POLS2094
WEEK 8 2026

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General questions for this week

The goal for Week 8 is to deepen our understanding of international finance given the foundation laid in Week 7. Week 7 focused on the domestic politics of money generally and of exchange rates specifically. This week we turn to the international politics of the global financial system. The main questions we focus on this week are: (1) how is global finance governed? (2) are financial crises an inherent part of global capitalism? (3) what are the main theoretical explanations for how global finance is structured?

Reading notes and questions

Please read the assigned articles before lecture and tutorial. We will be referring to them repeatedly during the week. For week 8, please read:

> Deeg, Richard, and Mary A. O'Sullivan. 2009. "The Political Economy of Global Finance Capital." *World Politics* 61(4): 731-763 [29 pages].
>
> Bradlow, Danny. 2023. "Zambia's Foreign Debt Tragedy: What Needs to Happen to Resolve the Crisis." *The Conversation*. 29 November 2023. https://theconversation.com/zambias-foreign-debt-tragedy-what-needs-to-happen-to-resolve-the-crisis-218618 [3 pages].
>
> Stein, Howard, and Horman Chitonge. 2025. "The Zambian Debt Default: A Structuralist Perspective." *Georgetown Journal of International Affairs*. 9 January 2025. https://gjia.georgetown.edu/2025/01/09/the-zambian-debt-default-a-structuralist-perspective/ [4 pages].

Reading questions

Below are some questions to think about as you read the Deeg and O'Sullivan (2009) article. The two Zambian articles are shorter and focused on Zambia. I would encourage you to read these articles after the Deeg and O'Sullivan (2009) article and think about ways the Zambian case, as described in these articles, connects to the concepts and arguments in Deeg and O'Sullivan (2009).

Remember

1. How do Deeg and O'Sullivan (2009) characterize the major developments in the literature on the political economy of global finance?
2. What are the three major questions the authors organize their review around?
3. What do the authors mean by "financialization," and what are its two main components?

4. How do the authors distinguish between “rule generators” and “rule enactors” in global finance?

Understand

5. How has the focus on actors in the political economy of global finance evolved over time? What shift do the authors identify in recent literature?
6. Compare and contrast the approaches of Abdelal (2007) and Jabko (2006) regarding the role of supranational actors in shaping global finance rules.
7. How do interests, institutions, and ideas interact as causal forces in shaping the political economy of global finance according to the authors?
8. How do the authors describe constructivist approaches to studying global finance?

Apply, analyse, and evaluate

9. What questions do the authors raise about the future role of various players in global finance following the financial crisis? Which of these questions remain relevant today?
10. How convincing is the authors' claim that we need to better understand the behaviour of rule enactors to comprehend financial crises?

Lecture—The political economy of global finance

Part 1: The partial globalisation of international finance

In Week 7 we discussed

The role of money as a store of value, medium of exchange, and unit of account.

Differences between monetary (week 7) and fiscal policy (more in week 9).

Today’s questions

(1) How is global finance governed?
(2) Are financial crises an inherent part of global capitalism?
(3) What are the main theoretical explanations for how global finance is structured?

Part 1 provides some historical context and discussion of the current nature of global finance.

Enduring state focus

Over the last seven weeks, we have highlighted the enduring importance of nation-states in the global political economy.

Countries must choose between:

National financial sovereignty (regulatory autonomy)
Financial integration (cross-border capital flows)

Financial stability (crisis prevention)

Even with floating exchange rates, financial stability may require giving up some policy autonomy.

Historical context

It is useful to compare pre-WWI financial flows with contemporary globalization.

Relative volume
Investment quality
Integration level
Home bias

Relative volume

The volume of financial flows in 2000 still had not equalled the international flow of capital at the end of the 19th century.

Before WWI, British investors put approximately half their savings abroad (5% GDP) and peaking at almost 10% of GNP between 1880 and 1913.

Japan's capital exports in 1980s-90s were 2-3% of GNP.

Investment quality

Pre-WWI British investments were largely directed toward railroads, port facilities, and other infrastructure that provided physical foundations for economic development.

