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**OFF THE LEASH:  
UNDERSTANDING THE DYNAMICS OF CAPITAL  
MOBILITY IN IPE**

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# Off the Leash: Understanding the Dynamics of Capital Mobility in IPE

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## **Abstract**

In this paper I seek to extend much of the writing on capital mobility to be found in the IPE literature by arguing that there are two distinct types of mobility which need to be treated as analytically separable. The tendency in IPE is to think only in terms of ‘international’ capital mobility, which immediately creates the impression that for capital to be mobile it has to move from one country to another. This image conforms to what I call the *spatial* mobility of capital. However, capital should also be thought of as mobile in those instances in which it is deliberately reinvested in an alternative financial instrument. This is what I call the *functional* mobility of capital. Recent increases in capital mobility are linked to the institutionalisation of rentier interests within the financial economy, with subsequent implications for the distribution of life chances globally. In order to gain a full understanding of these implications it is necessary to be working with a perspective that recognises the dynamics of both the spatial and the functional mobility of capital.

## **Keywords**

spatial capital mobility; functional capital mobility; IR versus political economy variants of IPE; rentier interests; financial crises

## Introduction

In a previous book (Watson 2005), I suggested that there were, in general, two routes into the study of International Political Economy. The first, which represents the journey that most of its proponents have taken into the field, begins with prior training in the theories and methods of International Relations. Here, the formative training of its practitioners provides IPE with foundational questions that are, in essence, those of IR, only in this instance re-applied to real-world phenomena of an economic nature. In this way, IPE can easily come to be seen as a subset of IR in the minds of those who work in the field (as bemoaned, for instance, by Strange 1994). The alternative, lesser-travelled journey, is to allow the central questions of IPE scholarship to be informed by the concerns of political economy: both for the evolution of economic ideas and for the economic practices that shape the context for everyday livelihood struggles. Here, the economy is not taken as a given which is to be interpreted only in terms of its insertion into the prevailing structures of world order. Instead, economic relations are treated as the object of study in their own right, and the attempt is made to understand both their essence and their implications for the way in which everyday life is led.

Of course, there are always limitations of trying to divide a subject field in this way through the use of binary oppositions. Such a strategy is adopted frequently in appraisals of IPE (see, for instance, Murphy and Tooze 1991; Denmark and O'Brien 1997; Strange 1998; Murphy and Nelson 2001; Cohen 2007), but its popularity does little to describe its potential for creating problems. The categories that are used in order to enforce the sense of an oppositional logic are often rather crude caricatures of the positions with which individual authors would choose to identify their own work. Perhaps more worryingly, when students and scholars within the field socialise themselves to think in terms of the oppositional categories, the categories themselves then become attractors, drawing analytical work towards them and thus cementing the apparent coherence of the categories. Such categories consequently have the potential to be self-fulfilling, where what results is an increasing number of arguments presented against stereotypes of the field which exist only within the framework of the initial binary distinction. This runs the risk of reducing the field to a largely superficial debate between stereotypical positions which do little to capture the true breadth of the subject field.

That said, when studying the dynamics of capital mobility, there is still much to commend in working with the notion that, in general, IPE divides between analyses that are rooted in an International Relations tradition and analyses that are rooted in a political economy tradition. At the very least, in my most recent book (Watson 2007), I have argued that it is possible to identify two fundamentally different types of capital mobility, where one appears to dominate IR approaches to the subject matter and the other appears to dominate political economy approaches. Indeed, it is almost certainly possible to state the problem in even bolder terms than that. Given the route that they have taken into the field and their associated formative intellectual training, for most IPE scholars the field continues to be a subset of IR. Viewed from such a perspective, the important thing to understand about capital mobility is how it introduces particular patterns of flows – of money, capital, wealth and economic potential – between one country and another. The spatial characteristics of the flows

are considered paramount and, to try to capture this sense, I have chosen to call this a spatial capital mobility interpretation.

Yet, there is also another way to think about capital mobility. It is equally a matter of capital mobility when the flows change the form in which savings are held between the market in one asset and the market in another as it is when the flows change the country in which savings are held. It is the functional characteristics of the flows that matter in this instance, though, and for that reason I have chosen to call this a functional capital mobility interpretation. Concern for the patterns which these latter flows take only arises when the practical content of economic relations is treated as a research issue in its own right. It is rare for IR-inspired approaches to IPE to ask such questions, so the functional mobility of capital is only likely to come into view when a political economy route is taken into the subject field.

In order to provide additional information about my distinction between the spatial and the functional mobility of capital, the paper proceeds in three stages. Section one – the longest section – focuses on the concept of capital mobility and identifies the need to distinguish analytically between two distinct ways in which capital is mobile in practice. Section two traces the link between the different disciplinary routes into the subject field of IPE and an emphasis on either one type of capital mobility or the other. Section three explores the political utility of working instead with an integrated concept of capital mobility which recognises that real-world economic events are shaped by the interaction between spatial and functional capital mobility.

### **Disaggregating Capital Mobility into its Spatial and Functional Dimensions**

The existing IPE literature on capital mobility tends to focus on quantitative aspects of the debate (see, for instance, Andrews 1994; Cerny 1995; Pauly 1997; Porter 2005; Walter 2005). This is not to say that the literature concentrates on generating quantitative measures of the actual extent of capital mobility. Instead, it tells us about the conditions that have led to recent increases in capital mobility. It focuses primarily on the underlying context of globalisation. It is global economic conditions, specifically, which have resulted in enhanced opportunities for investors to place their savings wherever in the world offers the best available returns. Instances of heightened capital mobility are assumed to be co-constituted with the realm of ‘global finance’. It is the creation of genuinely global investment conditions that spur investors to look further afield in their search for the highest possible returns, but it is also the fact that capital is highly mobile that lends plausibility to the desire to talk about the arrival of global finance in the first place.

The standard narrative takes one of two forms. On the one hand, it might focus on the progressive unwinding of the institutional settlement that was introduced as a means of managing international capital flows in the immediate aftermath of World War Two (e.g., Helleiner 1994; Bird 1996). These events are told as a story of the retreat from the high water mark of regulatory restraint on capital flows and the incremental incorporation of the interests of ‘global finance’ into the institutional structure to the point at which the structure was stripped of its essential *raison d’être*. Capital controls were removed gradually at first and then, following the Nixon Administration’s suspension of the convertibility of the US dollar into gold, with a flood from the mid

1970s onwards. Thus, the ‘embedded liberal’ compromise of the initial Bretton Woods settlement (Ruggie 1982) was increasingly disembedded as the elimination of capital controls provided investors with significantly enhanced mobility options (e.g., Bienefeld 1992; Notermans 2000; Gelleny and McCoy 2001).

On the other hand, it might focus on the progressive fall from grace of the economic ideas on which the principles of embedded liberalism rested (e.g., Blyth 2002; Best 2005). These events are told as a story of the retreat from Keynesian notions of macroeconomic management and the articulation of an increasingly pure form of market self-regulation for finance. Keynesian economics relied on the forcible imposition of a subordinate role for potentially mobile forms of capital in the relationship between the productive and the financial economies. National accumulation regimes were tied to legitimation strategies which emphasised the significance of state-sponsored welfare-enhancing interventions into the economy (e.g., Jessop 1991). The ability to sustain a national accumulation regime of this nature depended on providing citizens with an expanded welfare state to vote for, and defending the fiscal basis of the welfare state in turn depended on preventing potentially mobile forms of capital from voting against it with their feet. The dissolution of Keynesian macroeconomic strategies therefore resulted in a notable expansion in capital mobility.

