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Institutional investors and the reproduction of neoliberalism

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ABSTRACT

Despite their increasing prominence within the contemporary financial system, the collective impact of institutional investors (i.e. mutual, pension and hedge funds) and, in particular, their role in the reproduction of neoliberalism has received little attention among scholars. The argument of this article is that a focus on institutional investors is necessary in order to develop a more complete understanding of the shift towards neoliberal social relations of production. More precisely, it argues that institutional investors possess specific characteristics which are serving to reproduce neoliberal restructuring in both coercive and consensual ways. In terms of the former, it argues that the rise of institutional investors has led to a centralization of investment decision making and to a situation in which neoliberalism is being reproduced in a coercive fashion. In terms of consent, this article argues that the specific characteristics of institutional investors are serving to link a broad range of interests in civil society to those of financial institutions. Taken as whole, this analysis contributes to the growing international relations scholarship which identifies the increasing power of non-state actors in the international system and their role in the contemporary process of restructuring.

KEYWORDS

Institutional investors; neoliberalism; finance; hegemony; mutual funds; hedge funds.

INTRODUCTION

According to a 1995 report by the International Monetary Fund, '[o]ne of the most significant recent developments in international financial markets is that individual investors have increasingly delegated the management of their portfolios to professional fund managers' (1995: 165). However, despite their increasing prominence within the contemporary financial system, the collective impact of these institutional investors and, in particular, their role in the reproduction of neoliberalism has received little attention among scholars.[1] Neo-classical economists, for example, have not perceived a need to distinguish between different types of investors as they view all investors as autonomous individuals who behave in a similar (i.e. rational and self-interested) manner. Moreover, by reifying the process by which these individuals allocate capital under the rubric of 'market forces', proponents of this view believe that investors have played a passive role in neoliberal restructuring in that corporations and governments have simply responded to the 'new realities' of financial markets.[2] Seeking to challenge this view, critical scholars have attempted to demonstrate the collective and ideological nature of the capital allocation process and, in turn, the coercive pressures which investors exert upon corporate and sovereign borrowers. Prominent in this view of neoliberal restructuring has been a focus upon the transnational and financial fraction of the capitalist class and upon its increasing structural power.[3] While providing a more developed account of the social dynamics inherent to the process of capital allocation, these scholars have also neglected to make any distinction between different types of investors.

The argument of this article is that such a distinction is necessary to develop a more complete understanding of the shift towards neoliberal social relations of production and of the role of investors in this process. This is the case as the specific characteristics of institutional investors are serving to reproduce neoliberalism in unique ways, with important implications for the sustainability of the neoliberal project. Therefore, reflecting this gap in the literature, the purpose of this article is to examine the question: how are institutional investors contributing to the reproduction of neoliberalism? In doing so, it argues that institutional investors are reproducing neoliberalism in two ways which correspond to the Gramscian notion of power; that is, in both a coercive and consensual fashion.

INVESTORS AND THE REPRODUCTION OF NEOLIBERALISM: A REVIEW

Before proceeding to the argument directly, this section will discuss neo-classical and critical views on the role of investors in the process of neoliberal restructuring. Identified here are two gaps inherent to the critical view. Specifically, that it has failed fully to account for the trends towards floating exchange rates and financial disintermediation. Floating exchange rates refer to a system where the value of a nation's currency is determined by market forces (rather than by central bank intervention), while disintermediation refers to the shift from a system of bank-intermediated lending to one in which lenders and borrowers interact directly in the capital markets.[4] By neglecting the former, critical theorists are vulnerable to the claim that floating exchange rates limit the structural power of investors by providing governments with a greater degree of autonomy in macroeconomic policy. By neglecting the latter, they are vulnerable to the claim that disintermediation has eroded the direct power which banks and insurance companies are said to exert coercively.

The neo-classical view

For proponents of the neo-classical approach, the emergence of the presently liberal and globally integrated financial system is often explained as being the 'inevitable' result of technological and market developments. Citing advances within the fields of computing and telecommunications, Walter Wriston, for example, has argued that '[t]he new international financial system was built not by politicians, economists, central bankers, or finance ministers, but by technology' (1992: 8). At a more theoretical level, this deterministic explanation can be seen as reflective of broader ontological assumptions about the nature of self-regulating markets. Important here is the liberal belief that the self-regulating market represents a 'natural' form of economic organization, both in terms of its emergence and in terms of its operation. Applying these ontological assumptions to the process by which capital is allocated in the contemporary financial system, proponents of the neo-classical approach have tended to conceive of international capital mobility in 'atomistic terms' (Sinclair, 1994a). Specifically, they perceive investors as autonomous individuals who act in a rational and unconnected manner in response to economic fundamentals. Illustrating this view, *The Economist* argued that, rather than being some form of centralized conspiracy, 'financial markets reflect the perceptions of risk and reward of millions of individual investors' (Woodall, 1995: 4–5).[5] Serving to reinforce this view has been the trend (noted above) towards disintermediation. As Timothy Sinclair notes, '[c]apital allocation in its traditional form was centralized . . . [and, thus, the] pattern that is emerging would appear to destroy the idea that allocation is anything other than the disparate decisions of unconnected market players' (1994a: 451).

