International Political Economy, Global Financial Orders and the 2008 Financial Crisis

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The 2008 financial crisis triggered the most severe global economic downturn since the Great Depression. The crisis has provoked soul-searching among economists, yet international political economy (IPE) scholars have been relatively sanguine. We argue that IPE has strayed too far away from studying the geopolitical and systemic causes and consequences of the global economy. IPE must explain the generation and transformation of *global financial orders*. Both the distribution of political power and the content of economic ideas will shape any emergent global financial order. A Kuhnian *life-cycle framework* of global financial orders permits a systemic approach to global finance that integrates the study of power and social logics into our understanding of markets.

The 2008 financial crisis triggered the most serious global economic downturn since the 1930s. During the first ten months of the Great Recession, economic output, global trade, and global equity values all plummeted lower than they did in the first ten months of the Great Depression.[1] The Asian Development Bank concluded that the global decline in asset values led to aggregate losses of $50 trillion in 2008—more than a year's worth of global economic output.[2] Five years after the collapse of the subprime mortgage bubble, there continue to be elevated concerns about systemic risk, and the International Monetary Fund warns of another possible global recession.[3] According to Menzie Chinn and Jeffry Frieden, the global economy will not recover from the lost output caused by the Great Recession until 2014 at the very earliest.[4]

The geopolitical implications of the financial crisis were equally profound. In 2008 the G-20 quickly supplanted the G-8 as the "premier" global economic forum. The United States, European Union, and Japan are now saddled with rapidly rising debt-to-GDP ratios. Financial markets have penalized the most fragile developed-country debtor states—such as Greece, Portugal, and Iceland—and contagion is potentially spreading to other developed economies. Bond rating agencies are punishing advanced industrialized states for political as well as economic risk. The BRIC economies, in contrast, have begun to flex their financial and political muscles. China proposed an eventual end to the dollar as the world's primary reserve currency, and has taken active steps to internationalize the use of renminbi despite its current inconvertibility.[5] The crisis has led to speculation about the future of the dollar as a reserve currency.[6] Debates about the proper role of finance in the global economy are interwoven with continued questions about the primacy of American power and the potential rise of other actors in the international system.[7]

The crisis has starkly exposed the central role of finance in the global economy. It has also highlighted the fragility, volatility, and occasional catastrophe that come with globalized capital markets.[8] While the Great Recession has provoked a fair amount of public soul-searching among economists,[9] international relations theorists and international political economy (IPE) scholars have been relatively sanguine.[10] The predominant approach to studying IPE in the United States—open economy politics—has had surprisingly little to say about either the causes or effects of the crisis. The open economy approach is a two-step model of interests and outcomes. The first step centers on how domestic political interests and institutions shape foreign economic policies. After mapping policy preferences from the position of actors in the domestic

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economy and looking at how domestic institutions (electoral systems, regime types, regulatory agencies) aggregate those preferences, the OEP approach moves to the next step: analyzing how the constellation of different foreign economic policies combines into global policy outcomes.

Here we argue that IPE has strayed too far away from studying the geopolitical and systemic causes and consequences of the global economy, hampering our understanding and making us less relevant to debates about how to repair global economic governance. By bracketing the international systemic elements of the political economy, and by excluding power and social dynamics in favor of economic analysis of preferences, conventional IPE has severely limited our ability to understand and interpret both the political sources and impact of phenomena like the 2008 financial crisis. An alternative approach that incorporates systemic factors—such as the distribution of power and ideas—demonstrates the value of casting a wide theoretical net, and in so doing, captures more of the key empirical developments in the global political economy.

So what might such an approach look like, and what does it add that the standard accounts cannot? We begin by proposing that IPE must explain the generation and transformation of *global financial orders*. It is the interplay between power and ideas that structures the rules and roles of pivotal actors and institutions and produces both systemic stability and change, and episodes like the recent financial crisis. We propose the refocusing of our scholarship as global political economists on the study of how *political power* interacting with *economic ideas* creates global financial orders. Our focus is on the role these two deeply intertwined and interacting variables play in shaping the system, and on the reciprocal causality between the outcome of the system and its determinants. Both the distribution of political power and the content of economic ideas will shape any emergent international financial order. Drawing on multiple sources of ideas and relying on different channels of power, key actors will battle to define the problems in any global financial order in order to better frame their preferred set of policy solutions. The feedback effects from both markets and citizens, however, will shape future distributions of power and ideas. A Kuhnian *life-cycle framework* of global financial orders, described later, offers a stylized model of the interaction of power and ideas and permits a systemic approach to global finance that integrates the study of power and social logics into our understanding of markets.