Told either way, the most important notion underpinning the standard IPE narrative of capital mobility is that of a quite dramatic shift in mobility options comparing the situation today with that of the immediate post-war world (e.g., Sobel 1999; Verdier 2003; Duménil and Lévy 2004). The quantitative aspects of the debate about capital mobility (i.e., there is a lot of capital mobility today) are thus presented in terms of a qualitative change in economic circumstances (i.e., there is much more capital mobility today than before). The enhanced scope of capital mobility today then tends to be reflected back onto discussions of feasible macroeconomic policy-making, with a truly international sphere of capital mobility typically being treated as the primary constraint on autonomous policy-making (e.g., Goodman and Pauly 1993). The idea to keep in mind is one of ‘global finance’ as a disciplining force, where the disciplinary effects arise from the ease with which capital can now be moved from one country to another (e.g., Germain 1997; Mosley 2005). Capital mobility thus imposes itself on the world economy as a self-regulating entity out-trumping other regulatory preferences.

There is much work of lasting value that has been undertaken in the context of the standard IPE narrative of capital mobility. However, that context is itself confining. Perhaps most notably, it completely glosses over a number of exceptionally important foundational questions involved in the study of capital mobility. In particular, the most basic question of what we mean by capital mobility is hardly ever addressed. Instead, attention is focused on what can be inferred about the capacity to put assets in motion from understanding how the constraints on the free workings of the capital market have been relaxed due to institutional reform. Any institutional reform that reaffirms the desire to dilute the impact of capital controls is treated as an increase in capital mobility, hence returning the study of the subject matter to the quantitative aspects of the debate. But what does it really take for investors to put their assets in motion?

### *What is 'Capital Mobility'?*

The whole idea of capital mobility is an analytical abstraction, as there is no actual sense in which capital is ever 'on the move'. The very nature of capital is that it fulfils the function of expanded reproduction only when it is anchored in particular social relations of production (e.g., Poulantzas 1978). Outside of this context it ceases to have the genuine economic characteristics of capital: it has the potential to be transformed into active capital but, without a 'home' in particular social relations of production, it takes the form of passive savings instead. That 'home' might always be changed, but it is nonetheless necessary for capital to have a home in the first place if its expanded reproduction is to be secured. This is as true for capital that is invested solely in financial markets as it is for capital that maintains industrial production. Recent increases in the concentration of investment assets in financial markets, allied to technological advances in financial trading systems, have made it progressively easier to switch assets between different social relations of production. The image thus created is one of capital increasingly on the move as it is switched from one set of social relations of production to another. Again, it should be stressed that, in strict economic terms, this is all it is: i.e., the *image* of capital being mobile rather than anything being physically in motion. It is this broad economic definition of what it takes for capital to be mobile that tends to be missing from the IPE literature on capital mobility.

At one level, this might not be all that surprising, because the depiction of capital mobility that I have offered in the previous paragraph departs somewhat both from common understandings and dictionary definitions of 'mobility'. The latter focuses primarily on the condition of motion, but there is nothing in that condition which allows us to get to the heart of the economic decisions that sustain the image of capital mobility. And, of course, capital mobility is an economic phenomenon. The motivation for studying instances of capital mobility might well be to comprehend the social and political implications of allowing private property rights free rein within financial markets, but in the moment of switching assets between different social relations of production it is an economic phenomenon. So, what are the economic dynamics involved when investors choose to introduce the image of motion into their capital allocation decisions? What, in economic terms, are investors doing? In answering these questions, my desire to depart from so much of the existing IPE literature stems from the foundational need to prioritise an explicitly economic definition of capital mobility.

The impression that capital is placed 'on the move' arises from investors acting upon the assumption that they will benefit materially from holding a different portfolio of assets in future time periods compared with those that they currently hold. The profit motive is therefore the spur to action, and the institutions of private property relations provide the context in which the action takes place, but this does not yet say anything about what the actual action is. In fact, for the image of capital mobility to be sustained, it is not a single economic action that we are talking about so much as two independent but related actions. Consider the case of investors who suddenly become concerned that their portfolio shows signs of imbalance, thus exposing its value to potentially adverse market fluctuations. In order to restore a sense of balance to their portfolios, it will be necessary to find the money to finance the purchase of a new investment position. Yet, this is only likely to be possible if an existing asset has first

been sold off in order to free up that money. Taking these in the correct temporal sequence, then, instances of capital mobility are triggered when investors act once to sell one asset and then act a second time to buy another asset. Portfolio rebalancing is now such a complicated process – being driven by increasingly intricate quantitative models that allow the optimal investment to be calculated to the  $n$ th degree (e.g., Derman 2004) – that we should probably expect investors to be involved in multiple trades at the same time. But the underlying principle does not depart from the way in which it has been recounted here. In order to make good the assumption that they will benefit materially from holding a different portfolio of assets in the future, investors must first liquidate one set of holdings so as to raise cash before subsequently using the ensuing cash balance to purchase a different set of holdings.

This, then, is the economic dimension of all instances of capital mobility, and it is what goes on to create the image of capital being ‘on the move’. It is a simple, even intuitive, economic definition of capital mobility, but it is what is so frequently overlooked in existing IPE accounts of the phenomenon. Its significance lies in the fact that it shows that capital mobility is not necessarily a united and universal phenomenon. It is usual in IPE to talk about capital mobility in homogenised terms. The only adjective that tends to be placed in front of the concept is ‘international’, which is an attempt to capture the sense of capital flowing between distinct geographical locations and to enforce the impression that the importance of its motion is that it takes place across national borders. But my generic economic definition of capital mobility implies something else. It confirms that this is one type of capital mobility, insofar as placing assets on the move across national borders requires one set of holdings to be liquidated before another set of holdings can be purchased with the resultant free cash flow. Yet, this does not rule out the possibility that there might also be other types of capital mobility. Instances of capital mobility occur *whenever* the liquidation of one asset is used as a means of purchasing another, irrespective of whether or not there is a cross-border dimension to these two actions. In general, I argue that it is possible to identify two distinct types of capital mobility. The first type I label the *spatial* mobility of capital.

### *The Spatial Mobility of Capital*

Capital is mobile in a spatial sense whenever an asset is liquidated in one country specifically so that the same type of asset can be purchased in another country. This meets my economic definition of an instance of capital mobility because switching holdings involves two independent but related actions. The second position can only be taken because the first has been disposed of. Taking the two actions as a whole, we can see where the image of capital being in motion comes from. We can also say something about the character of the capital mobility in this instance. Not only does capital appear to be ‘on the move’ as a sudden interest in owning one holding balances an equally sudden disinterest in owning another. The motion also appears to take place across space, as it links capital markets that are physically divided by at least one inter-state border. The money being used to capitalise the investment in this instance is rooted in two distinct sets of social relations of production, but these have different national attributes. That money therefore has two ‘homes’ at different points in the process of switching holdings, and the movement between those two homes gives the impression of being a jump across space. This is the image which is appealed to in common understandings of capital mobility to be found in the IPE

literature. Whilst I am keen to show that this is only one of two distinct types of capital mobility, it is necessary to guard against dismissing its relevance simply because I also want to draw attention to the other type of capital mobility which is so often overlooked in the IPE literature.

