992).

Expansion and Innovation

The related marketisation, decompartmentalisation, institutional re-organisation, disintermediation and securitisation of the forms of credit has also coincided with a rapid expansion in the volume of credit created at a world-scale. This has formed part of a more generalised growth of wholesale and retail credit creation which is visible in the growth of claims on aggregate individual, corporate and sovereign borrowers (Palan 1993). For instance, total US individual, corporate and sovereign indebtedness alone has almost doubled since the early 1970s to stand at well over $7 trillion, around 250% of US GDP by 1995 (Henwood 1997:59). OECD governments collectively have not achieved a budget surplus since the early 1970s. Indeed, aggregate OECD sovereign borrowing has increased nearly seven-fold since the early 1970s (Shutt 1998:112). Palan (1993) has termed the general expansion of credit creation the "debt for growth syndrome", as corporations and states have increasingly relied upon credit rather than existing revenues to fund investments against a background of circularly reinforcing slow growth and under-consumption from the early 1970s.[13]

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[12] On this point I am indebted to the insights provided by staff from the British Bankers Association. Confidential interview, London, 11th June 1998.

[13] In addition to Palan (1993), on the relationship between under-consumption tendencies and the increasing recourse to corporate and sovereign credit, see MacEwan (1994).

In our terms, however, what is significant is the disproportionately large extent to which, beginning with the explosion of Euromarket practices, world credit practices have contributed to the general expansion in the volume of credit (Cox 1992b/1996:299-300). The growth in the volume of credit created by world credit practices has far outstripped the pace of growth in the world economy. For instance, cross-border bank lending as a percentage of gross world output increased substantially from 6.3% in 1972 to 16.2% in 1980 and 37% by 1991 (Perraton *et al* 1997:266). Increasingly large amounts of surplus capital have been absorbed by world credit practices as the material basis for this expansion (Allen 1994; Shutt 1998).

With such massive expansion has also come increased volatility of interest rates and exchange rates. This encourages a combination of both risk-adverse short-termism in capital investment and speculative secondary financial trading practices (Strange 1990:262). As a consequence, the expansion in the volume of credit created by world credit practices has been accompanied by innovations in credit instruments which, in particular, seek to minimise the risks arising from increased price volatility while maximising potential capital gains (Strange 1998:22-42). While the contemporary world financial order has been marked by a proliferation of credit instruments, of principal significance are derivatives as a class of instruments that include financial futures, options and swaps.[14] Bank of International Settlements (1996) figures show a phenomenal increase in derivatives practices such that, by the end of 1995, the $50 trillion worth of total risks outstanding in derivatives contracts were equivalent to about double the world's collective GDP (Shutt 1998:131). Ostensibly designed to allow the 'hedging' of risks arising from price fluctuations, especially movements in interest and exchange rates, derivatives also offer the opportunity to buy on margin and, therefore, the potential for high-risk and high-yield speculative practices (Strange 1998:94-5; Shutt 1998:121).[15] As the most notable innovation in the instruments of credit creation, then, derivatives have both underpinned the massive expansion of the volume of credit created by

[14] Derivatives are "contracts specifying rights and obligations which are based upon, and thus derive their value from, the performance of some underlying instrument, investment, currency, commodity or service index, right or rate" (Cornford 1995, in Strange 1998:30).

[15] Strange (1998:30) suggests that around 98% of derivatives practices are related to attempts to either avoid risks arising from, or to profit from, fluctuations in interest rates and exchange rates. Also, see Bank of International Settlements (1996).

moderating risk, and offered an avenue for the speculative practices that themselves have contributed considerably to expansion.

Globalisation, Regionalisation and Bifurcation

Attempts to capture the changing forms of credit in the contemporary world order tend, in different ways and with diverging emphasis, to highlight the major features outlined above. There is also a disposition to conflate the dimensions of change within the overarching processes of change which are characterised as 'globalisation'.[16] While considerable disagreement surrounds whether technology, markets, or states have been the driving force behind the processes of globalisation, there is general agreement amongst scholars that world credit practices have become genuinely global in orientation.[17] The assertion by Strange (1990:260), a leading and influential proponent in IPE of 'global finance', of a shift from "a predominantly state-based system with some transnational linkages to being a predominantly global system with some local differences" is broadly representative of this consensus. Indeed, the assumption that world credit practices have become globally-orientated extends well beyond IPE scholars to the fields of economics (Allen 1994; Ghosh & Oritz 1997), urban studies (Sassen 1991; Warf 1995) and economic geography (Thrift & Leyshon 1997; Knox & Taylor 1995). With retail credit practices held to have remained largely national in orientation, the result is a somewhat rigid 'two-tier', global-national understanding of the orientation of credit practices in the contemporary world financial order.[18]

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[16] 'Globalisation' is understood here as a set of historical processes whereby credit practices, and the intersubjective meanings that frame them, become globally-orientated, realising the increased integration of the contemporary world financial order. This contrasts with understandings amongst orthodox IPE scholars of world finance which, informed by neo-classical economics, tend to view globalisation as a dramatic increase in international capital mobility (Goodman & Pauly 1993; Andrews 1994; Cohen 1996; Dombrowski 1998).

[17] The literature in IPE concerned with the forces of change in the globalisation of world finance is substantial. For views positing the overriding significance of technological and market factors, see Wriston (1988), McKenzie and Lee (1991) and Cerny (1994b). For views asserting the centrality of state officials, institutions and inter-state relations, see Helleiner (1994), Underhill (1991), Loriaux *et al* (1997), Vogel (1996) and Moran (1991). For relatively recent reviews of the literature, see Cohen (1996) and Dombrowski (1998).

[18] Germain (1996:214-5) has highlighted three main reasons why retail banking practices remain largely nationally-orientated. First, a lack of profitability in retail banking due to low returns and large fixed costs of creating and maintaining retail institutional networks discourages new market entrants. Second, national cultural differences continue which prevent the emergence of a uniform, transnational approach to retail banking. Third, even in Europe where attempts have been made to codify European law into national law, legal institutional barriers persist. In addition to these reasons, instances of national banks utilising their domestic political power to obstruct foreign competition are also apparent. For instance, Barclays Bank's attempt to

It is held here, however, that the two-tier orthodoxy understates the extent to which world credit practices themselves have become bifurcated between globally-orientated capital and equity market practices, and banking practices which have become regionally-orientated in North America, Europe and Asia.[19] Two threads of existing research are broadly suggestive of the global-regional bifurcation of world credit practices. First, the identification of the emergence of globally-orientated world credit practices by the two-tier orthodoxy has fuelled a research program which seeks through empirical investigation to 'test' these claims. Such empirical 'testing' of global finance has, however, only realised an inconclusive set of conclusions (Allen 1994; Epstein 1996; Hirst & Thompson 1996; Perraton *et al* 1997:265-71). As a consequence, more nuanced perspectives have come to acknowledge that not all world credit practices are globally-orientated, reflected in the uneven trajectory of integration (Underhill 1997c; Vipond 1993:186; Cerny 1993a:68). The restructuring of forms of credit in the world financial order is more uncertain than the dominant two-tier understanding would suggest. This has stimulated calls for a "deeper analysis" to form the heart of future research programs (Cohen 1996:294-6). The use of globalisation as an all-encompassing descriptive term clearly obscures a more complex situation in which a single, integrated and universal market structure for world credit practices has not been realised.

Second, attempts to conceptualise the restructuring of the contemporary world economy more broadly have tended to give rise to a dichotomy between globalisation and regionalisation. Liberal advocates of globalisation hold that markets for goods and services are becoming perfectly integrated at a global scale, rendering the national economy largely dead as an economic unit (Ohmae 1990; Reich 1991). Similarly, while critical of liberal reasoning, others have

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introduce an interest-bearing account in France in the early 1990s was thwarted by collusion between the major French banks and their domestic regulators (Economist 1994:33).

[19] 'Regionalisation' is understood here in the context of the contemporary world order as a set of historical processes whereby credit practices, and the intersubjective meanings that frame them, become regionally-orientated, realising the increased and distinct integration of the credit practices of a region. Regionalisation in this sense has been rarely considered in relation to the contemporary world financial order. Instead, existing research has tended to focus on either the formation of regional currency blocs (see, for instance, Jameson 1990), or upon 'economic regionalism' not regionalisation - that is, "a *conscious policy* of states or sub-state regions to co-ordinate activities and arrangements in a greater region" (Wyatt-Walter 1995:77 *original emphasis*) (see, for instance, Underhill 1997b; Vipond 1993).

highlighted the rise of transnational enterprises and markets as part and parcel of the emergence of a genuinely 'global political economy' (Gill & Law 1988). In contrast, critics of the globalisation thesis have often fallen back on regionalisation and the identification of the emergence of a more "multi-polar" (Carnoy *et al* 1993:6) world economy.[20] This view is often rooted in the identification of economic activity as remaining fundamentally nationally-based, with contemporary increases in international flows of trade and investment held to have generated distinct patterns of economic regionalisation in North America, Europe, and Asia (Hirst & Thompson 1996; Ruigrok & van Tulder 1995; Zysman 1996).[21] The result of these conflicting interpretations has been to produce a dichotomy which has effectively served to 'close off' inquiry. Neither the possible coexistence of globalisation and regionalisation, nor the nature of this coexistence in different sectors and areas of the world economy, are reflected upon.[22]

Drucker's (1986) reading of what he terms 'the changed world economy' does, however, facilitate consideration of the coexistence of globalisation and regionalisation and the nature of this coexistence in the contemporary world financial order. Drucker (1986:781-8) posits that the world economy has been marked by the emergence of what he terms the "symbolic economy" of massive volumes of capital and credit flows alongside the flows of goods and services in the "real economy".[23] Walter (1993:201) concurs, asserting that "financial flows now utterly dominate real flows between countries in quantitative terms".

[20] During the post-1945 era the world economy was largely 'uni-polar' in nature, with the American political economy at its hub. Under the *Pax Americana* and Cold War structures of the wider world order, the American core of the world economy expanded the production of goods and services under 'Fordist' social relations. Asian and Latin American state-societies especially became subject to the competitive pressures of the world economy (Cox 1987:244-53, 298-300; Rupert 1995). From the 1960s, the relative competitiveness of Southeast Asia in particular and also Germany over the old North American heartland of the world economy contributed to the emergence of a more multi-polar world economy.

[21] For each of the loosely defined regions of Europe, North America, and Asia, the bulk of international trade appears to be intra-regional, as trade outside of each region contributes less than 10% of the GDP of each. An intra-regional pattern of foreign direct investment is also apparent, reflecting the regional strategies of MNCs (Zysman 1996:159-60).

[22] One notable exception here is the research of Wyatt-Walter (1995). He states that "... while regionalizing and globalizing tendencies are both at work in the contemporary world, these tendencies are at present more symbiotic than contradictory" (p.77).

[23] Gordon (1988:55) traces the emergence of the symbolic economy to the early 1970s and the combination of falling levels of corporate profitability, increased interest rate and exchange rate instability, and the re-cycling through the Euromarkets of the large volumes of petro-dollars generated by the first oil crisis.

Contrary to neo-classical economics which holds that international trade in goods and services determines international capital flows and foreign exchange rates, the symbolic economy seems to have become 'de-coupled' (Strange 1986) from the real economy and to be operating largely independently. For instance, the value of foreign exchange trading practices world-wide stands at over $1 trillion per day, around fifty times the level of world trade (Perraton *et al* 1997:265).

Building on Drucker's (1986) analysis and incorporating the research into world finance by Germain (1996; 1996a; 1996b), globally-orientated capital and equity market practices can be socially situated firmly at the heart of the symbolic economy. Investment banking, fund and risk management practices collectively create the massive short-term speculative flows that are the signature of the symbolic economy. As such, globally-orientated capital and equity market practices can be distinguished from banking practices. Banking practices that provide non-capital market corporate and commercial credit remain largely embedded in the real economy. The continuing close relationships between commercial banks and their medium-sized corporate customers has ensured that regional arcs of trade and investment have been mirrored by the regionalisation of banking practices in the contemporary world financial order.[24] The regional-orientation of banking practices in both North America and Europe have been further facilitated respectively by the regionalism of the North American Free Trade Agreement (NAFTA) and the European Single Market Program (Germain 1996b, 1996c). Significantly, given the decompartmentalisation and institutional re-organisation of world credit practices, banking practices are not simply identifiable with commercial banks as a set of financial market institutional networks. Instead, regionally-orientated banking practices, which are driven by different motivational dynamics to those which guide capital and equity market practices, are visible *within* the principal market institutions.[25]

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[24] On the continuing close relationships between commercial banks and their medium-sized corporate customers, see Pauly and Reich (1997).

[25] In our terms, the short-term speculative tendencies of the symbolic economy are contradicted by the longer-term close relationships between banks and corporations in the real economy. As New York banker Lowell Bryan has argued, these divergent motivational dynamics which inform investment and commercial banking practices translate into problems of management when attempts are made to integrate them within a single financial market institution (Economist 1994:25). This has consequences for the manner in which world credit practices become institutionalised. For instance, the recently acquired London-centred investment banking arms of European commercial banks have tended to retain considerable intra-institutional autonomy

In summary, the utility of framing a synchronic understanding of contemporary world finance in the 'historical' terms pursued here, then, appears to be to offer a more nuanced assessment to the usual 'global-national' orthodoxy. A focus for inquiry in the first instance upon the actual practices of world finance facilitates an awareness of the conjunctural distinctiveness of the changing forms of credit. This distinctiveness stems from the main features of change outlined, and cannot be easily captured by conflating change under the rubric of 'globalisation'. Contemporary 'global finance' is rather a far more complex set of world credit practices than is commonly acknowledged. It is to another rarely recognised distinctive feature of contemporary world credit practices that we now turn, that is, their decentralisation between the WFCs of New York, London and Tokyo.

Part II - The 'Triad': Key Social Spaces

Considered over the *longue durée* since the seventeenth century, modern world credit practices have become centralised in successive single WFCs as the key social spaces for practices - Amsterdam in the seventeenth and eighteenth centuries; London in the nineteenth and early twentieth centuries; and New York for the four the decades in the middle of the twentieth century. Periods in which two or more financial centres have coexisted at the apex of the hierarchy have thus tended to be largely transitionary, coinciding with the fall of the former WFC and the ascent of the future WFC. The contemporary world order has been marked, however, by the coexistence of New York, London and Tokyo as the triad of financial centres at the apex of hierarchy of WFCs - or what Hamilton (1986) has termed "the three-legged stool". No single centre appears likely to emerge as dominant (Sassen 1991; Drennan 1996; Roberts 1994).

In seeking to understand the emergence of the triad, the standing of each as a key social space is explored below in relation to the changing forms of credit. This serves to reveal the relative and mutable significance of each WFC as a social space for world credit practices, contrasting with the tendency to emphasise the similarities between each WFC of the triad. For instance, in an introduction to a recently edited volume concerned with New York, London, and Tokyo as 'global financial centres', Roberts' (1994:xiii) notes that,

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(Interview with representatives of the research and strategy departments of a major German universal bank, Frankfurt, 1 September 1997. See also Financial Times (1996, May 29, p.6).

> "The trio of London, New York and Tokyo form the apex of the hierarchy of international financial centres. Their common characteristics, and that which sets them apart from other centres, is the global reach of their financial ties. Of course, each also has particularly strong ties with other centres and financial institutions in its own region and time zone".

Similarly, Budd (1995:350) has commented in relation to the urban studies literature concerned with 'global cities' (Sassen 1991) as WFCs that "The temptation to configure these cities homogeneously appears strange". A nuanced assessment of New York, London, and Tokyo as key social spaces for the changing forms of credit reveals considerable asymmetries between them.

New York: Key Social Space

For the first three decades of the American world financial order, New York was the key single WFC in that order. While this was challenged by the centralisation of short-term Eurocurrency market practices in London throughout the 1960s and early 1970s, it was the increased centralisation of long-term credit creation in the Euromarkets from 1973-4 that finally displaced New York from the apex of world finance. The removal of US capital controls in early 1974 did little to revive New York to its previous standing. During 1974, $25 billion of additional international short-term capital did flow into New York, facilitating $18 billion worth of short-term credit creation. However, between 1974 and 1977 new issues of foreign bonds in New York were the equivalent to only 15% of new issues of Eurobonds (Mendelsohn 1980:209). International syndicated bank lending, which was the predominant form of sovereign credit during this period, also remained firmly centralised in London.