The importance of global financial orders to the study of international political economy should be clear. The globalization of capital markets has dramatically deepened economic integration across borders. The share of national economies devoted to capital markets continues to rise—in the United States alone, the share of GDP devoted to finance tripled over the past thirty years.[11] The growth and fragility of finance challenges our theoretical paradigms while presenting wrenching tradeoffs for policymakers. While the US and the advanced economies had for decades dodged the periodic financial crises that swept emerging and transition economies, the crisis that erupted in 2008 was rooted in the world's most sophisticated and liquid financial markets. The cost of recovering from global financial crises is severe.[12]

The framework we propose here has applications in subfields of political science beyond international political economy. Scholars working in American politics and comparative politics have observed similar phenomena. Frank Baumgartner and Bryan Jones have noted that "the American policy process is characterized by the dual and contrasting characteristics of stability and dramatic change."[13] Their model of punctuated equilibrium in policy change at the domestic level is in sympathy with our arguments here. Similarly, scholars working on the role of contagion and online activism in political revolutions will find resonance in our arguments.[14]

We then map out what we mean by "global financial order." We discuss the role that political power and economic ideas can play in the construction, maintenance, and collapse of global financial orders. We address their sources, mechanisms of change, and substantive consequences, using a Kuhnian "life-cycle" framework for understanding how the feedback between financial orders and their social construction creates change over time. Unlike dominant approaches in IPE, this approach can account for endogenous change in the international system, and for the content and broader political consequences of market integration and disintegration. This account also reminds us of the inherent fragility of financial markets; an important corrective to views of market efficiency found in dominant approaches to IPE. More generally for political scientists, this approach reminds us of the interactions between markets and power, and domestic and international politics, and how they matter for the unfolding of global financial crises and their aftermath.

Defining Global Financial Orders

When we refer to *global financial orders* (GFO), we refer most explicitly to the rules, norms, and procedures that govern cross-border money and finance. GFOs foster common expectations and focal points about what constitutes international money, what cross-border transactions can be legitimately conducted, and the appropriate forms and modalities to regulate national financial sectors. Elements of any global financial order include the rules and arrangements governing currency convertibility, exchange rates, payments and settlements, banking regulation, supervision of non-banking financial institutions, accounting standards, and so forth.

Global financial orders consist of formal rules, informal rules, and meta-rules designed to create stable expectations about behavior as well as to handle deviations from expected behavior. The codified rules, such as the IMF Articles of Agreement or the Basle Core Principles, are self-evident. GFOs also include informal norms and procedures governing the financial sector. Examples would include the US "strong dollar" policy of the late 1990s, or the tradition of an American presiding over the World Bank and a European presiding over the IMF.[15] Finally, GFOs also include either explicit or implicit understandings for how to regulate, preserve, and defend challenges to the system. The current process of IMF quota reform or the creation of the G-7 to manage the post-Bretton Woods exchange rate system would be examples. Simply put, the global financial order consists of the rules themselves and the meta-rules about how to deal with violations and dynamic changes in world capital markets.[16]

Global financial orders can vary across several dimensions. First, GFOs vary in terms of their degree of *scope*. Are the various rules and informal rules and practices widely agreed on and mostly followed by participants? A second important dimension is in the area of *adjustment*. How is adjustment carried out?[17] Are the costs of adjustment highly skewed or widely shared across all actors in the system? Do private or public actors bear more of the burden? If public actors, what is the pattern around which states adjust? Does adjustment lead to a period of stability to keep the system on an even keel, or trigger of crisis and upheaval? A third important dimension is the *embeddedness* of the global financial order within the rest of the global economy. In terms of maintaining the status quo, to what extent does finance have priority over other dimensions of the global economy? Do the rules and practices governing the financial order prohibit or embrace the active management by public actors, be they national or international?

Applying these criteria helps to distinguish the Bretton Woods order of "embedded liberalism" from the "Washington Consensus" of the post-Cold War world.[18] In terms of scope, the Bretton Woods system was concentrated primarily among the core OECD economies, whereas the Washington Consensus was truly global in scope. In terms of adjustment, both orders shared the principle that it was incumbent on countries running balance of payments deficits to take corrective action in response to crises. During Bretton Woods, for example, it was assumed that states facing balance of payments crises would respond with a mixture of domestic macroeconomic adjustments and external assistance from the IMF.[19] In terms of embeddedness, the Bretton Woods system was set up such that global finance was subordinated to trade integration and domestic policy autonomy. Under the Washington Consensus, however, capital market openness had greater priority over domestic macroeconomic policies.

