Globalization of Capital and National Policymaking

STEVEN R. HALL

Abstract

Through a combination of economic, political, and technological changes, capital has become increasingly mobile across borders. This globalization of capital markets has created constraints on national policymaking. Fearing the loss capital inflows and the destabilizing effects of capital outflows, governments have incentives to avoid enacting policies that investors dislike. Applied across countries, this creates pressure for governments to compete for capital inflows by progressively reducing regulatory and tax burdens. Ultimately, this could lead to a race to the bottom that ends in complete deregulation. Yet, scholarship shows that while this pressure on governments exists, there has not been complete convergence of policy across countries. Instead, there remains persistent divergence as states do maintain some autonomy across a number of policy choices. This essay explores how recent research explains this interaction between the globalization of capital and national policymaking autonomies. Financial crises in the United States and Europe have challenged our understanding of how systemic risk can and should be managed in a world of mobile capital. Moving forward, scholars must build on the lessons from these crises.

INTRODUCTION

The growth of international trade flows in the post-WWII era has been staggering; the World Trade Organization estimates that between 1950 and 2007, real-world exports grew at a rate 6.2% per annum, nearly twice the rate of the era of globalization that ended with the beginning of World War I.[1] Moreover, the trend has only accelerated in recent years, with world trade flows growing at a rate of 7.3% per year between 1980 and 2011.[2] Yet, during this time period, a more compelling development has been the staggering increase in cross-border capital flows, dwarfing trade flows in magnitude. Between 1982 and 2006, global stocks of foreign direct investment (FDI) increased

1. World Trade Organization. (2008). *World Trade Report 2008: Trade in a globalizing world*. Retrieved from http://www.wto.org/english/res_e/booksp_e/anrep_e/wtr08-2b_e.pdf.

2. World Trade Organization. (2013). *World Trade Report 2013: Factors shaping the future of world trade*. Retrieved from http://www.wto.org/english/res_e/booksp_e/world_trade_report13_e.pdf.

Emerging Trends in the Social and Behavioral Sciences. Edited by Robert Scott and Stephen Kosslyn.
 ISBN 978-1-118-90077-2.

from roughly 5% to over 25% of world gross domestic product.[3] Even these stock measures of FDI understate the rapid expansion of capital movements. Broner *et al*. (2013) find that gross capital flows are many times larger than net capital flows, much more volatile, and subject to sudden reversals. How has this enormous change in the dynamics of the international economy altered the scope of national policymaking?

Even before the reversals in the developing world such as the Asian Crisis in 1990s and financial crises in the United States and Europe after 2000, concern in advanced industrialized economies over the power and importance of capital markets mounted. Noted Clinton political strategist, James Carville quipped: "I used to think if there was reincarnation, I wanted to come back as the President or the Pope or a .400 baseball hitter. But now I want to come back as the bond market. You can intimidate everyone." The power of financial markets and mobile capital flows came to be seen as both pervasive and irreversible. Large and sudden capital outflows loomed as a threat to any policy choice that might diverge from the preferences of investors. Applied across countries, this dynamic created a potential "race to the bottom" where, in order to retain capital, states would be forced to remove policies that placed anything other than minimal burdens on capital owners.

Despite the initial concern that capital mobility has eroded national policy autonomy, subsequent research has shown that states still have latitude in a broad range of economic policy choices. Divergence in taxation, social spending, environmental regulation, and even macroeconomic policy remains present in the international system as a function of differing national preferences and institutional arrangements. The recent financial crises in the United States and Europe, however, have demonstrated the vulnerability of the advanced economies to the risks created by globalized capital.

FOUNDATIONAL RESEARCH

Scholars of international political economy (IPE) have come to regard international capital mobility as an essential characteristic of the international system. In part, this reflects a deliberate political process of capital account liberalization that gained momentum in advanced industrialized countries in the 1980s. Driven by domestic political conflicts over the impact of capital flows, these countries increasingly responded to pressures from interest groups to remove restrictions on cross-border movements (Quinn & Inclan, 1997). This process was also hastened by the deterioration of government ability to stop such movements. Both financial innovations, that is, the rise

3. World Trade Organization. (2008). *World Trade Report 2008: Trade in a globalizing world*. Retrieved from http://www.wto.org/english/res_e/booksp_e/anrep_e/wtr08-2b_e.pdf.

of the Euromarkets and the use of transfer pricing by multinational corporations allow capital to be moved in ways that are prohibitively expensive for governments to regulate or stop (Goodman & Pauly, 1993). Andrews (1994) contends that capital mobility can be regarded as a structural feature of the international system in the narrow sense used by structural realists.

