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Explaining the globalization of financial markets: Bringing states back in

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Abstract

Many accounts of the globalization of financial markets over the past three decades explain it as a product of unstoppable technological and market forces. This article emphasizes that the behaviour of states was also of central importance in encouraging and permitting the process. States are shown to have supported financial globalization in three ways: (1) granting freedom to market actors through liberalization initiatives; (2) preventing major international financial crises; and (3) choosing not to implement more effective controls on financial movements. These roles are illustrated historically through a description of five sets of episodes since the late 1950s. States are found to have increasingly embraced the globalization trend because of: a competitive deregulation dynamic, political difficulties associated with the implementation of more effective capital controls, the ‘hegemonic’ interests of the US and Britain, the growing domestic prominence of neoliberal advocates and internationally-oriented corporate interests, and the unusually cooperative nature of central bank interaction.

Keywords:

Finance globalization states money liberalization capital

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