

## **The Politics of Transparency: Ambiguity and the Liberalization of International Finance**

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The second lesson [of the financial crisis in Asia] is that transparency and free trade are more necessary than ever. . . . Rigging the markets—through corruption or denying them transparency—can only bring short-term relief. The markets always know, and they impose a heavy penalty. The discipline of the market is not always welcome, but it is a powerful ally of truth, efficiency and transparency.”

Robin Cook, British foreign secretary, May 15, 1998.<sup>1</sup>

The recent call for transparency is the latest in a series of policy prescriptions which insist that the solution to our international financial ills is more and better information. The markets are not to blame for recent instabilities, the policymakers insist; investors simply didn't have enough information to make the right decisions. This is a powerful rhetorical move: the language of transparency represents recent problems as technical—and therefore above politics—at the same time as it invokes a rich set of moral and political connotations which contrast transparency with secrecy, corruption and dishonesty. If we want to question the transparency of this argument, we must begin by taking a step back. We must place this contemporary turn to the politics of transparency within the context of the broader move to liberalize global finance, and we must examine the theoretical terms through which it has been articulated and justified.

Theorists and policymakers alike have turned to transparency as yet another means of resolving the uncertainties of a liberalized international financial system. Yet, I will argue, the neoliberal focus on uncertainty is just one, rather narrow, attempt to solve a far more pervasive problem in international finance—that of ambiguity. This chapter begins from the premise that every mode of financial governance must come to terms with the problems of economic ambiguity, whether in the form of informational uncertainty, contestation over economic concepts, the vagaries of confidence, or the complexities of mutual interpretation. For neoliberal theorists and policymakers, the solution to the problems of ambiguity rest in the market itself. Free the market from the uncertainties of political decision-making, they suggest, and you will create a stable and efficient international economy.

This chapter examines the pursuit of financial liberalization over the past two decades and considers the transformations that this process has wrought in the definition and management of political economic ambiguity. I will begin with a brief discussion of the central problem of ambiguity in international political economy and examine the ways in which new-classical economic theory has sought to foster and to justify a particular means of managing them. I will then consider several major trends in contemporary financial governance, and suggest that the move to financial liberalization has created as many new ambiguities as it has resolved, and has proven particularly vulnerable to crisis. Current trends in international financial governance in general, and the Asian crisis in particular, demonstrate the destabilizing consequences of the neoliberal failure to come to terms with the full force of economic ambiguity. The new emphasis on transparency represents both an attempt to shore up the neoliberal project in the face of these instabilities and a logical extension of that strategy through political and normative means. We are witnessing a new attempt to instill a global “spirit of transparency” and thus to *create* the universal economic subjects which new-classical economics purports to describe.

### **Theorizing ambiguity**

Ambiguity plays a perverse but pervasive role in modern economic thinking. It is ruled out by definition in pure classical and neoclassical equilibrium models: in such an economic universe agents are fully rational, information is perfect, exchanges are frictionless and hence the market always clears. Yet, considerable scholarly attention in the past few decades has focussed instead on the problems of informational imperfection, market failure and uncertainty, thus implicitly tackling the problem of ambiguity.<sup>2</sup>

In this chapter, I will focus on three forms which ambiguity takes in the international political economy, which I am calling technical, contested and intersubjective ambiguity.

In its simplest form, ambiguity is caused by insufficient information. This first form is a *technical ambiguity* for which one can develop functionalist solutions of the kind proposed by institutionalist economists: more information, more precise information, more transparent institutions. Ambiguities may also be produced when there is more than one explanation, definition or model for a given economic problem: the optimal level of inflation, for example, while often taken by orthodox economists as a given (zero, or as close to it as one can get), is in fact subject to considerable disagreement—and has changed historically.<sup>3</sup> Moreover, the impact of a given level of inflation is experienced very differently by the wealthy and the poor.<sup>4</sup> The optimal level of inflation is thus essentially contested—there exists a multiplicity of overlapping definitions, each of which depends on a particular point of view;<sup>5</sup> this second kind of *contested ambiguity* cannot be resolved technically, simply by providing more information, but must instead be resolved politically.

This second form of ambiguity, however, implicitly rests upon a third form—*intersubjective ambiguity*. Debates over economic explanations do not rest only upon different objective interests; in many cases they represent different beliefs about the way in which the economy can and should function. Such beliefs form the basis of the shifting forces of market confidence, providing the lenses through which market participants interpret economic events. While investors' perceptions are derived from economic "fundamentals" such as interest rates or inflation levels, they are filtered through a particular set of norms which distinguish good from bad economic practice. These norms are often based on concepts which are both open and complex: the freedom of the market, for example, is a principle which is not entirely reducible to a set of discrete policies. The act of interpretation—whether performed by an investor, policymaker or scholar—thus plays a crucial role in shaping the international financial realm.<sup>6</sup> This intersubjective dimension to economic interaction represents a third form of ambiguity.

