NSU Florida
NOVA SOUTHEASTERN UNIVERSITY

Nova Southeastern University
NSUWorks

Faculty Scholarship
Shepard Broad College of Law

Winter 2000

The Disorders of Unrestricted Capital Mobility, and the Limits of the Orthodox Imagination

Timothy A. Canova

Follow this and additional works at: https://nsuworks.nova.edu/law_facarticles

Part of the Law Commons

Recommended Citation
Timothy Canova, The Disorders of Unrestricted Capital Mobility, and the Limits of the Orthodox Imagination, 9 Minn. J. Global Trade 219 (2000).

This Article is brought to you for free and open access by the Shepard Broad College of Law at NSUWorks. It has been accepted for inclusion in Faculty Scholarship by an authorized administrator of NSUWorks. For more information, please contact nsuworks@nova.edu.

HEINONLINE

DATE DOWNLOADED: Wed Mar 30 10:57:46 2022
SOURCE: Content Downloaded from HeinOnline

Citations:

Bluebook 21st ed.
Timothy A. Canova, The Disorders of Unrestricted Capital Mobility and the Limits of the Orthodox Imagination: A Critique of Robert Solomon, Money on the Move: The Revolution in International Finance since 1980 (Princeton University Press, 1999), 9 MINN. J. GLOBAL TRADE 219 (2000).

ALWD 7th ed.
Timothy A. Canova, The Disorders of Unrestricted Capital Mobility and the Limits of the Orthodox Imagination: A Critique of Robert Solomon, Money on the Move: The Revolution in International Finance since 1980 (Princeton University Press, 1999), 9 Minn. J. Global Trade 219 (2000).

APA 7th ed.
Canova, T. A. (2000). The disorders of unrestricted capital mobility and the limits of the orthodox imagination: critique of robert solomon, money on the move: the revolution in international finance since 1980 (princeton university press, 1999). Minnesota Journal of Global Trade, 9(1), 219-232.

Chicago 17th ed.
Timothy A. Canova, "The Disorders of Unrestricted Capital Mobility and the Limits of the Orthodox Imagination: A Critique of Robert Solomon, Money on the Move: The Revolution in International Finance since 1980 (Princeton University Press, 1999)," Minnesota Journal of Global Trade 9, no. 1 (Winter 2000): 219-232

McGill Guide 9th ed.
Timothy A. Canova, "The Disorders of Unrestricted Capital Mobility and the Limits of the Orthodox Imagination: A Critique of Robert Solomon, Money on the Move: The Revolution in International Finance since 1980 (Princeton University Press, 1999)" (2000) 9:1 Minn J Global Trade 219.

AGLC 4th ed.
Timothy A. Canova, 'The Disorders of Unrestricted Capital Mobility and the Limits of the Orthodox Imagination: A Critique of Robert Solomon, Money on the Move: The Revolution in International Finance since 1980 (Princeton University Press, 1999)' (2000) 9(1) Minnesota Journal of Global Trade 219

MLA 9th ed.
Canova, Timothy A. "The Disorders of Unrestricted Capital Mobility and the Limits of the Orthodox Imagination: A Critique of Robert Solomon, Money on the Move: The Revolution in International Finance since 1980 (Princeton University Press, 1999)." Minnesota Journal of Global Trade, vol. 9, no. 1, Winter 2000, pp. 219-232. HeinOnline.

OSCOLA 4th ed.
Timothy A. Canova, 'The Disorders of Unrestricted Capital Mobility and the Limits of the Orthodox Imagination: A Critique of Robert Solomon, Money on the Move: The Revolution in International Finance since 1980 (Princeton University Press, 1999)'

The Disorders of Unrestricted Capital Mobility and the Limits of the Orthodox Imagination: A Critique of Robert Solomon, *Money on the Move: The Revolution in International Finance since 1980* (Princeton University Press, 1999).

Timothy A. Canova*

It has become increasingly difficult to claim economics as a hard science. Such pretensions have floundered under a mountain of doubts about the course of global economic and financial developments. Unlike the hard sciences, economics must deal with conditions that are uncontrollable and theories that are often impossible to verify or refute. While economics is unable to predict events or to offer solutions with any degree of certainty, the discipline's pretensions as a value-neutral science have often permitted orthodox economists to rely on flawed assumptions, and to continue offering explanations and prescriptions without any sense of humility for the possibilities of their own errors.[1] In this way, orthodox economics continues to serve as a vehicle for the dominant neoliberal ideology that glorifies private markets while denigrating the efficacy of public-sector development efforts.

