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“International Capital Mobility in an Era of Globalisation:

Adding a Political Dimension to the ‘Feldstein-Horioka Puzzle’”

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Description

Matthew Watson reviews the literature on international capital mobility to conclude that *ideas* about global capital market integration have an independent causal impact on political outcomes which extends beyond that which can be attributed to the extent of their *actual* integration.

Abstract

The debate about the scope of feasible policy-making in an era of globalisation continues to be set within the context of an assumption that national capital markets are now perfectly integrated at the international level. However, the empirical evidence on international capital mobility contradicts such an assumption. As a consequence, a significant puzzle remains. Why is it, in a world in which the observed pattern of capital flows is indicative of a far from globalised reality, that public policy continues to be constructed in line with more extreme variants of the globalisation hypothesis? I attempt to solve this puzzle by arguing that *ideas* about global capital market integration have an independent causal impact on political outcomes which extends beyond that which can be attributed to the extent of their *actual* integration.

Introduction

By now, the conventional wisdom of globalisation is well-known. It begins with the assertion that a heightened incidence of international capital mobility has been sufficient to place all governments in an effective political straitjacket. International financial markets are assumed to tolerate only the most strictly orthodox monetary policy; governments which refuse to be bound by these new structural realities face 'punishment beatings' administered by the markets in the form of mass capital flight. This story is now so familiar that we are often told that it needs no repetition.[2]

In this article, however, I take issue with such a conclusion. I suggest that its very familiarity is itself a source of analytical interest. Such is the frequency with which public policy-makers appeal to these new 'structural realities' as an automatic guide for policy that it is possible that the conventional wisdom of globalisation has itself become a conditioning influence on policy. In other words, we should be aware that ideas about globalisation may have an independent causal impact on political outcomes over and above that which can be attributed to globalisation per se. I attempt to illustrate this argument in the pages which follow through reference to the debate in the economics literature about international capital mobility. In the absence of the assumption of perfect capital mobility, the conventional wisdom of globalisation immediately begins to look questionable.[3] Yet, existing empirical evidence suggests that it may be no more than

that: an *assumption*. We are therefore left with having to explain why political outcomes continue to be oriented in line with a conventional wisdom of globalisation which evidential data on international capital mobility suggests is an exaggeration of a far less globalised reality. The explanation I forward here focuses on the possibility that the conventional wisdom has itself assumed causal status in the production of outcomes consistent with the globalisation hypothesis.

In order to render what I *am* arguing as clear as possible, let me digress briefly to state what I am *not* arguing. In no sense do I subscribe to the claim that it is merely ideas which are driving the politics and, hence, the economics of globalisation. Contemporary processes of structural socio-economic change extend beyond mere ideological facades, being rooted in an on-going re-definition of the material properties of the economic base. Whilst an unquestioning faith in the 'new economy' is itself to be challenged (see Watson and Hay 2000), recent technological developments have clearly impacted both on the way in which we conceive of economic relations and also on the underlying 'reality' on which such conceptions are based.

The limit of my argument in the pages which follow is to suggest that claims relating to the 'material reality' of globalisation often run ahead of the structural economic change which they purport to reflect.[4] Nowhere does this mismatch between rhetoric and reality have more significant political implications, I suggest, than in relation to the assumption that the international economy now boasts a single capital market. It is on the basis of this assumption that we hear frequent claims about the political constraints associated

with financial globalisation, so clear is the presumed link between a ‘borderless’ capital market and the mere threat of destabilising capital flows. That threat has often been sufficient in itself to foster the view that those operating within international financial markets now hold an effective veto over government economic policy.[5] My aim in this article, however, is to question the extent to which the means through which this veto is imposed – that is, a perfectly integrated global capital market – actually exists in practice. This is not to claim that the world looks very much as it always has; nor is it to deny that the rhetoric of a perfectly integrated global capital market has become a powerful political tool. It is merely to make the academic case that analyses of the international economy must treat the issue of financial globalisation as an open empirical question rather than as an accepted fact.

The ‘Feldstein-Horioka Puzzle’ and the Debate on International Capital Mobility

Economists tended to be rather quicker than political scientists in identifying the ‘obvious’ implications of the collapse of the Bretton Woods system in the early 1970s. With institutionalised capital controls rapidly in retreat, it was thought to be only a matter of time before the world came to resemble the models of perfect capital mobility which by then had already dominated international economics textbooks for many years. Indeed, in accepting the assumption of frictionless markets in order to render economic

theory more 'scientific', it could be argued that an extreme assumption of globalisation has long been a precondition for most orthodox econometric modelling.[6] Set within such a context, we should not be surprised at the palpable sense of shock with which the economics profession received the publication of contradictory evidence on the extent of international capital mobility in a paper by Martin Feldstein and Charles Horioka in 1980 (Feldstein & Horioka 1980).