Additionally, due to their assertion that investors allocate capital on the basis of rational criteria (i.e. objectively, in a manner free from ideological bias), neo-classical economists believe that the contemporary financial system is 'efficient' in that prices will reflect underlying economic fundamentals. In their view, this will be the case even if some or a number of investors fail to behave in a 'rational' manner. Specifically, they argue that the self-regulating market will always allocate capital efficiently due to the presence of arbitrageurs. Defined as those investors who do behave in a rational manner, arbitrageurs buy and sell securities which have been mispriced by other investors. Therefore, because 'arbitrageurs do the work of bringing prices towards fundamentals' (Shleifer and Summers, 1990: 20), the activities of non-rational investors are seen as being offset to the extent that markets act efficiently.

Taken together, these explanations for the emergence and operation of the contemporary financial system are seen as constituting 'the new realities of markets' (Glasgall *et al.*, 1995: 50) or, alternatively, 'the new rules of global finance' (Levinson *et al.*, 1995: 36). In this way, then, both the capital allocation process and the 'rational' criteria used by investors are reified by neo-classical economists as a form of ahistorical reality. With reality thus defined, proponents of this view have attempted to explain the spread of neoliberal policies, among corporate and sovereign borrowers, as a 'rational' response to the existing 'reality'. From this perspective, then, the rise and reproduction of neoliberalism represent a triumph of rationality in what has often been portrayed as a battle of ideas.[6] As Jeffery Sachs argued, '[t]here is, of course, one overriding reason for the [neoliberal] revolution: The alternatives proffered by the Second and Third worlds did not work' (1995: 57). Therefore, for proponents of this view, the role of investors in neoliberal restructuring has been a passive one in that corporations and governments have simply responded to the 'new realities'. In this sense, the reproduction of neoliberalism is seen as occurring in a consensual fashion.

Challenges to the neo-classical view

In response to this linear and somewhat deterministic explanation, a number of scholars have sought to challenge the neo-classical explanation in terms of its assumptions about autonomous investors and efficient markets. Making use of a variety of methodological approaches, they have attempted to demonstrate the collective and ideological nature of the capital allocation process, the power this confers upon investors and, subsequently, the coercive manner in which neoliberalism is being reproduced among borrowers. In demonstrating the collective rather than autonomous nature of capital allocation, three main approaches can be identified. The first, which focuses on the centralization of investment decision making, argues that capital may be seen as being collectively allocated due to activities of certain institutions operating within the investment process. As one example of these institutions, Beth Mintz and Michael Schwartz point to the intermediating role played by banks and insurance companies to argue that 'the centralization of the financial sector provides the institutional framework for coordinated control over capital allocation' (1990: 204). In a similar fashion, Timothy Sinclair examines centralization within the context of disintermediated capital markets and argues that 'institutions exist within the data gathering process of investors which have the effect of coordinating capital allocation behaviour by structuring information and subsequent decisions in particular ways' (1994a: 447). Citing the example of credit rating agencies, he argues that, based on their ability to provide specialized forms of knowledge, these agencies act as a 'steering mechanism' in that investors will allocate capital on the basis of their judgements (Sinclair, 1994b). Moreover, as investors come to rely increasingly upon these judgements, the extent to which capital is allocated collectively will increase proportionately.

The second approach, which focuses on situations where investors ignore economic fundamentals, originates in an emerging subfield of financial theory known as behavioural finance.[7] Representing an interdisciplinary merger of cognitive psychology and financial economics, the behavioural finance approach argues that capital may be seen as being collectively allocated due to the tendency of investors to observe and follow the behaviour of others. In doing so, proponents of this view distinguish between different types of investors by noting that 'some investors are not fully rational and their demand for risky assets is affected by their beliefs or sentiments that are not fully justified by fundamental news' (Shleifer and Summers, 1990: 19). These investors are referred to as 'noise' traders. The second type of investor, known as 'arbitrageurs', comprises those investors who allocate capital on the basis of economic fundamentals and are thus seen to be fully rational.

Beginning with the former, behavioural finance scholars have sought to demonstrate how the presence of noise traders leads to a situation in which capital is allocated collectively. In their view, irrational behaviour will only matter if it is similar and is correlated among a large number of investors. This is the case as irrational investors, who behave in a random fashion, may cancel each other out and, thus, not produce any aggregate shifts in demand, as is assumed by neo-classical theory. However, the argument of behavioural finance is that the behaviour of noise traders is often correlated as 'judgement biases afflicting investors in processing information tend to be the same' (Shleifer and Summers, 1990: 23). More precisely, they point to a number of 'judgement biases' which cause investors to allocate capital in response to the behaviour of other investors rather than in response to economic fundamentals. One such bias, identified by Sushil Bikhchandani, David Hirshleifer and Ivo Welch, is that many investors like to be 'fashionable' and to feel that they have made prudent choices. Towards this end, investors will often follow the herd simply because of the comfort it affords them in that they have the weight of opinion on their side. As these scholars note, many investors 'will mind less about their loss if they can regard the investment as one that other sensible people would have made' (cited in *The Economist*, 1994a: 73). Compounding this tendency is a second 'judgement bias' suggested by Richard Thaler. While not offering any causal explanation, Thaler points to psychological studies which demonstrate that investors will often assign excessive weight to recent events and data. In his view, the impact of this tendency is that it increases the likelihood that investors will follow trends (cited in *The Economist*, 1994a).

Also important, in terms of reinforcing these tendencies, are the costs and difficulties associated with the collection and analysis of information. As a result, 'observing the choices of others is often a cheap and helpful alternative' to analysing economic fundamentals (Hirshleifer and Welch cited in *The Economist*, 1994b: 91). In light of these biases, many investors will allocate capital in response to what Shleifer and Summers refer to as 'pseudo-signals'; that is, any source of information other than fundamentals that investors believe will convey information about future returns. Prominent here is the tendency either to follow market gurus or to buy and sell assets on the basis of price movements. In terms of the latter, one strategy which reinforces collective behaviour is the use of technical analysis. Simply put, '[t]echnical analysis typically calls for buying more stocks when stocks have risen (broke through a barrier), and selling stocks when they fall through a floor' (Shleifer and Summers, 1990: 24). In other words, investors will buy and sell on the basis of aggregate demand shifts without assessing whether or not they are in response to economic fundamentals.

