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Hierarchies and Government Versus Networks and Governance: Competing Regulatory Paradigms in Global Economic Regulation*

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Abstract

This article examines issues regarding economic policy co-ordination and regulation, using proposals for the reform of the international financial architecture as a case study of different paradigms for global economic co-ordination and regulation. Developments in global financial markets exemplify how the search for a regulatory paradigm for global capitalism is linked to the transformation that capitalism has undergone since the early 1970s. The contrast between hierarchical and network forms of regulation is examined, as are different conceptions of networks using international financial regulation as an example. The problems of legitimacy, accountability, and implementation in the network paradigm of regulation suggest that it remains an open question whether regulatory networks are capable of resolving fundamental problems of global capitalism.

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INTRODUCTION

CONTAGION OR negative spill-over effects from recent financial crises in Mexico in 1994–5 and in Asia from 1997 have highlighted the growing structural integration of global financial markets and the incapacity of national and global regulatory regimes to cope with the concomitant problems and challenges. Responses to the crises have dramatized the inadequacy of the Bretton Woods regulatory system, as it has evolved since the collapse of the fixed-exchange rate system in the early 1970s, to co-ordinate monetary policy and resolve problems emanating from the liberalized financial markets of the 1990s. Not surprisingly, in the light of the debilitating economic effects and huge social costs of the financial crises on the countries concerned and those that caught the contagious effects, there have been numerous calls to redesign the global financial architecture.[1] Criticism of the International Monetary Fund (IMF) for the manner in which it handled or bungled the crises in some of the countries concerned and consequent calls for its reform, seem to have a ring of poetic justice given the IMF's crusading role in the liberalization of the financial markets of developing and so-called transition economy countries.

The crises have highlighted that liberalization crusaders had, in their zeal, overlooked a simple but fundamental fact that liberalized financial markets require robust regulatory regimes capable of mitigating risks inherent in the very nature of their operations. Given the inherent volatility of financial markets, the oversight was bound to come to grief, unfortunately at great cost to the countries concerned and their citizens.[2] Since financial flows have become quintessentially global and more integrated than any other economic activity, the financial crises provide an excellent backdrop for examining some of the most pressing regulatory concerns of our time. These concerns arise from growing economic interdependence and globalization and the consequent difficulties facing the state in making policy and regulating economic activities that increasingly transcend borders, on the one hand, and the inadequacies of existing forms of international economic policy co-ordination and regulation, on the other.

This article examines issues regarding economic policy co-ordination and regulation and uses proposals for the reform of the international financial architecture as a case study of different paradigms for global economic co-ordination and regulation. There is yet another reason why the financial sector is an excellent case study for competing regulatory paradigms. In addition to being the most global of economic activities, the emergence of global financial markets in the late 1960s and early 1970s also marked the end of what seems to have been, from the vantage point of the end of the millennium, the halcyon days of the capitalist world economy. In the wake of two related catastrophes which threatened the foundations of capitalism – the great depression of the late 1920s and 1930s and the Second World War – a seemingly durable arrangement for regulating capitalist accumulation, both nationally and internationally, had been instituted in 1945. Nationally, Fordism-Keynesianism became the accepted mode of capitalist accumulation while internationally the Bretton Woods institutions, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank), together with the General Agreement on Tariffs and Trade (the GATT) formed the backbone of a new liberal internationalist order for economic policy co-ordination and regulation. Fordism-Keynesianism and the Bretton Woods-GATT system represented a particular system of capitalist accumulation and an associated system of economic policy co-ordination and regulation. In the early 1970s, capitalism experienced a crisis of accumulation which ruptured the Fordist-Keynesian consensus and undermined the basis of the Bretton Woods system. It has been argued that Fordism-Keynesianism has been replaced by a flexible system of capitalist accumulation (Castells, 1996; Harvey, 1990). This article argues that the search for a regulatory paradigm for global capitalism is linked to the transformation that capitalism has undergone since the early 1970s. These transformations are best exemplified by developments in global financial markets.

Radical proposals for the reform of the global financial architecture include the establishment of a global central bank, a global financial super-regulator and a world currency, and a bankruptcy court (*The Economist*, 1999a; Eichengreen, 1999).[3] Architectural reform along the above liberal internationalist lines would involve the establishment of one or more supranational entities and the delegation of regulatory authority to it or them. However, the establishment of, and the delegation of authority to, an international organization would be perceived as a further erosion of national sovereignty and would therefore be unlikely to succeed.[4] An alternative paradigm touted by some participants in the debates on the reform of the international financial architecture as the most pragmatic and feasible for the regulation of global financial markets rests on international networks of committees of national regulators or private sector professional bodies with recognized expertise in particular areas (BIS, 1997b; Eichengreen, 1999; Group of 22, 1998). These networks develop and promulgate regulatory standards which are supposed to be adopted and enforced by national governments. The contrast between the liberal internationalist regulatory paradigm, on the one hand, and the network paradigm, on the other, is presented as one between rigid hierarchies and flexible arrangements (Mathews, 1997). This article argues that the hierarchical regulatory paradigm is emblematic of Fordist-Keynesian accumulation strategies while the network paradigm typifies flexible accumulation strategies associated with globalization. There are, however, differences among proponents of networks regarding whether they represent the triumph of networks of non-state actors or the disaggregation of the state into its separate, functionally distinct parts which are networking with their counterparts abroad. This article examines the contrast between hierarchical and network forms of international economic regulation as well as different conceptions of networks using international financial regulation as an example. The first section examines economic regulation from a theoretical perspective while the second and third discuss the historical evolution of economic regulation since the end of the Second World War. The fourth section examines and evaluates different regulatory proposals for global economic policy co-ordination and regulation while the final section discusses international financial regulation.

THE STATE, SOVEREIGNTY AND ECONOMIC REGULATION

Economic regulatory paradigms need to be understood both theoretically and historically. This section provides a brief theoretical discussion of regulation. For many economists, economic regulation is only justified in the event of market failure. In other words, the invisible hand of the market should be permitted to fix prices for commodities and allocate goods and services without hindrance except in those instances where the market has failed. Instances of market failure include: failures of competition and existence of monopoly power; the existence of public goods – i.e. goods whose chief characteristics are non-excludability and non-rivalness – that would not be supplied by private markets because they could not be made profitable; externalities that are disbenefits not reflected in producers' costs, and benefits which are not reflected in their revenues; incomplete markets, i.e. situations where markets fail to produce items that people desire even though they would be willing to pay for them; information failures, i.e. the tendency to underproduce information to which access cannot be limited and the creation of false information; macroeconomic disequilibria, including inflation and cyclical unemployment; poverty and inequality; and the production of merit goods (Stiglitz cited in Killick, 1989: 24–5). Given that markets for most goods and services are international, the same arguments justifying regulation in the event of market failure can be extended to the international level.

Contrary to the general view of neoclassical economists regarding the capacity of markets to self-regulate, the breadth of the above list of market failures suggests that markets have an inherent tendency to fail if left unregulated. Indeed, as Polanyi (1957: 140) argues in his devastating critique of laissez-faire ideology, 'the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism'. The need for regulation arises from the anarchic character of markets that are supposed to register numerous individual consumer preferences upon which producers are supposed to allocate resources for the production of commodities to satisfy these preferences. According to free market ideology, the price mechanism allows markets to co-ordinate consumer preferences and production plans, thus balancing supply and demand and allowing markets to clear. However, the co-ordination of a large number of decentralized decisions is not smooth, as attested by recurring market failures and crises which cause instability detrimental to capitalist accumulation. Moreover, the co-ordination of supply and demand through the price mechanism presupposes the existence of competition between producers.

