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**Bolstering the hegemony of the financial panopticon over emerging markets :
A neo-Gramscian reading of the role of ideas, material capabilities and institutions**

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**Thesis submitted to the
School of Graduate Studies and Research
in fulfillment of the requirements
of the course POL 7999 - "Thèse"**

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January 4, 1999**



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0-612-45245-X

Abstract

The impact on the global landscape of the (re-)entry into the international financial system of a large number of middle-income transition and developing countries – the so-called “emerging markets” – has taken many observers by surprise. The Mexican and Asian crises were but two examples of the materialization and worldwide reverberations of inherent contradictions within the emerging market phenomenon: i.e. contradictions between powerful, disembedded and unaccountable financial forces and political forces that are still organized on a territorial basis within relatively weak and vulnerable economies.

This thesis deploys a neo-Gramscian constructivist analysis to examine efforts by elements within a nascent transnational historical bloc of financial forces to overcome the risk of a Polanyian double movement to protect emerging market societies. More precisely, as this thesis reveals, there is mounting evidence of an hegemonic project seeking to bolster the emerging synthesis of material capabilities, ideas and institutions appropriate for an eventual hegemonic dominance of financial capital over emerging markets. Eschewing a problem-solving approach to financial matters, this thesis critically examines the roles (i) of material capabilities wielded through collectively allocated financial capital flows, (ii) of the intersubjective meanings given to financial globalization and the subsequent blueprint for commonsensical policymaking, and (iii) of central banks, credit-raters and the IMF in institutionalizing the coercive and consensual power relations at the heart of the emerging hegemonic bloc.

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Acknowledgements

I have incurred a number of debts in authoring this thesis. Notably, I wish to express my sincere gratitude to my thesis supervisor, Professor Claire Turenne Sjolander, for whom no question was too big or too small. On a personal note, I wish to thank my emotional and intellectual soulmate, Nadine, for her inestimable support and patience during my many lonely hours at the computer keyboard. This thesis is dedicated to my mother, a pillar of strength in the face of adversity, and to the memory of my father, a critical theorist in his own unique way.

Acronyms and abbreviations

ADR	American depository receipt
BIS	Bank for International Settlements
DSSB	Dissemination Standards Bulletin Board
EAFE	Europe, Australia and Far East
ERM	Exchange Rate Mechanism
EZLN	Zapatista National Liberation Army
FDI	Foreign direct investment
FX	Foreign exchange
GDP	Gross domestic product
GDR	Global depository receipt
GNP	Gross national product
GPE	Global Political Economy
IFC	International Finance Corporation
IFI	International financial institution
IIE	Institute for International Economics
IIF	Institute of International Finance
IMF	International Monetary Fund
INGO	International non-governmental organization
MAI	Multilateral Agreement on Investment
NAFTA	North American Free Trade Agreement
NGO	Non-governmental organization
OECD	Organization for Economic Cooperation and Development
OTC	Over-the-counter
S&P	Standard and Poor's
SAP	Structural adjustment program
SDDS	Special Data Dissemination Standard
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WTO	World Trade Organization

- Introduction -

“Look at money ... The mass of floating money globally encircling the earth. It is the only really artificial satellite. Money has become a pure artefact, an artefact of a celestial movement, of a momentary exchangeability. Money has finally found its proper place, one far more unusual than in the stock exchange: the earth orbit, in which it rises and falls like an artificial sun.”¹

Since the 1970s and particularly since the end of the Cold War, the world has been witnessing the decay and unraveling of the historical conjuncture known as *Pax Americana*, and the transformation of the global political economy towards some kind of “post-hegemonic” order. This long relative decline of American hegemony had several symbolic turning points: the end of the Bretton Woods system, the oil crisis of the 1970s, and the U.S. withdrawal and *de facto* defeat in Vietnam (Cox, 1987). This has prompted practitioners and scholars of the world economy to attempt to make sense of the radical changes in the configurations of power brought about by the demise of the U.S.-led hegemonic order. The crisis of hegemony has ushered in a period in which “we are all caught up in an era of reflexive anxiety, engaged in a protracted ideological and political struggle in search for a new set of universal principles by which international capitalism should be governed” (Leyshon and Tickell, 1994:1879).

As Cox (1987:299) explained in the late eighties, “[t]he system has become more decentralized and power more diffused [...] To this diffusion of power corresponds a loss of hegemony in the sense of a consensual norms-based system.” For many neo-Gramscians investigating the unfolding of globalization over the past decade, the net effect of the decline of American-based hegemony has been to set in motion forces of globalization that are slowly reconfiguring into a new hegemonic order the

¹ Beaudrillard, 1989: 32-33.

systems of prevalent social forces (material capabilities, ideas and institutions) previously associated with *Pax Americana*. This has created the conditions for the emergence of a *transnational* liberal order out of the remnants of the old *international* order associated with the United States.² For Agnew and Corbridge (1995:163), “the burden of the evidence is that the world economy and the states within it are no longer conducive to the appearance of a singular state-territorial hegemon.” In its place, the transnationalization of production and finance has engendered new sets of social forces that are less clearly bonded to specific national territories and that possess a more *global* economic identity and outlook. It is within this context at the close of the twentieth century that “the ‘historic bloc’ of social forces and ideologies that formed the core of the U.S.-centered hegemonic world is being reconstructed” (Rupert, 1996).

Within this globalized economic space, Cox (1993b:260) claims that states have become one-way “transmission belts” of global economic forces penetrating local borders and markets. This “internationalization of the state” refers to “the state’s restructuring of internal policies and institutions to accommodate the external exigencies” of global capitalism (Ling, 1996:3). Neo-Gramscians argue that the globalization of social and economic processes have also brought into being a transnational civil society, so that it is now possible to speak of a *new and emergent transnational historical bloc of forces*, composed of powerful elites from a variety of locations and different forms of transnational capital (manufacturing, finance, services), cutting across different political coalitions, national bureaucracies, and other domestic social institutions (Gill, 1993d:32-33).³ The evidence is said to lie

² Crudely summarized, an international economy made up of discrete and strongly regulated national economies trading with and investing in each other slowly became eclipsed by a world economy “in which production and finance were being organized in cross-border networks that could very largely escape national and international regulatory powers” (Cox, 1996f:22).

³ In his earlier writings, Cox maintained that the national context remains the only place where an historic bloc can be founded. However, like others sympathetic to neo-Gramscian scholarship, Cox has moved away from such this state-centered source of hegemony perspective, focusing instead on *structural*

in the increasingly coherent fit between a triadic configuration of transnational neoliberal politico-economic forces, each interacting with the other: material power (e.g. internationalized production, globalized finance), prevalent collective images of world order (e.g. "liberal triumphalism", "capitalist ideology") and a set of institutions which administer the capitalist world economic order with a certain semblance of universality (e.g. IMF, World Bank, WTO). In light of these trends, theorists have spoken of nascent forms of "governance without government" (Rosenau, 1992), an "internationalized policy process" (Gill, 1992a), and a global "nongovernmental form of economic governance" (Leyshon and Tickell, 1994).

Binding together these sets of forces is a transnational process of consensus formation underway among the official and unofficial caretakers of the global economy, achieving "common criteria of interpretation [...] and common goals anchored in the idea of an open world economy" through a sort of "ideological osmosis" (Cox, 1987:254). The ideology cementing the emerging transnational historical bloc linked to global capital is "a new ideology of the market (and of market access) [which] is being embedded in and reproduced in and reproduced by a powerful constituency of liberal states, international institutions, and what might be called the 'circuits of capital' themselves"

spaces rather than *territorial spaces* whereby "location" is categorized according to its structural position within the GPE. Indeed, "geopolitically-bound identities no longer serve as useful markers of power or 'centredness' in the global economy" (Ling, 1996:19). Hence, as Rupert (1997) indicates, "[w]hile hegemonic blocs of the past have been headquartered primarily within one or another territorial state, I don't think we need to speak as if any conceivable hegemonic bloc would [need to] be associated with one particular state." Agnew and Corbridge (1995:17) concur, stating that there is no necessary ontological requirement that hegemony be associated with domination by a single state: "a period of geopolitical order cannot be regarded as 'non-hegemonic' simply because the hegemonic practices and ideas of the period are not identifiable with a single state dominant at the global scale." Neo-Gramscian theory therefore manages to avoid the so-called "territorial trap", i.e. the deceptively simple notion that world politics can best be understood in terms of "neatly divided spatial packages" (Agnew, 1994b:89). Like these authors, this thesis regards hegemony as referring to a complex of practices and representations associated with a particular order *without* the requirement of a dominant territorial (state or quasi-state) agent.

(Agnew and Corbridge, 1995:164).⁴ This hegemonic ideology "is transnational liberalism, the belief that universal progress lies in the expansion and extension of global capitalist markets across the globe" (Tuathail, 1998).

The result has been the gradual revamping of the dominant regime of power within the GPE, its leading modes of economic organization, its structures of social relations, its patterns of consumption, and its dominant form of knowledge, and this under the unique, homogenizing centrality of a neo-liberal capitalist world economy (Cox, 1996h:xxiv-xxv). Thus, "[c]ontrol over economic choices flows to the most successful market actors, principally transnational firms, in a more market-oriented order underpinned by an enhanced mobility of capital" (Underhill, 1995:252). It is these actors who serve as the leaders of the emergent historical bloc of Western liberal capitalism.

In order to further set the scene for the research question that will motivate this dissertation, this introductory chapter will briefly explain the role of a particular vanguard within this emergent historical bloc of global capitalist forces -- transnational finance -- in reconstituting a particular hegemonic order on a planetary scale. These hegemonic ambitions have however engendered structural contradictions and crises of authority within the global financial order as the historical bloc led by this vanguard force has sought to extend its geographical reach into once marginal(ized) territories. This discussion will lead into the statement of the hypothesis which identifies a strategy on the part of the transnational bloc of financial forces to overcome these organic crises and potential challenges to the dominant position of the transnational financial panopticon.

⁴ Scholars have identified such transmutations of hegemony at a variety of locations within the GPE, such as within regional politico-economic arrangements (Hettne, 1997, Nash and Kovic, 1996, and Doucet, 1997); international organization (Murphy, 1994; Underhill, 1997b) and private agencies (Sinclair, 1994a, 1994b, 1995).

The financial vanguard of the historical bloc of global neoliberal capitalism and crises of hegemony within the emerging market phenomenon

[The globalization of financial markets] is the latest and probably the final utopian project inspired by the 19th-century Enlightenment vision of rationally directed historical progress."⁵

The postwar Bretton Woods system of *Pax Americana* had been designed by the U.S. and U.K. to liberalize trade while capital movements were to be regulated and controlled. The latter decision was based on the belief that free-flowing finance might interfere with commerce, and on the clear understanding that it would undermine government decision-making.⁶ While the system remained in place through the "golden age" of economic growth, it was dismantled by the Nixon Administration, with the support of Britain, and later others. This was a major factor in the enormous explosion and hypermobility of capital flows in the years that followed.⁷ An astounding US\$1.5 trillion in foreign exchange transactions occurred *daily* in 1998, up 17-fold since 1972. When today's markets for currencies, stocks, bonds and commodity futures are taken together, transactions through screen-driven cybermarkets total some US\$4 trillion *per day*. These global flows that can move at the drop of a hat now dwarf the US\$4.7 trillion a year in world trade in goods and services (Porter, 1996b:669). Estimates place the total value of separate global markets at nearly \$75 trillion dollars and will reach \$83 trillion by the year 2000 (Sassen, 1996a:41). For Cerny (1993b:180), "[t]he transnational financial system, partly thanks to the United States in the first place, now marches to its own tune."

⁵ Pfaff, 1998.

⁶ Keynes was highly influential in this regard. In his words (quoted in Bond, 1998:7): "I sympathise with those who would minimize, rather than with those who would maximise, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel – these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible and, above all, let finance be primarily national."

⁷ Among G-7 countries, for example, cross-border transactions in bonds and equities jumped from 35% of combined GDP in 1985 to approximately 140% in 1995 (Tuathail, 1997c).

The financial interests controlling these capricious capital flows are today said to constitute the vanguard forces of global capitalism because of the vast material capabilities at their disposal and their staunch adherence to neo-classical theories of free markets (Leyshon and Tickell, 1994:1884; Marshall, 1996:889). Because “[g]lobal financial markets have emerged as one of the central pillars of the post-Cold War world order and any discussion of political choices and state policy within this order must place them at the forefront” (Helleiner, 1995c:279). As Cox (1987:267) states, “[i]nternational finance is the preeminent agency of conformity to the world-hegemonic order and the preeminent agency of the political and productive organization of a hegemonic world economy.”⁸ In other words, the GPE is increasingly characterized by a form of governance without government (Rosenau, 1992) led by global finance. And, much like their capitalist counterparts in international production and trade, this set of capitalist interests is waging a conscious and planned struggle of its own to establish its hegemonic leadership.

Wielding the capacity to punish what is judged to be “misbehavior” and to reward that which is deemed “appropriate” and said to be operating through the aegis of a rational, objective and apolitical “invisible hand”, market forces have been encouraged to become a primary organizing power

⁸ Well known instances of “successful” market discipline of OECD countries include the turnaround in French socialist government policy in 1982-83 as currency markets are said to have forced a series of devaluations of the franc. Ultimately, mainly due to capital flight, the Mitterrand government was compelled to reverse its attempt to define distinctive policies in the wake of a substantial election victory and pursue a program of austerity (Block, 1987:173). In 1992, Sweden was forced to increase its overnight interbank interest rates to 500% to avoid a hemorrhage of short-term hot money flows out of the economy. This caused Sweden to devalue its currency and make large and unpopular cuts in government spending (Gill, 1995a:43-44). Even the U.S., as the world’s biggest debtor, has felt the constraints of the transnational financial system as it has become dependent upon tribute from public and private lenders to finance its intractable fiscal and payments deficits (Gill, 1994b:176-77). In The Agenda: Inside the Clinton White House, Bob Woodward reports that, once in office, using Hillary Clinton’s words, the bond market became the “new god” (Woodward, 1994:269). Its fluctuations became interconnected with President Clinton’s agenda and White House staffers treated it as a “barometer of their political fortunes” (Woodward, 1994:224). According to Woodward, this meant that they presumably could not, despite an investment and growth agenda which was likely to expand fiscal demands and raise inflation, give up on deficit reduction and stable interest rates.

in the economic sphere.⁹ For the purposes of this thesis, this disciplinary leadership role attributed to “the markets” will be referred to as the *panoptic financial dominance* of market forces.¹⁰ And in the place of the term “the markets”, those individuals occupying empowered positions at the nucleus of a transnational historic bloc of financial forces and wielding “panoptic power” will be referred to collectively as the *transnational financial panopticon*.

The burgeoning dominance of the transnational financial panopticon within the structural core of the transnational financial order and the attempted extension of this dominance into and beyond the periphery of this order have not been the result of a random series of events and circumstances. Instead, this should be seen as a planned struggle -- a *hegemonic project* -- to extend and deepen the dominance of the transnational financial panopticon by fostering the active consent of key subordinate groups within and without the core of the financial order. Seeking to create and maintain a system of alliances by means of political and ideological struggle, this fostering of a new hegemony was the result of conscious and targeted efforts to establish hegemony based on a transnational historical bloc of material, ideological and institutional forces.

The emerging market phenomenon as a conditioning factor for a hegemonic project

The achievement of hegemony is however a complex and contradictory process, since hegemony will tend to generate, dialectically, its own internal contradictions and, occasionally, trigger counter-hegemonic challenges to the prevailing institutional and political arrangements. Indeed, while the historical bloc of social forces led by global finance has sought to establish patterns of hegemony

⁹ As James Carville once stated, “I used to think that if there was reincarnation, I wanted to come back as the president or the pope. But now I want to be the bond market: you can intimidate everybody” (in Woodall, 1995:4).

¹⁰ The application of the concept of panopticism to financial matters will be revisited in greater length in Chapter 1.

beyond the core of the world financial system by extending its territorial reach into emerging markets¹¹; contradictions have surfaced as transnational financial forces clash with political and social forces that are still organized on a national (territorial) basis. More precisely, "markets" and "states" have clashed over the purported inability or unwillingness of emerging market states to fully abide by the dictates of the markets. Recent history is replete with examples of crises supposedly triggered by state misbehavior: Mexico in 1994, Brazil in 1995, South Africa in 1996, East Asia in 1997, Russia in mid-1998, Brazil again in late-1998...

In most instances, the coercive capacity of market discipline has been sufficient to realign an emerging market's behavior in concordance with the will and best interests of global finance. In such instances, disciplinary market intervention was deemed imperative to ensure the ongoing compliance of emerging markets. It is in this sense that some observers have noted that market-based discipline tends to serve as a sort of twin of structural adjustment programs (Chesnais, 1994:20), with the unfortunate "burden of adjustment fall[ing] most heavily on the poor and on national and local enterprises" (Cox, 1996f:27).¹² In fact, as in the cases of Mexico, East Asia, Russia and Brazil for example, the coercive hand of the transnational financial panopticon has been abetted by the Wall

¹¹ As discussed above, the geographical extension of capitalist markets to the farthest corners of the globe can in fact be linked to the movement at the elite level towards the attempt to consolidate a new form of hegemony beyond the core of the system (Gill, 1993c:7). The result has been a surprising (re-)emergence of a slew of new conduits and repositories for transnational financial flows. Consisting mainly of developing countries and economies in transition (i.e. the former centrally-planned economies of the former Soviet Union and Eastern and Central Europe), these locations have been collectively labeled the "emerging markets".

¹² As Hausmann (1997:54) writes:

Money managers on Wall Street may be able to thrive on these wild swings. But 'emerging markets' are not merely investment opportunities: they are entire nations with families, firms, and political systems. A sudden negative swing in investor's perceptions can have a far-reaching impact on the daily lives of individuals and organizations. In developing countries, governments must face stark choices that dwarf the typical legislative haggling in industrial countries about spending cuts and tax increases. Firms must write off major investments or cancel new projects. People lose jobs and families cannot afford to keep children in school.

Street-friendly structural adjustment measures contained in IMF and U.S. emergency bailout packages. Emerging markets do not have sufficient safety nets and institutional “shock absorbers” to make market discipline as tolerable and stable as it is for the inhabitants of economically powerful industrialized countries. Each individual emerging market crisis and its aftereffects have therefore exacerbated socio-economic, ecological and gender imbalances *within* these societies, as well as *between* emerging markets and rich countries.

The very instability provoked by the emerging market phenomenon, both within and outside the borders of these burgeoning markets, has created the conditions necessary for a bolstering and renewed entrenchment of the consensual aspects of the panoptic financial dominance over emerging markets by the transnational financial panopticon. The symptoms of disorder in emerging markets have also increased the need for what Gill (1990a:214) has called “steering mechanisms” to contain some of the contradictions generated by financial globalization. Without such remedial interventions, the inherent shakiness of the emerging market phenomenon risks inhibiting the emergence of a new hegemony of global capitalism led by a transnational historical bloc of financial forces. Instead, the transnational financial panopticon would be required to rely on threats of market punishment and periodical “corrective” market punishment so as to coercively ensure consistent market-friendly behavior on the part of emerging markets.

The following research question therefore surfaces: What are the specific manifestations of the hegemonic struggle designed to overcome these periodic organic crises involving emerging markets and ensuing “legitimacy deficits” which have been brought on by the advance of the transnational historical bloc of financial forces on emerging markets?

Statement of the hypothesis

This thesis argues that in order to counter and overcome such detrimental effects on its hegemonic aspirations, the historical bloc of transnational financial forces has embarked on a hegemonic project strategically designed to bolster and shore up the triadic interplay of material capabilities, ideas and institutions that synergizes the hegemony of panoptic financial dominance over emerging market caretakers and societies.¹³

In order to validate this hypothesis, three sub-propositions will deconstruct, clarify and support this hypothesis:

1. The hegemonic project aims to legitimate and entrench a hegemonic *intersubjective understanding* of reality and a “blueprint” for action within this reality that helps to ensure that emerging markets adopt a mode of conduct that coincides with the interests and prescriptions of the transnational financial panopticon and that occult the internal contradictions of the emerging market phenomenon threatening the legitimacy of the dominance of the transnational financial panopticon.
2. The *material capabilities* commanded by the transnational financial panopticon continue to serve as a potential that structures emerging market behavior in accordance with the interests and exigencies of “the markets”.

¹³ The term “caretaker” is borrowed from Cox (1994b:49). For our purposes, “emerging market caretakers” refers not solely the *de jure* political decision-makers within emerging market states, but also the powerful elements exercising substantial *de facto* managerial control over emerging market politico-economic affairs. This presupposes that a large degree of power and authority over the economic destiny of these states has already been transferred out of the hands of emerging market state officials and into the hands of others. Thus, *within* emerging markets, these caretakers include, for example, key government officials, bureaucrats, leading businesspersons, central bankers, influential thinktanks, unions, etc.. Caretakers from *outside* of emerging markets include G-7 leaders (notably the U.S.), aid agencies, IFIs (with their structural adjustment programs and conditional assistance packages such as the Brady Plan) and their teams of advisers and overseers, and the OECD (with its Code of Liberalization which commits members to the elimination of restrictions on current invisible operations and capital movement), etc.. To borrow from Drainville (1994:109), it is such elites “who read structures of dynamics, constraints and imperatives, and invent fitting political projects.”

3. These material capabilities are (i) locked-in through the *institutionalization* in and by the IMF and autonomous central banks of the permeability of emerging markets to hypermobile capital flows and (ii) extended into external *institutions* – the IMF and credit rating agencies – so as to increase the likelihood of emerging market self-discipline and lessen the risk of unwarranted or exaggerated market punishment.

Organization of the thesis

Drawing from neo-Gramscian scholars of hegemony, notably Robert Cox and Stephen Gill, Chapter 1 sets the theoretical context for this dissertation by identifying how a neo-Gramscian approach will serve to unearth the hegemonic project identified in the thesis statement. To do so, this chapter will deconstruct the hypothesis into its key conceptual building blocks which pertain to the theoretical foundations of hegemony (i.e. hegemonic project, the Coxian triad of social forces, hegemony of panoptic financial dominance). This chapter will also discuss what was referred to earlier as the emerging market phenomenon and the contradictions therein in order to illustrate the contradictions the hegemonic project is seeking to overcome.

Chapter 2 commences the unearthing of the hegemonic project in question with an analysis of the struggle to shape ideational social forces within the Coxian triad so as to shore up the hegemony of panoptic financial dominance over emerging market caretakers and societies.¹⁴ More specifically, this chapter will bring forward evidence supporting the first sub-proposition enunciated above which posits that the hegemonic project aims to embed a particular *intersubjective understanding* of the

¹⁴ The triadic configuration of social forces identified by Coxian theorists will be taken up in distinct fashion in chapters 2, 3 and 4. This decision does not imply an ontological separability or “sovereignty” of these individual sets of forces. This heuristic method does not dismiss the importance of the dialectical lines of force within the triad. The analytical deconstruction of the triad is meant solely to categorize the individual configurations of forces identified in the hypothesis and to facilitate their deconstruction.

reality faced by emerging markets and a blueprint for action within this reality which support the hegemonic ambitions of the transnational financial panopticon. As this chapter will first demonstrate, not all storytellers enjoy equal opportunity to discursively shape these understandings, as voices offering collective images judged to be incommensurable with the advancement of the hegemonic project are eclipsed from effective public debate. The chapter will then show how reality is shaped by *particular* mythic images of financial globalization as an unyielding yet overall beneficial material necessity to which emerging market caretakers and societies must adapt in *particular* ways rather than others. As financial globalization becomes understood as an unavoidable and objective force that is inherently beneficial over the long haul, its short-term contradictions will become more palatable to dissatisfied onlookers and subordinates. Also, commonsense behavior will come to be equated with honoring so-called market signals from the transnational financial panopticon. Finally, as the examination of the Asian financial crisis will demonstrate, internal contradictions such as painful economic crises are reified¹⁵ as un-problematic consequences of an unavoidable necessity driven by a dis-interested “invisible hand” and accredited primarily to delinquency on the part of the emerging market, deresponsibilizing the transnational financial panopticon.

Chapter 3 will examine the **material capabilities** component of the triadic set of forces identified in the hypothesis, and in so doing will serve to validate the second sub-proposition. As it will be shown, these material capabilities available to the transnational financial panopticon serve to

¹⁵ Berger and Luckmann (1966:89) define *reification* as follows:

[It] is the apprehension of the products of human activity *as if* they were something else than human products – such as facts of nature, results of cosmic laws, or manifestations of divine will. Reification implies that man [sic] is capable of forgetting his own authorship of the human world, and further, that the dialectic between man, the producer, and his products is lost to consciousness. The reified world is ... experienced by man as a strange facticity, an *opus alienum* over which he has no control rather than as the *opus proprium* of his own productive activity.

coercively enforce compliance with the perceived exigencies of “the markets” through both their productive and destructive potentials. Because of the omnipresence of the watchful eye of “the markets”, their capacity to instantaneously move fortunes in and out of emerging markets, the centralized and speculative nature of emerging market investing, and the vulnerability of emerging markets to financial volatility, the coercive material basis of the hegemonic project in question will be shown to be extremely efficacious in ensuring compliance with the norms, interests and values of “the markets” but only so long as emerging market caretakers are “educated” to interpret market signals in *particular* ways and to adopt *particular* responses to these signals.

Chapter 4 pursues the unearthing of the hegemonic project by bringing forth evidence validating the third sub-proposition which pertains to the institutionalization of components of the hegemonic project within key nodes of the world financial system. As this discussion will reveal, radical measures are being implemented at the supranational level (the IMF) and national level (emerging market central banks) to ensure that emerging markets remain porous to unfettered financial flows and therefore permanently subordinated to the transnational financial panopticon. Within the IMF, recent amendments to the Fund’s Articles of Agreement will commit members to fully liberalize their capital accounts, or, in other words, to remove all barriers to international capital flows. In addition, emerging markets are increasingly called upon to give legal autonomy to their central bank, in part, to insulate from public pressures this agency which increasingly serves as a transmission belt between domestic and global circuits of capital. Both of these measures serve to contractually “lock in” the material capabilities of the transnational financial panopticon by rendering emerging markets increasingly porous to unfettered capital flows. Secondly, the hegemonic project has sought to increase the likelihood of emerging market self-discipline and lessen the risk of unwarranted or exaggerated market punishment by transferring certain panoptic responsibilities from “the markets” to the IMF and

credit rating agencies. As such, the IMF is empowered to ensure the “transparency” of emerging markets through various surveillance mechanisms while powerful credit raters are relied upon to provide expert assessments of emerging market investment conditions.

Methodological approach

In order to address the problem as outlined, discourse analysis will serve to “explain how power is constituted and how its premises and givens are replicated at all levels of society and to reveal its exclusionary practices” (George, 1994:30). This method can be said to fall under the broad rubric of critical social constructivism, which argues “that both material and discursive power are necessary for any understanding of world affairs” (Hopf, 1998:177). It will be used to de-naturalize the elements of the hegemonic project, that is, to empirically discover and reveal how the discourses, institutions, practices and power relations that people take as natural, given, or legitimate are, in fact, the product of human agency, of social construction.¹⁶ This implies a commitment to the following three interrelated principles: (1) What we understand as reality is socially constructed.¹⁷

¹⁶ In this sense, critical constructivism can be understood as having an interpretivist epistemology, more generally. See Taylor (1985) and Neufeld (1993: 1995).

¹⁷ At this point in the argument it is important to clarify what we mean in referring to *social constructions or constructs*, preempting objections that some readers may have. Naive critics of constructivism sometimes understand social constructions to mean that certain “things” do not in fact exist. However, to refer to something as *constructed* is not at all the same as saying *that it does not exist*, and we should in no circumstances read it as saying that financial capital flows do not “really exist”, that populations do not “really” feel the effects of market surges and collapses, etc.. The constructivist is interested in how we get from here to such widely shared propositions as these: “You can’t buck the markets!”, “There is no alternative!”, and other such fatalist statements. As Laclau and Mouffe (in Campbell 1993:9) explain:

The fact that every object is constituted as an object of discourse has nothing to do with whether there is a world external to thought, or with the realism/idealism opposition. An earthquake or the falling of a brick is an event that certainly exists, in the sense that it occurs here and now, independently of my will. But whether their specificity as objects is constructed in terms of “natural phenomenon” or “expressions of the wrath of God”, depends upon the structuring of a discursive field. What is denied is not that such objects

(2) Constructions of reality reflect, enact, and reify relations of power. In turn, certain agents or groups of agents play a privileged role in the production and reproduction of these realities. (3) A critical constructivist approach should denaturalize dominant constructions and offer guidelines for the transformation of common sense and the imagining of alternative lifeworlds. In sum, constructivism tells us that behavior, attitudes, institutions, and structures are not just the product of inanimate forces (e.g. financial globalization or market forces), but of discourse and ideas.¹⁸

The critical constructivist approach adopted in this thesis is based primarily on the writings of Robert Cox, Stephen Gill and other neo-Gramscian scholars, who share the aim of challenging positivist approaches to social science and proposing alternatives. With regards to the underlying assumptions of their approach, Gill (1993d:45) writes that, first, "there is a relativity in the claim to truth"; and second, that "social conditions interact with and influence the survival, scientific status and consequences of rival social theories: knowledge is also a process of social struggle, again between hegemonic and counter-hegemonic perspectives and principles." Given that all "thought processes and knowledge systems" are at variance with reality, the aim is not to determine which truth is a true reflection of reality, but "how and why and with what consequences" these particular "truths" are privileged within a given historical context. In this sense, the use of such an approach goes far beyond the economic determinism generally found in writings on emerging markets and international finance.

exist externally to thought, but the rather different assertion that they could constitute themselves as objects outside of any discursive condition of emergence.

¹⁸ For castings of critical social constructivism as alternatives to mainstream IR or IPE literature, see, for example, Hopf (1998), Burch and Denmark (1997), Wendt (1992, 1995), and Ashley (1987).

Contribution of this thesis

It has been noted that financial matters are generally treated as the “natural province of economists” (Corbridge and Thrift, 1994:22), of “technocrats” (Winters, 1994:421) and of “financial journalists and other financial analysts” (Cerny, 1993a:x). Similarly, neoclassical economics has pervaded the entire practice of development (Escobar, 1995). Since “most of the economists leave power out of their calculations” (Strange, 1994b:244), there is a mounting risk of failing to start asking about *power* within the normative discourse surrounding the emerging market phenomenon.¹⁹ As Hollist and Caporaso (1985:39) write,

[f]ormal economic theory denies the relevance of power and privilege by declaring the relationships to be extraneous to its considerations. Class processes and state processes are largely overlooked; they are rightly seen as encumbrances that would disrupt the elegant, tractable, parsimonious, internally consistent theoretical structure of formal economics.

A variety of questions therefore not only go unanswered, but unasked: Who benefits and who suffers from the hegemonic project? Who has the greater risks imposed on them, and who has the new opportunities opened for them? As neo-Gramscians insist, theory is always *for* someone and *for* some purpose and therefore always socially and politically located.

Herein lies the overall contribution of this thesis to IR/IPE scholarship: the effort to bring a much needed *critical* perspective to the study of financial globalization, the emerging market phenomenon and emerging financial order by repositioning dominant and socially constructed relations of privilege, truth and knowledge within a historical materialist framework so as to sketch a model of power that is able to account for those who are included and those who are being marginalized in the new global financial order. Subscribing to the tradition of Critical international theory, this thesis is

¹⁹ Similarly, Kabeer (1994:xiv-xv) notes that “[n]eo-classical economics [...] epitomizes more than any other discipline the reductionist procedures through which issues of power and inequality have been kept out of the mainstream social sciences. Paradoxically, it is precisely this reductionism which many economists value in claiming a scientific rigour and clarity for their discipline.”

concerned with the need to correct the marginalization and hierarchization created and perpetuated by such a hegemonic project, and serves “not just [as] a tool to make sense of the world ‘as it is’, but to make sense of how the world ‘got to be as it is,’ with a central aim underlying such an endeavor being that of emancipation” (Zalewski, 1996:345) through the creation of a broader social discourse.

- Chapter 1 -
Theorizing the hegemony of the financial panopticon over emerging markets through neo-Gramscian lenses

This chapter sets the theoretical basis for this dissertation by elaborating on the central theoretical assumptions which are taken for granted at the outset of this thesis. This discussion will serve to deconstruct and clarify the key conceptual elements of the hypothesis which pertain to the theoretical foundations of neo-Gramscian hegemony (i.e. transnational historical bloc of financial forces, hegemonic project, the Coxian triad of social forces, hegemony of panoptic financial dominance). This chapter will however begin with a discussion of what was referred to earlier as the “emerging market phenomenon” and the contradictions therein in order to illustrate the contradictions the hegemonic project is seeking to overcome.

1.1 The emerging market phenomenon

The first developing country equity markets to “emerge” were the fledgling equity markets of East Asia and then of Latin America. With the end of the Cold War, the underdeveloped markets of Eastern Europe quickly became a locus of investment excitement and speculation.¹ Around this same period, an array of once steadfast bastions of economic nationalism, anti-imperialism or communism (e.g. India, Vietnam) also made their entry into the global financial system, joined more recently by several former “basket cases” such as Sri Lanka, Lebanon and Zimbabwe where a stock exchange would have not too long ago been unthinkable.² More recently, as Tuathail (1997a) notes,

¹ It is in fact telling that the Warsaw Stock Exchange now occupies the building that once served as the headquarters of the Polish Communist Party.

² Fund managers now recommend up to 12% of a global equity portfolio be held in emerging markets when 10 years ago it was 2% at the most (Brothers, 1997). Meanwhile, international institutions like the World Bank and the IMF and aid agencies are having to redefine their role as private sector finance pours into these markets.

[t]he designation “emerging market” itself emerged as part of the commercial discourse surrounding the selling of these new investment spaces as a new product line of financial commodities which were high risks yet also held the allure of high returns. With the promise of immediate and significant regulatory reform accompanying the Brady Plan debt restructurings of 1989, the economics of Mexico and Argentina were readied for re-envisioning in global financial discourse as debtors-no-more, as the newest and hottest “emerging markets”.