Despite the centralisation of the predominant forms of long-term credit in London during the first years of the contemporary world financial order, New York's position as a key social space was largely guaranteed by the continued prevalence of dollar-denominated credit. Claims and obligations arising from dollar-denominated credit practices ultimately have to be cleared through American payments and banking practices which are centralised in New York (Walter 1993:209; Frieden 1987:102-3; Noyelle 1989a:110-12). As Nakao (1995:79-80) asserts,

> "No matter how much the Euromarket expands, all transactions denominated in dollars can only be completed through transfers of funds in and out of US-based dollar accounts: no matter how multipolar international finance may become, New York remains the hub as long as dollar-denominated transactions predominate".

Outstanding dollar-denominated obligations throughout the contemporary world financial order have been settled largely by inter-bank transfers organised through the Clearing House Interbank Payments System (CHIPS) of the New York Clearing House Association, in conjunction with the Federal Reserve Bank of New York. In 1995, CHIPS cleared 200,000 transactions daily worth around $1.3 trillion (Strange 1998:24). In addition, the New York-centred Society for Worldwide International Financial Telecommunications (SWIFT) system has acted as a verification mechanism for the electronic transfer of funds (Gramm 1992).

The centralisation of clearance practices in New York has fed the significance of New York as a key social space for money-market practices. Financial market institutions, corporations and central banks all hold working balances in New York to facilitate clearance practices that also find their way into the money-markets. Consequently, the significance of New York as a space for money-market practices has increased alongside the vast expansion in the volume of dollar-denominated credit in the contemporary world financial order. For instance, the value of foreign bank working balances held in New York increased twenty-fold between 1973 and 1990 to $536.5 billion (Vogel 1993:58). New York-centred money-market practices have, in particular, been a significant source of short-term credit for inter-bank lending in the contemporary world financial order.

New York has been a key social space for the disintermediated forms of credit that have been predominant from the early-to-mid 1980s. In terms of capital market practices, while London has been a key space for the issue and trading of international bonds, New York is the key space for US Treasury bond (T-bond) market practices. Given the position of the US as the world's largest economy and sovereign debtor, the US T-bond market is the largest single bond market world-wide. US T-bonds are "the linchpin of the global financial order" (Taggart Murphy 1996:111) in the sense that they set the benchmark against which other investment opportunities are judged.[26] From the mid-1980s to the early 1990s, it was the buying and placement of T-bonds by Japanese investment banks operating in New York that provided much of the basis for their high profile global expansion as part of the development of the Japanese political economy (Emmott 1993:144-51).[27] During the 1990s the Bank of Japan, partly in an attempt to restrict the appreciation of the yen, has become the largest single purchaser of US T-bonds, holding bonds valued at $200 billion (Strange 1998:49). The value of daily secondary trading in the combination of 'bills', 'notes' and 'bonds' available averaged between $400 and $550 billion at the end of 1992.[28] Significantly, the vast majority of these trading practices are centralised in New York, as only 4% of total trading takes place in London and 1% in Tokyo (Henwood 1997:24-6).

In addition, New York's deep and highly liquid capital markets more broadly have proved significant to capital market practices in the contemporary world financial order. New York's capital markets have been a fulcrum for both the placement of foreign government and corporate bonds issued elsewhere, and the portfolio investment practices of foreign fund managers and institutional investors. Further, New York as a key social space has been very much at the forefront of the securitisation of the forms of credit in the contemporary world financial order. New York's financial market institutions have led the way in the packaging and re-packaging of capital market instruments for sale and trading (Hamilton 1986:117; Taggart Murphy 1996:108). These have included innovations in securitised forms of credit such as mortgage-backed securities, junk bonds and bonds with warrants attached.

In terms of equity market practices, the disclosure rules governing new listings on the NYSE set by the Securities and Exchange Commission (SEC) have served to limit, at least to some extent, foreign issues and secondary trading in New York in the contemporary world financial order (Lütz 1997). Around 30-34% of foreign equity trading practices by value were, however,

[26] During the period 1977-1981, the US political economy underwent a reversal of its post-war role from a net provider to a net recipient of international long-term capital flows, leading to average annual deficits of $24 billion between 1982 and 1986 and $32 billion between 1987 and 1991 (Germain 1997:111).

[27] Around 40% of total new T-bond issues were bought by Japanese investment banks and placed with institutional investors in Japan during the mid-1980s (Emmott 1993:146).

[28] 'Bills' have between 3 and twelve months maturity, 'notes' between 1 and 10 years maturity, and 'bonds' over 10 years maturity.

undertaken in New York in 1997.[29] It appears that much of this trading in New York takes place through the over-the-counter electronic market provided by the National Association of Securities Dealers Automated Quotation System (NASDAQ) established in 1971 (Smith 1989:7-29). By 1996, 416 foreign corporations had listings on NASDAQ, second only to the LSE with 533.[30] NASDAQ has, however, not simply contributed to the significance of New York as a social space for equity trading practices (Honeygold 1989:58). The electronic link-up between London and NASDAQ via London's Stock Exchange Automated Quotation International (SEAQ International) system, in place since 1985, has also been important in facilitating the centralisation of over-the-counter foreign equity trading practices in London.

In terms of banking practices which provide commercial and non-capital market corporate credit, New York appears to occupy a relatively insignificant position when compared to London and Tokyo. In 1997, American cross-border international bank lending centralised in New York accounted for only 9% of total lending volume, compared with 18% from London and 14% from Japan.[31] Attempts during the 1980s to promote New York as a space for banking forms of credit, such as the creation of off-shore International Banking Facilities (IBFs), seem to have been relatively unsuccessful (McGahey *et al* 1990:136-7). However, a simple comparison between the WFCs of the triad obscures the extent to which New York has stood throughout the contemporary world financial order as the key social space for regionally-orientated banking practices in North America (Germain 1996a). New York has been the key space for the regional expansion of banking practices, institutionalised particularly within the networks of Canadian and Mexican commercial banks. As "the core practice of regional finance in North America" (Germain 1996a:196), commercial credit practices that service the credit needs of a regional arc of trade have, in particular, been centralised in New York. This has facilitated the capacity of Canadian and Mexican banks to cater for the credit needs of their

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[29] Figures provided by the Bank of England, private correspondence, 12th June 1998.

[30] Figures provided by the Bank of England, private correspondence, 12th June 1998.

[31] Figures provided by the Bank of England, private correspondence, 12th June 1998. A focus on share of total cross-border bank lending by volume is significant in revealing the relative standing of New York. For instance, Drennan's (1996) identification of New York as the 'home' of the highest number of foreign commercial bank branch offices in 1993 of 342 (compared to 312 in London and 97 in Tokyo) leads him to over-emphasise the significance of New York as a centre for corporate and commercial banking at the expense of the other two WFCs of the triad.

domestic customers who themselves have become increasingly drawn into producing for the US market.

London: Key Social Space

In the context of the changes in the predominant forms of credit that have characterised the contemporary world financial order, London has remained a key social space for world credit practices throughout the order. London's rebirth as a WFC can be dated from the early 1960s as it re-emerged as the key entrepôt social space for off-shore Eurodollar practices in the Euromarkets. In particular, this led to the firm re-establishment of London as the key social space for syndicated banking practices and foreign exchange trading (Born 1977:310). Largely in response to the short-term nature of the capital available in the Euromarkets up to 1973-4, it was the London-centred international banks that developed the practices of syndicated lending. London-centred syndicated lending became the predominant form of sovereign credit creation during the first years of the contemporary world financial order (Coakley 1992:52-72). Given the significance foreign exchange trading in off-shore banking practices, the emergence of London as the key social space for syndicated banking practices and off-shore Euromarket practices more broadly fed the position of London as the key space for foreign exchange trading. London has retained this primacy throughout the contemporary world financial order, accounting for an average of $464 billion worth of daily turnover in 1995 (around 30% of total turnover), compared with $244 billion for New York as the next largest foreign exchange centre.[32]

As the predominant forms of credit in the contemporary world financial order became disintermediated from the early-to-mid 1980s, London was able to continue to stand as a principal WFC within the triad. Given that a major feature of disintermediated credit practices in the 1980s was Japanese investment in US securities, especially US T-bonds, it has been suggested that London was largely by-passed as a social space for these practices (Leyshon & Thrift 1997:93; Taggart Murphy 1996:105-126). However, closer examination of international capital flows during the 1980s by Nakao (1995:37-42) has revealed that large volumes of Japanese capital was channelled through London, as only one quarter of Japanese capital outflows went directly to the United States. For instance, between 1983 and 1987 London was the source of around

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[32] Figures provided by the Bank of England, private correspondence, 12th June 1998.

40% of US private capital inflows, virtually all of which were financial flows organised through Japanese off-shore market institutional networks centralised in London. Indeed, given the rapid growth of Japanese financial market institutional networks in the 1980s, the position of London as "the second financial capital of Japan" (Warner 1991:196) contributed considerably to London's position as a key off-shore space for banking and capital market practices. Throughout the 1980s, between 40% and 60% of the overseas assets of Japanese banks were created in London (Nakao 1995:110). Issues of Eurobonds by Japanese banks and corporations in London, organised through the 'big four' Japanese investment banks, underpinned Japanese expansionary direct investments world-wide (Nakao 1995:46-9). From a less than 10% share of the total value of all new London-centred Eurobond issues in 1985, the big four investment banks of Nomura, Daiwa, Yamaichi and Nikko accounted for around 40% by 1989 (Emmott 1993:151-2).

London, then, is clearly a key social space for capital market practices at a world-scale in the contemporary world financial order, accounting for 60% of primary international bond syndication and 75% of secondary international bond trading at the end of 1994.[33] At the roots of London's standing in international capital market practices was the organisation of the issue of Eurobonds for 'blue chip' OECD corporations from the mid-1970s. As the predominant forms of credit became disintermediated and securitised during the 1980s, London's continued position as the key space for Eurobond issues ensured its centrality to world credit practices. For instance, in 1987 the $150 billion worth of new Eurobond issues in which London prevailed constituted around half of the total of all international medium- and long-term credit creation in that year (Frieden 1987:109).

In addition to its position as a key social space for international capital market practices, London has become firmly established as a space for the practices of trading foreign equities. This is a consequence of both the comparatively global-orientation of the London Stock Exchange and the centralisation in London of the over-the-counter international trading practices of the principal investment banks and institutional investors.[34] In 1997, London

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[33] Figures provided by the Bank of England, private correspondence, 12th June 1998.

[34] On this point I am indebted to the insights of a London-based representative of an American owned investment bank. Confidential interview, 2nd June 1998. Sobel (1994:57-8) provides figures which illustrate the comparative global-orientation of the London Stock Exchange. The

accounted for approximately 60-65% of world turnover in foreign equities trading, compared to 30-34% in New York.[35] Around two-thirds of London's trading practices are in European equities, adding a regional dimension to London's position as a WFC for equity market practices (Coakley 1992:65; Honeygold 1989:59-61; Stafford 1992:48).[36] Such a centralisation of trading in European equities in London has been facilitated by mergers, acquisitions and alliances between major continental European universal banks and British investment banks, bringing together, for example, Deutsche Bank and Morgan Grenfell (1989), Dresdner Bank and Kleinwort Benson (1995), ING and Barings Bank (1995) and Swiss Bank Corporation and SG Warburg (1996).

London's standing as a key social space for banking practices has been closely related to the vigorous changes in the forms of credit that have marked the contemporary world financial order. As such, three broad periods or 'phases' of London's position are broadly distinguishable. First, for much of the first decade of the world financial order, London's position as the key space for syndicated bank lending practices through the institutional networks of the Euromarkets ensured that London dominated banking practices. For instance, in 1980 London accounted for 27% of the total volume of cross-border bank lending among BIS reporting countries (Davis & Latter 1989:518). During this first phase, then, London was an off-shore entrepôt WFC for banking practices.

The period from the early-to-mid 1980s through to the end of the decade marked a second phase of London's standing as a key space for banking practices in the contemporary world financial order. During this period the value of outstanding cross-border bank lending out of London continued to increase, growing from $462.8 billion in 1982 through to $894 billion by 1989 (Sassen 1991:178-9). However, London's share of the total volume of cross-border bank lending among BIS reporting countries fell to 20.5% by 1989 (Davis & Latter 1989:518). The relative decline of London as a key space for banking practices during this second phase would appear to have been related in

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numbers of foreign companies listed as a percentage of all listings on the three principal exchanges are as follows - LSE 12.5%, NYSE 2.4%, TSE 1.06% (1980 figures); LSE 21.6%, NYSE 5.4%, TSE 7.1% (1990 figures). The volume of overseas equities as a percentage of total trading volume on each of the three principal exchanges are as follows - LSE 20.3%, NYSE 4.4%, TSE 0.8% (1989 figures).

[35] Figures provided by the Bank of England, private correspondence, 12th June 1998.

[36] According to the Bank of England, some 90% of foreign equity turnover within Europe involved LSE member firms in 1996 (private correspondence, 12th June 1998).

particular to two dimensions of the changing forms of credit - disintermediation and bifurcation.

The processes of the disintermediation of world credit practices proved uneven, as the shift in the predominant forms of credit to capital and equity market practices centred in London and New York coincided with an expansion of Tokyo-centred bank lending practices.[37] This was reflected in the share of Tokyo-centred, Japanese cross-border bank lending increasing from 5% of the total volume among BIS reporting countries in 1982 to 20.5% by 1989 (Davis & Latter 1989:518). As a mature off-shore entrepôt WFC, London provided a social space for those banking practices, especially inter-bank lending, which facilitated this expansion. Japanese banks located in London lent short-term funds to their Tokyo-centred counterparts for longer-term 're-lending'.[38] As a consequence, from a marginal position at the beginning of the 1980s, Japanese commercial banks came to dominate London-centred bank lending by the end of the 1980s. In 1990, Japanese commercial banks in London accounted for 38% of outstanding loans, compared with 15% for US banks and 14% for British banks (Coakley 1992:60-1). Meanwhile, reflecting the bifurcation of world credit practices, Tokyo-centred, regionally-orientated banking practices provided the necessary credit for the expanding arc of trade and investment in Asia.[39]

The period from the beginning of the 1990s has marked a third, current phase of London's standing as a key social space for commercial banking practices. BIS statistics show that in the course of the 1990s London has once

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[37] The disintermediation of London-centred credit practices is illustrated by the considerable withdrawal from London by US commercial banking networks alongside an influx of US investment banking networks. Between 1980 and 1989 the number of US financial market institutions in London overall fell by 31%, while the number of US investment banks with operations in London increased by 28% (Lee & Schmidt-Marwede 1993:496).

[38] For an excellent account of the borrowing by Japanese banks in London and New York as underpinning the position of Japan from the mid-1980s not simply as the world's largest creditor nation but as a "re-lending nation" see Nakao (1995). The outstanding net short-term overseas liabilities of Japanese banks increased from $-44 billion in 1985 to peak of $265.9 billion by 1989 (Lapavitsas 1997:31).

[39] The regionally-orientated expansion of commercial banking practices in Asia is shown by comparative growth rates for the expansion of the institutional networks of commercial banks. Between 1981 and 1993 the average annual growth world-wide in the number of foreign branches of commercial banks slowed from over 11% in the previous two decades to only 2.3%. Simultaneously, sharp growth took place in Asia. For instance, foreign assets of banks undertaking practices in Tokyo, Singapore and Hong Kong increased by an average of 22% a year during 1981-1993 (CRP 1995).

again regained its position as the key social space for banking practices, accounting for 18% of cross-border lending in 1997, compared with 14% for Japan and 9% for the USA.[40] London continues to stand as an off-shore entrepôt WFC for banking practices broadly, providing non-capital market corporate credit and commercial credit for the world's major MNCs (Drennan 1996). What characterises this current phase particularly, however, is that London's standing has been partially eroded by second-tier continental European financial centres.[41] Paris and Frankfurt especially have increased in significance as social spaces for regionally-orientated banking practices as intra-European trade and investment has become consolidated (CRP 1995:Section 10).[42] Europe's medium-sized companies have intensified their trade and investment links with neighbouring European political economies, encouraging their 'home' banks to expand their pan-European institutional networks and re-organise practices by replacing nationally-based institutional divisions with various functional market divisions (Germain 1996b:368; Canals 1993:162). As such, a presence across Europe's financial centres is necessary to service the commercial and corporate credit needs of Europe's companies (Bröker 1993). Consequently, the importance of France and Germany within European trade translates into the significance of Paris and Frankfurt respectively as spaces for regionally-orientated banking practices in Europe.

