# Global financial markets

Business, Marketing

ASSIGN BUSTER

Assess the view that the development of global financial markets has been the principal source of globalisation. In so far as the contemporary " globalising" world has derived its characteristics from the era of telephony and long-distance communications, there is not much to say about the emergence of the global financial market as the lead player in its evolution.

However, the impetus given by the invention of these methods only took the fledgling international scene to a particular stage in its evolution: the thirst for profit and its subsequent implications for the world of monetary transactions provided the foundations for the global arena as we know it today. Globalisation has taken off predominantly in the last century, with the main fuel being sources of lucrative investment opportunities and the reduction of capital-penalising regulation (e. g. corporation tax and transaction costs).

Yet the wider implications of the growth in the financial architecture on the " global state" are more devious than would at first appear, and it is the aim of this essay to describe the circumstances of its rise and the state of affairs as we see them today, in what is a truly integrated market. The International Economic Order was set up originally as a response to the expansion in trade and underpinned by a system of stable exchange rates.

It has been designed to avoid the perceived rigidities associated with the nineteenth century Gold Standard and the experience of large, undisciplined currency manipulations which had come to the fore especially during the Great Depression in the late twenties and early thirties. It was conceived as being a conscious effort to reduce the impediments to direct foreign investment, displaying the neo-liberalist tendencies that would carry much of international relations forward over large parts of the ensuing century.

The evidence of the following years however, was one of growth in financial swings and the hedging of legitimate business risks versus pure gambling. There is no doubt that this was the leading factor behind the increase in cross-border markets for short-term capital becoming increasingly erratic in the latter part of the twentieth century, where many transactions took on lives of their own.

The fundamental problem however, was not one of investors making profit, but the almost complete disconnection from political realities that was displayed and is still being displayed in global markets today. The encroachment on political avenues for individual states was a little different, but no less severe. It was quickly observed that opening markets up to the forces of global trading passed on the control-levers previously held by the governments of sovereign states to the whims of investors.

Exchange rates, internal prices (e. g. wages) and interest rates could not all be controlled simultaneously, and it was the decision of the State on whether to keep one in line over the other. This undoubtedly had a drastic impact on the atmosphere of political legitimacy within national boundaries, and meant that decisions as to the maintenance of independent, internal, macroeconomic policy or the maintenance of stable exchange rates, or even the restriction of inward and outward flows had to be weighed up and ranked according to importance.

It soon became evident that it was possible only to control two of these three arenas at most at any one time. Paradoxically, a willingness to compete for extra revenue by opening up one's economy to global markets meant further restriction on domestic political legitimacy and overall political autonomy. The functions of the state diminished to those of the maintenance of social order and provision of welfare safety nets precisely in response to the search for greater financial clout on world markets.