Today, this group of markets is so diverse that few generalities apply.³ For example, certain emerging markets are quite large in terms of population and GDP (e.g. China, Brazil, Mexico), while others have a much smaller presence on the world scene (e.g. Jordan, Portugal, Greece).⁴ For the purpose of this thesis, the term *emerging market* will be limited to those developing countries and countries in transition which have, over the last decade or so, sought rapid and fuller financial integration with the outside world. This has come through comprehensive macroeconomic reforms to their financial infrastructures and regulatory regimes which have (1) opened up internal markets to foreign capital in an unprecedented manner, and (2) accepted to let global market forces determine interest rate levels, exchange rates and the allocation and valuation of domestic financial resources (currencies, stocks, bonds, etc.). In this sense, according to the mainstream discourse, “emerging” implies an escape from an era of capital controls that was a misguided aberration, a product of society’s fear of finance, a domestic social experiment in which the competitive, allocative efficiency of raw financial forces was inhibited by the misguided interests of anti-dependency, anti-imperialism,

³ Countries identified as emerging markets are often those represented in the International Financial Corporation’s (IFC) *Emerging Market Data Base*. These include Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Portugal, Russia, Slovakia, South Africa, Sri Lanka, Taiwan, Thailand, Turkey, Venezuela, and Zimbabwe (<http://www.ifc.org>). A large number of countries not yet *officially* considered emerging markets by the IFC have been following similar financial deregulation and liberalization strategies.

⁴ This definition is therefore different from the World Bank’s definition of a per capita income of less than \$8,000 to designate an emerging market country.

and welfarism. After decades of “tight”, “closed” or “repressed” national financial regimes and/or of being shut out of world financial markets in the wake of the 1980s debt crisis, “the phoenix has risen from the ashes” (Cohen, 1996).

Such transformations coincide with the discourse dinned into the minds of the caretakers of emerging markets since the 1980s, arguing that immediate and extensive financial liberalization is a primordial component of the neoliberal panacea for escaping the woes of central planning and underdevelopment -- the so-called *Washington consensus*. According to the Washington consensus, economic growth is the measure of human progress and the key to universal prosperity, and happiness, and market liberalization and economic globalization -- deregulating markets, privatizing public assets, scaling back government, reducing taxes on investors and integrating local and national economies into a seamless global economy -- are the preferred pathways to this growth. With regards to finance, the Washington consensus basically states that financial liberalization will give these economies easy access to global savings they could then invest in order to grow faster. Capital, they say, is an essential tool for development. Some countries, like the U.S. or Japan, have lots of capital. Some, such as Indonesia need it. Why not then break down the barriers that hindered the free flow of money?

A second premise is that with financial liberalization the ongoing regulation and management of the national economy will become increasingly (and rightfully) guided by an ongoing assessment and interpretation of supposedly rational, interest-free market signals. Consequently, market forces deservedly become a primary organizing power in the economic sphere. For neoliberals, “markets are often all that keep governments in line” (*The Economist*, 1996b).

In order to reap these rewards, transition and developing economies have, en masse, swiftly and more completely integrated their domestic financial system into the transnational financial marketplace, or more succinctly, *internationalized their domestic financial system*. In sum, by embodying the economic structures, ideas and practices privileged by the core of the transnational

historical bloc of financial forces, the discourse which enveloped the emerging market phenomenon has expedited the hegemonic penetration and control of these newly emergent economies by the financial vanguard of global capitalism. These coalescent factors have produced what will be referred to here as the *emerging market phenomenon*.⁵

1.2 *The extension of panoptic financial dominance to emerging markets*

This profound redefinition of the structural relationship between developing and transition economies and the transnational financial system corresponds to what was referred to in the Introduction as the territorial extension of panoptic financial dominance beyond the core of the transnational financial order. *Panoptic financial dominance* refers to the hierarchic relation of supremacy of the transnational financial panopticon in relation to those individuals and institutions in a position to directly control the levers of emerging market economic decision-making (i.e. the *de facto* and *de jure* emerging market caretakers).

Borrowed from Foucault's Discipline and Punish, panopticism serves as a useful illustrative metaphor for the form of market-based supremacy identified above.⁶ A Greek word signifying "sees

⁵ By adding the term *phenomenon*, we are underscoring not only the ephemeral and unstable essence of the rise of these once marginal places to crucial positions within the GPE, but also the ongoing constitution of the "reality" of emerging markets through reflexive judgments about the meaning and significance of specific contexts and events affecting and affected by this group of countries. The term *emerging market phenomenon* therefore punctuates the inseparability of the "facts" surrounding the sudden "emergence" of these economies, but also the meanings and meaningfulness which are ascribed to these "facts". Alongside a discrete series of events or "facts" which can be pinpointed, this phenomenon is constituted by an *ongoing* process of discursive construction within the transnational financial order; a nexus of predominant understandings, practices and events of seduction and apostasy which have made emerging markets a focus of attention within the GPE.

⁶ The reader should be forewarned that this thesis does not seek to apply a Foucauldian approach to the study of emerging markets. Rather, this thesis borrows certain useful tools from a variety of theoretical and methodological toolboxes and repositions them within a predominantly neo-Gramscian approach. For an example of the utilization of panopticism within a neo-Gramscian framework, see Gill (1995a). For a post-structuralist use of the concept within IPE, see Tuathail (1997a).

all", Foucault (1995) uses the panopticon to describe an abstract disciplinary apparatus that would make possible for a single gaze to see everything at once -- a seemingly "perfect eye", seeing all yet unseen -- from which nothing would escape and a center towards which all gazes would turn.⁷ With the panopticon, power holders exert surveillance over all and its subjects' awareness of constant surveillance is a reminder that punishment awaits if they step out of line. The rulers would immediately know, and they would respond. Foucault felt the panopticon forced *the citizen* to carry the burden of being watched, rather than surveillance being the responsibility of, for example, the prison guard. In the case of a prison, this mode of surveillance was

to induce in the inmate a state of conscious and permanent visibility that assures the automatic functioning of power [...] He who is subjected to a field of visibility, and who knows it, assumes responsibility for the constraints of power; [...] he inscribes in himself the power relation in which he simultaneously plays both roles: he becomes the principle of his own subjugation. (Foucault, 1995:201-2)

Therefore, with Foucault's panopticism, discipline, rather than operating by means of external pressures such as physical restraints (bars, shackles, etc.), *functions by means of the internalization of socially normative behavioral rules*. Panopticism thus consists of a form of social control via the internalization of discursive constraints on thought and action. When applied to the subject of this thesis, restless 24-hour-per-day, scrutinizing yet enigmatic financial markets can be said to play the role of the panopticon's "perfect eye", seeing all yet unseen.⁸ The prison's external pressures can be

⁷ The idea of a panoptic prison originated with Jeremy Bentham's Panopticon; or, the Inspection House, published in 1791. The circular architecture of Bentham's prison consisted of a central surveillance tower, surrounded by a series of individual cells. Each cell was illuminated from the perimeter, backlighting the inmates. But the central tower remained dark, so that wardens could keep their inmates under constant surveillance without being seen themselves.

⁸ As a senior Clinton finance official remarked, "it is almost spooky dealing with market powers. [...] [W]ith the bond market, you can't bargain with it, sometimes you can't even find it. It is an impersonal arbiter, and governments just have to get used to it" (in Friedman, 1995).

equated with the material and discursive disciplining power of finance capital.⁹ Foucault's discourse of socially normative behavior can be substituted with behavior that is compliant with the interests and exigencies of "the markets."

While panopticism implies the exercise of power without critical, reflective consent of the subordinates, a "*hegemony of panoptic financial dominance*" is conceived as dominance on the part of the transnational financial panopticon that is stabilized and perpetuated by both coercive *and consensual* power relations.¹⁰ More precisely, under conditions of a hegemony of panoptic financial dominance, emerging market self-discipline would be internalized and normalized not solely through fear of market punishment, but mainly as the result of a willing and conscious acceptance of the existing power relations because of a faith that subordinate groups have a prospect of satisfaction since their interests are similar to and intertwined with those of the transnational financial panopticon. Thus, a hegemony of panoptic financial dominance can be conceived of as a centaur: half-human, half-beast: "a necessary combination of consent and coercion. To the extent that the consensual aspect of power is in the forefront, hegemony prevails. Coercion is always latent but is only applied in marginal, deviant cases" (Cox, 1993a:52).

⁹ The structural power of global finance will be discussed in further detail in Chapter 3.

¹⁰ Our concept of hegemony is derived from the neo-Gramscian framework fathered by Robert Cox who offers a rich and nuanced conception of hegemony, defined as more than the dominance of a single world power or simply a political order among states as theorized by neo-realists. Instead, neo-Gramscian hegemony, bringing together both coercive and consensual elements of power, is understood as

a structure of values and understandings about the nature of order that permeates a whole system of states and non-state entities. In a hegemonic order these values and understandings are relatively stable and unquestioned. They appear to most actors as the natural order. Such a structure of meanings is underpinned by a structure of power, in which most probably one state is dominant but that state's dominance in itself is not sufficient to create hegemony. Hegemony derives from the ways of doing and thinking of the dominant social strata of the dominant state or states insofar as these ways of doing and thinking have acquired the acquiescence of the dominant social strata of other states. (Cox, 1992b:140)

This extension of hegemonic dominance into and beyond the periphery of the world financial order is not the result of a circumstantial series of random events and decisions. Instead, it constitutes a deliberate and strategic struggle on the part of the transnational historical bloc of financial forces to extend and deepen the dominance of the transnational financial panopticon by fostering the active consent of key subordinate groups on an increasingly planet-wide scale.

1.3 The internal contradictions of panoptic financial dominance as a conditioning factor for a hegemonic project

Prior to the bouts of emerging market financial chaos that have marked the past few years, the transnational historical bloc of financial forces had been successful in entrenching its consensual emerging hegemonic position within the core of the global financial order and, to a certain extent, successful within a number of structurally peripheral sites as well (i.e. the first emerging markets in Asia and Latin America). (Mexico, for example, was acclaimed as "the model emerging market" until its downfall in 1994.) Despite cyclical bull and bear markets, a neoliberal ideology of financial deregulation firmly cemented the core of the system and was slowly spreading to new markets as emerging market states gradually became accountable to a *nebuleuse* personified as the global economy (Cox, 1992a). Tensions and contradictions were minor in comparison with those materializing more recently, and the panoptic financial dominance of the transnational financial panopticon had an aura of near-universal legitimacy. In sum, few counter-tendencies effectively challenged the globalization mantra, and the achievement of a market utopia pursued its thrust forward on an increasingly worldwide scale.

The recent financial crisis in South-East Asia paints a quite contrasting picture. Since the crisis erupted in the fall of 1997, the Indonesian *rupiah* has lost 75% of its value against the dollar, other Asian currencies have also plummeted, and the IMF has offered rescue packages totaling nearly

\$100 billion (accompanied of course by austere structural adjustment packages). At current exchange rates, Indonesia's GDP will shrink from \$226 billion in 1996 to \$50 billion in 1998 and Korea's and Thailand's economies will shrink 50% in 1998. Even in local currencies, growth rates in the region are expected to be negative for the first time in decades. Combined with currency depreciations, these developments are causing large-scale unemployment, higher food and fuel prices, and widespread social and human distress.¹¹ Although not all emerging market crises are as profound and prolonged as the so-called Asian flu, their social, economic and political (and one could add ecological) impacts are habitually quite profound locally, with ripple effects instantaneously reverberating around the planetary circuits of capital.¹²

As alluded to in the Introduction, this is symptomatic of the increasing market volatility caused by opening fragile economies to increasingly powerful, trigger-happy and intrusive financial flows as the hegemony of panoptic financial dominance spreads out beyond the core. For many within emerging markets, these crises come to symbolize a crystallization of the widening cleavage between the globally-oriented transnational financial elite and the increasingly powerless nationally-oriented local interests (Cox, 1996i:247), undermining the supposedly universal discourse promising freedom, empowerment and prosperity through acquiescence to the leadership of the transnational financial panopticon. The vast sections of emerging market societies, consisting of poor and lower middle classes, have gained very little from the emerging market phenomenon, even during boom periods, as their purchasing power has remained quite limited or negligible. Yet these segments of the population

¹¹ Data from the UNDP website (<http://www.undp.org:80/ods/pub15.htm>). December 20, 1998.

¹² Caprio and Klingebiel (in *BIS*, 1996) identify more than a dozen episodes between 1985 and 1995 in which banking crises in developing countries resulted in losses or resolution costs exceeding 10% of GDP in developing countries, including the recent cases of Venezuela (18%), Bulgaria (14%), Mexico (12–15%) and Hungary (10%); in several cases (Argentina, Chile and Côte d'Ivoire), losses were greater than or equal to 25% of GDP.

are the worst sufferers during the bust phase, which is accompanied by job losses, fall in real wages, high inflation, higher taxes, and reduced public expenditures (Singh, 1998b:14).

During such volatile times, those on the outer edges of the periphery of the transnational historical bloc of financial forces become less blind and less tolerant to the fact that those who are the main beneficiaries during boom periods (in emerging market, usually the upper middle class and the rich; in the industrialized world, the individual investors and money managers) are not the real losers when market sentiment turns sour. Others begin to question the uncritically assumed necessary compatibility between an unregulated financial system and democracy (Cox, 1996i:250). This paradox is summarized by Cox (1996e:532-33):

By removing the economic sphere from political control -- whether this is achieved by law or by ideology -- what determines the condition of people in their everyday lives is removed from their control. Politics becomes irrelevant. The sense of civic efficacy is removed; and many people, the most disadvantaged, are left in the futility of alienation. Their rage is unchannelled, ineffective, self-consuming.

For emerging market populations, at a time when *de jure* democratic ideals are being globalized, their *de facto* politico-economic foundations and practical efficacy are perceived to be eroding, with growing numbers of economically disenfranchised and powerless (Gill, 1996; Held, 1991a). Some free-marketers have unsympathetically countered that there is little to fret about since such a "curtailment of democratic possibilities, unfortunately, is the political price nations have to pay for the overall economic benefits that capitalism and integration with the world economy appear to deliver" (Crystal, 1994: 147).

According to neo-Gramscian theory, the inherent contradictions in the development of a hegemonic order will generally create conditions propitious to the nascence of counter-hegemonic challengers. Indeed, since the Mexico peso crisis, signs are visible of a recurrence of a sort of Polanyian "double movement" intent on taming and civilizing the global financial marketplace. These challenges are arising *within* and *outside* emerging markets among those dissatisfied with the current

state of emerging market affairs. *Within* emerging market societies for example, there is scattered evidence of a “resurgence of the territorial principle in struggles for national control over collective futures” (Cox, 1996i:251). These have included, for purposes of illustration, the high profile actions of the Zapatista rebels (EZLN) at the height of the Mexican peso crisis which “rudely shattered Salinas’ attempt to forge a ‘shared sense of reality,’ which is central to hegemonic order among disparate interests” (Nash and Kovic, 1996:185).¹³ On the opposite side of the globe, a three-day “Summit of the Group of Fifteen” developing nations (including Brazil, Indonesia, Malaysia and India) in Kuala Lumpur in November 1997, held amid the financial turmoil which engulfed South East Asia, became “a forum to air fears about where economic globalization is leading.”¹⁴ A year later, a small number of Asian countries adopted measures to curb flows of speculative and hot money. Malaysia for example slapped strict government controls on foreign exchange and mandated new rules compelling foreigners to maintain their investments in Malaysian stocks for at least one year.¹⁵ “People can no longer stay with the so-called free market system”, Malaysian Prime Minister Mahathir (in Zielenziger, 1998) argued when introducing his new measures. “They need to take some action which is contrary to the philosophy or the principles of the free market.” In Russia, the 1998 collapse of the

¹³ For the Zapatista rebels’ position on the financial dominance of emerging markets in the context of the Mexican crisis, see EZLN (1996a and 1996b).

¹⁴ The G-15 actually includes 16 members: Algeria, Argentina, Brazil, Chile, Egypt, India, Indonesia, Jamaica, Kenya, Malaysia, Mexico, Nigeria, Peru, Senegal, Venezuela and Zimbabwe. Leaders said that the recent crisis “highlights the need for some insulation of developing countries from the whims of ‘market sentiment’” and “a new regional and international approach in managing capital flows” (O’Rourke, 1997).

¹⁵ This is quite a reversal for Malaysia which received a perfect rating in capital controls from the IFC in 1995, which carried that country to the top of its overall ratings in terms of market access (*World Bank Policy Research Bulletin*, 1995).

ruble and domestic stock market created a terrain more favorable to the rise of ultra-nationalists and communists who advocate anti-globalization measures to reclaim the nation's "lost dignity".¹⁶

Although such subordinate groups have yet to put forth a coherent and persistent challenge to the legitimacy of the prevailing consensus, as emerging market crises become less and less interspaced and begin to pile up in the collective consciousness of emerging market caretakers and societies, the *risk* of irreconcilable damage to the hegemonic ambitions of the transnational financial panopticon grows.¹⁷ This has free-marketers worried, as the following comment illustrates:

The many benefits of globalization will not compensate for the costs of volatile capitalism quickly enough to build, much less sustain, a strong social consensus around the policies that facilitate global integration. If volatility remains unchecked, a backlash will build against the market-oriented [...] reforms that are essential to consolidate the remarkable political and economic progress of the last decade. (Hausmann, 1997:55-56).

Pockets of resistance such as those identified above are indeed representative of nascent struggles by the relatively disadvantaged, notably within the developing world, to tame, civilize and democratize market forces so as to reclaim the right of national social forces to make economy and polity serve their own self-determined goals. With each passing crisis the potential increases for "radical" demands that (or at least question whether) emerging market societies (should) break free from the laws and volatility of hyperliberal finance just as global finance has broken free from the bonds of national societies.

¹⁶ According to Stephen F. Cohen, a professor of Russian studies at New York University, "Russian economists and politicians across the spectrum are now desperately trying to formulate alternative economic policies that might save their nation -- ones more akin to Franklin Roosevelt's New Deal than the neoliberal monetarist orthodoxies of the State and Treasury Departments, the IMF, World Bank and legions of Western advisers" (in Gozner, 1998).

¹⁷ For further evidence of countervailing challenges within emerging markets triggered by Asian crisis, see Blustein, 1998; Pfaff, 1998; Bello, 1996; Hausmann, 1997; Khor, 1998c; and Lee, 1998. For the Mexican crisis, see Payne, 1995; Tuathail, 1997a; Warnock, 1995; and Cameron and Aggarwal, 1996.

During inordinately turbulent times when an emerging markets collapse jeopardizes the health of the world economy itself, as with the Mexican peso crisis or the Asian collapse, challenges to the hegemonic aspirations of global finance also surface from within rich countries and interstatal agencies. Because of the high level of financial interconnectedness of individual marketplaces and the ability of trigger-happy markets to instantaneously relocate capital around the globe, a sudden market downswing in Brazil, for example, will instantaneously provoke a worldwide ripple effect. At the world level, fears are arising that “a calamitous concatenation of accidents” (Cox, 1994b:48), such as those originating in emerging markets, could bring down the international financial system. In 1995, for example, concerns arising prompted the G-7 to temporarily place discussions of a variant of the Tobin tax on the agenda of the Halifax Summit.¹⁸ Such calls for a tax on international currency transactions as a way to discourage rapid churning in money markets have since been taken up by a range of organizations, such as trade unions, green parties, NGOs and INGOs, and handful of international organizations such as UNCTAD and the UNDP.¹⁹ To the surprise of many, rumblings of discontent have also emanated from within the so-called Washington Consensus from prominent neoliberal economists such as Joseph Stiglitz of the World Bank, Jeffrey Sachs of Harvard, and Jagdish Bhagwati. The renowned liberal economist Paul Krugman, for example, has launched a high-profile campaign to get East Asian governments to introduce foreign exchange controls as the only way to get out of their economic crisis. Recent events in Asia have also led to well publicized spats between the

¹⁸ Until a month or so before the 1995 Halifax G-7 meeting, a discussion on a tax on financial transactions (i.e. Tobin Tax) had been on the agenda, most likely under the request of Canadian Foreign Minister André Ouellet and Human Resources Minister Lloyd Axworthy, both supporters of discussing the idea. A month later though, under pressure from Bank of Canada Governor Gordon Thiessen and Finance Minister Paul Martin, and likely from a gamut of foreign leaders as well, the topic was dropped from the Summit agenda.

¹⁹ UNCTAD’s 1998 Trade and Development Report called for a return to capital controls as an indispensable part of developing countries’ armory of measures to safeguard against global financial instability and repeated speculative attacks (Singh, 1998b:4).

IMF and the World Bank, with the latter's views contrasting with the position of IMF which continues to demand full liberalization of domestic systems. Even George Soros, the world's most (in)famous currency speculator, has publicly warned of the "capitalist threat" to societal values posed by financial globalization.²⁰

With each crisis that temporarily destabilizes emerging market and rich country states, the legitimacy of the supremacy of the transnational financial panopticon is weakened as the supposed harmony between the interests of the leading echelons of global finance and those of subordinate groups is unsettled. The result has been sporadic "legitimacy deficits" that have constituted organic crises for the advancing transnational historical bloc of financial forces, despite the fact the coercive power resources (i.e. cumulative financial resources) available to the core of this alliance have *grown* (e.g. greater mobility, larger pools of capital) over the past decade. From the rise of fascist anti-globalist sentiment in Russia and Central Europe to peasant rebellions in Mexico to demands for a return to "Asian values" in East Asia to calls for a Tobin tax at the international level, these events are evidence of a mounting backlash against the mantra of applying free market approaches to developing countries and economies in transition. Indeed, such contradictions have begun to tear asunder the "ideological glue" that cements the alliance between core and periphery groups and provides people with rules of moral conduct and practical thought. "[W]hilst there has been a growth in the structural power of capital, its contradictory consequences mean that neoliberalism has failed to gain more than a temporary dominance" over these societies (Gill, 1995b:401-2).

²⁰ Soros, probably the most successful financial speculator the world has ever seen, created quite a stir at the 1997 Davos World Economic Forum with his surprisingly harsh criticism of financial globalization: "The belief that the markets are perfect is very dangerous," says Soros, "because in fact they are very unstable. And they don't lead to the best allocation of resources because they tend to make the rich richer. [...] The fact that I made so much money is proof that the markets are not perfect. I recognized it and exploited it and this is how I got rich" (CNNfn, 1997a).

1.4 *The theoretical underpinnings of a hegemonic project*

A particular historical bloc may simply ignore such crises and risk eventual disposition. It may also rely on violent measures to reassert its supremacy, which will likely undermine the consensual aspect of its hegemonic leadership over the long term.²¹ Conditions of hegemony are however fluid and perpetually shifting in response to actual or potential challenge. In this sense, a historical bloc might seek to maintain and strengthen its hegemonic position by bolstering its capacity to lead through a combination of coercive *and, more importantly, consensual means*. Such endeavors are referred to in neo-Gramscian literature as a *hegemonic project*.

More specifically, a hegemonic project will shore up a threatened or weakened hegemony by reinforcing one or more of the sets of social forces ensuring the aspiring hegemon's position of dominance. These configurations of social forces, according to neo-Gramscian theory, include (i) material capabilities, (ii) ideas that encompass a set of ideologies, intersubjective ideas and social myths, and (iii) institutions which range from particular types of state, market and international organizations that stabilize and perpetuate these coercive and consensual power relations (Figure 1). These sets of social forces do not *determine* actions but nevertheless create pressures and impose

²¹ An illustration of this form of response to counterhegemonic challengers is illustrated in the now infamous memorandum sent to key clients by Chase Manhattan's Emerging Markets Division shortly after the Mexican peso devaluation, basically calling for the physical eradication of voices which ran counter to the interests of global finance. Quoting the Chase Manhattan memo in question, *Harper's* magazine reports that amid Mexico's crisis, the bank called for "what amounted to Wall Street's program for returning the situation to the *status quo ante*", including a call for what amounted to peremptory political repression, fixed elections, and a dismissal of any alternative solution "designed to offer a better life to Mexico's poor -- on the grounds that such expenditures would be frivolous in the face of the pressing need to pay off investors" (Cockburn and Silverstein, 1995). "While Chiapas, in our opinion, does not pose a fundamental threat to Mexican political stability, it is perceived to be so by many in the investment community", the memo stated. "The government will need to eliminate the Zapatistas to demonstrate their effective control of the national territory and of security policy." The Zapatistas were a chaotic sign that had to be purged so the semblance of stability and status quo could be rehabilitated. "The fact that economic crisis will make it virtually impossible for 'the average Mexican worker to purchase the bare necessities of life' is not in itself dismaying to Chase. What troubles the bank is the possibility [...] that, confronted by mass demonstrations by the unemployed, Zedillo might flinch, 'yielding to worker demands which [would] further aggravate the economic situation'" (Cockburn And Silverstein, 1995).

constraints that can either be coercive or consensual in nature. By implication, the historic bloc determines what leaders and led perceive as the limits of the possible at a given moment of history.²²

Material capabilities correspond to a core group's control over the dynamic material components of power (e.g. production, finance, knowledge). As Gill (1994b:192) notes, "power relations perceived as legitimate or acceptable are necessarily underpinned by material power." Material capabilities are not sufficient though to ensure hegemony, since both ideas and institutions are crucial to the legitimation of dominant socioeconomic structures, adding "an ideological and intersubjective element to the brute power relationship" (Cox, 1996a:55-56). In relation to global financial matters, these material capabilities are based on the vast sums of liquid financial assets under the management of individual and institutional investors.²³

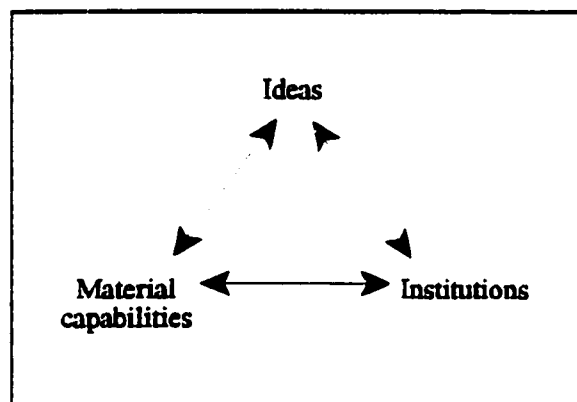
²² An historical bloc is defined as an alliance, cemented by a shared ideology, of those whose interests are served and whose aspirations are fulfilled by a particular economic and social system. Within the dominant historic bloc, it is the task of "organic intellectuals" to discursively construct a hegemonic project and cultivate a "hegemonic ideology" capable of transcending the particular interests of this elite group so that other social forces outside or on the margins of the historic bloc are able to give their consent to their dominance. As Gill (1990a:117) reveals,

[t]he interests of financial fractions of capital are especially well provided for in terms of [organic] policy intellectuals, since they have access to massive data bases, droves of political risk analysts, many publications of their own, and have endowed elite universities with well-paid posts and large research funds to generate a wider basis for the practical forms of knowledge needed to understand the political economy and, of course, to make profits. These intellectuals, and their banker counterparts, are often the best brains that money can buy.

²³ According to neo-Gramscian theory, only social groups that perform an essential role in the mode of production can become truly hegemonic. As Gramsci wrote, "though hegemony is ethico-political, it must also be economic, must necessarily be based on the decisive function exercised by the leading group in the decisive nucleus of economic activity" (in Augelli and Murphy, 1988:122). It is precisely this essential role in the world of emerging market production that confers prestige on the transnational financial panopticon and makes its dominant role potentially acceptable to subordinates. Indeed, it is today widely accepted that developing and transition economies need to run a current account deficit in order to grow rapidly, because their growth is driven by higher value-added manufacturing and by improvements to their economic infrastructure. This calls for large injections of capital, and regardless of how high their savings rates are, these countries need to import part of this capital.

As indicated previously, *ideas* encompass a set of ideologies, theories and social myths that form “a coherent system of thought and practice grounded upon the ontological categories and concepts of a worldview and the epistemological premises about how one understands the world” (Burch, 1997:23). They comprise the fundamental, socially created intersubjective meanings that constitute our outlook on reality and our way of dealing with this reality. In this sense, these ideas make facts meaningful and provides a blueprint for the organization of daily life around these meanings. Hegemonic ideas will therefore tend to sustain the relations of domination linked to both the material capabilities and the institutions within the triadic configuration of social forces.

Figure 1
The Coxian triad of social forces



Institutions are described as amalgams of material and ideological forces that in turn can influence the development of ideas and material capabilities. In addition to their capacity to serve as hegemonic devices buttressing the coercive aspects of the dominance, institutions are also, according to Cox (1987:259), “particularly important in defining the ideological basis of consensus, the principles and goals within which policies are framed, and the norms of ‘correct’ behavior.” In this sense, institutions are key to ensuring continuing supremacy by providing “ways of dealing with conflicts so as to minimize the use of force” (Cox, 1996b:99).

In neo-Gramscian terms, a hegemonic project can therefore be seen as a conscious and planned attempt to establish or strengthen this dialectical triad of material, ideological and institutional conditions and capabilities required to nurture the “spontaneous ‘consent’ given by the great masses of the population to the general direction imposed on social life by the dominant fundamental group” (Gramsci, 1971:13). When perceived to be in the general benefit of society (because they have been socially constructed as such), emerging power relations will win the hearts and minds of subordinate groups and peripheral groups will again willingly acquiesce to the supremacy of the core of the dominant historical bloc.

In response to the hegemonic crisis identified in the previous section, *the core of the transnational historical bloc of financial forces has embarked on a hegemonic project, one which is designed to bolster and re-invigorate its hegemony of panoptic financial dominance over emerging market caretakers and societies.* Drawing upon the above conceptualization of hegemony, such a hegemonic project would therefore imply a readjustment and reinvigoration of the material, ideological and institutional components of emerging market financial relations in order to overcome the revolutionary potentials that have surfaced due to the contradictions of mixing financial globalization with developing and transition economies that are vulnerable to volatility and inclined to supposed misbehavior. The result of this hegemonic project, as stated in the hypothesis, would be *a re-synergization of the potential of the transnational financial panopticon to spread its hegemony to emerging markets.*

This implies that the materialization of coercive measures (e.g. stockmarket collapses, increased interest rates, currency devaluations) would need to occur less frequently, heightening the universal appeal and legitimacy of the exigencies and interests of the transnational financial panopticon. Emerging market caretakers and societies would perceive market-friendly behavior as the sole commonsense means of benefitting (or at least not damaging) their own interests. Nor would they

actively seek to contest or construct challenging countervailing alternatives. The normative outlook: values and mentality of the transnational financial panopticon would in this sense become the commonsensical and normalized framework of conduct for emerging market caretakers and societies.

Returning to the panopticon metaphor, as a result of this hegemonic project, it is envisioned that emerging market caretakers will hopefully increasingly develop pro-active, conforming and self-disciplining behavioral patterns and skills that have a market-friendly perspective. Emerging markets will then serve as their own *surrogate wardens*, much like the inmates of Foucault's prison who have internalized certain norms of behavior.²⁴ Accordingly, the emerging market state will expedite its own subjugation to global market forces as this is judged to be in the general interest of all: "It is not enough for governments to promise to pursue sound policies: to win the trust of markets, they need to draw up their monetary and fiscal policies in ways that give incentives to policy-makers to take prudent decisions and which punishes them if they renege on their pledges" (*The Economist*, 1995h:35). In this sense, the consensual hegemony of panoptic financial dominance could be re-synergized in spite of (occulted) evidence that the power structures underlying these are skewed in favor of the dominant groups which benefit most from increased emerging market compliance with market imperatives.

²⁴ With regards to the issue of agency, as Ling (1996) and others have cautioned, there is a danger in representing "all internationalizing states as mute, passive, plastic Western states-in-training." Rather, it should be noted that there is nothing inevitable about the *particular response* that might emerge from a local context. Hence, rather than conceiving of globalization as an exogenous process outflanking the state, it is *through the agency of the state itself* and its constantly changing relationship to powerful social groups (increasingly politicised business and financial interests), that globalization takes on concrete forms. Indeed, the degree and speed of adherence to the neoliberal financial globalism model have varied considerably from country to country. Such differences produced financial globalism ranging from extreme liberalisation and severe dependence on short-term capital in Mexico to variants of partially liberalised, state-mediated finance in Korea and Taiwan (see Haggard *et al.*, 1993). The material and ideological forces of globalization will *constrain* and *condition* but it should *not* be seen as forces that circumvent territoriality, imposing a totalising homogeneity that automatically conforms local arrangements to the requirements of global structures or actors. Financial change comes about through *the specific linkages between the global and national levels that are unique to each case*. It is therefore a process that manifests itself differently as a result of specific historically constituted local political economies.

Groups previously outside of the transnational historical bloc of financial forces will be integrated into its periphery as subordinates, and those on the periphery who were “on the fence” will once again redirect their allegiance towards the core. In sum, the transnational financial panopticon’s position of hegemonic panoptic dominance would be re-vitalized despite recent turmoil.

Conclusion

This theory chapter has set the context for this thesis by laying out the key theoretical groundings and basic assumptions on which the unearthing of the components of the hegemonic project in Chapters 2, 3 and 4 will be based. With the next chapter, the process of excavation will commence with a critical social constructivist exploration of the shaping of ideational social forces so as to re-synergize the hegemony of panoptic financial dominance over emerging market caretakers and societies threatened by weakened legitimacy and disintegration.

- Chapter 2 -

From collective images to intersubjective understandings: The ideological construction of the "reality" of financial globalization and of commonsense behavior

"What our theoretical constructs permit us to see and what they hide from view are critical to the global complexities we help to decipher -- and to shape."¹

"No nation, rich or poor, democratic or authoritarian, can escape the fundamental economic imperatives of the global market."²

For neo-Gramscians, ideology and ideas provide humans with lenses or filters through which we apprehend the material conditions of our daily existence and through which rules of practical conduct and moral behavior deemed commonsensical and legitimate are actively developed. Because hegemony is "dominance based ideologically on a broad measure of consent" (Cox, 1987:7), a hegemonic project must endeavor to develop a hegemonic set of ideas which provide certain norms as the basis of a harmony of interests. Although coercive power remains in the background as a potential enforcer, the more one is able to define the prevailing ideological standards of interacting with reality -- what "exists", what is "legitimate" and "sensible" behavior, etc. -- the less one has to rely on coercion to ensure compliance. A hegemonic ideology is therefore equivalent to "a religion understood in a secular sense of a unity of faith between a specific conception of the world and a corresponding norm of conduct" (Gramsci, 1971:326). Within the current world financial order, this ideological cement is strongest at the center of the transnational historical bloc of financial forces, but is frayed at the edges, resulting in the crisis of legitimacy identified earlier. Symbolized by the quote by

¹ Cox and Turenne Sjolander (1997:141).