Consider the following example, which hopefully will illustrate the significance of the spatial mobility of capital. It relates to the time of the Asian financial crisis. Much has been written about the political context in which the crisis occurred, particularly in relation to the forced liberalisation of East Asian capital accounts in the period preceding the crisis (e.g., Wade and Veneroso 1998; Winters 2000; Grabel 2003). A lot has been made in this respect of the mutually reinforcing influence of the International Monetary Fund, the Washington Consensus and neoliberal ideology in imposing structural financial vulnerability on the economies of East Asia (e.g., Kregel 1998; Radelet and Sachs 1998; Blustein 2001). All three tend to be identified as the direct cause of increased capital mobility, and the flood of money out of Asia as the vulnerability deepened means that this is normally understood as a crisis induced by capital mobility. Despite this, though, it is unusual to come across in-depth studies of the actual patterns of capital mobility encountered during the crisis.

Throughout the early and mid 1990s prices on East Asian stock markets were buoyed by an influx of money invested by international banks on behalf of pension and mutual funds. A large proportion of this money had been of US origin. The attraction of East Asia for the funds was a ready supply of stocks which looked cheap compared with those that they could buy at home (e.g., Harmes 2001; Seabrooke 2001). The capital structure of the crisis-hit countries – Thailand, the Philippines, Malaysia, Indonesia and South Korea – thus changed quite markedly in the lead-up to the crisis. And then it changed again, only this time with even more dramatic effect, after the crisis struck in 1997. At that point, much of the pension and mutual fund money headed for ‘home’, where it could be guaranteed more stable stock market prices than those in East Asia which had had their support structures decimated as a result of the increasingly all-enveloping crisis.

The spatial capital mobility involved in this instance served only to harden the divergent stock market price dynamics around the world. The period between 1997 and 1999 represents the peak of the most recent bull run on the New York Stock Exchange. The rush of money onto the Exchange forced up the already bullish Dow Jones Industrial Average by three-quarters of its original value over those three years: a year-on-year increase of 25%. Even though South Korea was spared the worst ravages of the crisis in this respect, by contrast the stock market index fell sharply in each of the other four countries that bore the brunt of the Asian financial crisis. Taking the four countries as a whole, by 1999 the stock market index had fallen by exactly one-third of its 1997 level. The individual collapses ranged from 25% in the Philippines to 40% in Indonesia.

Much of this divergence of stock price trajectory occurred because of the attempt to repatriate invested money in the interests of finding it a safer home. In other words, the divergent price trends were no coincidence. International banks liquidated massive amounts of holdings on East Asian stock markets in an attempt to protect the profit potential in the portfolios that they were managing for pension and mutual funds. However, they did this not to increase the quantity of cash held within those

portfolios, so much as to keep the share of the portfolios invested in equities but to alter the geographical orientation of the equity investments. East Asian stocks were liquidated so that stocks could be purchased elsewhere in the world. Given that a significant proportion of these funds were US in origin, it is relatively easy to understand why so many of these other stocks were those listed on the Dow Jones Industrial Average. The independent but related actions of liquidating investments on East Asian stock markets and reinvesting the proceeds on the New York Stock Exchange helps to explain why stock prices around the world headed in different directions at that time. Recognising the link between the two actions also serves to reinforce the image of capital travelling across national borders as it jumps from one home to another.

This is a clear instance, then, of capital's spatial mobility. But capital can equally be mobile but not with respect to space. If we return to my economic definition of capital mobility, I argue that capital can be considered mobile whenever we can identify linked processes of disinvestment and reinvestment. The common image of capital being 'on the move' might well suggest a spatial dimension, as capital exits one setting and enters another. Yet, there are occasions when this image can be misleading. In many cases, the linked processes of disinvestment and reinvestment will involve liquidating holdings of one particular type of asset in order to purchase holdings of another. As before, this is about portfolio rebalancing and taking advantage of a realm of private property relations in an attempt to protect the profit potential embedded in the portfolio. But there is no necessary logic of cross-border trading in operation.

An investor might want to lessen their exposure to particular individual stocks and to buy offsetting stock index derivatives to rebalance overall portfolio characteristics. In order to ensure that the stock index derivatives offer the appropriate level of diversification for protecting the profit potential of the portfolio, they will be written against the same national stock market index of which the individual stocks form a part. It might not always be possible to trade both instruments – individual stocks and stock market derivatives – on the same exchange. But the 'jump' that is required to liquidate one set of holdings in preference for another is not one that involves crossing national borders. It requires only for the relative concentration of assets to be switched from one exchange in a particular country to another exchange in the same country. Besides, the important economic fact contained within this instance of capital mobility is not whether the country's financial regulatory structure permits multiple instruments to be traded on a single exchange, but that the investor wishes to switch positions between different categories of asset. Such switching usually involves the trade in derivative instruments. The vast majority of derivatives are sold in over-the-counter forms so that they can be tailored to the investor's specific financial needs at a particular moment of time (see Steinherr 2000). As a consequence, investors can rebalance portfolios by trading between two bespoke instruments constructed by the same intermediary within the inter-bank market. In such circumstances, whilst this is still an instance of capital mobility in my economic definition, there is no spatial movement implied whatsoever. I refer to this as an instance of the *functional* mobility of capital.

## *The Functional Mobility of Capital*

Investors switch their assets along functional lines when they are more interested in the form in which their investments are held than they are in the geographical location of the market on which they are invested. Two significant shifts have occurred to the context in which the financial economy operates since the early 1970s. The first is external to the market environment, involving changes to the regulatory structure and therefore changes to the insertion of the financial economy within broader production relations. This is the trend towards enhanced financial liberalisation, and it is this that has had the greatest impact in terms of expanding spatial mobility options. The second shift is internal to the market environment, involving a sustained period of product innovation relating to what, exactly, can be bought and sold on financial markets. This is to do with changes to the composition of tradeable asset characteristics as markets have been made in one new financial instrument after another. It is the trend towards enhanced financial innovation, and it is this that has had the greatest impact in terms of expanding functional mobility options. Functional capital mobility comes into play because of two main reasons: (1) there are now more opportunities to protect the profit potential of portfolios by trading in and out of different categories of asset; and (2) there is now a considerable body of financial theory which exists specifying the optimal trading strategy between different assets (e.g., Bernstein 1992; Mehrling 2005; MacKenzie 2006).

Whenever a new financial instrument is brought to the market, it closes an existing gap within the overall market structure. Given the possibility of constructing a derivative instrument to contain any possible permutation of tradeable characteristics, the ability to innovate is theoretically limitless. The financial market structure is therefore unlikely to ever be ‘completed’ in the technical sense – meaning that all remaining gaps are filled – because it always remains possible for the human imagination to create something new by combining in novel ways the characteristics that are already embedded in existing instruments. Having said that, the range of assets available today represents a massive change from earlier times. It is no longer the case, for instance, that investors are faced with a simple choice of whether to put their money in stocks or bonds. They can now channel their savings towards any number of instruments that exist in the financial space between stocks and bonds.

Recent advances in financial theory have shown that it is possible to combine stocks and the correctly constructed stock option in order to create a portfolio that has all the economic characteristics of cash (e.g., Leland 1980; Jacobs 1999; Lo and MacKinlay 1999). From there, it is a small step to then purchase the single currency future which will transform the portfolio so that it has all the economic characteristics of a government bond or treasury bill (e.g., Garber and Taylor 1995; Goodhart 1997). All of these assets can be purchased in over-the-counter deals that make it possible for the investor to tailor the portfolio so that it offers the desired level of both liquidity (i.e., how easy it is to cash the portfolio in) and leverage (i.e., how much potential there is for multiplying the gain/loss inherent in the portfolio). All of the calculations that investors are required to make in this respect relate to decisions about how to control portfolio characteristics by switching holdings between one group of assets and another. Given my definition of terms, this means that we are talking about the functional mobility of capital rather than its spatial mobility. There is no impression

left here by the pattern of trading between different categories of asset of capital being physically ‘on the move’ with respect to space.