At this point, the arguments made by the behavioural finance school of thought merely explain how and why the activities of noise traders are often correlated. What remains to be explained, and what is essential to this approach's challenge to the notion of autonomous investors, is why the activities of arbitrageurs will fail to offset those of the noise traders. On this question, behavioural finance scholars point to three factors which can impose limits on arbitrage. The first factor is that, when a large number of investors believe that markets are efficient, they will diversify their portfolios in terms of market proportions (a strategy known as 'indexing'[8]). Therefore, when the value of an asset is mispriced by noise traders it will have a larger impact as the market as a whole will not alter its position to bring the price back to its fundamental value. The second factor which imposes limits on arbitrage is the risk that an asset will be even more mispriced in the future as the activities of noise traders lead to the formation of a 'rational' speculative bubble. Such a bubble occurs when investors, for whatever reason, come to take a favourable view of a particular asset and invest accordingly. The resulting capital inflow causes the price of the asset to rise and the favourable view among investors to be reinforced; this, in turn, leads to further investment in the asset. In such a situation, it becomes rational for arbitrageurs not only to follow the herd but also actively to encourage the trend-chasing behaviour of noise traders. Accordingly, in these situations, the 'effect of arbitrage is to stimulate the interest of other investors and so to contribute to the movement of prices away from fundamentals' (Shleifer and Summers, 1990: 28).

A final factor which can limit arbitrage relates to the problem of fundamental risk. In general terms, fundamental risk refers to a situation in which it is risky for an arbitrageur to sell an overvalued asset because of the potential for the asset to do well. An overvalued asset may do well due to an improvement in the market as a whole or due to factors which are specific to the asset itself. For example, when a stock becomes overvalued, it can create conditions – such as better borrowing terms for the company – which influence managers' decisions and, in turn, influence the company's fundamentals. Given this risk, arbitrageurs will often fail to take an offsetting position which is large enough to drive prices back towards their fundamental value. Taken together, these limits on arbitrage contribute to the tendency of investors to ignore economic fundamentals and – instead, to observe and follow the behaviour of others. In this way, then, the key contribution of the behavioural finance approach is that it provides a further challenge to neo-classical assumptions by demonstrating the collective nature of the capital allocation process.

The third approach, which focuses on the role played by dominant ideas, argues that capital may be seen as being collectively allocated due to the use of similar models for evaluating economic fundamentals. In his analysis of the 1994 Mexican peso crisis, Paul Krugman demonstrates how investors (and others) came to equate economic development with the implementation of certain neoliberal policies. He also points to the ideological, rather than rational, basis for this view by demonstrating that 'the empirical evidence for huge gains from free market policies is, at best, fuzzy' (1995: 32). Therefore, rather than reflecting a triumph of rationality, Krugman argues that the rise of this 'Washington consensus'[9] was the result of an ideological process in which the views of economic opinion leaders reinforced one another to the extent that there occurred 'a sea change in the intellectual zeitgeist: the almost universal acceptance, by governments and markets alike, of a new view about what it takes to develop' (ibid.: 28). Accordingly, as neoliberalism came to be reified as the only 'rational' course of action, investors began to allocate capital collectively on the basis of these criteria.

Taken as a whole, the three approaches outlined above provide support for the critical view that the contemporary process of capital allocation occurs in a collective rather than in an autonomous and unconnected manner. However, to understand why this process serves to reproduce neoliberalism in a coercive fashion, it is necessary to examine the forms of power which the collective allocation of capital confers upon investors.

Defined by Susan Strange (1988) as 'the ability to narrow the range of choices open to others', the key form of power associated with the collective allocation of capital is structural power. Operating at the levels of production, state and world order, the structural power of financial capital enables investors indirectly to influence the policy choices of corporate and sovereign borrowers. At the levels of production and state, the structural power of financial capital is often exercised in the form of an investment strike which serves to discipline labour, corporations and governments. At the international level, it stems from the ability of investors to move capital rapidly across borders. As Stephen Gill and David Law demonstrate, 'the international mobility of financial capital can swiftly force governments which deviate from policies seen as suitable by the "market" to change course' (1993: 107).

The second form of power that has been attributed to financial capital is direct power, or what Mintz and Schwartz (1990) refer to as 'financial hegemony'. Direct power, rather than being associated with the collective allocation of capital *per se*, stems from the centralization of investment decision making in the hands of a small number of financial actors. It is important to distinguish between the collective allocation of capital and the centralization of investment decision making as the former can occur independently of the latter. For example, as demonstrated earlier, the collective allocation of capital can result either from the herd instincts of investors or from their use of similar models for evaluating economic fundamentals. In each of these cases there may not be a centralization of investment decision making from which direct power could be exercised. Pointing to the example of bank and insurance company intermediation, Mintz and Schwartz argue that 'such centralized decision making over capital flows confers upon financial leadership the intermittent capacity to coordinate activity among a wide range of economic actors' (ibid.: 206). For Gill and Law (1993), this form of power relates to, for example, the ability of financial capital to pressure decision makers through networks of elite interaction and to its ability to deploy vast financial resources. As an example of direct power within disintermediated capital markets, Sinclair cites situations where credit rating agencies '"directly intervene in the affairs of a corporation" and in "certain circumstances . . . dictate corporate policy"' (1994b: 144). For critical scholars then, these direct and structural forms of power, conferred by centralization and collective allocation respectively, have enabled investors to reproduce coercively neoliberalism among borrowers.

