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BIOGRAPHY

Eric Helleiner is CIGI Chair in International Political Economy at the Balsillie School of International Affairs and Professor of Political Science, University of Waterloo. He received his B.A. in Economics and Political Science from the University of Toronto, and his M.Sc. and Ph.D. from the Department of International Relations of the London School of Economics.

He is the author of *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Cornell University Press, 1994), *The Making of National Money: Territorial Currencies in Historical Perspective* (Cornell University Press, 2003), and *Towards North American Monetary Union? The Politics and History of Canada's Exchange Rate Regime* (McGill-Queen's University Press, 2006). He has also co-edited three other books, including most recently *The Future of the Dollar* (Cornell University Press, 2009), as well as a number of special sections of journals on topics such as "Crisis and the Future of Global Financial Governance" (*Global Governance*, 2009), "The Geopolitics of Sovereign Wealth Funds" (*Geopolitics*, 2009) and "The Dollar's Destiny as World Currency" (*Review of International Political Economy*, 2008). He has also published dozens of articles and book chapters on topics relating to international political economy, and international monetary and financial issues.

He is presently co-editor (with Jonathan Kirshner) of the book series "Cornell Studies in Money" and is a member of the editorial advisory boards of a number of scholarly journals. He was founding director of the M.A. and Ph.D. Programs in Global Governance at the Balsillie School of International Affairs, and he has taught previously at the London School of Economics, York University, and Trent

University, where he held a Canada Research Chair. He has won the Symons Award for Excellence in Teaching (Trent University), the Marvin Gelber Essay Prize in International Relations (awarded by the Canadian Institute for International Affairs), and the 2007 Donner Prize (awarded annually by the Donner Foundation to the best book on Canadian public policy). He has also served as co-editor of the journal *Review of International Political Economy* and associate editor of the journal *Policy Sciences*. He was selected as a member of the 2009 Warwick Commission on International Financial Reform.

Eric Helleiner is currently working on a book-length research project exploring the origins of international development and North-South monetary relations in the postwar period. He is also co-editing a forthcoming volume on the contemporary politics of international financial regulation. Other current research interests include the political economy of current global financial crisis, changing power in the international financial system, and international monetary reform. He was awarded a Trudeau Fellowship in 2007.

ABSTRACT

Looking in every day's paper seems to confirm the common view that global market pressures and particularly the globalization of money force policymakers to adopt certain policies. Eric Helleiner is convinced, however, that those same global markets are less powerful than they appear. Not only do the markets rest heavily on political foundations, but policymakers have considerable room to make distinct choices when responding to global market pressures. In other words, politics play a much more central role in a global economy than is implied by the common saying "money makes the world go 'round."

Eric Helleiner is the person to ask when it comes to the history of financial globalization in the last 30 years, the debate on North American monetary union, the future role of the US dollar as a world currency, or the current global financial crisis. As new powers emerge in the world economy, and the global financial system suffers one of its worst crises since the Great Depression, politics (albeit new kinds of politics in many cases) has never been more important in explaining the future trajectory of the global economy.

LECTURE

The Politics of Global Finance: Does Money Make the World Go 'Round?"

University of Lethbridge (Alberta)

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I must confess that I was initially somewhat reluctant to take up this invitation to reflect on the research I have done over my career. These kinds of reflections are often done at the ends of people's careers and I consider myself only about halfway through. If I remember correctly, I think my first reaction was: "I'm not dead yet". But after some reassurance, I quickly realized what a unique opportunity this was. It is too easy to become absorbed in individual projects and day-to-day research agendas without spending the time to step back and reflect on the overarching themes and motivations that drive one's work.

When I did step back, I found myself faced with an interesting fact. I remember as a graduate student listening to an older professor joke about how most scholars only ever had one big idea in their life. To be sure, they approach their idea from many distinct angles throughout their careers, but at the end of the day they were remembered for the one single big thought that ran through their work. I recall being skeptical. Alas, I find myself halfway through my career facing the fact that there has indeed been one central theme that has run through almost everything I have done. In this lecture, I will attempt to describe my one big idea, the different angles from

which I have approached it, as well as its importance at this unique historical moment when the world is suffering from the worst global financial crisis since the 1930s. Let me begin, however, by explaining where the idea came from.

The Central Role of States

Knowledge usually advances by reacting against an existing idea. This has certainly been true of my own knowledge. My university education and early scholarly career coincided with the acceleration of the globalization of economic life during the 1980s and 1990s. The most dramatic aspect of this trend was the globalization of financial markets. During this period, enormous sums of financial capital began speeding across the world electronically on a 24-hour basis, dwarfing the size of international trade.