Left to themselves, markets have a tendency to encourage the concentration and centralization of capital. Hence the need for some collective action in the form of state intervention to compensate for market failures and prevent instability (Harvey, 1990: 122). While they explain instances when economic regulation is justified, standard economic explanations of regulation do not provide an adequate theoretical framework that links regulatory paradigms to accumulation strategies.

The 'regulation school' provides a political economic explanation which seeks to locate regulation within specific accumulation strategies. Harvey (1990: 121–4) provides a summary of the theory of the regulation school. The key concepts of the theory are 'regime of accumulation' and 'mode of social and political regulation'. A regime of accumulation describes the stabilization over a long period of time of the allocation of the net product between consumption and accumulation; it implies some correspondence between the transformation of both conditions of production and the conditions of reproduction of labor. A particular system of accumulation can exist because its schema of reproduction is coherent. The problem is how to bring the behaviors of political and economic agents into some kind of configuration that will keep the regime of accumulation functioning. This requires the existence of a materialized regime of accumulation taking the form of norms, habits, and laws regulating networks that ensure the unity of the process, i.e. the appropriate consistency of individual behaviors with the schema of reproduction. The body of interiorized rules and social processes is called the mode of regulation. Hunt's critique of the regulation school's theory is that it reveals a distinct absence of any substantive discussion either of regulation in general or of modes of regulation in particular (Hunt, 1993: 315). This critique does not take into account Harvey's exploration of modes of regulation of Fordist-Keynesian accumulation, on the one hand, and flexible accumulation, on the other (Harvey, 1990). The virtue of the regulation school's approach is that it links economic regulation to conditions of production and reproduction and therefore allows a historical analysis of changing conditions of production and reproduction, on the one hand, and changing regulatory paradigms, on the other. Moreover, since accumulation occurs on a global scale, the regulation school's analysis can be applied to global regulation.

Still at the theoretical level, the regulatory role of the state cannot be grasped adequately without a conceptual and functional understanding of sovereignty, the organizing legal and political principle upon which national economic policy making and regulation, as well as international economic coordination and regulation, are predicated. For, as Picciotto points out, the concept of sovereignty organizes the allocation of jurisdictional competence between states based primarily on territoriality and thus functions as a means of legitimating the distribution of power both within and between states (1996–97: 1018). Thus conceptually and functionally, sovereignty has an internal and an external dimension. With regard to the internal dimension, a sovereign nation-state enjoys exclusive authority within the borders of its territory; is entitled to non-interference in its domestic affairs; is the protector of territorial and economic security; is the provider of safety, continuity and stability; and is the supreme lawgiver (Gelber, 1997: 74). Internal sovereignty empowers a state to exercise jurisdiction to prescribe, adjudicate and enforce its laws over persons and acts within its territory. Ultimately, internal sovereignty and the exercise of jurisdictional powers derive from a state's monopoly of legitimate force within its borders. A proper appreciation of the internal dimension of sovereignty requires an understanding of the relationship between the state and the society it governs. Hence it has been argued that the internal dimension of sovereignty is the relationship between the state and civil society (Reinicke, 1997: 129). Civil society comprises 'a web of autonomous associations, independent of the state which bound citizens together in matters of common concern, and by their mere existence or action could have an effect on public policy' (Taylor, 1997a: 204). As Habermas (1991) explains, civil society comprises the public sphere and the private sphere of the market. The public sphere is 'a common space in which members of society meet, through a variety of media and also in face-to-face encounters, to discuss matters of common interest; and thus be able to form a common mind about those matters' (Taylor, 1997b: 259). As for the market, it is the private sphere of economic production and social reproduction wherein social relations are commoditized and individuals relate to each other as equal owners of commodities.

What should be emphasized is that the relationship between the state and civil society over which it exercises sovereignty is historically specific and the manner in which sovereign power is exercised is shaped by the configuration of social forces. Suffice to say that in most of today's societies, the exercise of the sovereign power of the state is subject to a range of constitutional rights which define, demarcate and guarantee a public sphere, on the one hand, and a private sphere of the market within which social relations are subject to both non-state and state sanctioned forms of regulation, including private law norms, on the other. Constitutional law imposes an obligation on the sovereign power to protect the institutional foundations of the market, the main ones being property rights and contract. Property and contract are the key legal categories for regulating social relations within the market. Moreover, the exercise of the sovereign power is constitutionally prescribed in order to ensure that market transactions are not interfered with and thus rendered unpredictable. The state is therefore one among many institutional and regulatory orders regulating social relations. These institutional and regulatory orders include the web of associations that comprise civil society. However, the state's monopoly of legitimate force gives it the ultimate role in co-ordinating and regulating collective action in situations such as those of market failure.

The external dimension of sovereignty regulates relations among states in the international system where sovereign nation-states enjoy formal equality vis-a-vis each other. Unlike the situation at the national level where the monopoly over legitimate force provides the state with power to establish institutional and regulatory orders for resolving the dilemmas of collective-action, there is no third party with a similar monopoly of legitimate force and authority at the international level.[5] While collective-action problems have always characterized relations among nation-states, these were compounded by the increase in the number of states following decolonization and the consequent tension between North and South. States need to act collectively at the international level because, as Picciotto (1996–97: 1022) points out, private economic and social relations transcend state boundaries, creating a situation where the exercise of powers and functions by different states overlap and intersect. In other words, the constantly mutating economic geography of markets that know no political borders is increasingly at variance with the political geography of the nation-state that is based on fixed territoriality. This calls for co-operation between or among states, each of which exercises sovereign powers and functions over some but not all aspects of economic and social relations that transcend territorial boundaries. However, the ongoing increase in economic activities transcending national boundaries exacerbates the dilemmas of collective action; and some states, such as the United States, have developed a tradition of resorting to extraterritorial measures, thus extending their sovereign reach and jurisdiction beyond their political boundaries. Needless to say, this has brought them into conflict with others which resent this unilateral extension of jurisdiction.

The above argument should not be taken to suggest that states do not co-operate. They do, and the 'why' and 'how' they do so is at the heart of institutional theory in international relations (Keohane and Martin, 1999; Martin, 1997).[6] Treaties or agreements between or among states are the traditional legal technique for inter-state co-ordination of policy and regulation and involve derogations from sovereignty. States wishing to be bound by a treaty are expected to ratify or accede to it subject to permitted reservations. Generally, in the area of international economic policy and regulation, treaties tend to be predicated on the principles of reciprocity, national treatment, most-favored nation treatment, fair treatment, international standards for the treatment of foreigners, and special treatment for countries that enjoy special relations with the country in question. Exceptions to the principle of reciprocity have been made for developing countries in some treaties in recognition of their specific historical circumstances. A treaty may provide for the establishment of an international organization to which states delegate authority over specific transnational economic issues. International organizations are established to promote common objectives and thus constitute a form of continuous co-operation. However, as recent experiences with the IMF and World Bank show, international organizations that are self-financing and have the authority to interpret their constitutional instruments tend to develop a high degree of autonomy from the member states, except the very powerful ones. If the objective of the treaty is the harmonization of policy or regulation, it may contain a uniform law which signatories are required to adopt. Given the number of states in the post-colonial and post-communist world and the consequent diversity of national and regional interests, it is hard to reach agreement on many policy and regulatory issues. Not surprisingly, treaties take an inordinate amount of time to negotiate and are thus an inflexible technique for co-ordinating policy and regulation.[7] A more flexible technique than the treaty is the model law which could be adopted by states with or without modification. 'Soft law' codes attempt to bridge the gap between the international and the national spheres (Picciotto, 1996–97: 1030). Standards promulgated by committees of national regulators and professional groups are a recent development and are akin to 'soft law' codes of conduct. In fact, Norton (1995: 255–62) argues that capital adequacy banking standards have the attributes of international soft law.