One immediate conclusion by scholars about the impact of these changes stems from the Mundell-Fleming model, the so-called Unholy Trinity. This is the idea that states cannot simultaneously maintain three policy goals: fixed exchange rates, capital mobility, and monetary autonomy. Instead, governments may only choose two of the three targets. With capital mobility ensconced as unalterable feature of the international system, governments are forced to choose between fixed exchange rates and monetary autonomy. This tension played a role in the end of the Bretton Woods system of fixed exchange rates in 1973. Further, Frieden (1991) argues that these conditions shape domestic political conflicts over the level and variability of exchange rates.

However, capital mobility has potentially much more wide-ranging impacts on policymaking than monetary policy. Bates and Lien (1985) argue that owners of mobile assets possess a unique bargaining advantage against governmental authorities (and, by extension, other constituencies within the state). By moving their assets outside the jurisdiction, they can escape taxation. Because revenue-seeking authorities need a deep tax base, they have incentives to strike bargains with the owners of these assets to keep them in place. This gives the owners of mobile assets a great deal of power over decision-making, potentially to the collective detriment of those who own immobile assets. While Bates and Lien discuss owners of cows in Edwardian England, a modern analog is the operation of professional sports franchises in cities in the United States. The owners of pro teams use the threat of relocation to extract ever larger public financing commitments for new stadium and infrastructure projects. The availability of competing offers from other cities serves to underscore this advantage and increase the concessions franchises that are able demand. This dynamic has been called the *Delaware Effect*, referring to the incentives created by Delaware's laws of incorporation. Competition among jurisdictions to attract owners of mobile capital creates a race to the bottom in taxation and regulatory burdens.

In the 1990s, scholars suggested that this dynamic had essentially eliminated key macroeconomic policy options available to governments, particularly those favored by parties on the left. Garrett and Lange (1991) allowed that supply-side remedies remain available to governments but argued that capital mobility eliminates the governments' ability to pursue independent fiscal and monetary policies that match their partisan preferences. The combination of tightly integrated goods markets and the rapid adjustment of financial markets to government decisions means that attempts to manage aggregate demand result only in destabilizing flows through the current and/or capital accounts. Indeed, some even suggested that, owing to globalization, the state itself faced fundamental challenges both to its efficiency in providing public goods and its institutional legitimacy (Cerny, 1995).

Despite considerable initial consternation over the seemingly irresistible power of mobile capital, subsequent research has demonstrated that the effect of financial globalization to be less pervasive than race to the bottom accounts suggest. In the area of macroeconomic policy, capital mobility has reduced over time the differences in policy choice between governments of advanced industrialized countries, more perhaps for monetary policy (Boix, 2000) than for fiscal policy (Cusack, 2001). Yet, the effect of capital mobility on macroeconomic policy appears to be conditional on a number of domestic arrangements, such as the use of capital controls, choice of exchange rate regime, and independence of the central bank (Clark & Hallerberg, 2000; Clark, Reichert, Lomas, & Parker, 1998; Oatley, 1999).

In the realm of tax competition, extensive research has been devoted to what is essentially a nonfinding, that tax rates in small open countries are not in fact driven to zero. Gordon (1992) suggests that the interaction of double taxation conventions with the presence of dominant capital exporters creates a Stackelberg leader–follower dynamic; large countries set corporate taxes at higher levels than suggest by optimal tax theory allowing small countries to follow suit. Gordon and Bovenberg (1996) find that information asymmetries between foreign and domestic investors may help explain why tax rates on capital have not been driven down farther. Indeed, empirical studies of the effect of capital mobility find either no effects on taxation (Swank, 1998) or even increases resulting from integration (Quinn, 1997). Swank and Steinmo (2002) do find of evidence of capital mobility lowering statutory tax rates on capital income, but not average effective tax rates. Downward pressure on capital taxes may be felt more strongly in developing countries (Wibbels & Arce, 2003).