Consider the following example. As with the previous example, it also relates to the Asian financial crisis, only this time not to the years immediately following the outbreak of the crisis but to the dynamics of the crisis itself. In the period leading up to the collapse of East Asian currencies, firms in all the crisis-hit countries had issued extremely large amounts of corporate bonds. This was designed to enable them to tap into sources of international credit as a means of sustaining the viability of their business models and as a means of continuing to produce at their existing level of output. In general, East Asian firms were considered to be something of a credit risk in the 1990s, with very few being given an investment grade credit rating by the rating agencies (Seabrooke 2001). International banks protect their reputation for financial probity by accepting prudential regulations that tend to compel them only to take investment grade credit risks onto their balance sheets (Sinclair 2005). As a consequence, the banks were unable to deal directly with most East Asian firms, so they established Special Purpose Entities specifically in order to buy East Asian corporate bonds.

In order to defend the value of the Entities’ holdings, they typically denominated the firms’ liabilities to the Entities in US dollars (IMF 2002: 68-9). The Entities therefore purchased corporate bonds in the firms’ local currencies, allowing free cash flows to enter the firms in the local currencies so that they could capitalise new productive activity, but they insisted that the firms pay back the Entities’ initial investments in dollars. A single instrument was used to cement the economic relationship between the firms and the banks’ Special Purpose Entities – total swap returns – and this was sufficient to ensure that the firms shouldered all of the exchange rate risk embedded in the relationships (Kregel 1998: 47-8).

Collapsing currency prices in the midst of the financial crisis therefore represented exceptionally bad news for the firms that had relied on international banks as a source of credit. In general, their assets were denominated in their local currencies but their liabilities to the banks were denominated in dollars. Given that they had become accustomed to working within the context of exchange rate stability, most of the dollar-denominated corporate borrowing in East Asia in the mid 1990s was not hedged for exchange rate risk (Jomo 1998: 6-7). So, collapsing local currency prices greatly accelerated firms’ net liabilities in a context in which they bore the full brunt of the exchange rate risk. This placed their very viability in doubt. What ensued was a process that Steven Radelet and Jeffrey Sachs have called “a disorderly workout” (1998: 8), but which in truth had more dramatic consequences than can be captured by the rather anodyne nature of that term. In a frenetic last-ditched bid for survival, they needed to fundamentally alter the character of their balance sheets, which involved changing the composition of their holdings by trading one category of asset for another. It is at this point that the functional mobility of capital enters the story.

The worst affected firms knew that they had to reduce their exposure to the local currency if they were to survive the crisis intact. This imperative became more pronounced the more that individual firms activated self-help strategies by selling off holdings of the local currency (e.g., Neftci 1998). Every time this happened, the renewed selling activity pushed the value of the local currency down still further on

the foreign exchange market, thus exacerbating the balance sheet weakness of other firms that continued to hold their assets in the local currency, as well as providing further incentives for more firms to offload their local currency holdings and to ratchet up the problem another step. Individual self-help strategies therefore became a collective self-harming strategy. The escape route in general was to buy any available asset denominated in dollars, as this offered a means of once again matching the denomination of assets and liabilities (e.g., Eichengreen 1999: C12). For some this involved spot market purchases of dollars, but many more lacked the institutional capacity to engage in this sort of trading. Instead, they entered over-the-counter derivatives markets in the search for dollar-denominated futures contracts that would offer them temporary respite from the travails of the local currency.

What we see here is two independent but related actions. On the one hand, holdings of the local currency were liquidated; on the other hand, new holdings of dollar-denominated futures contracts were purchased. The economic link between the two is that the former trade was undertaken specifically to facilitate the latter trade. As the two taken together constitute trading across different categories of asset, this is what makes it an instance of functional capital mobility rather than of any other sort of capital mobility. It is here that we witnessed the most extreme effects on the price of local currencies. The dominant image of the crisis today is one of international investors desperately seeking shelter from a gathering financial storm and thus repatriating their capital en masse (e.g., Haggard and MacIntyre 1998; Smadja 1998; Dattel 1999; Leaver 2000). This feeds into the image of capital being physically 'on the move' between distinct places as it heads for home. And it is certainly the case that this pattern of trading dented confidence in the entire region and caused currency prices to be undermined. But much of the most intense selling of local currencies was not a simple matter of taking capital back home. Instead, it was triggered by the trading strategies of local firms as they sought to rebalance their portfolios by selling off the local currency in preference for holding futures contracts denominated in the dollar. In other words, these firms were trading between different categories of asset and, as a consequence, they were engaged in trading strategies built upon the functional mobility of capital.

The question might be asked about whether it is necessary to add the new concept of the functional mobility of capital when we already have at our disposal the existing concept of the fungibility of money. Hopefully, the above example will show why this is the case. Whilst the two concepts pick up on many of the same themes they are analytically distinct, as I will now explain. In general, the fungibility of money refers to a potential that is embedded into an asset: the greater its properties of fungibility, the easier it is for the asset to replicate many of the properties of holding cash without necessarily having to have wealth invested in passive cash forms. The functional mobility of capital refers to something quite different. Certainly in what I have in mind, it is to be used to describe in substantive detail actual patterns of switching the internal composition of a portfolio from one type of holding to another. Of course, in practice it is likely that the two will not be unrelated. Heightened fungibility increases the ease with which investments can be placed 'in motion' between one type of asset and another, hence facilitating the functional mobility of capital. But just because invested wealth is held in fungible forms tells us nothing about whether investors *will* subsequently change the balance of their portfolios by switching between categories of asset in the future; much less does it provide any information

about *which* assets they will switch to if they do indeed make that decision. To repeat, the fungibility of money relates to the potential to put assets ‘on the move’ between different types and not to the concrete patterns of investment which follow from choosing to do so. It is to the latter that the functional mobility of capital speaks directly.

For instance, imagine that capital is held as a bearer bond linked to a company’s income flow, or as a promissory note enabling the owner ready-made convertibility of foreign exchange into gold, or as a warrant on a treasury bill. In all three instances we see that the assets allow for ease of switching between a straightforward cash position and a position that replicates many of the properties of cash but also has others besides. Simply by purchasing any of these assets the investor has enacted that process of switching. This means that all three assets are fungible in the form in which they are bought. They are also highly liquid assets, because they usually offer unproblematic conversion back into cash. But this is all we can say about the properties of those assets. We cannot infer from the fact of fungibility that their ownership will lead to a subsequent instance of functional capital mobility. Much less can it describe the content of that mobility even if we know that the fungible asset will be sold in the interests of portfolio rebalancing, because we have no means of saying for sure which type of asset will be bought in its place. Fungibility relates to what can be known about the properties of assets *before* they are put ‘in motion’ in order to facilitate a process of portfolio rebalancing, whereas functional capital mobility relates to what can be known about the manner in which one group of assets was traded for another *after* the motion has temporarily ceased.

These, then, are the two generic ways in which capital can be mobile: spatially and functionally. The two have the same basic economic structure, insofar as both result from independent but related processes of disinvestment and reinvestment. One position must be liquidated first (the process of disinvestment) before sufficient capital can be released for a new position to be taken (the process of reinvestment). But the difference between the two must also be noted. This difference is almost always overlooked in IPE, and this is the result of prioritising one disciplinary route into IPE over the other. It is to this question that I turn in the next section.

