

“Governing Global Finance”

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Governing Global Finance

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Abstract

This paper examines the regulation of global finance. It first identifies the forms and extents of contemporary financial globalization: that is, how monetarily denominated savings and investments now increasingly move in transworld spaces. A range of evidence is cited to indicate that finance has acquired a very substantial global character. The second section of the paper reviews the various institutional mechanisms that currently serve to govern global finance. This regulation is shown to be multilayered and diffuse: across local, national, regional and global levels; and across public and private sectors. The third section considers the effectiveness of present regulatory arrangements, with reference to criteria of efficiency, stability, social equity, ecological integrity and democracy. Current frameworks are found to be seriously wanting on all of these counts. Finally, the paper assesses future challenges and prospects in the governance of global finance. It is argued here that considerably more proactive and socially progressive public regulation of global finance is possible and desirable.

Keywords: globality/globalisation, finance

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Introduction*

In contemporary history, 'global crisis' has as often as not referred to the field of finance. Over the past two decades the world has experienced continual problems with heavy transborder debt burdens, major disruptive swings in foreign-exchange values, a perpetual roller coaster in the securities markets of global financial centres, and a string of crashes among global derivatives players. Understandably, therefore, taming transworld financial flows has ranked as one of the top priorities of governance in an emergent global polity.

This paper examines the regulation of global finance. The first section below identifies the forms and extents of contemporary financial globalization: that is, how monetarily denominated savings and investments now increasingly move in transworld spaces. A range of evidence is cited to indicate that finance has acquired a very substantial global character. The second section of the paper reviews the various institutional mechanisms that currently serve to govern global finance. This regulation is shown to be multilayered and diffuse: across local, national, regional and global levels; and across public and private sectors. The third section considers the effectiveness of present regulatory arrangements, with reference to criteria of efficiency, stability, social equity, ecological integrity and democracy. Current frameworks are found to be seriously wanting on all of these counts. Finally, the paper assesses future challenges and prospects in the governance of global finance. It is argued here that considerably more proactive and socially progressive public regulation of global finance is possible and desirable.

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Global Finance

Finance is the part of an economy that links savings with investments through a variety of instruments denominated in monetary values. Finance is the intermediating activity that makes savings available for investments while generating income from those investments for savers. (See Bryant, 2002 for an accessible account of basic economics of finance; and Held *et al.*, 1999, ch 4 for a comprehensive survey of global finance.)

A host of mechanisms have developed to connect savings and investments. Many take the form of deposits in and loans from banks. Others are securities: that is, stocks and debt instruments like bonds, notes and money market tools. Then there are financial derivatives: that is, forwards, options, swaps and other such contracts that relate to future levels of foreign exchange rates, interest charges, securities prices, stock market indices, and other financial indicators. Insurance arrangements constitute still another large field of financial activity, where people pay in today to cover possible needs for payouts tomorrow.

The scale of contemporary finance is quite astounding. The levels of transactions often dwarf those in the so-called 'real' economy of primary production, manufacturing, transport, communications, etc. For example, the average volume of foreign exchange dealings rose from \$15 billion per day in 1973 to \$1,490 billion per day in 1998, before dropping to \$1,210 billion per day in 2001 (Gilpin, 2000, p. 261; BIS, 2001a; BIS, 2001d. pp. 98-100). At today's level it takes wholesale foreign exchange markets just a month to trade the value of annual world GDP, at some \$30,000 billion (UNDP, 2001, p. 181). Likewise, turnover on the world's securities exchanges exceeds many times over the value of the 'real' assets behind those stocks and bonds. As for financial derivatives, a tool first developed in 1972, the notional amount of outstanding over-the-counter contracts alone (thus excluding exchange-based derivatives) stood at \$99,800 billion in 2001 (BIS, 2001b). In short, finance is big – indeed, extremely big – business.

Finance can transpire in diverse geographical settings. It can be a local affair, for example, with banks that operate only within certain districts or provinces. Several localities have even adopted 'community currencies' as a statement of their wish to delink from high finance (cf. [http:// www.ratical.org/many_worlds/cc/](http://www.ratical.org/many_worlds/cc/)). However, contemporary finance usually unfolds more in a country context, with national money forms, national institutions, and national

financial markets. Meanwhile, inter-national finance occurs when savings and investments are transferred between one country and another. More recently we have seen the rise of regional finance with, for example, the creation of distinct regional currencies like the euro in most of the European Union (EU) and the CFA franc of fourteen countries in West and Central Africa. Regional financial institutions like the Asian Development Bank and the Euronext securities exchange have also appeared. Then there is global finance: namely, monetary savings and investments that flow through world networks.

The terms ‘globality’ (the condition) and ‘globalization’ (the trend of increasing globality) mean many things to many people; however, most will agree that, broadly speaking, ‘globalness’ involves social connections in a planetary realm. In other words, global aspects of social relations are those that unfold in a transworld space. This global arena can be distinguished from – though it also coexists and interlinks with – local, substate regional, national, international and suprastate regional spaces.