² Statement made by President Clinton, in a 1998 speech at Moscow University, discussing the financial crisis ravaging Russia (in Sanger, 1998).

President Clinton in the previous epigram, the ideational component of the hegemonic project is directed primarily at the margins of the historical bloc to ensure that the ideological glue which binds the core effectively permeates out to its subordinate periphery and thereby ensures cohesion and neutralizes actual or potential countervailing images of the reality of financial globalization.

A hegemonic ideology is said to stem from an ideological struggle in which rival collective images of social order become shared intersubjective meanings. The former refers to ideas which may be several and opposed, offering competing interpretations of social order specific to particular social coalitions or historic blocs. The latter refers to a wider, more broadly common set of "ideas people share about the nature of their world -- institutions and relationships they take for granted as constituting the world, their sense of reality" (Cox, 1996h:xxii). Indeed, under a hegemonic ideology, "[o]ne intersubjective understanding of the world excludes all others and appears to be universal" (Cox, 1995b:43).

The battlegrounds of this ideological struggle over collective images generally tend to be epistemologies³ and ontologies⁴ because "the ontology and the epistemology of the powerful become what is 'natural' for their societies" (Cox, 1996h:xxii). They effect the bases on which people act, individually and collectively, and thereby (re-)produce economy, polity, and society. As Gill (1994b:181) explains, a "perspective becomes hegemonic when the theories and arguments it entails, and the social forces it embodies, come to prevail in setting the agenda for debate and policy in a given

³ Epistemology "deals with the theory behind how we define knowledge, how we can produce it, and the criteria by which we judge knowledge as an accurate reflection of the world around us" (Lee, 1995:147).

⁴ An ontology defines what can be said to be "real" or to exist independently of the mind of the observer or what we believe to be the nature of reality and its underlying units, which form the starting point of theoretical explanation. Thus, ontologies, by constituting the world "as we know it" and, subsequently, how to "properly" function in it, tell us what the world "is" and how it "works", for all practical purposes. Such constructions become "common sense" when they have successfully defined the relationship of particular constructions to reality *as one of correspondence*, as if these constructions naturally or transparently reflected reality.

historical situation. This does not imply a lack of contestation: merely that, for practical purposes: alternatives are not fully considered because they lack weight, plausibility, credibility, or practical effectiveness.”

Material capabilities, institutions and ideas are therefore mutually reinforcing, in a dialectic; the material capabilities and institutions of a hegemonic group cannot be apprehended without ideas acting as a lens.⁵ Along these lines, our thesis statement posits that the hegemonic project involves an attempt to shore up the ideational forces that interact with material conditions to convey onto the transnational historical bloc of financial forces its growing hegemonic power. More specifically, the first sub-proposition indicates that the hegemonic project seeks to legitimate and entrench a universal lens which produces (i) a specific, market-oriented intersubjective understanding of the physical conditions facing emerging markets (i.e. financial globalization, market signals, financial crises, etc.) and (ii) an appropriate blueprint for behavior on the part of emerging market caretakers and societies in the face of these conditions. Also, as the first sub-proposition indicated, this set of ideas occults or eclipses the internal contradictions of the territorial expansion of the transnational historical bloc of financial forces into emerging markets.⁶ These two components of the hegemonic project combine to create what will be referred to as a “Wall Street mentality” that is being diffused to emerging market

⁵ The ontological distinction between ideas and material capabilities is therefore quite arbitrary. The separation of the two in chapters 2 and 3 is merely to simplify the analysis of the triadic configuration of forces identified in the hypothesis. As Cox (1992b:149-50) writes: “The objective world is real because we make it so by virtue of the existence in the intersubjectivity of relevant groups of people. The objective world of institutions is real because we make it so by sharing a picture of it in our minds quite independently of how we value it, whether we approve or disapprove of it. Intersubjectively shaped reality, the institutions that structure how material life is organized and produced, is as much a part of the material world and as independent of individual volition as the physical material upon which those institutions work.”

⁶ Mushakoji (1996:107) defines occultation as “a process shaping discourse, through a selective elimination or marginalisation of concepts and propositions, which makes it difficult for the society to focus on, or to perceive a certain aspect of the reality which was previously included in its field of attention.”

caretakers and societies, serving as a lens for identifying legitimate storytellers, the limits of the possible within the intersubjectively understood reality and subsequent blueprints for reasonable behavior.⁷

In order to facilitate this analysis, this chapter (arbitrarily) divides the hegemonic project into its *epistemological* and *ontological* struggles. The former refers to the efforts to hierarchically structure knowledge production so as to narrow the parameters of commonsense within which emerging market matters can be legitimately and sensibly discussed, theorized and debated. This epistemological component goes beyond simple agenda setting – it defines and endorses acceptable language, symbols, modes of reasoning, and conclusions about conceptions of the world and corresponding norms of conduct with regards to emerging market matters.⁸ Secondly, *ontological struggles* will be shown to reveal evidence of an attempt to (re-)define and reify a general discursive backdrop common to the neoliberal rhetoric on globalization but which plays significantly in defining the politico-economic reality faced by emerging markets. When confronted with countervailing

⁷ The term “Wall Street” is *not* used here to assign to this worldview or its adherents an identity territorially associated with New York’s financial center. Instead, the imagery of Wall Street serves as an appropriate metaphor for the understandings, interests and rules which come to define the reality of those individuals commonly referred to as “the markets.” Indeed, as financial markets have spread to virtually all corners of the globe, very little separates the specific market perspectives of a Singapore currency trader, a Financial Times journalist and a Latin American central banker. Instead, the leading echelons of global finance can be seen as evidence of what Camilleri (1990: 36) has identified as a “new form of civil society with no clearly demarcated boundaries set by notions of national identity. Civil society may come to acquire a much richer meaning grounded in a multiplicity of overlapping allegiances and jurisdictions, in which the local, regional, and global dimension qualifies the principle of nationality and redefines the notion of sovereignty.” Indeed, these transnational elites inhabit spaces independent from traditional civic space (Labelle, 1997:82).

⁸ Along these lines, it is interesting to note that, according to an IMF economist, “[t]he proprieties of the Fund contain an unwritten rule that political arguments should be dressed up in economic garb whenever possible” (in Drainville, 1995a: 75n31).

evidence though, these images are shown to portray things that are not necessarily “true” but nevertheless shore up the hegemony of financial dominance by making adaptation to and the effects of financial liberalization more palatable.

This chapter will therefore serve to help validate the first sub-proposition by showing how such epistemological and ontological struggles occult countervailing images of an emerging market reality that could otherwise undermine the rise to hegemonic status of the transnational financial panopticon and, moreover, how these struggles empower certain storytellers (i.e. the would-be hegemon’s organic intellectuals) and their particular stories which reify *particular* images of financial globalization, creating inevitabilities out of the material conditions facing emerging markets, and thereby conditioning the behavior of those who “must” translate these material conditions into economic policies.

2.1 *Narrowing the “limits of the possible” I: Epistemological struggles*

“We have moved from the metaphysical realm to the metaphorical: that is to say, we have moved away from the idea that economic ‘truth’ is discovered and towards the idea that it is made.”⁹

Dominant epistemologies serve as gatekeepers against “illegitimate” storytellers and their “biased”, “counterproductive” ideas so as to “help assure that potential taproots of critical reason do not develop in the consciousness of the masses” (Augelli and Murphy, 1988:22). This gatekeeping function therefore shapes the discursive space within which issues such as financial globalization, liberalization, financial crises and the like can be legitimately represented and debated in a meaningful

⁹ G. Daly, in Leyshon and Tickell (1994: 1861).

fashion. As Tooze (1988b:287-88) writes. "the predominant but often implicit epistemology tends to define the boundaries of legitimate inquiry so as to preclude or discourage consideration of philosophical or epistemological questions both within and outside the [dominant] mode of knowledge."

Unlike military and production matters which can be dealt with in terms understandable by the vast majority, mastery of the language and concepts of global finance – crucial to substantive debate – remains concentrated within the hands of an exclusionary intellectual community with a supposed mastery of the techniques, language and tools for apprehending the reality of underdevelopment/maldevelopment and globalized financial markets.¹⁰ As Helleiner (1995c:279) writes, "[i]nternational finance has traditionally been seen as belonging more appropriately to the academic domain of monetary economists trained in the latest mathematical techniques." Mostly educated in elite American and British universities and operating like a medieval guild from protected enclaves,¹¹ each new candidate applying for permission to practice in the paradigm has to subscribe to its particular rules.

With pretensions to the status of a "hard science", the epistemology of these economists and financial experts is said to privilege a particular form of scientific knowledge void of "ideology", "interests" or "politics" which are depicted as distortions of reality (Buarque, 1993:160-161). For

¹⁰ This select grouping of organic intellectuals will be referred to in Chapter 3 as the "emerging market knowledge structure".

¹¹ On the role of orthodox economic analysis as a claim of authoritative scientificity, see Cypher (1993) and Buarque (1993). Buarque (1993:viii) argues that, "development economics has become an ahistorical and value-free discipline with the pretence of being a science because of its extensive use of mathematical language." As another economist puts it, "We have learned to free this analysis of ethical overtones" (Solow, in Kabeer, 1994:15). According to another such intellectual:

Science, in our world, is more than a method by which knowledge is gathered and organized. By its privileged position it arbitrates between the real and the unreal; it dictates what is possible; it suggests what can be done. George C. Lodge was on target when he wrote, 'Science is indeed the religion of today'. Nowhere is that more true than in the case of economics. (Benton, 1990:70)

example, according to the dominant discourse, these intellectuals within the transnational historical bloc are said to be (i) concerned with *what is*, rather than what ought to be, and are therefore ontologically objective; (ii) their objectivity is possible because the subject is not committed to any normative or ethical position; (iii) their knowledge is value-free in so far as the analyst abandons his/her values in the process of inquiry; and (iv) they provide scientific knowledge because the phenomena studied are patterns and regularities of economic behavior unaffected by time and space. The resulting Wall Street mentality propagated by these organic intellectuals of the hegemonic project is therefore surrounded by an armor of protective rationalizations, reified as “technical”, disinterested and non-value-laden, and as basic as unquestionable physical law.¹²

Because of the authoritative “scientific” status brought about by the prestige and public status of “economics” (Trumper and Phillips, 1995:167; Samuels, 1991), social groups with mastery in these ways of analyzing are empowered (and well financed) to interpret the physical reality of financial globalization and to supply a universal blueprint for action and thought for dealing with this reality. Given its reputation as the “guerilla wing of the [neoliberal] economics profession” (Leyshon and Tickell, 1994:1864n4), the staunch adherence to the principles of free markets and neo-classicism of this group of organic intellectuals should not be surprising. Still, the positivistic representations of these “real worlders” are accepted as uncomplicated *givens* rather than as *constructs*. Understood from a critical standpoint, all of this implies a hierarchy of knowledge and knowledge production that elevates the “science” of international financial economics and their “scientists” to a status and position of privilege, prestige and legitimacy as the arbitrators of truth. Meanwhile, alternative discourses and other potential sources of new insight which do not conform to the regnant language, theories and

¹² In fact, a whole technocratic aura colors financial market matters: market downturns are *technical* corrections; policy-makers and advisers have become *technocrats*; investment decisions are based on *technical* analyses, etc..

methods are not fully considered because they lack weight, plausibility or credibility, and are therefore defined as “illegitimate” or counter-productive modes of defining, producing and assessing knowledge as an accurate reflection of the material conditions facing emerging markets.

In the ideological struggle to build intersubjective meanings, the “real worlders” identified above use a variety of tactics to delegitimize those forms of theorizing which they see as impeding the ideological osmosis of a Wall Street mentality throughout and beyond the transnational historical bloc of financial forces. These tactics include ridicule, scare-mongering and claims that dissenting images are counterproductive, regressive and the product of the misguided interests of “politics”.

With the Mexican and East Asian crises for example, critics of hyperliberalization of emerging markets have been labeled “quacks”, “fear mongers”, “globalphobes” or, at best, judged “out of touch” with reality and wasting their time and energy fighting the irresistible tide of financial globalization. For example, when the role of speculators in the Asian financial meltdown was recently questioned, critics were harshly accused of “diverting from the real issue”, “trying to distract attention from the real problems” and delaying unavoidable reforms dictated by “the markets” (Hartcher, 1997). Following the Mexican debacle, calls for a Tobin Tax¹³ were denigrated as a “sort of Luddite proposal” in the UN’s World Economic Survey (UN, 1995).¹⁴ This echoes the views of *The Economist* (1995h:31) which stated that similar proposals “pop up as frequently as reported sightings of the Loch Ness monster”, and that critics of radical liberalization are naive “revisionists” harping back to a

¹³ Named after Nobel prize-winner James Tobin, the proposed tax would throw sand in the wheels of international finance by placing a levy on international currency transactions as a way to discourage rapid churning in currency markets.

¹⁴ “Luddite” was used here is a derogatory term applied to a person who blindly and unreasonably rejects “progress” (by smashing factory machinery, for example). A more accurate description of Luddite analysis is one which refuses to extract technology from social relations, and one which regards technology as inherently social and therefore the result of values and choices. Luddism does not reject new technologies, as such, but rejects the consequences of unconsidered technological change. Luddite perspectives, as this chapter demonstrates, would therefore be greatly inimical to the tenets of the gospel of financial globalization! That such a perspective is discursively silenced should surprise no one.

bygone era (*The Economist*, 1998c). Since the Mexico crisis, other proposals for adjustments to the global financial system were vehemently attacked or openly ridiculed. An outspoken critic of the role played by speculators in the downfall of his country, Malaysian Prime Minister Mahathir was recently accused of “hysteria” and “xenophobic scapegoating” by the financial press.¹⁵ In contrast to the prestige accorded to orthodox accounts, allusions to mythical underwater creatures and sophistic factory-smashers assign an aura of laughability and irrationality to alternatives to the current order. Any hint at “subjectivity” is seized upon immediately as “unscientific” and therefore not worthy of inclusion in “serious” studies of emerging market matters. These “Others” see their disruptive ideas “increasingly treated with the bemused condescension usually reserved for astrological charts and flat-earth manifestos” (NACLA, 1993:16). Through such discursive practices, while their neoliberal counterparts are omnipresent in the mainstream media and public fora, critical voices are marginalised as the premises of the Wall Street mentality are not to be questioned for they alone are commonsensical.

In other instances, these “Others” – those voicing incommensurable collective images – are targeted as outright *dangerous* because, in Asia for example, “[p]olicy makers in the affected countries are worried that if they were to even discuss the advantages of capital control, their country would be black-listed by the IMF, the rich countries and financial speculators” (Khor, 1998b). Critics are ostracized as a threat to market stability and the celebrated rebirth of *homo economicus* within emerging markets, with counterhegemonic recommendations portrayed as a “recipe for disaster”. For example, having confronted the hegemonic project with an “Asian values” counternarrative, the outspoken Malaysian Premier acknowledged that he was asked to pipe down because his comments had supposedly rattled the region’s markets: “We are up against people who do not take kindly to

¹⁵ See, for example, the editorial in the *Australian Financial Review* (1997).

criticism, to any suggestion", he stated, adding he had not changed his opinions. "only silenced them"; sensing that other Asian leaders had "a feeling of fear that if you say the wrong things it will affect the markets, so don't say [it]" (in Stackhouse, 1997:A11). Other critics labeled as "dangerous" have similarly been relegated to the sidelines of the debate over the Asian crisis: "[t]he [Philippine] administration's technocrats angrily labelled [critics] as 'doomsayers,' 'armchair economists,' or malevolent forces out to spook the foreign exchange markets" (Bello, 1998b).

When not ruled "illegitimate" or "dangerous", countervailing images can simply be dismissed as irrelevant. Referring to the awkwardness of his shocking proposal for exchange controls in Asia, Krugman (in Khor, 1998b) underlined the "the implicit 'gag rule' that prevents not only officials but anyone associated with the current strategy (bankers, major institutional investors) from being too vocal about an alternative strategy." Along these lines, in a meeting with Mahathir, according to Robert Rubin, U.S. Treasury Secretary (and former manager of currency trading at Goldman, Sachs & Co.), "[Mahathir] re-articulated his views in an informal way. We didn't debate it."

In sharp contrast, news media rely on the chosen storytellers of the historical bloc for analysis and policy guidance on most issues involving this seemingly complex, arcane and highly technical issue area. These organic intellectuals make their daily appearances on newswires, television and in newspapers with their authoritative version of the day's market happenings. Participants in the emerging market knowledge structure spin the economic news the way a White House spokesperson spins the day's events in Washington. Their importance is elevated during full-blown financial crises, as they are called upon to dispassionately explain to the emerging market public the causes and effects of the most recent crisis they must endure. The news media treat these intellectuals with a hushed and reverential awe without mentioning the financial interests of the firms they work for.

Also dependent on this narrow group of storytellers is the emerging market state in which core decision-making agencies have been transformed into "technocracies" where creative action is

accorded solely to a privileged elite capable of “technical expertise” embodying the Wall Street mentality. When domestic resources are insufficient, foreign experts from international organizations such as the International Finance Corporation (IFC)¹⁶, consulting firms such as Standard and Poor’s DRI, umbrella organizations such as the Institute of International Finance (IIF)¹⁷, and individuals such as Jeffrey Sachs, Paul Volcker and Fred Bergsten,¹⁸ are summoned to extinguishing the flames of financial crises or to provide counsel on reform packages or negotiations with the IMF.

What this section illustrates is that although discursive (re)production of our world is a practice in daily use at multiple sites through numerous actors, *not all participants share equal power*. As Thrift and Leyshon (1994:307) point out, the social power of financial wealth increasingly attaches itself “to those able to offer the most convincing interpretations” of the globalization reality faced by emerging markets. As well, the epistemological premises about *how* one understands the world are not *neutral* or *innocent* but instead reproduce the means to produce *certain* meanings linked to *specific* interests. With regards to first sub-proposition of the hypothesis, the predominant epistemological lens can be said to bolster the hegemony of panoptic dominance of the transnational financial panopticon by structuring how we define knowledge pertaining to emerging markets, how we can produce it, and the criteria by which we judge knowledge as an accurate reflection of reality. This bolsters the hegemonic project in question by disciplining the production of “reality” and corresponding blueprints

¹⁶ The IFC is the arm of the World Bank that concentrates on private-sector development and advises many emerging markets on capital market reforms.

¹⁷ The IIF is the powerful Washington thinktank and mouthpiece for over 290 of the world’s largest banks and brokerage houses.

¹⁸ Jeffrey Sachs is from the renowned Harvard Institute for International Development, Paul Volcker is former U.S. Federal Reserve Chairman and Fred Bergsten is former chair of APEC’s Eminent Person’s Group and current Director of the Institute for International Economics, a highly influential Washington think-tank.

for action according to a Wall Street mentality that is in concordance with the interests and prescriptions of the transnational financial panopticon and which will tend to epistemologically eclipse countervailing voices and their alternative views of reality.

2.2 *Narrowing the “limits of the possible” II: Mythic ontologies of the Wall Street mentality*

“Rather than looking for the ‘natural laws’ in the social world, [...] critical theorists recognize that the world is not limited to regularities in the natural or social world around us: it also includes the meanings we give to that world.”¹⁹

Cox (1995b:43) posits that “an indicator of hegemony would be a preponderant ontology that tends to absorb or subordinate all others.” The following section in fact lays bare evidence of an ontological struggle to narrow the range of collective images available to emerging market caretakers as they define for themselves what is reasonable behavior given the reality faced by emerging markets. As a result, these ontological constructions would further predetermine the “‘common sense’ understanding of the basic entities in their environment, the institutions and forces that surround them and condition what they can and cannot do as persons and as members of a group” (Cox, 1996h:xxii). As this section will reveal, the reality within which emerging markets are called upon to survive is a mythic world of *financial globalization*; a reified “reality” in which, by all “reasonable” accounts, all peoples and states are equally subject to the logics of globalization that are, on the whole, beneficial and necessary, and in which societies have no choice but to “adapt” and compete with one another (Turenne Sjolander, 1996:604). In order for an emerging market to survive and prosper, its caretakers and population are to adopt the Wall Street mentality of the transnational financial panopticon.

¹⁹ Stienstra, 1994-95:107.

Meanwhile, the internal contradictions of this mode of behavior will be occulted as market-friendly adaptation becomes intersubjectively understood as an absolute necessity which will, despite temporary setbacks and sacrifices, be in the general interest of all over the longer term.

As Cox (1996a:56) indicates, the consensual element of hegemony “tends to mystify the power relations upon which the order ultimately rests.” Indeed, as the following sections will reveal, the collective imagery which socially constructs the reality of financial globalization is increasingly taking on the allure of a myth, “not as absolute fairy-tales but as part fictions/part truths [...] which help shape attitudes and buttress ideologies” (Booth, 1996:328). According to Barthes (1972:143),

[i]n passing from history to nature, myth acts economically: it abolishes the complexity of human acts, it gives them the simplicity of essences, it does away with all dialectics, with any going back beyond what is immediately visible, it organizes a world which is without contradictions because it is without depth, a world wide open and wallowing in the evident, it establishes a blissful clarity: things appear to mean something by themselves.

“Mythic imagery” is not used here in the sense of an *untruth*, but rather as stories we are told, and we tell to others and to ourselves: tales that explain, adapt and evolve as their context changes, and engender a fatalism that denies the construction of alternatives to the prevailing order, and thus, negates the idea that history is made by collective human action (Barthes, 1972). In building a consensual order, the benefits of such a collection of ontological imagery are clear: “All ideologies involve myths to justify a social and political order as well as to form consensus and thereby lessen the use of coercion” (Mittelman, 1996b:231-32). At the same time, these mythic collective images form a way of speaking about or of making sense of the world in a *de*-politicised manner: the prefix “*de-*” representing an *active* movement, “permanently embodying a defaulting” (Barthes, 1972:143).

Such myths purify things related to financial panopticism, makes them innocent, giving them a natural and external justification, and giving them a clarity which is not that of an explanation but that of a *statement of fact* which stretches beyond what the evidence will show. The result is a “false consciousness” that invades all spheres of critical debate and discussion which masks the workings of

financial panopticism: at the same token, it aims to prevent critics from fully acknowledging its devastating impacts on emerging market societies. Five such myths surrounding financial globalization will be uncovered in this section: the myth of technological determinism, the myth of atomized markets, the myth of financial globalization as the economic panacea for the Third World and former East Bloc nations, the myth of financial globalization as a great democratic “leveler”, and the myth of the invisible hand as a superior economic governance mechanism. These ontological constructs produce a way of intersubjectively understanding and acting upon the material conditions facing emerging markets. Although these myths have no physical/empirical existence, like a tree or a table, they are nevertheless *reality*, albeit of a non-physical kind, because as they become pervasively intersubjective individuals will increasingly act as though they were.

2.2.1 Financial globalization as unavoidable: The myth of technological determinism

The nervous system of the global market is dependent on public and private networks, miles of fiber and copper, information technologies and rings of satellites that girdle the globe. This is a key conditioning factor which has allowed previously marginalised markets to become important nodes in the new financial network of flows. The technological processes sustaining this expanding and deepening system have regularly been portrayed as the product of an unstoppable wave of self-sustaining, dehumanized and autonomous evolution occurring above and beyond society. As Wriston (1988:71) argues, the “new international financial regime differs radically from its precursors in that it was not built by politicians, economists, central bankers or finance ministers, nor did high-level international conferences produce a master plan. It was built by technology.” Because it is said to occur beyond the control of society, for Federal Reserve Chairman Alan Greenspan, “technological

progress is not reversible. We must learn to live with it.” “Developing countries have little choice but about whether to follow this path, because advances in communications and new developments in finance have made the course inevitable.”²⁰

This technological determinism masks the origins and formation of the electronically networked financial system, and the interests it serves, by reifying it as an ahistorical entity evolving independently of human will or action, as an ineluctable and linear outcome of an ostensibly evolutionary process of historical progress. Efforts on the part of emerging markets to thwart this progress is ill-advised:

As a result of very rapid increases in telecommunications and computer-based technologies and products, a dramatic expansion in cross-border financial flows and within countries has emerged. The pace has become truly remarkable. These technology-based developments have so expanded the breadth and depth of markets that governments, even reluctant ones, increasingly have felt that they have had little alternative but to deregulate and free up internal credit and financial markets. [...] Endeavoring to thwart technological advance and new knowledge and innovation through the erection of barriers to the spread of knowledge would, as history amply demonstrates, have large often adverse, unintended consequences. (Greenspan, 1997)

Despite any actual or potential contradictions within emerging markets such as destructive volatility, democratic deficits and the like, financial liberalization on the part of emerging markets remains “an inevitable step on the path of development, which cannot be avoided and therefore should be adapted to. In support of this view, we may note that all the most advanced economies have open capital accounts. This is a powerful argument, and a correct one, even if it begs the question of how rapidly the inevitable has to be accepted” (Fischer, 1997b).

Rather than depicting global markets and their supporting technologies as complex *socially constructed* institutions (Porter, 1993:8), this collective image makes financial globalization appear as manifest destiny, an inevitable and unstoppable tsunami of transformation remaking the globe in its image. Also, such a reification of the globalization obscures the pivotal importance of *the*

²⁰ The World Bank (1997:1).

systematic application of political power in shaping the transnational financial system.²¹ In short, the mythic collective imagery of autonomously developing technologies is a *de-politicizing* one in that it is abstracted from historical processes and interests, and thereby assists in disabling a sense of agency in the face of the forces which are propelling globalization and liberalization and the subsequent restructuring of social life. As Cox (1987:265) notes, "the internationalization process appears to the public to be the result of ineluctable impersonal forces that can be separated from the symbolisms of domestic political debate."

Accordingly, the sole reasonable option available to emerging markets is to ride the financial tsunami sweeping the globe despite the risks. Subsequent hardships are attributed to some unknown and irresistible force that has to be borne, but can't be changed (Raghavan, 1995a:7).²² By presupposing that the evolution of the transnational financial system is not subject to fundamental *human* change, the reasonable purpose of theory and practical intervention is merely to smooth the functioning of the existing system through problem-solving theory and to play by the rules of the game.²³

²¹ See the writings of Strange, Helleiner, Porter, Germain and Underhill for arguments along these lines.

²² As Wriston (in Frieden, 1987:114-115) professes, "For the first time in history, the politicians of the world can't stop it. It's beyond the political control of the world, and that's the good news." To further illustrate, while Koreans donated gold and jewelry to help their government bail out of the 1997-98 crisis, commentators suggested that "the most useful thing people can do is realize they are in for a period of hardship" (Shameen and Bacani, 1998:25).

²³ Cox (1996b:88) defines problem-solving theory as an approach which "takes the world as it finds it, with the prevailing social and power relationships and the institutions into which they are organized, as the given framework for action. [...] The general aim of problem-solving is to make these relationships and institutions work smoothly by dealing effectively with particular sources of trouble. [Problem-solving] aims to solve the problems arising in various parts of the complex whole in order to smooth the functioning of the whole." Indeed, it is fervently denied that the Asian crisis is a symptom of a potential or actual "global financial crisis" or, at least, structural problems within world markets. The "consensus" is that the world economy is healthy and that "market corrections" are largely attributable to isolated sources such as the "Asian flu" and Russia's troubled "transition to a free market economy" (Chossudovsky, 1998b). Illustrations of the problem-solving approach to the weaknesses of the transnational financial

The counter-argument can be made that the technologies propelling the spread and acceleration of market dynamics arise from and enter back into *complex economic, social and political processes*. The fact remains that our present global order is in part a product of its historical past, and powerful agents (including powerful states and private organizations) have been crucial in the physical construction of the present order. "Electronic space is often considered purely technological and in that sense a space of innocence. But if we consider, for instance, that strategic components of the powerful financial industry operate there we can see that it is a space where profits are produced and power is thereby constituted" (Sassen, 1996b:36).²⁴ Once financial networks are conceived of as *social* products they can more readily be apprehended as *hegemonic devices* which electronically connect the financial system in a very structured way. Markets are created by the wills and actions of (powerful) real-life human beings: they are social institutions in their origins, and they remain subject to reconsideration, revision and indeed improvements in relation to human purposes and values.

2.2.2 *Financial globalization as beyond influence: The Myth of "Atomized Markets"*

According to Wriston (1998), the "people who influence the [financial] system, range from learned central bankers to 21-year-old traders at some small merchant bank. The agents in the global market are numbered in the millions, each having his or her own agenda and interacting in ways to produce a result that cannot be predicted" (Wriston, 1998). This ontological imagery portrays the transnational financial panopticon as "atomized" (Sinclair, 1994a). With globalization, it is argued,

order and the contradictions of financial globalization and financial globalism will be explored in greater detail in Chapter 4.

²⁴ Bienefeld (1996:420) advances a similar argument: "The primary driving force behind the liberalization of the world's financial markets is political, not technological. The motive force has been the opportunity to amass untold fortunes through the creation of mountains of credit -- and debt -- as people discovered in the 1970s when this became possible [...] Technology was the excuse used to justify the excesses."

financial markets have come to reflect the perceptions of risk and reward of *millions of unconnected individual investors* responding rationally to economic fundamentals.²⁵ According to Wriston (in Bass, 1996:202), “no single yuppie is going to influence the market that much, and by the end of the day, the market will have conducted a referendum reflecting the collective wisdom of people all around the world on what they think of economic policies.” The writings of Hayek continue to be highly influential in this regard:

the market is the only known method of providing information enabling individuals to judge comparative advantages of different uses of resources of which they have no immediate knowledge and through whose use, whether they so intend or not, they serve the needs of distant unknown individuals. This dispersed knowledge is essentially dispersed, and cannot possibly be gathered together and conveyed to an authority charged with the task of deliberately creating order. (Hayek, in Wriston, 1992:75)

The recent introduction of chaos theory to the study of financial markets has also reinforced this collective image.²⁶ Chaos theory portrays global asset allocation as a chaotic and complex process that is essentially autonomous and beyond the wit, design and regulation of human beings. The argument is that financial connections and dealings have become so complex that it is impossible to track moral responsibility. To illustrate the argument, the example is used of the butterfly flapping its wings in Brazil affecting the weather weeks later in the Bay of Bengal. Financial globalization then becomes an unimaginably complex and non-linear system which we are relatively powerless to influence, and in which no identifiable individual(s) can be held personally accountable. This normative discourse therefore ensures that one can never truly understand the relationship of cause and effect between global and local actions.

²⁵ See for example, Lindsey and Lukas, 1998; Woodall, 1995:4-5; *The Economist*, 1995g:38; BIS, 1997:117.

²⁶ The work of the Santa Fe Institute on global markets and chaos theory is particularly relevant in this regard. See <http://www.santafe.edu>.

Material capabilities within the financial order are portrayed as so widely atomized that they are undoubtably *beyond control and void of disproportionately structured power relations*. “The markets” remain a faceless, inherently unaccountable invisible empire operating independently of human agency. With no central headquarters like a Parliament, a White House or IMF headquarters, the transnational financial panopticon does not concord with the assumed sites of global or domestic governance. Instead, the panopticon benefits from a high degree of invisibility vis-à-vis emerging market onlookers (Cerny, 1991:188), and the adoption of a Wall Street mentality and market-friendly behavior can more legitimately be seen as responding to the ineluctable needs of an abstract system and not to the demands and interests of an identifiable, narrow set of financial elite. In addition, these elite can more naturally remain unaccountable and escape public scrutiny, much like the guards in Foucault’s panopticon. “You can’t fight the market”, commented Singapore’s usually combative Prime Minister as the Asian region took a bloodletting pounding on the markets in late 1997 (*CNNfn*, 1997c). Frustrated populations can then be strung along by a powerful “There is no alternative!” rhetoric, as market exigencies must be adhered to piously... or else.

2.2.3 *Financial globalization and economic growth: The mythical panacea of financial integration*

It is today widely accepted that developing and transition economies need to run a current account deficit in order to grow rapidly, because their growth is driven by higher value-added manufacturing and by improvements to their economic infrastructure. This calls for large injections of capital, and regardless of how high their savings rates are, these countries need to import part of this capital. *The Economist* (1998c) summarizes this faith in the immediate economic growth benefits of financial integration for emerging markets: “Like free trade, the argument goes, the free flow of capital across borders can increase economic efficiency. Savings will flow to the most productive investment opportunities, regardless of their location.” Hence, conforming to the leadership of the

transnational financial panopticon would increasingly come to be accepted as beyond the narrow interests of the financial elite and in the universal interest of the whole of emerging market societies.

Looking at the criteria used by investors to gauge expected returns, Krugman (1995) demonstrates how investors (and others) have unanimously come to linearly equate financial asset appreciation and reduced risk in emerging markets with the implementation of neoliberal policies along the lines of the "Washington Consensus":

It is the belief that Victorian virtue in economic policy -- free markets and sound money -- is the key to economic development. Liberalize trade, privatize state enterprises, balance the budget, peg the exchange rate, and one will have laid the foundations for economic takeoff: find a country that has done those things, and there one may confidently expect to realize high returns on investments.