These investments enabled development of the US and other "lands of recent settlement." (Gilpin 2001)

A substantial portion of contemporary international capital flows are short-term (~6 months) and highly speculative.

Integration level

Gilpin (2001) points out that the international financial system continues to be largely nationally based, consisting of closely interconnected but discrete national financial systems.

National savings rates and investment rates remain closely correlated, indicating that the world is not as financially integrated as many believe.

Home bias

Finance is still characterized by a powerful "home bias" effect, where investors tend to invest in their home economies.

In the 1990s, 94% of US stocks and 98% of Japanese stocks were domestically owned.

2026 still rules

Global finance in 2026 is unique in its absolute size, high velocity, and global scope.

Speculative, short-term investments have significantly increased the vulnerability of the international financial system and the world economy more generally.

Partial globalisation

We live in a world of partial globalisation where national financial systems persist.

Definition: The uneven, incomplete, and selective nature of economic integration across the global economy.

Rather than a uniform, complete globalisation where all sectors, regions, and markets are equally integrated, the actual pattern is much more varied.

Important elements of partial globalisation

Sectoral unevenness—Some sectors are highly globalised (like finance, electronics, cars), while others remain predominantly local or regional (many services, construction, some agriculture).

Geographic selectivity—Globalisation concentrates in and between specific regions, cities, and countries, creating archipelagos of global integration amid seas of relative disconnection.

For example, global cities like New York, London, Tokyo, and Shanghai are deeply connected to each other while their rural hinterlands may be far less integrated.

Policy-driven boundaries—National governments maintain selective barriers and openness, creating a strategic integration rather than complete openness.

Examples include protected sectors, capital controls, and managed migration.

Institutional incompleteness—Global governance institutions remain partial and incomplete compared to national governance systems, with limited authority and enforcement capacity.

Network structures—Global economic integration follows network patterns rather than uniform diffusion, with dense connections between certain nodes and sparse connections elsewhere.

Implications of partial globalisation

This understanding of partial globalisation challenges:

Hyperglobalist views that see globalisation as complete and inevitable.

Sceptical views (that minimize the significance of global integration)
Instead, it recognizes globalisation as a real but uneven, politically mediated process that creates complex patterns of integration and exclusion.

The Feldstein-Horioka puzzle

Feldstein and Horioka (1980) find that national savings rates and investment rates remain highly correlated across countries.

This contradicts what economic theory would predict in a world of high capital mobility

Theory—With perfect capital mobility, investment in a country should depend on global investment opportunities, not domestic savings.

Reality—High-saving countries like Japan tend to be high-investing countries, and vice versa.

This shows the continued importance of national financial markets and helps explain why capital costs still vary significantly between countries.

It also suggests financial integration may be more limited than trade integration.

Yet the financialisation of the global economy has increased dramatically

Definition: When the financial sector grows larger as a percentage of economic activity and grew influence over rest of the economy.

A domestic consequence of global financial integration

Profit financialization of the financial and nonfinancial sectors.
Control financialization to maximise shareholder value and corporate managers.

"Perhaps the greatest paradox of the current regime is that it has facilitated flows of funds from poor countries to rich countries rather than in the opposite direction." Deeg and O'Sullivan (2009: 754)

They export cheap goods and investments in foreign currency.

Examples

USA
UK
China

United States financialisation

Financial sector's share of GDP grew from ~4.9% in 1980 to approximately 8.3% by 2020.

Financial assets grew from ~ 4 times GDP in 1980 to over 10 times GDP by the 2010s.

Finance industry profits increased from ~10% of all corporate profits in the early 1980s to peaks of 30-40% before the 2008 crisis.

United Kingdom financialisation

London's transformation into a global financial hub following deregulation in the 1980s

Financial services grew from ~5% of GDP in the 1970s to over 8% by the 2010s.

Financial sector employment in London doubled between 1980s and 2000s.

China financialisation

Shadow banking assets (wealth management, trusts, peer-to-peer) grew from almost nothing in 2000 to over 70% of GDP by 2017.