Feldstein and Horioka found that a strong and statistically significant correlation was observed when regression analysis techniques were used to determine the relationship between the rate of domestic savings and the rate of domestic investment. They interpreted this finding as evidence that capital markets were anything other than perfectly integrated at the international level. If we lived in a world of perfect capital mobility, they argued, domestic investors would compete for funds from a single world savings pool and the correlation between domestic saving and domestic investment would disappear. As it was, its persistence implies that capital is far less mobile across national borders than is generally believed.

The economics profession was provoked into response: both because the Feldstein-Horioka coefficients were effectively an accusation that the whole of the discipline had been working on the basis of misplaced principles for many years; and also because the results appeared counter-intuitive in a policy-making environment which had recently been dominated by high-profile government attempts to dismantle existing systems of capital controls. The response took three forms.

- Firstly, there were those who claimed that the persistence of high savings-investment correlations should not necessarily be overly traumatising for the economics profession, as economists need not be bound by a lay definition of 'realism' in assessing what passed the standard of 'good economics'. In the search for formal theoretical rigour and subsequent scientific status for their theories, economists have tended to concentrate on deriving abstract principles of market behaviour rather than focusing on the empirical content of actual market outcomes. On the basis of this set of priorities, it was suggested that Feldstein and Horioka's conclusions could be rejected, even though they were grounded in an empirical investigation of the real world, simply because they violated the abstract principles on which modern econometric analyses of the market are based.
- Secondly, there were those who attacked the Feldstein-Horioka methodology, attributing the strength of their coefficients simply to bad econometrics.
- Thirdly, there were those who attacked the link that Feldstein and Horioka drew between high savings-investment coefficients and imperfect capital mobility, arguing that evidence for the former does not necessarily imply evidence for the latter.

It was only on the basis of the second and third criticisms that an actual debate could be initiated. Moreover, the second line of criticism can be dismissed relatively quickly. The most influential reviews of the literature on the 'Feldstein-Horioka puzzle' may well

describe continuing high savings-investment correlations as “anomalous” (Bayoumi 1997: 4); as “upsetting” for the conventional wisdom of perfectly integrated capital markets (Frankel 1991: 227); and as “baffling” for the economics profession (Dornbusch 1991: 220; Sarno & Taylor 1998: 17). At the same time, however, such correlations have also been “confirmed by many subsequent studies” (Dooley, Frankel & Mathieson 1987: 503) as “remarkably consistent” (Glick & Rogoff 1995: 159) and as “extremely robust” (Sarno & Taylor 1998: 20; Baxter & Crucini 1993: 417). Whatever the perceived methodological weaknesses of Feldstein and Horioka’s study, then, the result has been replicated by other authors not similarly accused. As Rudiger Dornbusch concludes, the methodological critique of the Feldstein-Horioka co-efficients has “run out of steam; the fact [of high savings-investment correlations] is sturdy and the debate has turned to the interpretation” (Dornbusch 1991: 222). In other words, the empirical results may well be profoundly disturbing for assumptions of perfect international capital mobility, but that does not necessarily make them wrong.

Without doubt, the most perceptive and the most interesting interventions into the debate on the ‘Feldstein-Horioka puzzle’ concern the ability to use savings-investment correlations to measure the extent of international capital mobility. The aim of much of the literature which follows in the Feldstein-Horioka tradition has been to show that persistent savings-investment correlations do not necessarily violate the assumption of perfectly integrated capital markets. The initial test of capital market integration introduced in the famous *Economic Journal* article is now generally believed to be too exacting. Indeed, in a recent review of the literature, Mathias Hoffmann has gone as far

as to describe the Feldstein-Horioka correlations as "uninformative" in relation to the true nature of international capital mobility (Hoffmann 1998: 12).