Globality has at least four interrelated aspects: internationality, liberality, universality and supraterritoriality. With its international quality, globality entails interaction and interdependence between countries. So global relations involve intensive cross-border communication, investment, trade, and travel. With its liberal quality, globality is marked by a low level (or even absence) of statutory barriers to cross-border flows, such as tariffs, foreign exchange restrictions, capital controls, and visa requirements. With its universal quality, globality prevails when objects, symbols and experiences spread to most if not all corners of the inhabited earth. The many examples include postcards, Arabic numerals and Hollywood films. Finally, in a feature that has mainly arisen in recent history, globality connects people in ways that largely transcend territorial geography, for instance, in respect of telecommunications and global ecological changes. Such supraterritorial links exist with little if any regard to fixed territorial locations, territorial distances and territorial borders. Supraterritorial phenomena can span any points on earth simultaneously, and they can move between any points on earth instantaneously. (For more on supraterritoriality, see Scholte, 2000, ch 2.)

Globalization – that is, increasing globality – has marked contemporary finance in all four of these ways. In terms of increased cross-border financial flows, for example, the world total of bank deposits owned by nonresidents of a given country rose from \$20 billion in 1964 to

\$9,600 billion in 2001 (IMF, 1993, pp. 60-70; BIS, 2001c, p. 10). Concurrently, outstanding balances on syndicated international commercial bank loans rose from under \$200 billion in the early 1970s to well over \$8,000 billion in 2001 (BIS, 1998, p. 144; BIS, 2001c, p. 10). New borrowings of this kind amounted to \$1,465 billion in 2000, as compared with \$372 billion in 1995 and just \$9 billion in 1972 (OECD, 1996; BIS, 2001c, p. 68). In addition, governments and multilateral institutions like the International Monetary Fund (IMF, or ‘the Fund’) and the World Bank have extended several hundred billion further dollars in official cross-border loans to medium- and low-income countries. The capital base of the IMF has risen tenfold since the 1960s, to almost \$300 billion in 1999.

In the securities area, the net issuance of international bonds and notes rose from \$1 billion in 1960 to \$461 billion in 1995 and \$1,246 billion in 2000 (OECD, 1996; BIS, 2001c, p. 71). The total of outstanding cross-border debt securities stood at over \$7,000 billion in 2001 (BIS, 2001c, p. 71). In addition, over \$300 billion in new equities were issued to nonresidents in 2000 (BIS, 2001c, p. 86). Before 1980, resident and nonresident investors rarely traded securities with each other, but by 1997 the value of such transactions was equivalent to 672 per cent of GDP in Italy, 253 per cent of GDP in Germany and 213 per cent of GDP in the USA (BIS, 1998, p. 100). The two main clearing houses for cross-border securities trading, Euroclear and Clearstream (formerly Cedel), both founded in the early 1970s, together accumulated an annual turnover of nearly \$60,000 billion in 1999, up from \$10,000 billion in the late 1980s (Kirdar, 1992, p. 2; Euroclear, 2000).

Much of this increased internationalization of finance has gone hand in hand with liberalization. For example, starting with the USA in 1974, well over a hundred states have removed official restrictions on foreign exchange movements related to the current account of the balance of payments, in accordance with Article VIII of the Articles of Agreement of the IMF. Many states have also relaxed (though rarely completely eliminated) capital controls: that is, regulatory limitations on transfers related to the capital account of the balance of payments (including stocks, bonds, short-term credits, derivatives, foreign direct investments, etc.). In addition, increasing numbers of states have lifted restrictions on non-residents holding bank accounts or dealing in securities within their jurisdictions, thus encouraging the increased cross-border activity mentioned above. Likewise, more and more states now allow externally based banks, securities houses and insurance companies to operate within their territory, sometimes on an equal footing with domestic companies. Only a few securities

markets – such as the relatively small exchanges in Saudi Arabia and the United Arab Emirates – prohibit foreign participation altogether. Additional liberalization of the financial industry is anticipated through further development of the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO).

Universality has also become a widespread feature of contemporary finance. Several national denominations like the US dollar and the Japanese yen have become universal currencies, circulating just about everywhere on earth. In addition, the euro and – on a much more limited scale – the Special Drawing Right (SDR) have emerged through the EU and the IMF, respectively, as monies with transworld use. Meanwhile credit cards like Visa and MasterCard offer universal commerce, with acceptance at tens of millions of establishments across some 200 countries (<http://www.visa.com>; <http://www.mastercard.com>). Likewise, many insurance policies now extend worldwide coverage. Recent years have also seen the institution of a securities exchange spread to most countries on earth, including seemingly unlikely sites such as Albania and Myanmar.