None of these forms of ambiguity is inherently constructive or destructive to regime stability. Some forms of institutional ambiguity can be stabilizing, facilitating agreement and adaptation; others may be destabilizing, precipitating volatile changes in market confidence. Their effects depend on the way in which they are managed. All systems of financial governance must therefore find ways of accommodating and controlling these political-economic ambiguities. Yet, this analysis suggests that not all regimes will be equally successful in doing so. The most effective regimes will recognize all three forms of ambiguity and respond accordingly—reducing informational ambiguities, providing a means for negotiating contested ambiguities and building the shared norms needed to stabilize intersubjective ambiguities. The least successful regimes will be those which underestimate the force of ambiguity, treating it as a purely technical problem which can be eliminated once and for all—rather than managed on an ongoing basis.

## **Economic theory and financial governance**

I have suggested that financial governance is in part a process of managing ambiguities; how a regime manages ambiguities depends in part on how it defines them. Different financial institutions and ideas have historically defined and managed those ambiguities very differently.

## **Classical theory and the gold standard**

In the late nineteenth and early twentieth centuries international finance was governed by a gold standard regime. Countries pegged their currencies to gold at a particular rate and allowed the free movement of gold across their borders for the settlement of international debts. This was the ultimate *laissez-faire* system, in which states had little control over the movement of gold, and thus of capital, in or out of their economies. This financial regime was inspired by the tenets of classical economic theory, which assumed that, when left to its own devices, the market was essentially self-equilibrating.<sup>7</sup> Several

of the principle assumptions behind the classical conception of the market were eventually formalized as the Fundamental Welfare Theorem and the Efficient Markets Hypothesis.

Together, the Fundamental Theorem of Welfare Economics and the Efficient Markets Hypothesis predict that an unregulated market will produce the most efficient and socially optimal allocation of resources. The Fundamental Theorem states that, given the usual long list of assumptions, competitive markets will produce Pareto-optimal equilibria, ensuring that the rising tide of an economy will lift all boats.<sup>8</sup> The Efficient Markets Hypothesis, on the other hand, states that competitive markets gather and use information efficiently. This ensures that market prices accurately reflect the “true state” of the economy, allowing rational agents to make the best possible decisions. According to these two theories, therefore, free markets are both true and good, remaining unburdened by either moral or interpretive ambiguities.

### **Keynesian theory and the post-war regime**

The gold standard was suspended during the First World War and staggered through the difficult interwar years until Britain suspended convertibility in 1931. As the Second World War drew to a close, those seeking to develop a new post-war international monetary system overwhelmingly rejected the gold standard system, arguing that the speculative capital movements which the regime had facilitated were in fact disequilibrating—not self-equilibrating—and had contributed to the instabilities which precipitated the Great Depression and Second World War. John Maynard Keynes, one of the architects of the postwar order, argued that this speculative dynamic was driven by intersubjective nature of investment decisions and the destabilizing role of expectations. Left to its own devices, he argued, the market was prone to volatile shifts in confidence because of the self-fulfilling dynamic of expectations: “We have reached the third degree

where we devote our intelligences to anticipating what average opinion expects the average opinion to be.”<sup>9</sup>

Keynes thus disputed the two central postulates of the classical theorists: if all investment driven by volatile and often inaccurate expectations, as he suggested, market prices may not reflect economic reality, and any equilibrium arrived at without government intervention may in fact be far from optimal, as it was during the Great Depression. The solution he proposed, which was at least partly implemented through the institutions of the Bretton Woods regime, was government management of investment, sustained by an international economic order in which capital movements were constrained by government and international institutional practices.<sup>10</sup>

### **New-classical theory and the liberalization of finance**

This approach to international financial governance was dealt severe blows by the stagflation of the 1970s, and has come to be replaced by a far more orthodox set of economic ideas and policies. In challenging Keynesian theory, new-classical economists<sup>11</sup> developed an alternative theory of economic expectations, initiating what has been called the “rational expectations counter-revolution.”<sup>12</sup> These theorists argued that Keynes was right to focus on expectations – but wrong to focus on their inaccuracy. If we accept that economic agents are rational, they argued, then why do we ascribe them irrational expectations? It is irrational for people to continue making inaccurate predictions; eventually they will converge towards a correct model of the economy.

The rational expectations hypothesis paints a picture of a market economy which inevitably tends towards an optimal and efficient equilibrium—as long as it remains undistorted by outside intervention. This is a classic recipe for limiting the role of the state, and has served as a crucial theoretical justification for the progressive deregulation of international finance.<sup>13</sup> The rational expectations hypothesis predicts that any

government which seeks to stray from the “correct” model of the economy—by, for example, pursuing an expansionary fiscal policy—is doomed to failure, since rational economic agents will “know” that this action will be inflationary (based on the new-classical model) and will therefore build inflation into their expectations, thus producing the very inflation that they fear and obviating the positive effects of the government policy. The market is always right, while government is frequently wrong.