---

* Assistant Professor of Law, University of New Mexico School of Law. I would like to thank Barbara Creel, Irwin Stotzky, Jennifer Moore, and Alfred Mathewson for very helpful comments on an earlier draft of this review. I also thank my editor Jon Lauck, and my research assistants, Travis Jackson, Frederick Gooding, Jr., and Ernie C'DeBaca. This review is dedicated to Nicholas P. Ciotola, friend, role-model, and loving uncle.

1. JOHN MAYNARD KEYNES, THE GENERAL THEORY OF EMPLOYMENT, INTEREST, AND MONEY 275, 297-98 (1964) (criticizing the "pseudo-mathematical methods of formalizing a system of economic analysis" that rests on flawed "initial assumptions" which "lose sight of the complexities and interdependencies of the real world in a maze of pretensions and unhelpful symbols"); Lynn Turgeon, "Introduction," THE SEARCH FOR ECONOMICS AS A SCIENCE: AN ANNOTATED BIBLIOGRAPHY ix (ed. Lynn Turgeon, 1996) (warning against the increased mathematization of economics and the deemphasis of the study of economic history). *See also*, James Boyd White, *Economics and Law: Two Cultures in Tension*, 54 Tenn. L. Rev. 161 (1987) (criticizing the scientific claims of economics); Robert C. Ellickson, *Bringing Culture and Human Frailty to Rational Actors: A Critique of Classical Law and Economics, Symposium on Post-Chicago Law and Economics*, 65 Chicago-Kent L. Rev. 23 (1989) (criticizing fundamental assumptions of law and economics school).

The shortcomings in orthodox thinking have been amply demonstrated in debates about cross-border capital flows and the proper allocation of adjustment burdens. It was therefore not surprising when Federal Reserve Board Chairman Alan Greenspan, at the 1999 annual meeting of the World Bank and the International Monetary Fund (IMF), misidentified the nature of the global currency contagion and the cause of Japan's continuing economic weakness as stemming from an insufficient reliance on private capital markets.[2] With such orthodox and flawed assumptions, Greenspan's solution for Japan and most other troubled economies is that they open up further to private capital inflows, a solution that neatly serves the interests of the established orthodoxy.[3] Just a modicum of humility might suggest alternative explanations and prescriptions that are more critical of today's neoliberal model of free capital mobility and adjustment austerity for deficit countries.

Robert Solomon largely follows in this orthodox tradition, accepting neoliberal assumptions and policy solutions.[4] At

2. Richard W. Stevenson, *Greenspan Urges Japan to Widen Capital Sources*, N.Y. Times, Sept. 28, 1999, at C1. Greenspan argues that East Asian countries lacked the spare tire of alternative non-banking sources of financing (i.e., capital markets open to foreign hot money inflows). Remarks by Chairman Alan Greenspan before the World Bank Group and the International Monetary Fund, Program of Seminars, Washington, D.C., Sept. 27, 1999 <http://www.bog.frb.fed.us/boarddocs/speeches/1999/199909272.htm>. But to the extent that East Asia's increasing reliance on private hot money capital inflows actually contributed to the region's currency contagion, then a more appropriate metaphor would be that the region's tires were over-pumped, blew a hole, and the air suddenly flowed out.

3. The Greenspan explanation fails to recognize that Japan has more in foreign monetary reserves, stemming from accumulated trade surpluses, than it could easily absorb in internal investment opportunities. Rather than scrambling to attract more inflows of fickle foreign hot money, Japan would do better to find expanded outlets for recycling surpluses of monetary reserves through transfers of public capital to less-developed countries. *See* Timothy A. Canova, *Banking and Financial Reform at the Crossroads of the Neoliberal Contagion*, 14 Am. U. Int'l L. Rev. 1571, 1636-41 (1999) (arguing in favor of changing the burdens of adjustment from deficit to surplus countries by recycling surpluses).

4. For instance, Solomon has opposed monetary expansion as a means to lift Japan out of recession: monetary expansion would "drive down the foreign exchange value of the yen, thereby increasing Japan's already large current account surplus and causing problems for other countries, especially Japan's Asian neighbors." Robert Solomon, *Beggar my neighbor replayed in the 1990's*, Financial Times, Feb. 3, 1999, p. 14 (criticizing views of MIT economist Paul Krugman). But such conclusions assume away the possibility of maintaining the value of the yen while pursuing expansionary policies by selective use of exchange and capital controls — a policy menu successfully pursued by Malaysia to the eventual embarrassment of orthodox economists at the International Monetary Fund and the U.S. Treasury Department. Michael M. Phillips, *IMF*

times, however, he also resembles someone caught in the transition between two worlds, trying to shake off the orthodoxy of his past, but concerned with maintaining his credibility in those same orthodox circles.[5] In *Money on the Move: The Revolution in International Finance Since 1980*, Solomon has written a highly descriptive account of some of the major developments in global financial markets over the past two decades.[6] His impressive compilation of events is couched in an objective, value-neutral narrative, thereby suggesting that the tide of neoliberal policy reforms is as inevitable as the sun rising. But lurking just beneath the surface are the usual neoclassical assumptions that one might expect of a former chief international economist of the Federal Reserve Board: that markets work best when free of government restrictions; and that the best way for countries to foster economic development is to attract private foreign investment—particularly short-term portfolio capital.[7]