For the savings-investment coefficient to approach zero, as the initial test suggested would be logically implied in a world of perfect capital mobility, three separate conditions would have to hold (on which point, see Dooley, Frankel & Mathieson 1987: 505). Firstly, a country's investment rate would have to depend solely on domestic interest rates. Secondly, domestic interest rates would have to converge around a world norm. Thirdly, there could be no difference between countries in the expected rate of return relevant for investment and saving decisions. On their own, each of these three conditions is likely to correspond more closely to a textbook ideal-type than to the world of everyday experience. Put together, they effectively rule out the possibility of 'discovering' an international economic context of perfect capital mobility. If any of the three conditions fails to hold - and, in practice, it is necessary to ask why we would presume that any of the three conditions would be likely *to* hold - then there is no reason for the correlation between domestic savings and domestic investment to disappear. Such is the stringency of economic tests for perfect capital mobility, that economists have identified an increasing reluctance amongst their colleagues to appeal to the image of perfectly integrated capital markets[7] (Dooley, Frankel & Mathieson 1987: 503).

This is surely significant for the type of research which political scientists should be seeking to undertake in relation to globalisation. At the very least, it suggests that we can add a political dimension to the international capital mobility 'puzzle' that Feldstein and

Horioka set their fellow economists. For, this increasing reluctance of economists to assume a world of perfect capital mobility has occurred within a wider political context in which the very same assumption has increasingly come to be adopted as a matter of course. In the public discourse of politicians and political scientists alike, increased mobility options have become the most frequently cited explanation of the policy-making dilemmas associated with globalisation (for a commentary on which, see Berger & Dore 1996; Kofman & Youngs 1996; Mittelman 1996; Hirst & Thompson 1999). It is the ability of capital to locate wherever in the world competitive advantage dictates which is assumed to explain why it can effectively escape national regimes of regulation (see, for example Przeworski & Wallerstein 1988; Scharpf 1991; Streeck 1991).

Yet, is there sufficient evidence to sustain such an explanation? Even when the conditions of the Feldstein-Horioka tests for capital mobility are relaxed, the evidence continues to be much more ambiguous than is implied by the certainty with which assumptions of perfectly integrated capital markets are made in public discourse.

According to Tamim Bayoumi, contemporary public policy-makers generally refer to microeconomic tests of capital mobility (looking at access to international capital markets through evidence of interest rate differentials) rather than macroeconomic tests (looking at net capital flows in relation to information about fundamentals). Macroeconomic tests tend to be overlooked, because almost without exception they "support the notion that capital flows are abnormally low" (Bayoumi 1997: 20). Quite clearly, such results fit poorly with a wider discursive context in which the image of a single world capital

market is continuously invoked as perhaps *the* defining symbol of economic globalisation.[8] Yet, even the microeconomic tests, which public policy-makers prefer because they imply a closer correspondence between rhetoric and reality, in no way *prove* that we live in a world of perfect capital mobility. It is the assumption of instantaneous adjustment in financial prices triggered by perfectly integrated capital markets which animates much of the public discourse about globalisation (on which point, see Hay, Watson & Wincott 1999: 4). However, on the basis of the existing evidence of limited international capital mobility, it is precisely such an assumption which Jeffrey Frankel insists can be "easily rejected" (Frankel 1991: 236).

Under conditions of instantaneous adjustment, all real interest rate differentials would automatically be negated. As with the evidence on savings-investment correlations, however, the evidence on real interest parity fails to tell an unambiguous story of international capital mobility commensurate with the globalisation hypothesis.[9] The empirical data shows that flows of highly liquid capital move swiftly to arbitrage short-term international yield differences - much as Feldstein and Horioka demonstrated as long ago as their original 1980 paper (Feldstein & Horioka 1980: 315). Yet, it also reveals a persistence in covered interest rate differentials across space and, as such, quite significant barriers to long-term capital mobility (Frankel 1992: 199). Indeed, such barriers would appear to be structural in nature; at least as long as any combination of transaction costs, information costs, capital controls, asymmetric tax regimes and default risk continues to shape the overall pattern of net capital flows.

Given that these have been enduring financial market features in both the Bretton Woods and the post-Bretton Woods eras, it is perhaps unsurprising that measures of international capital mobility, as implied by savings-investment correlations, are not markedly different between the two periods (see Obstfeld 1995). Our sense of surprise may only be activated if we reconsider this finding within the context of the dominant discourse of globalisation. For, it now tends to be assumed with a sense of unquestioning certainty that the dissolution of the Bretton Woods system represents nothing less than a paradigm shift in feasible exit options for capital. It is often unclear in public discourse whether this represents a paradigm shift in policy influencing such outcomes, or a paradigm shift in the ideas informing such flows, or both; however, a sense of paradigm shift is nonetheless persistently invoked. A conventional wisdom now energises much of the public debate on these issues, and it states that the world of limited capital market integration institutionalised through the Bretton Woods agreements has been left behind for good. Yet, what are we to make of claims for globalisation, in circumstances in which we have evidence that OECD countries have moved further from real interest parity in an era of supposedly globally integrated capital markets than they did in an era in which capital market integration was institutionally proscribed (Frankel 1991: 231)? Equally, what are we to make of claims about the qualitative novelty of globalisation in light of the following evidence? Empirical tests which demonstrate limited international capital mobility in the Bretton Woods era also demonstrate limited international capital mobility in the post-Bretton Woods era (see, for instance, Feldstein & Bacchetta 1991: 206; Frankel 1991: 238); whilst empirical tests which relax the stringency of their initial assumptions in order to demonstrate a higher degree of mobility in the current era also