Tokyo: Key Social Space

During the 1970s Tokyo did not constitute a key social space for the practices of the creation of credit at a world scale. Even within the Japanese political economy itself, the role of Tokyo as a social space for credit creation was restricted by the structure of "'repressed' finance" (Lapavitsas 1997) dominated by the authority of the Ministry of Finance and the Bank of Japan. Since the mid-1970s, however, Tokyo's markets have become increasingly

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[40] Figures provided by the Bank of England, private correspondence, 12th June 1998.

[41] This is reflected in London's current share (18%) of the total volume of cross-border bank lending. While London has regained its comparative position as the principal WFC for commercial banking practices amongst the triad, its overall share of the total continues to decline. It is also supported by the breakdown by currencies and financial centres of the volumes of foreign exchange trading practices. London is the principal WFC for foreign exchange practices, with the vast majority of transactions $-DM trades. However, only 10% of total intra-European foreign exchange transactions take place in London, compared with over 20% in Frankfurt (Interviews with representatives of the research and strategy departments of a major German universal bank, Frankfurt, 1st September 1997).

[42] This view is also supported by a range of confidential interviews conducted with representatives of major German universal banks, Frankfurt, September 1997.

significant as a source of sovereign and corporate credit for the Japanese political economy (Kalder 1997).[43] Tokyo also became established in the early-to-mid 1970s as the key social space for foreign credit creation and capital investment practices in the Northeast Asian region (Reed 1980). The gravity of Tokyo as Asia's principal regional financial centre has subsequently expanded to Southeast Asia, reflected in the displacement of the importance of American and western credit and capital. For instance, the collective yen-denominated liabilities of Indonesia, South Korea, Malaysia, Thailand and the Philippines rose from 19.5% to 37.9% of total external liabilities between 1980 and 1988, while the share of dollar-denominated liabilities fell from 47.3% to 27% (Helleiner 1993a:222).

Tokyo emerged as the third leg of the triad of WFCs in the early-to-mid 1980s. As credit practices became disintermediated, Tokyo differed considerably from London and New York as a key social space for credit practices. Rather than standing as a key social space for issuing and trading of capital and equity market instruments, Tokyo has been a key space for the practices of international capital investment.[44] As Table 2 illustrates, Japanese net long-term capital outflows increased dramatically during the early-to-mid 1980s, as Japan became the principal creditor economy in the world economy. Indeed, for the period between 1986 and 1988, Japanese net long-term capital outflows were between three and four times greater than those of the next largest creditor economy (Germain 1997:113). Although, as already noted, a considerable share of Japanese capital outflows found their way to London and New York for allocation through the networks of Japanese financial market institutions, Tokyo was a key space for the practices of capital allocation at a world scale (Taggart Murphy 1996:5; Germain 1997:116). Portfolio forms of investment as a share of the total of Japanese net long-term capital outflows prevailed over direct forms of investment throughout the 1980s, accounting for between 66% and 77% of the massive flows that took place between 1985 and 1987 (Nakao 1995:29; Helleiner 1993a:209). As such, the combination of the relatively large volume of Japanese capital outflows on the one hand, and the

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[43] Outstanding Japanese government bonds increased from 7% of GNP (1974-5) to 32% of GNP (1981-2) (Eken 1984/1994:304-8).

[44] An understanding of the practices of credit creation in successive world financial orders necessarily includes the allocation of capital alongside the creation, allocation, trading and clearance of credit. As Strange (1990:259 *my emphasis*) asserts of "the field of finance", it constitutes "the system by which credit is created, brought and sold *and by which the direction and use of capital is determined*".

orientation of Tokyo-centred capital allocation practices towards portfolio investment on the other, contributed particularly during the mid-to-late 1980s towards the predominant forms of credit in the contemporary world financial order.

Table 2 - Japanese net long-term capital outflows by year

Year	Japanese net long-term capital outflows (US$ billions)
1972 - 1977	4*
1982 - 1986	57*
1986	134
1987	138
1988	121
1987 - 1991	87*
1993	87

* - Average per year over five year period.
Adapted from Germain (1997:113).

While significant as a social space for practices of capital allocation, then, the relative weakness of Tokyo as a space for the practices of issuing and trading capital and equity market instruments at a world scale can be traced to three sets of factors. Taken together, these three sets of factors have served to constrain the capacity of Tokyo to stand as a key space for the creation and trading of disintermediated forms of credit. First, by comparison with London and New York, the regulations framing Tokyo's capital and equity market structures remain relatively restrictive (Lapavitsas 1997). The 'big bang' in Tokyo which began on 1st April 1998 appears likely to resemble a series of small explosions as regulations are gradually removed, continuing and following the gradual pattern of deregulation began in the mid-1970s (Kalder 1997; Vogel 1996).[45] The combination of a relatively slow pace of Japanese regulatory reform with the more rapid liberalisation of Japanese capital and exchange controls facilitated the global expansion of Japanese financial market institutional networks, thereby effectively reinforcing the position of London and New York as WFCs at the expense of Tokyo.

[45] For details of the Japanese 'big bang', see The Financial Times, Survey, 'Japan's Financial Revolution', 26/3/98.

Second, the capacity of Tokyo to stand as a key social space for the creation of disintermediated forms of credit has also been hampered by the relatively slow development of money-market practices (Honeygold 1989:107-115).[46] Short-term money-market practices are significant in building the critical mass of liquidity for capital and equity market practices at a world scale in a WFC. The relative weakness of Tokyo's money-markets has been rooted in the denomination of Japanese trade and payments with the US and Europe in currencies other than yen, primarily US dollars and German Deutschmarks respectively. This has led to weak demand for Tokyo-centred yen-denominated clearing practices and commercial credit creation that would bring greater liquidity to Tokyo's money-markets (Eken 1984/1994:327; Warner 1991:187-8).

Finally, the capacity of Tokyo to stand as a key space for disintermediated credit practices has been hampered in the 1990s by the continuing malaise of Japanese finance in the wake of the collapse of 'bubble economy' (Lapavitsas 1997:37). The huge volumes of bad debts bequeathed upon Japanese financial market institutions of not less than 77 trillion yen (£335 billion) and the massive indebtedness of Japanese industry have reduced the involvement of Tokyo-centred financial market institutions in capital and equity markets at a world scale.[47] Further, it has also manifested itself in the retrenchment of foreign involvement in Tokyo. For instance, in 1990 there were 125 foreign corporations listed on the TSE, falling to 92 by 1994 (Drennan 1996:369).

In terms of banking practices, Tokyo came to stand alongside London at the apex of lending by the end of the 1980s (Helleiner 1993a:212; Davis & Latter 1989:518). As already noted, the increased significance of Tokyo as a space for banking practices during the 1980s was largely the result of the expansion of regionally-orientated banking practices. These provided the credit necessary for the expanding regional arc of trade and investment in Asia, rooted

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[46] The relatively 'shallow' nature of Tokyo's money-markets is shown by comparison with the United States. Japanese money-markets are the equivalent of 19.6% of nominal Japanese GDP compared with American money-markets which are the equivalent of 29.4% of nominal US GDP (Lapavitsas 1997:28).

[47] The figure of 77 trillion yen of bad debts has been admitted to by the Japanese Ministry of Finance, although it seems likely that this understates the extent of the problem. US estimates of the bad debts of Japanese financial market institutions have been as high as equivalent to $1 trillion ('Big Bang Stock Takes a Tumble in Edgy Tokyo', The Guardian, 10/6/98, p.21).

in the expansion of Japan-centred, hierarchical regional production networks into Southeast Asia and the maintenance of institutionalised relationships between Japanese banks and corporations (Bernard & Ravenhill 1995; Bernard 1996, 1996a).[48] Given that much of Japan's trade surplus with the rest of Asia is accounted for by intra-firm exports of parts for assembly within Japanese corporations, the provision of commercial credit was particularly significant. As a result, Tokyo came to stand as "the core of the Pacific basin financial markets" (Suzuki 1992:102). The profile of credit practices undertaken in the other principal financial centres of the region came to reflect this domination. For instance, in the latter half of the 1980s, credit practices in Hong Kong "skewed dramatically toward Tokyo" (Nakao 1995:135). Between 1985 and 1989, as a percentage of all overseas borrowing from Hong Kong, Japan's share increased from 10% to 65%. Over the same period, from a marginal position Japan became the focus for 52% of the volume of credit created in Hong Kong. In addition, by 1989, 60% of Hong Kong's foreign-currency-denominated lending to non-residents, excluding inter-bank lending, was accounted for by Japanese MNCs (Nakao 1995:134-5).

Tokyo has continued to stand as the key Asian financial centre throughout the 1990s. In part this has been a consequence of the continuation of the pattern of Tokyo-centred regionally-orientated banking practices established from the mid-1980s. For instance, 44% of loans granted by Japanese banks in the region in 1996 were to the low-wage assembly plants of Japanese MNCs (Bevacqua 1998:415). However, regionally-orientated Tokyo-centred bank lending from around 1993-4 more broadly supported the "credit boom" (Goldstein 1998) throughout Asia, especially Southeast Asia, that sowed the seeds of Asian currency crisis which took hold from July 1997. The "credit boom" in Asia (excluding Japan) is reflected in staggering rates of growth in total capital formation, that is, the sum of corporate, government, and housing investment. Total capital formation in Asia increased by nearly 300% between

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[48] "Analyses that begin with a regional structure of production highlight how the regional political economy does not correspond to relations between states. The organisation of production across a range of industries from consumer electronics to machinery and automobiles reveal regionalised industries featuring inter-related manufacturing sectors organised in hierarchical networks of firms built around production and innovation centred in Japan and dependence on exports of finished products to the United states and other extra-regional markets" (Bernard 1996a:653-4). The expansion of production networks into Southeast Asia accelerated considerably after the 'success' of the 1985 Plaza Accord. This depreciated the value of the US dollar and appreciated the value of the yen, thereby encouraging the use of Southeast Asia as a low-wage assembly base for Japanese MNCs.

1990 and 1996, compared with slightly over 40% growth in Japan and USA and only 10% in Europe (Bevacqua 1998:414). The credit boom is widely recognised to have rested on a massive increase in foreign-currency denominated borrowing, such that by 1996 the total foreign debts of the Asian-5 (Thailand, Indonesia, Malaysia, Philippines and South Korea) had ballooned to $464.8 billion. 55.7% of this debt was accounted for by bank loans, of which 33.6% were created through the institutional networks of Japanese banks.[49]

By 1996, 42% of Japanese bank loans to Asia were to foreign corporations, financial market institutions and states. Outstanding Japanese loans to South Korea, Taiwan and the ASEAN-4 (Thailand, Indonesia, Malaysia and the Philippines) increased by 76% between the end of 1993 and the end of 1996 (Bevacqua 1998:415). Tokyo-centred credit practices in support of this regional splurge in credit creation tended to take the form of short-term, dollar-denominated inter-bank lending organised through Japanese financial market institutional networks in the region. In particular, the key space for these practices was the Japanese Offshore Market (JOM), established in Tokyo in 1986. This marked an expansion of the position of the JOM which, after its establishment, had quickly become a space for offshore money-market practices providing dollar-denominated inter-bank facilities for the Asian region (Warner 1991:189-91; Pew 1992:111-2). Inter-bank credit was extended through JOM-centred institutional networks which extended across the regions other offshore financial centres, principally Hong Kong and Singapore but also the Bangkok International Banking Facility (Bevacqua 1998:415; Goldstein 1998:13). As Bevacqua (1998:413) has noted, having provided much of the credit for the domestic credit boom in Japan in the latter half of the 1980s, Tokyo-centred bank lending effectively exported the bubble economy to Asia in the 1990s.

Conclusions

In summary, this chapter has offered a synchronic understanding of the relationships between the changing forms of credit practices and the emergence of New York, London, and Tokyo as the 'triad' of world financial centres in the contemporary world financial order. This is a necessary prelude to the diachronic understanding of the making and reproduction of contemporary world finance as a social order to be developed in the following chapter.

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[49] Authors own calculations based upon figures provided by Deutsche Bank Research (1998:6-7).

Contemporary world credit practices have taken the predominant forms of bank loans and capital and equity market practices. The conjunctural distinctiveness of contemporary forms of credit has been emphasised through the isolation of six major interrelated dimensions of change - marketisation and dollar-denomination; syndication; disintermediation and securitisation; decompartmentalisation and institutional re-organisation; expansion and innovation; globalisation, regionalisation and bifurcation. By contrast with the American world financial order, contemporary world credit practices have taken a more marketised form, that is, become increasingly institutionalised within the networks of the principal financial market institutions. As during the American world financial order, however, world credit practices have remained primarily denominated in US dollars. From the beginning of the contemporary world financial order in 1974 through to the early 1980s, sovereign credit practices in particular took the predominant form of syndicated bank loans. Since the debt crisis of the early 1980s, world credit practices have tended to become disintermediated and securitised, taking the predominant form of capital and equity market practices. This has entailed the decompartmentalisation and re-organisation of the manner in which world credit practices are institutionalised. Changes in the forms of credit have also coincided with a massive expansion in the volume of credit created by world credit practices and considerable innovations in credit instruments. In addition, the orthodox two-tier, global-national understanding of the orientation of credit practices in the contemporary world financial order has been challenged. It was posited that contemporary world credit practices have become bifurcated, that is, marked by a coexistence of globally-orientated capital and equity market practices with regionally-orientated bank lending practices. Meanwhile, retail credit practices remain largely nationally-orientated.

Our account of the triad of New York, London, and Tokyo as WFCs and their relationships to the changing forms of credit has emphasised the differences between each as key social spaces for world credit practices. The continuing dollar-denomination of world credit ensures that New York is the key space for clearing practices and a large share of closely related money-market practices. New York has and continues to be the key space for the issue and trading of large volumes of US sovereign credit. The depth and liquidity of New York's securities markets also encourages the centralisation of the practices of the placement of bonds issued elsewhere and foreign investment and trading in domestic and foreign securities. Indeed, New York has been at the forefront of the innovations that have been involved in the securitisation of world credit practices. While relatively weak when compared to the other WFCs of the triad as a space for banking practices, New York remains the key space for those practices which provide commercial and non-capital market corporate credit in support of regional arcs of trade and investment in North America.

In contrast to New York, London's position as one of the triad is based upon its standing as an offshore entrepôt WFC. Throughout the contemporary world financial order, London has been a key social space for the predominant forms of credit practices at a world scale including the globally-orientated practices of issuing and trading bonds, trading equities, and foreign exchange dealing. Three broad phases have been distinguished in London's standing as a key space for banking practices. First, from the beginning of the contemporary world financial order through to the early-to-mid 1980s, London dominated banking by virtue of its position as the key space for syndicated lending. Second, from the mid-1980s through to the end of the decade, London retained its position as a banking centre chiefly as a consequence of its support through inter-bank lending for the expansion of Tokyo-centred regionally-orientated banking throughout Asia. Finally, during the 1990s, London has retained its position as the premier offshore banking centre despite the challenge of Paris and Frankfurt as key spaces for regionally-orientated banking practices in support of European patterns of trade and investment.

In contrast to both New York and London, at the beginning of the contemporary world financial order Tokyo was of marginal significance as a financial centre. It was in the course of the 1980s that Tokyo's importance as a WFC developed, based upon the rise of Japan as the world's principal creditor nation. In particular, Tokyo stood as a key space for the practices of capital allocation and investment during the latter half of the 1980s in support of securities issues and trading in New York and London. The relative incapacity of Tokyo to offer a space for the predominant practices of issuing and trading securities at a world scale has reflected comparative weaknesses in terms of restrictive regulations, money-market practices and the indebtedness of Japanese financial market institutions in the wake of the bubble economy. Tokyo's standing as the financial centre for the Asian region was confirmed from the mid-1980s, as Tokyo-centred regionally-orientated banking practices extended into Southeast Asia alongside the production networks of Japanese MNCs. The scope of Tokyo-centred regionally-orientated banking broadened from 1993-4 to provide much of the foreign-currency denominated loans upon which the Asian credit boom, which has recently translated into the Asian currency crisis, was based.

CHAPTER SEVEN

The 'Triad': The Making and 'Unstable Reproduction' of the Contemporary World Financial Order

Introduction

Utilising the insights generated by an Historical IPE reading of previous modern world financial orders, this and the preceding chapter explore contemporary world finance. An 'historical' alternative is thus offered to the predominant mode of knowledge derived from neo-classical economics. Chapter six developed a synchronic understanding of the relationships between the changing forms of credit practices and the emergence of New York, London, and Tokyo as the 'triad' of world financial centres. Here we move to develop a diachronic understanding of the making and reproduction of contemporary world finance conceptualised as a social order.