The historical evolution of economic regulation since the Second World War is discussed in the next section.

ACCUMULATION AND REGULATION UNDER FORDISM-KEYNESIANISM

Economic regulation should be understood in its historical context. However, this article focuses on the historical horizon of the period since 1945, and the institutional framework for economic policy co-ordination and regulation that emerged from the economic ravages of the 1930s and the Second World War, on the one hand, and the progressive internationalization and subsequent globalization of economic activity that have occurred, on the other. This section examines accumulation and regulation under Fordism-Keynesianism.

Fordism as a regime of accumulation refers to a system of mass production of standardized products using assembly line manufacturing techniques for mass market consumption, a new system for the reproduction of labor power, and a new politics of labor control and management popularized by Henry Ford (Dicken, 1992: 115–19; Harvey, 1990: 126–96).[8] While Fordism as a regime of accumulation was first tried in 1914, a suitable mode of regulation was not found until after the capitalist crisis of the 1930s and the wartime economies during the Second World War. Since the source of the capitalist crisis appeared to be a lack of effective demand for products, the solution to it was Keynesian demand management that rested on a new form of state intervention. Hence, while the regime of accumulation was Fordism, the mode of regulation was Keynesianism (Harvey, 1990: 128–9). Fordism-Keynesianism was underwritten by a tense social compact among the key social actors in industrialized capitalist countries. In return for real wage gains and under pressure from state repression, trade unions undertook the task of disciplining labor to the Fordist production system. Hierarchically organized corporations undertook large investments and technological developments that guaranteed growth, and improved living standards and profits. Through a mix of fiscal and monetary policies, the state sought to curb business cycles. Such policies were targeted at areas of public investment that were important for mass production and mass consumption and which would also guarantee relatively full employment. In addition, the state undertook to provide social goods such as health care, education, social security and housing (Harvey, 1990: 133–5). The above broad brush strokes, while appropriate as a generalization of common themes, do not capture the rich variety of experiences and outcomes arising from historical and institutional specificities in each of the industrialized capitalist countries.

The developments discussed above represented a particular relationship between the state and civil society in industrialized countries. While the state played a prominent role in the regime of accumulation and the mode of regulation, civil society in the form of the market, corporations and trade unions played their part. The consensus between the state and other key social actors obtaining in industrialized countries was not replicated in other parts of the world that had different historical trajectories and institutional setups. In state socialist countries, prevailing ideology favored state planning rather than the market production and distribution of goods and services. The state overshadowed, displaced and suppressed civil society. Hence both the regime of accumulation and the mode of regulation became largely the exclusive province of the state. For most developing countries, the prominent role of the state in the Fordist-Keynesian and the socialist regimes of accumulation and modes of regulation offered a model. The political authority was put in charge of the development process. This could be understood to require the transformation of structural constraints arising from: weak linkages between the large petty commodity sector and the small capitalist one; the small domestic market which limited benefits from economies of scale; the inability of the private sector to raise adequate capital to invest in certain industries; the inability of the market to provide public services that were regarded as essential to national development; the unequal competition in international markets experienced by developing countries; and the dominant role of foreign capital in the private sectors of most developing countries. These daunting developmental demands were correctly perceived as requiring capital accumulation that called for collective action beyond the capacity of individualized market decisions.

The regime of accumulation and mode of regulation adopted in many developing countries was based on the nationalization of enterprises and the creation of new state-owned enterprises, the subsidization of the production and provision of public and merit goods and services, control of labor and trade union activity, quotas and other allocative mechanisms, import and export controls, provision of subsidized credit, and price control schemes. The result was an interventionist and activist state which marginalized, co-opted and suppressed civil society. While the above discussion permits a generalization of common themes present in the history of most developing countries, it does not capture the rich diversity of experiences and outcomes ranging from those of predatory and repressive states that turned the yearnings and ideals of their citizens for a better life into terrible nightmares, to those of developmental states that achieved unprecedented rates of economic growth and improved the quality of life for their citizens.[9] What separates successful developing states from failed ones is the relationship between the state and the society it governs, which boils down to differences in the exercise of sovereign powers and functions.

This point is well illustrated by Evans' (1995) seminal work that provides an excellent typology dividing developing states into predatory, intermediate and developmental types. What distinguishes them are different degrees of developmental success as well as different internal structures and external ties. Predatory states extract at the expense of society, undermining development and capital accumulation, while developmental states have presided over some of the fastest rates of industrial transformation known in history. Developmental states succeed where predatory ones fail; namely in the provision of institutional and regulatory orders for resolving the dilemmas of collective action. Evans argues that the absence of effective and autonomous bureaucracies in predatory states and their existence in developmental states partly explains their different trajectories. But more important, he argues that the bureaucracies in developmental states have been effective because their autonomy is 'embedded in a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies' (Evans, 1995: 12).[10]

At the international level, Fordism as a regime of accumulation required the opening up of trade and investment opportunities abroad that would soak up surplus productive capacity. For capital from the United States, such opportunities were initially provided by the large demand for goods and services for post-war reconstruction under the Marshall Plan. The liberal internationalist system of economic policy co-ordination and regulation that was established in 1945 provided a regime for expanded trade and investment flows. In the wake of beggar-thy-neighbour policies of the 1930s which had threatened the foundations of capitalism, the victors in the Second World War established a system for managing interdependence through the removal of tariffs, and eventually also non-tariff, barriers to trade in order to facilitate free trade and maximize the benefits of comparative advantage; managing cross-border capital flows through fixed exchange rates and capital controls; and providing development finance to fund investments. Having escaped wartime destruction, the United States with its strong economy emerged as the hegemonic power which underwrote the liberal internationalist economic order. The phenomenal growth in trade and investment in the post-Second World War era appears to vindicate the liberal internationalist economic order.

FLEXIBLE ACCUMULATION AND THE SEARCH FOR A MODE OF REGULATION

Fordism-Keynesianism and the post-Second World War liberal internationalist economic order assured the capitalist world economy of stability and phenomenal rates of growth which lasted until the crisis of the early 1970s.

The story of what happened is well rehearsed and only the broad outlines need retelling here.[11] In the 1960s, the completion of post-war reconstruction in Europe and Japan, and the off-take of successful industrialization initiatives in a number of developing countries in Latin America and Asia, heightened competition for markets to absorb surplus productive capacity. Structural rigidities inherent in the Fordist-Keynesian regime of accumulation and mode of regulation came to a head. These related to the rigidities of: long-term and large-scale fixed capital investments in mass-production systems premised on stable growth in unchanging consumer markets; labor markets, labor allocation and labor contracts; and state commitments in the form of entitlement programmes such as social security and pension rights. Monetary policy responses to the rigidities caused inflationary pressures and attempts to curb inflation started a recession in 1973 that was exacerbated by the decision of OPEC to raise oil prices (Harvey, 1990: 142). The upshot of the above developments was that Fordism-Keynesianism as a regime of accumulation and mode of regulation had run out of dynamism and therefore required major restructuring. At the international level, the Bretton Woods system of fixed exchange rates collapsed in 1971 heralding the advent of a roller-coaster period in the history of international monetary policy and financial markets. During the 1970s, the post-Second World War liberal internationalist economic order came under intense pressure from developing countries, many of which had just made their debut on the international stage after shaking off the yoke of colonialism. They questioned one of the foundations of the liberal internationalist economic order and advocated the exercise of sovereignty in the restructuring of post-colonial international social relations and the regulation of cross-border economic activities. North–South controversies surrounding the establishment of a New International Economic Order during the 1970s exemplified cleavages in the liberal internationalist economic order.