As noted earlier, supraterritoriality is arguably what makes contemporary global finance qualitatively different from previous eras. For example, electronic transfers now permit huge sums in financial transactions to be moved instantly between any points on earth. With telephones and computer links, foreign-exchange trading today occurs through a round-the-world, round-the-clock market that connects dealing rooms in London, New York, Tokyo, Zürich, Frankfurt, Hong Kong, Singapore, Paris, and Sydney. Electronic payments through the Society for Worldwide Interbank Financial Telecommunications (SWIFT), founded in 1977, averaged more than \$6,000 billion per day in 2000, linking over 7,000 financial institutions in 194 countries (<http://www.swift.com>). In retail banking, many plastic cards (such as those connected to the Cirrus network) can extract cash in local currency from over 400,000 automated teller machines (ATMs) across the planet. Electronic communications also enable securities brokers instantly to transmit and execute orders to buy and sell stocks and bonds anywhere in the world. Several derivatives exchanges (for example, London-Singapore and Chicago-Sydney) have established direct links to enable round-the-world, round-the-clock dealing in certain futures and options. Meanwhile insurance brokers have developed networks that allow them to transact business across the planet from their office computers.

In addition, supraterritorial organization today enables many financial actors to operate simultaneously across the globe. A number of commercial banks and insurance companies operate as transworld enterprises with affiliates in dozens of countries. Prominent examples include Citicorp, Lehman Brothers, and Winterthur Worldwide. Several global multilateral development banks (MDBs) have also emerged since the 1940s, including the five components of the World Bank Group and the Islamic Development Bank. Meanwhile, membership of the IMF has grown from 62 states in 1960 to 183 in 2000.

As well as financial communications and financial organizations, a number of financial instruments have acquired a supraterritorial quality that substantially delinks them from a particular locality or country. For example, in so-called 'eurocurrency' banking, begun in the 1950s, deposits and loans are denominated in money that is different from the official currency in the country where the funds are held. Thus a citizen of country A, resident in country B, can hold an account in country C, in the currency of country D. Likewise, in so-called 'eurobonds' the debt is denominated in a currency different from that of the country of issue. So a borrower in country A, with headquarters in country B, can obtain a bond in the currency of country C, arranged by brokers in countries D and E, for listing on an exchange in country F. From its inception in 1963, the eurobond market grew to \$371 billion in new issues in 1995 (Kerr, 1984; OECD, 1996). In stock markets, too, various companies have developed global share listings, that is, on up to a dozen exchanges spread across the world. The 1990s also saw the advent of American Depository Receipts (ADRs) and Global Depository Receipts (GDRs). These instruments bundle together shares of companies in Asia, Latin America and Central and Eastern Europe for trading at the world's main financial centres. On the side of investors, a number of mutual funds, pension funds, hedge funds and individuals hold global portfolios and trade simultaneously on financial markets across the world.

In these circumstances of supraterritorial communications, organization and instruments, much of contemporary finance is marked by a veritable global consciousness. Countless savers, investors, borrowers and brokers think of – and act upon – the world as a single field of financial operations. Innumerable slogans and logos in the financial sector incorporate explicit references to and symbols of globality. Most major players aspire to global reach as a key mark of success.

In sum, contemporary finance has a significant global character, including substantial supraterritorial features that were barely if at all evident before the middle of the twentieth century. Localities, countries and regions are by no means irrelevant in today's banking, securities, derivatives, and insurance industries: twenty-first century finance has not become purely global and nonterritorial. However, many financial activities are now considerably global, including in ways that largely transcend territorial geography. As such, they also transcend the traditional scope of the territorial state and pose considerable challenges for effective governance.

Current Governance of Global Finance

Global finance is obviously not 'controlled', in the sense of being ruled by a sovereign world government on the model of a modern territorial state writ large. Nevertheless, these activities are subject to considerable if imperfect governance. Recent developments in the regulation of global finance largely conform to general trends in contemporary governance under the influence of globalization (cf. Scholte, 2000, ch 6; Scholte, 2001). In other words, states remain key, but they have increasingly adopted strategies of multilateral management of transworld finance, through a host of interstate, transstate and suprastate mechanisms. In addition, substate actors have begun to figure in the regulation of global finance, albeit still marginally. Also, regulatory mechanisms based in private-sector agencies have gained substantial significance in the governance of global finance. The following paragraphs elaborate on these features in turn.

States are still, on the whole, the primary actors in the governance of finance under conditions of contemporary globalization. Any examination of the regulation of global finance must therefore consider the activities of national central banks, national treasuries and ministries of finance, national securities and exchange commissions, and national insurance supervisors. In general states have more resources (e.g. in terms of staff, funds, technology and legitimacy) to regulate global finance than any other authorities.

Of course some states have figured more prominently and powerfully in the governance of global finance than others. Thus France and the USA have exercised far greater influence than Uzbekistan and Zambia. Indeed, limited capacity for financial regulation at national level has left many states in a weak position *vis-à-vis* global finance. The government of

Bolivia has been little match for the eurobond market, and authorities in the Philippines have enjoyed little room for manoeuvre in relation to the IMF.

Yet even the best resourced states have not been able to tackle the governance of global finance alone. The intensely international, liberalized, universal and above all supraterritorial character of these flows have made it impossible for even the strongest states to handle global finance by themselves. Thus various networks of intergovernmental consultation and cooperation have developed in tandem with the accelerated globalization of finance during recent decades.