Subsequent research on the relationship between capital mobility and taxation has focused on how domestic politics mediates the impacts of globalization. Hays (2003) finds that the constraints of mobile capital are felt more deeply in states with majoritarian institutions. Basinger and Hallerberg (2004) suggest that while states do respond to tax changes in competing states, the presence of institutional veto players and ideologically opposed constituencies limits convergence in tax policy. Similarly, Plümper, Troeger, and Winner (2009) find that budget constraints and equity norms limit the response of states to competitive pressures to reduce taxes on capital income.

The coincidence of welfare state retrenchment with the evolution of capital mobility has generated speculation that globalization also constrains social spending. However, this may not be the case if owners of mobile capital do not have preferences over the level of such spending (Mosley, 2000). In fact, the compensation hypothesis holds that the increases in economic volatility and insecurity created by globalization generate greater demands domestically for social benefits. Indeed, research suggests that exposure to FDI does increase individual perceptions economic insecurity (Scheve & Slaughter, 2004); those who experience this insecurity are likely to lobby for expansion of state benefits (Walter, 2010).

What then is the aggregate impact of capital mobility on social spending? As with other policymaking areas, the literature finds little support for simple race to the bottom stories. Capital mobility's effect on spending appears to be contingent on a number of factors including the particular kind of spending (Burgoon, 2001), the nature of cross-border capital flows (Hicks & Zorn, 2005), and partisanship (Potrafke, 2009). The extent to which these findings hold in developing countries is disputed as there evidence that financial openness does lead to retrenchment (Kaufman & Segura-Ubiergo, 2001; Rudra, 2002) as well as evidence that it does not (Avelino, Brown, & Hunter, 2005) and that the effect is conditional on levels of democracy (Nooruddin & Simmons, 2009).

Another area where the pressure of competition for capital might plausibly lead to a race to the bottom is environmental regulation. However, as with the other policy choices, extant research shows that the impact of capital mobility is not convergence on zero regulation. Konisky (2007) notes that while states do respond to regulatory changes in competing states in ways that suggest a race to the bottom, they also respond to increases in competitors' regulations indicating a race to the top. Saikawa (2013) shows that automobile-exporting states respond to the pressure of international competition by raising emission standards. This ratcheting of environmental protections can indeed be driven by the presence of foreign investors; increasing exposure to international investment has led to more stringent environmental enforcement in China (Zeng & Eastin, 2007). More generally, Prakash and Potoski (2006) demonstrate that the adoption of the environmental standards is associated with the presence of inward FDI originating from states where environmental enforcement is already stringent.

The methodological approach that unites much of the initial literature on capital mobility involves the use of quantitative analysis with government policy indicators as dependent variables and an indicator of financial openness as an independent variable. The causal path that connects these variables involves the preferences and choices of international investors. Increasingly, research is focusing on how investors make choices, what information they pay attention to, and what political variables they monitor. To the extent that investors respond to policy choices, the pressure for convergence will be driven be focused on these factors (Mosley, 2000).

Shambaugh (2004) notes that, particularly in developing countries, domestic groups exert pressure on policies that affect the specific kind of foreign capital on which they are reliant. FDI flows seem to be more responsive to institutional characteristics than policy choices (Ahlquist, 2006; Jensen, 2003; Li & Resnick, 2003; Staats & Biglaiser, 2012). Similarly, sovereign borrowers appear to benefit if they have democratic institutions (Archer, Biglaiser, & DeRouen, 2007; Biglaiser & Staats, 2012; Schultz & Weingast, 2003). Yet, despite apparent indifference toward macroeconomic policy, FDI flows do respond to protection of human rights (Blanton & Blanton, 2007) and labor rights (Mosley & Uno, 2007). To ameliorate perceptions of institutional weakness and attract more FDI, emerging states can also join bilateral investment treaties (Elkins, Guzman, & Simmons, 2006). Market indicators suggest that portfolio investors pay more attention to partisan behavior (Bechtel, 2009) and policy choices, such fiscal policy (Ahlquist, 2006) and policies protecting shareholders (Mosley & Singer, 2008).