In industrialized capitalist countries the search for a new regime of accumulation and mode of regulation was hampered by arrangements between the state, capital and labor which underpinned the uneasy Fordist-Keynesian consensus. These were undermined and eventually jettisoned in the 1980s following the coming to power of conservative governments in a number of industrialized countries and their subsequent adoption of neoliberal macroeconomic policies. Thus the 1980s came to be characterized by deregulation and liberalization of economies as well as privatization of state-owned enterprises, not only in countries run by conservative governments but also in those governed by left-wing ones. Similar changes occurred in developing countries, where slow economic growth, and the budget and balance of payments disequilibria exacerbated by the energy crisis of 1973 and the debt crisis, were attributed to previous state interventions in the economy. In the new climate, government failure was considered to be worse than market failure and state intervention was seen as giving rise to rent-seeking activities inimical to efficient resource allocation. The antidote was a new regime of accumulation based on largely self-regulating markets. Faced with balance of payment disequilibria, macroeconomic imbalances and unpayable debts, most developing countries sought assistance from the Bretton Woods institutions in the early 1980s. The assistance was conditioned upon the adoption of structural adjustment and stabilization programs involving the rolling back of the state through the liberalization of trade in goods and services; the deregulation of investment; labor markets and prices; the removal of subsidies; and the privatization of state enterprises.

Understandably, critics have seen the Bretton Woods institutions in their new incarnation as handmaidens of international capital and their activities as a form of new imperialism. For their part, the Bretton Woods institutions celebrated the virtues of markets. However, by the end of the 1980s and the beginning of the 1990s they were forced to acknowledge the limitations of market fundamentalism and the role of institutions and good governance in economic regulation (Tshuma, 1999). Belatedly, they came to acknowledge that the new regime of accumulation needed a mode of regulation. Without doubt, the programs of the Bretton Woods institutions impinge on the internal exercise of sovereign powers and functions in domains which are traditionally perceived as the preserve of the nation state. The programs should, however, be understood as part of a broader program of 'deep integration' involving economic liberalization and harmonization of 'behind-the-border' policies such as health and safety standards, competition rules, subsidies, financial regulation, environmental regulation and tax rules, which are traditionally deemed to belong to the domestic policy domain (Haggard, 1995: 2).[12] This is being pursued through an integration agenda within the World Trade Organization and within the plethora of regional integration initiatives that have mushroomed around the world, the more successful ones being the European Union and the North American Free Trade Agreement (NAFTA).

In tandem, and imbricated with the economic restructuring described above, were mutually reinforcing revolutionary developments in the realms of technology and industrial organization. These have imbued the new regime of accumulation with flexible characteristics that have emerged as its defining attributes in contradistinction to the rigidities of Fordism.[13] Technologically, the last two decades have been characterized by ongoing revolutionary developments in technologies of information processing and communication such as microelectronics, computing, telecommunications, broadcasting, and genetic engineering. These technologies and their fundamental and transformative impact on society constitute what is known as the information technology paradigm. The characteristics of this paradigm are summarized by Castells (1996: 61–5). These are: information is the raw material for this paradigm; the effect of the technological medium is pervasive and shapes all processes of individual and collective existence; networking is the logic of any system or set of relationships using these new information technologies; flexibility is the basis of the information paradigm; and there is a growing convergence of specific technologies into a highly integrated system.

Interrelated with but independent from the technological revolution were a number of major changes in industrial organization as a response by firms to environmental uncertainty. The following trends in industrial organization have been identified (Castells, 1996: 154–68). The first arose from the crisis of large, vertically integrated corporations based on an institutionalized social and technical division of labor, which in the environment of the Fordist regime of accumulation had enjoyed productivity gains from economies of scale in assembly line-based and mechanized processes of production of standardized products destined for markets they controlled.[14] The organizational structure and managerial techniques proved too rigid for the unpredictable and diversified world-wide markets following the transformations of the 1970s which required flexible systems of production, problem solving, rapid and often highly specialized responses, and adaptability of skills to special purposes (Harvey, 1990: 155). A second trend relates to the ability of small and medium-sized firms to adapt to the flexible production system under the control of large corporations through such arrangements as licensing and sub-contracting. The third trend relates to the development of new forms of management appropriate for flexible production systems typified by the 'just in time' model developed in Japan. The fourth trend relates to corporate strategic alliances between or among large corporations. The result is what Castells (1996: 171) calls a network enterprise. For large multinational corporations, the networking logic has entailed the centralization of certain resources and capabilities within the home country and others elsewhere depending on the attributes of the location in question. Other resources are distributed among its many national operations. The result is a complex configuration of assets and capabilities that are distributed, yet specialized. The dispersed resources are integrated through strong interdependencies, thus creating an integrated but flexible network (Ghoshal and Bartlett, 1998: 68–81).

The economic restructuring of the 1970s and 1980s and the organizational and technological changes described above have produced a global economy based on a regime of accumulation that is characterized by flexibility with respect to labor processes, labor markets, products and patterns of consumption (Harvey, 1990: 147). The global economy is centred around a triad comprising North America, Western Europe and the Asia-Pacific region. Another prominent feature of the global economy is its dichotomization into prosperous and productive areas, on the one hand, and poor and socially marginalized and excluded areas, on the other (Castells, 1996: 145). The global economy is also characterized by a new international division of labor constructed around four different positions: 'the producers of high value, based on informational labor; the producers of high volume, based on lower-cost labor; the producers of raw materials, based on natural endowments; and redundant producers, reduced to devalued labour' (Castells, 1996: 147). What is significant is that the four positions do not coincide with countries. Rather, they are organized in a global structure of networks and flows between economic agents placed in the four positions. Hence small segments of marginalized economies are connected to global networks while some sections of society in the centre of the global economy are found in the position of devalued labor.

Since the networking logic is said to characterize the global economy, a few words about the characteristics of networks are in order. A network has been defined as a set of interconnected nodes (Castells, 1996: 470). Nodes are points, hence networks comprise points and the lines which connect them. Social and political networks comprise individuals and the messages and values that criss-cross from their interaction across space. Their basic function is to ensure linkages and interactions among discrete centres (Santos, 1997: 235). Their defining features are flexibility and dynamism that derive from their open structures that are able to expand without limits, integrating new nodes as long as they are able to communicate within the network, namely as long as they share the same communication codes such as values or performance goals (Castells, 1996: 470).