Vulnerabilities within the critical view

As noted in the Introduction, the critical view of the coercive reproduction of neoliberalism contains two weaknesses related to its failure to account fully for the trends towards floating exchange rates and financial disintermediation. In terms of the former, one challenge to the critical view of financial capital's structural power originates in the notion of what Benjamin Cohen terms '"the unholy trinity" – the intrinsic incompatibility of exchange-rate stability, capital mobility and national policy autonomy' (1996: 280). This notion of an 'unholy trinity' stems from the Keynesian-derived Mundell-Fleming approach which argues that, under conditions of capital mobility, governments can choose between either exchange rate stability or macroeconomic policy autonomy. For example, if a government sought to maintain a stable rate of exchange it would be structurally prevented from stimulating its economy through a monetary expansion. This is the case as an expansionary policy would cause domestic interest rates to drop below foreign rates, leading to an outflow of capital and, in turn, to a depreciation of the currency. However, if the government was willing to tolerate the depreciation, the stimulative effects of the expansion would actually be enhanced in that a depreciated currency would increase the country's exports by making them more competitively priced on world markets. Therefore, as Tona Noterman argues, 'states can [still] enjoy a large degree of policy autonomy as long as they are willing to manage their exchange rate flexibly' (1995: 1). In this way then, critical theorists are vulnerable to the view that floating exchange rates can limit the structural power of investors by enabling governments to pursue a greater degree of autonomy in macroeconomic policy.

In terms of the trend towards financial disintermediation, critical theorists are vulnerable to the neo-classical view that disintermediation, by making the capital allocation process less centralized, has eroded the 'financial hegemony' that banks and insurance companies once enjoyed. This is not to say that financial actors no longer exercise direct power or that these arguments are no longer applicable. In fact, as Sinclair demonstrates, credit rating agencies represent one way in which the centralization of investment decision making has been reconfigured. Instead, given that the direct power of these agencies is limited by the fact that they do not directly control capital and that banks now perform less of a centralizing role than before,[10] it suggests a need to examine how the centralization of investment decision making has been reconfigured among the investors themselves. It is to an examination of this trend that this article now turns.

INSTITUTIONAL INVESTORS AND THE COERCIVE REPRODUCTION OF NEOLIBERALISM

Institutional investors and the collective allocation of capital

The most direct challenge to neo-classical assumptions about autonomous individuals, posed by the rise of institutional investors, is the simple fact that 'the effective investor base is changing from a very large number of small investors to a very small number of large investors' (IMF, 1995: 167). As a result, decisions relating to capital allocation have become increasingly centralized as more and more individuals delegate control over their savings to professional fund managers. In the United States, for example, institutional investors in 1995 controlled almost 40 per cent of household assets, up from 20 per cent in 1980 (Woodall, 1995: 5). In terms of all US assets, institutional ownership has risen from 8.4 per cent ($107 billion) in 1950 to 12.3 per cent ($568.9 billion) in 1970 to 20.5 per cent ($6.5 trillion) in 1990 (O'Barr and Conley, 1992b: 26).[11] Therefore, rather than being composed of millions of unconnected individuals, 'the investor base in securities markets in industrialized countries, and increasingly in developing countries, is dominated by a relatively small number of large institutional investors' (IMF, 1995: 165). Of particular importance has been the rapid growth of mutual and hedge funds and the concentration within each of these industries. In October 1996, the total assets of US mutual funds stood at $3.39 trillion, up from $2.162 trillion in 1994 and from only $241 billion in 1980 (Useem, 1996: 256).[12] Moreover, one example of concentration within this industry is Fidelity Research and Management – the largest of all mutual fund companies – whose assets grew by a factor of 100 between 1972 and 1995 to over $390 billion (Useem, 1996: 255). In a similar fashion, the hedge fund industry has also expanded rapidly and experienced a high level of concentration. According to an estimate by the American Association of Individual Investors (AAII), hedge fund assets rose from $21 billion in 1990 to over $70 billion in 1995 with the ten largest funds (known as 'macro' hedge funds) controlling over 45 per cent of these assets. In fact, three of the largest macro hedge funds – Quantum Fund, Tiger Management and Steinhardt Partners – controlled $17 billion worth of assets representing almost 25 per cent of the 1995 industry total (AAII, 1995).

Serving both to reinforce centralization and to emphasize the increasing importance of mutual and hedge funds has been the trend towards delegation among institutional investors themselves. In the former case, pension funds have increasingly delegated control over their assets to mutual funds to the extent that, in 1993, they retained direct control over only 12 per cent of all institutional assets. At the same time, money and mutual fund managers oversaw 51 per cent of all institutional assets, making them the largest single group of active investors (Useem, 1996: 255). While there is much less information available on the delegation of institutional assets to hedge funds,[13] some indicators do point in this direction. Research by the AAII (1995), for example, found that 'the growing hedge fund industry is now attracting funds from endowments and [other] institutional investors'.[14] In this way, then, the delegation of control over assets by both individuals and some institutional investors has led to a centralization of investment decision making within the (seemingly) disintermediated capital markets. As a result, capital is now being allocated collectively in an extremely direct fashion.