Total financial assets expanded from around 1.5 times GDP in the early 2000s to over 4 times GDP by 2020.

Rapid expansion of wealth management products, trust companies, and internet finance platforms.

Economic impacts of financialisation

Increased income inequality in many countries as financial sector compensation outpaced other sectors.

Greater economic instability from rapid credit expansion and contraction cycles.

Corporate focus on shareholder value and short-term financial metrics over long-term investment.

Household financialization through expanded mortgages, consumer credit, and retirement investments.

Increased political influence of financial institutions over economic policy and regulation.

MNC financialisation

Non-financial businesses now often have sizeable investments.

Example: General Motors

Based on GM's financial data from 2023-2024:

	GM Financial	**GM Automotive**
Total assets	~$100-110 billion	
Annual revenue	~$14-15 billion	~$160-170 billion

Operating income	~$3-4 billion	~$12-14 billion

GM Financial serves as an important profit centre for GM, contributing about 20-25% of overall operating profits while generating less than 10% of total revenue.

The finance unit provides auto loans and leases to GM customers and dealers, supporting vehicle sales.

GM has strategically used its financing arm to support its core automotive business, particularly during economic downturns when traditional lenders might tighten credit requirements.

This vertical integration helps GM maintain sales volume and market share across economic cycles.

Other MNC examples

Ford Credit—Ford's financing arm that generates ~ 20-25% of the company's profits

Apple—Has a growing financial services operation through Apple Card and Apple Pay, plus manages an investment portfolio of over $200 billion.

Part 2: Financial crises as inherent features of global capitalism

Why do financial crises occur?

Financial crises appear to be recurring phenomena in the global capitalist system rather than anomalies or aberrations.

Minsky's financial instability theory

Financial crises follow a predictable pattern:

Displacement—An external shock (war, technological innovation, policy change) creates new profit opportunities in some sectors

Credit expansion—Financial institutions extend credit to capitalize on these opportunities

Euphoria—Speculation drives up asset prices, creating a self-reinforcing cycle

Profit-taking—Insiders begin to sell their inflated assets

Panic—The bubble bursts as investors rush to exit positions

Crisis—Prices collapse, bankruptcies increase, and credit tightens

Minsky's financial instability theory

This model suggests that financial instability is not merely the result of policy mistakes or external shocks, but an endogenous feature of capitalist financial systems.

Even with rational individual actors, collective market behaviour can produce irrational outcomes, what Kindleberger calls “mob psychology.”

Types of financial crises

Banking crises—When major portions of the banking sector become insolvent

Sovereign debt crises—When governments cannot or choose not to repay creditors

Currency crises—When a currency experiences sharp depreciation

Inflation crises—When governments print money to address other crises

Interconnected crises

The interconnected nature of these crises creates cascade effects.

For example, banking sector problems can force government bailouts, which increase sovereign debt.

If debt levels become unsustainable, governments may resort to printing money, causing inflation and potentially currency crises.

This interconnection means that addressing one type of crisis often risks triggering another.

Structural factors affecting financial crises

The monetary trilemma

Asymmetrical information

Adverse selection—When sellers know more about assets than buyers, leading to market dysfunction (e.g.Theranos).

Moral hazard—When the provision of insurance (like bailouts) encourages riskier behaviour

Dependent financialisation in developing countries

Dependent financialisation in developing countries

Dependency on U.S. dollar-denominated loans

Vulnerability to commodity price fluctuations

Pressure to accumulate foreign exchange reserves

Limited ability to implement independent monetary policy

More in this next week

Political factors affecting financial crises

Electoral incentives

Politicians face incentives to delay addressing financial problems until after elections.

Governments prefer policies that protect their core voter constituencies, even when these policies make crises more likely in the long run.

Regulatory capture and crony capitalism

Financial sectors often have disproportionate influence over their regulators.

This "regulatory capture" can lead to policies that benefit financial institutions at the expense of systemic stability.