This conception of global financial order is consistent with both the standard international relations concept of an international regime, and the more recent concept of a "regime complex."[20] This definition also covers the more recent economic debates over the future of the international financial architecture.[21] Furthermore, these are the arrangements that have occupied the attention of mainstream IPE scholarship over the past two decades.[22]

Empirical work in economic history demonstrates the tendency of financial orders to drift towards credit overexpansion, speculative financial bubbles, amassing of public debt, and eventual collapse.[23] Charles Kindleberger famously described financial crises as "hardy perennials" in his telling of the cycles of manias, panics, and crashes that occur with monotonous regularity, even if spectacular in each individual episode and devastating to many.[24] Yet political scientists have not done as much to fill in the gaps of why and how policymakers, investors, and citizens keep believing that, in Reinhart and Rogoff's words, "this time is different." One of our starting assumptions is that no global financial order can conceal its internal contradictions indefinitely. All global financial orders experience a life cycle of emergence, dominance, and collapse.

Power in All Its Forms

Power and ideas are foundational to understanding the sources, cycles and workings of global financial orders. Such a statement seems intuitive, perhaps, but to a striking extent recent work in international political economy (IPE) has not, in fact, placed these issues at the center of analysis. IPE has produced a rich literature on the sources, mechanics, and consequences of international financial markets.[25] Recently, however, the subfield has been strangely silent about some of the macro issues of the international financial and monetary system. Instead, an "open economy politics" (OEP) approach has dominated IPE scholarship for the past generation.[26] David Lake accurately summarizes the OEP approach as follows:

> OEP begins with individuals, sectors, or factors of production as the units of analysis and derives their interests over economic policy from each unit's position within the international economy. It conceives of domestic political institutions as mechanisms that aggregate interests (with more or less bias) and structure the bargaining of competing societal groups. Finally, it introduces, when necessary, bargaining between states with different interests. Analysis within OEP proceeds from the most micro- to the most macro-level in a linear and orderly fashion, reflecting an implicit uni-directional conception of politics as flowing up from individuals to interstate bargaining.[27]

In other words, open economy politics privileges domestic interests and institutions as the source of actor preferences and constraints, and essentially "brackets" everything else. By starting out at the domestic level, interactions between the domestic and systemic levels—or purely systemic factors—are excluded.[28] In this way, OEP is a "reductionist" approach.

By looking at the constellation of domestic interests and institutions, this paradigm has developed sophisticated models of structure-induced equilibria at the national level.[29] In adopting a reductionist view of the workings of markets and politics, however, the open economy politics approach has also developed significant blind spots in analyzing global financial orders. As Thomas Oatley has observed, this paradigm accords "no explicit theoretical role to macro-level processes," which limits the ability of OEP scholars to study how systemic processes like financial contagion or hegemonic coalitions affect national economic policies.[30] Authors reflecting on the subfield of IPE have lamented the failure to consider the "big questions" posed by events of the past decade.[31] Some scholars have gone so far as to label current IPE as a "monoculture" because of OEP dominance.[32] Indeed, the OEP approach was responsible for more than three-quarters of all IPE articles published in *International Organization* and the *American Political Science Review* between 1996 and 2006.[33]

It is not a coincidence that the OEP approach reached its zenith during the Washington Consensus era. The global distribution of power and interests were essentially treated as constants during this period, with shifts in domestic institutions as the key causal variable. The "Great Moderation" in the United States made it appear that ironclad laws of proper policymaking had been discovered. Topics like the geopolitical consequences of global macroeconomic imbalances or the choices of reserve currencies—in other words, questions about economic power—did not receive sustained study by IPE scholars working in the open economy politics tradition.