To many observers, the new global financial markets represented a new force that challenged the power of the state. The popularity of this view was understandable. International financial market pressures appeared to be forcing governments everywhere to embrace policies that powerful investors favoured such as fiscal discipline, lower taxes and stable money. When countries sought to buck what Thomas Friedman (1999, p. 87) called the "golden straightjacket" of the markets, they experienced severe discipline. Indeed, a number of dramatic episodes—such as Mexico in 1994, East Asia in 1997-98—seemed to highlight how countries that lost global investor confidence could be destroyed overnight by massive private capital outflows. As their autonomy eroded, many analysts began to suggest that governments everywhere would need to consider quite radical ways of pooling or abandoning sovereignty—such as the creation of monetary unions or dollarization—in order to protect their citizens from the vagaries of the powerful markets.

Given these trends, it is not surprising that many thought there was underway a profound relocation of power and authority away from the state. As an editorial in *The Globe and Mail* (1995) put it

after the 1994 Mexican crisis, “Once the world was run by kings in ermine, later by politicians in blue suits. Today it is run by 20-year-old currency traders in striped suspenders. Hovering behind their trading terminals in Tokyo, New York, London, and Zurich, they pass judgment daily on the fitness of their world’s economies with the tap of a computer key. Countries that fail to pass muster can expect no mercy.” At the core of this perspective was the view that private money flows in global markets, not politics within and among states, increasingly made the world go ’round. But to what extent was the power of states really being challenged?

From a very early stage in my graduate studies, I found myself wondering whether this trend was being exaggerated. To a certain extent, this came from the field in which I was being trained. I was part of a new generation of people studying in a field called “international political economy” (IPE). This new field was pioneered by international relations scholars rebelling against their field’s preoccupation with the “high politics” of war and peace at the expense of the study of economic relations among countries. It also attracted economists who were reacting against the increasing domination of their discipline by mathematical modelling which ignored insights from economic history as well as the political context within which markets exist. They sought to revive and carry on the older tradition of political economy which had informed many of the most famous economists of the past, ranging from Adam Smith to John Maynard Keynes and Milton Friedman.

I fell into this field quite by accident. I had in fact arrived at the London School of Economics (LSE) in 1986, accepted into its M.Sc. program in Economics. Within the first two weeks, it quickly became apparent to me that the program would be less policy-oriented than I wanted. After talking to some professors about my interests in international public policy, one of them suggested that I have a look at a new M.Sc. program in “Politics of the World Economy” which provided an opportunity to study the new field of IPE. The program

was only in its second year and I was warned that enrolling in the program would be risky from a job or career standpoint. Even one of the program's advisors suggested to me that the field of IPE might not last and that the degree might not be worth pursuing for a young scholar who intended to go on to Ph.D. studies. Despite these cautions, the focus sounded perfect for my interests and I enrolled.

Switching into that program was the best academic decision I ever made. I was clearly not the only person to find the subject matter fascinating. Over the next decade, the field of IPE became one of the fastest growing areas in the social sciences. Scholars produced highly innovative work examining various topics ranging from the political economy of international trade and global production to the politics of international resource and energy use. I found myself drawn to the somewhat obscure political economy of global finance. The founder of the LSE's Politics of the World Economy M.Sc. program, Susan Strange, was the key influence on me. Because of its more technical nature, the study of global finance had been historically dominated by economists. In a number of highly readable and engaging works, Strange had widened the analytical focus to highlight how international financial system rested on important political foundations that deserved more scholarly attention (see especially Strange, 1971, 1976, 1986, 1998). I found her work fascinating and was quickly hooked on the subject.

It was with her ideas in mind that I reacted against the arguments about global financial markets challenging the power of states. The more I studied the financial globalization trend, the more convinced I became of the enduring centrality of states within global finance. This has been the one big idea which has driven my research since the 1980s. I was of course not the only scholar in the field of IPE driven by this idea. Susan Strange herself insisted on this point in much of her work, as did other new IPE scholars. But I have tried to show its relevance in a number of novel ways that I can quickly summarize.

Financial Globalization

My initial foray into this topic was an attempt to explain why financial globalization had happened in the postwar period. At the time I was writing my Ph.D., it was often argued that the trend was a product of unstoppable market pressures and technological innovations. It was certainly true that the information technology revolution had made money more mobile than ever before in history. Many market pressures also certainly encouraged individuals and firms to take advantage of the new ability to move money in its new electronic form around the world at the touch of a button. These included the rapid growth of international trade and transnational corporations, competitive pressures within national financial systems, the emergence of large international payments imbalances, and the desire to diversify risk in the more volatile global economic environment ushered in by the breakdown of the Bretton Woods monetary system in the early 1970s.