Solomon's acceptance of the dominant orthodoxy is suggested early in *Money on the Move* when he proclaims the success of the Bretton Woods Agreement's "larger purposes" of open trade and freer movements of capital across national boundaries.[8] But this portrayal of Bretton Woods appears rather constrained, given its commitment to such grand purposes as "the promotion and maintenance of high levels of employment and real income."[9] As Solomon is slow to mention, the Bretton Woods Agreement expressly permitted member nations to impose controls on capital movements.[10] In fact, such capital controls were widely and successfully used over the decades to

---

Concedes That Malaysia's Controls Over Capital Produced Positive Results, Wall St. J., Sept. 9, 1999, at A21.

5. Solomon's departure from orthodoxy is suggested by his recognition of the need for greater exchange rate stability and more rational adjustment based on economic fundamentals rather than speculative pressures. Solomon, *infra* note 6, at 22, 139, 142.

6. ROBERT SOLOMON, MONEY ON THE MOVE: THE REVOLUTION IN INTERNATIONAL FINANCE SINCE 1980 (1999).

7. *See* Canova, *supra* note 3, at 1584-86, 1597-1609, 1636-41 (criticizing capital account liberalization and inequitable adjustment burdens).

8. Solomon, *supra* note 6, at vii.

9. *See* Articles of Agreement of the International Monetary Fund, Dec. 27, 1945, 60 Stat. 1401, 2 U.N.T.S. 39 [hereinafter Articles], Article I (ii).

10. In the closing pages of his book, Solomon admits: "The Bretton Woods architects certainly did not envisage a world of free capital movements. Controls on capital movements were not only permissible but were probably expected to prevail by those who designed the IMF." Solomon, supra note 6, at 162. The tardy admission does not drive Solomon's analysis, but comes almost as an afterthought during discussion of the IMF's continuing efforts to eviscerate capital controls as a policy tool.

protect against speculative attacks and to provide the breathing space by which Western Europe was able to achieve economic takeoff.[11] But such re-writing of history is common: the IMF itself routinely ignores both its original objective of full employment and the permissible means of capital controls, preferring instead to perversely characterize free movement of capital as a greater end in itself.[12]

By organizing *Money on the Move* chronologically and geographically, Solomon's narrative often seems to lack a sufficient analytical anchor or a penetrating critique of today's neoliberal disorder.[13] For instance, in reporting on the wide-ranging fluctuations in the value of the U.S. dollar, Solomon delves into discussions about technical issues, such as the relative merits of

---

11. Canova, *supra* note 3, at 1612. In citing to an International Monetary Fund (IMF) report that 119 out of 155 developing countries maintain some form of control on capital flows, Solomon presents information without context. Solomon, supra note 6, at 163 n. 80. His recitation of fact begs the questions: what are the qualitative characteristics of such control programs, and have such controls effectively protected countries from the hot money problem without scaring off long-term foreign direct investment?

12. Despite the mounting criticism of its role in exacerbating the global currency contagion, the IMF remains committed to keeping capital account liberalization high on its agenda. Cf., Address by Michel Camdessus, Managing Director of the IMF to the Board of Governors of the Fund, Washington, D.C., Sept. 38, 1999 <http://www.imf.org/external/np/speeches/1999/092899.HTM> (urging support for an amendment to IMF Articles of Agreement to extend the Fund's jurisdiction to capital account liberalization). There is plenty of reason for skepticism about the IMF's recent lip-service indicating that its structural adjustment programs are to be given an anti-poverty focus. Cf., Larry Elliott, *A Fund of wisdom rediscovered*, The Guardian (London), Sept. 27, 1999. When John Crow, the former Governor of the Bank of Canada and Chairman of the IMF's external review team, spoke of the futility of promoting "democratic governance and social stability" while also promoting market-oriented reform and structural adjustment, he was interrupted by laughter that apparently reflected the audience's utter disbelief in the effort itself. *See* Press Conference on External Review of IMF Surveillance, Sept. 14, 1999 <http://www.imf.org/external/np/tr/1999/TR990914.HTM>.