CUTTING-EDGE RESEARCH

While the effect of capital mobility on some aspects of policy autonomy may have initially been overstated, its impact on systemic risk is only now becoming apparent. In the 1980s, the Savings and Loan Crisis, a financial crisis in US real estate lending, led to a minor congressional scandal and large bailout bill for US taxpayers, but left the US economy and the rest of the world more or less unaffected. By 2007, with the deregulation of national financial markets and the liberalization of capital accounts, the impact of a second crisis in the US mortgage market would be quite different. The subprime crisis in the United States quickly spread abroad and helped trigger the eurozone crisis. Prior the these events, the contagion risk associated with capital mobility seemed confined to the developing world, as seen in financial crises in Latin America in the 1980s and East Asia in the 1990s. The profound damage to the advanced economies after 2007 demonstrates the way that capital mobility transfers risks across borders even in seemingly well-regulated and stable financial systems.

What makes this more confounding to IPE as a discipline is the emphasis in the literature leading up to the crisis on the seeming solution of the problem of managing risk. Capital mobility has been viewed as creating a race to the bottom as states weakened bank regulation in order to lure banking business to their jurisdictions; it has been argued that regulatory convergence solves the collective action problem allowing states to maintain financial stability (Kapstein, 1989). Subsequent research emphasized divergent preferences among states over regulation and the role of power in shaping harmonization, with the preferences of the United States and the United Kingdom playing key roles (Oatley & Nabors, 1998; Posner, 2009; Simmons, 2001). Individual states' decisions to seek out international harmonization are also shaped by domestic political conflicts (Kerner & Kucik, 2010; Singer, 2004). Regardless of the determinants of regulatory convergence, the implication nonetheless is that the international financial system has ended up more tightly regulated than it would be, if states were to regulate their financial markets completely independently.

Yet, the very process of harmonization played a role in the duplication of errors and misinformation across financial jurisdictions. Banks in the United States and Europe made the risky choices that led to the financial crisis while operating under the Basel Accords; indeed, the agreements on capital adequacy actually incentivized bank holdings of mortgage-backed securities. In the government sector, public finance in the European Union was supposedly disciplined under the Stability and Growth Pact; however, even as states such as Greece engaged profligate financial behavior, the risk premiums on their borrowing converged with those of governments enacting more sound policies. The resulting economic downturn has had profound implications for national policy autonomy, in terms of regulating both the financial system and, for European governments receiving bail-outs, explicit conditionality. A number of scholars see the failure of IPE as a discipline to predict and explain the crisis (Cohen, 2009; Drezner & McNamara, 2013; Katzenstein & Nelson, 2013), whereas more sanguine accounts see the possibilities for the discipline in grappling with an exceptional event (Helleiner & Pagliari, 2011; Mosley & Singer, 2009).

The cutting edge then lies in the unpacking of the complex relationship among capital mobility, national autonomy, and the management of international financial risk. A number of promising approaches have emerged in this vein. For example, network theory moves away from the traditional actor-centric focus of IPE and examines the structure of social relationships. Network analysis has been used to identify both the nature of contagion paths across financial systems (Oatley, Winecoff, Pennock, & Danzman, 2013) and the channels of policy convergence pressure and learning diffusion (Cao, 2012). Capital mobility has been traditionally thought of as having uniform effects across countries; this approach has the potential to highlight how these affects can be differentiated by network positions.

A second source of potential leverage on the issue of systemic risk is the examination of the evolution of financial institutions. Hardie *et al*. (2013) note the breakdown of the traditional dichotomy offered by the varieties of capitalism literature. The rise of market-based banking over relational banking reduces the buffers on nonfinancial companies with broad implications for national economic systems. Rixen (2013) highlights the role of shadow banking and offshore financial centers in exacerbating difficulties in achieving effective financial oversight, both domestically and at the international level. Attentiveness to new kinds of actors and transactions in the financial sector will be key to understanding systemic risk.

Finally, how economic and political actors make decisions amid this complexity remains an essential issue in understanding how events such as the financial crisis of 2008 occur. Answering a call by Deeg and O'Sullivan (2009) for greater explanation of the implementation of financial rules by regulators, Nelson and Katzenstein (2014) combine rationalist and sociological approaches more broadly to public and private actors alike in the 2008 crisis. In situations of uncertainty (i.e., as opposed to situations of risk were probability distributions over outcomes can in some sense be objectively built), actors fall back on social conventions, increasing the role of competition, learning, and emulation in the shaping of behavior.

