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Capital Mobility and State Autonomy: Toward a Structural Theory of International Monetary Relations

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This article argues that the degree of capital market integration between states meets even the restrictive criteria established by structural realists for consideration as a structural feature of international politics; that is to say, the degree of international capital mobility systematically constrains state behavior by rewarding some actions and punishing others. Key terms are defined, and a heuristic model of the "capital mobility hypothesis" is introduced. Evidence from both U.S.-Japanese and intra-European monetary relations appears to corroborate the model. However, since the distribution of costs generated by monetary independence under conditions of relatively mobile capital can be asymmetrical, caution is warranted when generalizing about the effects of heightened capital mobility on individual states' monetary autonomy.

A number of political and economic theorists in recent years have focused attention on capital market integration as a partial explanation of important political phenomena, particularly changes in states' macroeconomic behavior. One particularly interesting argument about the effects of increasingly mobile capital has been advanced by a class of political economists employing what might best be described as system-level or structural analysis. Political economists such as Padoa-Schioppa (1985, 1987), Cohen (1993), Goodman and Pauly (1993), and most explicitly Webb (1991) identify the degree of international capital mobility as an important attribute of the international system. In essence, the central claim of these theorists is that when capital is highly mobile across international borders, the sustainable macroeconomic policy options available to states are systematically circumscribed. International financial integration, so the argument goes, has raised the costs associated with pursuing monetary policies that diverge from regional or international trends. While differences in national preferences, the causal beliefs of policymakers, and institutional affili-

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ations may help shape particular patterns of adaptation, proponents of what may be termed the "capital mobility hypothesis" maintain that changes in the external constraint confronting all states constitute a structural cause of observed shifts in the patterns of states' monetary policy behavior over time.[1]

Is the capital mobility hypothesis a sustainable proposition? If so, what are the analytical benefits of conceptualizing international monetary relations in structural terms? Following an overview of the literature on international financial integration, the conceptual case for regarding the relative degree of capital mobility as a structural feature of the international system is considered. Key terms are defined, and a heuristic model of the capital mobility hypothesis is introduced. Highlights from the monetary adjustment experiences of Japan and within Western Europe are then presented, both as a corroboration of the capital mobility hypothesis and in order to highlight some of the controversies raised by the structural approach. Both insights and limitations of this analytical approach are considered, and an agenda for future research is suggested.

Monetary Policy Independence, Exchange Rate Stability, and Capital Mobility

A small but growing cohort of academics has recently examined the effects of capital mobility on politics and policy. While united in their attention to changes in the international financial environment, theorists from a variety of intellectual and methodological traditions have advanced numerous and often conflicting claims about the nature of these changes, the nature of the constraints they place on economic policymakers, and resultant alterations in the economic relations between states. Many of their arguments have been framed so as to have important implications not only for narrowly conceived models of international finance but for theories of international political and economic relations more generally.

For example, Garrett and Lange (1991) show that, despite the constraining effects of international financial integration on macroeconomic policies, national economic policies have nonetheless remained partisan. At the sectoral level, Frieden (1991) analyzes the differential impact of capital mobility on various socioeconomic groups and then generalizes about the effects of these differences on important national economic policy debates. Cerny (1993) maintains that the "competitive re-regulation" of financial markets has resulted in the development of the "competition state," vying for access to international capital and the right to regulate it. Strange (1986) argues that increased financial volatility brought on by capital mobility threatens to undermine social, economic, and political norms. Focusing on ideology, Gill and Law (1989) maintain that the emerging international financial structure may legitimize a new global regime of transnational accumulation.[2] Goodman and Pauly (1993) emphasize the market forces behind the decisions of the advanced industrial states to abandon capital controls.

Much of this recent work owes a great intellectual debt, directly or indirectly, to the pioneering studies of Robert Mundell (1962, 1963, 1964, 1968) and Richard Cooper (1968). Mundell recognized that three key desiderata of governments—exchange rate stability, private capital mobility, and domestic monetary independence—could not be achieved simultaneously except on an

[1]Arguably, rises in capital mobility constituted the structural background to the demise of the global system of pegged exchange rates in 1973; see Solomon (1982), Williamson (1977), and Willett (1977).

[2]In this regard, see also Gill (1990).

episodic basis.[3] Recognition of the mutual incompatibility of these three policy objectives has since been variously referred to as the Mundell-Fleming approach,[4] the Unholy Trinity,[5] and the Inconsistent Quartet.[6] Cooper explored the broader policy implications of Mundell's analysis in *The Economics of Interdependence* (1968), a seminal work which influenced the thinking of a generation of economists and political scientists alike.