Aside from the neoliberal reforms listed by Krugman, emerging market conditions equated with profitability and low risk include central bank autonomy, the removal of price subsidies, investment liberalization and deregulation of key industries, free trade and investment agreements which lock in policy commitments over time, and a "flexible" and competitive labor force. "At the end of the day, fundamentals remain fundamental. Sustained good economic policies produce superior results", writes Lipsky (1998:11). Here, "good" implies monetarism and neoliberalism. "Find a country that has done these things", writes Fishman (1997:39), "and there one may confidently expect to realize high returns on investments. [...] Hints that a country is reforming its tax code, privatizing its phone company, balancing its budget, or consuming more beer send money rushing in." When emerging market governments adhere strictly to Washington Consensus-inspired reform packages, markets are expected to reward these "obedient" economies. The resulting market optimism leads to a self-fulfilling prophecy as the shared beliefs of policy-makers and investors will tend to be mutually reinforcing. Hence, emerging market governments can be persuaded to adopt Washington Consensus policies because markets so spectacularly reward them, and investors are willing to supply so much capital because they believe they are seeing an unstoppable move toward policy reform. In this sense,

hyperliberal financial globalism and neoliberal restructuring along the lines of the Washington Consensus are deemed to be self-reinforcing. Accordingly, the ideational practices of the hegemonic project depict the interests of the financial elite and those of emerging markets as a whole as aptly served by policies which coincide with the Washington Consensus.²⁷

These authoritative claims that financial globalization constitutes a capitalist panacea for developing and transition economies run counter to evidence that Japan and more recently China and Chile have enjoyed remarkable growth without allowing free capital flows, as did Western Europe after WWII (Bhagwati, 1998).²⁸ A respected trade specialist, Bhagwati recently argued that “the claims of enormous benefits from free capital mobility are not persuasive” and “it is a lot of ideological humbug to say that without free portfolio capital mobility, somehow the world cannot function and growth rates will collapse” (in Wade and Veneroso, 1998).

²⁷ For Krugman though, “the empirical evidence for huge [market] gains from free market policies is, at best, fuzzy” (1995:32).

²⁸ Elsewhere, Bhagwati has argued that

“[Capital markets] are very volatile. Suddenly expectations can turn around. You may be very healthy but sudden you can catch pneumonia. And then you may have to do unspeakable things to your economy just to regain that confidence because you are now hooked into the system. Markets may do something when you’ve done nothing wrong and you may have to do something wrong in order to convince the markets that you are doing something right! I would put off [capital account convertibility] for quite a while.” (Interview in *Times of India*, December 31 1997, in Wade and Veneroso, 1998).

2.2.4 Financial globalization as the “great leveler”: The myth of the democratizing and liberating benefits of globalized markets

“{W}e remain committed to the ideal that free markets free people.”²⁹

Based on Western concepts of individualism and freedom embodied in unrestrained, freely negotiated, and therefore voluntary exchanges, “free markets” are also said to constitute a local site of democratization (Agnew and Corbridge, 1995:201). First, according to the Wall Street mentality, unobstructed access to disintermediated global markets greatly reduces previous dependence on Western commercial banks, aid agencies and international financial institutions, and thereby has a liberating effect on emerging market societies. In its place, we now have privatized and dispersed decisions about the allocation of resources. Secondly, as Gill (1996:215) notes,

some prominent neoliberals suggest that because of advances in technology and information processing the financial marketplace behaves in ways analogous to the *polis*, making ongoing judgments or referenda on the credibility and performance of governments. Bad government will tend to drive capital away; good government will attract capital flows. [Therefore, the markets] play roles analogous to political parties and agents in the ‘global democracy’ of the marketplace.

Wriston is an outspoken promoter of this imagery, arguing that “[w]ith the new technology no one is in control. Rather, everyone is in control through collective valuations” (1992:61). This image of instantaneous communication technologies as a “great leveler” gives financial globalization a democratic aura since markets now function as a participatory, interest-free, around-the-clock global plebiscite: “in some ways, capital markets, driven by the decisions of millions of investors and borrowers, are highly ‘democratic’. They act like a rolling 24-hour opinion poll” (*The Economist*, 1995g:38). In fact,

²⁹ Editorial in *The Far Eastern Economic Review* (1998).

[m]arkets are defined as large, impersonal, dispersed structures of buyers and sellers operating independently of one another in pursuit of private goals. No one buyer or seller can effect the overall characteristics of the market and thus, no power may be exercised. [...] Power and privilege are excluded; politics and social relations are relegated to the *ceteris paribus* clause in the theory. (Hollist and Caporaso, 1985:38)

In this sense, the collective image of the marketplace within which emerging markets are thrust is that of an *non-political space*,³⁰ devoid of unwanted “ideologies”, “plans”, “interests” and “power relations”, yet which somehow democratically empowers emerging market citizens.

Following this logic, if global markets are devoid of hierarchies of power because of the atomized nature of global asset allocation, there is no reasonable need for markets to be democratized as demanded by critics (e.g. through transaction taxes). Instead, it is argued that liberated markets embody a form of democratization (i.e. Wriston’s “global plebiscite”) far superior (in terms of rationality, neutrality and efficiency) to anything which could originate from within societies historically prone to dictatorships, central-planning and the like. Along these lines, influential development economist Deepak Lal (1992:99) has voiced harsh criticism for financial controls in developing countries which he regards as “discriminatory practices”:

There is much experience to suggest that the most effective way to convert a market economy into an authoritarian economic society is to start by imposing direct controls on foreign exchange. [To] the best of my knowledge [exchange controls were] invented by Hjalmar Schaath in the early years of the Nazi regime.

Access to free markets is therefore said to enable a rebirth of *homo economicus* – i.e. “economic man” in free pursuit of economic self-interest (Roy, 1992) – and reducing insufferable bureaucratic interference in the activities of private citizens which have characterized many emerging markets. What this entails is the (Western) notion that human life, if it to be fully lived, cannot be

³⁰ It is therefore of little wonder that countries seeking to mesh with the transnational financial system are referred to as emerging *markets*, rather than as emerging *societies, countries or states*. Consequently, emerging market societies are objectified and rendered content-less. For similar arguments applied to APEC, see Doucet (1996).

constrained by limits of any kind -- including regulations on money flows. For neoliberals,

open and competitive markets are the best means by which to preserve the liberty of the individual. ... Markets then, to adapt a favorite aphorism of Hayek's, are the result of human action, but not human design. ... In short, markets offer a guarantee against the corruptions of government, and they embody the most reasonable way of dealing with, and making sense of, a world based around the fluidity, flows, change and movement. States, in this discourse, are about stasis, sedimentation and distortions; markets offer an antidote to such self-willed sclerosis and entrenched hegemonies. (Agnew and Corbridge, 1995:199-200)

In sum, modernity is said to have finally kicked in as emerging markets join the global financial order, as "repressed" or "shackled" economic forces are liberated from constraints, opening the doors to the "opportunity society" of the future (World Bank, 1996). Deregulation will produce not just economic growth, but also greatly enhance the capacity of local people to take control over their own lives (Held, 1991a; OECD, 1996; Erfani, 1995; Colclough, 1991).

From a critical perspective though, references to a global plebiscite in which "everyone is in charge" fail to recognize (i) the almost complete exclusion from participation in financial markets by the vast majority of emerging market citizens who tend to have little or no disposable income to dedicate to market activity, and (ii) the increasingly centralized nature of emerging market investment and speculation (see Chapter 3). As Gill (1996:215) points out, "the daily market referendum on government policies in the financial markets is highly uneven and unequal -- since by definition the poor have little disposable capital to invest and are thus [...] economically disenfranchised." The mythic image of democratization is also undermined if the accountability factor is taken into account. As shown previously, the transnational financial panopticon is not accountable to governments or to the populations which are subject to the effects of market fluctuations. "There is no separate or separable structure, or framework of economic management, by which their activities can be judged or held to account" (Minns, 1996:388). Instead, these powerful private institutions are accountable only to themselves.

2.2.5 *Financial globalization as the diffusion of the “invisible hand”: The myth of rational economic governance without government*

“The financial system is the ‘brain’ of the economy.”³¹

The global financial marketplace is generally portrayed as guided by the invisible hand of abstract market forces. This key collective image is based upon the “efficient market hypothesis”³² whereby “the markets”, and especially currency markets, make the best use of available information (generally evaluated in terms of short-term consequences) about what economic policies or political events mean for the near-term costs of capital within a given country (Krugman, 1997b). The resulting allocation decisions by financial agents are then based on so-called “rational expectations” of risk and reward, ruling out the possibility of systematic errors which might lead the markets in the wrong direction. Markets will sometimes undershoot or overshoot, and it may take time to restore equilibrium. “but unlike governments, which are reluctant to admit mistakes, markets adjust for their mistakes quickly” (Wriston, 1998).

Since markets allocate capital according to spontaneous, automatic, amoral and calculative judgements (Morse, 1997), markets are assumed to be not only rational, but self-regulating, and therefore provide a form of leadership over emerging market economic affairs which is far more beneficent than anything that generally takes place within the body politic of these societies. Since the invisible hand is said to use dispersed knowledge, to maximize wealth creation, and cannot be

³¹ Joseph Stiglitz, Senior VP and Chief Economist of the World Bank, in Asiaweek (1998:66).

³² According to many, this is the main argument used against proposals for a so-called “Tobin Tax” on international financial transactions, which would introduce “distorsions” into an otherwise efficiently operating environment.

explained as anyone's intention or design, it is assumed by theory *to promote the general good*.³³ Even a purely speculative attack "may be nothing worse than a rational response to perceived inconsistencies in economic policy" (Woodall, 1995:29) since the transnational financial panopticon is said to more likely betting with the fundamentals than against them (*The Economist*, 1995h:32). "In other words, left to its own devices, the market would ensure that equilibrium would be achieved in the capital transactions between private international creditors and investors and private domestic banks and enterprises. So do not worry" (Bullard *et al.*, 1998). Heretofore, emerging market caretakers should "trust markets more than governments. Governments usually aren't self-correcting, until too late" (Wriston, in Bass, 1996:202).

Accordingly, to blame the transnational financial panopticon is like "shooting the messenger" since a financial crisis, large or small, is simply the market's way of telling a government that its policies are ill-conceived: "policymakers do not always welcome discipline of which they are the object, even if it is appropriate: nor are they likely to admit when trouble comes that the capital markets were only the messenger, delivering a verdict on their performance. Rather they may be tempted to shoot the messenger" (Fischer, 1997b). Responsibility for market punishment is placed squarely on the shoulders of government officials, central bankers, unions, rebels, workers and the like for making their country a prime target for a speculative attack. In contrast, the global financial system and the financial globalism imperative are beyond reproach: markets can do no wrong. Even when speculators attack a country whose fundamentals do not warrant the assault, they are described charitably as having merely reacted "excessively" to misbehavior and will automatically self-correct.³⁴

³³ Certain players in debt markets have even been label "bond vigilantes", because they act as clandestine heroes restoring law and order to bond markets.

³⁴ Market enthusiasts also point to the growing capacity of "arbitrageurs" to readjust market valuations according to underlying fundamentals:

Another example is the imagery surrounding the use of artificial intelligence in financial dealings. Computers equipped with artificial perception and decision-making capabilities are increasingly being assigned the task of buying and selling securities, currencies and other financial commodities based on interpretations of signals received from the marketplace. In 1992, for example, "Citibank, which handles at least 15% of the currency dealings in London, gave a neural network system \$10 million to play with for a few months. It made an 18 per cent annual return, compared with the 12 per cent typically achieved by traders using more conventional forecasting methods. A large pension fund in the United States is believed to be using the technique with larger sums of money" (Holderness, 1993:23). This and other more common forms of automated computer trading are deployed to reinforce the image of a dehumanized unfolding of financial events and trends. The argument is made that since *no humans* are directly involved, pure mathematical rationality and objectivity prevail. It also serves to de-responsibilize those interests who assign specific buy and sell "ceilings" and "floors" (i.e. socially constructed Wall Street criteria) to these cybernetic devices and to reinforce the belief that financial globalization and market discipline occur *independently* of human will. However, with regards to artificial intelligence, "[a]ny machine is the embodiment of social interests and forces. It contains and reproduces certain procedures. It lends credence and legitimacy to certain discourses. It is not just an empirical object but also a discursive object" (Finlay, 1987:5).

To further illustrate the faith in the "invisible hand" to regulate emerging market affairs, one need only consider the displeasure voiced within financial circles vis-à-vis the bailout package

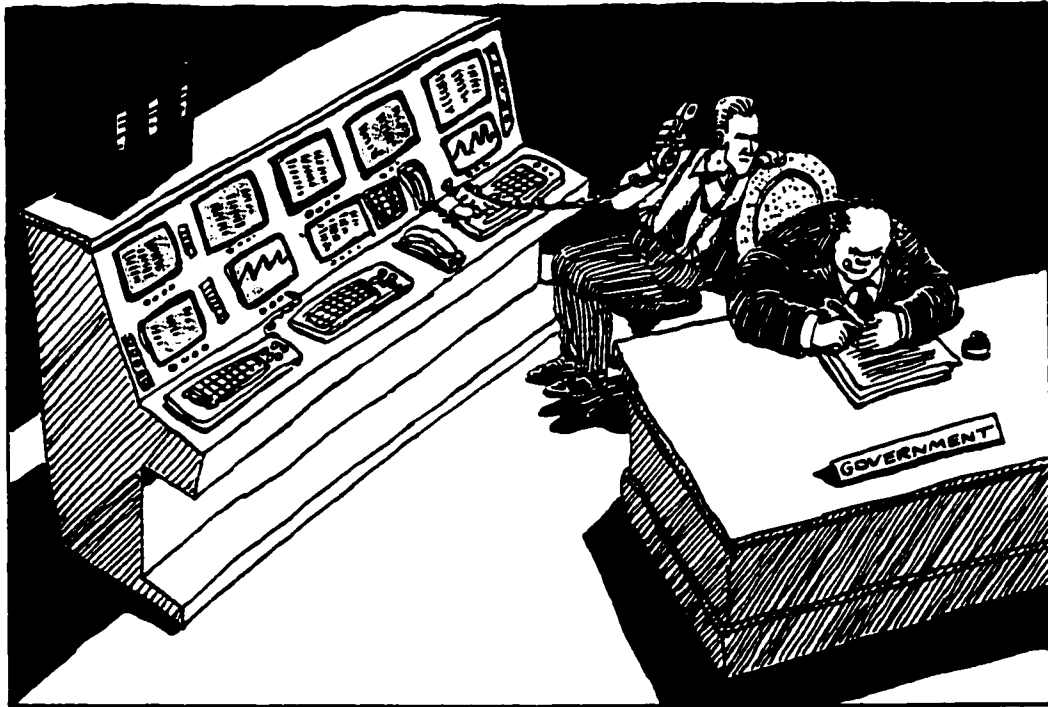
In their view, this will be the case even if some or a number of investors fail to behave in a 'rational' manner. Specifically, they argue that the self-regulating market will always allocate capital efficiently due to the presence of arbitrageurs. Defined as those investors who do behave in a rational manner, arbitrageurs buy and sell securities which have been mispriced by other investors. Therefore, because 'arbitrageurs do the work of bringing prices towards fundamentals', the activities of non-rational investors are seen as being offset to the extent that markets act efficiently. (Harmes, 1998:94-95)

orchestrated by the Clinton government. As the *Wall Street Journal* (in Cameron and Aggarwal, 1996:982) feverishly argued, "Mr. Camdessus argues that the intervention has been required to underpin the credibility of the market-oriented approach to development. What it does is undermine it. It does so by substituting official for private capital, by offering implicit insurance to private capital flows, by making unsound private finance more probable and, most important, by indicating a lack of confidence in the self-correcting capacity of financial markets."³⁵

Powerful imagery used by *The Economist* illustrates such characterizations in its discussion of emerging markets (see Figure 1). In this caricature, the overzealous government official (i.e. the "political") -- self-interested and fat from having benefitted from "the ways of old" -- should be wary of the panoptic eye of the markets looking over his shoulder. In contrast, "the markets" are portrayed with as serious, stoic gaze, performing a "technical" (and therefore interest-free) task (symbolized by the large number-crunching apparatus in the background). Along these lines, it is often argued by free-marketers that if markets could only be disembedded from socio-political interests, financial turmoil would be avoided since markets are self-correcting and can adjust almost instantly to changing incentives before a full-fledged crisis materializes. Instead, since existing emerging market policy-making structures are "[l]acking the corrective, mediating responses that market mechanisms and incentives provide, the shortcomings accumulate until a systemic breakdown occurs" (C. Wolf, 1998).

³⁵ This complaint is rather dubious given the crucial role played by the financial elite in shaping the bailout schemes in question. The "big six" Wall Street commercial banks (including Chase Manhattan, Bank America, Citicorp and J. P. Morgan) and the "big five" merchant banks (Goldman Sachs, Lehman Brothers, Morgan Stanley and Salomon Smith Barney) were consulted on the clauses to be included in the bail-out agreements. In the case of Korea's short-term debt, Wall Street's largest financial institutions were called in on Christmas Eve (December 24, 1997), for high level talks at the Federal Reserve Bank of New York.

Figure 2
The watchful eye of the markets
Source: Woodall (1995:38)



The “politics” of emerging markets are generally portrayed as necessarily incongruent with the free market pulse of hyperliberal financial globalism, and therefore invariably counter to the best interest of society as a whole. Emerging market civil society and decision-makers (the “Others”) are consequently constructed as different from the “Self” -- the enlightened, rational market worshippers of the transnational financial panopticon -- and therefore deeply in need of guidance from the rational invisible hand of non-political market forces. Indeed, with regards to the Asian crisis, Carrasco (1998a) states that

Westerners in advanced economies have portrayed Asian government officials and corporate managers as profoundly corrupt and incompetent. Since the crisis erupted last summer, the media and global policy-makers have repeatedly condemned reckless inefficiency, self-indulgence, cronyism, nepotism and graft in the region. [...] Western-drive rhetoric accordingly contributes to the process of "Othering" whereby the West creates an image of the darker inhabitants of the world, an image that helps justify seemingly universal policies, such as transparency.

Similarly, emerging markets have been portrayed as prone to "inebriation" (i.e. the Tequila effect), and possessing a counterproductive "Latin temperament" (Krugman, 1997b). Such negative imagery is often utilized within the mainstream discourse to help justify the subordination and punishment of the emerging market "Other" since the emerging market body politic is seen as inherently irrational, parasitic and plagued with pressures from sectional interests and ideological elements which run counter to the free expression of economic rationality which is deemed essential for rapid, sustainable and democratic capitalist development.

The truth is, according to Krugman (1997a), that today's markets may not always be quite as rational as neoliberal discourse would have it:

For one thing, markets aren't always cool, calm and collected. There is abundant evidence that financial markets are subject to occasional bouts of what is technically known as 'herding': everyone sells simply because everyone else is selling. This may happen because individual investors are irrational. It may also happen because so much of the world's money is controlled by fund managers, who will not be blamed if they do what everyone else is doing. One consequence of herding, however, is that a country's currency may be subjected to an unjustified selling frenzy.³⁶

Aside from herding, which will be discussed in greater detail in Chapter 3, Krugman (1997b) points to other examples of arbitrary crises based not on the rational contemplation of economic fundamentals, but on irrational market behavior, including (i) "self-fulfilling crises", i.e. a circular investor logic whereby investors flee a currency because they expect it to be devalued and not basically

³⁶ As Keynes showed in his metaphor of the beauty contest, there are strong incentives for herding in financial markets, as each short-term trader tries to choose the investment or loan he/she thinks likeliest to be chosen by other investors or lenders, as his colleagues' assessment will be a crucial element in determining short-term prices. (Griffith-Jones, 1998:5).

because of poor fundamentals, and much (though usually not all) of the pressure on the currency comes precisely because of this lack of investor confidence: (ii) the “machinations of large agents” (i.e. institutional investors) which include a combination of public statements and ostentatious selling, engineering vast profits through speculation: (iii) and “contagion”: when a crisis in one country triggers crises in other countries with which it seemingly has only weak economic links.

There is very little evidence that global markets are in fact efficient regulators of emerging market economic affairs. Although market forces alone are assumed to be capable of an equilibrium in capital transactions between private international creditors and investors and private domestic banks and enterprises, looking back on the Mexican debacle, commentators are now admitting that signs of the peso crisis had been visible for some time -- ignored by investors -- including an abnormally high current account deficit (8% of GDP in 1994) and surplus foreign capital inflows, considerably greater than domestic capital outflows. Prior to the 1997-98 Asian debacle, because the *private sector* and not the state was incurring the financial flows, “the markets” remained confident despite potentially unsustainable investment trends. But, as we know now, leaving things solely to supposedly “rational” markets led to a situation whereby massive amounts of capital went not to productive investment in manufacturing or industry, but to high-yield areas with quick turnaround time, like real estate, car financing, and massive credit creation. The consequent oversupply of real estate, for example, triggered not a simple “technical correction” but a crash.

2.3 *A blueprint for legitimate behavior: Applying the Wall Street mentality to daily life under the panoptic gaze of “the markets”*

By reifying financial globalization as an unstoppable, objective and de-humanized set of forces expediting economic growth, democratization and a more orderly and propitious regulation of economic affairs, the hegemonic project does not *determine* the actions of emerging market caretakers

and societies in any mechanical sense *but instead helps to constitute the context of their habits, expectations and constraints within which day-to-day behavior takes place.* To be deemed useful and appropriate, a blueprint for action will incorporate (and thereby materially reproduce) these perceived necessities into its prescriptions. Simply internalize the Wall Street mentality and you will be fine! Failure to abide by this blueprint will squarely shift the blame for market punishment and volatility unto emerging markets, occulting contradictions within the emerging market phenomenon (sub-proposition 1). This blueprint also helps ensure that emerging markets behave in accordance with the interests and prescriptions of the transnational financial panopticon, as indicated in sub-proposition 1. resulting in an enhanced normalization of market-compliant behavior buttressing the hegemony of panoptic financial dominance.

2.3.1 Hyperliberal financial globalism as the blueprint for managing financial globalization

Strongly promoted by those theorists and practitioners empowered to define the collective wisdom of the moment (Chapter 3), the celebrated blueprint for riding the globalization tsunami to prosperity shall be referred to here as *hyperliberal financial globalism*. The term “globalism” is drawn from the writings of Pieterse (1993:2) who differentiates between “globalization” and “globalism”, defining the latter as “the policy of furthering or managing (a particular mode of) globalization.” Borrowed from Cox (1991) and Panitch (1996), the term “hyperliberal” refers to “the globalization thrust in its most extreme form” within today’s theory and practice of financial globalism: a Thatcher-Reagan inspired zeitgeist and concomitant form of state characterized by an uncompromising subservience to perceived market dictates.

The doctrine of hyperliberal financial globalism is nicely summarized by Lankes and Stern (1998): the creation, expansion and improvement of financial markets; the establishment and strengthening of institutions, laws and policies that support financial markets; and the adoption of

behavioral patterns and skills that have a market perspective. This “indispensable” blueprint prescribes a mode of integration into world financial markets that rejects state intervention to influence the results of market behavior, and embraces a vision of leading decision-making bodies (within the emerging market state and beyond) as responsible for the institutionalization of financial integration and the management of financial affairs once integrated into the globalized financial order.³⁷ It is therefore up to the emerging market state to organize and protect this abstract yet sacrilegious “economic” space by evacuating itself from *substantive* economic activity, relegating itself to the role of enforcer of the rules of the market:

At a general level, the consensus is that the state plays a key role in creating an enabling environment for the growth of private sector activity in capital markets. A supportive environment includes prudent economic management, and sound and transparent legal and regulatory frameworks that protect property rights and enforce contracts. With regard to capital markets, there is also consensus that the role of the state should change from one of direct intervention in development and regulation to one of support and oversight. (World Bank, 1997:365)

More markets and less politics is said to entail more rational workings of the invisible hand, “a condition consecrated by the neo-conservative dogma that there should be no political intervention in the working of the abstract but intractable laws of economics” (Cox, 1996c:182).

³⁷ This approach therefore implies that “globalization and the making of the social space of the world economy do not so much bypass states as they pass through them and depend on them for their political organization” (Drainville, 1995a:58-59). In this sense, rather than succumbing to the myth of the “emasculated state” however, the “globalism” approach would recall Polanyi’s (1957:140-141) account of the administrative and bureaucratic imposition of the free-market in England in the 1830s:

[T]he introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range. Administrators had to be constantly on the watch to ensure the free working of the system. Thus even those who wished most ardently to free the state from all necessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of *laissez-faire*.

To reap the material gains from financial globalization, the emerging market state is advised to facilitate this process, acting as its agent: "it is the task of the state as rational actor to recognize the advantages of the international market as yielding the greatest good for the greatest number, and to respond by reducing or eliminating 'artificial' political impediments to 'natural' patterns of exchange" (Underhill, 1994:27). As Cox (1987:254) notes, "the internal structures of states are adjusted so that each can best transform the global consensus into national policy and practice." Through financial globalism the state can finally become a sordid but necessary servile agent of globalization.

For market pundits, no one is to shed any tears for the state since all that is being lost is the power to pursue damaging policies. The only reasonable question that remains to be pondered regarding financial liberalization is therefore not "if", but "how fast" or in "what sequence". Because catering to external capital source has seemingly become an absolute necessity, it is said that non-interference with financial flows is now a requisite

to build confidence for long term capital to come in. [...] Naturally, the funds that the authorities should be searching for are those of established institutional investors -- pension, insurance, and noncommitted mutual funds. But these funds will only come in if they are free to leave as they wish. It is also very difficult to permit only 'institutional' investors in and leave out the 'speculative' ones." (Bacha, 1993:9)

Hot money, speculation and the volatility and crises they incur therefore need to be endured as they are inevitable price to pay to reap the benefits of hyperliberal financial globalism.

In addition, in a global marketplace characterized by limited liquidity and high demand for capital on the part of a large number of public and private actors, the hyperliberal financial globalism model proclaims *competitiveness* by the key to self-preservation and prosperity. As Wriston (1998) aptly explains, "[s]ince there is some finite amount of money capital in the world, and an unlimited number of places and ways to employ it, it moves toward the perceived optimum blend of risk and

return. [...] Put another way, capital goes where it is wanted, and stays where it is well treated." This has led to fierce rivalries among emerging markets to attract capital, fueled by efforts to tailor their economies as closely as possible to the market-friendly Washington Consensus. At the level of consciousness this means the individual in an emerging market increasingly views the global financial order as a zone of danger in which triumph over other emerging markets is necessary to maintaining a semblance of national and personal security. Hypercompetitiveness therefore reduces the propensity of the individual to put herself/himself in the position of others while the world is atomized into separate and competing "enemy" jurisdictions, and interstate cooperation on capital mobility issues is increasingly moved outside the feasible set of possibilities.³⁸

2.3.2 *Internalized disciplinary behavioral patterns: Interpreting market signals*

The third component of financial globalism highlighted by Lankes and Stern – the adoption of behavioral patterns and skills that have a market perspective – is particularly salient because it refers back to what the earlier discussion on panopticism referred to as "the internalization of socially normative behavioral rules" under the dominance of the transnational financial panopticon. This basically implies that emerging market caretakers should adopt the same lenses utilized by the average Wall Street trader to interpret the physical facts of their surroundings and give them meaning. In this sense, according to the blueprint prescribed within the hegemonic project, legitimate policy behavior

³⁸ As Gill (1995c:83) has argued, "[g]lobal financial capital draws much of its strength from the division of the globe into competing jurisdictions which can be played off to make arbitrage profits, and maximizes its power through minimizing any restrictions on its mobility or curtailment of property rights." Elsewhere, Gill (*House of Commons*, 1995:48–49) remarked that "the enormous amounts of liquidity in the present system does not mean that there is a cheap and abundantly available supply of capital for productive investment [...] purposes. As presently constituted – and sanctioned by governments – the system of market institutions works more to the advantage of dealers and traders who profit from short-term monetary fluctuations and by shifting funds, almost instantaneously, to seek the highest returns. In other words, from the standpoint of would-be borrowers, faced with a global competition to attract investment capital under conditions of high mobility of financial factors, capital actually appears to be a relatively scarce and expensive commodity."

of emerging market should reproduce the normalized criteria that a Wall Street trader employs to gauge the soundness of policy and socio-economic performance. The result is a semblance of confluence between the interests and values of the transnational financial panopticon and emerging market societies which will tend to counter the legitimacy crisis within the expanding transnational historical bloc of financial forces. The Wall Street mentality, translated into practice, coincides with that which drives the decision making of the financial elite, that is the "short-range thinking of immediate financial gain, not the long-range thinking of industrial development" (Cox, 1992a:27). Indeed, it is a short term-oriented version of the Washington Consensus and its theoretical causal relationship to financial asset appreciation and diminished risk.

The epistemology of this thesis maintains that the "objects" and "relations" we "see" in the world are socially-constructed through discourse and ideas. By this view, what we regard as external "reality" is created by our shared understandings about the world. In this regard, the social world is more akin to a text the emerging market caretaker interprets than to a known commodity he or she can identify and manipulate. Accordingly, there is nothing inherently automatic or mechanical about how an emerging market caretaker will react to a market signal. In fact, "market signals" are basically *meaningless* without the lenses of the Wall Street mentality in spite of their physical reality as capital outflows, currency drops, stock market gains, etc..

The "facts" surrounding "market signals" are understood and reacted upon in relation to the meanings which are ascribed to these facts. This means that the material capabilities of the transnational financial panopticon and their meanings to emerging market agents are never "givens" but are "mades" – discursively conditioned by collective human action and transformable by collective human action. These individuals are in a sense constrained to interpret particular signals in particular ways and adopt particular behavior in response to these signals, and the benefits of financial globalization are said to attach themselves to those most capable and willing to offer the most

appropriate practical interpretations of these market signals. As such, the transnational financial panopticon's capacity to discipline emerging markets (both coercively and consensually) is dependent on the intersubjective pervasiveness of such lenses through which emerging market caretakers apprehend market signals and subsequently adopt specific modes of practical conduct and moral behavior which are valued as commonsensical.

2.4 *Revisionism in Asia: The occultation of alternatives to hyperliberal financial globalism*

The previous blueprint is said to be the sole legitimate set of prescribed actions given the material inevitabilities brought on by financial globalization. To legitimize this claim in the eyes of the emerging market caretakers and societies, the dominant discourse has discursively re-constructed the Asian crisis so as to shift the burden of responsibility solely onto the shoulders of the Asian governments who are said to have failed to follow the prescribed blueprint and are now paying a deserved toll. In addition to occulting the roots of the crisis which lie in the attempt to consolidate the historical bloc of financial forces in Asian emerging markets (sub-proposition 1), these discursive practices also reiterate the necessity of a leading role for panoptic tutelage in the management of Asian economic affairs. In Gramscian terms, this represents an ideological war of position against a rival hegemonic order: what Ling (1996) has called the "Asian corporatist model of liberal capitalism" which represents an alternative, regional hegemonic order with its own transnational, albeit regional, historic bloc of social forces, adhering to a set of "common criteria and goals" which is different than that embodied in the Wall Street mentality. In China for example, Asian corporatism represents a different "means for the state to 'internationalize' while, simultaneously, 'localizing' international capitalist practices to retain internal political control" (Ling, 1996:20).

This economic ordering is said to have produced what is recognized as “the fastest reduction in poverty for the greatest number of people in history”:

According to the World Bank, poverty fell by 27% in Southeast Asia during 1975-85, and by another 35% in 1985-1995. Over the same period, Asia lifted 220 million people above the poverty line, the only place in the world where the ranks of the impoverished actually declined. Universal education, high-tech industrialization and social reforms reduced poverty by 82% in Indonesia, 90% in Thailand and 95% in Malaysia. Incomes of the poorest 20% of households in Indonesia and South Korea approached roughly 8% of national income, comparable to preunification Germany and Sweden, and nearly twice as high as in the United States. (Friedman, 1998)

With the 1997-98 Asian crisis though, capricious markets are now said to have inflicted *deserved* market punishment on governments which for too long failed to adhere to appropriate market principles. Thus, it has been discursively transformed into an inglorious monument to misguided policy, shifting the blame away from the transnational financial panopticon and the market order which it commands.

For various critics, the 1997-98 Asian flu constitutes “a crisis of globalization” (Bullard *et al.*, 1998), and the most significant counter-threat to date to the ideological dominance of the hegemonic project in question. In order to re-vitalize the hegemony of financial dominance over emerging markets as indicated in the hypothesis, the counterattack by financial forces has entailed the discursive reinterpretation of the “Asian miracle” through Wall Street lenses, privileging instead the mythic images of financial globalization discussed in the previous sections and precluding collective images deemed incommensurable with the Wall Street mentality and with the hyperliberal brand of globalism promoted within this paradigm.

Up until a few days before the events which set in motion the Asian financial debacle, East Asia was still the global hot spot of economic dynamism, with each and every aspect of the political economy was viewed as an asset. Taiwan and Korea had succeeded, *The Economist* (in Surowiecki, 1998) explained at the start of this decade, because they had among “the least price-distorting regimes

in the world.” For example, Thailand was praised in late 1996 for its “consistent record of sound macroeconomic management policies” and was being rewarded accordingly by markets (Bullard *et al.*, 1998). Camdessus had just recently suggested the East Asian economies were “the very essence of globalisation – open, dynamic economies that continue to amaze the world with their rapid growth and economic development” (Camdessus, 1997b). As late as September 1997, the IMF welcomed South Korea’s impressive macroeconomic performance and enviable fiscal record. Within the World Bank and the IMF, similar conclusions about the sources of Asian growth prevailed. A World Bank study concluded that “rapid growth in each economy was primarily due to the application of a set of common, market-friendly economic policies” (Surowiecki, 1998). Just last year, Jeffrey Sachs called the East Asian economies “highly market oriented, with a long period of relatively free trade [...] and limited distortions from government regulations”, while arguing that most East Asian countries did not rely on industrial policy at all. Until June 1997, the world’s investors saw nothing but blue skies ahead for East Asian economies, showing their faith by shoving billions into their equity markets, while foreign banks contentedly handed out billions in loans. In this sense, it is debatable whether there were changes to fundamentals significant enough to account for the severity of the crises in Mexico and Asia (Stiglitz, 1998b:2; Rodrik, 1998:5; Fischer, 1998b:9; Wolf, 1998).