reveal a substantially higher degree of mobility under Bretton Woods (see, for instance, Hoffmann 1998: 24).

Ideas About Globalisation as Independent Causal Influence

In an important sense, then, it does not seem to matter which way round we read the evidence. Whether we choose to accept the conclusion of limited and stable capital mobility as we move into the post-Bretton Woods era, or whether we choose to accept the conclusion of high but stable capital mobility which began in the Bretton Woods era, the assumption of novelty in current circumstances is difficult to sustain. In the absence of evidence that we have experienced qualitative change in international capital mobility, we would appear to have little basis for following the conventional wisdom of globalisation by arguing that we have experienced similar qualitative change in the parameters of the politically possible. As Dooley et al conclude, in strict analytical terms, the conventional wisdom is "of limited value" (Dooley, Frankel & Mathieson 1987: 523).

However, it is my argument here that the impact of the conventional wisdom extends beyond its analytical value. Even a cursory reading of the literature which follows in the Feldstein-Horioka tradition is sufficient to raise serious questions about the analytical

'work' which the conventional wisdom can perform. Yet, the same can in no way be said about the *political* 'work' which is enabled by the appropriation of that wisdom.

The existence of evidence which is consistent with the globalisation hypothesis is not necessarily confirmation of the validity of that hypothesis. On first reading, this would appear to be a rather abstract claim, so it is perhaps worth exploring in a little more detail. Put simply, governments need only act on the *perception* of the structural constraints imposed by globalising tendencies in order to turn the globalisation hypothesis into a self-fulfilling prophecy. At no stage does globalisation have to come complete with an *actual* logic of political necessity for the effects of such a logic to become apparent. So long as governments act in a manner consistent with the globalisation hypothesis,[10] we will be able to observe an increase in the number of outcomes which seemingly serve to 'confirm' that hypothesis, irrespective of whether or not it was true in the first place.

Let me state this even more simply. Whenever global economic relations are said to contain an in-built political logic of no alternative, international financial flows are introduced as the mechanism which polices the parameters of the politically possible (O'Brien 1992; Kobrin 1997). Governments may well attempt to assert their policy-making autonomy by challenging globalisation's perceived political logic of no alternative. But, it is argued that they now do so fully sensitised to the consequences of their actions: namely, that whatever short-term political gains they enjoy by ignoring the structural realities of globalisation are likely to be dwarfed by long-term economic losses as the international financial markets take their retribution in the form of mass capital

flight. Of course, the evidence previously introduced in this article contradicts such a view. Net flows of long-term capital across space simply do not correspond to the pattern predicted by the globalisation hypothesis. However, the mere *spectre* of expanded exit opportunities has often been sufficient to ensure that governments engage in behaviour which conforms to globalisation's perceived political logic of no alternative (Piven 1995: 111). Existing national tax regimes are thought to be especially vulnerable in this respect (although, see Swank 1998); the international financial markets are thought to take a dim view of governments who engage in overly-active fiscal policy. However, as the empirical research undertaken in the Feldstein-Horioka tradition reveals, the actual flow of capital away from market-replacing policy regimes, and towards market-conforming policy regimes, is not as pronounced as the conventional wisdom implies. Yet, the general acceptance of the *idea* that exit threats are credible can be seen to lead to exactly the same policy outcomes as those predicted by the conventional wisdom.

The tendency towards central bank independence offers a clear practical example of such a process. The appeal to globalising necessities in order to rationalise such a tendency has become a common element of public policy discourse. International financial markets, it is argued, will not now tolerate anything other than the strictest macroeconomic orthodoxy. The threat of capital flight consequently conditions the search for a new institutional bargain which militates against the pursuit of more heterodox monetary policies. Typically, that search has ended with governments making moves to delegate policy-making responsibilities to independent central banks, and receiving the assent of international financial institutions for doing so.