Capital mobility, in this context, refers to the capacity of capital to cross borders rather than to actual flows of money. Put differently, capital mobility refers to the relative absence of friction on financial flows across borders. It is essential to recognize that this *capacity* of capital to cross international boundaries may not manifest itself at any given moment, due to the (relative) absence of profit incentives deriving from differential rates of expected return in different states.[7]

On the other hand, the independent pursuit of monetary policies by states with sometimes divergent objectives generally produces such incentives. To the degree that assets are mobile, then, differential rates of expected return can generate capital flows.[8] These flows of financial assets can in turn generate foreign exchange market disequilibria (i.e., excess supply or demand in the foreign exchange market). Conceptually at least, the foreign exchange market pressures resulting from these disequilibria can be reflected entirely in changes in reserves with a constant exchange rate, or entirely in changes in the exchange rate with constant reserves. In practice, however, since governments are generally not indifferent about either their currencies' external value or their stocks of foreign exchange, foreign exchange market disequilibria are likely to result in some combination of changes in *both* the exchange rate and reserves.[9]

As authorities recognize that their pursuit of monetary policies diverging from international trends has or may result in undesired foreign exchange market pressures, they will have incentives to correct that divergence. Thus, to the degree that capital is freely able to traverse international boundaries, a direct trade-off exists between exchange rate stability between states and their pursuit of independently chosen monetary policies. As discussed later in this article, exactly how this trade-off will be resolved depends crucially upon policymakers' beliefs (i.e., the economic models that inform their decisions) and the structure of their preferences (the extent to which they value stability).[10]

A number of political scientists have integrated key insights of Mundell and

[3]That is to say, except when states' interests happen to harmonize and therefore individual policy optimization does not require mutual accommodation (Keohane, 1984:51–55). These fortuitous circumstances are likely to occur only sporadically.

[4]The reference is to J. Marcus Fleming, another important international monetary theorist; see Fleming (1962).

[5]Cohen (1993).

[6]Padoa-Schioppa (1985, 1987) explicitly includes the pursuit of free trade as an element in his treatment of the problem.

[7]Fritz Machlup explicitly distinguished between capital mobility and capital movements as early as twenty years ago (cf. Machlup, Salant, and Tarshis, 1972).

[8]Short-term assets (financial instruments with maturities under one year) are especially sensitive to differences (and expected differences) in real interest rates, adjusted for exchange rate risk.

[9]The discussion of foreign exchange market equilibria here and elsewhere in this article refers to a pure exchange-market definition of balance or imbalance in states' payments positions. In other words, it refers to the supply of and demand for foreign exchange at various "prices" or exchange rates, rather than to any particular accounting measure (e.g., the current account, the basic balance, etc.).

[10]Strictly speaking, states do not have "preferences." It has become customary, however, to refer to the reaction functions of decisionmakers as constituting national preferences. As a result, national preferences are malleable not only because of changes in individuals' beliefs but also because of changes in the relative influence of different groups and individuals.

Cooper into their studies of economic decisionmaking.[11] One particularly interesting argument, advanced by Michael Webb (1991), is noteworthy for its efforts to locate the effects of increasingly mobile capital within a Waltzian framework for the study of international relations. Beginning with the publication of *System and Process in International Politics* (Kaplan, 1957) and *Man, the State and War* (Waltz, 1959), American students of international relations theory have been captivated by the notion of system-level or "third-image" explanations of international political phenomena.[12] The 1979 publication of Waltz's *Theory of International Politics* reinvigorated this fascination.[13] While criticisms of Waltz (1979) have ranged from the constructive to the excoriating,[14] the structural realist approach[15] to theorizing that he pioneered continues to hold wide sway within the discipline. This is reason enough for Webb's effort to merit close attention, inasmuch as it challenges the traditionally narrow scope of structural realist theory—and does so on the latter's own terms.[16]

Webb suggests that the third-image tradition in international relations theory can be linked with the policy interdependence arguments pioneered by Mundell and Cooper by identifying the degree of international capital mobility as an important third-image attribute of the international system. He maintains that since a high degree of capital mobility systematically circumscribes the sustainable economic policy options available to states, it should be identified as part of the international structure. Conventional neorealist models of international relations, he continues, are unable to explain important domains of state behavior because they lack reference to this important conditioning element of international economic relations.