The situation prior to the Asian crisis unambiguously demonstrates that *the region’s political and economic practices were not perceived as barriers to profitability as far as international investors were concerned*. So, ironically, the *same* economic policies which had earned Asian emerging markets accolades from the financial community throughout the nineties were, within days and at a time of panic in global financial markets, *re-interpreted as a legitimate justification of the downfall*.³⁹ The chaos which ensued created the opportunity for a convenient retrospective or

³⁹ Similarly, as late as December 9, 1994, only days before the peso devaluation, President Clinton was praising Mexico as a fine example of economic development, citing in particular its financial reform

revisionist rationale for the actual *irrationality* of processes that were internal to markets themselves (e.g. herding, excessive speculation, etc.). Now, responsibility for these crises was relocated unto the shoulders of the emerging markets whose misdeeds included "statism", "politicking" and "cronyism". In sum, for market pundits, the crisis symbolized "an obituary for the long-termist 'communitarian capitalism' of Asia, which put employees and customers ahead of shareholders, and a total justification of the short-termism practised in Britain and the United States, which has been criticised in the past for chalking up short-term profits for business at the expense of long-term investment" (*The Guardian Weekly*, 1997).

Instead of exploring areas such as the possibilities of irrational market behaviour, the role played by excessive speculation, or the possibility of inherent structural weaknesses within the global financial order itself, the Asian Flu was exploited as an opportunity to pronounce the death knell of alternatives ideologies. Similarly, the only real attempts by free-marketers to address the contradictions between their pre-crisis and post-crisis accounts involved appeals to changed circumstances (i.e. financial globalization) which had rendered "Asian capitalism" and "Asian values" obsolete.

For example, free-marketers like Paul Roberts were suddenly arguing that Asian "industrial policy fostered appalling investment, banking, and monetary practices", and that Asia's woes prove that Ronald Reagan was right and his critics were wrong; *The Economist* was holding up Korea as an example of the inevitable failure of any economy bossed by "civil servants"; economist Rudi Dornbusch was describing Korea's problems as a crisis of "statism"; the *keiretsu*, once viewed as the ultimate organizational form, now revealed the dysfunctional side of Asian business processes and relationships. The op-ed pages of the *Wall Street Journal* have wallowed in triumphalist glee, dancing

(Council on Foreign Relations, 1996: 28). Also, the IMF's 1994 Staff Report "praised Mexico's 'considerable success in its comprehensive programme'; it did not argue for change in the exchange rate policy; and it projected different scenarios for Mexico's Balance of Payments (until 1998) all of which assume high and steady capital inflows" (Griffith-Jones, 1996: 11).

happily on the grave of what used to be called “the Asian miracle” (Surowiecki, 1998). In sum, Asian behaviour was suddenly associated with the accumulation of years of market-unfriendly state interference with the functioning of markets. Even in a case such as the Asian crisis where the *private* sector had drawn in the speculative flows, the accepted solution is to target “the political”: for example, government indebtedness by cutting back on government expenditures and requiring government to produce a surplus, central bank independence, etc.⁴⁰

Commentators also focused their attention on Asian corruption and “crony capitalism” as an *outgrowth of East Asia’s authoritarian governments and generally regimented societies*. According to Beeson (1998), this authoritarianism, regimentation, and corruption were seemingly validated economically by capital inflows for decades: the “market logic” was that authoritarianism helped to repress labor and other popular movements, thereby lowering (or socializing) the costs of industrial accumulation. Although neoliberals did not want to admit it, there had been solid profit interests behind the “admiration for authoritarian countries such as Indonesia” held by “prominent Asian and Western business leaders” (M. Lee, 1998). Naturally, such authoritarian regimes also provided a congenial environment for corruption. This corruption however played a “positive” economic role insofar as it helped keep ruling coalitions together, thereby ensuring, especially in South Korea, that neoliberal restructuring was actually carried out. Importantly, although such corruption was eventually bound to disrupt growth, it was only *after* East Asian countries partially liberalized their financial systems and opened themselves up to short-term capital flows (at the advice of conservative neoliberal agencies) that financial-sector corruption began to rage out of control to the point of seriously disrupting investment and growth (Bello, 1997). Although authoritarianism, corruption and a

⁴⁰ This is in fact the message behind *The Economist’s* “The Myth of the Emasculated State” special insert released shortly after the Mexico crisis, warning of persistent dangers of state intervention in an environment of globalized markets, and that the “powerless state” is simply a myth and governments (unfortunately) have “about as many economic powers as they ever had” (*The Economist*, 1995f:16).

state-business nexus were not a bar to investment until very recently, the champions of free capital movement have managed to harness to their cause the most self-justifying of slogans: "stopping corruption." Market discipline, we are invited to believe, checks "crony capitalism", and is therefore self-evidently a good thing.

Basically, what may only have been a temporary setback has instead been recast as an indictment of the entire system. According to a RAND economist, the East Asian countries hit by the 1997-98 Asian crisis had erroneously privileged the so-called "Asian development model" centred on dangerous "subjectively based decisions" rather than having recognized the advantages of the "objectively based decisions" of the financial marketplace (Wolf, 1998). Only the corrective actions of the financial panopticon (aided by the IMF) are said to now be sufficient to coerce the Asian "Other" into line with the Wall Street mentality. This is why emerging market caretakers such as Michel Camdessus are convinced that the Asian crisis has been "a blessing in disguise" (in Blustein, 1998).

From a critical perspective though, if Asia's problems were systemic and the result of these countries' "crony" or "statist" policies, *then the panopticon's failure to recognize this earlier should instead be considered as a strike against the market, not for it.* Still more perverse is that, even as the free-marketeers conclude that history is now rendering its verdict on the Asian model of capitalism, they seem to forget that until the recent crisis *they themselves took great pains to deny that such a model existed.* Until Asian markets fell apart, supply-siders heralded the Asian example as proof that the only recipe for economic growth was open markets and non-intervention on the part of the state. Supposedly, Asian economies were not like those feeble Latin American economies, with their high tariffs, easy credit, and corruption. Instead, they were models of macroeconomic stability.

market-driven pricing, and disciplined borrowing. For example, in 1995, the Heritage Foundation released its index of economic freedom: four of the top seven countries were Asian, including Japan and Taiwan, and all the Asian countries now struggling were qualified as “free.”

This section has revealed evidence of a “reversioning” of the Asian miracle and Asian flu designed to occult Asia’s credentials as a site of socio-economic success based on an alternative (i.e. “Asian” or “interventionist”) approach to financial market capitalism. Similarly, consideration of the role of capital controls in the relative insulation of China and Taiwan from speculative bubbles and deflation during the Asia crisis is also occulted (Hart-Landsberg and Burkett, 1998).

Conclusion

Our interpretive epistemology avers that the “events”, “objects” and “relations” we “see” in the world are socially-constructed through language and concepts. By this view, what we regard as external “reality” is created by our shared understandings about the world. In this regard, the material conditions observed by emerging market caretakers and societies is more akin to a text they interpret than to a known commodity they identify and manipulate. Armed with this epistemology, this chapter has shown that the social reality in which emerging market caretakers operate on a daily basis is not shaped solely by the material forces to be discussed in Chapter 3, but are also shaped by hierarchical, subordinating and disciplining ideological voices of authority that bolster the hegemony of financial dominance of the transnational financial panopticon.

These voices of authority are responsible for articulating and disseminating powerful sets of ideas, images and ideologies that constitute a terrain where the regenerated hegemony of the transnational financial panopticon can more effectively exercised both the consensual and coercive aspects of its dominance over emerging markets. More specifically, this chapter has unearthed evidence of a general discursive backdrop erected by organic intellectuals which is increasingly being utilized

to set the context for emerging market theorizing, debate and policy-making. Central to this construction of reality are mythical images of financial globalization as an inescapable, neutral, objective and ephemeral force that is inherently beneficial to emerging markets over the long haul (i.e. rational policy guidance, economic democratization, and badly needed capital inflows). But as our critical analysis of these mythical images and of the reconstruction of the Asian boom and bust revealed, the discourse of the hegemonic project conveniently “pretends” certain things that are not true, thereby shoring up a hegemonic project which otherwise would likely be doomed to fail.

These practices make financial liberalization, the dominance of the transnational financial panopticon and its short-term contradictions more palatable to disillusioned onlookers and subordinate groups. Once this backdrop for emerging market politico-economic matters has been cast, the particular market-friendly blueprint for safely navigating within the narrow limits of the possible also becomes more palatable and, accordingly, the *unique* commonsensical mode of behavior in the face of the material conditions brought about by financial globalization. Simultaneously, alternative collective images of reality and alternative blueprints for coping with this reality feared to be incommensurable with the advancement of the hegemonic project are occulted from public debate. From a constructivist perspective, the resulting silences and missing interests surrounding the emerging market phenomenon and financial globalization are understood as “produced absences, omissions that are the understandable product of social practices and structure” (Hopf, 1998:176).

The desired effect of these discursive practices of the hegemonic project is to reinforce both the coercive and consensual aspects of panoptic power. With regards to the former, as section 2.3.2 revealed, the hegemonic project aims to define and internalize behavioral rules to be observed when emerging market caretakers are faced with coercive market discipline. With regard to the latter, the more one is able to define the prevailing ideological standards -- for example, what is beneficial and

sensible behavior -- the less the transnational financial panopticon has to rely on coercion to ensure compliance of emerging markets. Such consent-building practices facilitate a form of ideological osmosis whereby the ways of doing and thinking of the leading social strata of the financial bloc of forces acquire the acquiescence of leading social strata of subordinate groups (i.e. in emerging markets). In the words of Steve Smith (1996:13),

[o]nce established as common sense, theories become incredibly powerful since they delineate not simply what can be known but it is sensible to talk about or suggest. Those who swim outside these safe waters risk more than simply the judgement that their theories are wrong; their entire ethical or moral stance may be ridiculed or seen as dangerous just because their theoretical assumptions are deemed unrealistic. Defining common sense is therefore the ultimate act of political power. [...] Theories do not simply explain or predict, they tell us what possibilities exist for human action and intervention; they define not merely our explanatory possibilities but also our ethical and practical horizons.

Through both coercion- and consent-building measures, the Wall Street mentality of the vanguard forces within the global financial order becomes the worldview of the less powerful as well and the interests of the transnational financial panopticon will increasingly come to coincide with the interests of a wider emerging market audience who see their national interest tied to financial globalization, and subsequently adopt "good behavior" that coincides with the Washington Consensus. In turn, the potential for another Mexican peso crisis would decrease as emerging market caretakers would either conform to the transnational financial panopticon pro-actively in fear of market punishment or re-actively at the slightest hint (i.e. market signal) that current economic performance or policy-making is displeasing the markets. In either case, the hegemonic leadership of the financial panopticon would be re-vitalized.

The post-positivist approach of this thesis recognizes that the knowledge and ideas produced by the hegemonic project are important in the social construction of economy, polity, and society, and that ideas, theories and statements necessarily have a political coefficient of meaning. What is important to the social construction of the socio-economic reality in which emerging markets exist is

not so much what is “true” but what people believe and act upon. To control the mode of discourse is therefore to control the perceptions and premises, and thereby both the actions and the relative actualization of possibilities, of social construction. Thus, despite adamant claims to the contrary, the epistemology and discourse of the hegemonic project have an inexorable political nature.

- Chapter 3 -

“Capital punishment”: The material capabilities of the transnational financial panopticon as the coercive basis of hegemony

He sees you when you're sleeping
He knows when you're awake
He knows when you've been bad or good
So be good for goodness sake

Hegemonic projects aspire to establish an appropriate fit between a configuration of material capabilities, ideology and institutions, with material power providing the enforcement potential and therefore serving as the base of any emerging power structure. The global financial system into which emerging markets have plunged is certainly replete with such forms of potent and punishing material capabilities, and it is towards these capabilities directly and indirectly wielded by the transnational financial panopticon that we now turn our attention so that we may begin to unearth the hegemonic project identified in the hypothesis. As Cox (1996d: 278) writes, “[t]wo main means of coercion are available to enforce compliance with the exigencies of a globalizing world economy: financial and military.”

As indicated earlier, the hypothesis of this thesis is partially supported by the following sub-proposition: *the material capabilities commanded by the transnational financial panopticon will continue to serve as a potential that structures emerging market behavior in accordance with the interests and exigencies of “the markets”*. In order to validate this statement and relate it back to the hypothesis, the following chapter will begin by identifying a powerful transnational financial knowledge structure that operates in tandem with the transnational financial elite, and indirectly possesses material capabilities and the ability to coerce. Together, these organically networked elite constitute what was referred to earlier as the “transnational financial panopticon”. Secondly, this sub-proposition will be supported by demonstrating that the centralization of control over financial capital and the predominance of “herding” have reinforced the panoptic dominance over emerging markets

because capital is now *collectively* allocated according to a narrow set of common interests. Both of these sections will also serve to highlight the reality which the myth of atomized markets presented in the previous chapter is attempting to eclipse. Thirdly, the increasingly speculative nature of emerging market financial flows will be shown to be magnifying the coercive capabilities of the financial panopticon. Fourthly, the destructive capabilities of market discipline will be illustrated using the Mexican peso crisis and the Asian financial collapse as examples. Finally, these elements will be brought together in a discussion of the vital contribution of these material capabilities as an enforcement capacity of the transnational financial panopticon to coercively redress “deviant” behavior. As the closing discussion will reveal though, there is nothing automatic about how an emerging market government or business will respond to market signals. Social constructivism instead tells us that behavior is not just the product of inanimate forces (e.g. materialized market signals), but of intersubjective understandings of what is “appropriate”.

Before discussing the nature of these vast material capabilities, the first two sections of this chapter (3.1 and 3.2) will identify those organically linked elite that directly *and indirectly* command these material social forces.

3.1 *The new “information standard” and the emerging market knowledge structure*

It would be a mistake to identify the panopticon solely with powerful money managers and speculators responsible for buying and selling financial assets on the behalf of clients or themselves. As alluded to in the previous chapter, market power within the transnational financial order also flows, to an extent, to those able to offer the most convincing interpretations – i.e. interpretations which concord with the logics of the Wall Street mentality – of market-relevant data, reports, events, rumors and the like. This is because financial markets are particularly knowledge and information sensitive, prompting Wriston (in Bass, 1996: 141) to state that “[i]nformation about money has become

almost as important as money itself.” Consequently, recommendations, analyses and off-the-lip comments of respected intellectuals and even unknown traders or economists, circulated through specialty newswires, television and Internet services, can provoke swings in investor confidence sending markets in one direction or another. As Wriston (in Frieden, 1987:114-15) argues,

[t]he gold standard [of the 19th century], replaced by the gold exchange standard, which was replaced by the Bretton Woods arrangements, has now been replaced by the information standard. Unlike the other standards, the information standard is in place, operating, will never go away and has substantially changed the world. What it means, very simply, is that bad monetary and fiscal policies anywhere in the world are reflected within minutes on the Reuters screens in the trading rooms of the world. Money only goes where it's wanted, and only stays where it's well treated, and once you tie the world together with telecommunications and information, the ball game is over. It's a new world, and the fact is, the information standard is more draconian than any gold standard.

It is crucial to note however that it is not raw information that is prized by the investment community. As a *Wall Street Journal* journalist confesses, “Well, I’m plugged in and, true, I’ve got information coming out of my ears. But what that information means I haven’t got a clue about” (in Parsons, 1989:227). As the previous chapter demonstrated, what *is* indispensable within the arcane and volatile world of emerging markets are expert *interpretations* of events and trends, both actual and forecast, based on the Wall Street mentality alluded to earlier. Indeed, the vast quantities of information flowing through these information networks “produces a requirement for more and more interpretive work, leading to the formation of a variety of interpretive communities” (Thrift and Leyshon, 1994:301). Responding to these needs, a 24-hour per day “perpetual planetary watching machine, an electronic infostructure of normalization and visibility that calibrates the global political economy from the perspective of the nodes of global finance” (Tuathail, 1997a).

For those operating within the global marketplace, emerging markets are under the informational spin of *Bloomberg*, *CNN Financial Network*, *Reuters*, *Yahoo! Finance*, the *BBC's World Service* and a series of other specialized financial news services. These so-called “real-time” information sources are complemented by the daily newspapers of the powerful financial elite: *The*

New York Times, *Wall Street Journal* and *The Financial Times*. These are accompanied by the specialty publications which range from magazines like *The Economist*, *Euromoney*, *Asiamoney*, *The Banker*, *Institutional Investor*, *Far East Economic Review* and *Business Week*, and for the emerging market investor more specifically, *Euromoney's Guide to Emerging Market Currencies*, *Savings & Development* and *Finance and Development*, and newsletters like *Fidelity Focus* and *Emerging Markets Investor*. These publications are topped off by establishment journals like *Foreign Affairs*, *The World Economy* and *Foreign Policy* who offer more contemplative "worldwatch" features of potential interest to emerging market investors. Aside from the financial media, the financial elite are also served by a slew of other market watchers such as risk analysts and bond raters who, with a single remark, can shape market sentiment.

In sum, this emerging market knowledge structure¹ exerts a type of *indirect* control over the vast material capabilities controlled by individual and institutional emerging market investors and speculators. Bound by a common language, familiar interests and areas of expertise, and above all a shared Wall Street mentality, this alliance of direct and indirect movers and shapers of emerging market financial flows constitutes what has been referred to earlier as the *transnational financial panopticon* at the core of the transnational historical bloc of financial forces.

¹ Created by the dominant social forces and their major concerns, a knowledge structure has the effect of valuing or devaluing different forms of knowledge, therefore providing a pattern of incentives and constraints on the development of knowledge (Strange, 1988). The way knowledge is *structured* "determines what knowledge is discovered, how it is stored, and who communicates it by what means to whom and on what terms" (Strange, 1988:121). In this view, power and authority come to be conferred "on those occupying key decision-making positions in the knowledge structure -- on those who are acknowledged by society to be possessed of the 'right', desirable knowledge" (Strange, 1988:121).

3.2 *The collective allocation of global finance: The centralization of financial services and investor herding*²

In contradistinction to the mainstream neoclassicist collective image of global financial capital allocation as “de-centered” and “atomized” (Chapter 2), it is argued here that the material capabilities of the transnational financial panopticon are increasingly characterized by *collective decision-making* across the broad alliance of financial elite at the core of the financial order. This is mainly due to two factors: the centralization of financial power in the hands of institutional investors and investor herding. Consequently, the material capabilities wielded by the transnational financial panopticon are *enhanced* since decision-making over the deployment of these capabilities is increasingly *coordinated* across the transnational financial alliance. In other words, the capacity of the panopticon to coercively rectify deviancy is more firmly entrenched than portrayed in the mainstream discourse, as the two following sections on institutional investors and herding will reveal.

3.2.1 *The rise of the institutional investor: Centralizing control over global finance*

Although neo-classicist assumptions regarding “autonomous investors” abound in the mainstream discourse, this claim can be directly challenged by the recent rise of powerful institutional investors and the downturn in self-directed investment, a trend acknowledged by the IMF: “the investor base in securities markets in industrialized countries, and increasingly in developing countries, is dominated by a relatively small number of large institutional investors” (Folkerts-Landau and Ito, 1995:165). Indeed, “[a]t the core of an asset management relationship lies a pool of assets, the returns on which are shared by two types of actors: the principal owners of the assets and the professionals who manage the portfolio on the owners’ behalf” (BIS, 1998:85). Therefore, as investors worldwide

² This section is greatly influenced by Adam Harmes’ “Institutional Investors and the Reproduction of Neoliberalism” (1998) and e-mail exchanges with the author.

continue to diversify their financial portfolios, a trend reinforced by the cyclical decline in short-term interest rates in industrial economies. decision-making which determines the allocation of financial capital on a global scale is being increasingly *centralized* as more and more individuals *delegate control over their savings to professional money managers*. Meanwhile, the mythic image of atomized markets claims the contrary (Chapter 2), occulting the consequences of centralization with regards to the actual nature and loci of power within the global financial order.

In essence, rather than being composed of millions of unconnected individuals, most financial asset allocation in today's capital markets is performed by large institutional investors such as mutual, pension and hedge funds, insurance companies, and financial powerhouses (bank and non-bank financial service providers).³ In the U.S. alone, institutional investors now handle almost two-fifths of U.S. households' financial assets, up from one-fifth in 1980. Also, U.S.-based institutional investors' assets rose from 59% of U.S. GDP in 1980 to 126% in 1993 (Sassen, 1996a:43). Such growth in the professional asset management industry has been a key feature of the structural changes in the international financial system, a development with implications for many different aspects of the financial landscape -- market turnover, securities issuance, international capital flows, market stability, industrial organization and corporate governance. For example, in 1995, "the assets managed by [institutional investors] in North America, Europe and Japan totaled \$20.949 trillion, and this exceeded aggregate GDP for the industrial countries concerned. And the uneven distribution of these assets across countries is indicative of the considerable scope for growth, particularly in continental Europe" (Raghavan, 1998).

³ The OECD (1997) identifies three basic activities which define the growing role of institutional investors: (i) collectors of savings, in particular, from households; (ii) as suppliers of funds in the market for securities and other financial assets and ; and (iii) as participants in primary and secondary markets for bonds and equities, foreign exchange markets, money markets and derivatives markets.

A primary factor has been the drive for competitiveness within the transnational financial services industry, prompting banking and non-banking financial firms to spend the past ten years constructing transnational networks and a broad range of world-spanning services. To be a credible player on the global stage, so goes the rhetoric, you must be able to trade on a 24-hour basis in multiple currencies and in multiple markets. However, only a handful of these institutions, led mainly by American, Japanese and European-based firms with their state-of-the-art products, expert analysts and managers, vast placing power and huge earnings streams, have managed to make much progress toward true *global* status. Other are relegated to the sidelines.⁴

Another factor is the worldwide consolidation craze sweeping the financial services industry in the latter half of the 1990s. This Darwinian struggle of the fittest, with financial-industry executives mega-merging with abandon, is based on the understanding that the future belongs to the large, the diverse, the global. The recent series of bank and non-bank mega-mergers has been driven by the perceived need to develop a greater geographic breadth (nationally or internationally) in order to slash costs, access untapped customer bases and to diversify their services. In the U.S. for example, this recent round of consolidation has meant that the number of banks has dropped by 25% between 1990 and 1997, all in the name of global competitiveness.⁵ The world's leading ten investment banks have almost doubled their share of fee-based and advisory business in the global capital markets since 1990 and now have 77% of the market. The top twenty investment banks increased their share of global capital markets business from 80% in 1990 to 97 % in 1998 (Luce, 1999). The drive for "global clout" is also spawning several non-banking financial titans, such as the newly born Morgan Stanley, Dean

⁴ To illustrate, currency trading is an activity almost exclusively available to large institutional investors: for example, the average transaction in the Brazilian foreign exchange market in 1996 was US\$4 million (*Euro money*, 1996a:30). As a result, as few as twenty transnational banks are today responsible for about 60% of the world's currency transactions (R. Martin, 1994:260).

⁵ According to a report on PBS's *Nightly Business Report*, December 8, 1997.

Witter. Discover & Co. with combined asset management of *over US\$270 billion*, the largest of any securities firm.⁶ There have also been a number of groundbreaking mergers between banking and non-banking giants, the most notable being the 1998 merger of Travellers Group Inc. and Citicorp. creating CitiGroup. This new global powerhouse now controls *over US\$700 billion* in assets, with 100 million customers in over 100 countries (CNNfn, 1998).⁷ The following table (Table 1) illustrates the vast financial assets wielded by these new giants.

⁶ As predicted by analysts, the Morgan Stanley Group Inc.-Dean Witter Discover & Co. merger immediately ushered in a new round of consolidation as firms scrambled to find partners to compete with the new giant. The Citicorp-Travelers deal, with a market capitalization of US\$135 billion, involves a wider swath of financial services: banking, insurance and brokerage services. The BankAmerica and NationsBank deal, with a market capitalization of \$133 billion, is on the other hand primarily a bank-to-bank merger. Having received the blessing of the Clinton Administration and of the Federal Reserve, such U.S.-based companies can be expected to continue to lead the global restructuring push (McFarland and Craig, 1998).

⁷ This move was immediately followed the announcement of a merger between BankAmerica and NationsBank creating another global banking powerhouse with \$570 billion in assets. Britain's HSBC, the U.S.'s BankBoston and two Spanish groups, Banco Santander and Banco Bilbao Vizcaya, have put together multinational networks across Latin America. Two of Switzerland's biggest banks, UBS and Swiss Bank, have recently tied the knot to form the largest bank in Europe, while Cr dit Suisse recently swallowed Winterthur, a big insurer. With the next phase of consolidation expected to involve *cross-continental* mergers between Asian, European and North American counterparts, this "consolidation phase" can only be expected to be accentuated, further concentrating financial material power in the hands of a select group of transnational financial

Table 1 The world's largest banks (1998) <i>Source: Les Affaires, CNNfn (1998)</i>		
Ranking		Assets (billions US\$)
1.	Citigroup (U.S.)	approx. 700
2.	Bank of Tokyo-Mitsubishi (Japan)	648
3.	Union des banques suisses (Suisse)	595
4.	Deutsche Bank (Germany)	575
5.	Merger of BankAmerica Corp. and NationsBank Corp (U.S.)	approx. 570
6.	Crédit Agricole (France)	479
7.	Sakura (Japan)	463
8.	Industrial Bank of China (China)	437
9.	Daio-Ichi Kangyo Bank (Japan)	434
10.	Fuji Bank (Japan)	432
11.	Sanwa Bank (Japan)	427
12.	Sumitomo Bank (Japan)	426

With respect to other types of institutional investors, the phenomenal growth of the investment fund industry in the 1990s has also concentrated power over the material capabilities available to coerce emerging market.⁸ These institutional investors have been critical to the rise of the emerging market emerging market phenomenon, having led the charge into emerging equity and bond markets (Felix, 1994b:372) and served as leading boosters for these new cash cows. For example, the total assets of U.S.-based mutual funds alone stood at an incredible US\$3.9 trillion in 1996, up from just over US\$2 trillion in 1994 and from a mere US\$241 billion in 1980 (Useem, 1996: 256). The largest of all mutual fund companies -- Fidelity Research and Management -- controlled assets of over \$390

⁸ These include country funds, debt-equity funds, index funds, venture capital funds, private equity funds, local mutual funds, private pension funds and public pension funds.

billion in 1995 (Useem, 1996:256). Other increasingly powerful institutional investors are private pension funds which accounted for over US\$7 trillion worldwide in 1994 (England, 1997).⁹ According to Minns (1996:386-7),

[t]he largest institutional managers of pension funds are US, British and Swiss banks and insurance companies which control around 80 per cent of all pension fund assets in the UK and the USA. The management is also concentrated in a few institutions. Putting the most powerful institutions together, we can calculate that a mere 10 institutions control nearly US\$1,500 billion of pension fund assets. They thereby control a sum of money which is larger than the individual GDP of every country in the world with the exception of two -- the United States and Japan. [...] The overseas investment by pension funds in 1997 will amount to a figure at least equivalent to four times the current GDP of Mexico, 15 times that of Greece, and seven times that of [...] Poland, Hungary and the Czech and Slovak Republics [combined].

Another type of investment fund is the arcane hedge fund, renowned for its controversial and bold market plays involving vast sums of liquid capital and controversial speculation tactics.¹⁰ Generally operating from offshore banking havens to escape government regulation and taxes, the industry is led by George Soros' widely influential US\$10 billion Quantum Fund, became (in)famous for making US\$1 billion in profits on "Black Wednesday" in 1992 by helping to push the British pound out of the European ERM, earning Soros the title of "the man who broke the Bank of England" by selling US\$10 billion of British pounds.¹¹ Assets under the management of hedge funds have soared

⁹ Since over 50% of pension fund investments are undertaken through the purchase of shares in mutual funds, the distinction between mutual funds and pension funds is, in practice, somewhat blurred (World Bank, 1997:129).

¹⁰ These funds are generally set up as either limited partnerships of less than 100 people and/or chartered offshore. In either case, they are not subject to most investment acts which impose leveraging restrictions on investment companies. These funds are then able to borrow up to twenty times their capital from commercial banks in order to take much larger positions than would be warranted by their capitalization (Folkerts-Landau and Ito, 1995:165). Unlike conventional funds which typically are limited to a single asset class, hedge funds can invest in any asset, anywhere in the world using non-traditional money management to produce superior performance. They usually have minimum investment requirements of up to US\$10,000,000 and are, therefore, available solely to very wealthy and risk-tolerant individuals and institutions.

¹¹ Recently, the Malaysian PM accused the multibillionaire of having "the moral standing of a drug trafficker" for his role in leading speculative attacks on South-East Asian currencies (Hartcher, 1997).

from under US\$150 billion in 1996 to an estimated US\$400 billion in 1998, and the number of hedge funds has doubled in those same years to over 4,000. Not all funds are of equal size though: in 1996, the assets of the ten largest hedge funds (known as the "macro hedge funds") amounted to over 45% of total hedge fund assets.¹² In 1997, Soros' Quantum Emerging Market Fund -- one of the world's top performing emerging market funds -- had over US\$3 billion in assets under its control alone.¹³ In fact, hedge funds specializing in emerging markets are producing the highest returns of all hedge fund investment styles, posting an average gain of 31% in 1996 (*The Market News Service*, 1997).

Due to their higher tolerance for risk, "[h]edge funds, for example, were amongst the first to venture into emerging markets. Their success made these markets respectable for mutual funds and pension funds" (*The Economist*, 1994:18). The macro fund industry's approach to money management is explained as follows:

These "macro hedge funds" like to take positions in currencies, usually unhedged, based on an analysis of various countries' macroeconomic fundamentals. If a country's economic policies look inconsistent, and its ability to sustain its exchange rate is questionable, the funds take a bet on devaluation, usually by selling the currency short. (*The Economist*, 1998d)

¹² These figures were provided by investment analyst Christina Zurkas on PBS's *Nightly Business Report*, October 29, 1997.

¹³ According to Chussodvsky (1998c), hedge funds

have become an integral part of the structures of investment banking with "reported capital" of some 300 billion dollars. However, through "highly leveraged operations", this capital of 300 billion has been multiplied to reach astronomical figures: LTCM's fund manager John Meriwether, for instance, had invested 500 million for every million in capital with operations totalling an estimated "exposure" of 200 billion dollars. The latter amount is the "exposure" (through shady investments in emerging markets) of a single hedge fund out of a total of four thousand hedge funds! Needless to say, a large share of hedge fund business transacted in the offshore banking havens goes unreported.

Because the speculative dealings of hedge funds feed off volatilities, emerging markets are in fact a favorite target for their market machinations and, because of the amounts of capital involved, can individually swing markets in one direction or another.¹⁴

In sum, as this section has showed, with "Get big or get out!" and "Go global!" constituting the current gospel within management circles, the transnational financial services industry is likely to be increasingly domineered by a smaller and smaller number of increasingly powerful, world-spanning financial service firms. "In the end," writes Reguly (1998), "a dozen financial institutions will dominate the global industry with companies like Citigroup, Lloyds, HSBC, Munich Re and Barclays calling the shots." Also reinforcing this concentration of material capabilities in the hands of a small number of institutional investors has been the trend towards *delegation* among institutional investors themselves. For example, pension funds have been increasingly delegating control over their assets to mutual funds and, along with mutual and insurance funds, to the powerful hedge funds as well. Even smaller hedge funds have been adopting a "fund-of-funds" approach by investing in the larger "global macro funds". Another disturbing trend is that in recent years, many institutional investors have also carried out mergers with emerging market financial institutions. This has further helped the transnational financial panopticon consolidate its strength in emerging markets by increasing its access and control over the domestic market, as well as going a long way in redefining their legal status as far as controls and investment regulations are concerned.

¹⁴ Hedge funds are suspected of having triggered, or at least fanned, the early flames of the Asia meltdown. Anecdotal evidence suggests that several hedge funds made massive profits from "short-selling" the Asian currencies, largely with the help of OTC derivative contracts written by major investment banks. In other words, "foreigners likely borrowed heavily in local Asian currencies in the expectation that the respective economies would be forced to devalue. They, of course helped by converting their Asian borrowing into US dollars. The size of these trades would likely be large" (Howell, 1998).

This section closes with an illustration of the potential market-shaping weight of such institutional investors in an emerging market. Looking at the growing domination of foreign institutional investors in Indian markets. Singh (1998a) points to evidence of that a very small number of institutional investors have been decisive shapers of Indian stock markets. In 1997 for example, the top five institutional investors held nearly \$4 billion in cumulative portfolio assets, with the largest, Capital International, holding \$1.8 billion. Indian authorities had expected markets to become more mature and deep. Instead, according to Singh (1998a:20), they became shallow and volatile. Recent studies quoted by Singh reveal a positive correlation between net inflows by institutional investors and movements in the Indian stock indices, as well as a positive correlation between the entry of institutional investors and market volatility.¹⁵

With regards to the early stages of the Asian crisis, the IMF has acknowledged the role played by institutional investors in triggering the crisis, stating that speculators took large positions betting that the Thai *baht* would be devalued in 1997. Leading the pack were international commercial and investment banks, as well as Thai banks. Later, the turmoil was worsened by "[large institutional] speculators [who] thought they could make a run on the *baht* and make a huge killing. [...] Armed with billions of dollars, the speculators launched an unprecedented assault on May 17. A combination of factors, including poor export growth, a high current account deficit and financial market problems, had made the *baht* a prime target for speculators" (Thanatat, 1997:28-29).

¹⁵ Similarly, Raghavan (1998) has noted that a "shift of 1% in equity holdings by an institutional investor in one of the G-7 countries away from domestic equity would be slightly more than a 1% share of total market capitalization, but would constitute the equivalent of 27% of market capitalization in emerging Asian economies, and over 66% of Latin American equity markets."

3.2.2 *Playing “follow-the-leader”: Investor herding*

“Like deer, investors graze happily for a while, ignoring the perils of predators asleep nearby. Then, when startled, they stampede.”¹⁶

Not only is the dominant neo-classicist view of an atomized global marketplace undermined by the above evidence of growing centralization of power within the transnational financial services industry, but by mounting evidence of investor herding. Herding, particularly when it involves emerging markets, will be shown to contribute to the collective nature of capital allocation within the global marketplace and to the capacity of disparate investors and speculators to shape market sentiment with a single transaction or set a transactions.