The rational expectations revolution points towards the possibility of an unambiguous economic universe—a feat that it can only achieve by assuming away every kind of political economic ambiguity. Technical ambiguities are brushed aside in the assumption of costless information necessary for economic agents to maintain an accurate model of the economy. That model, moreover, must be singular; it cannot be complicated by the kind of ambiguity produced through multiple, conflicting economic models. Finally, while the new-classical emphasis on expectations recognizes the intersubjective nature of human economic interaction, it cannot leave any room for the ambiguity of mutual interpretation.<sup>14</sup>

This new-classical literature seems to hint at the end of history in its vision of a world where politics and policy can be finally separated and the world economy will finally work as it should. Such hopes are evident in many contemporary strategies for international financial governance, which treat ambiguity as a temporary aberration—more often than not caused by political interference—which can be resolved by giving the market free reign. Yet the fragility of these hopes, balanced as they are on a set of rather tenuous assumptions, is also evident in the growing instability of contemporary financial patterns.

## **International financial liberalization**

We can see the principles of new-classical theory at work in three central trends in the liberalization of finance: the liberalization of capital movements, the increasing influence of speculation on exchange rates, and the privatization of risk. These policies have brought with them new tools for managing ambiguities at the same time as they have generated their own challenges for financial governance.

### **Liberalizing capital flows: quarantining politics**

Why liberalize? The immediate goal of financial liberalization is to allow capital to move freely across national boundaries, which it certainly has been doing, with daily foreign exchange trading levels reaching \$1260 billion by 1995, seventy times the level of world trade.<sup>15</sup> Following the Fundamental Theorem and Efficient Markets Hypothesis, advocates of capital liberalization argue that free capital movement will produce a more efficient global economy: it will result in a more productive allocation of investment, with capital moving to the best opportunities regardless of national boundaries—most likely from developed to emerging markets—and it will provide healthy discipline for government policy.<sup>16</sup> Implicit in these arguments for the advantages of liberalization is a particular set of assumptions about the problem of ambiguity: first, that it is only by removing the boundaries created by states and their governments that the economy will reach a global equilibrium (thus separating politics from economics), and second, that the newly freed global market will then work to curb the interference of government by punishing inappropriate behaviour (thus subordinating politics to economics). The process of liberalizing global capital movements is thus seen as a means to the end of creating a more perfect, less political and thus less ambiguous, global financial system.

Has the experience of more liberal capital markets borne out these expectations? In a discussion paper for the United Nations Development Programme, John Eatwell suggests

that the evidence is far less encouraging: in spite of the massive gross flows of capital, net flows have been relatively small, with the majority of investment flows moving towards developed countries, while the only real flow into emerging markets has remained volatile.<sup>17</sup> Overall, the long-term global effect of financial liberalization has been deflationary, slowing rather than increasing levels of investment and growth.<sup>18</sup> It has also been destabilizing, contributing to significant crises in both developed and developing countries, as speculative capital movements both inward and outward have distorted and damaged economies.<sup>19</sup>

### **Floating and fixed exchange rate regimes: volatility and market discipline**

The liberalization of capital movements has placed exchange rate regimes under considerable pressure: the more capital available for currency speculation, the more difficult it is for states to maintain a stable exchange rate. Since the collapse of the Bretton Woods exchange rate regime in the early 1970s, there has been a gradual movement in two directions: many larger developed economies have moved towards floating exchange rates, while many developing economies have opted for fixed rates. In spite of their considerable differences, both regimes continue to be subject to considerable speculative pressure.

As its name suggests, a floating exchange rate regime is one which allows a currency's value to float at whatever rate the market will bear; if there is great demand for a currency, its value will rise; if there is little demand, its value will decline. Before the collapse of the Bretton Woods regime, there had been considerable debate about the effects of a floating exchange rate system. Some pointed towards the troubled inter-war years as an indication of the instability of a floating system.<sup>20</sup> Others argued that a flexible rate system would actually be stabilizing, as the market would set the value of a currency according to an economy's soundness.<sup>21</sup> In the end, floating exchange rates

have in fact proven to be unusually volatile, while the patterns of their movement strongly suggest that speculative pressures have been the dominant force in their determination.<sup>22</sup> Both the day to day volatility and the more persistent misalignments which come with a floating exchange rate policy can pose real problems for affected countries.<sup>23</sup>

A government that pursues a fixed exchange rate, on the other hand, generally sets that currency at a particular value relative to a powerful currency, such as the US dollar. In doing so, it commits itself to maintain that exchange rate, either by buying up or selling off its currency to maintain its price level, or by taking any fiscal or monetary steps necessary to regain market confidence. If demand for a currency drops, for example, a state might either buy up the unwanted currency, expending its own foreign currency reserves in the process, or it might raise interest rates in order to attract foreign capital. Of course, both actions have costs attached. If the demand for that currency doesn't rebound quickly enough, a state's reserves can be depleted. On the other hand, raising interest rates will tend to exert a deflationary pressure on the economy, eventually increasing unemployment. If either measure is taken too far, it can actually have the opposite effect than intended, as the market loses confidence in a government's ability to continue defending its currency in the first case, and in its willingness to force its economy into recession in the second.