Given that central bankers tend to agree both on preferred policy goals and the preferred means to achieve such goals, this has resulted not only in convergence in the institutions of monetary policy-making but also in convergence in monetary policy itself. This represents a significant shift compared to previous practice. Before the move to institutionalise central bank independence, the observed pattern of net capital flows would seem to imply that international financial markets have been placated by policies crafted from a range of often mutually incompatible macroeconomic stances. In other words, the actual history of capital flows suggests that financial markets operate along rather more complex lines than the uni-dimensional logic which dominates the conventional wisdom of globalisation. Yet, it has been precisely this image of a single systemic logic to market action which has been used to justify not only the transfer of policy-making initiative to central banks, but also the appointment of specifically conservative central bankers to oversee the policy-making role. What is more, these new institutional arrangements for the conduct of monetary policy threaten to *create* precisely the uni-dimensional logic to market action to which they are supposed to be a *response*. For, in circumstances in which governments are increasingly asking the markets to judge them on the basis of convergent macroeconomic policies, capital flows are likely to become increasingly sensitive to the strictness of a government's macroeconomic orthodoxy.

Moreover, at the same time as governments are facilitating the imposition of a uni-dimensional logic to market action through the reconstitution of monetary policy

domestically, they are also entering into international agreements designed specifically to ease restrictions on the flow of capital. The single capital market rules enshrined in the Maastricht Treaty are but the clearest example of the way in which conditions for free capital mobility are being institutionalised at the regional level. Once more, the *idea* that financial markets were already integrated into a single global structure seems to have been the cue for setting in motion a self-perpetuating sequence of events which has led ever closer to the creation of just such a structure. Governments which have articulated the 'necessity' of a policy response to the structural power enjoyed by international financial markets have tended to do so by arguing for the introduction of further financial liberalisation. Yet, this has merely had the effect of increasing the structural power of international financial markets still further and, as a consequence, providing a context in which the articulation of the 'necessity' of further financial liberalisation becomes still more resonant. Despite the consequences of several iterations of such a process, international capital mobility remains less pronounced today than is implied in the conventional wisdom of globalisation. Of course, this is not to say that several more iterations of that process will not eventually produce a world which corresponds to that envisaged in the conventional wisdom. Equally, however, if that world *is* to be created at some future point in time, it is clear that it will not be created solely under the influence of globalisation per se. We must also leave open the possibility that *ideas about globalisation* may have an independent causal impact leading to the production of 'globalising outcomes'.

Of course, savings-investment correlations of the type which feature in Feldstein and Horioka's initial article provide only one measure of capital mobility. As such, even in circumstances in which we can identify relatively constant savings-investment correlations over time, this delivers only a partial insight into the overall structure of international finance. It would stretch the bounds of credibility to claim that the realm of international finance has experienced anything other than significant processes of structural change in recent years. However, in no way does this confirm that the *nature* of such change is necessarily consistent with the assumption of globalisation, nor with the assumption of perfect capital mobility for which the Feldstein-Horioka methodology tests. 'Change' and 'globalisation' are by no means synonymous.

It is inconceivable that recent structural changes within international financial markets have not come complete with new constraints on policy-making autonomy. It has not been my intention in the preceding pages to question the existence of such change. Continued technological developments have re-defined the relationship between investors in a way which threatens to crowd out public regulators from the realm of private finance (see Watson 1999; Davies 2000). Along with these significant changes that the internet in particular is likely to bring to the microstructure of all financial markets, the macrostructure of both the retail banking and stock markets is currently being qualitatively recast amidst a wave of international mergers. However, as yet, such changes have failed to create a truly global market in footloose savings, as the persistence of high Feldstein-Horioka correlations attests.

Thus, whilst it would be wrong to challenge the *existence* of recent processes of structural change within international financial markets, it is necessary to question whether the *nature* of that change automatically corresponds to the assumption of globalisation. By following the Feldstein-Horioka tradition, it has only been possible to present information on the *aggregate* levels of savings and investment within an economy.[11] A comprehensive survey of the changing structure of the markets which become the channels for savings and investment activity will have to wait for another time. On the basis of Feldstein-Horioka coefficients alone, the most interesting avenue for future research would seem to be the strategic use which governments make of the *image* of 'globalisation' in circumstances in which change is not necessarily globalising in nature.

