

The Social Embeddedness of Transnational Markets

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Sol Picciotto

Lancaster University Law School

Disembedding and Regulation The Paradox of International Finance

The breakdown of the Bretton Woods system in the early 1970s unleashed a process of liberalisation and internationalisation of finance, and a shift away from relationship-based to market-based finance, led by the UK and the US, acting in tandem as the dominant centres of global finance. Although often described as a period of deregulation, the disembedding of finance through liberalisation was mediated by an enormous growth of formalised regulation, through which the competitive and dynamic processes of change were contested. Although the growing plethora of regulation was national in focus, it developed as an international process, through networks of regulators and specialists, who developed principles and standards, changing rapidly, usually under the impact of scandals and crises.

Financial regulation has focused on trying to limit the damaging effects of financial globalisation, rather than tackling at their roots the dangers it posed. It is therefore hardly surprising that, in a period of rapid liberalisation which has created ever wider and more open markets, regulatory failure has been endemic. The response has been to create new regulatory institutions and networks which have grown ever more complex, despite all efforts to improve their coordination. In the face of the best efforts of the regulators, the increasingly globalised financial system has generated new forms of risk and instability with ever-wider effects. Indeed, financial crises have been a recurring feature since the emergence of the eurodollar market in the 1970s, culminating in the great financial crash of 2007-8. The paper will outline the main features of international financial regulation, especially banking, and the institutions involved, and conclude with some suggestions for a new alternative approach.