For example, central bank governors of the so-called Group of Ten (G10) advanced industrial countries have met regularly at Basle since 1962 to discuss monetary and financial matters of mutual concern. (The G10 actually encompasses eleven states: namely, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK, and the USA.) An Intergovernmental Group of Twenty-Four on International Monetary Affairs (G24) was established in the early 1970s as a South-based counterpart to the G10, although it has made far less policy impact (Mayobre, 1999).

The Group of Seven (G7) summits, held annually since 1975, have also frequently discussed issues related to global finance (Hajnal, 1999; <http://www.g7.utoronto.ca>). The G7 comprises Canada, France, Germany, Italy, Japan, the UK, and the USA. The European Union (previously European Community) has participated in these proceedings since 1977, and Russia was added in 1998 to form the G8. A separate G7 finance ministers' group was established in 1986 and normally meets 3-4 times per year. In September 1999 the G7 finance ministers created the Group of Twenty (G20) in order to include governments of so-called 'emerging markets' like Argentina, China and South Africa in structured discussions concerning global financial stability (<http://www.g20.org/indexe.html>).

Both the G10 and the G7 have from time to time set up working parties to explore specific issues related to global finance. The best-known example is the Basle Committee on Banking Supervision (BCBS), formed as a standing group of the G10 in 1975 (Dale, 1994; Kapstein, 1995, ch 5; Norton, 1995). Most significantly, the BCBS has formulated the Basle Capital Accord, a framework first issued in 1988 for assessing the capital position of transborder banks, and Core Principles for Effective Banking Supervision, published in 1997. On a more

specific problem, the G7 created the Financial Action Task Force (FATF) in 1989 to combat drug-related money laundering (Reinicke, 1998; <http://www.oecd.org/fatf>). More recently, the G7 has promoted the establishment of a Financial Stability Forum (FSF), first convened in April 1999. The FSF aims to enhance information exchange and cooperation among states in the supervision and surveillance of commercial financial institutions (<http://www.fsforum.org>).

As the existence of such working groups indicates, much intergovernmental collaboration on policy regarding global finance has occurred among civil servants rather than at a ministerial level. Indeed, the governance of global finance offers a prime example of transgovernmental networks, where civil servants from parallel agencies in multiple states develop close regulatory collaboration in a particular policy area (Slaughter, 2000). Other significant transstate links among financial technocrats have developed through the so-called Paris Club. Started in 1956 and maintaining a secretariat in the French Treasury since 1974, this informal group has convened from time to time to make some 350 rescheduling agreements for the bilateral debts of seventy-seven countries (<http://clubdeparis.org>). Further transgovernmental groups of civil servants have met under the auspices of the Organization for Economic Cooperation and Development (OECD), for example, to formulate measures in respect of financial liberalization, offshore finance centres, taxation of transborder portfolio investments, and development assistance. The OECD has also housed the secretariat of the FATF. In respect of bond and stock markets more particularly, the International Organization of Securities Commissions (IOSCO) was created as an inter-American body in 1974, went global in 1983, and now involves nearly 100 national securities authorities (Porter, 1993; Steil, 1994; <http://www.iosco.org>). In addition, the International Association of Insurance Supervisors (IAIS) was formed in 1994 and has quickly grown to link regulators in over 100 countries (<http://www.iaisweb.org>). Since 1996 the BCBS, IAIS, and IOSCO have convened a Joint Forum on Financial Conglomerates to promote cooperation between banking, securities, and insurance supervisors, given that global financial corporations increasingly operate across the three sectors.

As the work of the OECD, IOSCO, and IAIS illustrates, intergovernmental collaboration in respect of global finance has been increasingly institutionalized in separate permanent bodies. These agencies might be characterized as ‘suprastate’ organs. That is, they correspond to regional and transworld jurisdictions that are larger and to some extent beyond the state.

‘Suprastate’ does not mean ‘nonstate’, in the sense that the institutions in question have gained full independence from, and control over, their state members. However, like most organizations, suprastate bureaucracies and the rules that they produce have acquired some initiative and power of their own, particularly in respect of weaker states.

The oldest major suprastate agency for governance of global finance, the Bank for International Settlements (BIS), dates back to 1930, but it has become especially active in recent decades. The voting membership of the BIS has increased to 45 national central banks, and the institution has other dealings with several score more. The BIS undertakes major research work and convenes several influential working groups, including the Committee on the Global Financial System and the Committee on Payment and Settlement Systems. The organization also houses secretariats for the BCBS, the IAIS, and the FSF. With this proliferation of activities, the staff of the BIS has grown to exceed 500 ([http:// www.bis.org](http://www.bis.org)).