I had no doubt that these developments had been important, but my political economy training encouraged me to look at the role of governments too. It quickly became clear to me that they had not been just passive players in the story. In the early post-1945 years, almost all governments had had in place strict controls on the cross-border movement of money. The use of these "capital controls" had been explicitly allowed, and even encouraged, by the 1944 Bretton Woods conference that had established the "constitution" for the postwar international financial system. The Bretton Woods architects had seen these controls as useful for constraining the speculative and disequilibrating financial movements that had undermined exchange rate stability, freer trade and governments' policy autonomy during the interwar years (Helleiner, 1994). The globalization of financial markets from the 1960s onwards could not have taken place without governments dismantling these controls.

My Ph.D. thesis, subsequently revised and published as *States and the Reemergence of Global Finance* (1994), tells the story of how

this happened. The first step in the direction of liberalization was taken by the British government during the 1960s when it allowed the growth of the "euromarket" in London. This "offshore" market for dollar-based international financial activity was subject to very little regulation by the British government, and it grew very rapidly during the 1960s, particularly after the US government introduced capital controls which inhibited New York's ability to act as the world's financial centre. The second step came when US dismantled its capital control in 1974 and the British government followed suit in 1979. During the 1980s, most other OECD countries copied the US and UK decisions with the result that an almost completely liberal regime for the movement of cross-border financial capital had emerged across the OECD by the early 1990s. Many developing countries followed this liberalization trend throughout this period, including many small states and territories which established themselves as offshore financial centres through loose regulatory environments for international financial activity. Some of these—such as the Grand Caymans—were so successful at attracting financial business to their territory that they had become among the top international banking centres by the 1980s.

Financial globalization was thus a product not just of market and technological developments but also of active political decisions by governments. If states were partly the authors of the globalization process, why did they support it? It was common to read during the 1980s that governments liberalized capital controls out of a defeatist sense that controls were no longer effective in the face of technological change. But it was not entirely clear to me that information technology had undermined states' abilities to control cross-border flows of money. In fact, I suggested in a later article that a plausible counter-case could be made. Officials involved in efforts to curtail international money laundering had noted that electronic money left a trace that made it easier to track than anonymous cash. It was also channelled through a small number of centralized payments

systems which could be monitored and regulated. Complex artificial intelligence programs could also be used by authorities to search for suspicious patterns of financial flows in ways that were much more sophisticated than in the past (Helleiner, 1998).

The more important critique of the "defeatist" explanation for financial liberalization, however, was that many governments clearly dismantled capital controls for more active and positive reasons. My reading of the history suggested that three reasons were particularly prominent. The first was the growing influence of more "free market thinking"—or "neoliberal thinking"—during this period. Whereas Keynesians had been skeptical of the free capital movements, neoliberals felt that capital controls inhibited the efficient allocation of capital internationally and also unnecessarily protected governments from healthy financial market discipline. Second, financial liberalization was supported in most countries by increasingly transnational firms who sought to rid themselves of cumbersome capital controls as their cross-border activities grew. And finally, the liberalization of capital controls was seen by many governments as a kind of competitive strategy to attract mobile financial business and capital to their national territory. The lead role played by the US and UK, for example, partly reflected the desire of policymakers in these two states to boost the positions of London and New York, respectively, as leading international financial centres. The US also hoped to attract foreign capital to the uniquely deep and liquid US financial markets in ways that could help finance US trade and budget deficits. Once the US and UK had begun to liberalize their financial systems, many other governments were inclined emulate their decisions in order to prevent mobile domestic capital and financial business from migrating abroad. National financial sectors were increasingly seen everywhere as an economic sector like any other that required a competitiveness strategy, rather than a unique part of the economy needing tight control to preserve stability, as had been the case in the wake of the Great Depression.

Researching this history was the first reason that I became skeptical of arguments about the demise of the state in an age of global financial markets. If financial globalization was a product not just of technological and market pressures but also of deliberate political decisions of governments, the latter retained considerable influence over the process. Global financial markets, in other words, ultimately rested on a political foundation provided by the willingness of states to continue to allow the cross-border movement of finance to take place unimpeded. Indeed, it is worth remembering that some of the most important emerging powers—such as China and India—have remained relatively insulated from global financial market pressures because they never fully embraced the financial liberalization trend and retain to this day various capital controls. Other developing countries—most famously Malaysia at the height of the East Asian financial crisis in 1998—have reimposed controls in order to protect their policy autonomy when it has been threatened. No OECD countries have yet reversed their liberalization decisions, but the possibility can not be ruled out, particularly if any of them experience severe exchange rate instability or balance of payments crises in the coming years.