These pressures can become particularly destabilizing in the context of a liberalized financial market. As financial markets have grown, they have been able to bring larger and larger sums of money to their speculative pursuits—enough that they can ultimately deplete virtually any state's reserves if they try hard enough. If the market loses faith in a country's willingness to sustain its exchange rate, it can actually force the very change that it fears, by selling the currency so relentlessly that it forces a devaluation. Thus, while a government may chose a fixed exchange rate policy in the hopes of reducing the

destabilizing effects of exchange rate fluctuations, it is nonetheless far from immune from the pressures of financial markets. When driven by speculation, these markets may set the value of a currency at a rate that bears little resemblance to anything other than investors' own self-fulfilling hopes or fears. These intersubjective dynamics thus contribute to a profound kind of ambiguity where financial and "fundamental" valuations of an economy's health are at odds with one another. While such slippages may be creatively exploited by state policymakers when the market is more optimistic than warranted, such self-fulfilling expectations can be devastating once the market loses confidence.

### **Privatizing risk, producing ambiguity**

We are also witnessing a process which John Eatwell has described as "the privatization of risk," as ever new financial instruments are developed to help investors cope with the increasing uncertainties of a world of liberalized capital and volatile exchange rates.<sup>24</sup> Derivatives, as these new instruments are generically called, derive their value from that of an underlying reference security; for example, they may involve an option to buy or sell a particular security before a set date at an agreed exchange rate. Derivatives enable investors to "hedge" against potential changes in international markets such as a sudden shift in currency, equity or interest rate values. Much like hedging a bet, an investor can reduce the risk of a particular investment by making a counterbalancing investment.<sup>25</sup> Derivatives in general and hedge funds in particular have since come in for considerable critical scrutiny, after the failure and expensive rescue of the Long-Term Capital Management hedge fund in 1998.<sup>26</sup>

Why this concern with a set of instruments designed to manage risk, and thus to contain some of the technical ambiguities which have been introduced by the process of liberalization? For one thing, while derivatives may reduce the risks taken by an

individual investor, they cannot reduce the overall level of risk in the financial system but instead, in the words of an IMF report, can “only transform and re-allocate risk.”<sup>27</sup> Moreover, these new instruments have greatly increased the number of opportunities for speculation, allowing investors to profit from small changes in the relative prices of certain securities or to make large bets on the likely direction of macroeconomic conditions. While derivatives thus feed into the general increase in speculative trading, they also pose their own particular challenges to international financial stability. Derivatives create complex linkages between market segments, and can precipitate spill-over effects from one market into another.<sup>28</sup> At the same time, derivatives can increase overall market volatility by exaggerating the changes in the underlying securities upon which derivative contracts are based.<sup>29</sup> Given the enormous size of some hedge funds, they are particularly capable of self-fulfilling behaviours, as they sell short on a currency thus precipitating the decline that they have betted on. The intersubjective logic of derivatives speculation thus creates new ambiguities at the very same time as it seeks to resolve others.

Together, the liberalization of capital, the speculative pressure on exchange rates, and the proliferation of derivatives reveal a significant shift in the governance of political economic ambiguity towards a strategy which seeks to limit the role of governmental discretion by turning control over to financial markets. Such policies assume that economics is fundamentally unambiguous, and only becomes prone to ambiguity when subject to political decision-making. Yet as this discussion has revealed, these policies are also producing their own ambiguities, whether in the form of volatile capital and exchange rate movements, unquantifiable risk, or self-fulfilling speculative panics. In each case, these new ambiguities bear considerable resemblances to the intersubjective ambiguities for which Keynes blamed much of the Great Depression. The failure of neoliberal theory and practice to come to terms with intersubjective ambiguity has thus

rendered the international monetary system particularly vulnerable to instability and, as we will see in the case of Asia, to crisis.

### **The Asian financial crisis**

The Asian crisis began with a speculative attack on the Thai bhat in May of 1997 and rapidly spread throughout the region, hitting South Korea, Indonesia, Malaysia and the Philippines, and eventually contaminating even the strongholds of Japan, Hong Kong and Singapore.<sup>30</sup> The crisis came at a time when the momentum of liberalization seemed unstoppable and the euphoria of globalization incontestable. Suddenly, what had been obvious to so many proved far less certain; what had been secure, surprisingly fragile. To understand the Asian crisis, we must place it within the context of the global movement towards financial liberalization. In doing so, we are able to see each of the various aspects of liberalization at work: the liberalization of capital markets ultimately proved destabilizing as it limited the government's ability to regulate speculative investment. The prevalence of derivatives increased the volatility of capital movements while impairing the ability of regulators to assess the level of risk. Asian governments' attempts to either fix or float their exchange rates both proved disastrous in the face of market panic. In each case, neoliberal financial policies ultimately proved destabilizing—as did the IMF's attempts to respond to the crisis in those terms.

Throughout the 1980s and early 1990s, the Asian economies had followed the global trend, liberalizing both domestic and international capital, a move which accelerated the already considerable flow of foreign investment into these booming economies. Yet these inflows proved exceedingly volatile, as once eager investors rushed to pull out across the region at the first sign of trouble; Asian economies suffered enormously as a net inflow of \$93 billion to the region in 1996 turned into a net outflow of \$12 billion in 1997.<sup>31</sup> Some analysts have blamed much of the crisis on the excesses of financial liberalization,

arguing that such policies were implemented too rapidly, without the necessary regulatory safeguards, and without any real attention to the particular needs of individual economies. Among the more prominent voices on this side of the debate is Joseph Stiglitz, who was then Chief Economist of the World Bank.<sup>32</sup> Stiglitz and others contend that the deregulation of domestic and international financial flows actually contributed to the increase in unproductive investment before the crisis occurred, including riskier lending and more real-estate speculation. Thailand, for example, eliminated its restrictions on bank lending to real estate, partly in response to those favouring financial liberalization, only to produce a predictable real-estate bubble.<sup>33</sup> Financial liberalization thus left the Asian economies vulnerable to crisis, precipitating large influxes of capital while constraining the ability of government to regulate those flows.