Herding occurs when a decision to buy, sell or hold a financial asset by a single influential investor invokes a similar response by other investors (like the herd of deer in the above epigram). Consequently, capital becomes *collectively allocated* even though the initial reward/risk calculation and subsequent buy or sell order was performed by a single investor. In this sense, the herd generally ignores so-called economic fundamentals (e.g. exchange and interest rate levels, inflation and debt levels, balance of payments situation, etc.) and instead opts to simply follow the lead of the more influential market leaders. The result is an immediate snowball effect as a wider and wider array of financial elite jump on the bandwagon before it is too late to profit or avoid losses.¹⁷

Individual investor and financial industry reverence towards hedge funds, as well as the leading mutual funds and transnational banks, further encourages herd instincts because they are

¹⁶ Khor, 1998d.

¹⁷ As the World Bank (1997:126) explains, “fund managers will follow the investment decisions of other fund managers in order to show clients that they know what they are doing. If they follow other fund managers’ decisions and the investment turns out to be unprofitable, they are more likely to be thought of as unlucky, since other fund managers will have made the same mistake.”

perceived by other investors to be market leaders, with leading fund managers such as George Soros venerated as “market gurus”. For smaller investors, observing the choices of others is often a cheaper and more helpful option than themselves analyzing economic fundamentals. Thus, this herd instinct whereby investors tend to follow a few of the very biggest and best-named firms again means that the more powerful institutional investors, the larger institutional investors in general and the global macro hedge funds in particular, end up assuming the role of market leaders, and market makers.

The herding effect is particularly relevant in emerging market investing because, as stated earlier, it is frequently only the giants of the industry that can buy the quality of timely knowledge and analysis needed to adequately calculate the risk-benefit ratio in these often arcane and murky markets. Smaller investors will often wait on the sidelines and copy the allocation decisions of the purported market gurus. In this sense, herding plays a critical role in reinforcing the material capabilities which are available to coercively normalize the behavior of emerging markets.

In sum, section 2.1 has sketched the collective nature of financial capital allocation with regards to emerging markets. As Mintz and Schwartz (1990:204) contend, “the centralization of the financial sector provides the institutional framework for coordinated control over capital allocation.” It can be concluded that in the emerging world financial order “it seems that we have not only price-takers but price-makers, collusion as well as competition, and capital rigidity alongside capital mobility. The sheer size and power of big institutions and large players means that they exert considerable influence over ‘market’ outcomes” (R. Martin, 1994:273).¹⁸ The IMF has acknowledged this trend, stating that “[w]ith greater concentration of wealth in the hands of professional fund

¹⁸ The hedge fund industry even boasts this capability in its marketing efforts. For example, the website for the Hedge Fund Association (<http://www.thehfa.org>) explains among other things that global macro funds “are the grizzlies of the hedge fund kingdom ... [a]iming to profit from shifts in the world economy, and using leverage and derivatives to accentuate the impact of market moves.”

managers. financial markets must cope with the effects of the attendant increase in the power of market participants. Chief among these effects is the increased likelihood of market manipulation and even less efficient markets” (Folkerts-Landau and Ito, 1995:167).

This entails that the decision making which mobilizes the coercive material power at the base of the hegemonic project in question is not as equally dispersed or fully “globalized” as market idolizers would have us believe. For example, Wriston (1992:61) argues that “[w]ith the new technology no one is in control. Rather, everyone is in control through collective valuations.” In reality, financial globalization continues to be extremely hierarchical, with command over potentially destructive financial forces accruing to a relative few that are empowered to handle the money of others. Herein lies the true nature of the material capability at the heart of the hegemonic project identified in this thesis.

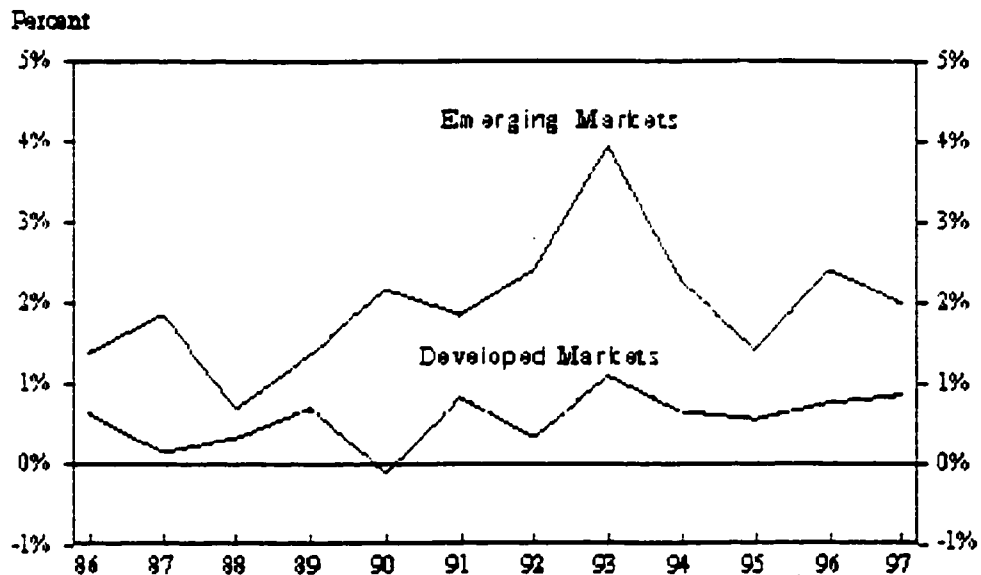
3.3 The short-term horizons and speculative nature of emerging market capital flows

As Strange (1986) argues in Casino Capitalism, the growth in the ever-expanding range of extremely diverse and hypermobile financial products have lessened the attractiveness of long-term productive investment and heightened the preponderance of short-term imperatives. The transnational financial system today involves operations far beyond its ostensibly central purpose “in the workings of a market economy, underpinning as it does the investment process (hence productivity growth), commodity circulation (trade), and the store and measurement of value in the world economy” (Underhill, 1997a:1).¹⁹ As alluded to in the previous section, emerging markets have become a favorite game for players in the global casino. For example, prior to the peso crisis, six times as much went

¹⁹ In fact, estimates indicate that only 18% of the daily turnover in the superconductive FX markets supports either international trade or investment – the original reason for a foreign exchange market. The other 82% is speculation, i.e. buying enormous volumes low and selling high in order to make a small unit profit but large overall profit (Wachtel, 1994:74).

into speculation in the *Bolsa* stock market as into direct productive investment (Bradsher, 1996; Warnock, 1995:269). The following figure (Figure 2) supports this claim, comparing the ratio of net “low-quality” private financial flows as a percentage of GDP of emerging markets and developed markets.²⁰

Figure 2
Low-Quality Inflows – Net private financial capital flows
as a percentage of GDP, 1985-97
Source: Howell (1998)



This trend is also noticeable when looking at the rising turnover rate and volatility in emerging market currency trading (see Table 2). This tendency will undoubtedly increase as the investment community has built up a new capability to provide over-the-counter swaps and options on emerging market stocks and stock indexes in response to recent emerging market volatility. As Akyüz (1994:541) argues, all tradable emerging market financial assets – stocks, debt, currencies and

²⁰ A definition of “low-quality inflows” is not provided by Howell.

derivatives -- are now susceptible to attract a high proportion of speculative or hot money²¹ inflows:

Les mouvements de capitaux sont pour l'essentiel motivés par la perspective d'une plus-value à court-terme, et non par des possibilités d'investissement dans l'économie réelle et par des considérations de risque et de rendement à long-terme. [...] Le risque d'un afflux de capitaux spéculatifs à court terme est beaucoup plus grand pour les pays en développement que pour les pays développés parce qu'ils offrent, par leur instabilité même, de plus grandes possibilités de bénéfices exceptionnels, tandis que leur capacité à influencer sur les flux de capitaux [...] est faible.

For emerging markets, the predominance of speculative motives entails that "the markets" have become highly trigger-happy and intolerant of even the slightest deviancy from what is deemed appropriate policy behavior. As a Goldman Sachs executive has noted, "[a]ny country that seems to have a slightly overvalued currency gets whacked by speculators" (in Schultz, 1997).

Aside from a speculative rationale, more mainstream emerging market investors are also operating on the basis of shorter and shorter time horizons and risk-taking, which also helps to account for the preponderance of hot money within emerging market financial flows. Several key behavioral factors help explain this alarming trend. First, the increasing emerging market exposure of investment funds in industrial countries has not been accompanied by a corresponding depth of information about the true value of the emerging market assets and liabilities. While the speed and scale of shock transmission between national markets has increased enormously due to technological advances in trading and settlement, global capital markets continue to be characterized by asymmetric and incomplete information, especially in the case of emerging markets. This inability to adequately gauge risk leads to intense nervousness on the part of trigger-happy traders, thereby amplifying emerging market volatility.

²¹ "Hot money" refers to the kind of investment that is not anchored in permanent structures such as factories, but is instead of a speculative nature and rushed in and out of securities, futures and commodities markets, sometimes only in a few hours, to seek high, short-term yields on wild fluctuations in daily trading. "Stir frying" is the process of very rapidly buying and selling, or simply speculating, with hot money.

Table 2
Foreign exchange turnover and volatility in emerging markets
Source: BIS (1998:111)

Foreign exchange turnover and volatility in emerging currencies								
Currencies	Turnover ¹				Volatility ²			
	in billions of US dollars per day				in percentages			
	April 1995	April 1996	April 1997	October 1997	April 1995	April 1996	April 1997	October 1997
Asia	> 13.6	19.0	22.1	20.5				
Indonesian rupiah	4.3 ³⁴	7.3 ³⁴	8.7 ³⁴	8.5 ³⁴	1.5	1.5	3.2	39.3
Korean won	3.1	3.2	4.0	3.6	2.5	1.5	1.6	9.3
Thai baht	2.6	4.0	4.6	2.5	2.3	1.6	1.9	15.6
New Taiwan dollar	1.5	1.6	1.7	2.3	8.7	0.9	1.2	18.2
Indian rupee	1.6	1.2	1.7	2.0	1.5	6.0	0.5	1.3
Malaysian ringgit	n.a.	1.1	1.2	1.5	5.3	3.4	2.7	31.5
Philippine peso	0.02	0.1	0.2	0.1	2.9	0.6	0.4	25.0
Latin America	10.1	12.9	17.5	23.7				
New Mexican peso	3.2 ⁴	4.2 ⁴	7.1 ⁴	9.5 ⁴	28.3	5.5	5.0	30.2
Brazilian real	4.3 ⁴	5.5 ⁴	6.7 ⁴	8.5 ⁴	13.9	3.8	6.2	1.6
Argentine peso	1.7	2.0	2.2	3.0	0.0	0.5	0.6	0.5
Chilean peso	0.8	1.0	1.1	2.2	6.2	3.0	2.3	8.5
Colombian peso	n.a.	0.1	0.2	0.3	4.6	2.2	3.8	8.2
New Peruvian sol	0.1	0.1	0.2	0.2	4.0	2.5	2.2	6.4
Eastern Europe	1.8	7.5	8.8	15.3				
Russian rouble	0.6	2.6	3.7	10.7	5.2	2.2	0.3	0.2
Czech koruna	0.6	2.5	3.2	2.1	6.1	2.1	14.6	8.6
Polish zloty	0.9 ³	1.6 ³	0.9 ³	1.7 ³	9.7	5.1	3.4	15.5
Hungarian forint	0.3	0.6	0.4	0.6	3.6	11.2	2.9	6.0
Slovak koruna	0.03	0.2	0.6	0.2	9.0	2.7	4.8	7.0
Other currencies	5.4	6.7	5.2	7.3				
South African rand	3.7	4.7	3.6	5.4	2.9	19.0	2.6	5.9
Saudi Arabian riyal	1.4	1.5	1.1	1.3	0.1	0.1	0.0	0.2
Israeli shekel	0.3	0.5	0.5	0.5	7.4	7.4	3.6	9.4
Turkish lira	0.01	0.02	0.04	0.1	7.8	3.9	5.1	5.5
Total	> 30.9	46.1	53.6	66.8				

¹ Estimates as reported by the respective central banks, net of double-counting unless otherwise specified. For Thailand, 1995 second half and 1996 annual averages. For Indonesia and Argentina, 1995 and 1996 annual averages. The turnover of the Russian rouble and South African rand in April 1996 was well above the annual average. ² Annualised standard deviation of percentage changes in the exchange rate against the US dollar. For the shekel, Turkish lira and Eastern European currencies other than the rouble, volatility is measured against a basket consisting of the US dollar and the Deutsche mark with equal weights. ³ On a gross basis. ⁴ Includes other currencies. Table VI.5

Secondly, the relentless competition between fund managers to try and achieve market dominance leads to short-termism (Beeson, 1998). The financial elite "will always push risk-taking to the marginal edge [since] that is where competition is least, profit margins are highest, and fees are most lucrative."²² As a result, even stocks and bonds, once regarded as longer term placements, are increasingly subject to short-term portfolio turnover due to corporate interests. Similarly, a third factor is the individual self-interest of money managers which depends on short-term results. In an increasingly competitive financial services industry, faced with the pressure of thousands of investors, disappointing portfolio performance or unfavorable country-level signals will push a money manager to swiftly sell in search of higher returns (Edmunds, 1996:122). According to FitzGerald (1998:4) "[t]he competition between funds for clients drives them towards seeking high-yield, high-risk markets, but by the same token leads them to make frequent marginal adjustments to their portfolios -- adjustments which are marginal to the aggregate portfolio of savers in developed countries but non-marginal and highly destabilizing for the investors of developing countries." "Because individual depositors in (say) mutual funds cannot know the eventual value of the asset acquired when they retire, they can only rely on the current return on the fund in question. This encourages short-termism by fund managers in order to gain market share: a bias which is exacerbated by the system of quarterly bonuses as a form of remuneration" (FitzGerald, 1998: fn.3). Similarly, the compensation schemes for hedge fund managers award them a hefty 15-20% or so of any profits the fund makes, along with a modest management fee. This incentive structure entails inordinate risk taking mainly because fund managers share the upside if their financial gambles pay off, but not the downside should their strategies fail.²³

²² Henry Kaufman, President of Henry Kaufman & Company, Inc., quoted by The International Economy (1995:30).

²³ As one commentator from a pension fund consulting firm has stated, "I doubt there's an investment manager in America whose contract doesn't have a 30-day cancellation clause" (in Sinclair, 1994b:149). Hashimoto (1997) echoes these concerns, revealing that additional risk results from

Fourthly, high-yield seeking investors such as those who lent money to Mexico and Asian countries have been given extra incentives to take reckless and irresponsible risks because it would appear that investors can now count on U.S. and/or IMF bailouts to "socialize" their losses. "[T]he rescue package, rather than benefiting the 60 million [Thai], can end up in the hands of politically connected speculators who will bail out their money-losing ventures" (Schwartz, 1997).²⁴ This has been referred to as encouraging "moral hazard" within the financial community.²⁵

This section has contributed to validating the second sub-proposition by highlighting the manner in which the transnational financial panopticon has become highly intolerant of emerging market disobedience and therefore quite trigger-happy when it comes to disobedience, leaving no time for negotiation or backtracking on the part of an emerging market. Referring to the predominance of hot money in Mexican markets prior to the peso crisis, Porter (1997:185) writes that, "like using rocket fuel in a hastily rebuilt, leaky Model-T engine, it not surprisingly produced an explosion."

the unbalance between the positive and negative incentives created by the annual bonus the traders receive. It is well known that traders receive super high bonuses. But when they incur losses they are rarely penalized. At worst they may be fired, which does not bother them too much since they are sure to find a new job in another financial institution. In other words, the bonus system makes risk taking structurally profitable.

²⁴ In 1998, under repeated speculative assaults, Asian central banks had entered into multi-billion dollar contracts (in the forward foreign exchange market) in a vain attempt to protect their currency. With the complete depletion of their hard currency reserves, the monetary authorities were forced to borrow large amounts of money under the IMF bailout agreement. Following a scheme devised during the Mexican crisis of 1994-95, the bailout money, however, is not intended "to rescue the country": according to Chossudovsky (1998b), the money in fact never entered Korea, Thailand or Indonesia: it was earmarked to reimburse the "institutional speculators", to ensure that they would be able to collect "their multi-billion dollar loot."

²⁵ At the same time, since institutional investors cannot necessarily count on a bailout by their own governments or the IFIs to ensure payment of their loans or maintenance of asset value, the logical response is to avoid assets which cannot be liquidated if things go wrong (FitzGerald, 1998:3). International portfolio investors and bank lenders therefore privilege short-term assets and demand "quick exit" as a means of containing downside risk.

3.4 *When the bubble bursts: The materialization of "capital punishment"*

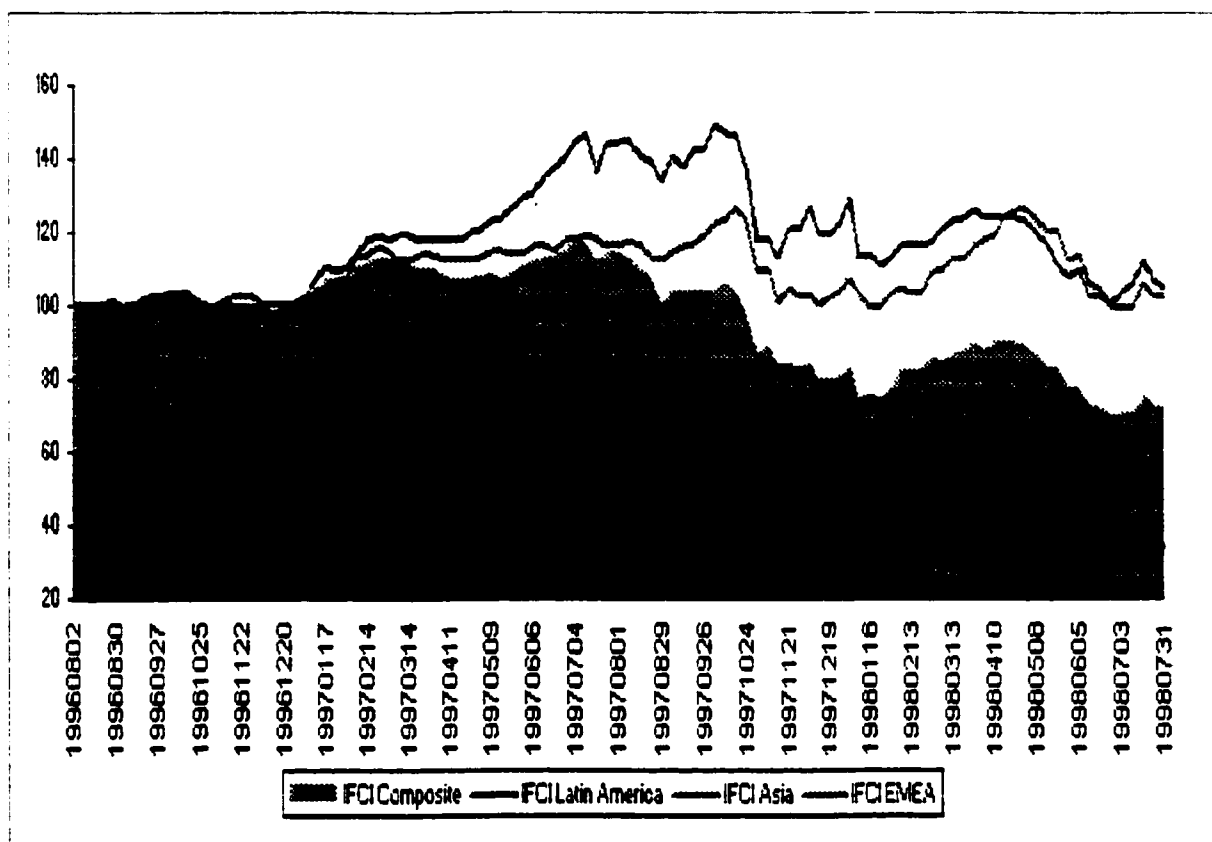
When the destructive potential of the material capabilities described previously materializes within emerging markets, the concrete effects can be devastating and immediate, especially for the most vulnerable segments of an emerging market society. With regards to the Mexican debacle, some have pointed to Goldman Sachs (\$5.17 billion), J.P. Morgan (\$2 billion) and Bear Stearns (\$1.81 billion) as the principal "victims" of the crisis (Warnock, 1995:270-71). A more astute observation would look beyond these privileged Tokyo, Paris, New York or offshore ghettos, and instead consider the pain and suffering inflicted on the "ordinary" Mexicans who were forced to bear the brunt of both the initial December peso devaluation and the subsequent austerity program which combined to produce the worst recession since the 1930s and a massive rise in unemployment and social misery:

The devaluation, combined with adjustment measures adopted in March 1995, led to a 6.9% contraction in the economy by year end. Over a million Mexicans were left unemployed as a wave of bankruptcies spread across the economy, driving many businesses into the informal sector. With inflation at 52%, and wage settlement kept at a minimum, real earnings were estimated to have fallen by as much as 12% in 1995. As incomes and consumption fell, soaring interest rates placed an additional squeeze on Mexicans with credit card debt, mortgages or bank loans. More than one in every four Mexican borrowers fell seriously delinquent in their debt payments. (Cameron and Aggarwal, 1996:976)

In addition, fuel prices rose by 33%, residential utility rates by 20%, the federal value-added tax from 10 to 15%, and interest rates on consumer credit by 125%. With hikes in food prices, the hardest hit were the very poor (Mittelman and Pasha, 1997:74). "The Secretary of Social Development calculates that 2.5 million Mexicans have crossed the line from poverty to extreme poverty since January 1 [1995], adding to the 13 million to 18 million citizens who cannot, by United Nations standards, satisfy their daily nutritional needs. That is to say, nearly a fifth of the population is going to bed hungry every night" (Mason, 1997:95). In 1998 households were still feeling the impact of the crisis, with real wages

still 20% below their 1994 level (*The Economist*, 1998:110). As prices for exports plunged, the cost of credit rose, subsidies were terminated and state support was cut. There was devastation of Mexican rural areas such as had not been seen within memory (Mason, 1997:95).

Figure 3
IFC Composite Emerging Market Stock Index (June 1996 - July 1998)
 Source: <http://www.ifc.org/EMDB/WEEKLY/NEW/EME/EME1.HTM>



Similarly, the 1997-98 economic collapse of Thailand, Indonesia, Malaysia, and South Korea -- a shock not only to government and business leaders, but also to development economists -- has offered another clear illustration of the ruthless effects of capital punishment. During 1997 alone, US\$100

billion was withdrawn from these four countries -- an incredible 11% of their GNP (Friedman, 1998).

Figure 3 illustrates the impact on Asian stockmarkets as a whole, while Table 3 illustrates the broader extent of the Asian crisis collapse.

Table 3 What the crisis has wrought for Asia <i>Reproduced from Asiaweek (1998b:41)</i>									
	Currencies	Stock Index	Market Fall	Unemployment		Prime Rate		Imports	PC ¹ Revenues
				1998	1997	1998	1997		
Indonesia	-43.2%	-35.0%	-\$96B (-38%)	16.8%	14.2%	6.5	18.25%	-33.4%	-81.8%
Thailand	-40.2%	-48.0%	-\$40B (-66%)	8.3%	3.0%	15.5%	13.25%	-39.5%	-62.3%
Malaysia	-39.4%	-56.0%	-\$217B (-76%)	5.0%	2.7%	12.1%	9.45%	-22.4%	-55.2%
Philippines	-36.1%	-33.8%	-\$43B (-58%)	13.3%	10.4%	18.0%	14.5%	-7.5%	nil
South Korea	-34.1%	-58.7%	-\$111B (-71%)	6.9%	2.0%	11.5%	8.5%	-36.1%	-46.3%
Singapore	-16.5%	-43.5%	-\$91B (-53%)	2.2%	1.7%	7.5%	6.0%	-19.5%	0.195
Hong Kong	nil	-43.2%	-\$223B (-42%)	4.2%	2.5%	10.0%	8.75%	-4.0%	-3.1%
¹ Fall in currency vs. US\$, June 30, 1997-July 3, 1998; % decline in stock market index; fall in stock market capitalization, \$B and %; unemployment; prime lending rate; % decline in imports, by value; % change in revenues of personal computer industry									

As the Asian and Mexican illustrations both demonstrate, the contemporary freedom of financial capital to move wherever it wants to go worldwide gives the transnational financial panopticon a decisive advantage over the mass of workers who are restricted in their movements and migrations by the passports they carry.²⁶ The history of the emerging market phenomenon is rife with

²⁶ In January 1995, the month following the peso collapse, the number of illegal immigrants apprehended by the U.S. doubled (Payne, 1995:68). A major exception to global economic liberalization is provided by the world's labor markets: although the growing volume of migration flows is often cited as another aspect of increasing globalization, the fact is that the general trend in the past decade in most parts of the world has been toward increasing restrictions on migration from poorer regions. Increasingly, it is capital and not labor that is mobile, a situation that is perpetuated by political intervention designed to stem the free migration of labor, as illustrated by U.S. requirements that Mexico curb the flows of migrants as part of the bailout package. Emerging market populations therefore generally remain territorially-grounded. As Vandana Shiva (1996) has noted, "you have far more vicious borders than before for people -- you do have open borders for capital and globalization is a globalization for capital and those who control capital."

similar, albeit less severe, examples of market discipline, such as Brazil (1995), South Africa (mid-1996), Eastern Europe (early 1997), Russia (mid-1998) and again Latin America (late 1998). Few of these emerging markets are capable of "rolling with the punches" by being policy-flexible or by taking hedging measures against currency attacks. Their "tool kit" for crisis management (e.g., currency reserves and welfare provisions) is not as well stocked as most industrialized countries (Mathieson, 1993). While the upper echelons of an emerging market society can generally weather financial storms and subsequent IMF and/or local government-initiated adjustment programs, the disenfranchised and dispossessed groups -- peasants and landless workers, laborers, migrants, the urban so-called informal sector, employees, artisans, petty traders, and in certain cases the nascent middle classes -- are generally not so lucky (Sala, 1998).²⁷

What this discussions tells us is that the omnipresent gaze of the financial knowledge structure, the collective nature of financial asset allocation (due to herding and centralization within the financial services industry), the short-termism and subsequent intolerance of "the markets" and the potentially catastrophic consequences of market punishment all combine to provide the transnational financial panopticon with a capacity almost unequaled within the GPE to coerce emerging markets into adhering to the norms, principles and values of this privileged group. In contrast, a "vote on the soundness of each country's fiscal and monetary policies, in comparison with those of every other country in the world, is held in the trading rooms of the world every minute of every day" (Wriston, 1992:67). As a result, there is usually little time or latitude for bargaining with "the markets" who can relocate huge sums of money with a stroke of a computer keyboard. This capacity corresponds to what has been

²⁷ As Gill (1996:215-16) remarks, "studies indicate that a disproportionate burden of adjustment to harsh circumstances has fallen on the shoulders of women, children, and the weaker members of society (the old and the disabled) as social and educational provisions have been reduced, partly because of pressures to cut government budgets and balance the books exerted by the financial markets and the "new information standard".

defined as the structural power of capital: that is "the ability to narrow the range of choices open to others" (Strange, 1988:31).²⁸ For neoliberal such as Stanley Fischer (first deputy director of the IMF), market forces "exert a disciplining influence on countries' macroeconomic policies ... [T]his discipline is a valuable one, which improves overall economic performance by rewarding good policies and penalizing bad" (in Carrasco, 1998a).

The Asian and Mexican crises have however shown that market fluctuations are increasingly becoming far larger than what is warranted by investor standards. Once investor confidence is rattled by an unexpected change (or non-change) in policy orientation or in the indicators of "the fundamentals", what would otherwise justify a trickle-out of capital can easily turn into a tsunami. Given this situation, the collective allocation of capital on a short-term basis in global markets therefore means that "the markets habitually take on a momentum of their own, and prices end up 'overshooting', or reaching extreme highs or lows before settling back" (Pennar, 1995:84). This seemingly makes compliance with the exigencies of the transnational financial panopticon more important than ever.

As the previous chapter revealed, the hegemonic project is equipping emerging market caretakers with the means to adapt, and supposedly prosper, in this tumultuous environment. In order

²⁸ Those controlling less mobile (i.e. productive) forms of capital also exercise structural power. However the time between, for example, a threat to disinvest (e.g., moving a factory) and actually doing so tends to be much longer. From the perspective of a government official, more time translates into less pressure and less coercive leverage. An example would be the recent "threat" made by the president of Toyota, stating that his company might not make new investments in Britain if the country stays out of EMU. As Emmott (1993:6-7) notes:

Flows of short-term investment capital in and out of currencies and securities markets are many times bigger than those of corporate investment. Currency and other money markets transmit economic forces more rapidly and less resistibly than corporations do. For example, the limits of Britain's economic sovereignty were revealed far more powerfully by the Sterling's turmoil before and after leaving Europe's exchange-rate mechanism in September 1992 than could have been the case with an investment by a Japanese car firm, or by a takeover by a Swiss food multinational.

to avoid disrupting “the markets”, emerging market caretakers are called upon to act *pro-actively*, because “an ounce of prevention is worth a pound of cure.” As John Lipsky (1998:13), Chief Economist at Chase Manhattan, indicates, “structural reforms in the emerging market countries -- especially of their financial systems -- need to be undertaken aggressively before potential troubles emerge, not after.” The day-to-day tailoring of domestic policies according to perceived market exigencies will result in an internalization of a Wall Street mentality as emerging markets focus on ensuring “market efficiency, discipline and confidence, policy credibility and consistency” (Gill, 1994b:190). Emerging market caretakers are also being taught “appropriate” re-active behavior once financial disaster has struck. This generally takes the form of more hyperliberal globalism (Cox, 1996f:27) and mediagenic demonstrations of Washington Consensus-based restructurings so as to show that the emerging market is getting back on the right track.²⁹ As Foucault reveals in Discipline and Punish, such forms of disciplining power are not simply restrictive or punishing, but *productive* in the sense that *market discipline produces docile bodies and normalized subjects who will consensually adhere to a set of norms and truths*.

Social constructivism permits us to avoid a reification of the material capabilities available to the transnational financial panopticon. For example, as stated in the previous chapter, there is nothing automatic or mechanical about how an emerging market decision-maker will respond to market

²⁹ For example, Zedillo’s response to the peso crisis was a draconian austerity program, unveiled in early March 1995, designed to eliminate uncertainty and improve the credibility of government policies and thereby restore Mexico’s tarnished image in the eyes of the financial community (Cameron and Aggarwal, 1996). It included the adoption of a floating exchange rate, massive cuts in government spending, strict monetarist central bank policy aiming for price stability (resulting in bank interest rates of 60 percent), wage freezes, an increase in the value-added tax from 10% to 15%, increases in the prices of goods provided by state firms such as electricity and gasoline of 35 -50 %, and more privatizations of state-owned companies. These reforms would likely have occurred anyway, but now the Zedillo administration was forced to do so over a matter of weeks rather than years. Despite there being very little public support for the reform package and mounting vocal opposition to the ongoing wave of neoliberal reforms (Warnock, 1995:272), within months of the initial devaluation, the financial tide was reversed as Zedillo’s reforms were, in the words of Michel Camdessus (1996d), “ratified by the markets.”

signals. As posited in the Introduction, social constructivism tells us that behavior is not just the product of inanimate forces (e.g. “financial globalization” or “market forces”), but of ideas. This helps this thesis avert a reification of the transnational financial panopticon whereby emerging market behaviour simply reflects the facts of a given situation. As discussed in the previous chapter, because the material power of capital is immersed in a discursive field which ascribes particular meanings and meaningfulness to the discrete sets of facts observed by emerging market decision-makers, the emerging market caretaker’s limits of the possible are shaped through an *ongoing* process of discursive construction as he/she peers out into the marketplace for market signals. The role of intersubjectively held beliefs about the world are therefore critical in understanding the coercive power behind the dominance of the transnational financial panopticon. These collective views become a basis for action in that agents think out their strategies with these beliefs in the forefront of their minds. In this sense, the material capabilities and their meanings to emerging market agents are therefore never “givens” but are “mades” – made by collective human action and transformable by collective human action.

Conclusion

This chapter has served to peel away one of the layers of the hegemonic project identified in the hypothesis: the material capabilities of the transnational financial panopticon which serve as the coercive basis of its hegemonic aspirations. With material power concentrated in the upper echelons of the global financial order and in its subservient financial knowledge structure, these material capabilities have the potential to either reward or severely punish emerging markets according to their adherence to Wall Street criteria that embrace a high risk, short-termist interpretation of the Washington Consensus. Emerging market caretakers will generally respond to this ever present potential of reward and punishment by acting pro-actively, as normalized subjects, tailoring the policies of emerging markets under the watchful market panopticon. The resulting behavior is not

however a mere reflection of the given “facts” of the physical conditions faced by the emerging market, but the result of intersubjective meanings ascribed to these “facts”. These meanings provide the lenses through which individuals interpret *particular* elements of reality in *particular* ways and thereby adopt *particular* behavior in response to these signals. It is through these discursive practices that the material forces of global finance become the material capabilities that buttress the panoptic financial dominance of the transnational financial panopticon over emerging markets.

- Chapter 4 -

***The institutionalization of panoptic financial dominance:
The new roles of the IMF, credit rating agencies and central banks***

Three broad categories of dialectically related forces must interact in the formation of a hegemonic bloc of financial forces: intersubjective ideas (Chapter 2), material capabilities (Chapter 3) and institutions. As stated in Chapter 1, institutions are amalgams of material and ideological forces that can influence the development of ideas and material capabilities. In addition to their capacity to serve as hegemonic devices buttressing the coercive aspects of the dominance, institutions are also, according to Cox (1987:259), "particularly important in defining the ideological basis of consensus, the principles and goals within which policies are framed, and the norms of 'correct' behavior." In this regard, institutions are key to ensuring continuing supremacy by providing "ways of dealing with conflicts so as to minimize the use of force" (Cox, 1996b:99). It is in this sense that our thesis statement identified institutionalization as a key component in the attempt to re-synergize the hegemony of panoptic dominance over emerging markets.