The second way that institutional investors have contributed to the collective allocation of capital is by apparently increasing the tendency of investors to ignore fundamentals and, instead, to observe and follow the behaviour of others. Important here has been the trend towards hierarchy which has emerged within the investment community. At the bottom of this hierarchy are individual investors who buy and sell securities through retail brokers. In the middle are the institutional investors such as mutual, pension and hedge funds and the proprietary trading departments of banks and insurance companies. Occupying the top position in the investor food chain are the macro hedge funds (of which there are only fifteen) such as George Soros's Quantum Fund. With positions defined in terms of market influence, this emerging hierarchy has increased the herd instincts of investors for two reasons. The first reason is that many of the mid-level institutional investors are making use of technical analysis and, therefore, buying and selling securities on the basis of price movements rather than fundamentals. The second reason is that the large institutional investors in general, and the macro hedge funds in particular, have in many ways assumed the role of market leaders and, in turn, amplified the limits on arbitrage noted by behavioural finance scholars.

One way that macro hedge funds act as market leaders stems from their ability to move asset prices unilaterally. Unlike other institutional investors, hedge funds are either set up as limited partnerships of less than 100 people or are chartered offshore. In either case, they are not subject to the (US) Investment Company Act of 1940 which imposes leveraging restrictions on investment companies. As a result, macro hedge funds are able to borrow up to twenty times their capital from commercial banks in order to take highly leveraged positions (IMF, 1995: 167). They are also able to achieve leveraging through the use of derivatives (such as options, futures and swaps) which allows these funds to purchase an asset without paying its full cost up front. In either case, macro hedge funds are able to take much larger positions than would be warranted by their capitalization and, therefore, can often single-handedly influence the movement of an asset's price. Combined with the extensive use of technical analysis (noted above), these price movements can invoke a similar response by other investors to the extent that capital becomes collectively allocated. For example, citing the case of the European ERM crisis, the IMF noted that '[w]hile the hedge funds acted as market leaders, the real financial muscle was provided by institutional investors' (1993: 11).

Macro hedge funds also increase herd instincts because they are perceived by other investors as being market leaders. As Rosemary Bennett and David Shirreff note, '[t]he attention paid by investors and traders to the activities of hedge funds does . . . magnify their impact on the markets' (1994: 30). For example, in 1993, Soros's Quantum Fund purchased between two and three million ounces of gold at $345 per ounce as well as ten million shares in Newmont Mining. When Soros's purchases became known, speculation increased markedly, to the extent that the price of gold rose to over $350 an ounce (Slater, 1996). In this sense, Soros, and other fund managers like him, have assumed the guru role described by behavioural finance scholars. The final way in which macro hedge funds act as market leaders stems from their higher tolerance for risky investments. This is the case as these funds, due to their need to limit their numbers to under 100 people, have minimum investment requirements ranging from $350,000 to $10 million and are, thus, composed of wealthy and risk-tolerant individuals and institutions. Due to this higher tolerance for risk, '[h]edge funds, for example, were amongst the first to venture into emerging markets. Their success made these markets respectable for mutual funds and pension funds' (*The Economist*, 1994c: 18). In sum, the emerging hierarchy within the investment community has reinforced both the centralization of investment decision making and the collective allocation of capital.

While acknowledging this trend towards centralization, some neoclassical economists have argued that if institutional investors are having any effect on markets it is that of making them more efficient.[15] In their view, institutional investors such as the macro hedge funds are more likely to be fully rational and thus counter the activities of noise traders through arbitrage. What these observers fail to recognize, however, is that institutional investors may actually increase the limits on arbitrage identified by behavioural finance scholars. This is the case as their ability to lead markets provides macro hedge funds (and others) with powerful incentives to manipulate noise traders rather than to arbitrage against them.[16] Noting this potential, the IMF argued that '[w]ith greater concentration of wealth in the hands of professional fund managers, financial markets must cope with the effects of the attendant increase in the market power of market participants. Chief among these effects is the increased likelihood of market manipulation and even less efficient markets' (1995: 167).

In addition to promoting centralization and herd instincts, institutional investors may also increase the collective allocation of capital by contributing to the creation of an investment community which more easily facilitates the diffusion and use of similar models for evaluating economic fundamentals. While much more research on the emergence of an investment community is necessary, recent work within the fields of economic anthropology and economic geography[17] may help to highlight some of the institutional and cultural mechanisms which are leading to what Cox describes as a 'transnational process of consensus formation among the official caretakers of the global economy' (1994: 49). For example, at the level of the firm, William O'Barr and John Conley point to the willingness of fund managers 'to accept inherited structures and strategies without question' (1992a: 23). They also point to institutional cultures which place a high premium on conformity in everything from dress and discourse to management strategies. In part, these mechanisms may help to explain how certain models for evaluating fundamentals may be reproduced among different managers within a single firm. Of equal significance is the work being done on the networks of social interaction which are inherent to the major financial centres and how these networks serve to reproduce specific forms of knowledge across different firms. Relating to the tendency of financiers to mix business with leisure, examples here include the clubs and organizations patronized by financiers (such as the London City Corporation) as well as the various 'financial' residential areas that economic geographers have identified within the financial centres (Thrift, 1994).

While it is difficult to prove empirically, these networks may have helped to facilitate the sociological process, noted by Krugman, by which 'Washington consensus' investment criteria became diffused among investors. Even though Krugman's analysis of the events in Mexico did not deal with institutional investors specifically, their adoption of the 'Washington consensus' may be inferred from the large role which they played in the 1994 peso crisis.[18] Where the use of similar models among institutional investors is more evident is in their tendency to employ extremely short-term investment criteria. According to the IMF, 'institutional investors have a shorter time horizon than do individuals' (1990: 7) and this, in turn, may serve to promote further the collective allocation of capital in the trend-chasing manner described by Richard Thaler. Taken as a whole, then, it would seem that institutional investors have increased the collective allocation of capital by their promotion of centralization, herd instincts and the use of similar models for evaluating economic fundamentals.