The making of each of the Amsterdam-centred, British, and American world financial orders was characterised by an hierarchical structure of power. The social forces associated with Amsterdam, London and New York respectively occupied pivotal positions in the making of successive modern world financial orders. This reflected their standing at the apex of the structure of power in material terms, itself a consequence of the tendency for the material capabilities of capital, knowledge and technology to be centralised in the dominant WFC. Social and political power relations and the structures of the wider world order also frame the making of a world financial order. This is illustrated by the incapacity of New York's social forces, despite their undoubted material power, to establish a relatively stable American world financial order that reflected their perceived shared interests. Welfare-nationalist forms of state-societal relations and the Cold War and *Pax Americana* structures of the wider world order constrained the making of a relatively stable American world financial order, subordinating the perceived shared interests of New York's social forces.

Part I of this chapter addresses the making of the contemporary world financial order. Facilitated by comparative historical inquiry, it is argued that three main features distinguish the making of the contemporary world financial order. First, in the making of the other modern world financial orders, the social forces associated with the dominant WFC had already established their pivotal position as part and parcel of the unravelling of the previous world financial order. In contrast, the unravelling of the American world financial order was not driven by the rise of state and societal forces to surpass the dominant position of New York's social forces and the US state. Second, the making of the contemporary world financial order has been shaped by a less hierarchical, more decentralised structure of power relative to other orders. Material, social and political power is, however, unevenly distributed. The social forces of New York and, to a lesser extent, London enjoy greater power than their counterparts in Tokyo. Third, the major structural features of the wider world order have, in the main, constrained the making of the world financial order within a 'matrix' of liberalisation and deregulation. As such, this has served to reinforce and crucially magnify the power of the social forces of New York and London in the making of the order.

Part II of the chapter moves to consider the reproduction of the contemporary world financial order. The reproduction of relative stability in previous world financial orders has been shown to rest upon the firm centralisation of the order in a single WFC. Periods of relative social stability, recognisable as a coherent conjunction between the material, ideational and institutional forces of the order, have been reproduced by the structures of authority centralised respectively in the dominant WFCs of Amsterdam and London and the Washington-New York axis. The informal and formal dimensions of authority come together, reproducing relative stability by articulating interdependent relationships between state, civil and market forms of authority in the organisation of world credit practices. In the Amsterdam-centred and British world financial orders in particular, the significance of market and civil forms of authority to the organisation of world credit practices ensured that Amsterdam and London were the key spaces of authority, the social loci for reproduction. The unravelling of a world financial order is closely associated with the proliferation of financial centres at the apex of the hierarchy. Inherent contradictions come to the surface in the absence of a centralised structure of authority to reproduce relative stability, reflected in the restructuring of the organisation of world credit practices.

It is argued that, when viewed in comparative historical terms as a social order, contemporary world finance is characterised by relative instability. This is reflected in the incoherent relationship between the configuration of material power, ideas and institutions in the order. The informal dimension of authority is marked by ongoing tensions over the norms, values and meanings that prevail in the organisation of world credit practices. The formal dimension of authority is distinguished by the fragmentary and overlapping exercise of authority through a wide range of institutions in the organisation of world credit practices. The resulting decentralised structure of authority fails to articulate interdependent relationships between state, civil and market forms of authority in the organisation of world credit practices. The unravelling of the contemporary world financial order has, however, been mitigated against up to this point by the emergence of international forms of authority based, in the main, upon inter-state co-operation. These have ensured that disturbances to world credit practices emanating from financial crises have remained essentially superficial, not translating into structural disruptions in the contemporary world financial order. The contemporary world financial order is distinguished, then, by what will be termed 'unstable reproduction'.

Part I - The Making of the Contemporary World Financial Order

A comparison between the three previous modern world financial orders and the contemporary order reveals something of a paradox that will be utilised here to frame inquiry into the making of the contemporary order. On the one hand, the making of the Amsterdam-centred, British, and American world financial orders was characterised by an hierarchical structure of power in which the social forces associated with Amsterdam, London, and New York as the dominant WFCs respectively occupied pivotal positions. The decentralisation of the contemporary world financial order between the triad of New York, London and Tokyo is suggestive of a less hierarchical, more decentralised structure of power in the contemporary order. On the other hand, much existing new IPE scholarship emphasises the continuing 'structural power' of the United States in the contemporary world financial order (Strange 1990; Germain 1997:164-8; Walter 1993:240-4; Helleiner 1992), that is, "power derived from the unique depth and liquidity of U.S financial markets and the global importance of the dollar" (Helleiner 1994:148). For instance, Moran's (1991) research into regulatory change provides a clear illustration of the impact of US structural power on the making of the contemporary world financial order, highlighting the "diffusion" (Moran 1991:121) of American regulatory practices throughout the order.

Three key features which distinguish the making of the contemporary world financial order and which help to explain this seeming paradox are outlined here. First, as already noted in chapter five, the unravelling of the American world financial order was not, in the main, driven by the rise of other state and societal forces. The social forces associated with the single WFC in the making of each of the British and American world financial orders had established their dominance as part and parcel of the unravelling of the previous world financial order. By contrast, the inherent contradictions of the American world financial order were exacerbated by changing US state policies and the disintegration-reintegration of social forces in US state-society. The US adoption of unilateral capital controls from 1963 and support for the emergent London-centred Euromarkets presented London's social forces with a structural opportunity to firmly establish London as an offshore entrepôt WFC. The resulting decentralisation and related gradual unravelling of the American world financial order during the 1960s was effectively confirmed by US state policies of liberalisation amidst relative instability in the wider world order during the early 1970s. The liberalisation of US state policies was itself rooted in a reconfiguration of US social forces from the mid-1960s, and the associated increase in the social and political power of New York's social forces.

Second, while the making of the contemporary world financial order has taken place in the context of a relatively decentralised structure of power, the social forces of New York and, to a lesser extent, London have enjoyed greater material, social and political power than their counterparts in Tokyo. As will be explored in greater detail below, material power relations surrounding ownership, control or access to capital, knowledge and technology as the principal material capabilities framing world credit practices have been comparatively less hierarchical, broadly reflecting the advent of a more multi-polar world economy. However, material, social and political power has also been dispersed unevenly amongst the social forces of the triad of WFCs. As such, the social forces of New York and, to a lesser extent, London have occupied a more pivotal position in the making of the contemporary world financial order.

Third, given the decentralised and yet uneven structure of power in the contemporary world financial order, three principal structural features of the wider world order have combined to ensure the pivotal position of New York and London in the making of the order. Taken together, the "politics of economic slowdown" (Vogel 1996:39-41); intensified inter-state competition for market shares in the world economy; and continued US predominance in terms of both security and economic consumption, have all constrained the making of the world financial order within a 'matrix' of liberalisation and deregulation. As such, this has served to effectively and crucially magnify the power of the social forces of New York and London in the making of the order.

Material Power

In previous modern world financial orders, the centralisation of capital, knowledge and technology as material resources in the dominant WFC has been significant in conferring material power upon the social forces associated with it. Capital has become centralised in dominant WFCs as a result of a combination of the rise of national financial centres to world status, linked to the ascendancy of their respective national political economies; the tendency for WFCs to be major centres for commercial trade; and the diversion of mobile capital to WFCs in search of relatively high rates of return. The centralisation of knowledge and technology in the dominant WFCs has, meanwhile, stemmed from the intersection of several more or less institutionalised market, civil and state networks. An understanding of the distribution of material resources in the contemporary world financial order is illustrative of both a less hierarchical, more decentralised structure of material power than has characterised previous world financial orders, and of the greater material power of the social forces of New York and London compared to that of those associated with Tokyo.

The centralisation of capital in the triad of WFCs is partly related to the growth trajectories of their respective national political economies (Helleiner 1993a). However, the centralisation of capital in the triad has taken place in the context of what Drucker (1986) terms "the changed world economy" in which the "symbolic economy" has emerged alongside the "real economy". On the one hand, the real economy of production and exchange has become more multi-polar in nature. Capital accumulation in the real economy has become fragmented between the three principle economic regions of North America, Europe, and Asia (Hirst & Thompson 1996; Ruigrok & van Tulder 1995; Zysman 1996). On the other hand, greater volumes of capital have become simultaneously concentrated in the symbolic economy in support of the globally-orientated speculative capital and equity market practices of the world financial order (Allen 1994; Shutt 1998). The centralisation of capital in each

WFC of the triad has resulted, then, from different combinations of relationships to their respective national political economies and to both the real and symbolic dimensions of the world economy.

Knowledge and technology have been important sources of material power throughout successive world financial orders, but have become of greater consequence in the contemporary world financial order. In general terms, capital accumulation in the contemporary world economy has become more knowledge-intensive (Castells 1989; Daniels 1993; Carnoy *et al* 1993). As Cox (1987:244) notes of the contemporary era, "Knowledge, in the form of technology and market information, is the principal resource in the world economy, especially knowledge in its dynamic form as the capacity to generate new technologies and to market new products". The greater consequence of knowledge and technology in the contemporary world financial order both reflects this broad development and is amplified specifically by their significance as material resources for world credit practices. In particular, knowledge and technology facilitate new innovations in credit instruments (Strange 1986:27), the proliferation of all kinds of short-term transactions which are often speculative in nature (Strange 1990:262), and the assessment of the increasingly complex risks arising from the creation of credit (Hamilton 1986:16; Noyelle 1989a:109). It is largely as a result of this greater consequence of knowledge and technology that geographers have tended to assert the expanded significance of the continued centralisation of knowledge and technology in WFCs (Thrift 1994). Such centralisation underpins the capacity of WFCs to stand as "command posts" (Leyshon & Thrift 1997:201) in the making and reproduction of the contemporary world financial order.

Amongst the WFCs of the triad, New York has stood as the "capital of capital" (Hamilton 1986:113) throughout the contemporary world financial order. Capital is centralised in New York as a result primarily of the continued weight of the US political economy, both in the real economy broadly and the North American region in particular. The transaction-based as opposed to bank-based nature of American finance helps to ensure that pools of accumulated capital within the wealthiest political economy in the world became centralised in New York, channelled through institutional investors such as pension funds and insurance companies (Henwood 1997). The centralisation of capital in New York is also a consequence of the "deposit-compelling power" (Brown

1940:154) of New York as a WFC.[1] New York's deposit-compelling power has realised the centralisation of massive volumes of mobile capital in search of profitable investment in the contemporary world financial order. This includes the centralisation of both the short-term working balances of foreign financial market institutions, central banks and corporations (Vogel 1993:58), and the huge volumes of capital for portfolio investment directed through the market institutional networks of foreign investment and commercial banks, fund managers, and institutional investors. The deposit-compelling power of New York, which is evidenced by the depth and liquidity of its capital, equity and money-markets, rests upon the continued significance of both the US dollar as 'world money' and the US political economy in the real economy.[2]

New York's position as the "capital of capital" in the contemporary world financial order is accompanied by the centralisation of several more or less institutionalised knowledge and technological networks. New York remains a key space for the headquarters of US MNCs, the production networks of which provide a steady inflow of political and economic knowledge informing corporate investment strategies (Drennan 1996; Sassen 1991). The centralisation of several networks including those of the press (Parsons 1989), 'producer services' industries including accountants, legal services and management consultants (Sassen 1991), and the financial wire services such Reuters, Dow Jones and Bloomberg combine to ensure that New York is 'home' to the key "knowledge industries" (Henwood 1997:101) of the contemporary world financial order. More specifically, in the context of the disintermediation of world credit practices, the intersection of more specialised knowledge and technological networks has conferred considerable material power upon New York's social forces. The New York-centred market institutional networks of

[1] Brown's (1940:154) notion of "deposit-compelling power", which was originally applied to London as the WFC during the nineteenth and early twentieth centuries, has been utilised throughout this thesis to assist in the explanation of the tendency for mobile capital to become centralised in WFCs. Such has been the influx of mobile capital into New York in the contemporary era that foreign claims on US borrowers had increased to 19.8% of US GDP by 1995, while US claims on foreign borrowers remained fairly static at 5.5% of US GDP (Henwood 1997:61).

[2] The significance of US government bond markets to New York's deposit-compelling power is, of course, dependent upon the continuation of the US deficits (Hamilton 1986:114). Contrary to the usual assumption that the US deficits are a source of relative weakness vis-à-vis other national political economies, in the sense of advancing New York's deposit-compelling power they are a source of relative strength. As Strange (1990:267) asserts, US deficits are an indicator of US structural power in finance, as "no other country was in so favourable position that it could draw so heavily on other people's savings to finance its own overspending".

the major US investment banks are widely regarded as pivotal to New York's strong competitive position as a space for knowledge-intensive disintermediated credit practices (Noyelle 1989a; McGahey *et al* 1990; Hamilton 1986).[3] These have been supplemented by the expertise of the NYSE (Buck 1992), Moodys and Standard and Poors as the principal credit rating agencies (Sinclair 1994, 1994a), and the SEC which, according to Moran (1991:34), is "the single most important repository of information about the securities industry".[4] In addition, New York heads the other WFCs of the triad in the implementation of fibre optic networks and advanced digital communication systems (McGahey *et al* 1990:171-3).

In contrast with New York, the centralisation of capital in London in the contemporary world financial order has been primarily reliant upon London's deposit-compelling power. London's deposit-compelling power is itself rooted in the standing of London since the 1960s as an off-shore entrepôt WFC. The deregulatory basis for London's deposit-compelling power relative to the other main financial centres has continued throughout the contemporary world financial order.[5] For instance, during the 1980s, Japanese and continental European financial market institutional networks tended to funnel huge amounts of capital into London largely in support of their own credit practices (Nakao 1995:37-42; Leyshon & Thrift 1997:109). These massive inflows of mobile capital have been boosted by those carried by institutional investors, collectively providing the deep and liquid resources for London's standing as the principal centre for capital and equity market trading practices.[6] The British political economy has also contributed to the centralisation of capital in London. Relative to its comparative size, the British political economy has contributed a disproportionately high share to net long-term international capital outflows

[3] This view tends to be underpinned by the assumption that the creation of disintermediated credit is, in particular, highly sensitive to social proximity. See Thrift (1994:336) for a comparison with other forms of credit creation that emphasises the differences between the spatiality of credit practices.

[4] On the authority exercised through the SEC in the organisation of disintermediated world credit practices, see also Lütz (1997).

[5] On the significance of regulatory frameworks for the competitiveness of financial centres, see Martin (1994) and Budd (1995).

[6] I am indebted to a London-based representative of an American-owned investment bank for highlighting the somewhat circularly reinforcing nature of the relationship between London's deposit-compelling power and its standing as a key social space for capital and equity market trading practices. Confidential interview, London, 2 June 1998.

during the contemporary world financial order.[7] Given the dominance of London as Britain's undisputed national financial centre, large volumes of these outflows have been channelled through credit practices centralised in London.

The capital centralised in London has been complemented by the centralisation of knowledge and technology as material resources. Given London's standing as an offshore entrepôt WFC, the centralisation of knowledge and especially telematics technology has been of particular significance for facilitating globally-orientated capital and equity market practices.[8] The intersection of several more or less institutionalised knowledge and technological networks in London underpins this role. Not dissimilarly to New York, London is a key space for the market networks of producer services firms (Sassen 1991). Specifically, London's long history as a WFC has enabled the development of specialised services such as insurance and accountancy which assist world credit practices (Michie 1992:176-7). London has increasingly become a key space for the world's financial press, with Euromoney, The Banker, The Economist, and The Financial Times all headquartered in London (Thrift 1994:350). In addition, the research departments of continental European financial market institutions have come to be centralised in London, both accessing and contributing to London's knowledge base.[9] London's standing as a knowledge exchange has been supplemented by the centralisation of key telematics networks. The development of the SEAQ-International system by the LSE has been significant in enabling globally-orientated capital and equity market trading practices from London.[10] More broadly, the privatisation

[7] Throughout the mid-1970s, net long-term international capital outflows from the British political economy averaged around $1 billion per year. By the mid-1980s, this had increased more than ten-fold to $25 billion per year and, while fluctuating considerably since, the British political economy continues to consistently average net long-term international capital outflows (Germain 1997:113).

[8] Confidential interviews conducted in London in the course of June 1998 suggested that the centralisation of knowledge and communications technology networks in London was of great significance in particular for globally-orientated capital and equity market practices that require the co-ordination of risk management and clear secondary trading strategies. This view is reinforced by a wide range of surveys that, alongside the significance of London's relatively benign regulatory environment, identified communications linkages as most important in framing the decision to locate world credit practices in London (CRP 1995; HMSO 1991).