Global Markets as Constraint

Even if states choose not to use capital controls, there remains the question of how extensive the constraints imposed by global financial markets are on national policymaking. I have become convinced that these constraints are easily overstated. One reason has to do with simple open macroeconomics: governments can retain considerable autonomy in their monetary policy in an environment of high capital mobility by allowing their country's exchange to fluctuate (Helleiner, 1999). In the realm of fiscal policy, other IPE scholars have also shown that international financial markets actors are less concerned about the governments' overall levels of spending and

taxation than about their levels of fiscal deficits or national inflation rates (Mosley, 2003). Poorer countries faced with international debt problems are also not always disciplined by international bankers; Argentina's experience between 2001-05 showed how debtor governments can exploit creditor divisions and place the burden of adjustment back onto international investors (Helleiner, 2005).

Beginning the late 1990s, I became interested in another dimension of the debate about the extent of the disciplinary power imposed by global markets. In the wake of the East Asian financial crisis, a number of prominent analysts began to argue that financial globalization was forcing governments to consider abandoning their national currencies. As the size of global financial markets grew, they noted that it was becoming impossible for governments to maintain exchange rate pegs in the face of speculative pressures. In this context, they suggested that governments faced a two-corner world: embrace a floating exchange rate or move to a fully credible peg in the form of monetary union, unilateral dollarization, or a currency board. Because floating rates could be so volatile, the prediction was that many governments would move to the latter solutions.

The move by many European countries to adopt the euro in 1999 reinforced this belief. So too did the decisions by Ecuador and El Salvador to fully dollarize in 2000 and 2001 respectively as well as the embrace of currency boards in some ex-Eastern bloc countries. In many other countries, heated debates broke out at this time about the pros and cons of regional currency unions, dollarization and/or currency boards. And analysts predicted that it was just a matter of time before the world resembled a number of giant currency zones. As Beddoes (1999, p. 8) put it, "By 2030 the world will have two major currency zones—one European, the other American. The euro will be used from Brest to Bucharest, and the dollar from Alaska to Argentina—perhaps even Asia. These regional currencies will form the bedrock of the next century's financial stability."

If these predictions were to prove accurate, they suggested that financial globalization was posing a very profound challenge to the state. National currencies have long been seen as one of the key symbols of sovereignty. If globalization was prompting their abandonment, this would lend strong support to the broader thesis about the revolutionary significance of financial globalization for world order. But how convincing were these predictions?

I spent a number of years examining this question and emerged skeptical. I began by exploring the reasons why national currencies had been created in the first place around the world. A global history of this process had not yet been written and I set out to fill this hole in scholarly literature with my book *The Making of National Money* (2003). This turned out to be a fascinating project. Before the mid-19th century and until much later in many parts of the world, money was not organized on the "one money, one country" principle that we consider normal today. Not only did foreign currencies commonly circulate alongside domestically issued ones, but the latter was very heterogeneous. Various towns and private corporations often issued multiple forms of money; different regions within countries frequently used different monetary standards; counterfeiting was widespread; and the small denomination money used by the poor usually had only a loose relationship to the official currency.

Beginning in the 19th century, leading industrial powers launched major domestic monetary reforms to create the kinds of territorially exclusive and homogeneous national currencies within their borders that we take for granted today. Their initiatives were then emulated in other regions of the world in the 20th century, including many countries that emerged from colonial rule after World War Two (although some choose to retain colonial monetary unions such as the CFA zone in Africa). In every country, the creation of modern national currencies was closely linked to the broader project of building modern nation-states. This kind of

money was designed to foster nationally integrated markets and national identities, as well as the state's capacity to raise revenue and manage the money supply. In other words, it was state power and political priorities, rather than market logic, that played the decisive role in determining the new "national" geography of money.

But is this still true in our times? To address this question, I turned to look at a specific case of the possible "denationalization" of money in the contemporary period: Canada. My home country seemed to me a perfect one to examine because it had become embroiled in a debate about creating a monetary union with the United States in 1999-2000. Although Canadians had long debated the pros and cons of free trade with the US, the idea of a monetary union had been entirely absent from the policy agenda since the country's creation. Suddenly, at the very time of the euro's creation in 1999, the debate became front-page news across the country.

Not surprisingly, those who suddenly favoured North American Monetary Union (NAMU) invoked financial globalization as a part of their cause. The collapse of the value of the Canadian currency to US$0.62 in the wake of the East Asian crisis had highlighted the vulnerability of Canada to the whims of global speculators. It was time, supporters of NAMU argued, to follow the European example of creating a regional currency, particularly given the deepening of US-Canada economic relations in the context of decade-old free trade agreement between the two countries. Indeed, given global trends, supporters even suggested that "the Canadian dollar is doomed" and that NAMU was "inevitable" within as short a time as five years (quoted in Helleiner, 2006, p. 4).