13. For example, Solomon compares U.S. and French policies during the Reagan-Mitterand era: under both "the budget deficit and the balance-of-payments deficit increased." Solomon, *supra* note 6, at 5. But he misses the context by which private capital markets are increasingly able to intervene to influence the political agenda: under Mitterand the franc took a nose-dive because investors (domestic and foreign) did not approve of the Keynesian-spending program of the French Socialists; while under Reagan the dollar rose in value (despite the twin budget and trade deficits) because of a very anti-Keynesian monetary policy that sent U.S. interest rates soaring, a significant rise in foreign speculation, and the fact that the U.S. dollar remains the main reserve currency in the world. *See* Timothy A. Canova, *The Transformation of U.S. Banking and Finance: From Regulated Competition to Free-Market Receivership*, 60 Brook. L.Rev. 1295, 1322, 1326, 1353 (1995).

central bank intervention and sterilization,[14] without adequately considering the underlying context of financial liberalization that has fueled private hot money and speculative capital flows.[15] Largely missing from Solomon's narrative is an appreciation of the role of law in constructing the context and institutional framework of marketplace financial transactions,[16] and the relationship between law and the dynamics of power — social, political, and cultural — that contribute to a global financial regime that increasingly serves the interests of the few, rather than the many. Far from a natural, inevitable phenomenon, the process of liberalization of capital accounts intimately involves legal reforms and legal evasions — including the dismantling of national regulations and restrictions on the free flow of capital between countries, and often resulting from widespread evasion of legal controls under the guise of "financial innovation."[17]

The neo-liberalization of legal constraints has necessarily meant a huge increase in cross-border capital flows, and an increased dependence on certain volatile types of capital inflows — most specifically, short-term portfolio investment (i.e., stocks and bonds), often referred to as "hot money" capital flows because of the short-term nature of such investments, which can be quickly liquidated, thereby transforming euphoric inflows into panic-driven outflows and financial crisis with little or no warning. The hot money problem, in turn, has undermined exchange rate stability, the effectiveness of central bank intervention in foreign exchange markets, and the feasibility of full employment, while bringing on the global currency contagion

14. Solomon, *supra* note 6, at 14-18.

15. For instance, Solomon describes the details of the Brady Plan without recognizing the significance by which it transformed the third-world's bank debt burdens into a hot money problem. *Id.*, at 46-47. While Solomon at times recognizes the causal link between increased capital mobility and exchange rate volatility, he treats such mobility as but one factor, largely secondary to the "fundamentals" that necessitate painful adjustment for deficit countries. *Id.*, at 150, 160 (calling for strengthened IMF loan conditionality).

16. For instance, Solomon favorably reports on the G-5 Plaza Agreement, which concluded that exchange rates "should play a role in adjusting balances. In order to do this, exchange rates should better reflect fundamental economic conditions than has been the case." *Id.*, at 22. But that is like wishing that water will travel uphill: just how can exchange rates better reflect economic fundamentals in the prevailing neoliberal environment in which governments routinely dismantle restrictions on short-term hot money speculative capital flows?

17. Canova, *The Transformation of U.S. Banking and Finance*, *supra* note 13, at 1306-1308.

that has decimated economies throughout much of the world, including Latin America, East Asia, and Russia.

To his credit, Solomon provides an excellent description of the broad market trends, including the growing dependence of developing countries on private hot money flows. But he also overstates the benefits from hot money capital inflows, and understates the costs in terms of vulnerability to sudden capital outflows and sharply rising rates of poverty and mass unemployment.[18] His discussion of the Mexican peso crisis of 1994-1995, however, does depart from the usual "blame-the-victim" discourse to reflect on recent criticisms of the Washington consensus and the IMF's program of liberalization of capital accounts.[19] But despite his awareness of critical perspectives, Solomon chooses to play it safe,[20] never quite gets out of the orthodox box,[21] and still reverts to calls for strengthening IMF loan conditionality which mandates downward structural adjustment for deficit countries.[22]

The orthodox treatment of the growth in cross-border hot money flows reflects a false dichotomy that pits the benefits of private hot money liberalization against the dangers of controls on private capital flows.[23] Such a dichotomy permits orthodox thinkers to reposition themselves as enlightened reformers by favoring a middle ground of cautious and sequenced liberalization to permit more stability in private investment flows.[24] But

18. Solomon, *supra* note 6, at 117.

19. *Id.*, at 119, 127.

20. Solomon's discussion of the Malaysian Prime Minister Mahathir Mohamad is confined to Mohamad's criticisms of Westerners in general and speculators such as George Soros in particular. *Id.*, at 131. Unfortunately, there is barely a passing reference to Malaysia's experiment with exchange and capital controls, *Id.*, at 118, an experiment that flew in the face of the IMF's orthodox neoliberal agenda and has proved itself to be largely successful. Mahathir Mohamad, *Call Me a Heretic If You Like*, Time, Sept. 21, 1998, at 80.