We view economic power as a critical but often neglected factor shaping the global financial order. The concept of economic power falls in the interstices between economics and politics, and neither discipline has fully grappled with the topic. It has traditionally made economists and political scientists uncomfortable, albeit for different reasons. Economists are generally reluctant to talk about the idea.[34] Notions like "market power" and monopoly power" certainly exist in the literature, but economists tend to focus more on the ways in which markets erode temporary agglomerations of power.[35] Political scientists are far more comfortable with the notion of power, but they are much less comfortable with economics. Economic power therefore remains an understudied concept.[36]

IPE scholars have studied the role that various dimensions of power have played in shaping global financial orders. Daniel Drezner, Herman Schwartz, and Carla Norrlof have explored the ways in which America's market power has determined the global governance of finance.[37] Ngaire Woods has examined how China has used its development aid to win influence in Latin America and sub-Saharan Africa. David Bach and Abraham Newman have looked at the ways in which the capacity of national and international regulators has affected governance outcomes.[38]

We contend that to explain the sources and consequences of the shifts in the global financial order requires a tight focus on the role of power, not only in a material geopolitical sense, but in the social construction of macroeconomic policy models, as well as the social construction of financial markets themselves. The ways in which different economic metrics of good housekeeping, such as debt loads or trade balances, are interpreted have profound implications for the distribution of geopolitical power. The rules that govern the integration of global financial markets are drawn up by self-interested actors, whose ability to get those rules adopted and complied with is always and everywhere partially informed by the various types of power resources that they hold and exercise. In turn, the rules themselves and the institutions that arise around them, reverberate back onto the relative power positions of the actors, national or otherwise, in a dynamic process of power creation and diminishment. For example, shared understandings among economists about the Great Depression led to a temporary embrace of Keynesianism in the fall of 2008. The negative market response to mounting levels of sovereign debt in Greece led to a re-evaluation of the merits of fiscal expansion, however. Rather than understanding that market-policy response as given and unchanging, we view it as dynamic and based on interpretations by the human beings that make up markets and policy circles, always in the context of power.

Periods of crisis, such as the post-2008 years of turmoil, present a particularly opportune moment to examine these dynamics of power and social construction. When the global financial order is stable and relatively conflict-free, participants and observers tend to take for granted established rules of thumb, without overtly acknowledging the underlying processes of social construction and power that reproduce that stability on a daily basis. With crisis, however, the underpinnings of the system become visible, questioned, and potentially up for grabs. In periods of crisis, this contingent nature is painfully revealed as a paycheck might suddenly be worth much less when hyperinflation erodes its purchasing power before it clears. Uncertainty about the future heightens the stakes for winners and losers from the pre-crisis system to engage in fights about what constitutes the correct rules, policies, institutions, or market positions.

In periods of stability, we forget the contingent nature of money as it takes on the status of a stable social fact. Periods of stability likewise often mask the exercise of political power within these markets. As Peter Gourevitch observed twenty-five years ago:

> In prosperous times it is easy to forget the importance of power in the making of policy. Social systems appear stable, and the economy works with sufficient regularity that its rules can be modeled as if they functioned without social referent. In difficult economic times this comfortable illusion disintegrates. Patterns unravel, economic models come into conflict, and policy prescriptions diverge. Prosperity blurs a truth that hard times make clearer: the choice made among conflicting policy proposals emerges out of politics. The victorious interpretation will be the

one whose adherents have the power to transfer their opinion into the force of law.[39]

The US-centered global system of the early post-Cold ar era was one in which the US was materially the most powerful nation.[40] The lock-in of international institutions such as the IMF or the Basle Committee on Banking Supervision, and the emergence of important national actors such as China and India have conspired to make less prominent the role of the US in providing the material, political, and ideational infrastructure for the expansion of global markets and the norms and rules governing them. Economic and political power is more contested than it has been in decades, providing us with an opportune time to examine these dynamics.

Ideas in All Their Meanings

The previous sections should make clear that we reject the false dichotomy between power and ideas, between material interests and social relations. The financial realm offers a particularly overt set of empirical evidence for the role that ideas, perceptions, norms, and culture play an inescapable role in the operation of markets. Modern money, after all, is the ultimate social construct. Fiat currency obtains value only in social interactions among human beings. Be it a printed piece of paper or an electronically represented number, money only has value to the extent that those using it can agree upon that value. Intersubjectively constructed, it does not exist unless symbolically represented, and depends upon shared understandings and ongoing practices for its existence and valuation.