KEY ISSUES FOR FUTURE RESEARCH

Naturally, the challenge in modeling the political economy of cross-border financial crises is that they are rather difficult to predict. As Reinhart and Rogoff (2009) observe, a consistent characteristic of the past 800 years of financial crises has been a sort of myopia where such outcomes are generally seen as inconceivable. Crises occur, in part, because regulators fail to observe and forestall excessive risk-taking; however, actors in the private sector make similar mistakes. The presence of two Nobel Prize-winning economists did not prevent the collapse of Long-Term Capital Management in 1998; the partners could not foresee a situation where "all correlations go to one." While prediction of particular crises may elude scholars, this challenge should not prevent the building of a more nuanced understanding of how capital mobility shapes both financial contagion and regulation at both the domestic and international levels.

The dominant approach to understand capital mobility and national policymaking has been the analysis of cross-sectional time series data with countries as units. This approach may not be well suited to the relationship between financial globalization and the management of risk. First, the unit of analysis researchers must focus on has shifted from states to firms and even the individual transactions that generate risks and propagate them across borders. Relying on rationality as an assumption to allow aggregation to the firm, sector, or even state level seems problematic at best in an age when even Alan Greenspan (former Chairman of the US Federal Reserve, 1987–2006) has been forced to reconsider its prevalence in the marketplace. Second, while capital mobility is still understood to be exogenous, causality appears to run in multiple directions among the choices of financial actors, financial regulators, and government officials pursuing international agreements. It seems then that methods other than regression analysis will likely be best suited to approaching the question.

Acquiring data to analyze the question carries difficulties as well. First, the nature of the financial transactions that give rise to these risks is complex. Arcane instruments such as synthetic collateralized debt obligations played an important role in subprime crisis but were poorly understood by a great many, including those who traded them. Second, these transactions take place in large organizations. As financial institutions have increased in size, incidents such as the London Whale affair at JP Morgan, where what was ostensibly a hedging operation created multibillion dollar losses unbeknownst to CEO Jaime Dimon, have become more possible. Third, the ultimate difficulty for researchers is that the financial sector generates enormous rents; firms in this industry are likely to view information about their behavior as proprietary.

Notwithstanding these daunting challenges, the social sciences must move forward in exploring how globalization constrains and affects national policymaking not only through the pressure of capital mobility but also through the risk of catastrophic financial crises. To be sure, the depth of the cross-border ties between national capital markets creates the potential to unlock productive forces and improve economic well-being. However, because of the possible negative outcomes recent crises have shown, we must understand how these ties shape and affect the management of contagion and systemic risk.

REFERENCES

Ahlquist, J. S. (2006). Economic policy, institutions, and capital flows: Portfolio and direct investment flows in developing countries. *International Studies Quarterly*, *50*(3), 681–704. doi:10.2307/4092799

Andrews, D. M. (1994). Capital mobility and state autonomy—toward a structural theory of international monetary relations. *International Studies Quarterly*, *38*(2), 193–218.

Archer, C. C., Biglaiser, G., & DeRouen, K. (2007). Sovereign bonds and the "Democratic Advantage": Does regime type affect credit rating agency ratings in the developing world? *International Organization*, *61*(2), 341–365.

Avelino, G., Brown, D. S., & Hunter, W. (2005). The effects of capital mobility, trade openness, and democracy on social spending in Latin America, 1980–1999. *American Journal of Political Science*, *49*(3), 625–641.

Basinger, S. J., & Hallerberg, M. (2004). Remodeling the competition for capital: How domestic politics erases the race to the bottom. *American Political Science Review*, *98*(2), 261–276.

Bates, R. H., & Lien, D. H. D. (1985). A note on taxation, development, and representative government. *Politics & Society*, *14*(1), 53–70.

Bechtel, M. M. (2009). The political sources of systematic investment risk: Lessons from a consensus democracy. *Journal of Politics*, *71*(2), 661–677.

Biglaiser, G., & Staats, J. L. (2012). Finding the "Democratic Advantage" in sovereign bond ratings: The importance of strong courts, property rights protection, and the rule of law. *International Organization*, *66*(03), 515–535.