The IMF has undergone even more striking expansion in conjunction with the globalization of finance. In addition to its previously mentioned increases in membership and quota subscriptions, its staff numbers have quadrupled from 750 in 1966 to 3,082 in 1999 (IMF, 1966, p. 133; IMF, 2000, p. 95). The Fund took a leading role in the management (some say mismanagement) of the Third World debt crisis in the 1980s and the emerging market financial crises of the 1990s. More generally, IMF surveillance of its members’ macroeconomic situations has expanded since 1997 to include assessments of the financial sector. In several countries the Fund has taken a substantial role in restructuring the finance industry after a crisis. Since 1996 the IMF has promoted data standards that aim to make information on and for financial markets more reliable and accessible (<http://dsbb.imf.org>). Recently the Fund’s International Monetary and Financial Committee (IMFC, formerly called the Interim Committee) has served as an important forum for intergovernmental consultations regarding the so-called ‘global financial architecture’, drawing upon discussions in the FSF and the G20.

The IMF’s Bretton Woods twin, the World Bank, has played a less prominent role in the governance of global finance (as opposed to lending activity itself). The Bank’s main intervention in respect of regulatory frameworks has involved loans and technical assistance for financial sector development in various countries of the South and the East. In recent years the Bank’s policies in this area have focused on sector restructuring with programmes

of privatization and legal reform.

Several other permanent multilateral agencies have also served as forums for intergovernmental discussion of global financial issues. The OECD has done so through its Economic Policy Committee and Working Party Three of that body, which between them meet six times per year. Within the United Nations system the General Assembly, the Economic and Social Council, the regional economic and social commissions, the Department of Economic Affairs, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP) and the United Nations Children's Fund (UNICEF) have all addressed issues of global financial governance. However, UN intergovernmental forums have adopted mainly hortatory resolutions in this area, as opposed to formulating and implementing specific regulatory measures. The Financing for Development Initiative at the United Nations, launched in late 1997 and culminating in a global conference in 2002, has attempted to integrate wider economic and social concerns into the governance of global finance (Herman, 2002; <http://www.un.org/esa/ffd>).

Some further suprastate governance of global finance has emerged in recent years through the WTO. The Uruguay Round of intergovernmental trade talks (1986-94) produced the GATS, which extended multilateral liberalization of international commerce *inter alia* to finance (Underhill, 1993). Since 1995 a WTO Committee on Financial Services has overseen the operation of GATS in respect of finance. In 2000 the WTO launched further multilateral negotiations on trade in services, including in the financial area.

Contemporary globalization has often encouraged a rise of substate as well as suprastate competences in governance; however, devolution has been less apparent in respect of finance than in other areas of regulation. True, various provincial and municipal governments have turned to global sources like the eurobond market for credits. However, these substate authorities have rarely participated in the regulation of global finance. A few exceptions might be noted, such as the inclusion of agencies from two Canadian provinces as Associate Members of IOSCO and the membership of bureaux from Hong Kong, Labuan, New South Wales, and Ontario in the IAIS. However, for the moment official governance of global finance remains almost entirely in state and suprastate spheres.

On the other hand, the financial sector presents an outstanding example of another major trend in contemporary governance, namely, the turn to nonofficial mechanisms of regulation (cf. Cutler *et al.*, 1999; Ronit and Schneider, 2000). A number of national securities and exchange commissions have lain in the private sector for some time, of course, and IOSCO also includes over fifty securities exchanges and dealers associations as Affiliate Members. Meanwhile several industry associations have promoted the transworld harmonization of standards and devised a number of self-regulatory instruments for bond and equity business in global financial markets. These bodies include the International Council of Securities Associations (ICSA), the International Federation of Stock Exchanges (FIBV), the International Primary Market Association (IPMA), and the International Securities Market Association (ISMA). The ISMA indeed describes its task as ‘regulation by the market, for the market’ (<http://www.isma.org/about1.html>). In addition, bond-rating agencies like Moody’s Investors Service and Standard & Poor’s – and the financial markets whose sentiments they reflect – have come to exercise considerable disciplining authority over many national governments (Sinclair, 1994; Friedman, 1999, pp. 32-3, 91-2).

Private-sector inputs to the governance of global finance have also figured outside the securities area. For example, nongovernmental groups like the Group of Thirty (composed of economists and businesspeople) and the Derivatives Policy Group (with members drawn from major investment banks) have taken a lead in developing rules for derivatives markets (G30, 1993; DPC, 1995). Two other private-sector bodies, the International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC), have devised the main accountancy and auditing norms currently in use for global business. Since 1999 the IAIS has welcomed insurance industry associations, companies and consultants as observer members, now numbering over sixty.

In sum, then, current governance of global finance is both multilayered and dispersed. It involves complex networks of state, suprastate, substate, and private-sector actors. As such, developments in respect of global finance conform to the broad patterns of post-statist governance in the context of large-scale globalization.

Key Issues for the Governance of Global Finance

Not only is the governance of global finance complex, but it has also been particularly challenged to meet goals of efficiency, stability, social justice, ecological integrity and democracy. Almost no one argues that current regulatory arrangements for transborder finance are satisfactory, although the diagnoses of problems and the prescriptions of solutions vary widely. The next paragraphs assess measures taken to date towards these five objectives and remaining shortcomings. Possible responses to these flaws are considered in the final section of this paper.