What is challenging for policymakers, and deeply interesting for social scientists, is the dynamic construction of financial value. Rules, norms, and prices are determined through practice, and therefore always have the risk of instability as actors interact and change their views over time. Indeed, the history of GFOs demonstrates the wide swings that occur in the beliefs about what constitutes value in market terms, whether it is tulip bulbs, collateralized debt obligations, or Wenzhou real estate.[41] A financial bubble is intrinsically defined by a collective shift in actor perceptions about the value of an underlying object. Beliefs about what constitute appropriate government macroeconomic policies have likewise shifted over time and place, sometimes dramatically as in the shift to Keynesian demand management of the early postwar period[42] to the price stability emphasis of the late twentieth century.[43] Ideas about the costs and benefits of financial regulation have evolved over time as well, in ways that have had a huge impact on the unfolding of the current crisis.[44] Scholars of international money and finance have long focused on how these ideas have become institutionalized in bodies like the IMF.[45] When one set of beliefs takes hold and fundamentally reshapes the very ways that actors and values are constructed and categorized dependent on the broader worldview, we can understand a process of productive power to be at work.[46]

Financial markets can reward or punish state actions in dramatic ways, but we cannot predict much without an appreciation for the underlying cultural or ideational context within which those markets are acting. In the 1990s run-up to Europe's Economic and Monetary Union (EMU), states, such as Italy, that were very far from the target of a three percent budget deficit were able to come close to meeting that goal because financial markets became convinced that Italy and others were serious about cutting budgets and raising taxes. As interest rates came down, lowered debt payments contributed a substantial portion of the savings allowing for ultimate entry into the new euro.[47] In the wake of the 2008 financial crisis Ireland has slashed its budgets by a much larger percent but cannot convince markets of its stability, creating a vicious cycle rather than a virtuous one. The beliefs private actors hold, constructed in interaction with other and public actors and situated within larger social institutions, become reality, even if the functional determinants may not clearly indicate which way these dynamics will go.[48] As power is exercised through more structural and social contexts, the role of ideas becomes ever more salient. Attractive and politically expedient ideas can attract key supporters, subtly altering the balance of power in an emergent global financial order.

Constructing Financial Orders: A Life-cycle Model

We propose the following life cycle for understanding the recent global financial disorder and its theoretical implications. This analytical framework could be applied to other IPE or domestic policy arenas, but there are also some elements that seem particularly salient to the financial realm because of its subjectively constructed and thus particularly fluid nature. In its attention to the importance of taking a fine-grained approach to the question of how power is constructed and exercised, it could provide an example for other emergent areas of international concern.

In our suggested approach, the specific cycle of global financial transformation starts with a period of perceived stability, where actors broadly assume that the difficulties and troubles of the policy arena have been largely worked out. There is little overt contestation of ideas, and the distribution of winners and losers from the enshrined set of policies, regulations, and market activities has been institutionalized and is no longer the source of significant political conflict. There is a relatively pervasive sense that cause and effect relationships have been worked out, and that there are no viable or workable or desirable alternatives to the dominant paradigm. It should be stressed that these hypothesized relationships are not necessarily accurate in their causal mechanisms. Like Ptolemaic astronomy, however, so long as the predicted outcomes match reality closely enough, the causal mechanisms are accepted as true, allowing convergent expectations to form across the financial system. This stability of the global financial order can provide a political mask to contestation, and keep policies and market arrangements in place that might have extensive private and public negative externalities. During this period there is "apparent consensus" among experts. This phase mirrors the Kuhnian "normal science" phase of paradigmatic development in science, or the notion of John Stuart Mill's "dead dogma" in the case of political rhetoric.[49]

In the prior global financial order, the accepted wisdom of the Washington Consensus was that open, lightly-regulated, internationally-integrated financial markets would provide the best engine of growth for the global economy. It rested on a set of ideas that had been developed over the previous half-century.[50] Motivated by economic ideas but also entrenched in material interests and promoted by powerful proponents, this conventional wisdom also viewed adjustment in global imbalances as occurring primarily through market actions. In this "end of history" style telling, the 1990s ushered in a period of almost unanimous agreement that booming markets and economies around the world were best promoted by a "hands off" attitude to financial sector firms so that they could best and most efficiently use the market logics to distribute capital efficiently throughout the economy.[51]The efficient market hypothesis concluded that state regulation was essentially unnecessary, since all information about any financial asset was encapsulated in its price.[52]The constellation of interests arrayed around this particular form and content of the global financial order were relatively stable as well, resting solidly and not coincidentally on the role of the US as the unipolar power of the post-Cold War system whose financial markets and financial services firms dominated the era of the open-market ideology and ever-growing global capital flows.[53] The scholarly literature in the field of international political economy analyzed this spread of the more neoliberal policies,[54] but tended to spend little time anticipating the potential tensions in the "disembedding" of the market that came with those policies.