> The distribution of power alone cannot explain patterns of macroeconomic policy coordination, an area central to the concerns of governments; we also need to look at the characteristics of the international economy that persist over time and systematically influence how governments relate to each other . . .
>
> All . . . the advanced capitalist countries . . . responded in a similar, though not identical, fashion to changes in international capital mobility. According to Kenneth Waltz [1979], if different states act similarly in response to similar phenomena, we are justified in thinking that there may be some kind of structural effect at work. (Webb, 1991:312)

In similar fashion, Cohen (1993) argues that the influence of the Unholy Trinity on international monetary relations between G-7 countries is "systematic," thereby accounting for the episodic nature of cooperation efforts.[17] While not explicitly adopting a Waltzian framework (or vocabulary[18]), this analysis once again points to environmental constraints on the successful realization of governments' macroeconomic policy objectives. Likewise, Padoa-Schioppa's (1987) advocacy of European monetary union is grounded in his analysis of the Inconsistent Quartet, wherein he maintains that governments' exchange rate and policy independence objectives are severely and predictably constrained by the relative degree of international financial integration between them. And Goodman and Pauly (1993) maintain that the liberalization of capital controls undertaken by different states during the 1970s and 1980s was brought about, in part, by market pressures deriving from preexisting levels of financial integration.[19]

Capital Mobility as a Structural Variable

The proposed synthesis between third-image, system-level analysis of international relations and the literature on economic policy interdependence outlined above hinges on the premise that the constraints imposed on states by capital mobility are structural in nature, or at a minimum can usefully be construed as structural by analysts. That is to say, the degree of international capital mobility systematically constrains state behavior by rewarding some actions and punishing others.[20]

An alternative view is that the degree of capital mobility between states is simply a consequence of national policy decisions to liberalize national financial markets—and that the consequences associated with these decisions are (at least potentially) fully reversible. If so, to regard capital mobility as a structural constraint (in the Waltzian sense of the term) is to obscure the political decisions that have made and continue to make international financial integration possible.[21]

The practical difficulties confronting individual governments attempting to limit or reduce capital mobility (or its policy effects) provide the most substantive rationale for treating this phenomenon as a structural feature of the interna-

[11] Keohane and Nye (1977) is perhaps the most famous; see pages 11–19, as well as the monetary case studies. Odell's (1982) analysis of U.S. international monetary policy decisions in the 1960s broke new ground; his framework was in turn adopted by Story (1988) to examine the origins of the European Monetary System.

[12] For example, after examining several alternative explanations of the passage of the Single European Act, Sandholtz and Zysman (1989:100) conclude that "an argument based on domestic politics cannot answer the question, why now? Such an argument would have to account for the simultaneity of domestic developments that would induce states to act jointly. Attention to changes in the international context solves that problem. International changes posed challenges and choices to all the EC states at the same time."

[13] For good or for ill; Milner (1992:488–495) laments the primacy that has characteristically been afforded systemic theory over domestic or "second-image" explanations of international conflict and collaboration.

[14] See, for example, the articles by Keohane (1983), Ruggie (1983), Cox (1981), and Ashley (1984) that were later incorporated into Keohane's (1986) text.

[15] The term is Keohane's (1983).

[16] Wendt (1987) argues persuasively that structural realist theory is intellectually impoverished by its insistence on the logical priority of agents (states) over structures (the properties of the international system), with the latter generated by the interaction of the former. Wendt proposes an alternative approach to theorizing wherein the key properties of both states and the international system are recognized as "co-determined" or "mutually constituted"; see especially his discussion on pages 339–340. While the present article is by no means hostile to this "structurationist" approach, it takes a different tack. Whereas Wendt argues that the neorealists have adopted an inappropriate ontological framework for the analysis of international affairs, the present article accepts, for the purposes of argument, structural theory as traditionally conceived by neorealists. It then argues that capital mobility meets even the restrictive terms established by leading proponents of structural realism for consideration as an essential property of the international system. This, in turn, suggests that insistence on the primacy of the distribution of military capabilities in the theoretical analysis of international affairs is more a reflection of researchers' preferences than the inevitable consequence of a rigorous intellectual scheme.

[17] "Consideration of the underlying political economy of the issue suggests that the dilemma is, in fact, systematic—endogenous to the policy process—and not easily avoided in relations between sovereign governments" (Cohen, 1993:146).

[18] Purists will note that "systematic" problems are not necessarily "systemically" derived.

[19] In other words, Goodman and Pauly (1993) treat capital mobility as both an independent and dependent variable.