More precisely, this chapter will validate the third sub-proposition of the thesis statement: that is, that the material capabilities of the transnational financial panopticon are (i) locked-in through the *institutionalization* in and by the IMF and autonomous central banks of a permeability of emerging markets to hypermobile capital flows and, in addition, (ii) extended into external *institutions* -- the IMF and credit rating agencies -- so as to increase the likelihood of emerging market self-discipline and lessen the risk of unwarranted or exaggerated market punishment. In a sense, these domestic and external institutions are being mobilized as hegemonic devices that bolster both the coercive and consent-building aspects of the hegemonic project in question. This is done by (1) institutionalizing the contractual and political conditions for coercive market discipline to occur; (2) defining, legitimating and enforcing certain practices and understandings which constrain the perceived limits

of the possible available to emerging market states. Central nodes in the mercurial flow of capital and knowledge within transnational financial networks, these institutions will be shown to shape and, in turn, be shaped by the intersubjective ideas and material capabilities highlighted in chapters 2 and 3 respectively.

4.1.1 Forced to be free: An MAI for the transnational financial panopticon

“The IMF represents the wisdom of the financial community. There may be something better, but we don’t know what it is.”¹

Since the Mexico peso crisis, the IMF has been under pressure to help strengthen the global financial system. In accordance, the IMF has been accorded new responsibilities and powers to accelerate the integration of emerging markets into the global financial order and, additionally, to help turn capital markets into more effective disciplinarians (*The Economist*, 1995g:37). From a more critical perspective, it can be said that such “[p]roposals for [international] institutional reform have as their purpose the smooth execution of the neoliberal project” (Mittelman, 1996b:239).

The IMF has long regarded capital controls as “anachronistic” and has more recently sought ways to lock in the freedom of capital movements already achieved and encourage wider liberalization.² Accordingly, the IMF has been very actively, be it very privately, negotiating a major expansion of its jurisdiction. When the approval of the Multilateral Agreement on Investment (MAI) temporarily stalled in 1997-98, IMF officials had already been pressing for a more expedient avenue to make members’ economic systems more open to transnational capital movements. During the IMF’s

¹ A senior IMF official, quoted in *Asiaweek*, July 17, 1998, p.46.

² A look at almost any edition of IMF Survey, the official mouthpiece of the Fund, will confirm this statement.

1997 annual meeting in Hong Kong, Stanley Fisher, the Fund's Deputy Managing Director, presented his arguments in favor of an amendment of the Fund's Articles of Agreement VIII and XIV which would accomplish this task.³ Until recently, these Articles applied only to the *current account* and obliged members, when they were ready, to refrain from imposing restrictions on the making of payments and transfers for current international business and trade transactions.⁴ Until that point, countries were not to impose any restrictions on the making of payments and transfers for current international transactions without IMF approval and they were to pursue policies that would obviate the need for such restrictions.

The proposed amendments sought to extend the rules in those articles to *capital accounts* (i.e. stocks, currencies) as well, with countries obligated to commit to fully liberalize their capital account in the future. Until they would be ready to do so, the IMF would be able to dictate the extent of the controls the countries would be allowed to maintain, the rate of capital account liberalization process and the required macroeconomic policy changes. Making the IMF the ultimate authority on capital account liberalization, the institution would be able to develop its analysis and evaluation of different kinds of capital controls and design optimal methods of liberalization.

Throughout 1997 and 1998, IMF staff – with the active encouragement of the Clinton administration⁵ – continued pushing for such amendments (the first in the IMF's history) to be taken

³ The best overview of both the IMF's amendment proposal and its underlying purpose are contained in the September 19, 1997 official statement by Fischer (1997b). According to Fisher, the IMF should promote and control capital account liberalization because: "1) the benefits of liberalising the capital account outweigh the potential costs; 2) countries need to prepare well for capital account liberalization; and 3) an amendment of the Articles of Agreement is the best way to ensure that capital account liberalization is carried out in an orderly, non-disruptive way."

⁴ The IMF's current controls on payments, while potentially important, merely adjust the way in which trade and investment transactions are paid.

⁵ Such changes are in part in the hope that IMF reforms will quiet criticism in Congress that the Fund failed to detect in advance the Mexican and Asian financial crises.

up at the spring 1998 IMF meeting. After hasty consultations with G-7 finance ministers, a formal verdict to deregulate capital movements was taken by the IMF Interim Committee in Washington in April 1998. The official communique stated that the IMF will proceed with the proposed Amendment of its Articles with a view to "making the liberalization of capital movements one of the purposes of the Fund and extending, as needed, the Fund's jurisdiction for this purpose" (IMF, 1998). Henceforth, all IMF members are obliged to make their currencies fully convertible for all capital transactions. Since OECD members already subscribe to such arrangements, the amendments most dramatically affect the most recently "emerged" markets and those economies dealing with the IMF yet until now largely exiled from the global financial system.

Not only would the Amendment of the Articles of Agreement for all practical purposes derogate the powers of national governments to regulate foreign investment (including speculative hot money flows) and give the IMF unprecedented power over national capital controls, but it also partially nullifies the efforts of worldwide campaigns against the MAI since the deregulation of a large portion of foreign investment would be achieved ("with a stroke of a pen") without the need for a cumbersome multilateral agreement under OECD or WTO auspices and without the legal hassle of ratification in the legislatures of individual signatory countries.⁹ In contrast, the IMF operates behind closed doors and cannot be held accountable through any kind of democratic process.

At a time that the IMF is being criticized for having outlived its purpose, this new mandate would not only justify its existence but enormously expand its power and control over economic policy

⁹ Gerald Helleiner (1998) asks

Whose priorities were these? At the same time [as the Articles were ratified], the recent expansion of IMF quotas made virtually zero concession to the growing importance and needs of developing countries. The most that the Managing Director could do was to offer, in return for developing-country support for the much-needed current quota expansion, to look at these matters next time. These are not signs of an organization able easily to recast itself in the interest of the majority of its members. They are, rather, stark reminders of who still really runs the principal global monetary institution.

decisions in emerging markets. Simultaneously, by making emerging markets more porous to financial flows, the coercive capacity of the financial panopticon is bolstered and contractually, albeit indirectly, locked in. Traditionally, the IMF has pursued capital account liberalization as part of its traditional stabilization and adjustment programs. However, certain emerging markets dealing with financial crises have rejected IMF assistance (e.g. Malaysia in 1998), limiting the Fund's influence over their macroeconomic policy decisions, including financial deregulation. By making it a general obligation, all 182 member countries will need to commit to full capital account liberalization.⁷ All member nations would have to relinquish their decision making power over degree of capital movements to the IMF. They would have to negotiate with and abide by the IMF's targets for capital account liberalization and the policy changes required to promote further liberalization. If a country chooses not to follow IMF advice, it would lose its access to IMF funding and, therefore, would not have access to future financial assistance as part of an IMF stabilization, structural adjustment or bailout program. Furthermore, losing the IMF stamp of approval severely limits access to private capital. In sum,

[a]mending the Articles of Agreement to include capital account liberalization under the general obligations of the Fund would commit members to fully liberalize their capital accounts that is, remove all barriers to international capital flows. This amendment would extend the same power the IMF has over a nation's current account to its capital account. The IMF would be able to dictate the extent of the controls a country may maintain (for the time being), the rate of the capital account liberalization, and changes in macroeconomic policy. In other words, the IMF would become the ultimate authority on capital account liberalization. (Friends of the Earth, 1998)

Extending the IMF's power over the design of the macroeconomic policy framework for capital account liberalization is supposed to reduce the risk that inappropriate government policies

⁷ It is not surprising that "the global banks and investment houses (well versed in the art of financial manipulation through their affiliated hedge funds) have unequivocally endorsed the G7-IMF policy initiatives. Barely analyzed by the global media, the schemes will reinforce the command of 'institutional speculators' over global financial markets as well as their leverage in imposing ruthless macroeconomic reforms" (Chussodovsky, 1998c).

would shock market confidence and lead to an exodus of money out of the country. Only the IMF would be able to prescribe the right policies in order to avoid these market swings. In other words, the IMF maintains that only *its* authority is sound and needs to be implemented worldwide in order to ensure global financial stability. However, as Friends of the Earth (1998) argues, "as recently experienced by the citizens of Mexico and East Asia: (i) the demonstrated costs of speculation overshadow the theoretical benefits of unregulated capital flows; and (ii) the IMF's dismal track record in stabilizing economies inspires little confidence in the institution."

In sum, the reformulated Articles of Agreement now serve as contractual agreements between an emerging market and a distant supranational institution, bolstering the hegemonic project in two regards: first, by locking-in binding constraints on an emerging market's ability to self-determine an appropriate degree of exposure to volatility and market discipline; and second, by insulating from potential challenges key areas of contestable politico-economic space. In other words, hyperliberal financial globalism becomes a contractual agreement with an unaccountable supranational institution, removed from contestation by those whose welfare is jeopardized by the resulting exposure to market punishment.

4.1.2 *Central bank independence: Internationalizing an emerging market agency*

“[F]oreign investors have indirectly prevented politicians from treating central bankers as their puppets. Those that do so will eventually find that footloose capital flees their countries. Arguably, Wall Street’s fund managers will be the new central bankers’ best friends of all.”⁸

“[G]lobalization and the making of the social space of the world economy do not so much bypass states as they pass through them and depend on them for their political organization” (Drainville, 1995a:58-59). Within these states, central banks are near the top of the list in terms of their pivotal role as central nodes in the planetary networks of financial flows, and therefore serve as key sites of (de)regulation of capital flows. The following examination of recent reconfigurations of emerging market central banking will reveal evidence of efforts to institutionally entrench the hypermobility of global capital through the aegis of a state agency that has effectively become a transmission belt from the global to the local level.⁹

Despite claims of the demise of central banks due to their limited capacity to combat speculative attacks (especially in the case of foreign reserve-deprived emerging markets), the role of an emerging market central bank remains pivotal due to its role as a conduit between domestic economic institutions and the international financial system. Indeed, the central bank’s role has been recast as one of promoting the subordination of the state to the abstract logic and forces of global markets (Drainville, 1995b). Whereas they once focused on intervening in and regulating markets,

⁸ The Economist (1996a:63).

⁹ The relevance of the central bank debate varies considerably by country: “In countries where general institutional capacities are weak and government deficits vast and chronic, where the financial sector is undeveloped and the country highly dependent on flows of external finance, the idea of central bank ‘independence’ is largely irrelevant (such as in many countries of sub-Saharan Africa)” (Bowles and White, 1994:257). The arguments made in this section would however apply to most emerging markets given the more advanced state of development of their domestic financial and monetary institutions.

central bankers are now central agents in the internationalization of the emerging market state — i.e. the process whereby certain state agencies are given precedence over others and serve as transmission belts between business and government practices and policy lines and the interests of transnationally mobile finance. State policies thus become more attuned to the imperatives of global financial forces (Gill, 1995c:79).

Within this context, the newly prescribed role of the emerging market central bank in terms of direct intervention in the economy is, simply put, to “provide the backdrop against which [financial market] participants make their decisions” (Greenspan, 1997). This includes regulating inflows and outflows of financial capital,¹⁰ selecting and managing an “appropriate” short-term exchange rate system,¹¹ tapping global markets via external borrowing,¹² serving as banker and fiscal agent to the government and public entities, calibrating domestic interest rates, managing official reserves of gold and foreign currencies (including its own speculation in FX markets),¹³ regulating and supervising the domestic banking sector, advising government on the formulation and implementation of financial and economic policy, and dealing with ad hoc domestic macroeconomic and financial problems. In most of their daily practices, central bankers maintain “organic linkages with the wider financial sector and

¹⁰ This would include the (de)regulation of the following: foreign exchange controls and, frequently, controls on foreign investment, exchange restrictions on foreign equity investment, “discriminatory” treatment of foreign investors, capital gains taxes, withholding taxes on dividend income, minimum periods during which foreign funds must remain invested, and restrictions on the types and amounts of shares that can be purchased or held by foreign investors.

¹¹ The most common options to choose from include a floating rate system (involving no intervention), and bands or parities (requiring occasional bank intervention to defend the value and stability of the currency).

¹² Since interest rates are determined by open tender on world financial markets, the size, timing and makeup of these debt issues are greatly influenced through prior consultations with the financial community.

¹³ In order to build up their foreign currency reserves, emerging market central bankers are becoming global casino players themselves, increasingly placing bets on other currencies as well as their own. In a short spree of speculative dealings, Malaysia’s central bank lost nearly \$6 billion early on in the East Asian crisis (Krugman, 1997a).

reflect the interests and ideology of that sector more closely than any other. ... [O]ne would expect their view of what constitutes 'sound' policy -- and indeed 'sound' politics -- to coincide to a large degree with those of the financial community" (Bowles and White, 1994:246).

With regards to the new role of the central bank, what is of particular relevance to our analysis of the hegemonic project identified earlier is the evidence of what has been referred to as a *new constitutionalism*: a doctrine and associated sets of social forces which seek to place restraints on the democratic control of key public and private economic organizations. More precisely, this entails

[r]ules and constitutional mandates [which] are being redesigned to sustain neoliberal arrangements so as, for example, to give greater veto power to the minority interests of capital and to make certain kinds of political changes in the future more difficult. Innovations in constitutional provisions mean new constraints that circumscribe the maneuvering room of (future) politicians to manipulate monetary and fiscal policy or trade protectionism (e.g., to provide social protection from world market forces). [...] These arrangements are designed to supplement market discipline with binding constraints or 'rules' in ways that might prevent elected politicians from using a wide range of policies to defend national or local interests. (Gill, 1996:216)

Such a discourse is therefore utterly in line with the hegemonic project identified in this thesis.

More specifically, the evidence of a hegemonic project is found in the discursive and material efforts to transfigure central banks -- central agents in the subordination of emerging markets to "the markets" -- into *autonomous* agents more likely accountable to the transnational financial panopticon than to their own governments and, indirectly, to their own national populations. Such actions correspond to discursive practices highlighted in Chapter 2 depicting "politics" as an inherently negative force in comparison with the efficiency and rationality of the invisible hand of global finance.

Therefore, for "the markets" to fulfill their prescribed capital allocation and disciplinary functions, certain legal and regulatory walls between "politics" and "economics" are needed. Notably, the insulation of monetary and financial market policies from deleterious political pressures -- stemming from, on the one hand, the pressures of interest groups and mass publics seeking expansionary macroeconomic policies or a reversal of or more gradual integration into global capital

markets, and protection from capital strikes and flight, and, on the other hand, the calculations of elected officials wishing to respond to these demands in order to stay in power — *helps to ensure that there will be no future anti-liberalization or re-regulatory measures*.¹⁴ In terms of concrete measures, a growing number of emerging markets have enshrined in their constitutions safeguards ensuring the *de jure* independence of their central banks, not to mention clauses outlawing capital controls and other impediments to a freer flow of capital.

With respect to monetary and financial market policies, the key to such insulation is to grant the central bank “autonomy” or “independence”, placing it outside and above the reach of potentially counter-hegemonic social forces. The rhetorical underpinnings of the argument for independent central banks can be simply (if crudely) stated as follows: central banks which are independent are better able to resist the biases, such as inflationary and “capital-repressing” demands, emanating from segments of government and the general populace wishing to use central bank policies for their own “selfish” (“interest-laden” and therefore “irrational”) ends and/or desirous of standards of living greater than

¹⁴ The *Banco de México*, for example, was granted autonomy in April 1994. Unfortunately, with regards to the identified causes of the peso crisis, “the decisions of the Mexican central bank were not sufficiently independent of political calculations”, according to a former World Bank executive director, and “short-term political calculations continued to have an inordinate influence on its policies” (Naím, 1995: 115). According to Naím and others, what was lacking was *de facto* autonomy. Through additional, post-crisis constitutional changes, Mexican leaders now proudly state that “[c]ritics should read the pertinent Mexican legislation and modify their characterization of *Banco de México* as an institution subservient to the federal government’s economic and political interests” (*The Banker*, 1996).

what the country is perceived to be "able to afford".¹⁵ Indeed, the hegemonic discourse portrays the issue of central bank independence as not so much a matter of choice between institutional options, but of bowing to "economic necessity" (Bowles and White, 1994:248).

Consisting of "technical" experts and "money doctors", the independent bank is portrayed as a disinterested and thereby "non-political" guardian entrusted with overseeing the emerging market's financial and monetary health, free from the pressures of sectional interests which inherently plague the emerging market body politic. "It is deemed to be above and outside the normal political pressures and requirements of democratic societies" (Bowles and White, 1994:243). In this sense, successful adaptation to the exigencies of the transnational financial panopticon is said to be more likely to occur under central bankers which enjoy autonomy from the pressure of interest groups and politicians (Reisen and Fischer, 1993:13). Also, a bank's independence gives it an aura of credibility in the eye of the "the markets" that most elected emerging market politicians do not possess. For Hankel (1994:52), the "separation of the state from 'its' central bank is essential for a stable money supply and to reassure foreign investors" as inflationary policies immediately lead to capital scarcity and flight. This representation

assumes that politics is restricted to the realm of government and politicians: a central bank which is independent of this realm is therefore regarded as apolitical. Such an analysis is fundamentally misleading in that it depoliticises the economy; as a result economic policy tends to be viewed as an area of technical debate occasionally infringed upon by political meddlers acting in the pursuit of their own interests. (Bowles and White, 1994:240)

¹⁵ The empirical evidence in support of the proposition that greater central bank independence results in lower inflationary outcomes is not, in fact, overwhelming, though it is often treated as such in journalistic accounts (Bowles and White, 1994). The lack of empirical evidence has not seemed to have deterred supporters of central bank independence since economists at the IMF, for example, are still willing to argue that "although the empirical evidence so far is less than compelling, on conceptual grounds it can be argued that central bank independence does have the potential to improve longer-run inflation performance" (Castello-Branco and Swinburne, 1992:21).

Autonomous central banks consequently appear to be increasingly concerned with pleasing the financial markets rather than engaging in broadly-based consultations with domestic interests. Illustrative of this was the promise made by Argentinean and Brazilian central banks, in the midst of the Tequila crisis, not to devalue their currencies, no matter what the cost. In their attempt to accommodate inflation-obsessed bondholders, these central banks opted to impose excessive deflation on their economies at the expense of job growth. As Bowles and White note (1994:253), while emerging market central bankers may be independent of their own government and domestic popular masses, *they remain heavily dependent on the transnational financial elite.*

In sum, these actions serve to ratify the separation of the “economic” and the “political” called for in the discourse of neo-constitutionalism and to counter demands to re-embed markets within society. This neo-constitutionalist institutionalization of the hegemonic project implicitly seeks a reallocation of state power so that this apparatus of the state maximizes the panoptic power of global finance by locking-in the hypermobility of capital, and therefore circumscribing the “terrain of contestability” available to the state and civil society (Gill, 1995c:83). Hence, through this crystallization of the discourse of neo-constitutionalism, alternative or potential futures are foreclosed in favor of the “necessary” and “commonsense” entrenchment of the rights and privileges of volatile, globe-spanning financial markets.

A more critical perspective on the autonomous central bank issue sees this institution as not “above” or “outside” politics, but instead embedded in a complex matrix of political forces which transcend the conventional divide between polity and economy. An independent central bank remains a *political* actor privileging certain interests over others, arguing for its own preferences and responding to a specific constituency. It also involves a *particular* redistribution of power over key areas of economic development and finance, and depends on a *particular* constellation of politico-economic forces. To the extent that such an institution’s primary goal is price stability and/or

to respond “appropriately” to market signals as opposed to demands for growth or employment creation, its decisions inevitably have specific *political* consequences which would lead it to favor certain interests over others. *Central bank autonomy therefore represents not so much an insulation from political forces but an institutional materialization of political interests, norms and values organically linked to the transnational financial panopticon and facilitating the re-energization of the hegemony of panoptic dominance.*

4.2.1 The DSBB and SDDS: Transferring market panopticism to the IMF

Reflecting on the Mexican crisis, Moises Naim summarized the lessons of the Mexican story for the transnational historical bloc of financial forces. In hindsight, he argues, “it is clear that better surveillance and more rigorous scrutiny of the Mexican economy would have lessened the crisis. The IMF, the World Bank, international credit rating agencies, and investment advisers have probably learned from this crisis that lax scrutiny can have dire consequences and that the availability of timely and reliable data should be a non-negotiable condition for continuous international support” (Naim, 1995:113).¹⁶ As indicated previously, the efficiency and rationality of the invisible hand are said to be dependent on perfect information made possible by transparency into emerging market economic affairs.¹⁷ However, as Tuathail (1997a) writes, the fear of market punishment “engenders a varied politics of resistance to its gaze. Most states develop strategies of obfuscation and simulation to disguise their unpalatable and unseemly side.”

¹⁶ The call for transparency has become so widespread among emerging market caretakers that it is now a primary component of “good governance” guidelines adopted by IFIs, aid agencies and other organizations to promote what has been called “second generation” reforms (Carrasco, 1998b).

¹⁷ Transparency is understood as the capacity of observers to see clearly, without distortion, into emerging market politico-economic affairs in order to make sensible capital allocation decisions under conditions of “calculable” risk.

In Foucauldian terms, what is needed is a *perfect* panopticon “making all visible” (Foucault, 1995:214) through full and timely disclosure of accurate data covering those areas of emerging market activity deemed pertinent to risk-benefit calculations. The following commentary by the U.S. Federal Reserve chairman is reflective of the current consensus on the issue:

Governments are beginning to recognize that the release of timely and accurate economic and financial data is a critical element to the maintenance of financial stability. We do not know what the appropriate amount of disclosure is, but it is pretty clear from the Mexican experience in 1994 and the recent Thai experience that the level of disclosure was too little. More comprehensive public information on the financial condition of a country, including current data on commitments by governments to buy or sell currencies in the future and on nonperforming loans of a country’s financial institutions, would allow investors – both domestic and international – to make more rational investment decisions. (Greenspan, 1997)

These comments are echoed by Fischer (1995:153): “Lack of information, the absence of adequate accounting standards, and reluctance to make balance sheets and profit -- and loss -- accounts available to investors probably constitute the most severe obstacles to capital market development even in the more advanced developing countries.”

The Mexican peso collapse triggered the initial calls for greater panoptic responsibilities for the IMF, and the Asian crisis added fuel to these demands. One of the many lessons drawn was the extent to which the Mexican crisis was worsened by the poor quality of information supplied by the Zedillo government and the emerging market knowledge structure to both the official sector (such as the IMF and IFC) and the markets.¹⁸ Also, “[i]n the case of Mexico, certain crucial information -- e.g. on reserves -- became available too late for the market to exert discipline before the situation reached crisis proportions” (Klein *et al.*, 1996: 303-304). This suggests that well-informed investors would have withdrawn funds sooner than they did, thereby hastening adjustments that needed to be made but were being delayed. These arguments were repeated during the Asian crisis by Greenspan (1998):

¹⁸ For example, prior to the 1994 peso crisis, an Institutional Investor article warned that “though Mexico’s financial markets have come a long way toward meeting the information needs of institutional investors, potent cultural and institutional obstacles to transparency persist” (Conger, 1994:113).

it is difficult to believe [...] that the crises that arose in Thailand and Korea would have been nearly so virulent had their central banks published data prior to the crises on net reserves instead of the not very informative gross reserve positions only. Some inappropriate capital inflows would almost surely have been withheld and policymakers would have been forced to make difficult choices more promptly if earlier evidences of difficulty had emerged.

Shortly after the Mexico fiasco, influential voices erupted from the historical financial bloc demanding a more pro-active role for the IMF through the provision of economic information: "[t]he type of information that countries are required to publish must be under constant review and accordingly expanded as the world economy changes. [...] Also, while statistics would continue to be produced by individual countries, the IMF should perform an auditing function by evaluating the quality of the figures and raising questions about them" (Klein *et al.*, 1996: 303-304). The call for making information available more promptly may not sound like an exciting proposal, but for market pundits, as indicated earlier, there is little that is more powerful than "sunlight":

If current data show deterioration, then the IMF should request the country in question to take remedial action and should indicate in advance the type of conditionality it will face if financial assistance were needed. [The IMF might] publish the names of countries that are not meeting the requirements for the release of statistics or whose statistical profiles stand outside bands of prudent credit standards. In the hands of the private sector, this publication would become a kind of 'watch list,' exerting discipline on countries to improve their performance so as to get off the list, and advising lenders and investors to exercise caution. (Klein *et al.*, 1996:304)

When G-7 governments met in Halifax shortly after the Mexico debacle to discuss a widening of the surveillance role of international agencies, participants highlighted the "vital role that surveillance can play in encouraging appropriate policies and in identifying, at an early stage, potential problems" (*IMF Survey*, 1996:289).¹⁹ As the host of the Summit, Canada was the lead advocate for identifying and implementing an institutionalist solution: the answer to market failure and lack of policy coordination is to strengthen regimes which could act as an "early warning sentinel" (Klein *et*

¹⁹ However, as can be expected, the financial services industry flatly rejects the notion of any further surveillance of their industry.

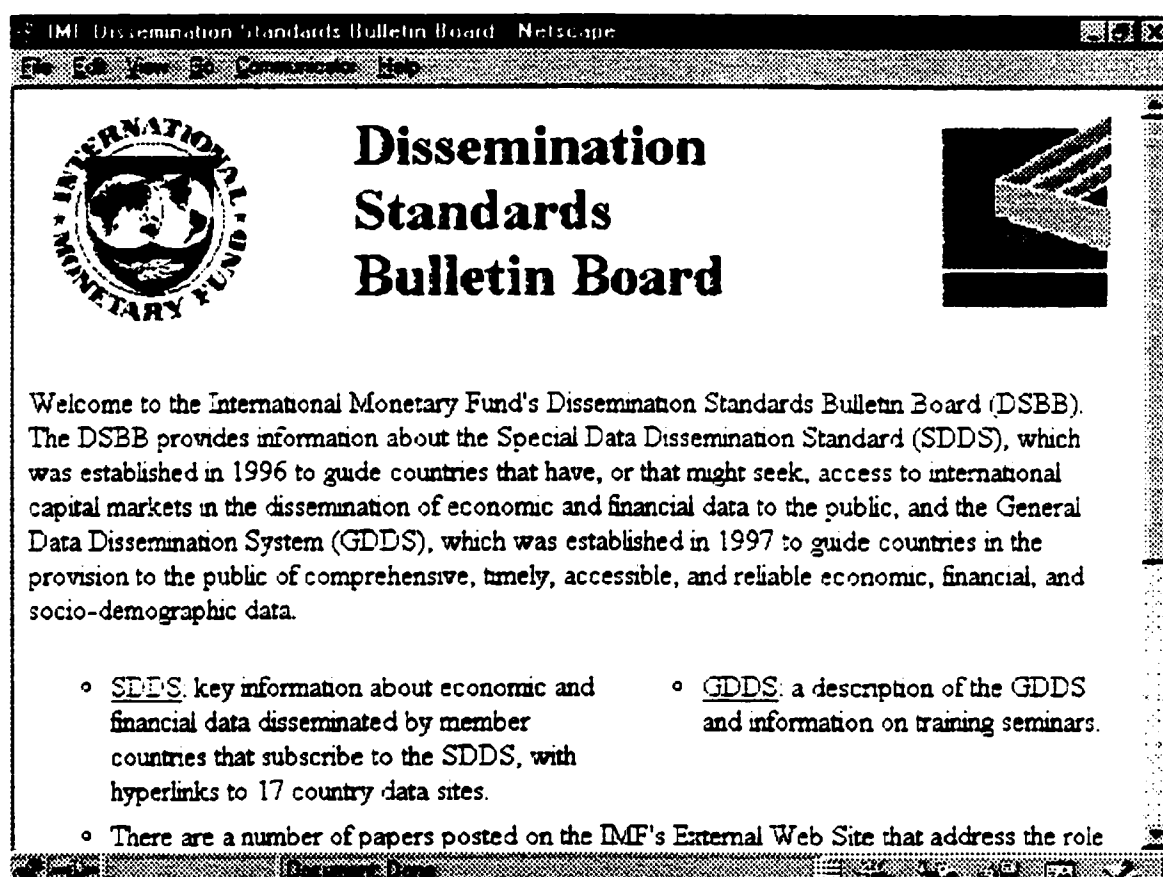
al. 1996:305). The IMF response was the establishment in 1996 of the *Special Data Dissemination Standard* (SDDS) and the *Dissemination Standard Bulletin Board* (DSBB), shown in Figure 4, on the IMF website and therefore visible to anyone with an Internet connection.²⁰ Countries subscribing to this “dataveillance” mechanism must “agree to adhere to these sound practices and to provide information to the public on their own specific practices via an electronic bulletin board on the Internet, maintained by the Fund. This transparency promises to give market participants the information needed to form judgments on the policies and performance of subscribing countries, thereby contributing to more informed investment decisions and fewer market surprises” (Camdessus, 1996e). “[P]aying special attention to the needs of capital markets”, (Wallace, 1996), the SDDS was hammered out so as to contribute to the rapid liberalization of capital movements and, more importantly, to increased market discipline. “By making the global market cleverer, the IMF can strengthen [the market’s] disciplinary role and make it operate in a more consistent and less abrupt manner” (*The Economist*, 1995g:37).

Because “[i]nformation is the missing link between financial markets and governments”, these panoptic devices serve as watchdogs to financial audiences because “[m]arkets cannot be expected to be wise disciplinarians unless they have good information on economic goals, policy instruments and performance” (*The Economist*, 1995g:32. See also Fischer, 1995:154). Currently under surveillance are those basic data “most important to evaluate economic performance and policy in the real, fiscal,

²⁰ According to the SDDS website, “[t]he Special Standard and its associated bulletin board respond to the need for comprehensive and timely economic and financial data -- with equal and ready access for all users -- generated by increased global integration and the associated substantial expansion of financial flows” (IMF, 1996b). As of December 1998, 47 countries were SDDS subscribers, including the following emerging markets: Argentina, Chile, Colombia, Croatia, Czech Republic, Ecuador, Hong Kong, China, Hungary, India, Indonesia, Israel, Korea, Latvia, Lithuania, Malaysia, Mexico, Peru, Philippines, Poland, Portugal, Singapore, Slovak Republic, Slovenia, South Africa, Thailand and Turkey.

financial, and external sectors" (IMF, 1996b). Coverage of this data spans those "categories and components that are most important in shedding light on macroeconomic performance and policy" (DSBB website).²¹

Figure 4
Dissemination Standard Bulletin Board
 Source: <http://dsbb.imf.org>



²¹ More specifically, *real sector* indicators include GDP, production indices, surveys of expectations and orders (e.g., for manufactured products), labor market indices, employment, unemployment, and wages/earnings. The *fiscal sector* calls for general (central plus state or provincial and local) government or public sector budgetary accounts, central government debt, among others. Financial sector data centers on analytical accounts of the banking sector and the central bank, interest rates, share price indices, etc.. The external sector involves the balance of payments, international reserves, merchandise trade, international investment position, exchange rates, etc..

According to the IMF (1996b), "a subscriber to the SDDS will indicate that it intends to observe certain tenets of good statistical citizenship" by providing "metadata" -- i.e. information on the data itself -- which helps to monitor compliance with the new standards.²² Any form of reporting behavior -- now a piece of information in its own right -- deemed inappropriate by skittish markets would likely occasion a swift withdrawal of capital. Even if such standards are voluntary, knowledge by the transnational financial panopticon of who is and who is not meeting IMF reporting standards establishes market incentives for slow movers.

In sum, the IMF's idea of what qualifies as "meaningful" indicators replicates, legitimizes and disseminates the acceptance of Wall Street criteria as the sole valid measurement of emerging market economic performance and policy-making. In so doing, they are reproducing, within the IMF and over the Internet, the panopticism of the financial elite. As Dodd (in Finlay, 1987:22) indicates,

the notion that information is simply "transmitted" and "received", as if meaning remains constant and unimpaired throughout, is unsustainable. Both the meaning and effectiveness of the information transmitted by transactors, and thereby its entire character in the first place, is chronically dependent on the process by which it is interpreted. To transmit and receive information in this context is not simply to project an independent body of facts through space and time, but to bring these facts into being as facts.

The IMF's desire to reinforce market discipline is quite clear in this regard, as SDDS is designed "to enhance the availability of timely and comprehensive statistics and therefore *contribute to the pursuit of sound macroeconomic policies*; the SDDS is also expected to *contribute to the improved functioning of financial markets*" (DSBB website, italics added).²³

²² This entails "sound reporting practices" regarding (a) the coverage, periodicity, and timeliness of data; (b) access by the public to those data; (c) the integrity of the data; and (d) the quality of the data.

²³ Other such panoptic reforms are being seriously considered within this institutional organization. First, at a spring 1998 meeting of the IMF and World Bank, it was suggested that the Fund could delay the completion of its annual Article IV health check of a country's economy if it is not satisfied with the information being disseminated (*IMF Survey*, 1998). Secondly, the Asian crisis has led to requests that the IMF be empowered to alert markets when it thinks a country is heading for a crisis. The "dangers" of whistle blowing" are however clear since a public warning may provoke the very crisis that it is trying to prevent. To dampen the possibility of market overreaction, the IMF's Interim Committee has more recently proposed

In conclusion, the new supranational dataveillance capacities of the IMF serve as a powerful hegemonic device empowering the IMF with panoptic capacities not unlike those of the emerging market knowledge structure within the transnational financial panopticon. Hence, with greater transparency for investors and greater "awareness of visibility" on the part of emerging markets, the likelihood of deviant behavior creating instability within the global financial order is reduced. Returning once again to Foucault (1995:201-2), panopticism is designed "to induce in the inmate a state of conscious and permanent visibility that assures the automatic functioning of power [...] He who is subjected to a field of visibility, and who knows it, assumes responsibility for the constraints of power: [...] he inscribes in himself the power relation in which he simultaneously plays both roles: he becomes the principle of his own subjugation." The evidence presented in this section therefore serves to validate the third sub-proposition that posits that hegemonic project *institutionally* extends its financial panopticism into external agencies so as to increase the likelihood of emerging market self-discipline and lessen the risk of unwarranted or exaggerated market punishment.

developing a "tiered response" whereby the Fund would give increasingly strong, and ultimately public, warnings to countries which it believed were heading for trouble (IMF, 1998). Similarly, at a recent G-7 meeting, Canada and Britain proposed establishing a specialized joint surveillance unit within the IMF and World Bank that would be "responsible for designing financial sector reform strategies in crisis situations and for carrying out surveillance of national financial regimes in non-crisis countries" (Griffith-Jones, 1998:10). As discussed behind closed doors in April 1998, a more disquieting initiative was put forth by the world's financial elite through their Washington mouthpiece, the Institute of International Finance (IIF). The IIF's proposal consists in the creation of a "financial watchdog" – a so-called "private sector advisory council" – with a view to routinely supervising the supervisory activities of the IMF. Responding to this initiative, the IMF has called for concrete "steps to strengthen private sector involvement" in crisis management – what might be interpreted as a "power sharing arrangement" between the IMF and the global finance (IMF, 1998). The international financial community has also set up its own high level, private "Steering Committee on Emerging Markets Finance", led by some of the world's most powerful financiers, including William Rhodes, vice-chairman of Citibank, and Sir David Walker, chairman of Morgan Stanley.