The new international division of labor and the networking logic of flexible accumulation imbue global capitalism with a variegated, uneven and patchwork morphology. Given that flexibility is the defining feature of the new accumulation strategy, capital has become very mobile in search of opportunities for profit. This has diminished the capacity of the state to control the movement of capital and information. Hence governments have been forced to change their traditional regulatory role from one concerned with control to one concerned with facilitating investment and trade. Multinational corporations are relatively free to shop around for jurisdictions which are market-friendly. They can thus engage in what has come to be called regulatory arbitrage. States are forced to compete in offering favorable regulatory regimes. Competitive deregulation may result in a race to the bottom as states compete with each other to offer less restrictive regulatory regimes. One solution to competitive deregulation is the development of internationally accepted regulatory standards. The relatively high level of capital mobility that is associated with flexible accumulation has also undermined the bargaining position of organized labor since the cross-border movement of labor remains highly restricted. Flexible accumulation is associated with flexible labor regimes such as part-time work and temporary labor (Harvey, 1990: 149–54). It is also characterized by the re-emergence of repressive labor processes.

For regulatory purposes, an important feature of flexible accumulation is the intensification of cross-border flows of goods and services, a significant proportion of which occur in networks or within companies and are therefore movements between parts of the same entity located in different countries depending on that country's position in the international division of labor. Thus, within companies or networks, elements of the production process are located in different geographic areas depending on the complexity of the element and the position of each location in the new international division of labor. For some commentators, the changes signify a shift from internationalization to globalization. According to Dicken (1992: 1), internationalization refers to the increasing geographic spread of economic activities across national boundaries and is not a new phenomenon, while globalization is new and refers to a more advanced and complex form of internationalization that implies a degree of functional integration between internationally dispersed economic activities. Reinicke (1997: 127) makes a similar point and draws a distinction between interdependence, which caused closer macroeconomic co-operation, on the one hand, and globalization, which is a microeconomic phenomenon, on the other. For him, globalization represents the integration of a cross-national dimension into the very nature of the organizational structure and strategic behavior of individual companies. This view has merit if one considers that internationalization goes back to the growth in international trade in the age of mercantile capitalism in the 16th century and has enjoyed accelerated expansion since the dawn of industrial capitalism in the 18th century. A distinctive feature of internationalization was that it involved the circulation and consumption of goods across borders while their production remained largely a national economic activity. Globalization is thus characterized by cross-border production that has intensified the cross-border flows of goods and services.

The intensification of cross-border flows raises important questions regarding economic policy co-ordination and regulation. There is a general view that globalization of economic activities has undermined sovereignty, and the political and regulatory frameworks predicated upon it, at both the national and international levels. The general argument is summarized by Reinicke (1997: 130), who argues that global corporate networks challenge the state's internal sovereignty by altering the relationship between the public and private sectors. Because of globalization, corporations fuse national markets, thus creating a national geography that subsumes multiple political geographies. In the circumstances, governments no longer have monopoly of legitimate power over the territory within which corporations operate. He concludes that, while globalization integrates markets, it fragments politics. Other commentators perceive jurisdictional gaps arising from a mismatch between policy making, which continues to be rooted in national frameworks, and policy challenges, which have become global (Kaul et al., 1999). The next section discusses alternative proposals for co-ordinating economic policy and regulation in the context of globalization.

HIERARCHIES AND GOVERNMENT VERSUS NETWORKS AND GOVERNANCE

Three possible approaches to global economic co-ordination and regulation have been proposed. The first is based on liberal internationalism and proposes the strengthening of existing international institutions or the creation of new ones.[15] The liberal internationalist approach favors a top-down solution that transfers regulatory authority to international institutions. The assumption is that global problems require international collective action. But, as argued above, international relations are beset with the dilemmas of collective action arising from the reluctance of states to accede to what they perceive to be the erosion of their sovereignty.

An alternative advanced by Mathews (1997) starts from the premise that there has been a shift of power from hierarchical state organizations to multi-layered networks of supra-state, sub-state and non-state entities such as non-governmental organizations.[16] The new order is prefigured in medieval overlapping networks of power-sharing arrangements within the same territorial space. Mathews sees the power shift as a consequence of revolutionary developments in communication technologies which, while compatible with the networking logic of the new organizations, are incompatible with the hierarchical organizational form of government. She argues that because of their accessibility and affordability, the technologies have broken the government's monopoly on the collection and management of information. They connect people with the same interests across borders.[17] The perceived power shift from hierarchies to networks is seen as a welcome change from government to governance. Mathews' argument smacks of technological determinism that overlooks or downplays the role of politics in the development and diffusion of technology. While it should be acknowledged that the technological revolution has shaped politics, it should equally be acknowledged that politics has shaped the technological revolution (Castells, 1996). Her celebration of the death of the state overlooks the fact that it has always been one among many institutional and regulatory orders, albeit one enjoying the monopoly of legitimate force.

A slightly different argument is presented by Reinicke (1997) who proposes a strategy for global public policy premised on the difference between government and governance. He argues that 'governance, a social function crucial for the operation of any market economy, does not have to be equated with government' (Reinicke, 1997: 132). He therefore proposes a strategy for global public policy which would uncouple governance from the nation-state and government. This would entail the delegation of tasks by policy makers to other actors and institutions that are better able to implement global public policies. These actors and institutions would not only include public sector agencies such as the World Bank and the IMF but also business, labor, and non-governmental organizations. He posits that these groups have a stake in the outcome, better information, and boundless range of activity. Their virtue is that they would increase the legitimacy of global public policy and produce a more efficient and effective policy process. Reinicke's proposed strategy acknowledges that the state, though weakened, remains sovereign – hence the suggestion that policy makers should consider delegating tasks to other actors.

A third alternative is presented by Slaughter (1997) who argues that the state is not disappearing but is disaggregating into its separate, functionally distinct parts.[18] These elements are networking with their counterparts abroad, creating a dense web of relations that constitutes a new transgovernmental order. The advantages of transgovernmental over international institutions are flexibility and effectiveness. She argues that while transgovernmentalism is an outcome of an increasingly borderless world, it is a world order ideal that is more effective and potentially more accountable than the other alternatives, as it leaves the control of government institutions in the hands of national citizens. In contrast to the top-down liberal internationalist approach, Slaughter proposes a bottom-up approach to co-ordinating international economic policy and regulation. Transgovernmental networks of regulators co-ordinate and enhance the enforcement of national laws and regulations rather than the enforcement of international law. The result is uniformity of result and diversity of means.

Of the three proposals, the transgovernmental approach has the virtue of ensuring the accountability of national regulators to the electorate. Liberal internationalist proposals run the risk of creating a democratic deficit while non-state networks raise important concerns regarding the legitimacy of regulatory norms whose provenance lies outside official institutions that derive their legitimacy from democratic processes and practice. With regard to Mathews' network of non-state actors, the dichotomy she draws between inflexible hierarchies and flexible networks may be difficult to sustain. There is no doubt that the Weberian bureaucracy is hierarchical. Officials enjoy special status and their conduct is based on established rules and norms (Weber, 1978). In contrast, a network, by its very nature, is flexible. Thus, bureaucracies and networks stand in stark contrast as polar opposites. However, in applying bipolar concepts to the analysis of social relations, there is a risk of imposing conceptual abstractions on dynamic and complex social relations and historical realities. As the experience of Asian developmental states shows, bureaucracies and networks are not mutually exclusive.

Comparative research on the Asian developmental states has identified the existence of a meritocratic and efficient economic bureaucracy along Weberian lines as critical to the unprecedented industrial transformation and economic development in Japan, Taiwan and Korea. Contrary to Weber's arguments, their effectiveness does not depend on their insulation from business. The economic bureaucracies are effective because their autonomy is embedded in business networks that provide institutionalized channels for continual negotiation and renegotiation of economic goals and policies (Castells, 1996: 173; Evans, 1995: 12). The important point is that the relative autonomy of the economic bureaucracy from the sectors it regulates gives it scope to set and implement economic goals. The economic bureaucracy and the individuals within it are, however, nodes within business networks. The possession and exercise of sovereign power gives the economic bureaucracy power to co-ordinate and regulate activities requiring collective action, which are beneficial to capital as a whole but would not be within the profit interest of individual corporations. It can be argued, therefore, that the networks linking economic bureaucracies and the business sectors they regulate provide a network mode of regulation.