Institutional investors and the construction of investment criteria

The purpose of this subsection is to demonstrate the constructed, rather than 'rational' or 'inevitable', nature of institutional investment criteria. However, given that the ideological nature of 'Washington consensus' criteria has been adequately demonstrated by Krugman, this subsection will focus on the short-term horizons which appear to be unique to institutional investors in general and to mutual and hedge funds in particular. In terms of their role in promoting the use of short-term investment criteria, it would appear that '[i]nstitutional investors have certain characteristics that lead to a different pattern of behaviour from individual investors' (IMF, 1990: 7). Chief among these characteristics, especially for mutual and hedge funds, is the growing competition within the fund industry and the ability of individuals to redeem their shares at a moment's notice. As the IMF notes, 'U.S. mutual funds need to meet performance standards over a very short time horizon, and open-ended funds face the risk of sizeable net redemptions if their quarterly performance lags behind their competition' (1994: 18).[19] The significance of these characteristics is that the short-term mentality of mutual and hedge funds is, in part, driven by the individuals who invest in these funds, rather than by the fund managers themselves. This is the case as many individuals do not evaluate the real performance of funds when deciding where to invest. Real performance is the ability of a fund to secure higher than average returns *after* adjusting for the level of risk to which the portfolio is exposed. Despite this fact, most individual investors only examine the yield side of the equation. As *The Economist* argues, '[w]hat interests [individual investors] is that George Soros made $1 billion betting against sterling, not whether he lay awake at night sweating over what he had risked to do so' (Stevenson, 1993: 25). To illustrate this tendency, one need only point to the newspaper pages which report fund yields but do not publish information on risk exposures. In this way, then, the yield-driven decision making of individuals seems to impose a short-term horizon on fund managers.

Additionally, within the funds themselves, these competitive concerns have become formalized in institutional structures which, in turn, reinforce the short-term mentality among managers. Important here is the way that pay and bonus structures emphasize yields rather than risk exposures. Also important is that 'the performance of most money managers is evaluated at least once a year, and usually every few months, [thus further] limiting the horizon of arbitrage' (Shleifer and Summers, 1990 : 21). Further institutionalizing this short-term mentality is the use of reactive computer programs which operate on the principle of 'stop-loss' trading. Specifically, by relying on a computerized version of technical analysis, these programs will automatically sell off securities if their value drops below a predetermined floor. They may also sell off some securities in order to meet margin calls on others. This occurs as '[m]any financial players operate in several markets simultaneously and may be required by risk-management systems to cover losses in one by sales in another' (Woodall, 1995: 18). At a more human level, short-term horizons may be further reinforced by the nature of discourse within the investment community. As O'Barr and Conley argue, the 'relation between language and thought may limit the ability of U.S. pension executives to invest for the long term . . . [in that] short-term rhetoric has crowded out alternatives' (1992a: 25).

One final institutional characteristic, which adds to the need for a short-term focus, is related to the extensive use of leveraging within the industry. When borrowing cash or securities to implement their trades, institutional investors must pay their creditors (usually banks) 'per period' fees which can become prohibitive if carried over the long term. Accordingly, 'the structure of transaction costs thus induces a strong bias toward short horizons' (Shleifer and Summers, 1990: 21). Leveraging may also impose a short-term horizon upon institutional investors by increasing the amount of risk to which the funds can be exposed. In other words, because they are taking highly speculative positions with borrowed money, fund managers may be forced to dump an asset in response to even a small movement in the asset's price. As Woodall observes, 'the leverage that helps institutions build up large positions works against them once [asset] prices begin to slide, multiplying their losses and increasing the pressure to sell' (1995: 18). In sum then, because of the institutional characteristics outlined above, the rise of institutional investors has served to amplify the synchronic tendencies of transnational financial capital. Having thus demonstrated that the rise of institutional investors has led to a (re)centralization of investment decision making and to a situation in which capital is allocated collectively on the basis of short-term criteria, we may now examine how these trends have increased both the direct and the structural power of investors and amplified their ability coercively to reproduce neoliberalism among borrowers.

The direct power of institutional investors

By centralizing investment decision making within disintermediated capital markets, institutional investors seem to have increased the ability of investors to exercise direct forms of power over corporate and sovereign borrowers. In terms of corporations, past decades were characterized by '[t]he scattering of stock among thousands of small owners [which] undercut the capacity of shareholders to oversee their enterprises' (Useem, 1996: 5). In contrast, investors today have direct power over corporations because of the growing concentration of stock ownership in the hands of fund managers. For example, institutional holdings of US corporate stock rose from 16 per cent in 1965 to 46 per cent in 1990 while individual holdings declined from 84 per cent to 54 per cent over the same period (ibid.: 25). Moreover, just as this concentration of ownership has increased the ability of investors to exercise direct power over corporations, so too has it increased their incentives to do so. As Michael Useem argues, institutional investors 'turn their attention to corporate governance in part because their great holdings prevent them from readily selling their stake in underperforming companies' (1996: 6). Unlike individual investors, who can express their dissatisfaction with corporate performance through the mechanism of 'exit' (selling their holdings), institutions owning large blocks of shares run the risk of forcing down the stock price as they attempt to sell. Accordingly, due to these problems associated with 'exit', institutional investors have a greater incentive to exercise 'voice'; that is, to intervene directly in the affairs of a corporation.[20]