21. For instance, in his chapter on "Economies in Transition," Solomon describes the financial liberalization throughout the former Soviet Union, but fails to recognize how China has so far managed to avoid the fate of Russia by limiting its dependence on hot money capital inflows. Solomon, *supra* note 6, at 105-06. Cf., Canova, *supra* note 3, at 1626 n. 230-31.

22. Solomon, *supra* note 6, at 129, 160.

23. Richard Michael Fischl, *The Question That Killed Critical Legal Studies*, L. & Social Inquiry 779, 820 (1993) (criticizing "the classic liberal division of the realm of the possible into dichotomous choices").

24. *See* Press Conference of Michel Camdessus, Managing Director of the IMF, Washington, D.C., Sept. 30, 1999 <http://www.imf.org/external/np/tr/1999/TR990930.HTM>. As the European currency crises of the early 1990's demonstrated, even sequenced liberalization can result in a country's eventual vulnerability to hot money outflows, the erosion of banking and financial stabil-

this dichotomy is false because it precludes any consideration of the feasibility or even the legitimacy of public capital flows, such as the very large transfer of surpluses that was accomplished through the Marshall Plan following the Second World War.[25] By not addressing the so-called transfer problem with any discussion of public-sector grants, the only prescriptions left on the table are ones that rely primarily on private recycling of capital at high real interest rates.[26] The net result condemns deficit countries to sudden outflows of private portfolio capital and the dismal prospect of IMF-imposed austerity and structural adjustment programs.[27]

Likewise, by repeating orthodox explanations of the hot money surge into the U.S.,[28] Solomon often ignores alternative explanations,[29] and never reaches critical conclusions.[30] For ex-

---

ity, and significant downturns in economic growth and employment levels. *See* Timothy A. Canova, *The Swedish Model Betrayed*, 37 Challenge, May-June 1994, at 36-40.

25. *See* Lawrence H. Summers, *Building an International Financial Architecture for the 21st Century*, 18 Cato J. 321, 325 (Winter 1999) (using false dichotomy to ignore postwar history of public cross-border capital flows). *See*, Canova, supra note 3, at 1638-41 (articulating an alternative development approach that relies on public capital transfers through the recycling of surpluses).

26. Solomon was wrong in 1977 about the sustainability of private bank recycling of petrodollars, precisely because he did not take into account the possibility of sharply rising interest rates. Solomon, *supra* note 6, at 36. Had the recycling continued at low or even negative interest rates, the debt burden may well have been sustainable.

27. *See* IRWIN P. STOTZKY, SILENCING THE GUNS IN HAITI: THE PROMISE OF DELIBERATIVE DEMOCRACY 183-84, 267, n.178 (1997) (analyzing the burdens of the IMF's privatization plan for Haiti).

28. Solomon repeats orthodox explanations for the continuing strength of the U.S. dollar in the face of its twin budget and trade deficits: that foreign investors were attracted to the dynamism of the U.S. economy, the growth in U.S. gross domestic product, and surging corporate profits. Solomon, *supra* note 6, at 12, 13 (reporting that private foreign purchases of U.S. securities other than Treasury obligations rose from $1.6 billion in 1979 to $51 billion in 1985). But that does not answer why the inflow of capital into the U.S. has not turned to sudden outflow as it has for all other countries experiencing a growing trade deficit because of a booming domestic economy. In repeating a Bank for International Settlements (BIS) observation, Solomon seems at a loss for a theory to fit the reality: "There is no parallel for this phenomenon of an ever strengthening currency based on ever increasing capital inflows with the current account steadily deteriorating." *Id.*, at 10.

29. One alternative explanation of the sustained surge in capital inflows is that the U.S. is a special case precisely because its currency is the main reserve currency in the world: while 70 percent of the U.S. current-account deficit was financed by private capital inflows, "much of the rest is accounted for by inflows of official capital as central banks abroad accumulated dollar reserves and used them to acquire U.S. securities or deposits in American banks." *Id.*, at 32.

ample, he neglects to consider the unfairness of expecting other deficit countries to swallow the IMF's austerity prescriptions of downward adjustment when the greatest trade deficit country of all time refuses such pain.[31] Such neoliberal adjustment policies, including privatization plans, have served to enrich relatively small numbers of well-educated elites, while leaving vast majorities with declining employment and income prospects, if not in abject poverty.[32] While Solomon devotes a chapter to the debt crisis confronting the less-developed countries,[33] he again accepts orthodox narratives that pin those debt problems on factors extraneous to the global financial system.[34]

Solomon devotes a rather large portion of *Money on the Move* to the economic and monetary integration of the European Union. His great enthusiasm for the Euro is apparent in his speculations about the Euro's future prospects for private capital markets.[35] Again, Solomon displays a great command of the subject matter and effectively relates the most important historical events. But as with his discussion of capital mobility and the debt crisis, Solomon here too falls short in linking policy developments (such as the liberalization of capital flows) to declining commitments of governments around the world to objectives of full employment and equitable distributions of wealth and income.[36]

30. While Solomon finds it surprising that "exchange markets have, to a large extent, come to ignore [U.S.] current-account imbalances," he has argued in the past that the appreciating dollar resulted from speculation, including political speculation. *Id.*, at 30, 137.