### **The IR Roots of Prioritising Spatial Understandings of Capital Mobility**

Almost all of today’s IPE scholars had their first exposure to the subject field whilst being students of International Relations. Typically, the beginning student is presented with a number of economic puzzles which affect the conduct of inter-state affairs, and they are told that this is the subject matter of IPE. This initial training has a lasting effect, defining how they set up their research questions and how they themselves subsequently present the findings of the academic literature to future generations of IPE students. The cycle thus continues.

This much is clear when we take a brief look at the evolution of IPE since its formative years (e.g., Murphy and Tooze 1991; O’Brien and Williams 2004; Ravenhill 2005; Phillips 2005). What is striking is just how closely intellectual developments in IPE follow the analytical trends that emerge first in International Relations. It is as if, in general, IPE is nothing more than the application of the

theories and methods of International Relations to phenomena of a broadly economic nature.

Perhaps most obviously, IPE scholars have usually followed their counterparts in IR by privileging explanations that are located at the level of the international system. (1) When IR focused in the early 1970s on the possibilities and problems of international cooperation, IPE followed suit with its focus on economic interdependence, arguing that patterns of international political cooperation replicated the existing structure already visible within the world economy (e.g., Cooper 1968; Keohane and Nye 1972). (2) When IR scholars began to concentrate more directly on the significance for cooperation of a preponderant state's leadership capacity, IPE turned to hegemonic stability theory to show how the preponderant state's preference for particular economic institutions bound its partners into its sphere of influence (e.g., Gilpin 1975; Krasner 1976). (3) When IR started to branch out into game theoretical explanations of why states might act in ways which seemed to go against their best interests, IPE focused on rationalist accounts of the emergence of multilateral economic regimes (e.g., Axelrod 1984; Grieco 1989). (4) When IR began to look at how domestic policy choices condition a state's preferred strategy in international politics, IPE studied the formation of powerful economic constituencies at home to see how these influenced one state's negotiations with other states (e.g., Keohane 1984; Lake 1993). (5) And when IR first showed concern for the relationship between state autonomy and the law-making capacity of genuinely multilateral institutions, IPE focused on the economic dimensions of globalisation (e.g., Mittelman 2000; Kofman and Youngs 2003).

In all of this, two things remained the same in the IR variant of IPE, in addition to the underlying ontology which directed all attention at the level of the international system. One of these constants was the prominence of the state as the privileged actor within the subject field (e.g., Krasner 1994); the other was the assumption that the most important relationships to study were those that form across borders (e.g., Underhill 2000). The concern for patterns of spatiality within the world politics enacted between states therefore underpins the IR variant of IPE at every stage of its evolution. These are the intellectual instincts that IPE scholars are socialised into acting upon when they come to the subject field from an initial disciplinary home within International Relations. In the remainder of this section, I argue that this has had a significant effect on the way in which the concept of capital mobility has traditionally been understood in IPE.

First, the emphasis on the state provides the basis for an overwhelmingly quantitative account of capital mobility. In general, IR theorists who talk about the state are interested in its capacities: i.e., its ability to exercise authority in order to act in line with its perceived interests. The task then becomes to highlight how external factors within the realm of international politics impact upon the state to change both the scope and the nature of its capacities. This style of scholarship transfers readily into IPE (Gilpin 1987; Strange 1996). In this respect, throughout the history of IPE one important theme has been the attempt to chart changes in the institutional configuration of capital mobility which have made capital ever more mobile over time. So, it is fairly standard for IPE scholars to understand the demands of their subject field against the backdrop of the rise and fall of Bretton Woods and the increasing dissolution of formal capital controls.

The essence of this style of scholarship is to show how much more difficult it is in the contemporary world for states to sustain autonomous policy programmes which, at almost any level, could be considered to go against the interests of capital (e.g., Kitschelt et al 1999; Garrett 2000). Declining state capacities and increased capital mobility are therefore understood to be two sides of the same coin. But this is only because the primary concern with stipulating the precise extent of existing state capacities subsequently leads to the related concern for knowing more about the extent of existing capital mobility options. To repeat a previous claim, the focus that emerges is thus one of the quantitative measure of whether capital is bound to a state or whether it is free to leave when its perceived interests lie in an alternative location.

Second, the focus on borders highlights IR's preoccupation with relationships that have broader geopolitical implications than the realm of mere domestic politics. Activities that link entities across national borders are hence treated, by definition, as if they are intrinsically more important than activities that are contained within national borders. The key here is to understand changing conceptions of territoriality. Once again, this style of scholarship transfers readily into IPE (e.g., Rosamond 2003; Higgott 2007). The interest that IPE scholars have shown in the economic dimensions of globalisation is rooted, at heart, in the desire to understand more about changing practices of territoriality within the contemporary world economy. It generates attempts to explain changing patterns of production, distribution and exchange, such that everyday economic life is now increasingly penetrated by influences that arise from beyond national borders.

The study of capital mobility is also significant in this respect: the more mobile that capital can be shown to be, the more that everyday economic life is made up of territorialised experiences that do not fit easily within the bounds of national borders. Most IPE studies of capital mobility are eager to show not only that it has increased substantially in recent years but also that it is now located in a genuinely global realm of electronic impulses and computer networks. As a consequence, it is typically assumed that capital mobility is a prime example of what Jan Aart Scholte describes as globalisation's tendency to prioritise the 'supraterritorial' (Scholte 2005). In such a situation, there are few, if any, constraints that can be placed on capital imposing its logic on economic relations throughout the world. That logic itself results from the way in which purely disembodied capital has unlimited exit options with respect to national borders (e.g., O'Brien 1992; Kobrin 1997).

Hopefully, it is by now clear where the argument is going in relation to the distinction that I want to draw between the spatial and the functional mobility of capital. The IR variant of IPE privileges one over the other insofar as its core research questions emphasise ontological perspectives which only make it possible to see capital mobility as a spatial phenomenon. (1) Understanding capital mobility through an emphasis on state capacities requires us to focus on capital's ability to leave the impression that it has moved from one country to another. (2) Understanding capital mobility through an emphasis on de-territorialising trends within world politics requires us to focus on capital's ability to leave the impression that it is no longer located in conventional Westphalian conceptions of political space. In both instances, the important fact about capital mobility is considered to be the movement of investment funds within respect to space. Set in such a context, capital is mobile –

and maybe capital is *only* mobile – in circumstances in which it can be demonstrated that the liquidation of an asset in one country is undertaken specifically to facilitate a new investment in the same asset but in a different country. No room is left in the analysis for considering alternative cases of capital mobility whereby (in my terminology) it appears to be a functional rather than a spatial phenomenon.

I attribute this in turn to the generally subordinate status of the political economy variant of IPE. Much of IPE is written in the shadow of a latent ‘econophobia’. This tends to have one of two roots. On the one hand, it can result from most IPE scholars’ lack of training in the core precepts of economics and the consequent fear that they will be unable to cope with the technicalities of debates within that largely abstract subject field. On the other hand, it can result from a concern that any rapprochement with the methods of economics might prove to be the thin end of the wedge, with the consequent fear that this will eventually lead to the wholesale colonisation of IPE by economics. Either way, the end product is the desire to keep economics at arms’ length. This also has a knock-on effect for political economy approaches within IPE. In order to retain their independence from economics approaches, the most fruitful means of constructing a political economy approach to IPE would be to ground it in an appreciation of the historical evolution of economic ideas. However, the vast majority of IPE scholars have no formal training in the history of economic ideas, and what familiarity they do have often comes from sources that it would be difficult to describe as authoritative. For those whose academic socialisation is in the IR variant of IPE, their exposure to the history of economic ideas might be nothing more than what they have picked up from introductory IPE texts. And most of this coverage is simplistic to the point of caricature.