The next phase in the Kuhnian life-cycle is one of stresses and transformations, both material and ideational. These stresses open up a space for political reconsideration of the particular arrangements and rules governing the international financial order. Of course, this reconsideration is really a political contestation. Actors and interests that believe the current global financial order cannot sustain itself will lobby for wholesale change. Those that are convinced that the system is sustainable will propose more modest reforms or fixes to the system. The Asian financial crisis would represent an example of this kind of contestation during the Washington Consensus. Although there were actors who pushed for a wholesale change in the global financial order, the system was reinforced. In the process, however, the decision by the Pacific Rim economies to "self-insure" against a future crisis—rather than rely on the IMF—helped sow the seeds of the Great Recession a decade later.

As time passes, endogenous effects are likely to cause the original animating ideas to lose explanatory power over time. As time passes, foundational ideas become obscured by absolutist ideology, caricature and *ad hoc* efforts to explain away emerging anomalies. The longer that a particular idea appears to explain its particular domain, dynamics emerge that guarantee its future applications will be a poorer fit. Intellectuals have an incentive to engage in ideational arbitrage and apply the idea to more disparate phenomena, increasing the likelihood of policy failure. Propagandists have an incentive to simplify the content and causal mechanisms of the idea, eroding the ability to falsify it. As Angus Burgin documents, the laissez-faire ideas that started in the Mont Pelerin Society were far more complex than how those ideas appeared a generation or two later.[55]

As previously noted, we assume that no global financial order can be indefinitely maintained. The longer a theory stays in circulation, the greater the likelihood of underlying conditions shifting to the point where the original model's empirical claims do not hold up. The accumulation of stresses and strains occurring over time eventually triggers a breakdown in the consensus around a particular set of policies and interests. This dynamic has been explored by a variety of authors in the field of international relations and comparative politics.[56] At this stage, power and ideas interact in the context of uncertainty over what is the "correct" model of growth and stability in an expanding global financial order. New strategies, templates and exemplars get generated, and the role of geopolitical, bureaucratic and other types of powers in promoting a particular vision of how the global financial order should be run.

During the crisis stage, the ideational discussions around the "correct" economic policy model pay close attention to the ways in which power both feeds in and shapes the ultimate outcome of policy recommendations, but also to how those ideas, once institutionalized in rules and practices, then feed back and empower some actors while disempowering others. During this contestation period, actors promulgate ideas that define the key problems that triggered the crisis. These ideas, in turn, create constraints on possible policy solutions.

Actors can draw upon multiple sources for new ideas—and try to advance them through a variety of power mechanisms. Some ideational agents choose to rely on historical analogies to define the problem and possible solutions.[57] Since the 2008 crisis, for example, the interwar era has been closely examined to see what mistakes can be avoided and what lessons can be learned.[58] Other actors can also point to the actors that have best weathered the current crisis as geopolitical exemplars that offer a policy template for others. Discussions of the Beijing Consensus follow this route.[59] During times of crisis, economists can also innovate and offer new models for policy guidance. Keynes wrote *The General Theory* during the Great Depression; the rational expectations revolution emerged during the stagflation crisis of the 1970s; the 2008 crisis accelerated the scholarly trend towards behavioral finance.

Actors can use multiple power mechanisms to advance their preferred set of ideas. The winners and the losers from a transforming economy are highly motivated to shape the debates and outcomes over the rules of the global financial order, and will certainly use ideas tactically as "hooks" to move forward their preferred policies.[60] But ideas are not just strategic resources wielded by self-conscious actors. They also can take on structural power, generating blowback on strategic actors, reconstructing their interests in ways unlinked from conscious framing or manipulation by those actors.

Ideas become structurally powerful when they diffuse widely, gain acceptance and constrain alternative thinking. For example, the battle over defining exactly what caused the financial crisis in the first place is central to framing debates for the next global financial order, and whether it will stress the greater embeddedness of capital markets. Defining the problem as a failure of regulation, a failure of financial markets to assess risk properly, irresponsibility on the part of greedy homeowners overleveraged in debt, or Chinese over saving and capital inflows into the US all create different potentially politically-salient policy solutions. Contestation over defining the problem in a period of financial crisis will in part determine the type of policy responses, transformative or not, that then are possible.