These predictions have not yet been realized. The reason, as I suggested in my book *Towards North American Monetary Union?* (2006), was that politics once again has trumped global market forces. Through a detailed analysis of Canadian exchange rate history, I showed how there have been a number of features of the

Canadian political economy that have consistently encouraged Canadian policymakers to embrace a floating exchange rate regime vis-à-vis the US despite its sometimes volatile nature. This embrace began in the 1930s, resumed between 1950-62 (when Canada ignored its Bretton Woods exchange rate commitments), and then emerged again after 1970 when Canada became the first country to abandon the Bretton Woods fixed exchange rate system. Canada's historically strong preference for floating, I argued, reflected a number of political factors including a consistent distrust of US monetary policy, the desire to depoliticize controversial debates about exchange rate issues within the country, longstanding concerns about balance of payments adjustment processes given Canada's status as a commodity exporter and domestic wage and price inflexibility, and the absence of a concerted and coherent business lobby for a fixed exchange rate.

While globalization may have increased the costs of floating, I showed how these factors retained their enduring influence on Canadian policymaking during the debate that began in 1999 on NAMU. Very substantial opposition to the NAMU proposal quickly emerged, which drew not just on the same defenses of a floating exchange rate as in the past, but also on newer nationalist arguments about the link between the Canadian currency and national identity. By contrast, advocates of NAMU had trouble attracting many supporters to their cause. Indeed, if there was an important new force pushing for NAMU in this period, financial globalization turned out to be much less important than a domestic political change: the rise of Quebec sovereigntist movement which saw NAMU as a way to ease the path to Quebec independence. The support of Quebec sovereigntists, however, was not enough to give the NAMU proposal much political momentum and its backers were soon forced to acknowledge political defeat. Once again, the logic of economic inevitability and all-powerful global market pressures had succumbed to the enduring influence of national politics on the

geography of money. States—even those with small open economies such as Canada—retained considerable room to manouevre in an age of financial globalization.

Global Markets Serving States

Global markets themselves also often serve the political priorities of specific states. I have highlighted this point in two distinct contexts in my research. The first concerns the rise of sovereign wealth funds (SWF). Until recently, most scholars of global finance assumed that influential investors in global financial markets were private firms and individuals driven by profit-seeking motives. But in the last few years, sovereign wealth funds—pools of capital owned by states—have emerged as a new kind of influential investor on the global scene. They are not, in fact, entirely new; Kuwait established the first such fund as far back as 1953. But their number and size have grown very rapidly during the past decade. There are now about 40 SWFs and their combined assets are larger than the entire hedge fund industry (even before the financial crisis reduced the size of the latter), making them a significant power within global financial markets.

Most of the funds come from two groups of countries: oil exporting countries (with the largest SWFs being from Norway, Kuwait, and Abu Dhabi) and East Asian exporters (with the largest being from China and Singapore). These countries have used SWFs as a tool to actively invest a portion of their wealth and foreign exchange reserves abroad in stock markets and other financial markets which offer the prospect of higher returns (because of their higher risk) than more conventional and passively held reserve holdings in US Treasury bills. The investments of SWFs could be used, however, not just to maximize financial returns but also as a tool to serve the political priorities of the country within international financial markets. For example, Norway's SWF is already mandated to invest in ways that uphold various international social and environmental conventions

that Norwegian politicians have prioritized. In a more strategic sense, many analysts have worried that the overseas investments of SWFs could be targeted by governments to gain economic or political leverage abroad (see discussion in Helleiner & Kirshner, 2009).

The growing influence of SWFs within global markets thus poses a fundamental challenge to the view that financial globalization is undermining the power of the state. It is not just that states provide the political foundation for markets or that they can resist global market discipline, as noted in the two previous sections of this lecture. With the rise of SWFs, certain states have become a key part of the very structure—the international investment community—that was said to be undermining their authority. This development in fact calls into question the usefulness of the analytical distinction between "global markets" and "states" that underlies the conventional view about declining state power (Helleiner & Lundblad, 2009).

Global financial markets have also served the political priorities of specific states in a more indirect way. Various IPE scholars, myself included, have highlighted how the US benefits from the dependence of global financial markets on the US dollar as a medium of exchange, unit of account and store of value. When foreigners hold dollars, they provide the equivalent of an interest-free (in the case of Federal Reserve notes) or low interest (in the case of US Treasury securities) loan to the US. According to some estimates, this "seigniorage" profit has totalled over $20 billion per year in recent years (Cohen, 2008, p. 258). The dollar's global role has also bolstered the US capacity to finance current account deficits as well as to deflect the costs of adjustments onto foreigners by depreciating the currency in which it has borrowed funds (Andrews, 2006). In addition, US authorities have been able to exploit the dependence of market actors on dollar-clearing networks to encourage worldwide cooperation with US regulatory initiatives (e.g., anti-money laundering regulations) as well as to enforce sanctions against foreign states (Helleiner, 2006a).