If capital liberalization created the stage for a financial crisis in these Asian economies, foreign exchange speculation and derivatives trading sealed their fate. We can see each of these factors at work in the individual case of Thailand, where the region's troubles first began in May 1997. The crisis started out as a speculative attack on the bhat, following the release of economic news which fueled already existing fears that the Thai economy's bubble was about to burst.<sup>34</sup> The markets concluded that the Thai government would be unable to maintain the bhat's peg to the dollar and began to sell both the currency and stocks denominated in bhat. The violence of financial markets' response to the building crisis was exacerbated by the extensive use of derivatives contracts to provide lending in Asia; in Thailand, a majority of the short-term bank funds that entered the economy were linked to derivatives contracts of one form or another, making currency and asset markets particularly vulnerable to one another's crises.<sup>35</sup>

After trying to stem speculation by increasing interest rates, buying up bhat and implementing selective capital controls, the Thai central bank finally gave up its attempts

to defend the currency's parity and allowed the bhat to float. The currency quickly lost 20 percent of its value. Yet this devaluation did not satisfy the markets. At this point, the Thai government came face to face with the perversity of market confidence: the stronger their corrective actions, the more they convinced the market of the seriousness of their economic problems, the further their currency depreciated. Paul Krugman has suggested that there is a new unofficial slogan governing such currency crises: "For developing countries, there are no small devaluations."<sup>36</sup>

The IMF quickly entered the picture at this point, but its actions ultimately proved counter-productive. In August, a \$17 billion IMF bailout package was finalized; the package required the Thai government to reduce government spending, raise taxes, reduce public support for ailing firms and banks and remove the capital controls that it had imposed at the beginning of the crisis. The IMF thus responded to the Thai crisis as if it had been caused by the usual macroeconomic problems—when, in fact, this was not a classic fundamentals-driven currency crisis. In doing so, it not only implemented a "cure" which didn't match the disease, but it also reinforced investors' fears that the crisis was severe and structural. The high interest rates that the Fund demanded both depressed domestic economic activity and failed to regain international investor confidence, only reinforcing the perception among investors that the economy was in trouble. By diagnosing the crisis in the terms that it did, the Fund further spooked investors, effectively transforming a short-term crisis of liquidity into a long-term crisis of insolvency, condemning the Thai economy to long years of hardship and recovery.<sup>37</sup>

The Asian crisis provides us with a microcosm within which we can see the various forces of liberalization at work—and witness the potential dangers which attend their unchecked progress. The crisis also provides us with a powerful lesson on the perils of ignoring intersubjective ambiguity and treating a crisis in purely technical terms. The logic which shaped both the boom and the bust of these economies was driven by

mutually fulfilling hopes, fears and expectations; as the IMF belatedly discovered, what one says about a crisis can be as important as what one does. This evidence reveals that intersubjective ambiguities matter, and that they cannot be effectively managed by a system of governance which assumes that they do not exist. Not surprisingly, the Asian crisis has been interpreted by some as a significant challenge to the neoliberal insistence on liberalization for all. Yet some of the most influential responses to the crisis have resisted such challenges, and have sought to find in the lessons of the crisis a new solution to global economic instability—financial transparency.

### **The politics of transparency**

Rather than accepting the arguments of those who blamed the crisis on the instabilities created by excessive liberalization, many analysts insist instead that the problem was one of too little rather than too much liberalization. These scholars and policymakers argue that these Asian economies never fully embraced the goals of liberalization, but instead remained too committed to the “Asian model” of capitalism which relies on substantial state involvement in the economy and strong state-society ties.<sup>38</sup> Such analysts charge that the financial crisis was an inevitable, if excessive, reaction by international financial markets to longstanding structural weaknesses in the Asian economies—including a pervasive lack of economic transparency.<sup>39</sup> There just wasn’t enough information available about the health of these economies—about the riskiness of bank investments, the indebtedness of corporations, or the likely policy response of government, they argue. This lack of information, moreover, was a direct product of the form of Asian economic relations: the close ties between governments and corporations obscured certain economic decisions from view, while the heavy reliance of firms on bank borrowing rather than share offerings increased the subjectivity of credit decisions.<sup>40</sup> By focusing on transparency, analysts both effectively deflect responsibility

for the Asian crisis from the international system onto individual states, and characterize the response of international institutions such as the IMF as a call for political and economic openness.