Among efficiency problems, many observers have worried that global finance currently functions with substantial data deficits. Indeed, missing data, rumour, and harmful manipulations of information have often hampered the operation of transborder financial markets. Requirements for greater publication of financial company information and data dissemination efforts by the IMF have attempted to improve this situation, but ill-informed panics and herd behaviour persist, frequently with destructive consequences. Moreover, the IMF programme only gathers country-based data, and participation is voluntary. Nor is it evident that the information collected there is widely and effectively used. Meanwhile, no mechanisms for complaint and compensation exist when, for example, faulty analysis by credit-rating agencies damages the financial position of governments and corporations.

Limited competition has presented another major efficiency problem for current governance of global finance. According to conventional economic theory, liberalization should promote a more optimal allocation of world financial resources; however, the theory also presumes conditions of open and equal competition among a multiplicity of actual and prospective market participants. Yet in practice contemporary global finance has seen a progressively smaller number of corporate conglomerates come to dominate the banking, securities, and insurance industries: both within countries and in global markets. Neither national governments nor multilateral arrangements have done anything of note to check this trend toward concentration and monopoly, which raises various issues of excess profits, reduced incentives to innovation, and consumer protection.

A further efficiency problem in global finance that current governance arrangements have largely ignored is the increased divorce of finance from the 'real economy'. Savings and

investment are meant to stimulate economic activities that promote human welfare, for example, by creating employment and increasing stocks of goods and services. Yet much contemporary global finance is mainly self-referential, where finance becomes an end in its own right rather than a means to general material betterment. Thus, for example, most foreign exchange business does not relate to 'real' trade, and most financial derivatives relate at best only indirectly to 'real' production. No regulations of note are in place to discourage financial behaviour that does not serve – and indeed may detract from – the 'real' economy.

The multifaceted character of governance arrangements for global finance, as described above, raises additional efficiency concerns. In various cases several forums address the same problems, and do so in a loosely coordinated and fairly ad hoc fashion. In recent years some multilateral agencies have undertaken greater efforts at communication and coordination: for instance, between the IMF and the World Bank; between the Bretton Woods institutions and the rest of the UN system; and in the previously mentioned Joint Forum on Financial Conglomerates. However, little serious consideration has been given to a rationalization of governance through a curtailment of some agencies or a merger of certain bodies, for example, into a World Financial Authority.

In respect of stability, many commentators have argued that current global financial markets are inordinately volatile, creating insecurities that range well beyond normal investor risk to damage livelihoods of the public at large. Some of these harmful instabilities have arisen from large and rapid speculative swings in foreign exchange values (as occurred, for example, in the European exchange-rate mechanism in 1992). Other excessive volatility has come from enormous and swift withdrawals of transborder investments, especially short-term credits (as in the Asia, Latin America, and Russia crises of the late 1990s). In addition, many securities markets have since the late 1980s experienced wildly unstable courses of steep climbs and precipitous downturns. The global derivatives business, too, has suffered a series of debacles: e.g., the Metallgesellschaft and Orange County affairs in 1994; Barings in 1995; Sumitomo in 1996; and Long Term Capital Management in 1998.

As noted earlier, many public and private governance initiatives have sought to reduce instability in global finance to acceptable levels: G7 consultations, the BCBS, the FSF, the G20, the ISMA, the DPG, and so on. However, we remain far short of a global central bank, a global securities and exchange commission, a global derivatives supervisor, or other such

bodies with effective powers of intervention and sanction. Likewise, authorities have so far rejected the introduction of charges (like the so-called Tobin tax on foreign exchange business) that could discourage excessive speculation. (For more on the Tobin tax, see Patomaki, 2001.) Most market players and many policymakers have argued that more interventionist measures of this kind are impracticable and undesirable; yet financial companies have usually not been shy to call for help from regulatory quarters when instability has come at their expense, and it cannot be said that a global public policy for finance has really been tried.

This tendency to cater regulation of global finance mainly to commercial interests also raises questions of social equity. For one thing, current governance arrangements for global finance have often sustained or even widened arbitrary inequalities of opportunity in the world economy between Northern and Southern countries. Prevailing frameworks have on the whole given people living in the North far better access to and far more benefits from global financial flows than people resident in the South. Moreover, it is now almost universally acknowledged that onerous transborder debt burdens have substantially hampered the development potentials of poor countries. Paris Club rescheduling, the cancellation of a few bilateral debts, and the IMF/World Bank programme of relief for Heavily Indebted Poor Countries (HIPC)s have arguably only begun to address the debt problem. More broadly, the previously mentioned FfD initiative of the United Nations aims to make finance work for development in the South rather than – as has often seemed to be the case – the other way around. However, at the time of this writing the impact of FfD is uncertain.