In emerging markets, "crony capitalism" (politically connected economic sectors receiving preferential treatment) creates additional vulnerabilities.

International power dynamics

The international financial system reflects power asymmetries.

Countries seen as important to major powers like the US often receive more favourable treatment during crises.

This creates moral hazard, as these countries may maintain lower reserves, making crises more likely.

Consequences of financial crises

Economic Consequences

Economic contractions (5-8% of GDP over three years for currency crises)

Long recovery periods (ave 8 years to return to pre-crisis output levels)

Massive fiscal costs from bailouts and lost economic activity

Political Consequences

Political polarization and fragmentation of legislative bodies

Rise of extreme right-wing parties (increasing votes by 30% on average after financial crises)

Higher government turnover and political instability

Undermining trust in political institutions and democracy itself

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Part 3: The architecture of global financial governance

Global financial governance

The risks from partial globalisation, financialisation, and crises are what the global financial regulatory regime is tasked with addressing.

Gilpin's (2001) three regulatory approaches

Reliance on market self-regulation

Leave international finance entirely to market forces with minimal regulation (e.g. Milton Friedman)

IMF is ineffective and even counterproductive due to moral hazard.

Markets will discipline reckless investors and borrowers if they knew no one would rescue them.

Strengthening the IMF

Liberalize capital movements with greater IMF oversight (e.g. Clinton).

Improve transparency and data gathering, better codes of conduct, enhanced surveillance of economies, and position IMF as a lender of last resort.

Direct regulation of international finance

Taxes on short-term capital flows, capital controls during financial difficulties, and coordinated management of exchange rates among major currencies (e.g. Krugman).

This position is most sceptical about leaving financial markets entirely to market forces.

Differences among countries on these approaches reflect not just ideological positions but also the relative competitiveness of their financial institutions and political interests.

Relevant international actors in financial governance

National governments (traditional state-centric approach)

International financial institutions

Private actors

The evolution of international financial institutions

The Bank for International Settlements

The Bretton Woods institutions
G7's Financial Stability Forum (1998)

European Union financial reporting standards

Bank for International Settlements (BIS)

A bank for central banks
Founded in 1930
The oldest international financial organisation

BIS key functions

Forum for central bank cooperation—Provides a venue where central bankers from can meet, discuss policy, and coordinate actions.

Banking services for central banks—A bank for central banks, managing foreign exchange and gold reserves on their behalf.

Research and policy analysis—Conducts economic research and publishes reports on global financial stability and monetary policy.

Setting international banking standards—Through the Basel Committee on Banking Supervision, the BIS develops regulatory standards for banks worldwide.

The Basel Accords (Basel I, II, & III) establish global standards for bank capital adequacy, stress testing, and market liquidity risk.

Financial stability promotion—It monitors and analyses risks in the global financial system.

The IMF and World Bank

IMF provides short-term loans to countries with balance of payment issues.

World Bank provides long-term loans for development.

G7's Financial Stability Forum (FSF)

Created in 1998 as a response to the Asian financial crisis.

Purpose and mandate—charged with promoting international financial stability, improving the functioning of markets, and reducing systemic risk.

> Develop a comprehensive set of global financial codes to safeguard the global financial system.

Membership—It brought together senior representatives from national financial authorities (central banks, supervisory authorities, and finance ministries), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts, and the European Central Bank.

The Compendium of Standards—In 2000, the FSF announced twelve financial codes and standards covering domains including accounting, insolvency, securities regulation, and insurance supervision.

> They combined existing and new codes created by various organizations like the IMF, International Organization of Securities Commissioners (IOSCO), International Association of Insurance Supervisors (IAIS), and private organizations like the International Accounting Standards Board (IASB).

Model for governance—The Basel Committee on Banking Supervision served as a model for the FSF's approach to international financial regulation.

Evolution—Following the 2008 global financial crisis, the FSF was replaced by the Financial Stability Board (FSB) in 2009, which was given a broader mandate and expanded membership to include all G20 countries rather than just the G7.

