
The Politics of Global Finance

Introduction

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Recent upheavals in global financial markets which originated in the American subprime mortgage market once more brought home the unprecedented interconnectedness of international financial markets: among the first casualties were two German semi-public banks and one of the biggest British mortgage lenders, Northern Rock. The crisis sparked unprecedented intervention by the central banks of Britain, the Eurozone and the US. It also led to calls for new regulatory mechanisms, notably from the French and German governments. And finally, it has brought the state back into the governance of markets on the micro- as well as on macro-level to a degree which nobody would have anticipated a few years ago.

As did the financial upheavals of the 1990s, this crisis once more turns the spotlight of research towards some of the core issues of the discipline of International Political Economy: what are the perspectives for achieving the most efficient organisation of markets given the potential conflicting goals of profit maximisation and public policy objectives? What are the respective roles played by states and governments as well as private actors? What are the consequences of new forms of financial globalisation?

This special issue looks at these questions from various perspectives. It presents new empirical research and also aspires to contribute to the theoretical discourse in the discipline. It looks at both the monetary and

financial dimensions of the global economy. The chapters by Widmaier and Zimmermann present historical episodes to shed light on contemporary problems. Widmaier emphasizes the crucial role of beliefs in determining whether economic strategies can be effective or not. His case study focuses on the shift from an activist incomes policy to a policy of macro-economic restraint and monetary austerity during the presidency of Jimmy Carter in the United States. His argument emphasizes the social construction of economic paradigms which has been highlighted by the current financial crisis. Widmaier shows how the (neoliberal) economic paradigm which was constructed during the 1970s and reigned supreme until very recently took hold already during the Carter presidency under conditions of increasing mistrust in the state among the population.

Zimmermann deals with one of core components of this new paradigm: central bank independence as guarantee of stability-oriented policies. One of the defining debates in macro-economic policies often takes the form of a conflict between central banks and governments: Should monetary restraint and stability be compromised to push economic growth and social stability? Zimmermann argues that, in a context of formal central bank independence, governments can use geopolitical arguments to push their first priority, i.e. economic growth and social stability. International crisis provide pathways for states to overcome resistance by powerful domestic actors.

Using the debate about Sovereign Wealth Funds, Helleiner and Lundblad discuss the surprising ways in which states have returned to the center of global finance: in this case not as external regulators and supervisors, but as crucial participants in the markets. This underlines that arguments which operate with simple zero-sum notions of the state-market dichotomy are misleading. Moreover, talking about 'the state'

obscures the enormous differences among states. Sovereign Wealth Funds are backed by states with radically different philosophies on how markets should be governed than the one presumed by a hegemonic discourse in Anglo-American political science.

Anastasia Nesvetailova deals with the notion of liquidity in the global financial system. She argues that a core reason for the financial crisis was the phenomenon of liquidity illusion, that is, widely held beliefs by market participants that their investment structures are safe and liquid. This led to a progressive underestimation of risks. The belief that the proliferation of financial derivatives and securitisation techniques enhanced global liquidity was finally exposed as illusion. Like Widmaier, Nesvetailova shows the role of generally held beliefs by market participants and thus advances a constructivist reading of the financial crisis.

While these papers present a wealth of new evidence and new readings of core debates within the discipline of International Political Economy, they also highlight the continuing divide between rationalist and constructivist interpretations. Whereas Helleiner/Lundblad and Zimmermann are situated in the rationalist tradition which state actors pursue policies based on rational responses to geopolitical and institutional incentives, Nesvetailova and Widmaier underline how dominant perceptions and paradigms shape the responses of actors which think of themselves as rational.

Abbreviations

BIS	Bank for International Settlements
FT	Financial Times
IMF	International Monetary Fund
SWF	Sovereign Wealth Fund