We can also understand the current emphasis on transparency as part of the ongoing neoliberal attempt to define and contain political-economic ambiguity. Current economic theories of transparency rely on a rational expectations model of economic actors. If all market participants are perfectly rational and possess an accurate model of the economy, then any attempt by institutions to conceal information from the public is by definition going to be counterproductive. In many ways, a policy of transparency is the perfect functionalist solution to the problem of informational ambiguity. Such a policy acknowledges the increase in technical ambiguity which has come with the growing complexity of a liberalized financial system, at the same time as it seeks to resolve such ambiguities by increasing the information available—through more thorough reporting of derivatives transactions, standardized accounting practices, or greater scrutiny of bank’s risk management strategies. Yet such theories rely on what Bernhard Winkler describes as a “one-dimensional notion of transparency” which assumes away the more complex problems of filtering and interpreting information, thus ignoring the central role of intersubjective ambiguity.<sup>41</sup>

The pursuit of transparency is a project which is rhetorically very difficult to challenge. What could be wrong, after all, with seeking the truth? The word transparency carries with it a powerful array of moral and political associations: honesty, guilelessness and openness. Transparency has a democratic ring to it. It speaks to our suspicions about the secrecy of bankers and claims a moral right to know what they are doing with our money. Yet the language of transparency is somewhat deceptive, for while the word suggests a lack of mediation—simply opening certain areas to the gaze of the international community—achieving transparency in fact requires considerable active

intervention. To make a particular financial practice transparent, we must be able to measure and interpret it in a way that is quantifiable. For example, we might want to assess the riskiness of a particular bank's investment. What information do we include, and what do we exclude? We may find it difficult to quantify certain factors that went into that decision, particularly if it was based on a longstanding business relationship. Because that information is difficult to render transparent, we might favour decision-making that avoids the kinds of discretion that attend relationship-based banking.

The demand for transparency thus feeds into the broader neoliberal effort to replace discretionary decision-making with rule-based processes. It also supports the ongoing effort of agencies such as the World Bank to encourage the securitization of international credit.<sup>42</sup> Once we have established such standardized practices (using, more often than not, standards derived from the Anglo-American system), we need to determine whether they have indeed been followed. The collection of information thus necessitates the development of new forms of surveillance and monitoring. In the aftermath of the Asian crisis, there were indeed calls by the G-7 among others for a "new 'architecture' to strengthen surveillance of the world monetary system."<sup>43</sup>

This new emphasis on financial transparency is thus not so much a call for less governmental involvement in the global economy, but rather a demand for a different kind of governance. As Michel Foucault argued in some of his later writings, liberalism is a paradoxical mode of governance; its advocates insist that «on gouverne toujours trop» (we always govern too much) even as it extends its norms into new aspects of social life.<sup>44</sup> While Foucault was certainly not alone in his concern with the rationalizing tendency of modernity, his analysis was particularly acute in its perception of its normative force. He insisted that this liberalizing move could only succeed by defining its standards in normative terms. To be effective, the movement for economic liberalization must succeed in internalizing its standards around the world—in instilling

the “spirit” of transparency, and not simply its law. In spite of its claims to rule-based neutrality, the movement to liberalize is therefore best understood in normative and discursive terms. Hence the powerfully moralistic overtones of many arguments in favour of financial transparency, and the common slippage from treating transparency as a solution to the problems of uncertainty to invoking it as a weapon against endemic secrecy and corruption. Yet when someone like Robin Cook, the British foreign secretary, links transparency, free markets and free ideas, he is not pointing to the necessarily political nature of economic practices, but is rather suggesting that political liberty must be responsive to the dictates of the market, that “powerful ally of truth, efficiency and transparency.”<sup>45</sup>

This is the paradox of new-classical economic theory: while it represents itself as a solution to the problems of technical ambiguity, it in fact works on political and intersubjective levels—by making a strong normative claim to the virtues of its own mode of governance, and by working to universalize the intersubjective norms of a liberal market order. The call for a spirit of transparency is not so much an attempt to bare the economy’s true face to the world, as it is an attempt to create that face the world over—to transform every individual subject into perfectly rational economic agents, and thus create the unambiguous economic universe that their models so depend on by imposing new financial norms and institutions.

## Endnotes

- <sup>1</sup> R. Cook, "Commentary: Perspectives on the Asian Economies; The Need for Transparency is Clear; Economy: The Asian Crisis Highlights the Importance of Openness, Free Trade and Free Ideas in Today's Global Market" *Los Angeles Times* May 15 1998, B9.
- <sup>2</sup> In fact the 2001 Nobel Laureates in Economics, Joseph Stiglitz, George Akerlof and Michael Spence, were recognized for their work on asymmetrical information.
- <sup>3</sup> On the contested history of inflation, see: J. Kirshner, "The Study of Money." *World Politics* 52 (2000) 407-36; and M. Watson, "The Institutional Paradoxes of Orthodox Economic Theory: Reflections on the Political Economy of Central Bank Independence." *Review of International Political Economy* (forthcoming).
- <sup>4</sup> D. Hibbs, "Political Parties and Macroeconomic Policies." *American Political Science Review* 71.4 (1977), 1467-80.
- <sup>5</sup> W. Connolly, "Essentially Contested Concepts in Politics," *The Terms of Political Discourse*. 2nd ed. (Princeton: Princeton University Press, 1983) pp. 9-45. I have drawn on Connolly's conception of the contestability of concepts to develop my definitions of both contested and intersubjective ambiguity.
- <sup>6</sup> Anyone who has listened to US Federal Reserve Board Chairman Alan Greenspan's strategically ambiguous statements realizes that finance rests on a considerable measure of faith.
- <sup>7</sup> The original gold standard was based on the self-equilibrating price-specie-flow mechanism first described by David Hume. In practice, however, the gold standard depended on a significant level of intervention from the nascent central banks of the era. I. M. Drummond, *The Gold Standard and the International Monetary System 1900-1939* (London: Macmillan, 1987).
- <sup>8</sup> A Pareto-optimal equilibrium is reached when no one can be made better off without making someone else worse off. This formulation does not however deal particularly well with questions of distribution; a situation in which Bill Gates gains an extra billion dollars while the rest of the population gains nothing can still be Pareto-optimal, for the welfare of the population has not, at least

