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Undisciplined Economies

Andreas Jansson

review of: Vestergaard, J. (2008) *Discipline in the Global Economy? International Finance and the End of Liberalism*. New York: Routledge (HB: pp. 288, £ 60, ISBN: 978-0415990318).

Most of the time there are enormous amounts of liquidity on the look out for investments that promise competitive returns. However, flows of capital into specific countries and sectors by global players may just as quickly be reversed and reallocated elsewhere. This creates panic and crises in financial systems, with devastating consequences for local economies. Global finance thus affects the lives of us all, whether we like it or not.

Vestergaard, in this interesting and thoughtful book, brings Foucault's analyses to bear on various aspects of the governance of the global financial system. Vestergaard argues that the East Asian financial crisis of the late 1990s marked a turning point for such governance. In particular, he shows that the characteristics of Asian economies were blamed for the crisis while other important factors were ignored. In the aftermath of the crisis, a global disciplinary regime was established that attempted to mould 'proper' economies in East Asia and beyond. 'Proper' economies were said to be characterised by transparency and 'sound' regulations, which was supposed to make them able to compete for global financial resources. This mode of governance, Vestergaard argues, has instead brought further volatility to the global financial system, demonstrated most clearly by the current economic crisis.

The East Asian Financial Crisis

The chain of events constituting the East Asian financial crisis can be summarized as follows. A lot of foreign capital was lent to East Asian banks at short maturities, which was then lent to local actors. Typically, though not exclusively, these loans were denominated in US dollars, to which the currencies of most East Asian countries were pegged. The crisis began in Thailand when foreign capital began to be swiftly withdrawn in June 1997, thus diminishing its reserves. Instead of devaluing the currency, the Thai central bank began to defend its currency by instigating repurchases of it, aided by the International Monetary Fund (IMF). This defence of the currency was ultimately in vain and the Thai Baht was left to float, which prompted a major depreciation of the currency against the USD and other currencies. Many actors in the local Thai economy were in deep USD-denominated debt, so it became increasingly difficult to meet payments as the USD appreciated. Inevitably, numerous bankruptcies and a recession followed from this chain of events, which also played out in a number of other East Asian countries with similarly devastating consequences for their economies.

A large number of economists have attempted to single out the salient causes of this crisis, focusing on whether the withdrawal of capital was a response to macroeconomic fundamentals, why so much capital was lent in the first place, and what to do to prevent similar crises in the future (p. 25). Vestergaard takes a closer look at four economists who are authoritative voices in this debate: Barry Eichengreen, Paul Krugman, Joseph Stiglitz, and Robert Wade (chapters 3-6). The aim of this exercise, employing a method inspired by Foucault, is to problematize these narratives and to question the image of the crises they create.

The economists point to such factors as moral hazard, 'crony capitalism', and unsound macroeconomic fundamentals as likely causes of the East Asian financial crisis. Vestergaard argues that these narratives constantly focus on the recipients of the loans (i.e. the local actors in the East Asian economies) when seeking to ascribe blame for the crisis. Vestergaard, in problematizing these narratives, points out that it "takes two to tango" (p. 80). In other words, there could not have been any irresponsible borrowing unless there were also equally irresponsible lending. Say's law, it seems, is never as applicable as it is for finance.

Representations are not neutral. What really matters, here, are the major political consequences that followed from the apparent economic consensus. Vestergaard argues that the Asian financial crisis of the late 1990s can be seen as a turning point in the governance of global finance; it paved the way for the emergence of a new system of disciplinary power.

Making Economies Transparent and Ready for Examination

The strongest section of the book is the analysis of how, in the aftermath of the East Asian financial crisis, a new system for international finance was launched (chapters 8-13). Here, Vestergaard analyses the post-crisis governance of the global financial system by using an analytical framework based on Foucault's writings on disciplinary power. Arguing that knowledge and power are intertwined, Vestergaard is able to show that there is a link between the economists' analysis of the Asian crisis and the governance of the global financial system.

What is the rationality of this system and how does it relate to the economists' analysis of the crisis? Vestergaard explains that the IMF and World Bank previously forced countries that sought their assistance to enact structural reforms, mainly consisting of deregulation. After the Asian crisis, a new generalized system of constant surveillance and enforcement mechanisms was instigated. This served to discipline economies regardless of whether they had suffered a crisis or not (p. 100). The new monster spawned in the aftermath of the Asian financial crisis was the so-called International Financial Architecture (IFA) initiative, given an expression most clearly in IMF's Financial Sector Assessment Programme (FSAP). The key difference from previous attempts by the IMF to mould the international financial system was that the FSAP did not promote deregulation per se, but rather promoted a specific set of regulations. Vestergaard shows, moreover, that these regulations were grounded in policy recommendations that had been derived from the economists' analysis of the East Asian financial crisis.