[9] On this point I am indebted to the insights provided by representatives of the research department of a major German universal bank. Confidential interviews, Frankfurt, 1 September 1997.

[10] Confidential interview with a London-based representative of an American-owned investment bank. London, 2 June 1998.

and deregulation of telecommunications from the early 1980s has ensured the centralisation of new innovations in London, replacing previous commitments to universal provision throughout Britain (Graham 1992; Moss 1987:85).

The capital centralised in Tokyo in the course of the contemporary world financial order, meanwhile, has and continues to have three major sources (Helleiner 1993a:209). First, in direct contrast to both New York and London, large volumes of capital are centralised in Tokyo for investment as the 'flip-side' of the massive current account surpluses of the Japanese political economy (Vogel 1993:61; Germain 1997:118).[11] The second major source of the capital centralised in Tokyo is the huge volume of accumulated capital in the Japanese political economy in the form of personal savings. Japanese personal savings of 1,200,000 billion yen are the equivalent of one-third of the world's total.[12] Throughout the 1980s, with the decline of Japanese fiscal deficits and the liberalisation of Japanese capital controls, Japanese personal savings tended to be centralised in Tokyo in search of profitable employment abroad (Helleiner 1993a:209). The third major source of capital centralised in Tokyo is overlooked by 'orthodox' analyses of the rise of Japanese finance in the contemporary world financial order (see, for example, Taggart Murphy 1996). Particularly during the period of the 'bubble' of booming stock prices in the Japanese political economy from the middle to the end of the 1980s, and enabled by the strengthening of the yen following the Plaza Accord of 1985, capital became centralised in Tokyo as a consequence of dollar-denominated foreign borrowing.[13] This tended to be organised through the overseas branches

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[11] Japanese current account surpluses which grew dramatically in the latter half of the 1980s are themselves largely the outcome of merchandise trade surpluses. While generated in part by Japanese competitiveness in the production of steel, automobiles and other consumer goods and the rise of the Asian region in a more multi-polar world economy (Kindleberger 1996:195-200; Kahler 1993:40), pivotal to the realisation of Japanese merchandise trade surpluses on such a huge scale has and continues to be the stagnation of merchandise imports (Nakao 1995:9-28). This explains how the Japanese political economy has been able to generate such comparatively huge current account surpluses while accounting for a smaller share of world exports than the other major national political economies. At the height of Japanese current account surpluses in 1989, Japan accounted for 10.2% of world exports, compared with the 12.4% shares of both the United States and Germany.

[12] Figures provided by *The Financial Times*, Survey, 'Japan's Financial Revolution', 26/3/98. Wright and Pauli (1987:46-8) highlight the social and political factors which underpin the comparatively high rates of personal saving in the Japanese political economy. These combine education costs, an absence of adequate pension provision in the context an ageing population, a long-standing tradition of thriftiness, and a range of government incentives, especially the promotion of the postal savings system.

of Japanese financial market institutional networks in London, New York, Hong Kong and Singapore, in the main taking the form of short-term inter-bank borrowing (Nakao 1995; Lapavitsas 1997:31). While this pattern was initially reversed in the early 1990s as the 'bubble economy' burst (Nakao 1995:146, 181), it quickly re-established itself as Japanese short-term inter-bank borrowing once again expanded during the mid-1990s.[14]

In our terms, what is significant is that unlike New York and London, Tokyo lacks considerable deposit-compelling power. Helleiner (1993a) also notes this through a more state-centric comparison of the standing of Japan in the contemporary world financial order with that of the United Provinces, Britain, and America respectively in previous modern world financial orders;

> "Because of Japan's emergence as an international financial intermediary in the 1980s - importing short-term capital and re-lending long-term capital - many have concluded that Japanese markets have been increasingly developing this kind of 'pulling power'. This interpretation is, however, inaccurate. Japan's short-term capital inflows came, *not* from foreigners looking to Japanese financial markets as an attractive and safe place to hold money, as was true in the Dutch, British and American cases. Rather they represented Japanese bank borrowing in London and New York markets where short-term financial instruments were cheaper and more attractive than those in the overregulated Japanese financial system" (Helleiner 1993a:213 *original emphasis*).

As a result of Tokyo's relatively weak deposit-compelling power, the material power of Tokyo's social forces is limited and somewhat parochial in comparison with that of the social forces of New York and London. Consequently, the capacity of Tokyo's social forces to shape the making of the contemporary world financial order has been undermined.

The relatively limited nature of the material power of Tokyo's social forces would appear to be compounded by the comparatively poor standing of Tokyo as a centre for knowledge and technology in the contemporary world

[13] According to Helleiner (1993a:209), as much as one-third ($205 billion) of total long-term capital exports from Japan of $620 billion between 1983 and 1989 were funded by short-term borrowing abroad.

[14] The outstanding net short-term overseas liabilities of Japanese banks increased from $-44 billion in 1985 to reach a peak in 1989 of some $265.9 billion. While some $190 billion worth of these outstanding liabilities were repaid over the next three years and Japanese inter-bank borrowing curtailed (Nakao 1995:181), by 1994 the outstanding net short-term overseas liabilities of Japanese banks had once again climbed to $216 billion (Lapavitsas 1997:31).

financial order. For instance, with reference to the competitive challenge of Tokyo to New York as a WFC, McGahey *et al* (1990:161) identify a general absence of knowledge networks informing key sets of credit practices. These include money-market and sovereign credit practices. In addition, closer linkages between credit practices and knowledge-intensive market and civil networks are broadly mitigated against by the tendency for decisions regarding creditworthiness to be less transparent than in the other WFCs of the triad. As Taggart Murphy (1996:49) notes, "External oversight by accountants, investment analysts, financial journalists, or stock market participants is largely ceremonial". Further, technological networks facilitating the greater integration of Tokyo with the social space of the world financial order also appear to have been at best slow to develop. For instance, Tokyo is relatively weak when compared to the other major Asian financial centres in terms of fibre-optic cable linkages to the US (Moss 1987:83-4).

Social and Political Power

In previous modern world financial orders, the capacity of social forces associated with the dominant WFC to exercise their material power in the making of the orders was dependent upon social and political power relations. Social and political power relations tend to frame what, following Gill (1991:280), we can term "the sociopolitical conditions for existence" of a world financial order. As a result, the pivotal position of the social forces of the dominant WFC in a world financial order is reliant upon broadly supportive forms of state. This also seems to have been apparent in the contemporary world financial order, as the liberalisation of capital controls by their respective states has been a "precondition for the dominant position of New York, London, and Tokyo in the open global financial system of the 1980s ..." (Helleiner 1994:147). However, important differences remain between the social and political power of the social forces associated with each WFC of the triad. The form of the American and British states at once reflects and underpins the relatively greater social and political power of the social forces of New York and London than that enjoyed by their counterparts in Tokyo.

The contemporary American and British forms of state have been characterised by Cox (1991/1996:199-201) as displaying "hyperliberal" tendencies.[15] Such tendencies are rooted in a change in the pattern of social

[15] "The hyperliberal tendency actively facilitates a restructuring, not only of the labor force, but also of the social relations of production. It renounces tripartite corporatism. It also weakens

power that has realised the ascendancy of the perceived interests of the social forces of capital, particularly those groups seeking to expand their involvement in the world economy. The hyperliberal American and British forms of state have entailed not only considerable restructuring of state-societal relations, but of the institutions of the state proper. Gill (1991, 1995) terms this 'new constitutionalism'. Notions of constitutionalism under previous welfare-nationalist forms of state defined the rights, obligations and freedoms of citizens; identified those policy-making institutions through which authority was to be exercised; and provided mechanisms of enforcement and ratification (Gill 1995:413). By contrast, new constitutionalism is the discourse which seeks to sustain the institutionalisation of neo-classical economics that emphasises market efficiency and discipline as binding constraints on the conduct of fiscal, monetary, trade and investment policies (Gill 1995:412). Cerny (1993b, 1994a) captures this as the rise of "embedded financial orthodoxy" in macroeconomic policy-making.

The hyperliberal tendencies of the American and British states clearly reflect the social and political power of the social forces associated with New York and London respectively. However, the political power of the social forces of New York and London is far from uniform and cannot be understood in a simple instrumentalist sense. As a wide range of literature concerned with the deregulation of American and British finance illustrates, state policy-decisions have often been taken which have cut against the grain of the perceived self-interests of New York and London (Moran 1991; Vogel 1996). What is significant is the manner in which the hyperliberal state form of America and Britain broadly buttresses the material power of the social forces of New York and London. As Martin (1994:271) asserts, the hyperliberal form of the American and British states represents "a reassertion by the state of *an underlying disposition towards financial interests* after several decades of welfare and national industrial-economic concerns" (*my emphasis*). Such "an underlying disposition" contributes to the reproduction of New York and London as key spaces for world credit practices and, therefore, to the power of their associated social forces.

bipartism by its attack on unions in the state sector and its support and encouragement to employers to resist union demands in the oligopolistic sector. Indirectly, the state encourages the consolidation of enterprise corporatist relations for the scientific-technical-managerial workers in the oligopolistic sector, a practice for which the state itself provides a model in its treatment of its own permanent cadres. Finally, state policies are geared to an expansion of employment in short-term, low-skill, high-turnover jobs that contribute to further labor-market segmentation" (Cox 1991/1996:199-200).

In contrast, the contemporary Japanese form of state seems far less certain (Cox 1989/1996:265-6), with considerable consequences for the social and political power of Tokyo's social forces. Japanese finance occupied a "repressed" (Lapavitsas 1997) position within the post-war Japanese "capitalist developmental state" (Johnson 1982). While this has changed somewhat with the deregulation of Japanese finance and effective questioning of the coherence of the existing state form by the expansion of Japanese production networks throughout Southeast Asia, the underlying social structures of the Japanese form of state have not been transformed.

The pace and direction of Japanese financial deregulation was driven in the main by the Japanese bureaucracy (Vogel 1994; Moran 1991; Taggart Murphy 1996), ensuring the continued centrality of the Ministry of Finance as "the supreme governor of the financial system" (Moran 1991:96). Indeed, the combination of the relatively slow pace of Japanese financial deregulation with the liberalisation of capital controls enabled the expansion of Japanese financial market institutional networks throughout the contemporary world financial order without a concurrent transformation of embedded domestic credit relations. The continuing tensions surrounding the gradual introduction of the 'big bang' in Tokyo since April 1998 further illustrate the uncertainty of the social and political power of Tokyo's social forces.[16] As Vogel (1996:32) suggests, the promotion of Tokyo as a WFC through more extensive deregulation of Japanese finance would strike right at the heart of the Japanese form of state. Lapavitsas (1997:22) agrees and posits that "The underlying structures of Japanese capitalism cannot yet tolerate freely operating financial markets of the Anglo-Saxon type".

Wider World Order

The structures of the wider world order tended to either reinforce or constrain the already pivotal position of the social forces of the dominant WFC in the making of the successive Amsterdam-centred, British, and American world financial orders. In the contemporary era, a combination of three principal structural features of the wider world order have constrained the making of the world financial order within a 'matrix' of liberalisation and deregulation. As a consequence, the structures of the wider world order have

[16] For details of the Tokyo 'big bang', see *The Financial Times*, Survey, 'Japan's Financial Revolution', 26/3/98.

effectively and crucially served to magnify the power of the social forces of New York and, to a lesser extent, London in the making of the order.

First, the disruptions to the world economy following the oil crisis of 1973 manifested themselves in what Vogel (1996:39-41) terms "the politics of economic slowdown". State governments were confronted by a "fiscal crisis" (O'Connor 1973) - the outcome of a combination of economic 'stagflation' and growing demand for public expenditure - that struck at the heart of the configuration of social and political power relations underpinning the predominant welfare-nationalist form of state. In rejecting the alternative policy responses of increased taxation or reduced public spending, governments increasingly funded budget deficits through recourse to sovereign credit. The impact of the politics of economic slowdown on the making of the contemporary world financial order were, then, principally two-fold. At one level, the increased reliance of some states upon sovereign credit, most notably Japan, set in motion the deregulation of national financial arrangements in order to facilitate its market-based creation (Kalder 1997; Eken 1984/1994:304-8; Helleiner 1993a:211-2). At another level, increased sovereign indebtedness alongside the perceived inability of Keynesian macroeconomic policy-making to alleviate economic stagflation prompted a much wider disintegration-reintegration of social forces and the questioning of state intervention in the economy (Clarke 1987; Vogel 1996:40). While undoubtedly uneven in their impact upon existing forms of state, policies of liberalisation and deregulation gained credence throughout the governments of the western world.

Second, the emergence of a more multi-polar, knowledge-intensive world economy marked by slower growth relative to the post-1945 'golden years' has contributed to a shift in the nature of inter-state rivalry in the wider world order (Cox 1987:304). This has had considerable implications for the making of the contemporary world financial order. Inter-state rivalry in the wider world order focusing on the expansion of territory or access to raw materials has been largely displaced by "the imperative necessity of acquiring a more or less secure share in one or another sector of the world market" (Strange 1990:266). Given the inherent mobility and fungibility of accumulated capital, the expanded importance of finance under knowledge-intensive production, and the potential balance-of-payments problems generated by capital flight, such rivalry in the world financial order is especially acute. Indeed, as Helleiner (1992:35 *original emphasis*) notes,

"... the dynamics of state-to-state interaction in the financial sector are the opposite of those in trade. Whereas collective action - in the form of collective adherence to liberal rules - is said to be necessary to maintain an *open* order in trade, it is the move towards *closure* which requires co-operation in the financial sector".

Against this backdrop and that provided by the politics of economic slowdown, the US government's decisions to unilaterally liberalise capital controls in 1974 and deregulate the NYSE in May 1975 set in motion a competitive "deregulatory dynamic" (Helleiner 1994:18) in the contemporary world financial order.[17]

Confronted by the socially and politically unpalatable repercussions of not engaging in this competition in laxity, the governments of the major states have had little alternative but to follow the American lead (Walter 1993:208-9; Cerny 1993:15; Strange 1988:131; Vogel 1996:36).[18] London has occupied an important position in accentuating the competitive pressures emanating from the unilateral financial liberalisation and deregulation by the US government.[19] Given the capacity of foreign financial market institutions to avoid regulatory restrictions at 'home' and undertake credit practices in London and other off-shore financial centres, London has been "the most important arena through which the American financial services revolution has been exported" (Moran 1991:121). Not surprisingly, pivotal to inter-state financial competition has been the promotion through deregulation by state governments of their respective national financial centres as key spaces for world credit practices (Martin 1994; Plender 1987:41; Walter 1993:242). While liberalisation and

[17] Others have asserted the presence of this dynamic in world finance. See, for example, Strange (1988:108) and Hawley (1987:142-3). According to Strange (1998:169), it was originally recognised in the 1840s by the German political economist Friedrich List. It should be noted that the unilateral decision of the US to remove capital controls in 1974 was motivated by inter-state rivalry for world market shares alongside a belief among US Treasury officials that this would assist in the maintenance of a high degree of monetary policy-making autonomy in the face of large fiscal deficits (Helleiner 1994:147-9).

[18] The literature detailing the processes of financial liberalisation and deregulation across the major national political economies is vast. For example, for comparative studies of America, Britain, and Japan, see Hamilton (1986), Moran (1991), Vogel (1996). For national studies on Germany, see Story (1996, 1997), Moran (1992) and Lütz (1997), and on France, see Loriaux (1997) and Coleman (1997).

[19] For highlighting this point, I am grateful to a representative of the Bundesbank. Confidential interview, Frankfurt, 3 September 1997.

deregulation have been by no means uniform in pace or extent and have not brought about the convergence of national financial arrangements (Moran 1991; Vogel 1996; Loriaux *et al* 1997), the shifting nature of inter-state rivalry in the wider world order has had major ramifications for the making of the contemporary world financial order.