31. Reagan's Treasury Secretary James Baker gave a slight nod in the direction of changing the burdens of adjustment when he urged surplus countries to speed up their economic growth or face the prospect of a U.S.-engineered competitive depreciation of the dollar. *Id.*, at 24.

32. MELTDOWN 267, 277-78 (ed., William Krehm, 1999).

33. When Solomon applauds the spread of democracy he means liberal (and neoliberal) democracy, not social democracy with its traditional concern with full employment and fair distributions of wealth, income, and power. Solomon, *supra* note 6, at 34.

34. Solomon's narrative on the Third-World Debt crisis blames the oil shocks for the outbreak of the debt crisis. *Id.*, at. 36-37. Actually, it could be traced to the earlier devaluation of the dollar, which spurred OPEC to cartelize and raise prices, since their revenues were denominated in dollars. LYNN TURGEON, BASTARD KEYNESIANISM 26 (1996) (suggesting that the rise in speculative finance led to exchange rate fluctuations, changes in commodity prices, and deterioration in the terms of trade of developing countries).

35. Solomon, *supra* note 6, at 91-92. All but forgotten in Solomon's account of European monetary integration are the prospects for public capital development.

36. For instance, Solomon ably describes the "snake" in the "tunnel," the metaphor for how European currencies fluctuated against each other within a

For instance, in discussing the development of the European System of Central Banks, Solomon falls victim to another false dichotomy, one that again permits orthodox thinkers to position themselves as reformers, even while accepting a type of reform that condemns full employment policies to the sidelines. According to this dichotomous thinking, an independent European central bank — modeled after the independent Bundesbank and Federal Reserve — was the only alternative to either destabilizing freely floating exchange rates or the "complete domination of Germany's Bundesbank over Europe's monetary policy."[37] But, of course, there were other alternatives, namely the creation of a European central bank accountable to the European Council of Ministers and European Parliament. As Solomon points out, the 1991 Maastricht Treaty affirmed in principle the objective of the new European System of Central Banks as supporting "a high level of employment and of social protection."[38] However, he fails to fully grasp the way that the structure and policies of an autonomous European central bank and the treaty's "convergence criteria" of low budget deficits, low inflation, and converging interest rates undermined full employment throughout the continent.[39]

---

narrow band, and he recognizes that one effect of the elimination of exchange and capital controls was the rise of speculative currency attacks, but does not recognize the rise in hot money flows as a major constraint on full employment policy. *Id.*, at 50, 55. Solomon also reports on the complaints by French Finance Minister Balladur that the European Exchange Rate Mechanism's fixed exchange rates led to asymmetrical burdens of adjustment which permitted "surplus countries to go on accumulating reserves, but those in deficit were limited by the size of their reserves and the need to repay credits." *Id.*, at 61. But Solomon fails to offer real criticism of the proposed solution, the formation of a monetary union and an independent European central bank, which has only exacerbated the burdens on all countries, deficit as well as surplus countries.

37. *Id.*, at 64 (quoting Charles Wyplosz).

38. *Id.*, at 67. Maastricht's empty rhetoric resembles similar affirmations of full employment in the Humphrey-Hawkins Full Employment and Balanced Growth Act, passed into law by the U.S. Congress only two years before the Federal Reserve, under Paul Volcker, embarked on its high real interest rate policy that effectively eviscerated hopes for full employment. *See* WILLIAM GREIDER, SECRETS OF THE TEMPLE 96, 123 (1987) (describing the Humphrey-Hawkins Act as "an empty symbol" and "the last legislative gasp of the Keynesian persuasion").

39. Solomon, *supra* note 6, at 79. Solomon's description of the European currency crises of the early 1990's, therefore, reads as a passing blip on the way to financial stability, without appreciation of the human carnage in terms of high levels of unemployment that persist to this day. *Id.*, at 67-77. His description of the political battles (such as the Emminger letter) reads as a tug of war over exchange rate policy, when the political stakes are much higher because of the repercussions in terms of recessionary conditions and mass unemployment.