A further incentive for exercising direct power over corporations originates in the short-term horizons of institutional investors. Faced with the pressures (noted earlier) to meet short-term performance objectives, fund managers must often take actions to increase the value of their funds quickly. One such action is to pressure a company's management to boost its stock price by dumping workers and/or assets and using the proceeds to buy back shares. Thus, for institutional investors seeking short-term stock performance, 'lean operations and employment downsizing have become virtually synonymous with good management' (Useem, 1996: 145). For example, in 1992, institutional holders of General Motors shares responded to declining returns by pressuring the board of directors to install a new CEO who, subsequently, cut the company's North American workforce by 23 per cent (ibid.: 24). As Useem notes, 'the new CEO installed by the GM board well understood his mandate to reduce operating costs and restore shareholder value' (ibid.: 24). Moreover, indicating the widespread nature of this use of direct power, it would appear to be no coincidence that the rise of institutional share ownership has corresponded to a drop in Fortune 500 employment rolls from 16 million in 1980 to 12 million in 1990 (ibid.: 2). A further indicator is that, in testimony before the US Senate Banking Committee, a number of 'CEOs have recently charged that pension funds are putting counterproductive pressure on corporate managers by their demands for short term stock performance' (O'Barr and Conley, 1992a: 25). In this way, then, the direct power of institutional investors seems to be contributing to the higher unemployment and more 'flexible' workforce associated with neoliberal restructuring.

In a similar fashion, institutional investors are also reproducing neoliberal restructuring among sovereign borrowers through their use of direct forms of power. This is particularly evident in times of instability, as was the case in Mexico prior to the 1994 devaluation of the peso. At this time, institutional investors met with Mexican officials and demanded a number of specific policies – including intervention by the central bank to push up the peso's value – to insure them against a possible devaluation (Naim, 1995). In order to reinforce this policy 'advice', some of the fund managers involved refused to purchase short-term Mexican treasury certificates and this led to a strong rise in short-term interest rates. Noting this trend towards institutional intervention in the less developed countries, Moises Naim argues that '[m]utual funds have not only displaced the Bretton Woods institutions as the main providers of money to developing countries, but they are also offering "advice" to officials of the very countries in which they are often the largest foreign investors' (1995: 123). Within the more industrialized countries, one example of the direct power of institutional investors is seen in their lobbying efforts to secure reductions in the retirement benefits provided under the US Social Security program. According to the *Washington Post* of 21 July 1996, 'brokerage houses and mutual funds, lusting after lucrative customers, are pouring millions into a campaign to convince Congress and the president to privatize social security' (Aaron, 1996: C01). If successful, these efforts will serve further to downsize American 'New Deal' social programs and, thus, advance the process of neoliberal restructuring. Finally, in addition to their ability to exercise direct forms of power based on the vast resources which they control, individual fund managers may also be able to exert pressure through the elite networks identified by Gill and Law. That many fund managers have become 'elites' is illustrated by *Fortune* magazine's 1994 listing of the richest people in the United States. Of the top ten listed, six were managers of hedge funds.[21] Taken as a whole, then, the centralization of investment decision making associated with the rise of institutional investors strengthens critical views about the coercive reproduction of neoliberalism by demonstrating that investors retain direct power even within the context of disintermediated capital markets.

The structural power of institutional investors

Turning to the short-term and collective allocation of capital, it would appear that the rise of institutional investors has also amplified the structural power of investors. In practical terms, this is the case as the collective allocation of large blocks of capital on a short-term basis means that 'the markets habitually take on a momentum of their own, and prices end up "overshooting", or reaching extreme highs or lows before settling back' (Pennar, 1995: 84). In other words, because even a small change in economic fundamentals can lead to a massive swing in prices, the costs of pursuing policies seen as 'unsuitable' by investors have increased proportionately. Applied to the arguments of the Mundell-Fleming thesis, the overshooting of prices associated with the rise of institutional investors suggests that the degree of policy autonomy conferred by floating exchange rates may be somewhat less than previously thought. For example, in a situation where investors suspect the potential for inflation, a macroeconomic expansion would probably not result in a corresponding depreciation of the currency. Instead, if institutional investors began a collective sell-off, the value of the currency would depreciate (i.e. overshoot) far beyond what is justified by the expansion and, subsequently, increase the pressures on the government to abandon the attempt. Serving to reinforce these pressures would be the impact of overshooting on other prices such as long-term bond yields. As Woodall notes, when investors suspect the potential for inflation, 'even a modest increase in government borrowing may lead to a sharp increase in bond yields, counteracting the impact on demand of the original stimulus' (1995: 16). Moreover, as has been alluded to above, the perceptions held by investors of the effects of macroeconomic policies are also important here. Specifically, when investors evaluate policies in terms of the neoliberal 'Washington consensus', they are more likely to react strongly (and ideologically) against stimulative efforts even when the risk of inflation is not justified in economic fundamentals. Accordingly, '[t]he risk of extreme price movements puts a greater premium on policies conducive to fiscal discipline and price stability' (ibid.: 25).