For these reasons, I have found myself agreeing with Strange's (1986, 1987) conclusion that the globalization of finance has strengthened US power rather than undermined it. Because of the dollar's international role, the US has a unique and indirect "structural" form of power within global finance which enables it to influence indirectly—and often unintentionally—outcomes in the global markets. But will this privileged position endure? This is a question that has increasingly interested me in the last few years.

In my review of existing literature on the future of the dollar as an international currency, I have been struck by the varying opinions expressed by scholars. Existing analysis of this topic is dominated by economists who are inclined to focus on the economic incentives that market actors face to use the dollar as an international currency. Some predict that the dollar's global status is now more precarious than at any time in the postwar period because of both the financial troubles of the US and the emergence of the euro as a serious rival. Others are less sure for a variety of reasons ranging from the euro-zone's own difficulties to the unique size and depth of US financial markets and the inertia of international currency use (Helleiner, 2008).

My own view has been that more attention needs to be paid in these debates to the *political* foundations of the dollar's international position (Helleiner, 2008; Helleiner & Kirshner, 2009). The dollar's international position today is being sustained not just by market actors but also by the political decisions of foreign governments to hold massive reserves in dollars (especially China, Japan and the Gulf States) or to encourage their country's international economic activity to be denominated in dollars. The decisions of these governments to support the dollar can be influenced not just by the kinds of economic factors that economists study, but also by various political considerations. During the 1960s and 1970s, major dollar reserve holding countries were US allies who often saw their dollar holdings as linked to broader alliance politics. In my view, the politics of foreign dollar support is less predictable today, given that the

largest dollar reserves are held in a country—China—that is often seen as a potential rival of the US. Indeed, the Chinese authorities have recently publicly highlighted their frustration with their dollar dependence and their desire to promote the IMF's currency (special drawing rights) as an alternative international money.

The more the dollar is sustained by the political support of foreign governments, the more it resembles a kind of "negotiated" international currency rather than a pure "top" currency whose position derives from its inherent economic attractiveness alone (Strange, 1971; Helleiner, 2008). The international status of a currency is boosted by network externalities; that is, the more it is used, the greater the incentive for others to use it for convenience reasons. In this context, a declining power may see its currency remain internationally dominant for some time after other aspects of its international position erode. But there can also emerge a "tipping point" where expectations can change rapidly. The sudden withdrawal of foreign political support for the dollar's international role could act as such a turning point in the current environment. In this way, we see once again the enduring significance of states in global financial markets. It is not just that one state—the US—has gained power from the globalization trend. Other states also increasingly act as determinants of the future of the international monetary infrastructure of those same markets.

The Vulnerability of Global Markets

The clinching argument against those who believe financial globalization is undermining the power of state has come during the dramatic global financial crisis that we are living through today. The crisis has made very plain the ultimate dependence of global financial markets on states in times of crisis. This is in fact not the first time that this lesson has been learned. In my first book, I noted how the financial globalization trend had been accompanied by a number of international financial crises, three of which had been particularly

severe at the time of writing: the 1974 international banking crisis, the 1982 debt crisis, and the 1987 stock market crisis. Each of these had threatened to reverse the globalization process by undermining confidence in international markets, just as the momentous crisis of 1929-31 had done. In each instance, however, confidence in international markets had been restored through the provision of public financial support to firms and/or markets in distress in the international financial system. The stabilizing role of public authorities, I argued, reinforced the broader argument I was making at the time, which was that globalization could never have taken place without the support of nation-states (Helleiner, 1994).

Since that time, the importance of this point has been reinforced in other episodes, most notably during the international financial crisis of 1997-98. But it has been during the current crisis that began in 2007 that the lesson has been driven home particularly forcefully. Because of the severity of this crisis, public authorities have been forced not just to provide massive emergency assistance but even to nationalize various private institutions. And it has been *national* officials above all that have played the most decisive role. As one analyst recently quipped, the crisis has shown clearly that "global banks are global in life and national in death" (quoted in Larsen, 2009). Without state support of this kind, the collapse of confidence would have shattered international financial markets. If it was not clear before, it is now hard to ignore the fact that nation-states, backed up by national taxpayers, provide the ultimate foundation of international financial markets (Pauly, 2008).

The crisis has also undermined the credibility of arguments about the all-powerful "Masters of the Universe" within global markets. It is not just that so many private financiers have been left humbled and dependent on public support. The scale of that support has also generated widespread demands for a tightening of regulation over international markets to try to prevent this situation ever

arising again. These demands are resulting in major initiatives at the national and international level whose politics I am closely studying at the moment (Helleiner & Pagliari, 2009; Helleiner, 2009c). These initiatives are not just strengthening existing rules (e.g., vis-à-vis international banks) but also introducing new rules over markets (e.g., derivatives) and institutions (e.g., hedge funds) that had previously been left largely unregulated. Even bond raters such as Moody's—once famously described by a *New York Times* columnist as a new "superpower" in the post-Cold War era (quoted in Cohen, 1996, p. 282)—are falling under states' regulatory umbrella. The new regulatory mantra is that no institution, market, or financial market should be left unregulated or unsupervised if it can create systemic risk.