Why We Need to Re-embed Markets in International Relations

The above analysis offers an approach that is fundamentally different from the analysis offered by much of current IPE scholarship. For example, one aspect of the financial system instability—speculative attacks—is the subject of work in the Open Economy Politics tradition.[61] Attacks on national currencies are often modeled as a function of financial market actors' expectations about government policies (left or right) and the likelihood of a particular government surviving elections. Markets are modeled as reacting most strongly in the event of an unexpected collapse of a right wing government, as they are hypothesized to fear capital controls or other regulations that might dampen profits with the arrival of a new leftist government.

However, as a casual observer of any financial crisis—including the ongoing Eurozone mess—would note, contagion is a large part of the dynamic of any financial crisis. Contagion is by definition a process that occurs across actors at the systemic level, as individual national currencies, or bond markets, or banking systems, are linked in traders' minds and categorized as risky because they are either geographically proximate, as in the Asian Financial Crisis, or linked by a currency, as in the Eurozone crisis. While there are clearly domestic level attributes that will impact traders' evaluations of the sustainability of a currency or national bond, contagion can be important in determining the outcome national financial crises.[62] Peer group effects—the ways in which private markets categorize countries together when evaluating the sustainability of financial assets—are one such contagion dynamic that may be determinate in explaining the path and severity of a financial crisis across multiple states.[63]

Such contagion processes across states are intrinsically captured in the model of global financial orders that we suggest. By looking to the systemic level of interactions across national orders, and by characterizing those interactions as a combination of market logics, geopolitical power, and ideas, critically important phenomena like contagion become theoretically legible and empirically tractable, even as they escape the view of the domestically-focused OEP approach.

When instability in the global financial order occurs, global financial markets can unravel remarkably quickly, as in the autumn of 2008.The severe dislocations caused by the crisis cast the "Washington Consensus" policy template into doubt more broadly. The delegitimization of this global financial order has brought about a period of genuine uncertainty about the correct path towards stabilization and ultimately, reconstruction and revitalization in the global economy. While non-Western states never fully embraced in word or in deed the strictures of the Washington Consensus, they also have not generated a clear and compelling alternative model of development and growth. Contrary to popular perceptions, there is no "Beijing Consensus" on matters of international finance.[64] Or, to put it more bluntly, what the Washington Consensus and Beijing Consensus have in common is that they were both invented in Washington. As multiple scholars have observed, China has actually adhered to most of the major planks of the Washington Consensus.[65] Chinese officials have been exceedingly reluctant to recommend their development model to other countries. Indeed, there is a striking lack of consensus within China about the relative merits of the Beijing Consensus; it is therefore not surprising that they have not proselytized it elsewhere.[66] So the overall impression of observers of the collapse of the US economy and the global financial system is that its reconstitution is occurring without a clearly agreed upon or articulated template.[67]

Our approach suggests a new avenue forward for thinking about the global financial order, opening conceptual and analytical doors. In his review essay on the 2008 crisis, Eric Helleiner concluded that "the development of a more comprehensive understanding of the political economy of the underlying causes of global-scale financial crises remains an important task for future IPE researchers."[68] In developing a better understanding of global financial orders, we urge our colleagues in IPE to take up Helleiner's challenge. We suggest here ways to think about the concept of global financial orders, tracing out how power is exercised and manifested in tandem with ideas, building on a Kuhnian life-cycle model.

International political economy needs to be resituated within the context of the study of international relations more broadly. Economists increasingly acknowledge the role that political power and ideas play in determining national and global prosperity;[69] it is time that IPE scholars were willing to be as bold. The analysis of financial markets needs to be re-embedded within broader debates about the nature of international politics. Greater attention to security, power transitions, and non-state actors can offer an enhanced view of the study of the politics of international economics.[70] This is a pragmatic, not ideological, choice. We view this re-embedding as a necessary step for unlocking the challenges that confront scholars and policymakers alike in the area of international finance today.