4.2.2 *The Gatekeepers of Capital: Moody's and Standard and Poor*²⁴

In fact, you could almost say that we live again in a two-superpower world. There is the U.S. and there is Moody's. The U.S. can destroy a country by leveling it with bombs; Moody's can destroy a country by downgrading its bonds.²⁵

The emergence of credit rating agencies reflects a crucial development in the fundamental change in the nature of both lenders and borrowers in international financial markets. In the late 1970s and early 1980s, foreign capital was provided primarily by banks (i.e. through intermediation) which, in theory, had the capacity independently to assess and monitor country creditworthiness. At the same time, developing country recipients of private capital flows were dominated by a relatively small number of countries and well-known borrowers within those countries, usually governments. Close and continuous relationships between creditor and borrower were often perceived as mitigating the need for independent credit assessment. By the 1990s, however, flows of foreign capital were being channeled by non-bank institutional investors (i.e. disintermediation) with little experience in assessing the creditworthiness of the many emerging market countries represented in their diversified portfolios. At the same time, emerging markets with little or no credit history – both governments and private institutions – sought to tap into international bond markets.

The debt-rating or bond-rating business has been dominated by two agencies: Moody's Investors Service (Moody's) and Standard and Poor's Ratings Group (S&P), although there have been reports of discussions concerning the possibility of setting up a Europe-wide agency to compete with

²⁴ This section is largely influenced by the writings of Timothy Sinclair (1994a; 1994b; 1995).

²⁵ Friedman (1995).

the major U.S.-based agencies (Sassen, 1996a:18-19).²⁶ A flood of new agencies in emerging markets has also occurred, notably in China, Thailand, Malaysia, India, Brazil, Chile, Mexico, and South Africa (Sinclair, 1994a:453). Although these smaller credit-rating agencies play a significant role -- particularly in the rating of local currency liabilities (BIS, 1997:117), it is unlikely however that they will attain any time soon the same level of credibility and influence as the "twin giants". With respect to emerging market matters, Moody's and S&P have both set up numerous branches in or near numerous emerging markets as the deregulation of local financial markets has created a flood of new debt securities and thus provided commercial opportunities to these larger agencies. Under these conditions, Moody's and S&P have emerged as *the* major sources on creditworthiness within the world financial services industry.²⁷

Because debt repayment is premised on both the capacity and willingness to repay, judgments about the ability of officials to manage and govern, and the likelihood of them being willing to repay are central to capital allocation. As financial disintermediation grows, demand increases for "epistemic authorities such as bond rating agencies which substitute their information for bank judgments" (Sinclair, 1997a:15). Ratings agencies go beyond the basic data which is presented on the IMF's DSBB, investing instead in better information on country risk than any single investor and then providing the financial elite with what is effectively a "public good"; that is, expert, technical assessments of the economic performance and fundamentals of governments and corporations.

²⁶ This "duopoly" further concentrates power within the global financial services industry (Chapter 3), again undermining the mythic image of "atomized markets" and dispersed power within the financial system. In addition, these two giants are infamous for their "aggressive methods to protect their markets and eliminate their competitors" (Warde, 1997); actions which further ensure the centralization of influence over global asset allocation.

²⁷ Moody's alone maintains independent rating opinions on nearly \$14 trillion of debt securities (<http://www.moody.com/ratings/ratcov.htm>).

including those of a growing number of emerging markets.²⁸ The rating issued by such credit raters “simply helps investors determine the relative likelihood that they might lose money on a given fixed-income investment. More technically, it is an opinion of the future ability, legal obligation, and willingness of a bond issuer or other obligor to make full and timely payments on principal and interest due to investors” (<http://www.moodys.com>).

As esteemed purveyors of ongoing and specialized research and knowledge production regarding the politico-economic affairs of issuers of debt securities, the primary function of bond raters is to ensure the predictability and reliability of international financial transactions, and subsequently to enhance the potential for sustained capital flows to emerging markets. Unlike the DSBB or the SDDS, raw information is not the most important consideration. What is crucial is the valuation placed on analytic frameworks based on market-friendly policy conduct and performance. The relevance of such valuations has increased because of the increased uncertainty resulting from the greater volatility of international financial transfers, especially when investing in arcane markets where accurate and timely market data is a precious commodity. Now, because “sunlight is the best disinfectant”, a borrower with a credit rating can no longer get away with “tricking” the financial community as Mexico is said to have done prior to December 1994.²⁹ At the first hint of trouble, the

²⁸ The International Finance Corporation (IFC), the IMF's “cousin” institution, also provides a similar service. It measures the restrictions, if any, on entry into the stock market and on repatriation of capital and dividends. It also looks beyond capital controls to financial reporting, accounting standards, and other investor concerns. It gives each market a score for each category, ranging from a low of 0 to a high of 2. For 1986-93 Mexico and the Republic of Korea had the best scores for investor information and protection. But Malaysia's free capital market got a perfect rating in capital controls, which carried that country to the top of the IFC's overall ratings (*World Bank Policy Research Bulletin*, 1995).

²⁹ For commentary in the failure of credit rating agencies to forewarn markets of the risks of an Asian collapse, see *South China Morning Post* (1998), Luce (1998) and Reisen (1998).

reasoning goes, well-informed “markets” will exert panoptic pressures on policymakers to readjust. In theory, this will help prevent the type of market volatility which has helped foster a legitimacy crisis of the transnational financial panopticon identified in the Introduction.

Sinclair (1994a, 1994b, 1995) has found that these panoptic agencies wield tremendous leverage over corporations and governments because of their distinct gatekeeping functions vis-à-vis financial capital.³⁰ Signaling to the transnational financial panopticon that an emerging market government is striving to improve its credit rating through Washington Consensus-based restructuring has become a seemingly inescapable requirement to fully reap the supposedly inherent benefits of financial liberalization. A credit rating puts an emerging market “on the map” (Lankes and Stern, 1998). “Like it or not, for better or worse, that is part of life in the global economy. If you want investors to give you their money, they are going to demand independent evaluations of the risk involved” (*Far Eastern Economic Review*, 1996).³¹ Even the slightest whisper of a rumor that one of these agencies is considering downgrading a country’s sovereign debt rating³² can raise the cost of borrowing substantially and trigger a bearish market sentiment that spreads to the currency, the stock market, etc.³³ For example,

³⁰ *Worth* magazine recently voted Leo O’Neill, the president of S&P, one of the top 50 people *who move markets* (Walmsley, 1996:26).

³¹ In other cases, emerging markets have been reported to have hired spin doctors to persuade analysts to accept a more optimistic “story” (Walmsley, 1996:29).

³² “Sovereign” refers to national government debt, while “private” refers to debt accumulated by the private sector.

³³ Markets not only look for *implemented* credit ratings, but also for *signs of imminent* rating changes: when Moody’s puts a country on its *watchlist* or when S&P’s assigns a country a positive or negative *outlook* (Larrain *et al.*, 1997:10).

a change in sovereign debt rating affects a country in two ways. Institutional investors like pension funds have strict rules to invest in investment grade issues. Also, amplified by herding within world markets, a downgrade to junk status, therefore, triggers an instant and often massive exodus of funds. But a knock-on effect in investor confidence can be more damaging, as was the case in Asia where financial markets took a hit across the board as a result of rating changes. (*South China Morning Post*, 1998)

To illustrate, in December 1997, Moody's announced a downgrading of Korean, Indonesian and Thai sovereign bonds to non-investment grade, citing the risks posed by short-term debt, including the possibility of a rescheduling of foreign currency bank deposits. One trading day later, the *won* had fallen by 9%, the *rupiah* by 3% and the *baht* by 2%. Standard & Poor's leapfrogged its rival the next day, downgrading Korea almost two notches from BBB to B+, and the *won* fell a further 15%. Such a downgrade (and even the potential of a downgrade) runs the risk of rapidly becoming a self-fulfilling prophecy because a drop in confidence in the short-term will lead to fiscal deterioration in the medium-term because investors will require a "risk premium": the lower the rating, the higher the rate of interest. This will inflate the deficit as the cost of government borrowing rises. In turn, as the deficit grows, the country risks another downgrade. In other words, suggesting, even wrongly, that a country is on the brink of disaster will bring about disaster.³⁴

Downgrades will generally prompt immediate market-appeasing counter-measures by governments -- generally along the lines of the Washington Consensus -- to restore a tarnished image. For example, with regards to the latter, Mexico's post-peso crisis austerity program so impressed S&P that it was granted a "BBB-minus" investment-grade rating -- the first time Mexico had ever been

³⁴ Through their capacity to singlehandedly shape market sentiment, raters also greatly contribute to the collective nature of capital allocation discussed in Chapter 3.

granted a non-junk rating.³⁵ This greatly helped Mexico in its battle to regain recognition as a worthy sovereign borrower (*Euromoney*, 1996d:286), and the Central Bank of Mexico was able to return to international bond markets with some of the largest ever Eurobond issues.

Herein lies a pivotal hegemonic function of credit raters. Because credit raters have been empowered to interpret the facts and disseminate what are understood as technical, interest-free analyses of reality, they exert tremendous influence over the collective investment allocation processes described in Chapter 3. In this sense, raters shape market sentiment and thereby exert significant indirect control over the coercive material capabilities of "the markets." In turn, because the verdicts of these rating agencies have been granted such legitimacy, authority and prestige, emerging markets are increasingly adopting *self-discipline* by internalizing the standards of Moody's and S&P -- standards in consonance with the Wall Street mentality -- in order to maximize their attractiveness to global capital and to reduce their interest costs.³⁶ In this sense, as posited in the third sub-proposition, *credit raters constitute an extension of financial panopticism to non-market agencies so as to increase the likelihood of emerging market self-discipline and lessen the risk of unwarranted or exaggerated market punishment*. It is for such reasons that Moody's and S&P have been labeled "private makers of global public policy" (Sinclair, 1994a and 1994b).³⁷

³⁵ The highest -- i.e. most creditworthy -- rating assigned is Aaa for Moody's and AAA for S&P's. The lowest is C for Moody's and D for S&P's.

³⁶ Downplaying the unilateral influence of rating agencies, the Bank for International Settlements (1998:110) has indicated that "[i]t is misleading [...] to consider rating changes in isolation. [...] [I]t would be easy to overstate the independent impact of the rating agencies on the generalisation of foreign disinvestment. While rating changes may at times have led the exchange market, they mostly accompanied [other] market developments." Although likely an accurate statement, the fact remains that the factors which determine market sentiment are not well understood even by leading economists, and therefore emerging markets will generally avoid assuming that a negative rating announcement will not result in capital punishment.

³⁷ It is quite common for debt issuing governments to use credit ratings to justify to their citizenship austere structural reforms in the face of disinterested global forces over which they seemingly have no influence, yet which must be obeyed in the better interest of all. In such instances, the set of mythic collective

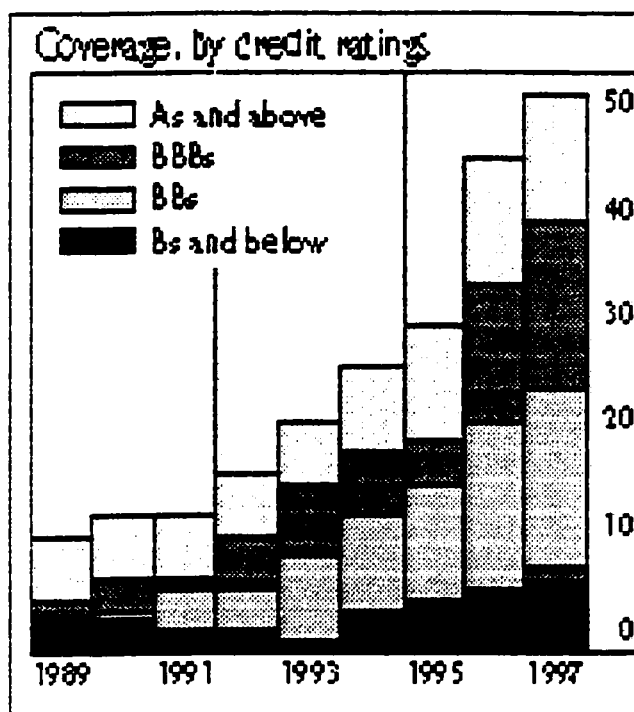
Although some have labeled credit raters as intrusive and imperialistic, one should bear in mind that subscribing to a credit rating service is a *voluntary* decision by emerging market governments. Though investors are their clients, it is the issuers of debt (i.e. governments or corporations) that pay for the ratings (usually at a cost of US\$50,000-100,000 per issue) and therefore supply about 95% of the rating agencies' revenues. This is based on the intersubjective understanding that "[g]overnments may not like it, but if they want to borrow in international markets, they need Moody's and S&P's stamp of approval" (Walmsley, 1996:26).³⁸ For emerging markets in particular, "ratings provide perhaps the supreme seal of approval in their struggle to obtain development funds at a less than exorbitant cost, and with less risk than recycled petrodollars they obtained from banks on floating interest rate contracts during the 1970s" (Sinclair, 1994b:151). Consequently, the number of emerging market countries that have sought credit ratings has increased from 13 at the beginning of this decade to 53 in early 1997 (see Figure 5).

Credit raters also perform the critical hegemonic function of de-politicizing their own actions, and the financial arena as a whole, by proclaiming to operate within non-political spaces of *technical* activity, and the ratings produced as disinterested snapshots of a matter-of-fact "reality" (Sinclair, 1994a, 1994b and 1995). The power of raters therefore comes from their privileged *interpretive position*, i.e. rendering arcane and murky emerging market politico-economic matters *knowable* through a simple and easily understood letter symbol. Under a critical constructivist microscope

images with regards to financial globalization outlined in Chapter 2 come into play, as credit ratings become a "natural", unavoidable and overall beneficent aspect of life in the globalized financial order.

³⁸ Governments also seek sovereign credit ratings in order to positively affect the ratings of private or public sector borrowers within their borders (Larrain *et al.*, 1997:8).

Figure 5
Number of emerging market countries with sovereign
ratings assigned by Moody's or Standard & Poor's
Source: BIS (1997:103)



though, these ratings and the processes intrinsic to ratings are unmasked as profoundly *political* activities in which specific meanings are imposed on emerging market "reality" in very structured ways. Meanwhile, alternative meanings and values are constructed out of the equation. Ratings are therefore the symbolic expression of criteria and choices rigorously constrained *through power* by the webs of understanding of the practices, values, and interests of the leading elements of the transnational financial panopticon. In this sense, ratings are not, as the dominant discourse would have us believe, mere disinterested summations of market views. *They in fact contribute in important ways to the creation of those commonsensical market views, and are in fact tied to certain key assumptions, which are in turn tied to dominant interests within the world financial order.*

Conclusion

This chapter has served to unearth evidence of the crystallization of the hegemonic project within key institutions in the global financial order that have been empowered to bolster both the coercive and consent-building conditions necessary for the hegemonic leadership of dominant financial social forces. For example, radical liberalization measures have been institutionally embedded at the supranational level (the IMF) and the national level (autonomous central banks) to ensure that emerging markets remain porous to unfettered financial flows and therefore permanently subordinated to the transnational financial panopticon, as posited in the third sub-proposition. Also, because emerging market investors are said to be lacking lack the brand of accurate and timely information and knowledge that markets need to make their allocation decisions under conditions of “calculable” risk, the emerging market phenomenon has been susceptible to unwarranted “bubbles” and subsequent busts. As a result, it is claimed that “rational” markets have been unable to effectively serve as “just” and “effective” disciplinarians. The response has been to empower credit raters and the IMF with market-friendly panoptic powers so as to soften market discipline by making emerging markets more transparent and by embedding a consciousness of visibility within the minds of emerging market caretakers. As investors worldwide log on to the DSBB and SDDS and scan the press releases of Moody’s and S&P, coordinated control over the coercive material capabilities will increase, and subsequently, so will the need for greater self-discipline on the part of emerging markets. Still, both agencies are said to be merely providing a neutral, non-politicized, technical service.

In this sense, all three institutional locations -- central banks, the IMF’s surveillance devices and credit rating agencies -- individually foster the contractual and political conditions for coercive market discipline to occur, and in fact serve as enforcers of the rules of the market. All three preach that the unregulated global market and voluntary subordination to market discipline is good for everybody although some may reap the benefits before others. In sum, as a result of the hegemonic

project in question, these domestic and supranational institutions are being empowered to “impos[e] on democracies economic and political decisions that the democracies, left to their own devices, simply cannot take” (Friedman, 1995). Furthermore, all three play an ideological role of defining, legitimating and reproducing in their practices the intersubjective understandings discussed in Chapter 2.

As this chapter has demonstrated, the hegemonic project includes the empowerment or creation of institutions which are particular amalgams of ideas and material power which in turn influence the development of ideas and material capabilities. Careful examination of certain newly-added or revamped functional devices within the GPE (i.e. credit ratings, IMF surveillance and liberalization mechanisms, and autonomous central banks) reveals evidence of the institutional component of the hegemonic project in question. These institutions have been shown to help ensure the dominance of the transnational financial panopticon by reinforcing its coercive disciplinary capacity, as well inducing emerging markets to accept the prevailing power relations as legitimate and therefore internalize the Wall Street mentality of the transnational financial panopticon. What is alarming is the degree to which these institutions are increasingly accountable to powerful financial actors, yet largely unaccountable vis-à-vis the disenfranchised and dispossessed collectivities most profoundly impacted by market volatility and ongoing government adjustments. However, as with the material capabilities wielded by global finance (Chapter 3), these institutions are bestowed legitimacy only so long as agreement is maintained on the intersubjective ideas which guide their ongoing maintenance.

- Conclusion -

Over the last two decades or so, a powerful globalizing economic trend, comprised of material forces and supporting ideologies, have thrust forward toward the achievement of a market utopia on the world scale. In the realm of finance, this has involved

the progressive deregulation of money and financial markets, both internally and externally; the introduction of an array of new financial instruments and monetary products, allowing riskier, bigger and more easily tradable financial investments; the emergence and role of new market actors, especially institutional investors, such as large pension funds; and the spread of new communications and information technologies that have extended and accelerated financial transactions. (R. Martin, 1994:256-257)

Emerging markets have been the last to adhere to the supposedly unavoidable necessity of financial globalization. Today, a varied array of countries from Argentina to Zimbabwe have merged their domestic financial systems into the deregulated global marketplace of private, unaccountable and largely speculative financial flows. In so doing, the caretakers of these emerging markets were basically agreeing to a subordination of state and society to the utopian logic of Wall Street which regards compliance and adjustment to the perceived imperatives of the global financial marketplace as the supreme form of human accomplishment.

Despite supposedly minor "bumps in the road" along the way, this steady incorporation of previously "closed" markets into the periphery of the transnational historical bloc of financial forces was gradually being consolidated as previously recalcitrant countries were reforming themselves and becoming exemplary models by internalizing the normative neoliberal order of things. Such conditions seemed well on their way to enabling this particular transnational historical bloc of financial forces to spread its hegemony of panoptic dominance to previously unsubjugated groups, granting it a truly "global" status, at least in terms of geographic reach.

However, with each new crisis -- Latin America (1995), South Africa (mid-1996), Eastern Europe (early 1997), Russia (mid-1998) and again Latin America (late 1998), just to name a few --

the disenchantment of the emerging market phenomenon that began with the Mexico peso crisis has intensified among emerging market societies and other external onlookers. Indeed, due to the mounting incongruencies between the discourse of the historical bloc of financial forces and the reality lived by more and more emerging market citizens, the discourse of the transnational historical bloc of financial forces has been confronted with increasingly loud and numerous countervailing voices from within emerging markets (governments, economic elite, unions, popular sector movements) and from those external advocates for the empowerment and protection of emerging market populations (e.g. international organizations, INGOs, academics).

This organic crisis of the supremacy of the financial panopticon has not gone unanswered by the transnational historical bloc of financial forces. As this thesis has demonstrated, the transnational historical bloc of financial forces has countered this threat to its hegemonic ambitions with a Gramscian war of position of its own, targeted directly at the emerging market phenomenon, its contradictions and its countervailing dissenters, and strategically designed to re-fortify the extension of its hegemony of panoptic dominance into emerging markets. Under shored up conditions of hegemony, emerging market self-discipline would be internalized and normalized not solely through fear of market punishment, but primarily as the result of a willing acceptance of the existing power relations because of a faith that subordinate groups have a prospect of satisfaction because their interests are similar to and intertwined with those of the transnational financial panopticon. The capacity to punish or terrorize into compliance would become latent and only applied in marginal, deviant cases. As Chapters 2, 3 and 4 revealed, this struggle entails bolstering the key social forces within the Coxian triad of material capabilities, ideas and institutions which in the past provided the coercive and consensual basis of the rising hegemony of the financial panopticon.

In order to validate this claim, this thesis has surfaced certain instances of the crystallization of the discursive practices of this nascent hegemonic project within the world financial order. These constituted the sub-propositions of the thesis statement:

- The hegemonic project aims to legitimate and entrench a hegemonic *intersubjective understandings* of reality and a blueprint for action within this reality that helps to ensure that emerging markets adopt a mode of conduct that coincides with the interests and prescriptions of the transnational financial panopticon, and that occult the internal contradictions of the emerging market phenomenon which threaten the legitimacy of the dominance of the transnational financial panopticon.
- The *material capabilities* commanded by the transnational financial panopticon continue to serve as a potential that structures emerging market behavior in accordance with the interests and exigencies of “the markets”.
- These material capabilities are (i) locked-in through the *institutionalization* in and by the IMF and autonomous central banks of the permeability of emerging markets to hypermobile capital flows and (ii) extended into external *institutions* -- the IMF and credit rating agencies -- so as to increase the likelihood of emerging market self-discipline and lessen the risk of unwarranted or exaggerated market punishment.

More specifically, Chapter 2 unearthed evidence of attempts by the transnational historical bloc of financial forces to ideologically “re-glue” the crumbling edges of its periphery. Because shared intersubjective ideas serve to cement the alliance of interests which comprises a historical bloc, this is a critical component of the consensus building needed to re-establish the legitimacy of the subordination of emerging markets and thereby re-synergize the hegemonic dominance of the financial panopticon. By bringing forth evidence that the hegemonic project is utilizing ontological and epistemological practices to narrow the limits of what is deemed practical or possible, this chapter

successfully confirmed the first sub-proposition put forward in the thesis statement. As this thesis has demonstrated, such discursive practices form a pivotal aspect of the hegemonic project as they constrain and compel those who constitute potential dissidents or “misbehavers” into (re-)assimilating the ideology of financial globalization (i.e. financial globalization as a dehumanized force that is inevitable, natural, inherently beneficial, rational, un-political, ...).

As Gill (1994b:192) has stated, “power relations perceived as legitimate or acceptable are necessarily underpinned by material power and a coercive apparatus.” Hegemony can therefore be conceived of as a centaur: half-human, half-beast: “a necessary combination of consent and coercion. To the extent that the consensual aspect of power is in the forefront, hegemony prevails. Coercion is always latent but is only applied in marginal, deviant cases” (Cox, 1993a:52). Indeed, as the examination of the material capabilities held by the transnational financial panopticon in Chapter 3 confirms, the hegemonic project maintains these coercive capabilities in their arsenal to punish “deviant” behavior (sub-proposition 2). Because of the omnipresence of the watchful eye of the financial panopticon, the hypermobility, short-termism and speculative nature of emerging market investing, and the vulnerability of emerging markets to market turbulence, the coercive material base of the hegemonic project in question has become extremely efficacious in “setting growing constraints on both state and private actors, increasingly subordinating both government intervention and industrial decision-making to specifically financial criteria and norms” (Cerny, 1993b:10). There is nothing automatic though about how an emerging market government or business should respond to market signals. As posited in the Introduction, social constructivism tells us that behavior is not just the product of inanimate forces (e.g. “financial globalization” or “market forces”), but of intersubjective ideas which assist emerging market caretakers in interpreting *particular* signals in *particular* ways and thereby adopt *particular* behavioural responses to these signals.

Additional layers of the hegemonic project were peeled back in Chapter 4 by surfacing evidence validating the third sub-proposition which pertains to the institutionalization of components of the hegemonic project within key nodes of the world financial system. More specifically, the hegemonic project was shown to be attempting to soften the coercive market discipline described in the previous chapter by enhancing the transparency of emerging markets through IMF surveillance mechanisms and by increasingly relying on the risk assessments provided by credit rating agencies. The third proposition was also validated by identifying measures being considered at the supranational level (the IMF) and implemented at the national level (autonomous central banks) to ensure that emerging markets remain porous to unfettered financial flows and therefore more permanently subordinated to the transnational financial panopticon.

What these three chapters collectively reveal is the unfolding, both within and beyond the geopolitical boundaries of the emerging market state, of a strategic war of position over the politico-economic shaping of power relationships within the global financial order, with the transnational historical bloc of financial forces in a commanding position. The combined result of the ideational, material and institutional-based counter-measures is to revitalize the conditions whereby it would unlikely that countervailing voices from the periphery could for the foreseeable future again challenge the hegemonic potential of the territorially-expanding historical bloc of financial forces with discourses that could displace or at least disrupt the unique centrality of the transnational financial panopticon. As Foucault writes in Discipline and Punish, such forms of disciplining power are *productive* rather than simply restrictive or punishing. The hegemonic project *produces* docile bodies and normalized subjects who will consensually adhere to a set of norms and truths. Subordination to “the markets” can again be accepted as in the universal interest, with the less-resourced periphery willingly accepting their subordination to the core of the global finance-based historical bloc. The power basis of this

hierarchical relationship would therefore tend to slip out of the consciousness of emerging market caretakers and societies, occulting the basis on which social struggle between hegemonic and counter-hegemonic perspectives and principles could re-emerge.

Observing these particular manifestations of the hegemonic project, what is particularly alarming is the discourse of de-politicization in which the hegemonic project is submerged: a discourse based on a mythic differentiation of spheres of human activity -- i.e. of the "economic" and the "political" -- with the abstract "economic" treated as a set of reified ephemeral forces and not as a set of hierarchical social relations. The financial transactions of the transnational financial panopticon are said to occur within the sanctity of the "private" and "economic" realms, both of which are portrayed as divisible from and superior to the "political"; it is said that the invisible hand cannot be explained as anyone's intention or design and its "natural" patterns of exchange impeded by politics: the "political" is demonized for its role in the Asian and Mexican crises: central bankers and credit raters claim to perform a purely technical, interest-free function: legal and regulatory walls have been installed between the "economics" of the autonomous central bank and the deleterious pressures of domestic "politics": with pretensions to the status of a hard science, the positivist epistemology of the emerging market knowledge structure is said to privilege "scientific knowledge" rather than "ideology" or "politics". In sum, through these processes of differentiation, the hegemonic project is portrayed as embodying all of the utopian characteristics belonging to the "economic", while "the political" becomes the dangerous "Other" to be either normalized or punished.

Observing the problem through social constructivist lenses permits us to see that the spaces (made) available to "legitimate" thought, speech and action are not fixed or permanently delimited, but are constantly reconstituted and historically contingent. When selective perception is combined with the hierarchical social structures existing within the global financial order, it does not require much

imagination to comprehend how the manufacture and manipulation of ideas and discourse will influence socio-economic policymaking affecting emerging markets. Power is therefore inherent in the very acts of demarcation within the hegemonic project.

In the "empirical world", by building a wall between the economic/private and the extraneous political, how and in what sense essentially political issues like the disposition of power within the ruler/subordinate structure of panoptic dominance is cut off from the political arena and displaced into a separate sphere. Thereby, the core of the historical bloc further manages to insulate its hegemonic project from potential counterhegemonic opposition. "Where" the political can take place is ontologically circumscribed and the hegemonic project is discursively constructed as void of powerful political content. What is non-political therefore becomes, by default, a natural state of affairs. Through the lenses of critical constructivism however, such discursive practices which (re)define the nature of political power become visible as an important element of political power themselves.

Examining this form of discursive ringfencing of the political, Walzer (1984:315) comments that "[l]iberalism is a world of walls and each creates a new liberty." The crucial question therefore becomes: liberty for *whom* and for *what* purpose? The most likely answer might come from Wood (1981:21) who responds to Walzer's statement by noting that in the empirical world, the type of separation provided by such "walls" may be "the most effective defense mechanism available to capital". In fact, by rendering invisible the politics of financial capital, such discourses contribute more to the legitimization of powerlessness than to making good dominant claims of universal agency within the globalized financial marketplace.

These ontological walls thwart efforts to apprehend the seemingly separate realms as a comprehensive whole. As the economic (or in our case, the financial) is evacuated of social content and depoliticized, the hegemonic project is reified as un-political in nature and thereby eclipses the political dimension of its own actions. This makes it inherently difficult for a new financial

globalization embedded in society to counter the existing globalization which is grounded in the *economic* logic of markets. Because these spheres are said to delineate "essential places", the ontological wedges which divide them are rarely perceived as socially constructed phenomenon, but as naturally existing, autonomous boundaries.

Only time will tell if the hegemonic project will have been successful in sustaining the supremacy of the transnational financial panopticon over emerging markets. Future counterhegemonic challengers would have to commence by re-politicizing the discursive and material pillars of the transnational historical bloc of financial forces. This would entail demystifying what Cutler (1995:395) calls a "'zone of irresponsibility' outside of the sphere of legitimate public scrutiny and accountability" which is inhabited and preserved by the core elements of the transnational financial panopticon. Only then can marginal(ized) emerging market societies expect to successfully counter the existing financial globalization thrust with a mobilizing discourse of a new globalization (re-) embedded in society. Until then, voices on the margins may very well remain ensnared in what Cox (1996i:247) calls a "deficit in ideological development and in coherence as a political formation by comparison with the globalisers."

What is needed is a coherent critical consciousness that transcends territorial differences and unites the "increasingly varied underclass of dispossessed persons [...] who find themselves, more often than not, on the receiving end, the unwanted products and prisoners of someone else's 'condition.' For these people, high modernist celebrations extolling the multiple, deterritorializing and detotalized [globalized] subject positions ring rather hollow for those whose already disjunctive existence is the root cause of their marginalization and 'otherness' in the first place" (Hooey, 1996:4-5). The key sites within an eventual struggle over hegemony will in all likelihood emerge from within the peripheral spaces of the global financial order, and more specifically from within various sub-national groups. The likes of the Chiapas uprising, Islamic forces attempting to resist the advance

of neoliberal globalization, hypernationalist protests in Russia, China's refusal to abandon capital controls, the "Asian capitalist" counter-discourse of Malaysian leader Mahathir, and boisterous calls for a tax on speculative flows and the re-regulation of capital flows in various Asian fora represent individual pockets of resistance demanding renewal and refusing to uncritically accommodate the transnational financial panopticon. These are timid signs of "a resurgence of the territorial principle in struggles for national control over collective futures" because "[t]erritory is the ground for politics when politics seeks to reassert authority over economy" (Cox, 1996i:251). These groups share a growing concern to "reembed" financial globalism within society in a manner that embodies concerns about employment, livelihood and living standards, rather than neoliberal restructuring, speculative profits, and the subjugation of the masses to "the markets".

These subordinate groups, in reworking their relationship to "local" identities, must also learn to transnationally speak across their geopolitical boundaries, overcoming for example the fragmentation brought on by competition among states for financial capital, in order to build an articulated, self-conscious transnational civil society capable of linking together the interests, values, and futures of people who do not know each other but who are nonetheless forming a collectivity able to "Think locally. Act globally" (Luke, 1996b).¹ Through a bottom-up attempt at reconstructing, re-imagining and re-mapping global financial relations, these new storytellers must create the potential for a fresh discursive frame for the enunciation of cross-civilizational, cross-border alternatives to the hegemonic project that facilitate a politics of resistance among the globally disenfranchised. In Foucault's words, this new discursive opening "must make the intelligible appear against a background of emptiness, and deny its necessity. We must think that what exists is far from

¹ Here, cyberspace becomes an interesting counter-hegemonic device, connecting a number of otherwise marginalized voices that span national boundaries and thereby geographically transcend distance and geopolitical borders as potential obstacles to collective mobilization.

filling all possible spaces” (Foucault, 1989:209). The would create viable opportunities for “the mobilization of people’s abilities to create viable and practical sets of alternatives and capacities for social choice” (Gill, 1996:225).

This thesis aims to help foster such a *de facto* democratization of power by “making strange” or problematizing the reified understandings of the practices and consequences of the hegemonic project “so that voices otherwise marginalized can be heard; that questions otherwise suppressed can be asked, that points of analytic closure can be opened for debate, that issues and arguments effectively dismissed from the mainstream can be seriously reconsidered and re-evaluated” (George, 1989:272-3). The methodological framework of this thesis is therefore motivated by fundamentally different purposes than those of mainstream scholarship on emerging markets and financial globalization. This enquiry has not pretended to be value-free, but has instead articulated a normative commitment to greater social equity, greater diffusion of power among social groups, and mutual recognition of different civilizational values. This thesis will close with a rather sceptical quote from an unlikely source, Adam Smith, who is wilfully misunderstood by neoliberal ideologues as an advocate of unfettered market forces:

The interests of the dealers .. in any particular branch of trade or manufactures, is always in some respect different from, and even opposite to, that of the public ... The proposal of any new law or regulation of commerce which comes from this order, ought always be listened to with greatest precaution (A. Smith, 1937:250).

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