This reregulatory moment reminds us once again that global markets always exist within a political context set by states. The era when global markets appeared so powerful had only been made possible because states had enabled and fostered it through liberalization and deregulation decisions. In addition to dismantling capital controls, states across the world had increasingly delegated prudential regulation to the private sector out of a belief that "self-regulation" would be more efficient and effective. That belief has crumbled in the current crisis as the excessively risky activities of various firms has been exposed. The new mood was been well captured by Willem Buiter (2009) who recently noted that "self-regulation is to regulation as self-importance is to importance." French President Nicolas Sarkozy put it more bluntly in September 2008: "Self-regulation is finished. Laisser-faire is finished. The all-powerful market that is always right is finished" (quoted in Helleiner, 2009c, p. 8).

Why are global financial markets so prone to severe crises? Economists disagree on this question, pointing to a number of possible explanations ranging from imperfect information to human psychology. Whatever the causes, the historical record suggests that financial markets left to themselves will experience crises and that

public authorities will be called upon to restore confidence and regulation. This is not to absolve public authorities themselves from blame for financial crisis. Their policies—in the form of misguided regulatory initiatives, poor macroeconomic management, excessive borrowing and spending behaviour—have often played important roles in triggering crises, including the current one. It is simply to note that financial markets—particularly international financial markets—are very likely to continue to experience crises in ways that reinforce their dependence on states.

Towards a New Bretton Woods?

If the current crisis has provided a rather decisive confirmation of the enduring power of states, what is left for my research agenda? With my one big idea now increasingly conventional wisdom, perhaps it is time to break with academic tradition and move on to a second big thought. But the uniqueness of this political moment in global finance has led my research in a different direction for the moment. Although I am still in the midst of the work right now, let me briefly describe its content before concluding this lecture.

During the past two decades, many national policymakers were caught up in what Linda McQuaig (1998) has called a kind of "cult of impotence," in which they felt their hands were tied in various ways by the imperatives of powerful global markets, particularly global financial markets. This belief was the popular equivalent of the academic arguments that financial globalization was undermining the power of states, and like the latter, it is now being rapidly rejected in policymaking circles. The uniqueness of the current moment is that policymakers around the world are unified in their desire to reassert public authority over international financial markets and make them more of a servant of societal goals than a master.

If the cult of impotence is being rejected rather dramatically, what political choices will policymakers make at this turning point? What kind of global financial order will they construct? Are we now

at a kind of “Bretton Woods” moment where policymakers might be willing to embrace the kind of ambitious international financial reform that was undertaken at the 1944 conference in Bretton Woods?

These on-going debates have prompted me to explore the parallels between now and the Bretton Woods era. By a strange twist of fate, I had begun some detailed archival research on the origins of the Bretton Woods meeting before the current financial crisis began. That research was driven initially by a desire to more thoroughly understand US-Latin American financial relations in the 1940s, a subject which I had become interested in while writing my history of national currencies. That research led me to fascinating archival material that I believed demonstrated conclusively how the early US drafts of the Bretton Woods proposals had their origins in US policy towards Latin America in the late 1930s and early 1940s (Helleiner, 2006a, 2009a). To prove this rather unconventional view, I had become very familiar with the literature on the history of the Bretton Woods negotiations. When the current financial crisis broke out, I drew on this research to explore the parallels to the current context.

In my view, there *is* indeed an important parallel. Like policymakers today, the Bretton Woods architects were driven by a desire to assert public authority over international financial markets in the wake of the devastating international financial crisis—that of the early 1930s. They chose to do so in three broad ways (Helleiner, 2009b). First, they endorsed strong regulations over international financial markets. Second, they gave public authorities at both the national level and the supranational level (through the creation of the new IMF) a much more active role in the management of international economic imbalances than they had had under the market-driven international gold standard of the pre-1931 era. And finally, by creating the International Bank for Reconstruction and Development, they established an entirely new principle in

international financial governance: that the international community had a public responsibility to promote the economic development of poor countries.

Each of these three initiatives was a very significant innovation in international financial governance. This is where the parallel between Bretton and today ends. Despite the new political mood today, most of the current initiatives to reform the global financial system—which have been led by the G20 above all—have so far been much more incrementalist (Helleiner & Pagliari, 2009). The contrast is understandable. We are still living in the midst of a crisis, whereas the Bretton Woods architects were designing a new order well over a decade after the international financial crisis of the early 1930s. The creativity and ambition of the Bretton Woods architects was also bolstered by the fact that they were planning for a post-war world in which there would be a single clear dominant financial power: the United States. Today, the ability of the US to lead is less clear and the international political order is in considerable flux. In these circumstances, the analogy to the Bretton Woods moment looks much more forced.