Meanwhile, current rules of global finance have exacerbated injustice between income groups through so-called ‘offshore’ centres (cf. Hampton and Abbott, 1999). Around sixty jurisdictions across the world (including Bahrain, the Cayman Islands, Jersey and Singapore) now offer low taxation and high confidentiality that are mainly geared to what are euphemistically termed ‘high net-worth individuals’ (hinwis). Offshore banks now hold an estimated \$5 trillion in deposits that escape normal regimes of taxation and regulation (http://www.transnationale.org/anglais/association/bulletin_modif.asp). The FATF has explored ways to halt criminal money laundering through offshore finance, and the OECD Committee on Fiscal Affairs has since 1998 undertaken some initial steps to combat tax evasion in these centres. However, few concrete measures have yet curtailed what has in effect been a global subsidy to wealthy people, with no efficiency justification.

More generally, too, the gains of participation in global financial markets have flowed disproportionately to those who already control the greatest resources. Income gains from foreign exchange trading, eurobonds, hedge funds and the like have largely gone to small circles of wealthy investors and their brokers. Proposals to impose redistributive taxes on such transactions have so far got nowhere, at a time when regressive value-added taxes on the transactions of everyday life have proliferated across the world. True, unprecedented numbers of ordinary working people now participate in global finance through pension funds; however, a vast majority of the world's people still do not invest in global financial markets in any way.

One promising market-generated regulatory mechanism for greater social justice has appeared in recent years with the rise of so-called 'socially responsible investment' (SRI). These 'ethical' funds guarantee that monies will only be placed in businesses that respect core labour conventions and human rights. However, to date use of SRI schemes remains comparatively small, all the more so in the absence of special taxation or other measures to promote this alternative model of investment.

As for gender equity, feminist critiques have highlighted limited access for women to global credit markets relative to men. In addition, women have occupied few management positions in global finance. Women have also suffered disproportionate hardships in the economic crises that have been induced (at least partly) by global finance. (Evidence for these and other uneven gender consequences is summarized in Staveren, 2002.) Countervailing measures like women-centred micro-credit schemes, while welcome, have done little to address the deeper structural gender inequalities that have marked contemporary global finance.

Relatively little research has explored the relationship between global finance and ecological integrity, but various indications suggest that the environmental consequences can be negative (Durbin and Welch, 2002). For example, a number of governments have condoned ecological damage as they struggle to repay transborder debts or meet the conditions of structural adjustment loans (Reed, 1996). Following concerted campaigns from civil society groups, the World Bank has since the 1990s instituted environmental impact assessments for its development projects. However, few commercial bankers, brokers or investors have stopped to consider the repercussions of their global financial activities for climate change, biological diversity, toxic waste production, and other ecological degradation. Recent years

have seen the inauguration of some environmentally sensitive investment instruments, often as part of SRI initiatives, but as yet these programmes account for but a miniscule fraction of global financial activities (Bouma *et al.*, 2001).

In respect of democracy, considerable unease has developed that current arrangements governing global finance are insufficiently participatory and publicly accountable. For one thing, most states have been excluded from the G7, the G10, the G20, the OECD, and transstate networks of national officials. At the same time weighted votes have in effect given a handful of states a collective veto in the Bretton Woods institutions. Most of the world's people have therefore been only marginally, if at all, represented by their states in the governance of global finance.

In all countries, democratically elected bodies like parliaments and local councils have had little direct involvement in, or exercised much supervision over, the transstate networks, suprastate institutions, and private regimes that have largely governed global finance. National legislatures in France, Ireland and the USA have taken a few initiatives to influence policy at the Bretton Woods institutions, but these exceptions prove the rule of parliamentary passivity in respect of global finance. Nor have suprastate and private regulatory bodies like the BIS and the ISMA acquired any democratically representative organs of their own. Apart from a poll in 1992 on Switzerland's membership of the IMF and the World Bank, states have not conducted popular referenda on questions of global finance either.

Indeed, largely unaccountable technocrats hold sway over global finance to an extent found in few other areas of contemporary governance. Central bankers, finance ministry officials and staffers in suprastate financial institutions have tended to live in a regulatory world largely of their own. These civil servants have usually emerged from similar educational backgrounds, use a specialist language that is poorly accessible to most outsiders, and often spend their entire careers circulating within the limited circle of financial agencies, rarely experiencing other sectors of governance. These circumstances have (mostly inadvertently) encouraged narrow visions, a culture of secrecy, and considerable immunity from democratic scrutiny in much regulation of global finance.

True, several suprastate institutions involved in the regulation of global finance have in recent years become more publicly transparent. In particular, the Bretton Woods institutions and the

WTO have published many more internal documents and details of their decision-taking procedures, including on extensive and continuously updated websites. Also, in recent years the World Bank and, to a lesser extent, the IMF have consulted civil society organizations as a way directly to gauge public views of their policies. The two bodies have also implemented independent evaluation mechanisms that increase their public accountability, albeit not sufficiently in the eyes of some critics. Meanwhile, other suprastate financial institutions have done far less to improve their transparency and accountability, and transstate networks and private regimes in the governance of global finance remain more or less completely divorced from public participation and accountability.