Third, the continued predominance of the United States in the economic and security structures of the wider world order has, alongside US liberalisation and deregulatory initiatives in finance, tended to effectively support the making of the contemporary world financial order along these lines.[20] Contrary to the view of Cox (1987:302), the marketisation of world finance is not simply a consequence of the "weakening hegemony" of the US and the resulting "lack of any agreement on how the official intergovernmental structures in the system could be reformed". Rather, continued US predominance in key areas has constrained the capacity of other state and societal forces to make an alternative to the contemporary world financial order (Helleiner 1993a:209; Walter 1993:235; Arrighi 1994:16). For the Japanese in particular, dependence upon both the US national political economy as a market for exports and the umbrella of protection provided by the US military in the last decades of the Cold War mitigated against alternatives in the field of finance.[21] Indeed, the massive investment of Japanese capital through New York in US T-bonds from the early-to-mid-1980s does, albeit somewhat indirectly, reflect this dependence. As Bevacqua (1998:412) highlights, the US political economy provided the key market for Japanese exports, "and its ability to continue importing goods from Japan was determined in part by the willingness of Japanese investors to

[20] For orthodox IPE approaches that rely upon hegemonic stability theory (HST) for their explanatory power, the making of the contemporary world financial order presents particular problems. As Strange (1990) highlights, orthodox IPE explanations that focus on the declining material power of the US national political economy and its impact on the weakened relational power of the US government as evidence of hegemonic decline (see, for example, Keohane 1984) have proved unable to capture continued US structural power. In addition, HST expects hegemonic decline to be accompanied by the erosion of liberal principles derived from neo-classical economics in the organisation of the world economy. For instance, Gilpin (1987:88) posits that "protectionism and economic nationalism are once again threatening the liberal international economic order with the relative decline of American power".

[21] The US national political economy accounts for 60% of world's resource consumption annually (Gill 1991:290), and is especially important as market for Japanese exports. For instance, in 1989 the US was the destination for 34% of all Japanese merchandise exports, far ahead of South Korea as next largest with 6% (Nakao 1995:12). On Japanese dependence upon the US in security and its implications for the contemporary world financial order, see Walter (1993:237-40).

purchase US bonds, thus keeping interest rates in the USA low and thereby supporting US economic growth".

In sum, the social forces of New York and, to a lesser extent, their counterparts in London have occupied a pivotal position in the making of the contemporary world financial order. This contrasts with the making of previous world financial orders in which rising as opposed to existing state and societal forces had been at the forefront of social change. The structure of power underpinning the making of the contemporary world financial order has, however, been less hierarchical than in previous orders. Despite the social forces of New York and London enjoying greater material, social and political power than their counterparts in Tokyo within the resulting decentralised structure of power, it has been the principal features of the wider world order which have reinforced the pivotal position of New York's social forces. Taken together, the politics of economic slowdown; intensified inter-state competition for market shares in the world economy; and continued US predominance in terms of both security and economic consumption, have all constrained the making of the world financial order within a 'matrix' of liberalisation and deregulation. As such, this has effectively served to crucially magnify the power of the social forces of New York and London in the making of the order.

Part II - The 'Unstable Reproduction' of the Contemporary World Financial Order

A comparison with previous modern world financial orders reveals something of a paradox that will be utilised here to frame inquiry into the reproduction of the contemporary world financial order. The paradox will be termed that of 'unstable reproduction'. On the one hand, it has been shown that once the foundations of a world financial order are in place, the reproduction of relative stability in that order rests upon its firm centralisation in a single WFC. Periods of relative social stability - recognisable as a coherent conjunction between the material, ideational and institutional forces of an order - have been reproduced by a structure of authority centralised respectively in the dominant WFCs of Amsterdam and London and the Washington-New York axis. The informal and formal dimensions of authority come together, reproducing relative stability by articulating interdependent relationships between state, civil and market forms of authority in the organisation of world credit practices. The unravelling of a world financial order is closely associated with the proliferation of financial centres at the apex of the hierarchy. Inherent contradictions come to the surface in the absence of a centralised structure of authority to reproduce relative stability, reflected in the restructuring of the organisation of world credit practices.

On the other hand, as will be argued below, the contemporary world financial order is marked by relative instability, reflected in the incoherent relationship between the configuration of material power, ideas and institutions in the order. The informal dimension of authority is distinguished by ongoing tensions over the norms, values and meanings that prevail in the organisation of world credit practices, while the fragmentary and overlapping exercise of authority through a wide range of institutions characterises the formal dimension of authority. Taken together, the resulting decentralised structure of authority fails to articulate interdependent relationships between state, civil and market forms of authority in the organisation of world credit practices. The absence of a centralised structure of authority to reproduce the contemporary world financial order has not, however, manifested itself in structural dislocation and the unravelling of the order. The defining characteristic of the contemporary world financial order, then, is a paradox of 'unstable reproduction'.

In seeking to explain unstable reproduction, inquiry proceeds by exploring the decentralised structure of authority in the contemporary world financial order. This serves to highlight both the relative instability of the order, and the incapacity of the decentralised structure of authority to organise of world credit practices with a semblance of coherence. It will be asserted that the unravelling of the contemporary world financial order has been mitigated against largely as a consequence of international forms of authority which, up to this point, have ensured that disturbances to world credit practices emanating from financial crises have remained essentially superficial.

Decentralised Informal Authority

With the notable exception of the American world financial order, authority relations in previous world financial orders tended, during periods of relative stability, to be rooted in the world view of the social forces of the dominant WFC as the collectively accepted image of the order. Consequently, the informal dimension of authority in previous world financial orders - that is, the social mechanisms through which the values of the dominant social forces came to inform the organisation of world credit practices - has been marked, in the main, by broad-based agreement. Existing IPE inquiry into the contemporary world financial order tends to emphasise the all-pervasive reach of neo-classical liberal values as coming to frame understandings of the meaning of world credit practices and the ends to which they are put. For instance, Sinclair (1994, 1994a) posits that the practices which create, allocate, buy and sell credit have come to reify criteria derived from neo-classical economics. This results from the emergence of credit rating agencies as "exemplars" (Sinclair 1994:151) of the increased authority of market and civil institutions over the organisation of world credit practices. Not dissimilarly, Krugman (1995) identifies the presence of what he terms the 'Washington consensus' surrounding understandings of economic development.[22] The neo-classical criteria of institutional investors ensures that governments of underdeveloped state-societies that adopt the policies of the Washington consensus are rewarded with massive inflows of portfolio capital. Existing IPE research suggests, then, that despite the decentralisation of the contemporary world financial order, values derived from neo-classical economics are socially accepted and contribute to the reproduction of the order by framing the shared meanings which surround world credit practices.

Following from the widespread acceptance amongst IPE scholars of the pervasive reach throughout the contemporary world financial order of values derived from neo-classical economics, the main thrust of IPE inquiry has been to show that the adoption of neo-classical values results from social and political processes. This challenges the teleological assumption advanced by neo-classical economists themselves that the adoption of neo-classical values stems from the inherent benefits of the allocative efficiency of the market mechanism (see, for example, McKenzie and Lee 1991). For instance, Helleiner (1994:19) highlights the monthly meetings of central bankers at the Bank of International Settlements as forming an 'epistemic community' necessary for the propagation of values derived from neo-classical economics.[23] An alternative thread of IPE

[22] Pauly (1997:121-2) provides a good summary of the content of the 'Washington consensus' and its propagation through the IMF. "The advice for all countries was to adopt outward-orientated trade and investment policies, monetary policies aimed at price stability, fiscal policies aimed at balance in the medium term, unified systems of currency convertibility at realistic exchange rates, and liberal financial policies designed to build open, transparent, and solid capital markets. The incentive to move in such a direction was the promise of restructured and reduced bank debt and new financing, mainly in the form of private portfolio and direct investment".

[23] Helleiner (1994) follows Haas (1992:2) in his understanding of 'epistemic communities' as constituting "networks of knowledge-based experts", or "thought collectives". For more details

research examines the consequences of the rise of neo-classical economic values. As Perraton *et al* (1997:270-1) stress, the significance of neo-classical values in the world financial order lies not in the their capacity to inform rational and objective practices as is assumed by neo-classical economics. Rather, neo-classical values serve to legitimate the inherently subjective exercise of authority through market institutional networks by reifying the facade of the market mechanism.

The informal dimension of the structure of authority in the contemporary world financial order is not, however, as coherent as existing IPE inquiry would suggest. While neo-classical economic values are indeed prominent, contrasting particularly with the "embedded liberalism" (Ruggie 1982) prevalent during the American world financial order, they do not inform the intersubjective meanings framing all sets of world credit practices. The presence of alternative and competing shared meanings has, in the main, been obscured to IPE scholars by the orthodox representation of the changing forms of credit practices as 'globalisation'. At one level, this fuels a temptation to represent world credit practices as an homogenous global whole, the organisation of which has become subject to the values of neo-classical economics. At another level, globalisation itself contributes to the telos of neo-classical economics (Amoore *et al* 1997). As part of frameworks of thought, globalisation encourages world credit practices to approximate to the ideal of global markets present in neo-classical economics. A more nuanced 'historical' understanding of the changing forms of credit that, in particular, recognises the global-regional bifurcation of world credit practices and their decentralisation between the WFCs of the triad facilitates the identification of the presence of competing shared meanings.

Globally-orientated capital and equity market practices do indeed appear to be framed by meanings derived from neo-classical economics. Understandings surrounding the issue of securities appeal to the evaluation of the risks involved against perceptions of the prospects of future returns. Secondary trading strategies focused on short-term returns and shareholder value prevent 'back sliding' from neo-classical economic criteria by sovereign and corporate borrowers alike.[24] By virtue of their standing as the signature

on the notion of epistemic communities and its application, see the special issue of *International Organisation*, vol. 46, no. 1, 1992.

[24] On the role of secondary trading practices in preventing 'backsliding', that is, a deviation of corporate or government policy from neo-classical economic criteria, I am indebted to the insights provided by a former IMF economist. Confidential interview, London, 3 June 1998.

practices of the symbolic economy that is largely "de-coupled" from the real economy (Strange 1986), capital and equity market practices are able to effectively commodify credit relations as is demanded by neo-classical economics.[25] In contrast, regionally-orientated banking practices remain embedded in the real economy and, as such, are subject to broader societal motivations which mediate against commodification. As Germain's (1996a, 1996b) research into the coexistence of globally-orientated and regionally-orientated credit practices in both North America and Europe illustrates, these embedded relationships ensure that banking practices are driven by motivational dynamics which are different to those prompted by neo-classical economics.

The presence of alternative shared meanings in the two tiers of world credit practices is further permeated by the divergent understandings of credit creation present in the WFCs of the triad. In particular, the norms and meanings surrounding credit practices in Tokyo vary considerably from those in New York and London. For instance, Taggart Murphy's (1996:43-59) investigation into "the credit decision" reveals diverging understandings of the assessment of risk between New York and Tokyo. Assessments of risk that in New York hinge upon expectations of future profitability contrast with those in Tokyo which, in the first instance, focus upon collateral. New York- and Tokyo-centred financial market institutional networks also differ in terms of the understandings that frame their competitive strategies. New York-centred market institutional networks tend to focus on their capacity to generate value-added services for their corporate customers and upon trading, deal-making and the creation of new financial instruments. In contrast, the competitive strategies of Tokyo-centred market institutional networks tend to focus upon increasing market share and reducing the cost of capital to their customers (McGahey *et al* 1990:142-3; Levich & Walter 1989:52-3).[26] At the root of the divergent understandings of risk and competitiveness in Tokyo is Japan's "banking-industrial complex" (Carnoy *et al* 1993:82), built upon the persistence of

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[25] On the commodification of money under the neo-classical liberal logic of the self-regulating market, see Polanyi (1944).

[26] It was the very success of Japanese financial market institutional networks in expanding their market share that fuelled what Nakao (1995:103-23) terms the "hegemonic threat" interpretation of the rise of Japanese finance in the 1980s. The success of Japanese financial market institutions in gaining market share was reflected in their growing assets. For instance, the Japanese share of the total assets of the largest fifty banks world-wide measured by assets increased from 18% in 1970, to 27% in 1980 and to 48% by 1990 (Arrighi 1994:325).

keiretsu relationships between financial market institutions and corporations (Taggart Murphy 1996:28-42; Kindleberger 1996:201-3). As Wright and Pauli (1987:32) summarise,

> "Viewing Japanese financial services through traditional western assumptions can yield wildly misleading interpretations and conclusions. If we try to explain competitive strategies of Japanese companies in the near-term profit-maximising objectives we expect of private business in the West, we see behaviour that seems bizarre. If we examine the leverage and cash flow ratios of Japanese corporate balance sheets, we conclude that most large Japanese companies are on the brink of bankruptcy. If we look at the price/earnings ratios prevailing on Japanese stock exchanges, it seems that a major bust must be imminent".

The presence of alternative values to those derived from neo-classical economics has been ensured by the combination of the global-regional bifurcation of world credit practices and the presence of divergent shared meanings across the WFCs of the triad. Particularly significant is the junction of Tokyo's alternative shared meanings with Tokyo-centred regionally-orientated bank lending. Tokyo-centred credit practices continue to partially cut against the grain of disintermediation, taking the form of banking practices that are embedded in the real economy of Japan and the Asian region. This has been starkly illustrated in recent times by the response of US state and societal forces to the Asian financial crisis. As Bello (1998:434) highlights, the response has been in large part an attempt to transform the shared understandings which frame credit practices throughout Asia by calling for the increased transparency and disclosure of the financial market institutions of the region. Contrary to the suggestions of existing IPE scholarship, then, the dominant social forces of New York, London and Tokyo do not simply share values derived from neo-classical economics as the basis of a world view which represents their perceived shared interests. Rather, authority relations which, by their nature, require a collective image of order upon which to rest, remain open to question.

Decentralised Formal Authority

In the reproduction of relative stability in previous world financial orders, the formal authority exercised through market, civil and state institutions has waxed and waned. A commonality shared by each order has been, however, that the position of market, civil and state institutions in the organisation of world credit practices has been clearly demarcated, closely related to the informal dimension of authority. For instance, under the Amsterdam-centred world financial order, the widespread acceptance of the cosmopolitan values of Amsterdam's social forces provided the basis for the exercise of authority through market and civil institutions in the organisation of world credit practices relatively free from state interference. Pivotal to the formal exercise of authority through interdependent state, civil and market institutions in the reproduction of an order has been both the centralisation of those institutions in the dominant WFC and their 'reach' throughout the order.

Two main interrelated features distinguish the exercise of formal authority in the contemporary world financial order. First, the balance of authority exercised through state, civil and market institutions has shifted, as the authority exercised through market institutions has increased considerably since the American world financial order. Second, in contrast with periods of relative stability in previous world financial orders, formal authority is decentralised with the effect that authority over the organisation of world credit practices is fragmentary and overlapping. As such, the formal exercise of authority, which necessarily requires social acceptance, remains subject to clarification.

In comparison with the American world financial order, formal authority over the organisation of world credit practices exercised through state institutions has contracted considerably. Essentially, as Cerny (1996:93) notes, financial liberalisation and deregulation involve a shift of responsibility and authority. In terms of both active intermediation and the regulation of capital and credit flows, the liberalisation and deregulation of credit practices involves a major weakening of the authority of state institutions over their organisation (Germain 1997:162). While a future reversal is far from impossible as states retain "design capacity" (Vipond 1993:187) over market structures, authority over the volume of credit created and its allocation in the contemporary world financial order currently rests largely within the principal market institutions.

The "operational capacity" (Vipond 1993:187) of state institutions is consequently eroded. However, the operational capacity that does remain is, at one and the same time, more evenly distributed than under periods of relative stability in previous world financial orders and yet continues to be asymmetrical. For instance, as Germain's (1997:137-61) account of the authority of state institutions illustrates, the capacity of US Federal Reserve to decisively manipulate the organisation of credit practices through interest rate changes has been partially circumscribed in the contemporary world financial order. Amidst the emergence of a more multi-polar world economy, the Bundesbank and Bank of Japan - as the central banks of those national political economies which predominate in the European and Asian regions - chart increasingly independent interest rate policies. At the same time, however, the continued dollar-denomination of the majority of world credit practices, the large volume of outstanding US sovereign debt, and the importance of New York's capital and equity markets ensures that the Federal Reserve retains the capacity to authoritatively influence credit creation in the short-term through open market operations.[27] Unlike, for example, the position of the Bank of England in the British world financial order, the institutions of any single state lack sufficient reach throughout the order to contribute significantly to the control of the organisation of world credit practices.