[20] Even in the unlikely event that the degree of international capital mobility were significantly reduced, the effects of whatever new degree of capital mobility obtained could still be considered structural in the sense discussed in this article. Lower levels of mobility would simply result in different (i.e., less constraining) structural effects.

[21] For example, Helleiner (1994) argues that a variety of political factors encouraged the process of post-war financial liberalization, including widespread ideological shifts, the emergence of new domestic coalitions supportive of liberalization, and the particular interests of Britain and the United States in the liberalization process. As the following discussion makes clear, however, none of these factors precludes a structural interpretation of the *consequences* of financial liberalization once undertaken.

tional system.[22] The following analysis of impediments to the purely political control of financial markets distinguishes between two related matters: the degree to which increases in capital mobility have taken place independently of changes in national regulatory frameworks, and the degree to which the widespread liberalization of national financial markets has itself taken place in response to system-level pressures. The ensuing discussion of the competitive pressures between states is then supplemented by consideration of the cognitive impediments to the successful regulation of international capital.

Technological and Private Sources of Capital Mobility

With regard to the first of these issues, at least three distinct types of underlying causes of the increase in the degree of capital mobility since the establishment of the Bretton Woods system in 1944 can be identified. First, advances in communications and information technologies have facilitated private international capital transactions.[23] Notably, both Cooper (1968) and especially Bryant (1987) emphasize the role of technology in altering the environment in which both private and public financial actors operate. Second, innovation by financial firms—at least partly in response to technological advances—has produced new instruments capable of facilitating the flow of capital across borders.[24] This includes, but is not limited to, the development of international or so-called "Euro" money markets, established to operate beyond the normal purview of national authorities.[25] Finally, the liberalization of domestic capital markets (the removal of legal and technical barriers to international capital mobility) by the political authorities of many of the world's countries has dramatically reduced the friction of international capital movements.[26]

These changes have taken place in technological capacity, the private sector, and the public sector, respectively. Put differently, the increasing integration of the world's capital markets is a consequence of a variety of developments, only some of which are subject to straightforward manipulation by political authorities. Empirical assessment of the relative weight of each of these factors in accounting for the shift toward greater capital mobility is difficult, especially inasmuch as each factor was interactive with its counterparts. In the absence of an appropriate methodology for quantitative analysis, Bryant offers the following counterfactual observations:

> The technological nonpolicy factors were so powerful, I believe, that they would have caused a progressive internationalization of financial activity even without changes in government separation fences and the inducement of differing regulatory, tax, and supervisory systems. But I also conjecture that government-policy changes were important enough to have promoted a significant integration of national financial systems even if there had been no shrinkage in the economic distances between reservoirs [of market funds] due to nonpolicy innovations such as the fall in relative costs of the international communication of information. (Bryant, 1987:69).[27]

To summarize, one reason why capital mobility is difficult to resist as a general matter has to do with the diffuse nature of its sources. As a general matter, the normal purview of the state includes attention to only one source of capital mobility (namely, the regulation of national financial markets, including access to and from these markets). Changes in the market itself, however, as well as in the technological capabilities of market actors, have jointly reduced the impediments to capital movements between states quite independently of the regulatory decisions of governments.

Competitive Pressures on States' Regulatory Policies

Turning to the second issue, the financial regulatory decisions of governments have themselves been subject to enormous systemic pressures. Recall that a system consists of a structure and interacting units (Waltz, 1979:79). As the structure itself has changed (due in part to technologically induced changes in market practice, increasing the capacity of capital to cross borders), the nature of the interactions between the units has been altered as well. New competitive pressures between states have been unleashed, resulting in new patterns of adjustment and adaptation.

As discussed above, the features of the emerging international structure include improved communications and information technologies as well as new financial mechanisms. Together, these features have enhanced the capacity of capital asset–holders to evade the jurisdiction of unfriendly regulators. States must therefore be increasingly sensitive to changes in the regulatory policies of their neighbors, since they are now effectively competing for the right to regulate capital. The general thrust of this new competitive dynamic has been for states to accommodate the preferences of market actors by liberalizing (or in other words, lowering) their regulatory standards.[28] States that had previously resisted financial liberalization began instead to court international investors, resulting in what Cerny (1993) calls the "competitive re-regulation" of national financial markets.