Private financialisation actors

Ratings agencies

Institutional investors (pension funds, sovereign wealth fund, Blackrock, hedge funds)

Banking industry associations (Institute of International Finance)

Private equity firms (Blackstone, Carlyle)

Accounting and consulting firms (Deloitte, PwC, EY, KPMG)

Exchanges and market infrastructure (NYSE, LSE, SWIFT)

International Accounting Standards Board (IASB)

Think tanks

Ratings agencies

The "Big Three": Moody's, Standard & Poor's, and Fitch

Exercise enormous power through their ratings of sovereign debt and corporate securities

Their assessments are treated as objective facts despite being based on subjective judgments.

Ratings have regulatory function as government regulators rely on them for audits and risk monitoring.

During the 2007-2008 crisis, their high ratings of mortgage-backed securities enabled the market to grow to crisis proportions.

International Accounting Standards Board (IASB)

London-based, independent, private-sector organization established in 2001 to develop high-quality, globally accepted accounting standards

Funded and largely dominated by the accounting industry, particularly from the US and UK

Operates through committees

IASB developed IFRS

IAS: The original standards issued by the International Accounting Standards Committee (IASC) from 1973 to 2001.

IFRS: Standards issued after 2001 when the IASB took over standard-setting responsibilities

They created a common global language for business affairs, making company accounts understandable and comparable across international boundaries.

Why IFRS matters

As of 2005, all publicly listed firms in the EU were required to use IFRS/IAS.

These standards have since been adopted (or are in the process) in many countries and become binding only after being endorsed by governmental authorities.

The IASB represents a striking example of transnational governance where a private, self-regulatory body sets key rules for businesses globally.

This process blends private expertise with public authority.

The standards take on a regulatory function and de facto create norms for business measurement and disclosure

It demonstrates how modern global financial governance often involves a mix of private and public actors operating across national boundaries, with significant

implications for how businesses operate and how financial information is presented worldwide.

Part 4: Zambia case study

Zambia overview

"All happy families are alike; each unhappy family is unhappy in its own way." Leo Tolstoy

Zambia background

Zambia timeline

Independence

One party rule

Multiparty elections

Debt reduction

Covid debt crisis

First debt reduction

Multilateral Debt Relief Initiative (MDRI) and Highly Indebted Poor Country (HIPC) programs wrote off debt in exchange for neoliberal policy conditionality

Reduced external debt from US6.9 billion to 2.3 billion.
Debt ratios at 20% of GDP

The debt came back

Debt returned to 1998 levels by 2013.

By 2020 debt was 168% of GDP.

In part due to declining copper prices

Copper price graph over time

2020 debt default

November 2020—Zambia defaulted on its international debt (Eurobonds).

2022—IMF gave 38-month extended credit for $1.3 billion in 2022 with conditions.

Conditions—Public-private partnership legislation to new budget cuts, subsidy removals, tax increases, enhance property rights, contract enforcement, private sector infrastructure spending.

Had to keep interest rates high (26% in 2022)

Reasons for the default

IMF blamed mismanagement and corruption.

Stein and Chitonge (2025) propose a structural explanation

Neoliberal economic policies
Extractive post-colonial economy
Global finance architecture that pressures Zambia to collect USD

Conclusions

In the post-Bretton Woods era financial crises are more common.

Partial globalisation is still here

Financialisation increasing

Systemic risks in global finance and the "dependent financialization" of developing economies

Distributional consequences of global finance within and between countries.

Week 8 important terms (in no particular order)

Financial crisis	Control financialisation
Partial globalisation	Minsky's financial instability theory
Financialisation	Banking crisis
Systemic risk	Sovereign debt crisis
Dependent financialisation	Currency crisis
Home bias	Inflation crisis
Feldstein-Horioka puzzle	Asymmetrical information
Profit financialisation	Adverse selection
Moral hazard	Dependent financialisation
Bank for International Settlements	International Monetary Fund
World Bank	G7's Financial Stability Forum
Rating agency	International Accounting Standards Board
International Financial Reporting Standards	