Notes

1 Eichengreen and O'Rourke 2010.
2 Loser 2009, 7.
3 IMF 2012.
4 Chinn and Frieden 2011, p. 225.
5 Zhou 2009; Eichengreen 2011.
6 Eichengreen 2011; Subramanian 2011
7 Schwartz 2009; Cohen and DeLong 2009; Drezner 2009.
8 Reinhart and Rogoff 2009; Roubini and Mihm 2010; Rodrik 2011.
9 See, for example, Eichengreen 2009 and Krugman 2009
10 See, for example, Helleiner 2011.
11 Rajan 2010.
12 Reinhart and Rogoff 2009; Reinhart and Reinhart 2010; Chinn and Frieden 2011.
13 Baumgartner and Jones 2002, 3. See also Baumgartner and Jones 2009.
14 See, for example, Weyland 2009 or Bellin 2012.
15 Note that these informal norms can be more transient or longer-lasting than explicit rules; see Lipson 1991.
16 Ibid. See also Azari and Smith 2012 for more on the role of informal rules in governance.
17 Simmons 1994.
18 See Ruggie 1982 on embedded liberalism, and Williamson 1990 or Yergin and Stanislaw 1997 on the Washington Consensus.
19 Barnett and Finnemore 2004; Foot and Walter 2011.
20 See Krasner 1983 on the definition of international regimes, and Raustalia and Victor 2004 on regime complexes.
21 On the future of the international financial architecture, see Wolf 2008; Rajan 2010; Roubini and Mihm 2010; Eichengreen 2011; and Rodrik 2011.
22 Bernhard and Leblang 1999; Mosley 2003; Singer 2007; Drezner 2007; Cohen 2008a; Helleiner and Kirshner 2009.
23 Reinhart and Rogoff 2009.
24 Kindleberger 1978; see also Minsky 1986 and Galbraith 1993.
25 Kapstein 1992; Cohen 1996; Helleiner 1996; Pauly 1997; Gilpin 2000, Andrews 2005.
26 Lake 2006, 2009.
27 Lake 2009, 225.
28 Examples of effects that would be neglected under OEP are second-image reversed factors (Gourevitch 1978), as well as systemic complexity (Jervis 1997).
29 For examples pertinent to global financial orders, see Bernhard and Leblang 1999, Bernhard, Broz, and Clark 2002, or Tomz 2007.
30 Oatley 2011, 315. See also Kirshner 2009. On the concept of hegemonic coalitions, see Foot and Walter 2011.
31 Farrell and Finnemore 2009; Keohane 2009; Kirshner 2009; Cohen 2008b; Mosley and Singer 2009.
32 McNamara 2009.
33 Oatley 2011, 314.
34 Nye 2011, 52–53.
35 See, for example, Milgrom and Roberts 1982.
36 For landmark exceptions, see Hirschman 1945, Gilpin 1975, 1981, Knorr 1975, Krasner 1976, and Strange 1987.
37 Drezner 2007; Schwartz 2009; Norrlof 2010.
38 Woods 2008; Bach and Newman 2007.
39 Gourevitch 1986, 17.
40 Strange 1987; Mastanduno 2009; Norrlof 2010.
41 Kindleberger 1978; Galbraith 1993; Lewis 2009.
42 Hall 1989.
43 McNamara 1998; Quiggin 2010.
44 Helleiner, Pagliari, and Zimmermann 2010, Singer 2007.
45 Best 2005; Chwieroth 2008.
46 Nadelmann 1990; Barnett and Duvall 2005.
47 McNamara 2003.
48 Brooks and Mosley 2012.
49 Kuhn 1962; Mill 1869, ch. II. This is distinct from Jeff Legro's (2005) model of idea formation and dissemination. Legro assumes crisis is the key moment of ideational importance. We argue that stability also reflects the power of ideas.
50 Burgin 2012.

51 Eichengreen 2009; Quiggin 2010.
52 Ibid. See also Greenspan 2007.
53 Gilpin 2000; Mastanduno 2009; Norrlof 2010.
54 Simmons, Dobbin and Garrett 2006; Simmons and Elkins 2004; Best 2005, Chwieroth 2008.
55 Burgin 2012.
56 Hall 1989; Legro 2005.
57 Khong 1992.
58 Reinhart and Rogoff 2009; Ahamed 2009; Eichengreen and Irwin 2009.
59 Ramo 2004; Halper 2010.
60 Krasner 1983.
61 Oatley 2011 provides an elaboration and empirical evidence on this point.
62 Schiller 2008.
63 Brooks and Mosley 2012.
64 Roach 2009; Yang 2010; Yu 2010.
65 Kennedy 2010; Naughton 2010.
66 Ferchen 2012.
67 Crouch 2011; Quiggin 2010.
68 Helleiner 2011, 85.
69 Mokyr 2010; McCloskey 2010; Acemoglu and Robinson 2012.
70 We argue from a positivist perspective that it is impossible to examine global financial orders without thinking of them as embedded in larger political, economic and ideational structures. This is distinct from Polanyi 1944, who argued normatively for re-embedding markets into social structures.

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