Blanton, S. L., & Blanton, R. G. (2007). What attracts foreign investors? An examination of human rights and foreign direct investment. *Journal of Politics*, *69*(1), 143–155.

Boix, C. (2000). Partisan governments, the international economy, and macroeconomic policies in advanced nations, 1960–93. *World Politics*, *53*(1), 38–73.

Broner, F., Didier, T., Erce, A., & Schmukler, S. L. (2013). Gross capital flows: Dynamics and crises. *Journal of Monetary Economics*, *60*(1), 113–133.

Burgoon, B. (2001). Globalization and welfare compensation: Disentangling the ties that bind. *International Organization*, *55*(3), 509–551. doi:10.1162/00208180152507542

Cao, X. U. N. (2012). Global networks and domestic policy convergence: A network explanation of policy changes. *World Politics*, *64*(3), 375–425. doi:10.2307/41682885

Cerny, P. G. (1995). Globalization and the changing logic of collective action. *International Organization*, *49*(4), 595–625.

Clark, W. R., & Hallerberg, M. (2000). Mobile capital, domestic institutions, and electorally induced monetary and fiscal policy. *American Political Science Review*, *94*(2), 323–346. doi:10.2307/2586015

Clark, W. R., Reichert, U. N., Lomas, S. L., & Parker, K. L. (1998). International and domestic constraints on political business cycles in OECD economies. *International Organization*, *52*(1), 87–120. doi:10.1162/002081898550563

Cohen, B. J. (2009). A grave case of myopia. *International Interactions*, *35*(4), 436–444. doi:10.1080/03050620903329025

Cusack, T. R. (2001). Partisanship in the setting and coordination of fiscal and monetary policies. *European Journal of Political Research*, *40*(1), 93–115. doi:10.1023/a:1011839204612

Deeg, R., & O'Sullivan, M. A. (2009). The political economy of global finance capital. *World Politics*, *61*(4), 731–763. doi:10.2307/40263538

Drezner, D. W., & McNamara, K. R. (2013). International political economy, global financial orders and the 2008 financial crisis. *Perspectives on Politics*, *11*(1), 155–166. doi:10.1017/s1537592712003660

Elkins, Z., Guzman, A. T., & Simmons, B. A. (2006). Competing for capital: The diffusion of bilateral investment treaties, 1960–2000. *International Organization*, *60*(4), 811–846. doi:10.2307/3877848

Frieden, J. A. (1991). Invested interests: The politics of national economic policies in a world of global finance. *International Organization*, *45*(4), 425–451.

Garrett, G., & Lange, P. (1991). Political responses to interdependence—what's left for the left. *International Organization*, *45*(4), 539–564.

Goodman, J. B., & Pauly, L. W. (1993). The obsolescence of capital controls?: Economic management in an age of global markets. *World Politics*, *46*(1), 50–82.

Gordon, R. H. (1992). Can capital income taxes survive in open economies? *The Journal of Finance*, *47*(3), 1159–1180.

Gordon, R. H., & Bovenberg, A. L. (1996). Why is capital so immobile internationally? Possible explanations and implications for capital income taxation. *American Economic Review*, *86*(5), 1057–1075.

Hardie, I., Howarth, D., Maxfield, S., & Verdun, A. M. Y. (2013). Banks and the false dichotomy in the comparative political economy of finance. *World Politics*, *65*(4), 691–728. doi:10.2307/42002227

Hays, J. C. (2003). Globalization and capital taxation in consensus and majoritarian democracies. *World Politics*, *56*(1), 79–113. doi:10.2307/25054246

Helleiner, E., & Pagliari, S. (2011). The end of an era in international financial regulation? A postcrisis research agenda. *International Organization*, *65*(1), 169–200. doi:10.2307/23016107

Hicks, A., & Zorn, C. (2005). Economic globalization, the macro economy, and reversals of welfare: Expansion in affluent democracies, 1978–94. *International Organization*, *59*(3), 631–662. doi:10.2307/3877811

Jensen, N. (2003). Democratic governance and multinational corporations: Political regimes and inflows of foreign direct investment. *International Organization*, *57*(3), 587–616.

Kapstein, E. B. (1989). Resolving the regulators dilemma—international coordination of banking regulations. *International Organization*, *43*(2), 323–347.