Conclusion

In this article, I have argued that it is important that we add a political dimension to the traditional understanding of the 'Feldstein-Horioka puzzle'. As Tamim Bayoumi argues, on a purely economic reading of the 'puzzle', we are left with no choice but to conclude that "the global economy appears to have some troubles at border crossings" (Bayoumi 1997: 71). Any critical evaluation of the economics literature which follows the Feldstein-Horioka tradition is likely to lead to the same conclusion. Even *The Economist*, never slow to push the normative agenda of globalisation, has felt compelled to concede

that, “despite all the hyperbole, a global capital market does not yet exist” (*The Economist*, 25.10.97: 139). Notwithstanding this conclusion, however, we are still left with a rather different problem to explain. Why is it, in this world in which capital continues to experience ‘troubled border crossings’, that public discourse consistently invokes the image of a truly ‘borderless world’ in its appeal to the idea of globalisation?[12]

So long as this political dimension to the ‘Feldstein-Horioka puzzle’ persists, ideas about globalisation are themselves likely to have a causal impact on political outcomes extending beyond that which can be attributed to globalisation per se. Public policy-makers have been quick to enlist the conventional wisdom of globalisation as an effective ‘default’ explanation for their more recent political interventions. Yet, as the empirical evidence reviewed in this article suggests, political scientists should be equally quick to resist doing the same. In no sense is this to deny that the international economy continues to pass through a moment of significant structural change; clearly, it does. But, it is to appeal to those researchers working on the international dynamics of contemporary economic change to recognise other potential causal tendencies underpinning that change in addition to globalisation. The empirical evidence on international capital mobility simply does not provide a basis for political scientists to add their voice to the long list of those who publicly articulate an uncritical acceptance of the conventional wisdom of globalisation.

Of course, there is no reason why political scientists should necessarily fall into such a trap. Much work already exists, originating in institutional economics (Hodgson 1988;

Helleiner 1994) and historical sociology (Hall 1989; O'Neill 1998), which refutes the conception of markets to be found in the conventional wisdom of globalisation. This work can usefully be appropriated in order to dismiss the assumption that market exchange *ever* operates as a frictionless process governed purely by abstract economic laws. The task of future scholarship on globalisation must be twofold. Perhaps most obviously, it is necessary to focus on the way in which contemporary patterns of market exchange in the realm of international finance have been generated by iterative changes in public governance which continue to fall well short of the standard of perfect competition and which, as a result, have produced a market environment which is significantly less than global in orientation. Equally, however, it is also necessary to chart the way in which the new public management of international finance has been rationalised and, on occasions, even driven, by the idea that 'natural' market dynamics had *already* integrated national capital markets into a single global structure.

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[2] The development of the literature which takes such a view is surveyed in Kofman and Youngs 1996, and Hay and Marsh 2000.

[3] Such an assumption is made, for example, in Levitt 1983, Reich 1992, Sachs and Warner 1995, and Barnet and Cavanagh 1994.

[4] Unfortunately, space precludes me from reviewing formally the link between ideology and political ideas; on which point, see Gill 1994. On the narrative influence of economics, see Klamer, McCloskey and Solow 1988, Samuels 1990.

[5] On which point, see Przeworski and Wallerstein 1988, Swank 1992, Wickham-Jones 1995.

[6] I am indebted to one of the anonymous referees for drawing my attention to this point.

[7] This in itself would seem to discredit the globalisation hypothesis. If the assumption of perfectly integrated capital markets is too stringent a test, then presumably the assumption of globalisation which is rooted in an appeal to the image of perfectly integrated capital markets is also too stringent.

[8] Within the context of the current debate about globalisation, it is perhaps policy-makers, rather than academics, who fall back most readily on the image of a single global capital market.

[9] This is perhaps even more significant given that the consensus opinion amongst the economics profession is that rates of return across countries is probably a more reliable indicator of capital mobility than are savings-investment correlations (on which point, see Obstfeld 1995).

[10] It is perhaps worth noting that there are two analytically distinct reasons why this should be the case. On the one hand, governments may act in a manner consistent with the globalisation hypothesis because they really believe that hypothesis to be true. On the other hand, the conventional wisdom may be strategically appropriated in order to push through domestic political reforms which would be likely to provoke more internal resistance in circumstances in which the conventional wisdom was absent from public discourse. Which of these two scenarios more accurately corresponds to any particular case is clearly an empirical matter.

[11] In order to prevent the argument overflowing into other areas, I have deliberately restricted myself to talking only about the relationships which form the basis of the Feldstein-Horioka critique.

[12] Of course, the image of a 'borderless world' was first articulated in Kenichi Ohmae's now (in)famous book of the same title.