in absolute terms, been reduced. On the Fundamental Theorem see: J. de V. Graaf, *Theoretical Welfare Economics* (Cambridge: Cambridge University Press, 1957). For an overview of the Efficient Markets Hypothesis, see: B. Malkiel, "Efficient Market Hypothesis," *The New Palgrave: A Dictionary of Economics*, eds. J. Eatwell, M. Milgate and P. Newman (London: Macmillan, 1987).

- <sup>9</sup> J. M. Keynes, *The General Theory of Employment Interest and Money* (New York: Harcourt Brace, 1964) p. 156.
- <sup>10</sup> Keynes, *The General Theory*; and "Proposals for an International Clearing Union (April 1943)," *The International Monetary Fund 1945-1965: Documents*. Ed. J. Keith Horsefield. Vol. III. (Washington, D.C.: International Monetary Fund, 1969) pp. 19-36.
- <sup>11</sup> I am borrowing the phrase "new-classical economics" from Ilene Grabel, who defines it as "the extension of neoclassical (or orthodox economic) theory that emerged in the 1970s and 80s. It combines the 'rational expectations' hypothesis with a presumption of instantaneous market adjustment." I. Grabel, "Ideology and Power in Monetary Reform: Explaining the Rise of Central Banks and Currency Boards in Emerging Economies," *Global Studies Fall General Seminar* (Baltimore: Johns Hopkins University, 2000), n.2.
- <sup>12</sup> This is the title of an article by Mark Willes, "Rational Expectations as Counter-Revolution," *The Crisis in Economic Theory*, eds. D. Bell and I. Kristol (New York: Basic Books, 1981) pp. 81-97. On rational expectations theory, see: J. Muth, "Rational Expectations and the Neutrality of Money." *Econometrica* 29 (1961) 315-35; and R. E. Lucas Jr., "Expectations and the Neutrality of Money." *Journal of Economic Theory* 4 (1972) 103-24.
- <sup>13</sup> J. Eatwell, *International Financial Liberalization: The Impact on World Development* (New York: United Nations Development Program; Office of Development Studies, 1996), Part 2.
- <sup>14</sup> Like game theoretic models, this conception of interactive economic agents relies on a billiard-ball conception of intersubjectivity, and might be better termed inter-objectivity.
- <sup>15</sup> Bank for International Settlements, "Central Bank Survey of Foreign Exchange and Derivatives Market Activity, 1995," (BIS: Basle, 1996). Cited in Eatwell, *International Financial Liberalization*, 4.
- <sup>16</sup> Eatwell, *International Financial Liberalization*, p. 11.

- <sup>17</sup> Similar arguments have been made by Robert Boyer and Robert Wade in their chapters in *National Diversity and Global Capitalism*, eds. S. Berger and R. Dore (Ithaca: Cornell University Press, 1996) pp. 29-59 and 60-88; and by L. Weiss, *The Myth of the Powerless State: Governing the Economy in a Global Era* (Cambridge: Polity Press, 1998).
- <sup>18</sup> Eatwell, *International Financial Liberalization*, pp. 9-26.
- <sup>19</sup> Williamson and Mahar conclude that financial liberalization was a contributing factor in many cases of financial crisis, including crises in Argentina (1980), Chile (1981), Mexico (1994), the Philippines (1981), Thailand (1997), Turkey (1991 and 1994), the United States (1980) and Venezuela (1994). J. Williamson and M. Mahar, "A Survey of Financial Liberalization" *Essays in International Finance* 211 (1998): 53-55. Also see: Y. Akyüz, "Taming International Finance," *Managing the Global Economy*, eds. J. Michie and J. Grieve Smith (Oxford: Oxford University Press, 1995) pp. 55-90.
- <sup>20</sup> The experience of the 1930s raised concerns about the potentially destabilizing consequences of a floating exchange rate, given its susceptibility to speculation. For a classic statement of the problems of floating exchange rates, see: R. Nurske, *International Currency Experience* (Geneva: League of Nations, 1944).
- <sup>21</sup> Milton Friedman was among the most prominent economists to make this argument, insisting that the volatility of the 1930s was caused by the market's rational response to changing economic fundamentals and not by any self-fulfilling speculative forces. M. Friedman, "The Case for Flexible Exchange Rates," *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953).
- <sup>22</sup> Akyüz, "Taming International Finance" 69.
- <sup>23</sup> A. Crockett, "The Theory and Practice of Financial Stability," *Essays in International Finance* 203 (1997) 16-17.
- <sup>24</sup> Eatwell, *International Financial Liberalization* 6.
- <sup>25</sup> For a brief history of derivatives trading, see: B. Eichengreen and D. Mathieson, "Hedge Funds: What Do We Really Know?" (Washington, D.C.: IMF, 1999).
- <sup>26</sup> "Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management," Report of the President's Working Group on Financial Markets, (Washington, D.C., April 1999).