Disciplinary power, in Foucault's analysis, creates docile, individualized bodies that are constantly examined and trained to conform to norms. Foucault famously uses the model of the Panopticon as a metaphor for a society characterized by disciplinary power, in which one never knows whether or not one is being observed and must therefore act as if one is always under observation. In Vestergaard's analysis, the IFA initiative analogously creates "'docile' economies" (p.130): economies that are trained to conform to norms of what constitutes a 'proper' economy through a system of hierarchical observation and normalizing judgement (pp. 125-128). This is why the FSAP place so much emphasis on the idea of 'transparency', since transparent economies can be assessed and measured against the ideal or proper economy. Vestergaard goes on to describe the attempts by the IMF and World Bank to develop indicators and methods to examine and make economies transparent. If everything ran according to plan, it was believed, market actors would take advantage of this newly-established transparency and punish economies that deviated from this norm by demanding risk premiums to invest there. This would put pressure on economies to conform to the norm of the 'proper' economy.

What is this 'proper' economy? Vestergaard's book offers an interesting analysis of this issue (chapter 11). Delving into accounting and comparative capitalism literature, he shows that what is promoted as 'international best practice' when it comes to the financial system is, in fact, an image of the Anglo-American way of organizing financial markets. The IFA initiative, in other words, is another way to spread the Anglo-American brand of capitalism over the world, packaged as the image of a 'proper' economy.

A ready parallel can be made to the highly influential 'comparative law and finance' literature (often at the top of social science citation indexes), which sets out to measure such elusive concepts as the 'quality of government' and the 'strength of investor protection' (e.g. La Porta *et al*, 1998). This literature typically argues that countries with legal systems rooted in the common law tradition (i.e. the UK and its former colonies) performs better in terms of the strength of investor protection and the breadth and depth of financial markets. It therefore stands for 'best practice' regarding financial system regulations. As Vestergaard argues (pp. 141-148), most types of capitalism do not traditionally depend on Anglo-American-type liquid capital markets for mediating finance, but have other institutions (such as banks) taking care of the job. Yet, once it becomes accepted that financial markets are good and just, as the IFA initiative sought to accomplish, then obviously regulations associated with legal systems rooted in the common law tradition might appear as best practice, as it is accustomed to a model involving large financial markets.

The interesting thing, however, is that the IFA was not very successful. Vestergaard presents an "anatomy of regulatory failure" (chapter 12) in which countries were not particularly interested in taking part in the various assessment programs that had been launched. Curiously, financial market actors disregarded what the IMF and the World Bank deemed to be a proper economy, which led to the failure of the reward/punishment component of the disciplinary system. Neither was the system very successful in preventing financial crises: FSAP-certified Dominican Republic experienced a banking crisis shortly after it was examined, demonstrating the evident weaknesses of the approach.

IFA, Ideology, and the Future

Vestergaard associates the IFA initiative with a 'post Washington consensus'. If the previous Washington consensus believed in the soundness of deregulation, free markets, and small government, the post Washington consensus believes that "institutions matter" (p. 173). If an economy can get its institutions right, it will prosper. Organizations such as IMF and the World Bank no longer condition their loans on deregulation and privatisation programmes, but instead attempt a more generalised form of surveillance and discipline, training economies to get their institutions right. These 'right' institutions, Vestergaard points out, are very similar to those prevailing in Anglo-American countries.

But is this neoliberalism? By relating the IFA initiative to a brief history of liberal thought (chapters 14-17), Vestergaard concludes that it is not, to the extent that you associate neoliberalism with the position that government should stay out of the economy and markets should be free and unrestrained, with the social order allowed to emerge spontaneously. In fact, the very essence of the IFA initiative is to design and implement a given social order in lieu of whatever local social order markets have produced, on the argument that this designed order is the better for financial stability and economic success – a "Hayekian nightmare", to use Vestergaard's terminology (p. 214). Even though this more totalitarian stance may pass as neoliberalism in the sense the term is used nowadays, it certainly does not accord with what often is considered the intellectual roots of this ideology, suggesting that neoliberalism has become decreasingly 'liberal'. The IFA was a planned exercise in homogenization, thus contradicting the historically liberal virtues of heterogeneity and spontaneous social order.

Vestergaard concludes the book with a chapter sketching out policy advice for the future governance of the international financial system. In essence, he advocates the application of what Foucault calls the 'ethos of liberalism': the constant questioning of whether we are governing too much (or too little). The ongoing economic crisis compels us to reflect on this very question and to think about how we might go about transforming our financial institutions and the wider system of governance and regulation. In sum, Vestergaard's analysis offers a refreshing perspective on international finance that will be of major value to those of us interested in finance and the global development of capitalism.

references

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, A. and R.W. Vishny (1998) 'Law and Finance', *Journal of Political Economy,* 106(6): 1113-1155.

the author

Andreas Jansson is an assistant professor of accounting and corporate governance at the School of Management and Economics, Växjö University, Sweden.
E-mail: Andreas.janson@vxu.se