Katzenstein, P. J., & Nelson, S. C. (2013). Reading the right signals and reading the signals right: IPE and the financial crisis of 2008. *Review of International Political Economy*, *20*(5), 1101–1131. doi:10.1080/09692290.2013.804854

Kaufman, R. R., & Segura-Ubiergo, A. (2001). Globalization, domestic politics, and social spending in Latin America: A time-series cross-section analysis, 1973–97. *World Politics*, *53*(4), 553–587. doi:10.2307/25054165

Kerner, A., & Kucik, J. (2010). The international and domestic determinants of insider trading laws. *International Studies Quarterly*, *54*(3), 657–682. doi:10.2307/40931131

Konisky, D. M. (2007). Regulatory competition and environmental enforcement: Is there a race to the bottom? *American Journal of Political Science*, *51*(4), 853–872. doi:10.2307/4620104

Li, Q., & Resnick, A. (2003). Reversal of fortunes: Democratic institutions and foreign direct investment inflows to developing countries. *International Organization*, *57*(1), 175–211. doi:10.2307/3594829

Mosley, L. (2000). Room to move: International financial markets and national welfare states. *International Organization*, *54*(4), 737–773.

Mosley, L., & Singer, D. A. (2008). Taking stock seriously: Equity-market performance, government policy, and financial globalization. *International Studies Quarterly*, *52*(2), 405–425. doi:10.2307/29734241

Mosley, L., & Singer, D. A. (2009). The global financial crisis: Lessons and opportunities for international political economy. *International Interactions*, *35*(4), 420–429. doi:10.1080/03050620903328993

Mosley, L., & Uno, S. (2007). Racing to the bottom or climbing to the top? Economic globalization and collective labor rights. *Comparative Political Studies*, *40*(8), 923–948. doi:10.1177/0010414006293442

Nelson, S. C., & Katzenstein, P. J. (2014). Uncertainty, risk, and the financial crisis of 2008. *International Organization*, *68*(02), 361–392. doi:10.1017/S0020818313000416

Nooruddin, I., & Simmons, J. W. (2009). Openness, uncertainty, and social spending: Implications for the globalization—welfare state debate. *International Studies Quarterly*, *53*(3), 841–866. doi:10.2307/27735123

Oatley, T. (1999). How constraining is capital mobility? The partisan hypothesis in an open economy. *American Journal of Political Science*, *43*(4), 1003–1027.

Oatley, T., & Nabors, R. (1998). Redistributive cooperation: Market failure, wealth transfers, and the Basle accord. *International Organization*, *52*(1), 35–54.

Oatley, T., Winecoff, W. K., Pennock, A., & Danzman, S. B. (2013). The political economy of global finance: A network model. *Perspectives on Politics*, *11*(01), 133–153. doi:10.1017/S1537592712003593

Plümper, T., Troeger, V. E., & Winner, H. (2009). Why is there no race to the bottom in capital taxation? *International Studies Quarterly*, *53*(3), 761–786. doi:10.2307/27735120

Posner, E. (2009). Making rules for global finance: Transatlantic regulatory cooperation at the turn of the millennium. *International Organization*, *63*(4), 665–699. doi:10.2307/40345952

Potrafke, N. (2009). Did globalization restrict partisan politics? An empirical evaluation of social expenditures in a panel of OECD countries. *Public Choice*, *140*(1–2), 105–124. doi:10.1007/s11127-009-9414-2

Prakash, A., & Potoski, M. (2006). Racing to the bottom? Trade, environmental governance, and ISO 14001. *American Journal of Political Science*, *50*(2), 350–364. doi:10.2307/3694277

Quinn, D. (1997). The correlates of change in international financial regulation. *The American Political Science Review*, *91*(3), 531–551. doi:10.2307/2952073

Quinn, D., & Inclan, C. (1997). The origins of financial openness: A study of current and capital account liberalization. *American Journal of Political Science*, *41*(3), 771–813.

Reinhart, C. M., & Rogoff, K. (2009). *This time is different: Eight centuries of financial folly*. Princeton, NJ: Princeton University Press.