Indeed, the vast majority of citizens across the world have scarce if any awareness of the rules and regulatory institutions that govern global finance. Few governments, mass media organs or schools have taken initiatives of public education to improve this sorry situation. Likewise, limited efforts by civil society groups to inform citizens about global finance have generally not reached large circles. Even academic textbooks on globalization often omit a chapter on the governance of global finance.

Mounting concerns about these various challenges to efficiency, stability, ecological sustainability, justice and democracy have generated much discussion in recent years about change in the so-called 'global financial architecture'. In official circles, the G7, the G20, the FSF, the IMF and the OECD have all put the question of reform prominently on their agenda. At the same time, academic researchers have published innumerable studies to diagnose the problems and prescribe solutions. (For examples of these analyses from different theoretical and ideological perspectives, see Bond and Bullard, 1999; Eichengreen, 1999; Eatwell and Taylor, 2000.) Meanwhile citizens have mobilized in larger numbers than ever concerning questions of global finance. One outstanding instance of this recent civic activism has been the transborder campaign for debt relief of poor countries. Another striking example has been the ATTAC movement for greater global public regulation of financial markets. ATTAC (the Association for the Taxation of Financial Transactions for the Aid of Citizens) started in France in 1998 and now encompasses some tens of thousands of members in around thirty countries (<http://www.attac.org>). With all this agitation, it is likely that the coming years will bring change in the governance of global finance; however, the extent, speed, and direction of reconstruction remain to be determined.

Future Challenges

This paper has described the globalization of finance, the arrangements made to govern these activities, and the achievements and limitations of these regulations. All of this brings us to policy prescription: what, in the light of the preceding discussion, should be done for future governance of global finance? Full consideration of these issues goes beyond the scope of this paper, but a few pointers may be given.

Prescriptions for the future governance of global finance depend on one's assessment of the severity of current problems and the practicability of various responses. As said earlier, pretty well every observer agrees that change is needed. However, analysts interpret the 'global financial architecture' metaphor differently. For their part, modest reformers want only to upgrade the wiring and plumbing. More ambitious reformers want to break down various walls and reconstruct the interior of the building. Radicals want to create an altogether new building on different foundations.

Modest reformers do not in fact aim for a new global financial 'architecture'. Their eyes are set on a limited renovation of existing arrangements. In this vein, for example, such commentators have suggested that governments should take greater care in liberalizing the capital account. In addition, they suggest that debt relief for poor countries could be larger, faster and/or less conditional. Likewise, modest reformers variously promote further initiatives on money laundering, microcredits for women, transparency, and parliamentary oversight of financial regulators. On this analysis, the global financial architecture can be fixed with limited repairs.

More ambitious reformers argue that modest changes will not suffice to address the shortfalls in efficiency, stability, ecological integrity, social justice and democracy that mark existing governance arrangements in global finance. These advocates look for major new regulatory initiatives in the vein of a global public policy for finance. Such innovations might include the aforementioned Tobin tax on foreign exchange transactions, as a way to reduce speculation and raise funds for poverty alleviation and other human development purposes. Other possible ambitious reforms include: the abolition of offshore finance arrangements; new voting mechanisms in suprastate financial institutions; a code of conduct to govern transgovernmental networks of finance officials; assembly and publication of gender statistics

regarding all aspects of global finance; measures to make ethical investment the rule rather than the exception; a global bankruptcy procedure for governments that cannot meet their obligations on transborder loans; a global competition office to monitor and where necessary counteract concentration in financial markets; a world financial authority; and fully-fledged formal complaints mechanisms for the public regarding the effects of suprastate financial policies.

A third general alternative is the still more radical prescription of a full-scale social revolution to alter the basic character of the governance of global finance (and the rest of society). Such a transformation could turn back the historical clock with de-globalization and a return to statist governance. Or a fundamental reconstruction could transcend the capitalist mode of production or make some other such comprehensive change to a new world order of some as-yet hazy nature. However, given the scale of contemporary forces behind increasing globality, proposals for return to a statist and territorialist world of finance seem quite impracticable. Likewise, a full-scale transcendence of primary social structures like capitalism and rationalism seems unlikely in the short or medium term.

If this diagnosis is correct, then progressive politics would do best to pursue a strategy of ambitious reform. Achievement of such a programme would require large-scale active political mobilization with substantial levels of cosmopolitan vision. Happily, developments like the debt campaign and the ATTAC movement suggest that substantial public constituencies for major reform of global finance do exist. Nevertheless, proposals for public policies that seek deliberately to harness transborder financial markets to a human development agenda face substantial resistance from large sectors of established commercial and official interests, particularly in the G7 countries. Moreover, when it comes to taking challenging and visionary decisions to remould globalization in finance or other sectors, most politicians today are afflicted with the NIMTO syndrome ('not in my term of office'). In these circumstances it will – as in any political struggle – require concerted efforts to realize the potentials for large-scale lasting progressive change.

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