The decision of the Socialist government in Paris to adopt substantial liberalization of its internal financial markets is illustrative.[29] French liberalization efforts were announced less than two years after adopting remarkably draconian measures to restrict capital movements;[30] furthermore, they served as a necessary antecedent to (rather than consequence of) negotiations leading to the Single European Act.[31] In light of the Socialists' stated preferences both prior to and immediately after assuming office, this suggests that the perceived costs of resisting liberalization were sufficient to overcome even strong ideological

[22] This is not to say that the current degree of capital mobility cannot be reduced, but instead that reduction is likely to be both difficult and costly. See the discussion in Webb (1991:313). For alternative perspectives on the reversibility of the trend toward greater capital mobility see Strange (1986), Loriaux (1991:304–307), and Helleiner (1993). Each of these authors rightly emphasizes the role of politics in bringing about financial market liberalization efforts. The following discussion, however, emphasizes the importance of distinguishing between the trend toward liberalization and the trend toward greater capital mobility, since the former is only one of several contributors to the latter.

[23] Accessible accounts of recent developments in this regard include Strange (1986), McKenzie and Lee (1991), and Kurtzman (1993).

[24] See, for example, Cobham (1989:248), who provides a summary of financial innovations in the United Kingdom since 1970 classified in terms of their impact on policy.

[25] "Eurocurrency banking is not a phenomenon sui generis, but merely one part of a general nexus of financial interrelations linking open national economies" (Bryant, 1987:24).

[26] Cf. Solomon (1982).

[27] Bryant (1987:69) concludes by observing that "it is likely that the interaction between nonpolicy innovations and changes in government policies was itself an important part of the history. Each set of evolutionary changes reinforced the effects of the other."

[28] Cf. Gowland (1990).

[29] Loriaux's (1991:214–240) account of the Mitterrand reforms downplays the competitive dynamic while emphasizing the French government's efforts to regain control over domestic monetary policy. This interpretation accurately reflects an understanding that prevailed in some official quarters in Paris about the nature of financial markets, exchange rates, and monetary independence. This understanding was sorely tried when increases in German interest rates (following national unification) squeezed French monetary policy options and contributed to the foreign exchange crises of 1992–1993.

[30] Cf. Petit (1989:256–260); Goodman and Pauly (1993:70–75).

[31] Note the discussions of this problem in Sandholtz and Zysman (1989:99–100) and Moravcsik (1991:21, 29–31).

resistance.[32] And once adopted, the liberalization of financial regulations joined with the market and technological forces that had helped to produce this policy change, further reinforcing the new competitive dynamic.

Despite similarities between them, it is analytically useful to distinguish between regulation of national financial markets and regulation of capital movements between them. In the case of France, for example, substantial market liberalization took place beginning as early as 1984, but capital controls were not abandoned until 1990. Goodman and Pauly (1993) argue that both these developments were "fundamental changes in the structures of international production and financial intermediation." They note that the abolition of capital controls, together with the liberalization of internal markets, has tended to proceed regardless of whether the state experienced chronic balance-of-payments deficits or surpluses (although states' different payments positions may help explain differences in the timing of their reform efforts).[33] The existence of genuinely international or "offshore" financial markets, in conjunction with changes in the production strategies of firms,

> made it easier for private firms—specifically, corporations and financial institutions whose aspirations had become increasingly global—effectively to pursue strategies of evasion [of controls] and exit [from heavily regulated national markets]. For governments, the utility of controls declined as their perceived costs thereby increased. (1993:51)

In short, they argue that both the widespread abandonment of capital controls by the advanced industrial states since the late 1970s and the movement toward competitive reform of domestic market regulations were rational responses to similar competitive difficulties. This may not necessarily be the case.[34] It is not clear that the exchange rate implications of capital control abolition were entirely understood by all the governments that undertook these reforms. Indeed, the decision of European governments to abandon controls remains particularly problematic, given these states' pronounced preference for mutual exchange rate stability.[35]

The widespread decision to abandon capital controls is perhaps better understood in the first instance as a consequence of widely shared ideological commitments (and especially the priorities of central bankers), rather than in terms of objective competitive pressures.[36] However, as the discussion of these matters

[32] "In effect, as international financial integration outside France accelerated, French policymakers came to the conclusion that their preference for national monetary autonomy was unrealistic" (Goodman and Pauly, 1993:75). Their use of the term *monetary autonomy* differs from my own later in this article.

[33] They come to this conclusion following a comparison of the French, Italian, German, and Japanese cases. The British experience (which they do not examine) suggests that sectoral interests and ideology can influence timing as well. London liberalized its markets relatively early and later chose to abandon capital controls altogether upon the election of Margaret Thatcher, despite persistent deficits in the balance-of-payments.