In comparative terms, the increased formal authority over the organisation of world credit practices wielded through market institutions is suggestive of several parallels with the Amsterdam-centred and British world financial orders. In general terms, both orders were also characterised by market-based authority over the organisation of world credit practices relative to the American world financial order. More specifically and reminiscent of the position of the great merchant houses in the Amsterdam-centred and British world financial orders, disintermediated credit practices in the contemporary order have been organised largely through the institutional networks of the major investment banks. However, several important conjunctural distinctions feature in the market-based exercise of authority in the contemporary world financial order. For instance, the tendency for institutionalised linkages to be

[27] Open market operations are concerned with the manipulation of liquidity in response to monetary policy targets. As Germain (1997:153) summarises, "If a central bank is concerned with an over hasty expansion of the money supply, it sells government bonds from within its own portfolio, thereby reducing the immediately available funds which banks and other financial sector firms have to lend to their clients. To pump liquidity into the system, a central bank need only to buy discounted bonds offered on the market (or encourage them to be put up for sale), thereby increasing the availability of cash to monetary agents for lending and other uses".

established between the major commercial and investment banks through mergers and acquisitions constitutes "a new departure in the historical balance of power between public and private authority" (Germain 1997:106). The primary market institutions now possess an increased capacity to exploit regulatory differences between political economies and to hold significant shares of new issues, expanding their authority over the organisation of credit practices.

More importantly, however, what is particularly distinctive in the contemporary world financial order is the extent to which the exercise of authority through market institutional networks is decentralised. The market institutional networks of New York, London and Tokyo each lack the reach throughout the world financial order to sufficiently control the organisation of world credit practices. In simple terms, while New York- and London-centred market institutions are key to the exercise of authority over capital and equity market practices, banking practices have been increasingly organised through Japanese and continental European commercial banks. In terms of globally-orientated capital and equity market practices more narrowly, investment banking networks such as J.P Morgan, Merrill Lynch, Salomon Brothers, Goldman Sachs and Morgan Stanley which are all anchored in New York do enjoy considerable authority. This is reflected in their strong market positions (McGahey *et al* 1990:150-1).[28] The authority of US investment banks has been pivotal to the propagation of shared meanings surrounding capital and equity market practices which are derived from neo-classical economics, supplemented by the authority of New York-centred institutional investors and their criteria surrounding investment decisions (Harmes 1997; Minns 1996).[29] Given the additional authority exercised through New York-centred civil and state

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[28] For example, four of the top five book runners by value in world bond markets in 1996 were US investment banks (*The Guardian*, 'Grim Global Banking Wars Loom for the 21st Century', 6/2/97, p.19).

[29] For instance, the practices of issuing capital and equity market instruments have become increasingly framed by the risk assessment models of New York's investment banks. On this point I am indebted to the insights provided by a London-based representative of a German-owned investment bank. Confidential interview, London, June 1998. By way of illustration, risk assessments of credit provided for corporate mergers and acquisitions have tended to be framed by understandings based upon the Modigliani-Miller propositions championed by New York's investment banks. Developed and named after two Nobel Prize winning economists and as with many schemas for risk assessment rooted in neo-classical liberal economics, the Modigliani-Miller propositions prescribe that corporations increase their indebtedness while at the same time lower their horizons to achieve short-term profit maximisation and share-holder value (Economist 1991).

institutions such as the NYSE (Moran 1991), the credit rating agencies of Standard and Poors and Moodys (Sinclair 1994, 1994b), and the SEC (Lütz 1997; Sassen 1997), a nascent New York-centred structure of authority in the organisation of capital and equity market practices would appear to be in place. However, this remains still-born while capital and equity market practices are largely undertaken offshore in the London-centred Euromarkets. The offshore status of London-centred capital and equity market practices ensures that the construction of the interdependent relationships between the authority of market, civil and state institutions that are essential to the explicit organisation of world credit practices is mitigated against.

In our terms, then, what is significant is the extent to which, in contrast to periods of relative stability in previous world financial orders, the decentralisation of the world financial order undermines the authority of the institutions of a single WFC to come together and reproduce the order. As a consequence, a disjuncture has emerged between the global and regional reach of market institutional networks anchored in the WFCs of the triad and the limited and fragmented reach of state institutions (Gill 1992; Strange 1998:44). Authority is exercised through an increasingly complex array of institutions "falling over each other in a disorganised free-for-all" (Strange 1998:171). The result is a situation in which authority is exercised in a fragmentary and overlapping manner. As Underhill (1997c:315) notes, the fragmentation of authority leads to a "coherence problem" which "needs to be clarified as a means of stabilising expectations about global financial order".

Unstable Reproduction

The relatively instability of the contemporary world financial order and the associated decentralisation of the informal and formal dimensions of authority have not, however, led to the unravelling of the order. Instead, the order has been characterised by unstable reproduction. The relative instability of the order and the decentralised structure of authority have manifested themselves in a crisis-ridden organisation of world credit practices. International forms of authority based upon bilateral and multilateral co-operation between state and civil institutions have been developed largely in response to successive financial crises. It is the authority of these international arrangements which, in the main, has contributed to the reproduction of the contemporary world financial order by ensuring that financial crises constitute superficial disturbances to world credit practices rather than realising the structural dislocation of the order.

The decentralised structure of authority in the contemporary world financial order and the associated incoherence in the organisation of world credit practices has revealed itself in a high incidence of financial crises. For instance, a recent study by IMF economists (Lindgren *et al* 1996) suggests that of the Fund's 181 member states, 133 had experienced disruptions to banking practices between 1980 and early 1996. Overall, the findings classified 108 instances of disruption as "significant", and 41 instances in 36 states as "crisis". In many instances of "crisis", disruptions generated a sizeable reduction in GDP. Both the record of frequency of banking crises and the extent of their detrimental consequences for economic growth was found to be worse than for any similar period since the Great Depression of the 1930s.

More significant in our terms, the contemporary world financial order itself has lurched from one major financial crisis to another. These have included the 'debt crisis' of the early 1980s (Aggarwal 1987), the stock market crash of 1987 (Toporowski 1993), the Mexican crisis of 1994-5 (Krugman 1995), and most recently the Asian crisis (Goldstein 1998; Haggard & MacIntyre 1998; Bevacqua 1998). These have been accompanied by more narrow instances of the failure of market institutional networks including the Franklin National Bank, the Banco D'Ambrosiano, the Bank of Credit and Commerce International, Barings Bank, and Yamaichi (Dombrowski 1998:5). In the context of the increased exercise of authority over the organisation of world credit practices through market institutions and alongside the failure to develop interdependent relationships between state, civil and market institutions, at the roots of the major crises has been the imprudent and reckless over-extension of credit (Germain 1997:136; Strange 1998:44).

Of course, previous modern world financial orders were not immune to financial crises. What has been striking about the contemporary world financial order, however, has been the way in which financial crises have engendered responses built upon international co-operation. As Helleiner (1994:170) notes, two main threads of this international authority are observable. First, in the aftermath of crises, officials from state and civil institutions have initiated co-operative regulatory and supervisory initiatives in an effort to discourage the overly risky expansion of credit and, therefore, to forestall future crises.

Second, state officials have come together in the provision of lender of last resort facilities to manage financial crises and prevent them from spiralling out of control.

Regulatory and supervisory co-operation began following the panic created by the losses sustained in the Eurocurrency markets by the Franklin National Bank and Bank I.D Herstatt in 1974 (Frieden 1987:117-9; Porter 1993:56; Underhill 1997a:25). Under the auspices of the BIS, the Basle Committee on Banking Supervision was formed which was comprised of officials from the relevant state and civil institutions of the G-10 states (Porter 1993:56-7; Underhill 1997a:23). The result was the Basle Concordat of 1975. This established the responsibilities of 'home' and 'host' national regulatory and supervisory institutions with regard to the credit practices organised within the institutional networks of commercial banks (Porter 1993:58-9; Underhill 1997a:25-6). The Concordat was subsequently revised in 1983, following the Banco D'Ambrosiano affair, by placing greater responsibility with the 'home' regulatory and supervisory institutions (Porter 1993;59-60; Underhill 1997a:26-7). International co-operation regarding banking practices culminated in the 1988 Basle Capital Adequacy Accord which established minimum capital base requirements for commercial banks (Porter 1993:61-5; Underhill 1997a:28-30). According to Kapstein (1996:6), the 1988 Accord is "the cornerstone of international financial regulation". This re-regulatory thrust meant that national supervisory institutions shifted from a focus upon the market broadly to concentrate upon the adherence by individual banks to minimum prudential capital requirements.[30]

International co-operative forms of authority have not been limited to banking practices. In the wake of the 1987 world stock market crash and through the forum provided by the International Organisation of Securities Commissions (IOSCO), the national regulatory and supervisory institutions framing capital and equity market practices came together.[31] International co-operation in the regulation and supervision of securities practices has been subsequently pursued in two complementary directions (Underhill 1997a:32). First, led by the US SEC through bilateral agreements called 'Memoranda of

[30] On this point I am indebted to the insights provided by a representative of the British Banker's Association. Confidential interview, London, 3 June 1998.

[31] The IOSCO was founded in 1984 to bring together the regulators and supervisors of North and South America (Porter 1993:112; Underhill 1997a:31)

Understanding' (MOUs), regulatory and supervisory institutions have developed information sharing agreements to assist their activities (Lütz 1997; Porter 1993:112-7; Underhill 1997a:32-3). This is widely agreed to have encouraged state institutions in many instances to take up the responsibilities for regulation which previously resided with stock exchanges as civil institutions (Moran 1991; Vogel 1996; Lütz 1997). Moran (1991) casts this as the growing "codification, institutionalisation and juridification" of financial regulation, rooted in the diffusion of regulatory practices from the SEC. Second, international co-operation with regard to the capital adequacy of securities firms has been undertaken. Agreement has, however, proved more difficult to achieve than in banking, complicated by the complexities of measuring 'market risk' and the resulting discord surrounding the appropriate formula for calculating an adequate capital base (Porter 1993:118-9; Underhill 1997a:33-5).[32]

International co-operation in terms of the more immediate management of financial crises, meanwhile, has been particularly ad-hoc and increasingly undertaken under the auspices of the IMF. According to Strange (1998:163-9) and Pauly (1997:116), the position of the IMF in crisis management was secured following its role in the aftermath of the debt crisis during the early 1980s. This constituted "a profound transformation" (Pauly 1997:99) from the role that the IMF had played previously of providing short-term offsetting finance. Such a transformation was enabled by the expansion of the IMF's mandate throughout the 1970s to include the surveillance of obligations arising from world credit practices (Pauly 1997:116-7). Contrary to the view of Strange (1998:163-9), the IMF in itself has not become the world's lender of last resort. Responses to the debt crisis, the Mexican peso crisis of 1994-5, and most recently the Asian crisis have tended to follow a similar pattern. The IMF, backed by the principal central banks, provides short-term bridging loans to forestall default, prescribes the adoption of the policies of the 'Washington consensus', and organises the re-scheduling of outstanding credit obligations (Pauly 1997:117-9, 124; Goldstein 1998:31-44).

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[32] "Capital adequacy for securities firms is similar in principle to capital reserves for international banks, but there are important differences. For banks, the main concern is with the creditworthiness of their loan portfolios and clients, and off-balance sheet activities are converted into the equivalent of loan risks according to the Basle Accord. In contrast, for the most part risk in the securities sector is related to the firm's *position* in the market, called 'position' or 'market risk'" (Underhill 1997a:33 *original emphasis*). Such 'positions' in the market result from securities firms holding their own portfolio of equities that are subject to price fluctuations.

The contribution to the unstable reproduction of the contemporary world financial order of the authority generated through international co-operation should not, however, obscure the extreme fragility of the order. Indeed, three factors suggest that the international co-operation that lays at the heart of the unstable reproduction of the order may itself prove unsustainable. First, regulatory and supervisory co-operation has been found wanting in several respects. For instance, under the Basle Capital Adequacy agreement, Japanese banks were permitted to count 45% of their so-called 'hidden reserves' from holdings of equities towards their capital base (Suzuki 1992:98).[33] Given the huge bad debts accrued by Japanese banks as a consequence of their involvement in credit boom that preceded the Asian financial crisis, and on top of those bad debts remaining from the collapse of the 'bubble economy', the solvency of many of the world's largest banks remains in doubt.[34] Meanwhile, broadly reflecting the uncertainty resulting from the decentralisation of informal authority and also the practical problems of measurement and enforcement, the BIS has "virtually thrown in the towel on capital adequacy reserves" (Strange 1998:161). The use by banks of complex mathematical models derived from neo-classical economics to manage their own risk is increasingly gaining credence amongst regulators and supervisors (Underhill 1997a:37-8). The publication by the BIS of a directive entitled *'25 Core Principles of Effective Banking Supervision'* in April 1997 signalled that the BIS was "abdicating regulatory responsibility to the banks themselves" (Strange 1998:163). In stark contrast to the view of Kapstein (1996) that co-operation has rendered the world financial order "shockproof", the future of the institutional edifice of regulation and supervision is in doubt.

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[33] The 'hidden reserves' of Japanese banks arise from the holding of equities valued on their balance sheets at the cost of acquisition and not at the market price. Consequently, the capital base of Japanese banks is subject to fluctuations in equity prices. On the linkages between 'hidden reserves' and the embedded relations between Japanese banks and corporations, see Lapavitsas (1997:36).

[34] Henderson (1998:171) calculates that the loan exposure of Japanese banks to the Asia crisis political economies of Thailand, Philippines, Malaysia, Indonesia and South Korea totalled around $150 billion that required rescheduling, placing huge stress on their solvency. Aside from the more 'direct' consequences of their loan exposure, Japanese banks have also suffered more 'indirectly' through the close investment and trade links between Japan and the rest of the Asian region. As Henderson (1998:174) summarises, "the Asian crisis caused instability within the Japanese financial system given further bad loans incurred by the banks, reduced stock portfolio profits on bank balance sheets, valuation losses to Japanese exporters in Asia, and a worsened outlook for Japan's trade".

Second, the capacity of international co-operation through the IMF to prevent future financial crises from realising the structural dislocation of the contemporary world financial order is far from assured. As Underhill (1997c:315) notes, "the institutions and mechanisms of crisis management ... do not yet match the increased systemic risk inherent in the unwieldy financial order". This has been starkly illustrated by the Asian financial crisis. In the face of the huge capital flows that marked the crisis, the IMF and the principal central banks clearly struggled to mobilise sufficient funds to prevent immediate defaults on outstanding credit obligations. In addition, the role of the IMF in the crisis has come under intense criticism. For instance, the prescription of the policies of the Washington consensus as part and parcel of the rescheduling of obligations is widely regarded to have exacerbated the deflationary consequences of the crisis (Goldstein 1998:31-44). More significantly, as Pauly (1997:141) asserts, the IMF remains "a coping mechanism, not a solving mechanism". As debates surrounding the 'moral hazard' problem generated by IMF organised bailouts reflect (Deutsche Bank Research 1998:8-9), international co-operation in the management of crises alone does nothing to address the overly-risky expansion of credit through market institutions that lies at the root of financial crises in the contemporary world financial order.

Third, the specific problems of sustaining international regulation, supervision and crisis management are constantly compounded by dependence upon continued inter-state co-operation. As Strange (1996:164-71) has made clear concerning international organisations broadly in the contemporary world order, formal authority is not exercised through international institutions independently of negotiations between state officials. For instance, Andrew Crocket, BIS General Manager since 1994, describes the BIS as "less an organisation than a process".[35] Similarly, the IMF lacks autonomy from the major states in decision-making (Germain 1997:141; Strange 1996:167-8; Pauly 1997:99). Existing co-operation between the major states has tended to be sustained by a combination of shared economic interests and a deep-rooted awareness, fuelled by the experience of the Great Depression of the 1930s, of the social and political consequences of the collapse of the world financial order. As Pauly (1997:17) asserts of the US-led response to the debt crisis, "Having collectively built an international economic system around more deeply connected financial markets, leading states had a common interest in avoiding

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[35] See *The Economist*, 'Lenses of last resort', 6/6/98, pp.103-4.

the disintegration of those markets". Significantly, the unstable reproduction of the contemporary world financial order is reinforced by inter-state co-operation which, based upon the maintenance of the status quo, does not articulate an interdependent relationship between state, civil and market authority in the organisation of world credit practices.

Conclusion

The social forces of New York and, to a lesser extent, their counterparts in London have occupied a pivotal position in the making of the contemporary world financial order. This contrasts sharply with the making of previous world financial orders. In the British and American world financial orders, the social forces associated with the dominant WFC had already established their pivotal position at the apex of a structure of power as part and parcel of the unravelling of the previous world financial order. Conversely, the unravelling of the American world financial order was not driven by the rise of state and societal forces to surpass the dominant position of New York's social forces and the US state. As a consequence of a more decentralised structure of power in the contemporary world financial order, New York's social forces have not held material, social and political dominance over their counterparts in London and Tokyo. It has been the principal features of the wider world order, then, which have reinforced the pivotal position of New York's social forces. Taken together, the politics of economic slowdown; intensified inter-state competition for market shares in the world economy; and continued US predominance in terms of both security and economic consumption, all effectively served to crucially magnify the power of the social forces of New York and London in the making of the order.