Rixen, T. (2013). Why reregulation after the crisis is feeble: Shadow banking, offshore financial centers, and jurisdictional competition. *Regulation & Governance*, *7*(4), 435–459. doi:10.1111/rego.12024

Rudra, N. (2002). Globalization and the decline of the welfare state in less-developed countries. *International Organization*, *56*(2), 411–445. doi:10.2307/3078610

Saikawa, E. R. I. (2013). Policy diffusion of emission standards: Is there a race to the top? *World Politics*, *65*(1), 1–33. doi:10.2307/42002197

Scheve, K., & Slaughter, M. J. (2004). Economic insecurity and the globalization of production. *American Journal of Political Science*, *48*(4), 662–674.

Schultz, K. A., & Weingast, B. R. (2003). The democratic advantage: Institutional foundations of financial power in international competition. *International Organization*, *57*(1), 3–42. doi:10.2307/3594824

Shambaugh, G. E. (2004). The power of money: Global capital and policy choices in developing countries. *American Journal of Political Science*, *48*(2), 281–295.

Simmons, B. A. (2001). The international politics of harmonization: The case of capital market regulation. *International Organization*, *55*(3), 589–620. doi:10.2307/3078658

Singer, D. A. (2004). Capital rules: The domestic politics of international regulatory harmonization. *International Organization*, *58*(3), 531–565. doi:10.2307/3877842

Staats, J. L., & Biglaiser, G. (2012). Foreign direct investment in Latin America: The importance of judicial strength and rule of law. *International Studies Quarterly*, *56*(1), 193–202. doi:10.2307/41409831

Swank, D. (1998). Funding the welfare state: Globalization and the taxation of business in advanced market economies. *Political Studies*, *46*(4), 671–692.

Swank, D., & Steinmo, S. (2002). The new political economy of taxation in advanced capitalist democracies. *American Journal of Political Science*, *46*(3), 642–655.

Walter, S. (2010). Globalization and the welfare state: Testing the microfoundations of the compensation hypothesis. *International Studies Quarterly*, *54*(2), 403–426. doi:10.2307/40664173

Wibbels, E., & Arce, M. (2003). Globalization, taxation, and burden-shifting in Latin America. *International Organization*, *57*(1), 111–136. doi:10.1017/s0020818303571041

Zeng, K., & Eastin, J. (2007). International economic integration and environmental protection: The case of China. *International Studies Quarterly*, *51*(4), 971–995. doi:10.2307/4621751

STEVEN R. HALL SHORT BIOGRAPHY

Steven R. Hall is an Assistant Professor in the Department of Political Science at Ball State University in Muncie, Indiana. His current research examines the relationship between political stability and economic performance.

RELATED ESSAYS

Domestic Politics of Trade Policy *(Political Science)*, Michaël Aklin *et al*.

The Role of Data in Research and Policy *(Sociology)*, Barbara A. Anderson

Global Economic Networks *(Sociology)*, Nina Bandelj *et al*.

Globalization Backlash *(Sociology)*, Mabel Berezin

Domestic Institutions and International Conflict *(Political Science)*, Giacomo Chiozza

Globalization: Consequences for Work and Employment in Advanced Capitalist Societies *(Sociology)*, Tony Elger

Global Income Inequality *(Sociology)*, Glenn Firebaugh
Interdependence, Development, and Interstate Conflict *(Political Science)*, Erik Gartzke
States and Nationalism *(Anthropology)*, Michael Herzfeld
Reconciliation and Peace-Making: Insights from Studies on Nonhuman Animals *(Anthropology)*, Sonja E. Koski
Why Do States Sign Alliances? *(Political Science)*, Brett Ashley Leeds
Visualizing Globalization *(Sociology)*, Matthew C. Mahutga and Robert Nash-Parker
Political Psychology and International Conflict *(Political Science)*, Rose McDermott
Organizations and the Production of Systemic Risk *(Sociology)*, Charles Perrow
Economics and Culture *(Economics)*, Gérard Roland
Trends in the Analysis of Interstate Rivalries *(Political Science)*, William R. Thompson
Transnational Work Careers *(Sociology)*, Roland Verwiebe
Why Do States Pursue Nuclear Weapons (or Not) *(Political Science)*, Wilfred Wan and Etel Solingen
Culture and Globalization *(Sociology)*, Frederick F. Wherry