[34] The chief distinction in this regard is between the overall movement toward the liberalization of financial markets and the remaining utility (for states protective of their mutual exchange rates) of policy instruments allowing governments to resist flows of speculative capital not generated by balance-of-payments fundamentals. Cf. Portes (1993:3): "The key [to the foreign exchange crises of 1992–1993] was the dismantling of capital controls. The minority view that they were ineffective, unnecessary or even potentially destabilising . . . was wrong. By limiting the rate of short-term speculative capital flows, controls had permitted orderly realignments [within the European Monetary System] . . ."

[35] The economists (cf. Gros, 1987, 1992) who argued that capital controls were ineffective, or perhaps even destabilizing, were widely criticized by their colleagues both before and after the European foreign exchange crises of 1992–1993; see footnote 34. There is, after all, some considerable difference between observing that capital mobility is difficult to resist and abandoning efforts to do so. What is especially interesting in the European case is that advocates of monetary union were persuaded to do the latter.

[36] Recall in the European case that the Committee for the Study of Economic and Monetary Union, chaired by Jacques Delors, was composed almost entirely of central bankers. The Committee's *Report on Economic and Monetary Union in the European Community*, including its recommendation for the abolition of capital controls, formed the basis for the eventual negotiations at Maastricht; see in this regard Sandholtz (1993:15–18).

in the next section suggests, such cognitive constraints are also consistent with a structural explanation of international monetary relations. Furthermore, once removed, it became evident that the reintroduction of capital controls by individual states on an isolated basis might prove costly, not least because it might be taken as a signal (even if wrongly) that regulators intended to backtrack on liberalizing reforms of national markets as well.

Finally, the competitive pressures on states to attract foreign capital have not only resulted in great potential costs for states seeking to resist financial liberalization on an isolated basis. In addition, the competitive dynamic has generated important impediments to the possible multilateral regulation of international capital markets.[37] The high economic and political stakes associated with the attraction of international capital provide powerful incentives to "cheat," exacerbating the general impediments to international cooperation.[38] In short, the costs of resisting capital mobility either in isolation or in combination have dramatically escalated, with the result that states have by and large chosen to accommodate the phenomenon. This decision, taken both individually and collectively, serves to reinforce the market trends that originally induced it. The circular nature of this process further justifies consideration of the phenomenon as systemic in nature.[39]

Competition, Socialization, and the Emergence of Structure

The preceding discussion suggested that the competitive interaction of states serves as an important impediment to the successful national and international regulation of capital. It also suggested that certain widespread cognitive phenomena further restrict states' collective ability to regulate international capital movements. Ideology, to use Gill and Law's (1989:489–490) term, or mindsets, as employed below, are instances of such phenomena. National monetary authorities are increasingly likely to imagine that the process of international financial integration has become largely inevitable and irreversible. As authorities become convinced (again, even if wrongly) that it is costly or even futile to resist the strong tendency of market and technological forces to produce further financial integration, they become less inclined to undertake such actions.[40] Such mindsets augment the objective difficulties associated with joint action between states to control capital movements, further undermining the likelihood of successful collaboration.[41]

This observation is entirely consistent with describing capital mobility as a structural feature of the international system. "Structure affects behavior within the system, but does so indirectly. The effects are produced in two ways: through socialization of the actors and through competition among them" (Waltz, 1979:74). Socialization and competition, acting in concert, condition unit behavior in ways that are both comprehensible and predictable. Consequently,

[37] Keynes, among others, had envisioned a system of widespread, reciprocal controls for the postwar world; see Helleiner (1994).

[38] Most prominently information and other transaction costs, and uncertainty; see Keohane (1984:90–96).

[39] This functionalist explanation of the competitiveness dynamic is discussed further below. See again Wendt (1987) on the mutually constitutive relationship of agents and structures in international relations.

[40] Note that while the recent foreign exchange crises have caused some European states to reintroduce capital controls, none have described this as anything more than a temporary measure.

[41] On the other hand, the recent foreign exchange crises have caused efforts to constrain short-term capital movements to regain at least a modicum of intellectual responsibility. When Tobin (1982) suggested the merits of "putting some sand in the wheels" of capital mobility through unconventional means ten years ago, his suggestion was roundly criticized as costly and impractical (cf. Dornbusch, 1988:220–222). More recently, however, Eichengreen and Wyplosz (1993) and others have advocated similar proposals, whether via taxation of short-term financial assets crossing borders or through some sort of compulsory deposit requirement.