IPE tends to lack two things. First, it has paid inadequate attention to its own foundations in the broader tradition of the history of economic ideas, preferring instead to date its own history to the origins of the field in the early 1970s and not delving into its substantial pre-history. Second, it has also paid inadequate attention to the nature of the economic system, to that system’s internal composition and to how its individual parts fit together. In IPE, ‘the economy’ is variously conceptualised as something to regulate, something to manage, something to facilitate or something to seek shelter from, depending on which theoretical perspective we are talking about. But in each of these accounts the economy is treated as a given. It is something to which other aspects of social existence can be related to, but only externally so. It is rare in IPE to come across existential explorations of the very essence of economic relations at anything other than the level of the international system. At that level we find plenty of analysis of the way in which world economic affairs reflect the institutional settlement arising from the current balance of power across nations. However, this is not the same as saying how the component parts of the economic system actually work and how they relate internally to one another. In other words, ‘the economy’ tends to be treated as a black box within IPE.

This is nowhere more the case than in the realm in which the phenomenon of capital mobility is operative: i.e., the financial economy. There is a prevailing sense – and here I am not talking about IPE so much as about society more generally – that the financial economy is manifested in the purely technical relationships which exist between members of an expert community. To the experts the financial economy might be knowable, but to everyone else it is a largely mysterious realm: why else the

need for the array of extremely highly paid professional advisors that the finance industry has spawned? Given such assumptions, the internal dynamics of the financial economy are rarely explored and, in the absence of analyses of this nature, common sense explanations of financial phenomena are grasped whenever they are ventured.

This has certainly happened in relation to the financial phenomenon of capital mobility, and it helps to explain why IPE has tended to focus on the spatial characteristics of capital mobility to the neglect of its functional characteristics. By addressing the functional characteristics, we are required to look inside the financial markets to see how the instruments that are traded there have changed in recent years and how this allows investors to alter the balance of their portfolios' internal characteristics. As is clear, this is not the same style of analysis as that which asks the question of how the broad financial structure fits in with and assists in the constitution of the economic dimension of world order. This is about understanding how financial markets work in and of themselves, but it is not at this level that most IPE studies have been oriented. As Paul Langley has argued to great effect (see, for instance, Langley 2008), IPE has generally concentrated on the political outcomes produced by the sphere of 'global finance' rather than on the composition and economic characteristics of the instruments that are traded on financial markets.

The issue of derivatives can be used to illustrate this point. In general, there are two different emphases that can be placed on the study of derivatives. On the one hand, we might be inclined to trace the impact of derivatives on the relationship between public and private forms of authority. We can say with some justification that the mere existence of derivatives extends the sphere of private property rights in financial markets, hollowing out public authority and reducing the regulatory capacity that the state is able to bring to bear on financial markets. This appears to place capital in a privileged spatial relationship with respect to the state, because investors can use derivatives to, in effect, disembed their capital with respect to space, whereas the state remains territorially embedded in much the same way as it always has been. On the other hand, we could show an interest in the precise characteristics of the derivatives that can now be traded, because it is within these characteristics that the economic outcomes of derivatives trading are created. These outcomes alter life chances in real world situations, because they are associated with new distributional settlements imposing themselves upon and overriding previous distributional settlements. Again, it is the precise characteristics of the derivatives being traded that have the distributional consequences.

As before, I hope it is clear that these are two very different styles of analysis, linked to different underlying research questions and to different traditions of scholarship. The former is more closely associated with existing IPE analyses of recent processes of innovation within financial markets, but it is clearly cast in the IR variant of IPE. It asks the standard IR question of the relationship between system dynamics and the conditions of world order (here, between the dynamics of the international financial system and the economic conditions of world order). The latter is not where the current centre of gravity of IPE analyses of financial innovation is situated, which is probably to be expected as it is cast in the image of the less popular political economy variant of IPE. It asks the standard political economy question of how best to unpack the black box of the internal dynamics of financial markets.

These two traditions of thinking about the effects of financial innovation also privilege different accounts of capital mobility. The IR variant of IPE links the changing relationship between public and private authority within financial markets to an understanding of capital mobility which emphasises its spatial dimension. The rise of private self-regulation within financial markets is associated with an increase in exit options for capital, because it is much more difficult for states to impose controls on disembedded capital than it is on capital that is essentially fixed in its territorial location. This increases the potential for capital to be moved between one country and another, thus increasing its mobility with respect to space. Indeed, from starting with the basic IR question about the relationship between system dynamics and the conditions of world order it might *only* be possible to conceive of capital mobility with respect to space.

By contrast, the political economy variant of IPE links the changing form of instruments traded on financial markets to an understanding of capital mobility which emphasises its functional dimension. The ready availability of many new financial instruments allows investors more opportunities to protect the profit potential of their portfolios. They can react more quickly and more effectively to changing market conditions in order to ensure that their portfolios contain the economic characteristics best suited to neutralising threats to the value of their holdings. This increases the potential for capital to be moved between one type of asset and another, thus increasing its functional mobility. From starting with the basic political economy question of how economic relations actually form it is much more likely that capital mobility will be seen as a functional phenomenon.

My purpose in this section has not been to argue that one type of capital mobility is intrinsically more important than the other. As such, I have no intention of stating that one of the disciplinary variants of IPE is necessarily right and the other is necessarily wrong. My claims are threefold: (1) that there are two distinct types of capital mobility (spatial and functional); (2) that there are two distinct disciplinary routes into IPE (IR and political economy); and (3) that each disciplinary route focuses more easily on only one type of capital mobility (the IR variant on spatial capital mobility and the political economy variant on functional capital mobility). My concern is that, by focusing exclusively on only one type of capital mobility, it might only be possible to go part way towards capturing the essence of real world instances of changing investor preferences. I turn in the final section to consider why it is important – not just analytically but also politically – to have as full an understanding as possible of these preferences.

### **The Political Consequences of Enhanced Capital Mobility**

Recent increases in mobility options for capital – of both a spatial and functional form – are evidence of a similar increase in the dominance of rentier interests within the world economy (on which point, see, for instance, Crotty and Epstein 1996; Pauly 1997; Wade and Veneroso 1998; Chang and Yoo 2002). This is perhaps most easily explained in relation to spatial capital mobility. Keynes famously likened the types of restrictions on capital mobility that were embodied in the Bretton Woods settlement to the forced “euthanasia of the rentier” (Keynes 1997 [1936]: 376). The gradual

dissolution of that settlement over time should thus be understood as an indication that the subordinate political position of the rentier was only ever temporary. The history of the post-war international financial system is one of the steady accretion of rentier power. This first involved convertibility and subsequent liberalisation of the current account, so that capital could be moved from one country to another in order to facilitate international trade (e.g., Eichengreen 1996; Germain 1997). The same principles and processes were then extended to the capital account, breaking the link between capital flows and traded goods and ensuring that capital could be moved from one country to another simply as a response to underlying financial conditions (e.g., Helleiner 1994; Best 2005). In both instances the original *raison d'être* of the International Monetary Fund was transformed so that it could act as the institutional guardian of the new patterns of spatial capital mobility.