Still, I have suggested in recent work that contemporary policymakers seeking a more ambitious reform agenda might find the three broad innovations in global financial governance outlined at Bretton Woods to be a useful road map (Helleiner, 2009b). To date, most of the reform agenda has concentrated only on the first issue: the regulation of international financial markets. The Bretton Woods experience reminds us that a bolder agenda would devote more attention to the management of global imbalances and the distinctive problems faced by poorer countries. Even within the regulatory realm, the focus of reform initiatives to date has been fixed on the strengthening of international prudential regulation rather than also including some of the cross-border issues that attracted the attention of the Bretton Woods architects.

At the same time, because the world has changed in various ways, I have also argued that the mechanisms for reasserting public authority more centrally into the realm of international finance will need to be different in the current age. For example, the management of global imbalances needs to devote more consideration to the reserve currency status of the dollar, the currency composition of borrowing by developing countries, sovereign wealth funds, and the role of regional cooperation. The promotion of international development must also address issues raised by contemporary international prudential regulatory initiatives. And because of the changing distribution of power at the global level, there is also a great need for a broader governance agenda of making international financial institutions—including, but not restricted to, the Bretton Woods institutions—more inclusive as well as more open to the principles of subsidiarity and regionalism.

Conclusion

My current research on the politics of global financial reform represents, in many ways, a culmination of the work I have been engaged in over the past twenty years. At the core of that work was an effort to evaluate the argument that financial globalization was a powerful force undermining the power of states. I suggested that this argument was easily overstated and that states were more powerful for a number of reasons. The globalization of finance was not an unstoppable or inevitable force, but rather one authored by states. States were not nearly as constrained in their policy choices by global financial markets as some suggested. The global financial markets themselves often served the political priorities of specific states, rather than undermined them. And because of their tendency to experience crises, the markets were also much more vulnerable and fragile than was often supposed and they relied heavily on states to prevent and contain crises. None of these arguments was meant

to suggest that financial globalization was unimportant. Quite the contrary, I was drawn to study this phenomenon because of its enormous significance in reshaping power and wealth across the globe. But its significance in undermining the power of states has been, in my view, often exaggerated.

That said, let me quickly register two caveats. First, there is of course considerable variation in the experiences of different states. Indeed, the differential impact of financial globalization across states is an important implication of the phenomenon and I have explored in a number of contexts, some of which I have noted already. Second, I have also examined how financial globalization has been associated with transformations in the nature of the state. One of these has been a shift towards more "internationalized" states than the kinds of "welfare-nationalist" and "developmental" states that were more prominent during the early post-1945 years (Cox, 1987). At a deeper level, I have also suggested some ways in which financial globalization has been linked with an unravelling of state practices of "territoriality" in the context of "offshore" spaces, extra-territorial regulation, and dollarization (Helleiner, 1999). Global financial markets have also encouraged new and interesting patterns of inter-state cooperation. I am not suggesting, in other words, that nothing has changed. Rather, the idea I have been reacting against over the past two decades is the more generalized notion that financial globalization is unleashing some kind of a revolution which is diminishing the significance of states as a whole as important actors in world politics. Private money churning through international markets does make the world go 'round, but so too do politics within and among states. Put in simpler terms, the world is not being entirely taken over by 20-year-old currency traders in striped suspenders.

This has been my one big idea. In retrospect, I cannot pretend that I have consciously set out to prove it in this consistent manner. It is only through the preparation of this lecture that I have been

forced to the recognition that there has been this underlying continuity in my work. For that (and many other things), I am grateful to the Trudeau Foundation. I am particularly grateful because this reflection has reminded me of how this crisis has really brought me to the end of this project. Now that my one idea has become commonplace, it is time to move on and try to break the iron academic law of "the one idea."

But into my next projects, I will take one important lesson that I have learned: the importance of the kind of interdisciplinarity and multidisciplinarity that the field of IPE represents. Some years ago, Susan Strange (1991, p. 33) suggested that IPE was best seen as a kind of "open range, like the old Wild West, accessible—as the classical study of political economy had been—to literate people of all walks of life, from all the professions and all political proclivities." This vision of the field has both enabled and inspired me to explore and attempt to integrate insights not just from political science and economics but also history, geography, sociology and other fields that have examined issues relating to money and finance. I will certainly continue this approach in future work. In age of ever-greater academic specialization, this commitment to intellectual openness remains the greatest strength of my chosen field of international political economy.

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