- <sup>27</sup> IMF, *Survey* (Washington, D.C., February 21 1994).
- <sup>28</sup> IMF, *International Capital Markets, Part I. Exchange Rate Management and International Capital Flows* (Washington, D.C., 1993).
- <sup>29</sup> R. Kelly, "Derivatives: A Growing Threat to the International Financial System." *Managing the Global Economy* pp. 222-223.
- <sup>30</sup> In this chapter, I am interested in tracing the influence of the various forces of liberalization on the crisis, and will therefore only be touching lightly on a very complex set of events.
- <sup>31</sup> Figures from: R. Wade, "From 'Miracle' to 'Cronyism': Explaining the Great Asian Slump." *Cambridge Journal of Economics* 22 (1998) 695.
- <sup>32</sup> J. Stiglitz, "Sound Finance and Sustainable Development in Asia," Keynote Address to the Asia Development Fund. (Manila, March 12, 1998).
- <sup>33</sup> India, in contrast, which has only liberalized its capital account to a very limited extent, weathered the tumult while showing few signs of the difficulties faced by its Asian neighbours—in spite of a less healthy domestic economy. A. Singh, "'Asian Capitalism' and the Financial Crisis," *Global Instability: The Political Economy of World Economic Governance*, eds. J. Michie and J. Grieve Smith (London: Routledge, 1999) p. 28.
- <sup>34</sup> This account of the Thai crisis is taken from Ilene Grabel's "Rejecting Exceptionalism" 46-8.
- <sup>35</sup> Based on data on the exposure of US money-centre banks to loans and derivatives provided by the Federal Financial Institutions Examination Council, Dec. 31, 1997. Cited in J. A. Kregel, "Derivatives and Capital Flows: Applications to Asia." *Cambridge Journal of Economics* 22 (1998) Table 1.
- <sup>36</sup> P. Krugman, "The Return of Depression Economics," *Foreign Affairs* 78: 1 (1999) 64-5.
- <sup>37</sup> For critical assessments of the IMF's role in the crisis, see: A. Singh, "'Asian Capitalism' and the Financial Crisis;" M. Feldstein, "Trying to do Too Much," *Financial Times* March 3 1998; and "Refocusing the IMF," *Foreign Affairs* March/April (1998); J. Sachs, "A Power Unto Itself," *Financial Times* December 11 1997.
- <sup>38</sup> For discussion of the developmentalist model of economic development favoured by Asian states, see: P. Evans, "Predatory, Developmental and Other State Apparatuses," *Sociological Forum* 4.4 (1989).

- <sup>39</sup> Prominent individuals who accepted this diagnosis included Alan Greenspan, Chairman of the US Federal Reserve Board and Michel Camdessus, IMF Managing Director. A. Greenspan, "Testimony of Chairman of the Reserve Board." *Committee on Banking and Financial Services, U.S. House of Representatives*. (Washington, D.C., January 30 1998); M. Camdessus, "Economic and Financial Situation in Asia: Latest Developments," *Background paper prepared for presentation to the Asia-Europe Finance Ministers Meeting* (Frankfurt: IMF, 1999).
- <sup>40</sup> Critics have responded that there was in fact considerable information available to investors before the crisis, some of which pointed towards a number of key macroeconomic weaknesses; the problem was not the lack of information but the disinterest of investors in considering it. See: Bank of International Settlements, *66th Annual Report* (Basle, 1996).
- <sup>41</sup> B. Winkler, "Which Kind of Transparency? On the Need for Clarity in Monetary Policy-Making." *European Central Bank Working Paper Series* 26 (2000), 7. For another perspective on the politics of transparency, see: M. Webb, "The G7 and Political Management of the Global Economy," *Political Economy and the Changing Global Order*. eds. R. Stubbs and G. Underhill. 2nd ed. (Toronto: Oxford University Press, 1999) 147.
- <sup>42</sup> Advocates of this shift argue that the anonymous nature of security market transactions avoid the problems of subjectivity introduced by bank lending. What they ignore is the considerable evidence that bank-based systems are often better at allocating investment wisely. Eatwell, *International Financial Liberalization* pp. 43-44. For data on the size of the shift from banking to securities, see Akyüz, "Taming International Finance" Table 3.2.
- <sup>43</sup> A. McCabe, "G-7 Boosts Financial Surveillance: Canadian Initiative Aims to Avert Further Economic Crises." *Business. Ottawa Citizen* May 16 1998, Final ed., sec. E: 1.
- <sup>44</sup> M. Foucault, *Résumés des cours* (Paris: Collège de France, 1989) p. 111.
- <sup>45</sup> Cook, "Commentary."