Whilst the details are less well known, a similar increase in the scope of rentier activities has been achieved through an extension in the functional mobility of capital. Unlike the ability to place assets in motion across borders, which was controlled through international regulation in the immediate post-war period, the ability to trade between different categories of asset was controlled by national regulations that only allowed markets to be made in particular types of financial instrument. Innovation was generally discouraged by legal constraints which attempted to stop the effects of trading in one market from spilling over into the pricing dynamics of other markets (e.g., Dunbar 2000). This was a reflection of the continuing impact of memories of the 1930s on the regulation of financial markets. During the Depression era, the close connection between participants on different markets led to the self-protecting actions of embattled investors on one market enforcing equally adverse price trends on other markets. From the 1970s onwards, however, national restrictions on the type of asset that could be traded began to be lifted, for a start slowly but then with more of a rush (e.g., Loosigian 1981; Millman 1995). Legal challenges had to be raised by exchange operators so that a technical distinction between securities trading and commodities trading could be institutionalised (Mehrling 2005: 167-70), which in turn allowed national restrictions on trading specific types of commodity to be circumvented (Fischel 1986: S88-90). Once this precedent had been set, national regulators saw that they were increasingly powerless to prevent financial innovation and consequently were more inclined to accept requests for making new markets (e.g., Howells and Bain 1994; Valdez 2000). In this case, an institutional guarantor was unnecessary for safeguarding the increasing scope of rentier activities, because once these markets were made it would have been exceptionally difficult to then subsequently 'unmake' them.

The important dynamics in this respect are political. All the decisions that have been taken to enhance both spatial and functional capital mobility need not have been taken, but they were as a matter of political choice. My perspective is silent on the way in which rentier interests have been able to impose themselves within national politics to help give the structure of capital mobility its current form. But we know that some such incorporation of rentier interests into the state policy-making apparatus must have occurred within strategically significant states, otherwise that structure would not look the way it now does. It was a matter of political choice to relax the existing constraints on capital mobility, but this process is not simply reversible by future political choices.

(1) Capital controls on spatial mobility were removed one country at a time. Looking back, it is relatively easy to replay the history of those decisions in terms of a single sequence of events, at least insofar as one country's decision to liberalise its capital flows made it more likely that other countries would follow suit. This is especially the case because the first three movers in this respect were the financial powerhouses of the United States, Germany and Britain. But it is important to remember that these decisions were taken one at a time and that they required no official coordination. To now move back to the previous situation could not simply be a case of retracing steps. From the starting point of a highly liberalised international financial environment it is difficult to imagine one country being able to unilaterally re-impose capital controls. The fear would be that the country would experience a haemorrhaging of investment funds as a response to its challenge to private authority within financial markets. The only way to re-introduce capital controls would be for all countries to do so simultaneously. However, this degree of cooperation is unprecedented in world economic history, and there is no indication that it is in sight at the current moment of time.

(2) National controls on functional capital mobility were also removed one country at a time. However, the difficulty posed in placing regulations on new financial instruments is not that of needing international coordination. It is that of trying to put the genie back into the bottle. The market for exchange-traded derivatives has spawned a significant number of alternative markets in over-the-counter derivatives (e.g., Steinherr 2000). These markets are regulated only to the extent that the counterparties to any particular trade can stay in their positions only for as long as they have enough money to do so. Moreover, the instruments that are used in over-the-counter deals can be tailored so as to include the unique trading characteristics demanded by the purchaser. This means that participants in over-the-counter markets will always be able to remain one step in front of the regulators. Whenever trading in one instrument is controlled by regulation, market-makers can simply innovate to create a new instrument that has all of the economic characteristics of the original instrument but which is not subjected to regulation. The ability to replicate the economic characteristics of any financial instrument is now theoretically limitless given the trading technology at the disposal of investors.

For the foreseeable future, then, difficulties in reversing recent rentier gains in the structure of capital mobility are likely to be a persistent constraint on successful progressive political mobilisation in this area. The political terrain on which rentier and anti-rentier interests are active is by no means symmetrical. The structure of capital mobility is itself part of the reason why it is so fundamentally skewed in favour of rentier interests. This is significant due to the impact of that structure on the distribution of life chances globally. An important trend has arisen recently on the back of decisions taken to enhance the scope of capital mobility both spatially and functionally. These decisions have been accompanied by an increase in the volatility of financial prices (e.g., LeRoy 1989; Ngama 1994; Ghosh 1995; Harvey 1999; Grieve Smith 2004; Mandelbrot and Hudson 2005) and an increase in the incidence of financial crises (e.g., Eichengreen and Wyplosz 1996; Frankel 1996; DeLong 1999; Tickell 2000; Davidson 2004; Pauly 2005). The trends are more than merely coincidental. They are causally related, as it is the additional mobility options for capital which have led to instability in the pricing dynamics of financial assets and subsequent adverse runs on the selling side of particular asset markets.

In other words, one manifestation of the current dominance of private authority within financial markets is that an increasing number of people around the world have been dragged into the unfolding dynamics of financial crises. It is, then, surely of note that the two examples used in the opening section of how capital mobility has increased in recent years were both drawn from the experiences of financial crisis. This is a fundamentally *human* experience, as financial crises feed off the devaluation of personal savings. Once the retrenchment in savings disrupts the productive capacity of the economy as a whole, the crisis dynamics also manifest themselves in job losses and, for those that survive this eventuality, in the increasing intensification of work (e.g., Lee 1998; Budd 1999; Amoore 2002; Dunn 2004). Recent increases in both the spatial and the functional mobility of capital are therefore more than merely a technical feature of modern economies. In every instance, the crises that have been triggered by those increases in turn have been followed by renewed attempts to put the national economy back 'on track' by enhancing the rate of surplus value extraction. The national sacrifice called for as a response to collapsing asset prices falls disproportionately in the first instance on workers. Therefore, recent increases in both the spatial and the functional mobility of capital are first and foremost an issue of class politics.

The embedding of rentier interests into the structure of capital mobility is thus the embedding of a particular class consciousness that operates to the detriment of workers. It does not matter whether workers are active participants on financial markets. In most cases it is unlikely that they will be, but this does not prevent them from being affected by the outcomes of that participation by rentier interests. Most workers will only be externally related to financial markets, as they will have no influence on the process of price determination on those markets. Moreover, that external relationship is distinctly one-sided. The impression of the link arises only in circumstances in which the destabilisation of asset prices impacts adversely on workers' well-being. In such circumstances, it appears as if the financial crisis imposes itself on the distribution of life chances globally, negatively affecting the ability of workers to reproduce their existing lifestyles. What is really being imposed, though, is the structure of enhanced capital mobility and, through that, the interests of rentiers. And of course it also should not be forgotten that, for the most highly capitalised market participants, a temporary seizure in the pricing dynamics of a particular asset market represents a potentially lucrative buying opportunity.

This leads me to one last point about the nature of financial crises. In all instances they arise from patterns of market trading that could have been avoided. There is no sense of compulsion requiring investors to collectively liquidate large quantities of a given asset in a short space of time: they have the option of not liquidating those assets but nevertheless choose to do so. The only possible way in which we could argue that a logic of compulsion exists is, perhaps, with respect to the internal operating dynamics of a market system in which private authority is not challenged. If we are to take the dominance of rentier interests as a given then it is possible to suggest that, in order to defend that privileged position, there will be times at which it is necessary to engage in concerted coordinated selling as a means of disciplining those that do not submit willingly to the extraction of rentier profits. But it is only in circumstances such as these that this suggestion holds. It is completely undermined if we choose instead to treat the current dominance of rentier interests, not as a trans-

historical given, but as a carefully constructed historical project rooted in recent increases to both the spatial and the functional mobility of capital.