For the purposes of this article, the experience of the developmental states shows that the dichotomy between lumbering bureaucratic hierarchies unable to respond to the networking logic of new technologies, on the one hand, and nimble non-hierarchical non-state actors taking advantage of the same networking logic on the other, may misrepresent a complex reality.

Bureaucracies are capable of responding to the networking logic of the new technologies, and the exercise of fragmented sovereign powers and functions gives them scope to co-ordinate and regulate activities that call for collective action beyond the profit interests of individual segments of capital. If they can respond to the networking logic at the national level, there is a possibility that they may develop cross-border horizontal links with other bureaucracies performing similar functions in order to address global collective action problems. The next section examines an example of such cross-border horizontal links between financial regulators.

THE INTERNATIONALIZATION OF FINANCE AND REGULATORY NETWORKS

Today's financial markets have become quintessentially global as a result of a number of factors that have transformed the post-Second World War Bretton Woods international monetary system beyond recognition within the last three decades. The main features of the monetary system were: highly regulated national credit and capital markets; government-regulated interest rates; and fixed but flexible exchange rates. International monetary management and support for the maintenance of fixed but flexible exchange rates were delegated to the IMF. Up until 1973, national financial markets were independent of one another, ringed by exchange controls and limited by regulations governing product innovation and market access (Maughan, 1993: 20). The degree of regulation reflected an appreciation of the inherent volatility of financial markets due to their susceptibility to public panics, on the one hand, and the high social costs of market failure and the consequent financial instability, on the other. Given the highly regulated nature of financial markets, cross-border provision of financial services was negligible and therefore did not pose challenges for inter-state regulatory and policy co-ordination. Moreover, in the event of a financial crisis occurring in one national market, regulatory walls prevented its spread into other markets.

The sedate and orderly situation described above ended in the early 1970s due to a combination of factors. First, rapid development of Eurodollar markets in the 1960s heralded the arrival of supra-national financial markets apparently beyond the regulatory reach and control of national authorities.[19] This chink in the regulatory armour allowed the genie out of the bottle and thereafter the lending of national currencies offshore grew at a phenomenal pace. Second, the collapse of the Bretton Woods regime of fixed but flexible exchange rates between 1971 and 1973 ushered in an era of floating and volatile exchange rates and created opportunities for speculators to bet on currencies in the hope of making substantial profits (Kapstein, 1994: 31–57). Third, developments in computing and telecommunications technology changed the business of banking. Not only have the technologies reduced the costs of international financial transactions, but they have also facilitated trading around the world and around the clock. Time and space no longer inhibit financial transactions between parties in different parts of the world as they once did in times past. Fourth, the liberalization of capital accounts and deregulation of financial services that started in the early 1970s facilitated the development of a global financial market.

Taken together, these developments facilitated the high mobility of capital around the world that has made financial movements the quintessential example of globalization. In the context of the new environment, financial institutions responded by promoting three developments in financial markets: globalization of financial activity; innovations in financial instruments and practices; and speculation (Kapstein, 1994: 20). Needless to say, the responses of financial institutions created new risks which have resulted in a number of financial crises since the early 1970s, including the collapse of Bankhaus ID Herstatt in 1974, the insolvency of the Franklin National Bank in 1974, the collapse of the Banco Ambrosiano in 1982, the debt crisis of the 1980s, the collapse of the Bank of Credit and Commerce International in 1991, the Mexican financial crisis of 1994 and the Asian financial crisis of 1997. Confirming Polanyi's (1957: 214) 'double movement thesis', deregulation produced crises, and each crisis produced a regulatory response. Given the removal of exchange controls and the liberalization of capital accounts, financial markets have become so closely integrated that all the above crises spilled over into other markets. This justifies co-ordination of activities among national regulators.

The supervisory and regulatory system that has emerged features a number of networks covering different sectors of the financial system. In the banking sector, the co-ordination of regulatory activities started in 1974 and has evolved into a network with nodes in most regions of the world. In the aftermath of the Bankhaus Herstatt and the Franklin National Bank, the central bank governors of the Group of Ten countries established the Committee on Banking Regulation and Supervisory Practices, commonly known as the Basle Committee. The Committee produces standards and guidelines and recommends statements of best practice which do not have legal force. It is up to authorities in individual countries to take the necessary steps to implement the supervisory and regulatory norms recommended by the committee. Some of the norms issued to date include: the Basle Concordat which seeks to close gaps in the international supervisory coverage; the Capital Accord laying down capital adequacy standards; and the Core Principles for Effective Banking Supervision. The Committee maintains links with regional supervisory groups from around the world and these links allow it to propagate its recommendations far beyond its limited membership.[20] Since 1979, the Committee has organized 10 biennial International Conferences for Banking Supervisors (http: //www.bis.org/publ). It has been suggested that 'as a consequence of regular meetings over the years, a community of central bankers and regulators has emerged whose shared values may give them more in common than they may have with various parts of their national government' (White, 1996: 20).

The co-ordination of international securities regulation is undertaken by another network, the International Organization for Securities Regulation (IOSCO), a forum for co-operation representing securities regulators from 94 countries which seeks to create a consensus on regulatory issues to be addressed in national legislation. It has a broader membership than the Basle Committee and operates under a Committee structure which includes nine regional committees as well as Technical and Emerging Market Committees. It has issued a number of regulatory norms including a set of core principles for securities regulation. Member organizations have entered into bilateral and multilateral memoranda of understanding regarding areas of co-operation (http: //www.iosco.org). Yet another network, the International Association of Insurance Supervisors, groups together national insurance supervisors who undertake international insurance regulation and supervision. The above three international networks of national regulators and supervisors have come together to form another network, the Joint Forum on Financial Conglomerates, to deal with issues arising from the breakdown of sectoral barriers and the emergence of large financial institutions offering a range of services which are traditionally offered by different financial institutions (http: //www.bis.org.publ, http: //www.iosco.org). In addition, there are a number of private sector networks dealing with various aspects of financial sector regulatory norms. These include: the International Accounting Standards Committee (IASC), dealing with international accounting standards; the International Swaps and Derivatives Association (ISDA); the International Securities Market Association (ISMA); the Emerging Market Traders Association (EMTA); and the Group of Thirty (BIS, 1997b). The networks also encompass international financial institutions such as the IMF and the World Bank that have endorsed the standards produced by some of the networks and propagated them as international best practices (Forkets-Landau and Lindgren, 1998).

It would appear that the above regulatory and supervisory networks are attempts to side-step the difficulties associated with the negotiation, ratification and implementation of treaties; especially given the sensitivities of governments regarding the regulation of national financial systems.[21] Purportedly, the network structure permits consultation and builds consensus around the regulatory and supervisory norms. The official line runs as follows. Agreement on sound practices in a specific area is reached by a group of key players after consultations with others who are not members of the group but have a material interest and relevant experience and expertise. Definitive recommendations follow the consultative process and they may gain greater weight upon a formal official endorsement. The recommendations, however, only become binding when adopted by national authorities. It is argued that the norms derive their authority from two sources: the expertise of those that have formulated them, and their acceptance deriving from the wide consultative manner of their preparation. The official line suggests that it does not matter whether the process is led by the official sector or the private sector. It is argued that 'irrespective of whether the official or private sector takes the lead, there is often some involvement of the other side in the form of consultation or tacit encouragement of the process' (BIS, 1997b: 54).