Despite its shortcomings, *Money on the Move* is an impressive work that would make an excellent background primer for courses in the area of international finance and may provide a useful model to teach against. But it has far more limited application as a guide for future policy. Solomon discusses several reform proposals, including proposals to increase the allocation of Special Drawing Rights,[40] and a possible Tobin tax on global financial transactions to throw sand in the gears of the speculators.[41] But his ambivalence shows through. Ultimately he concludes that any far-reaching reforms are politically unattainable or practicably unenforceable, reflecting in part the disappearance of law from present-day discourses about the liberalization of capital.[42] Such defeatist conclusions — that there is no alternative[43] — sadly define the limits of reform by defining the limits of the orthodox imagination.

The limits of the conventional economic orthodoxy have become synonymous with the Washington consensus, the neoliberal policy prescriptions pushed by the IMF and the U.S. Treasury Department. Solomon repeats the oft-cited example of Chile's economic success in the 1980's.[44] According to the orthodox narrative, Chile became a "role model," one of the first less-developed countries to successfully follow the orthodox prescrip-

Instead, Solomon accepts as fact the dominant though unsubstantiated conclusion that "most" of Europe's high unemployment is "structural," by which he means high labor costs, taxes and non-wage benefits, rather than the structure of income distribution, consumption and production, or the increasingly autonomous structure of central banks. Therefore, according to Solomon's line of thinking, high levels of unemployment should require cuts in wages and public sector benefit programs. *Id.*, at 94. *See also*, IMF Concludes Article IV Consultation with Sweden, Public Information Notice No. 99/87, Sept. 2, 1999 <http://www.imf.org/external/np/sec/pn/1999/PN9987.HTM> (arguing in favor of structural reforms that undermine wage solidarity and reduce unemployment benefits).

40. The Special Drawing Rights (SDR) is a global currency that was created by the IMF, first issued in 1970, and used as a reserve asset. Canova, *supra* note 3, at 1633-36; Solomon, *supra* note 6, at 154-55.

41. Solomon, *supra* note 6, at 150-52; Canova, *supra* note 3, at 1629-32.

42. Solomon's rejection of fundamental reform is reflected in the narrow scope of consideration of reform proposals, which he confines to questions of free floating versus fixed exchange rates versus currency boards, while excluding discussion about changing the burdens of adjustment. Solomon, *supra* note 6, at 166-67. *See also*, Canova, *supra* note 3, at 1636-43.

43. *See* DANIEL SINGER, WHOSE MILLENNIUM? THEIRS OR OURS? (1999) (reporting that former British Prime Minister Margaret Thatcher used the phrase "There is no alternative" so often that her opponents took to calling her by the acronym "TINA").

44. Solomon, *supra* note 6, at 44-45.

tions.[45] There is, of course, another way to view such consensus policies and Chile's initial success[46] with neoliberal policies: in a world in which capital is kept artificially scarce and the growth of domestic and global liquidity is constrained, private capital flows will reward those countries that pursue socially regressive policies while punishing those that pursue full employment and social progress.[47] The combination of the liberalization of capital flows along with the decimation of public-sector development efforts (such as Marshall Plan-types of global capital transfers) has resulted in the empowering of private financial prerogatives. Unfortunately, such privatization of development policy has also served to disempower democratically-elected governments, thereby undermining the employment and income prospects of millions of peoples around the world.[48]

The global currency contagion, the economic crisis in Japan and much of the rest of East Asia, the sudden collapse of the Russian ruble, and the gyrations of western financial markets, have shaken — though not broken — the orthodox consensus.[49] For now, many orthodox economists continue to proclaim the success of their policies, and to counsel patience and slow incremental reform. But their measure of success — that countries remain financially solvent, even while their people suffer profound economic and social hardship as a result of neoliberal structural adjustment policies — is not just short-sighted and narrow, but actually amoral in its studied neglect of the human

45. *Id.*, at 115.

46. While Chile has used controls on short-term capital inflows to protect itself from speculative attack, by mid-1998 the fallout from the region's currency contagion had started to take a toll on the Chilean economy. Canova, *supra* note 3, at 1621. Argentina, also once hailed as a successful neoliberal model, has also fallen on tough times as a result of the fallout from the region's currency contagion. *Id.*, at 1601-02, 1644-45.

47. Keynes, *supra* note 1, at 376 (arguing that while "there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital").

48. *See* Paul Lewis, *World Bank Says Poverty Is Increasing*, N.Y. Times, June 3, 1999, at C7 (the number of people living on less than $1 per day rose from 1.2 billion to 1.5 billion from 1987 to 1999); *Global Financial Crisis Will Trigger Jump in World Unemployment*, Press Release on the International Labour Organization World Employment Report, 1998-99, Sept. 24, 1998 <*http://* www.ilo.org/public/english/235press/pr/1998/33.html> (more than one billion people, representing one-third of the world's labor force, are either unemployed or employed in below-poverty-wage jobs).