Understood in comparative historical terms, the contemporary world financial order has been shown to be distinguished by a paradox of unstable reproduction. On the one hand, the contemporary world financial order is marked by relative instability, reflected in on-going tensions surrounding informal authority and the fragmentary exercise of formal authority through a wide range of institutions in the organisation of world credit practices. As a result, the decentralised structure of authority has failed to articulate the interdependent relationships between state, civil and market forms of authority that are necessary to bring coherence to the organisation of world credit practices. World credit practices have been crisis-ridden. On the other hand, however, the contemporary world financial order has not as yet unravelled. The unravelling of the order has been mitigated against by international forms of authority based, in the main, upon inter-state co-operation. International co-operation has focused upon regulation, supervision and crisis management. This has ensured that disturbances to world credit practices emanating from financial crises have, up to this point, proved essentially superficial, not translating into structural disruptions in the contemporary world financial order. Nevertheless, the order does continue to be extremely fragile, as inter-state co-operation does not articulate interdependent relationships between state, civil and market authority in the organisation of world credit practices. At the root of the distinctive nature of both the making and unstable reproduction of the contemporary world financial order, then, is the decentralisation of the order between the triad of WFCs.

CONCLUSION

Apprehending World Finance: Prospects of an Historical IPE

Overview of the Thesis

> "History ... is the essential corrective for intellectual hubris" (Strange 1998:20).

This thesis has confronted a dual problematic - that is, attempts to apprehend contemporary world finance encounter not only significant structural change, but also the predominance of neo-classical economics as a mode of knowledge. Restrained by the imperial reach of neo-classical economics, understandings of world finance come to naturalise structural change through the reification of the market mechanism. As such, the inherent social and political dynamics of the practices, structures and institutions of world finance are necessarily neglected. In contrast, a pathway to an alternative mode of knowledge of world finance has been followed that is at once broadly situated within, and built upon an engagement with, the field of IPE. In particular, in support of an ambitious 'historical turn' amongst new IPE scholars, history has provided the ontological and epistemological anchor for an alternative mode of knowledge of world finance.

Before turning to reflect upon the utility of an Historical IPE of world finance, it is appropriate that we briefly reiterate the main claims that have been made. Inquiry began by identifying the field of IPE as fertile soil from which to generate an alternative to the predominant mode of knowledge of contemporary world finance derived from neo-classical economics. In practical terms, since the rebirth of the field amidst the world economic crisis of the early 1970s, IPE has emerged as a central avenue for apprehending world finance. More specifically, given that orthodox IPE shares much of its ontological and epistemological basis with neo-classical economics, the wide-reaching critique of orthodox IPE by new IPE offers a starting point from which to begin to construct an alternative mode of knowledge. Considerable ontological, epistemological and theoretical debates which lead to important variations across new IPE as a mode of knowledge of world finance ensure, however, that in itself new IPE is only a starting point. The processes of (re)thinking world finance that are indispensable for the articulation of an alternative mode of knowledge necessitate a coherent new IPE approach. This was the purpose of Part I, comprising of chapters one and two.

Part I responded to the recent 'call to history' by new IPE scholars as the basis for (re)thinking world finance. The call to history in this sense is one form of critical reasoning that disputes the claims of orthodox IPE as to the knowledge which it accepts as legitimate and its focus for inquiry. Exploring the epistemological and methodological implications of an ontology of historicity led to the generation of an historical mode of thought. This provided an 'historical' warrant for alternative knowledge claims to those buttressed by empiricist epistemology and positivist methodology. In addition, and also following from an ontology of historicity, an Historical IPE approach suggested five main interrelated dimensions of a focus for IPE inquiry: structured social practices, social change, social space, social time, and social orders. These were subsequently developed with reference to world finance. Commercial, clearance, money-market, sovereign, and corporate credit practices were identified as the sets of structured social practices that comprise world finance. Considered over the *longue durée* of social time, it was posited that these world credit practices had taken on their modern configuration in the context of the Enlightenment in seventeenth century Europe. The notion of 'forms of credit' was used as a way of capturing conjunctural variations in world credit practices, that is, periodic differences in both the nature of credit instruments employed and the institutionalisation of world credit practices. Reflecting the concern of an Historical IPE with social space and the inherent spatiality of structured social practices, world financial centres (WFCs) were also identified as the key social spaces for world credit practices.

Furthermore, Part I advanced an understanding of world finance conceptualised as successive historical structures that span irregular conjunctures. In synchronic terms, world credit practices were shown to be framed by and to draw upon capital, knowledge and technology as material capabilities; intersubjective meanings and world views as types of ideas; and market, state and civil institutions. It was held that material, ideational and institutional forces tend to become centralised in WFCs as the key social spaces for world credit practices. In diachronic terms, historical structures were represented as social orders with the effect that world finance became understood as a succession of social orders, that is, world financial orders. Relationships between power relations and authority relations and the making and reproduction of world financial orders respectively were also suggested. It was propounded that the reproduction of a relatively stable world financial order hinges upon the coming together of the informal and formal dimensions of the structure of authority within that order, facilitating the organisation of world credit practices. Given that the material, ideational and institutional forces of world finance tend to be centralised in WFCs, WFCs were identified in diachronic terms as key spaces of authority, the social loci for the reproduction of a relatively stable world financial order. Ultimately, it was posited that a relatively stable world financial order coincides with the firm centralisation of that order in a single WFC. A relatively unstable world financial order coincides with the fall of the previously dominant WFC and the rise of one or more others to the apex of the hierarchy. Both relative stability and instability in world financial orders are also related to the changing structures of the wider world order.

Part II, comprising chapters three, four and five, effectively shifted gears to consider 'World Financial Orders and World Financial Centres' in more concrete terms. Inquiry proceeded across each of the Amsterdam-centred, British, and American world financial orders respectively by reflecting upon, in the first instance, the predominant forms taken by world credit practices and their centralisation in Amsterdam, London, and New York as successive single WFCs. In diachronic terms, the making of each order was related to the material, social and political dimensions of the structure of power and the structures of the wider world order. Periods of relative stability and instability in each order were identified, and the reproduction of the orders through the coming together of the informal and formal dimensions of the structure of authority related to the organisation of world credit practices. The contradictions and conflicts that marked the unravelling of each order and its associated decentralisation were also highlighted. Throughout Part II, a comparative form of historical inquiry helped to ensure that close attention was paid to both the continuities and differences which marked the Amsterdam-centred, British, and American world financial orders.

Part II yielded several historical insights that in the course of Part III acted as a guide for inquiry into the contemporary world financial order. Consequently, chapters six and seven provided an alternative mode of knowledge that captured the structural changes of contemporary world finance. Chapter six focused in synchronic terms on the changing forms of credit and the emergence of the 'triad' of New York, London and Tokyo as the WFCs that stand as the key social spaces in the contemporary world financial order. Contemporary world credit practices have taken the predominant forms of both bank loans and capital and equity market practices. Six main interrelated dimensions of change in the forms of credit were identified to capture their conjunctural distinctiveness - marketisation and dollar-denomination; syndication; disintermediation and securitisation; decompartmentalisation and institutional re-organisation; expansion and innovation; globalisation, regionalisation and bifurcation. While in contrast with the American world financial order contemporary world credit practices have taken a more marketised form, they have simultaneously remained primarily denominated in US dollars as during the American world financial order. From the beginning of the contemporary world financial order in 1974 through to the early 1980s, sovereign credit practices in particular took the predominant form of syndicated bank loans. Since the debt crisis of the early 1980s, world credit practices have tended to become disintermediated and securitised, taking the predominant form of capital and equity market practices. This has entailed the decompartmentalisation and re-organisation of the manner in which world credit practices are institutionalised. Changes in the forms of credit have also coincided with a massive expansion in the volume of credit created by world credit practices and considerable innovations in credit instruments. In addition, it was posited that contemporary world credit practices have become bifurcated, that is, marked by a coexistence of globally-orientated capital and equity market practices with regionally-orientated bank lending practices.

Chapter six's account of the triad of New York, London, and Tokyo as WFCs and their relationships to the changing forms of credit emphasised the differences between each as key social spaces for world credit practices. The continuing dollar-denomination of world credit ensures that New York is the key space for clearing practices and a large share of closely related money-market practices. New York has been at the forefront of disintermediation and securitisation, continuing to be the key space for the issue and trading of large volumes of US sovereign credit, the placement of bonds issued elsewhere, and foreign investment and trading in domestic and foreign securities. New York also remains the key space for those practices that provide commercial and non-capital market corporate credit in support of regional arcs of trade and investment in North America.

In contrast to New York, London's position as one of the triad is based upon its standing as an offshore entrepôt WFC. Throughout the contemporary world financial order, London has been a key social space for the predominant forms of world credit practices including the globally-orientated practices of issuing and trading bonds, trading equities, and foreign exchange dealing. Three broad phases were isolated to capture London's standing as a key space for banking practices. First, from the beginning of the contemporary world financial order through to the early-to-mid 1980s, London dominated banking by virtue of its position as the key space for syndicated lending. Second, from the mid-1980s through to the end of the decade, London retained its position as a banking centre chiefly as a consequence of its support, through inter-bank lending, for the expansion of Tokyo-centred regionally-orientated banking throughout Asia. Finally, during the 1990s, London has retained its position as the premier offshore banking centre despite the challenge of Paris and Frankfurt as key spaces for regionally-orientated banking practices in support of European patterns of trade and investment.

In contrast to both New York and London, Tokyo was of marginal significance as a financial centre at the beginning of the contemporary world financial order. It was in the course of the 1980s that Tokyo's importance as a WFC developed, based upon the rise of Japan as the world's principal creditor nation. In particular, Tokyo stood as a key space for the practices of capital allocation and investment during the latter half of the 1980s in support of securities issues and trading in New York and London. Tokyo's standing as the financial centre for the Asian region was also confirmed from the mid-1980s, as Tokyo-centred regionally-orientated banking practices extended into Southeast Asia alongside the production networks of Japanese MNCs. The scope of Tokyo-centred regionally-orientated banking broadened from 1993-4 to provide much of the foreign-currency denominated loans upon which the Asian credit boom, which has recently translated into the Asian currency crisis, was based.

Chapter seven considered the making and reproduction of the contemporary world financial order. Three main features were argued to distinguish the making of the contemporary world financial order from previous orders. First, the social forces of New York and, to a lesser extent, London have occupied a pivotal position in the making of the order. The unravelling of the American world financial order was not driven by the rise of other state and societal forces to displace the standing of New York's social forces at the apex of the hierarchy. This contrasts sharply with the making of previous orders in which the social forces associated with the dominant WFC had already established their pivotal position as part and parcel of the unravelling of the prior order. Second, the structure of power framing the making of the contemporary world financial order has, however, been less hierarchical than in previous world financial orders. Material, social and political power do remain unevenly distributed, ensuring that the social forces of London and New York enjoy greater power than their counterparts in Tokyo. Third, the structures of the wider world order have constrained the making of the contemporary world financial order within a matrix of liberalisation and deregulation. This has effectively served to crucially magnify the power of the social forces of New York and London in the making of the order.

The reproduction of the contemporary world financial order was shown to be characterised by a paradox of 'unstable reproduction' when viewed in comparative historical terms. On the one hand, the contemporary world financial order is relatively unstable, reflected both in the tensions surrounding informal authority and the fragmentary exercise of formal authority. As a consequence, a decentralised structure of authority fails to articulate interdependent relationships between state, civil and market institutions in the organisation of world credit practices. World credit practices are, therefore, crisis-ridden. On the other hand, despite the relative instability of the contemporary world financial order, it has not yet unravelled. Chief in mitigating against the unravelling of the order have been international forms of authority based, in the main, upon inter-state co-operation in regulation, supervision and crisis management. This has ensured that disturbances to world credit practices emanating from financial crises have, up this point, proved superficial and have not translated into structural dislocation and the unravelling of the order. In the absence of a single dominant WFC with sufficient reach to articulate interdependent relationships between state, civil and market authority, the contemporary world financial order does, however, remain extremely fragile.

The Prospects of an Historical IPE of World Finance

The utility of the historical mode of knowledge of world finance generated by an Historical IPE approach to world finance is primarily three-fold. First, in contrast to the predominant mode of knowledge derived from neo-classical economics, an Historical IPE exposes the social and political foundations of the organisation of world finance. Contrary to the assumption of neo-classical economists that world finance is the outcome of the self-correcting operation of the international economy, the organisation of world finance is problematic and subject to shifting patterns of social power relations.

While the identification of the social and political foundations of world finance is common to existing IPE research in world finance, an Historical IPE approach also makes a distinctive contribution. This stems, in particular, from the concern with the changing organisation of world credit practices. The focus upon world credit practices themselves challenges the use of categories in IPE research such as 'money capital' (Bonefeld & Holloway 1995) or 'international capital mobility' (Goodman & Pauly 1993; Andrews 1994). Financial flows are neither simply the monetary part of the circulation of capital broadly defined (Bonefeld & Holloway 1995), or movements of accumulated capital linked to the functioning of the international economy (see, for example, Gilpin 1987:306). Rather, an Historical IPE draws attention to financial flows as resulting largely from the creation of credit which is itself the outcome of several sets of structured social practices. In short, an historical mode of knowledge of world finance recognises the human agency that necessarily underpins financial flows.

Second, an historical mode of knowledge of world finance reveals that the social and political foundations of world finance extend through and beyond the intersection of states and markets. In this sense, an Historical IPE approach contrasts with the majority of existing IPE research that has been shaped largely by concerns with the inter-relationships between states and markets. An Historical IPE disaggregates the categories of 'state' and 'market' as part of a broader re-focusing of inquiry upon the changing organisation of structured social practices in the context of social orders. This facilitates analysis that shows that world credit practices take a wide range of institutional of forms in different periods. As such, rather than an emphasis on the inherent qualities of states and markets as forms of social organisation, the various, changing and contingent social and political bases of states and markets themselves are also shown. It is not so much that states and markets as categories are replaced in the course of an Historical IPE approach. Rather, the often implicit recognition amongst new IPE scholars that changing relationships between state and market are rooted in changing social power relations is rendered explicit through consideration of social orders.

The identification of the significance of WFCs to world finance is instrumental to the disaggregation of markets and states by an Historical IPE. WFCs are not simply key financial markets, but key social spaces in the organisation of world credit practices, where practices and the various material, ideational and institutional forces framing them are centralised. The social forces associated with dominant WFCs also occupy a pivotal position in the making and reproduction of world finance. Indeed, once the significance of WFCs to world finance is recognised, it forms an essential part of the critique of orthodox IPE approaches to world finance. Orthodox IPE approaches typically focus upon the rise and fall of states and the organisation of their wealth and power as the key to understanding changing relationships between states and markets. Such approaches that focus upon state-market relations are unable to capture the continued importance of WFCs once the ascendant position of their associated states is challenged. This was clearly the case with Amsterdam from the middle of the eighteenth century, London from the 1870s, and with New York in the contemporary world financial order.

Third, the utility of an historical mode of knowledge of world finance also lies in the potential of appropriating knowledge about the past in order to interpret that knowledge and so inform an emancipatory future. The transformative potential of an historical mode of thought is a consequence of recognition by an Historical IPE of the intimate connection between knowledge and social practice. Through critical self-reflection, agents have the ability to challenge the structural parameters with which they are confronted. The teleological and utopian view of the future of world finance prompted by neo-classical economics is undermined, then, by a firm awareness of the contingent nature of past and future change.

Through the use of a comparative historical method, an historical mode of knowledge of world finance has illuminated the distinctive features of the structures of contemporary world finance. This enables the identification the contradictions and conflicts that are likely to contribute to the future development of world finance. It has been suggested that the contradictions and conflicts that mark the 'unstable reproduction' of the contemporary world financial order have at their roots the decentralisation of the order between the triad of New York, London, and Tokyo. Given the development of international forms of authority, the result is the perpetuation of a crisis-ridden organisation of world finance. Major financial crises in the future, which hold the potential to rupture existing social power relations, may offer structural opportunities that can be taken up through social action to help transform world finance. While history as "the essential corrective for intellectual hubris" (Strange 1998:20) challenges neo-classical economics as the predominant mode of knowledge of world finance, the identification of emancipatory alternatives to the prevailing order must also be related to shifting patterns of social and political forces.

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