Thus, the hybridity of the supervisory and regulatory networks, combining official sector-led as well as private sector-led initiatives, appears closer to Reinicke's proposals, as discussed above, than the other two. The difference is that, unlike in Reinicke's proposals, private sector organizations do not exercise delegated authority in the preparation of norms. In the circumstances, their legitimacy does not derive from delegation of authority by official institutions that ultimately derive their legitimacy from democratic politics. Rather, their legitimacy is supposed to draw from the technical competence of those responsible for preparing the norms as well as the consultative process. This is obviously problematic. Technical competence alone is not sufficient to give legitimacy to the process and outcome. It is also doubtful whether consultation with officials alone gives the norms sufficient legitimacy. Without an institutionalized process of consultation, there is no guarantee that all interested parties will be consulted. In any event, private sector organizations exist to pursue sectoral interests. At least with official initiatives, it could be argued that officials moderate the interests of different stakeholders and represent the public interest. The representativeness of the official committees themselves varies. IOSCO is much more representative than the Basle Committee. Consultation with regional groups of supervisors goes some way towards addressing the limited membership of the Basle Committee. However, being consulted as an outsider is different from participating in the decision-making process.

Consonant with the flexibility of networks, the regulatory norms they issue do not take the character of hard law. Rather they are standards, guidelines and recommendations of statements of international best practice which can be viewed as different forms of soft law representing good faith undertakings of participants in the network. The plethora of standards that have been issued by different networks and organizations of late indicates their rising popularity.[22] In his influential book on the reform of the international financial architecture, Eichengreen (1999: 21–35) suggests that standards are the only feasible solution to crisis prevention. Their advantage lies in their flexibility to accommodate different regulatory traditions and economic cultures while assuring the achievement of commonly agreed goals. For Eichengreen, an additional advantage that the standards solution offers is that the burden of identifying or defining them can be left to private sector bodies, thus taking the pressure away from multilateral organizations that do not have the requisite resources and expertise. The role of international institutions such as the IMF would be limited to recognizing standards, urging adoption by their members, and then monitoring compliance.

An excellent critique of standards is provided by *The Economist* (1999a) which points out that they are often too vague. A more serious problem relates to compliance with and enforcement of standards. One approach to ensuring compliance, recommended by Eichengreen, would require the IMF to condition its assistance on the adoption and implementation of standards.

IMF conditionality has a chequered history in developing countries and suggestions of yet another instance of conditionality would meet with resistance. If, however, one sees financial stability as an international public good and financial instability as a potential public bad which spreads across countries (as argued by Wyplosz, 1998), one can argue that countries wishing to participate in international financial markets should play the game by the rules. Market enforcement of standards has also been suggested. It is argued that if internationally recognized standards are not observed by a country, market participants would exact a risk premium. But as the history of financial crises shows, the exaction of a risk premium by market participants cannot be separated from moral hazard. Market participants will assume high risk on the assumption that in the event of a crisis they will be bailed out by multilateral institutions.

One misconception arising from the official literature on regulatory and supervisory networks which should be laid to rest is that the process of norm setting is consensual. As Picciotto (1996–97: 1021) points out, the major characteristic of global governance in the current period is fragmentation into a complex and multi-layered network of bodies and institutions interacting in ways that express rivalry and competition as much as co-operation and co-ordination. There is, therefore, inter-network rivalry between and amongst networks. Moreover, intra-network conflicts are not uncommon, as exemplified by work on the capital adequacy standards. In the 1980s the United States considered progress in harmonizing standards too slow and decided to negotiate a bilateral agreement with the United Kingdom on risk-weighted standards. This put pressure on other Group of Ten countries to speed up the process of harmonization (Kapstein, 1994; Norton, 1995; White, 1996). Recent attempts to revise the capital adequacy standards have not been without their share of conflict. German regulators were accused of putting the interests of their own banks above the revision of the Capital Accord (*The Economist*, 1999b, 1999c). Networks are therefore not above the problems of national interest and power which have characterized international co-ordination of economic policy and regulation in other fora.

CONCLUSION

The search for a mode of regulation for global capitalism should be understood historically. The transformations that have occurred in global capitalism over the last three decades have rendered the old regulatory argument unsuitable for flexible labor processes and footloose capital. Regulatory responses informed by the old liberal internationalist logic appear doomed to failure. Hence the attractiveness of network solutions which appear to respond to the logic of flexible accumulation. The financial sector has shown the possibilities of co-ordinating policy and regulation through networks of national regulators and supervisors as well as private sector networks. But as argued above, some of the private sector networks raise fundamental issues regarding democratic accountability. Technical competence and ad hoc consultation are not enough to give legitimacy to the processes and the outcomes. With regard to networks of national regulators and supervisors, the representativeness of some of the committees is limited, thus indicating that networks are not immune from global power relations. Consulting regional committees of regulators is not equivalent to giving them the right to participate in deliberations on key issues. On a different dimension of representativeness, the ILO provides an excellent example of collaboration between government officials and NGOs representing different interests. The lesson from the MAI debacle is that regulatory arrangements that are perceived as products of cosy relations between state officials and representatives of sectoral interests are unlikely to enjoy legitimacy.

While networks introduce flexibility in the regulatory process, they may pose co-ordination problems that may cancel out the advantages of flexibility. One can imagine a plethora of international networks of government officials dealing with specific issues. Without co-ordination, issues falling within the regulatory grey zone between networks are likely to escape effective regulation. While the Joint Forum shows the possibilities of co-ordinating the work of different regulatory networks, the task is likely to become unmanageable with the increase in networks. Problems of implementing and enforcing the regulatory norms issued by networks also indicate the limitations of the network solution. While linkage and conditionality may go some way in alleviating those problems, they may not be sufficient. At a more fundamental level, it has yet to be demonstrated whether regulatory networks are capable of addressing some of the fundamental problems of global capitalism, such as widespread marginalization of whole geographic regions and large sections of society. For the network paradigm of regulation to succeed, it will have to pass the test of legitimacy and accountability. The jury is still out.

NOTES

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1. For an excellent summary of the literature on the redesign of the international financial architecture, see *The Economist* (1999a). See also Nouriel Roubini's website at http: //www.stern.nyu.edu/~nroubini/asia/AsiaHomepage.html#intro1 for links to many websites which discuss proposals for redesigning the global financial architecture. Eichengreen (1999: 124–32) also provides an excellent summary of the various proposals for the reform of the international financial architecture.
2. For an historical analysis of financial crises, see Kindleberger's classic study (1996).