49. *See* David E. Sanger, *U.S. and I.M.F. Made Asia Crisis Worse, World Bank Finds*, N.Y. Times, Dec. 3, 1998, at A1 (reporting on the embarrassing and growing split in today's orthodoxy).

suffering that results from the neoliberal project.[50] The real human tragedy of today's prevailing orthodoxy is the way that neoliberal economic policies systematically deprive people of their individual dignity by condemning them to joblessness, underemployment, and poverty-wage conditions.

In an increasingly global economy, such dire conditions in submerging markets will threaten wage levels, labor and living standards everywhere, including in the United States. The World Trade Organization (WTO) and its critics beyond the streets of 1999 Seattle will remain locked in a no-win debate over such "race to the bottom" issues as long as the only alternatives for Third World development are private hot money capital flows or no investment at all. With such artificially limited alternatives, the Third World will usually choose fickle finance over no credit at all. But if development depends on scarce private capital, then by definition there will not be enough investment capital to go around. And if there are insufficient levels of development capital, then Third World elites will always side with First World elites in the WTO in choosing unrestricted free trade over minimum labor standards.[51] Orthodox thinking refuses to acknowledge that we have other alternatives[52]: namely, sensible restrictions on private hot money flows, along with sizable increases in public capital flows that recycle the world's mas-

50. U.S. economic growth seems increasingly dependent on continued private capital inflows and a regressive penal Keynesianism that effectively locks up those who drop out of the labor market. Turgeon, *supra* note 34, at 73 (criticizing the rise in unemployment, and consequent rise in mass incarceration, as a lever to control inflation); MELTDOWN, *supra* note 32, at 190-91; Eric Schlosser, *The Prison-Industrial Complex*, The Atlantic Monthly, Dec. 1998, at 51.

51. For instance, at the WTO's Third Ministerial meeting in Seattle, U.S. labor unions urged the Clinton administration to press the WTO to allow members to impose trade sanctions on other nations that violate basic worker's rights like prohibitions on child labor and the right to form trade unions. But India, Brazil and Egypt took the lead for the developing world in blocking the creation of a WTO advisory panel on labor standards that they feared could eventually lead to trade sanctions over violations of labor rights. Steven Greenhouse and Joseph Kahn, *U.S. Efforts to Add Labor Standards to Agenda Fails*, N.Y. Times, Dec. 3, 1999, at A1, A12. The Clinton administration retreated toward a compromise European Union proposal "to set up a group outside the WTO to study the link between trade and labor rights." *Id.* First World and Third World elites may fear that such a study group would recognize the mounting evidence of a significant causal relationship between unrestricted hot money capital mobility and oppressive labor conditions and declining living standards.

52. "We have other alternatives" (WHOA!) is an appropriate rejoinder for those who see the false confines of the mantra that "There is no alternative" (TINA). *See* note 43 *supra*.

sive surpluses of monetary reserves, to build a foundation for minimum labor standards and rising wage levels around the world.

Solomon's *Money on the Move* represents a real contribution to global financial studies by providing an excellent description and chronology of recent events in global markets. It may ultimately prove to be an important milestone in Solomon's intellectual development as well. After all, Solomon appears ambivalent and guardedly skeptical, if not quite critical, of recent trends in the global financial system, including capital account liberalization, the rise of speculation, the ascendancy of monetary policy (as "the only game in town"), and the neutralization of fiscal policy.[53] His orthodoxy, tempered by mildly reformist inclinations, resembles the Keynes of the early *Treatise on Money*, in which Keynes largely accepted neoclassical views concerning the dependence of investment upon savings. Keynes, of course, later developed his profoundly anti-orthodox *General Theory* and constructed the architecture of the Bretton Woods Agreement, which together provided the theoretical justification and practical blueprint for government intervention and controls to promote and maintain full employment.[54] Unlike Keynes, Solomon has yet to break convincingly from the conventional orthodoxy of his day. But until more economists are willing to imagine alternative visions of progressive institutional reform, public discussion of global finance will remain trapped in a conformity that serves the interests of the few while preventing a great many individuals from achieving the dignity that we are all due.

---

53. *See* note 5 *supra*; Solomon, *supra* note 6, at 22, 139, 142.

54. *See* Lynn Turgeon, *The Political Economy of Reparations*, New German Critique 111, 115 (Winter 1973) (arguing that the later Keynes recognized the central importance of the "transfer" problem of how to structure global institutional arrangements to ensure that surplus monetary reserves are adequately recycled or transferred in a manner that promotes full employment in both surplus and deficit countries).