Moments of financial crisis arise, then, because the current institutional settlement in which financial markets are situated defends the right for investors to consider only their own interests when deciding upon their preferred trading strategies. Those strategies might have adverse consequences – and, potentially, seriously so – for the life chances of individuals who are only externally related to the markets' trading dynamics. But there is no institutional means to act as an enforcement mechanism to insert the interests of these individuals into traders' decision-making calculations. Financial markets operate today on the basis of a fairly crude conflation of property and wealth. The private property rights on which the legal structure of the market environment is grounded corresponds both to the refusal to socialise the wealth that capitalises market trading positions and to the acceptance that this wealth can be used in whatever way its owners determine. Wealth *can* be appropriated via the operation of contemporary financial markets. But this is not the wealth that makes current patterns of market trading possible so much as the wealth that is held externally to the markets and that is often picked off in moments of financial crisis.

We should be clear that the adverse runs on particular assets which lead to the temporary seizure of their pricing dynamics are not accidental. Such runs can take one of two generic forms: they can be related to the wholesale liquidation of assets in one country (i.e., spatial capital mobility) or they can relate to the wholesale liquidation of a particular asset type (i.e., functional capital mobility). Either way, they are deliberately engineered in order to allow traders to hit their primary concern of defending the profit potential of their portfolios: bluntly put, to make money. In the absence of any possibility of gaining from the destabilisation of asset prices, traders would have no incentive to move into the positions that cause those prices to be volatile. Asset prices would be stable were it not for the profit opportunities embodied in their deliberate destabilisation and for the structure of private property rights in which financial trading takes place today.

The link is often made between patterns of market trading and the phenomenon of financial risk. This is largely down to the nature of finance theory. Modern finance theory coalesces around the underlying ontological assumption that all market actors are rational utility maximisers and, in that capacity, around the related behavioural assumption that they will act solely to minimise their exposure to depreciation risk (e.g., Markowitz 1959; Sharpe 1970; Black and Scholes 1973; Merton 1973). In other words, it is assumed that they will do all they can to ensure that their portfolios are protected from possible loss of value, and it is for this reason that they will activate capital mobility options in the first place.

However, it would be a mistake to believe that this is the only type of risk which is of relevance to contemporary financial markets. It is certainly the case that investors will be wary of holding for too long assets whose market value is depreciating, or even assets whose market value is *expected* to depreciate. But by acting on these expectations traders bring to fruition the very trajectory in prices that they had predicted and, in selling in advance of the price fall, they are able to make a speculative gain. Of course, such gains are also transmitted as someone else's losses. They result from the appropriation of wealth originally held externally to the markets.

This is not always the direct appropriation of wealth, as it will often be mediated by traders' ability either to take holdings from the reserves of national monetary authorities or to reduce the value of institutional investors' holdings. In the former instance wealth is appropriated from society due to the national monetary authorities' need to replenish reserves in order to stabilise the public finances. This often results in cuts to welfare-enhancing expenditures and, as such, reductions in the social wage. In the latter instance wealth is appropriated from society due to the institutional investors' inability to make good on the previous level of entitlement that clients had been able to draw from the fund. This will result in a retrenchment of future consumption possibilities and, as such, in the present it corresponds to a further reduction in the social wage. As all these effects stem from traders' pursuit of speculative gains, we can say that the risk embodied in the ensuing appropriation of wealth from society is speculation risk.

The phenomenon of speculation risk becomes more salient the greater the increase in capital mobility options. The rebalancing of portfolios which triggers the speculation risk in the first place follows from traders' decisions to liquidate certain assets in preference for holding alternative assets. According to my economic definition of capital mobility, these are the basic actions that are required to sustain the impression of having put capital 'in motion', and they apply irrespective of whether the particular instance of capital mobility is spatially or functionally oriented. From my perspective, then, recent increases in both generic types of capital mobility have knock-on consequences in two regards. On the one hand, they are associated with an increase in speculation risk being propagated from the market environment. On the other hand, they are associated with an increase in the number of channels through which wealth can be appropriated from society in the interests of those who are active on financial markets. This demonstrates that, at heart, the prevailing structure of capital mobility is an intensely political issue. Moreover, it also shows that we can understand the full political significance of the issue only if we first understand the multiple ways in which capital can be considered mobile within the prevailing structure. It is in this respect that my analytical distinction between the spatial and the functional mobility of capital is potentially of most use.

## **Conclusion**

It is unlikely that I will have convinced everyone with my account of the substantive details of the crisis cases discussed here. Equally, I expect that many IPE scholars will bristle at how crudely I have divided their subject field between an IR variant and a political economy variant. Yet, the value of my main observation does not rely on the agreement of my readers on either of these counts. In order to believe that the distinction between the spatial and the functional mobility of capital is both intellectually valid and analytically useful, my readers need not necessarily believe my description of how the tendency to overlook the difference between the two arises in IPE and neither need they necessarily agree with the use to which I then put my understanding of that difference. It is the distinction itself that matters most.

My goal throughout the paper has been the relatively modest one of arguing that all instances of capital mobility are not the same. I come to this argument by starting with an economic definition of capital mobility, whereby an instance of capital

mobility can be said to have occurred when one set of holdings is liquidated so that the resulting cash balance can then be used in order to purchase a new set of holdings. It is unusual for studies of capital mobility within IPE to start with a definition of the phenomenon at all, let alone an explicitly economic definition. Instead, a common understanding of what it means to be mobile is used, whereby for capital to be mobile there simply has to be a sense that it is 'in motion'. This common understanding typically leads scholars to identify instances of capital mobility only when there is a clear spatial dimension involved. When capital leaves the impression that it has moved from one geographically defined place to another then this should rightly be viewed as an instance of capital mobility. However, it does not exhaust all the possible ways in which it is plausible to consider capital to be mobile.

My primary purpose in the book from which the paper is drawn is to introduce into IPE a tightly elaborated concept of functional capital mobility. Capital is functionally mobile whenever one set of holdings is liquidated specifically so the underlying balance of the portfolio can be altered to include a higher concentration of another category of asset altogether. The concept of functional capital mobility requires us to look inside financial markets in an attempt to explain their inner workings in much greater depth than is usually the case within IPE. The book seeks to show how new financial instruments were introduced into the market environment as soon as regulatory relaxations allowed it to happen, but that these innovations were already fully specified in economic theory before the regulatory context was suitably reshaped so that it would be suitable for their introduction. As such, they began life as a Kuhnian 'thought experiment' designed to test the internal coherence of modern finance theory (see Kuhn 1981). They were only subsequently brought into practice in the image of the theory once surrounding political conditions allowed (e.g., Bernstein 1992; Mehrling 2005; MacKenzie 2006). However, the precise nature of the relationship between finance theory and financial practice is beyond the bounds of the paper. The important point for current purposes is simply to recognise that the process of financial innovation over the last three and a half decades has irrevocably altered the structure of capital mobility. It could possibly be argued that, before that time, capital was solely – or at least primarily – a spatial phenomenon. But, whatever the empirical merit of such a claim, it is decisively no longer true today.

The study of capital mobility is just too important, I contend, to leave one of its two generic types unexamined. This is particularly so for a subject field such as IPE, in which so many of its practitioners are concerned to learn as much as possible about the structural influences within the world economy that condition the distribution of life chances globally. Given its close association with embedded rentier interests, the prevailing pattern of capital mobility is without doubt one such influence. This is why it is necessary to reveal as much as we can about the internal dynamics of contemporary financial markets and how these dynamics impact upon capital mobility options. It is my hope that the analytical distinction between the spatial and the functional mobility of capital offers one such step in this direction.

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