3. However, while there were many calls during and in the immediate aftermath of the crisis, the zeal for radical reform seems to be in the wane as the crises have appeared to recede.
4. Doubts have been expressed regarding the feasibility of radical proposals for global financial architectural reform (*The Economist*, 1999a; Eichengreen, 1999). According to *The Economist*, radical proposals are unlikely to see the light of day because of three incompatible objectives that should inform the design of the architecture: 'continuing national sovereignty; financial markets that are regulated, supervised and cushioned; and the benefits of global capital markets' (*The Economist*, 1999a: 4). Any coherent reform proposal must favor two objectives at the expense of the third. Given the impossibility of accommodating all three objectives in the same design, most radical architectural blueprints are Utopian as politicians are not prepared to choose only two out of the three objectives. In the view of *The Economist*, the best hope in the short term lies in improving the trade-offs between the three objectives.
5. The dilemmas of collective action arise in situations where co-operation would produce optimal results for everyone involved but where, from a rational perspective, individuals have an incentive not to co-operate. Examples of these situations include the provision of public goods, the tragedy of the commons, and the prisoner's dilemma. Public goods are goods whose chief characteristics are non-excludability and non-rivalness. Once they are provided, no one can be excluded from benefiting from them. Rational individuals have an incentive to let others bear the burden of providing the goods, thus giving rise to the 'free-rider' problem. In the tragedy of the commons situation, people who have rights in a common property resource have no incentive to conserve the resource. If they conserve the resource, there is no guarantee that others will do so. The incentive is therefore to abuse or overuse the resource to the long-term disadvantage of everyone involved. The prisoner's dilemma refers to situations where individuals who know each other's minds make sub-optional choices because there are potential gains to be made by any one of them failing to co-operate while the others continue to do so. This gives rise to outcomes that are unsatisfactory to all concerned. For an excellent summary, see Putnam (1993: 163–7).
6. Institutional theory in international relations is a response to the inadequacies of realist and neorealist theories and seeks to explain why states co-operate and institutionalize their relations. Institutions are defined as 'rules of the game' (North, 1990: 4–5) and as 'persistent and connected sets of rules (formal and informal) that prescribe behavioral roles, constrain activity, and shape expectations' (Keohane quoted in Keohane and Martin, 1999: 2). They can take the form of formal intergovernmental or non-governmental organizations, international regimes, or informal conventions. Institutions help states overcome collective-action problems such as: the fear that other states will renege on deals; the inability of a state to monitor other states' behavior and preferences; and the fear that other states will act opportunistically in a context where punishment mechanisms are inadequate. Institutions help states overcome such problems and reach mutually beneficial agreements and allow reciprocity to operate efficiently. They do this by providing information about the preferences, intentions, behavior and standard of behavior of other states. They thus reduce transaction costs which are the costs of reaching and maintaining agreements (Martin, 1997: 3).
7. To escape the gridlock resulting from the diversity of state interests in open membership organizations such as the United Nations and its specialized agencies or conditionally open membership organizations such as the WTO,

attempts have been made recently to negotiate agreements in restricted membership organizations. Such agreements would be open to ratification and accession by non-member states. An example that immediately comes to mind in connection with this issue is the attempt to negotiate a Multilateral Agreement on Investment (the MAI) within the Organization for Economic Cooperation and Development (OECD). The MAI would have been open for ratification by non-OECD states. Happily, opposition from non-governmental organizations concerned about, among other things, the fact that MAI granted rights without responsibilities scuttled the attempt (see Picciotto and Mayne, 1999).

8. The account that follows draws from the seminal work by Harvey (1990) and Castells (1996).
9. Over the last two decades, an excellent corpus of literature on the developmental state has appeared (Amsden, 1989; Castells, 1996; Evans, 1995; Hamilton, 1986; Johnson, 1982, 1995; Wade, 1990; White, 1987). Castells (1996: 182) defines a state as developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady rates of growth and structural change in the economic system, both domestically and in its relationship to the international economy.
10. Castells (1996) also makes a similar argument.
11. See Harvey (1990: 141–97) for an excellent discussion of the crisis of capitalism.
12. Liberalization and harmonization of 'on-the-border policies' is described as 'shallow integration', while liberalization of 'behind-the-border' policies is described as 'deep integration'. An alternative approach is to view liberalization and harmonization of 'on-the-border' policies as amounting to negative integration, while the co-ordination of economic policy and harmonization of regulation is viewed as positive integration. As 'on-the-border' restrictions were progressively relaxed, it became clear that a range of internal policies and regulations could be used to achieve similar restrictions.
13. Harvey (1990) and Castells (1996) provide some of the most informed analysis on the subject.
14. Ghoshal and Bartlett (1998) identify three strategies and organizational structures which have been adopted by many large multinational corporations. In the first, the multinational parent company manages national subsidiaries which enjoy a substantial degree of strategic freedom and organizational autonomy. In the second, the corporation approaches the world as one integrated market and this informs its strategy and organization. The organizational structure is centralized with the parent company exercising considerable control of its offshore subsidiaries whose role is limited to sales and services. The third strategy and organizational structure allows local subsidiaries a certain degree of autonomy to adapt the parent company's knowledge or expertise to foreign markets.
15. Some of the radical proposals for the reform of the international architecture fall into this category.
16. There is no doubt that in the last half of the 20th century international organizations and multinational corporations have become a significant presence in national and international affairs. Equally, over the last decade social movements have emerged as a force to reckon with in national and international affairs. The retreat and downsizing of the state in the 1980s and 1990s under the neo-liberal ideological onslaught have enhanced the prominence and visibility of multinational corporations, while the collapse of statism in Central and Eastern Europe, as well as the crisis of authoritarian regimes in other parts of the developing world, testify to the active role of social movements. Hence the activities and voices of multinational corporations and civil society have become a common feature of today's international affairs.

17. Mathews' argument can be interpreted to mean that communication technologies have facilitated the development of a global public sphere where individuals and groups meet through the new media to discuss matters of common interest.
18. Slaughter takes issue with both liberal internationalist proposals and the proposals of what she calls 'new medievalists' such as Mathews. She makes two points against Mathews. First, she argues that private power is no substitute for state power. Second, the power shift is not a zero-sum game as power by non-state actors does not necessarily translate into loss of power for the state.
19. For a well-argued revisionist explanation of the origins of Eurodollar markets, see Kapstein (1994: 31–44). Contrary to explanations which see the development of Eurodollar markets as an escape from national regulation, Kapstein argues that the markets developed with the tacit connivance of public officials who believed that the promotion of international financial markets was consistent with the state's broader economic and political goals despite the regulatory costs associated with the evolution in terms of loss of control over economic policy and the banking sector.
20. The regional groups it maintains links with are: the Arab Committee on Banking Supervision; the Caribbean Banking Supervisors Group; the Association of Supervisory Authorities of Latin America and the Caribbean; the Eastern and Southern Africa Banking and Supervisory Group; the Group of Banking Supervisors from Central and Eastern European Countries; the Gulf Co-operation Council Banking Supervisors' Committee; the Offshore Group of Banking Supervisors; the Regional Supervisory Group of Central Asia and Transcaucasia; the South East Asian New Zealand and Australia Forum of Banking Supervisors; and the Committee of Banking Supervisors in West and Central Africa.
21. In connection with bank regulation, Kapstein (1994: 9) describes this approach as international co-operation based on home country control. This is a model of governance in which the responsibility for defining national financial institutions and regulating them is placed on the states. Under the model, states look to one another, rather than to a supranational or multilateral entity, to legislate and enforce any agreement that has been reached. International co-operation based on home country control promotes bottom-up regulatory harmonization.
22. These include the Core Principles of Effective Banking Supervision issued by the Basle Committee in 1997, the IMF's Special Data Dissemination Standard of 1996, the IOSCO's Objectives and Principles of Securities Regulation of 1998 and the International Disclosure Standard for Cross-Border Offerings of 1998, the OECD's Corporate Governance Standards of 1999. On the question of introducing an international banking standard, Goldstein's (1997) work seems to have influenced the Basle Committee.

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