Possibly the best example of institutional investors' structural power occurred in the aftermath of the 1994 Mexican peso devaluation when

> [w]hat began as an understandable sell-off picked up speed because scores of portfolio managers at mutual funds and pension funds had no choice. They had to worry about near-term performance and about meeting investment criteria. And mutual fund managers had to worry about the prospects of massive redemptions.
>
> (Pennar, 1995: 85)

Furthermore, because these institutional biases towards short-term horizons were so extensive, the resulting sell-off caused a decline in prices which far overshot what was justified by the devaluation itself. In fact, within two weeks of the devaluation, the peso dropped by over 30 per cent and the Bolsa (a Mexican stock market index) lost almost 50 per cent of its value in dollar terms (Naim, 1995: 119). Therefore, as Woodall demonstrates, 'on their own [Mexico's economic fundamentals] did not justify the scale of the capital outflow or of the depreciation of the peso; the markets simply lost their heads' (1995: 18). In response, the Mexican government was forced to raise interest rates and to implement a package of neoliberal austerity measures (including those which were conditions for the US-led bail-out) in order to restore investor confidence. In this way, then, the overshooting of prices associated with institutional investors' collective and short-term allocation of capital seems to have increased the investors' structural power and, in turn, their ability coercively to reproduce neoliberalism among borrowers. This is not to say that all policy autonomy is necessarily lost – even under floating exchange rates – but, rather, that this autonomy may be much less than is assumed by proponents of the Mundell-Fleming thesis.

As with price overshooting, the structural power of institutional investors is also evident in the way that a number of corporations have begun to create organizational mechanisms designed to internalize fund managers' demands for short-term stock performance. Therefore, as a result of these anticipatory mechanisms, the short-term biases of institutional investors are being reproduced within corporations themselves. In addition to regular meetings between corporate and fund managers, a greater focus on shareholder value has become more institutionalized through changes in the structure of executive compensation. For example, management pay and bonuses have – through the use of stock options and cash incentives – become increasingly tied to dividends and share prices (Useem, 1996: 247). A second indicator of institutional investors' structural power over corporate borrowers is the growth of a specialized niche within the field of public relations. Known as 'investor relations' or, alternatively, as 'financial public relations', the purpose of this emerging industry is to create and maintain investor confidence. In 1986, for example, US corporations spent over $4 billion to demonstrate to investors that they met the desired criteria (Baskin and Aronoff, 1988: 319). A final, if somewhat symbolic, indicator of the increasing focus on shareholder value has been the shift by some firms, such as IBM, away from lavish corporate headquarters. As Useem demonstrates, '[b]ringing investors physically into the home office creates an unanticipated pressure for architectural change' in that a cost-conscious work environment is seen as signalling a similar corporate ethos (1996: 144). Overall, the collective and short-term allocation of capital associated with the rise of institutional investors strengthens critical views on the coercive reproduction of neoliberalism by demonstrating that investors retain their structural power even within the context of floating exchange rates. Having thus outlined how institutional investors contribute to the coercive reproduction of neoliberalism, this article now briefly examines how they are also serving to reproduce neoliberalism in a consensual manner.

INSTITUTIONAL INVESTORS AND THE CONSENSUAL REPRODUCTION OF NEOLIBERALISM

Among Gramscian-inspired scholars, the key distinction between the present world order and that of the post-war Pax Americana is often explained by making use of Gramsci's concept of hegemony. For Gramsci, the concept of hegemony was used to describe a specific configuration of state/civil society relations in which the bourgeoisie had attained a position of leadership over other classes. As Cox notes, this situation 'necessarily involved concessions to subordinate classes in return for acquiescence in bourgeois leadership' (1993: 51). It also involved the internalization by subordinate groups of bourgeois ideas and culture, which subsequently constrained their perceptions of what was possible. Understood in this sense, Gramsci's notion of hegemony differs starkly from realist usages of the term in international relations theory. For these scholars, hegemony implies a set of power relations in which one group dominates others on the basis of coercion. In contrast, Gramsci perceived power as 'a necessary combination of consent and coercion [and] to the extent that the consensual aspect of power is in the forefront, hegemony prevails' (Cox, 1993: 52). In this way then, hegemony was exercised through what Gramsci termed a 'historic bloc'; that is, a configuration of social forces whose interests were linked to those of the dominant fraction of the capitalist class.

Applying this concept to contemporary neoliberal restructuring, Gill points to rising unemployment and the decline in New Deal social programmes to argue that 'what is emerging is a politics of supremacy, rather than a politics of justice or hegemony' (1995: 400). Moreover, in terms of the sustainability of these neoliberal social relations of production, he further argues that 'whilst there has been a growth in the structural power of capital, its contradictory consequences mean that neoliberalism has failed to gain more than a temporary dominance over our societies' (1995: 401–2). In making this argument, Gill and others have used Karl Polanyi's notion of the double movement to demonstrate the potential for elements within civil society to seek self-protection against the contradictions of the (neoliberal) self-regulating market. For example, they point to the narrowing of the presently dominant historic bloc and to the potential for further divisions within it. As Sinclair notes, the 'desocialization of investment [which may accompany neoliberal restructuring could] lead to a delinking of fractions within the historic bloc, weakening it and potentially exposing it to challenges' (1994a: 461). While agreeing that the overall trend in contemporary restructuring is characterized by the politics of coercion, it would appear that this claim may have been somewhat overstated. To demonstrate this point, this section briefly examines how institutional investors have served to incorporate the interests of other fractions of capital and, to a lesser extent, elements within civil society. In doing so, it will argue that the potential for a Polanyian-style double movement may be somewhat less than previously thought.

Institutional investors and class fractions

Following Polanyi, Gill notes that one of the key reasons for the double movement in the early twentieth century was that '[S]ocial forces associated with productive capital and the state began to remobilize so as to protect society from the ravages of market forces' (1992: 277). Important at this time, therefore, were the divisions which existed between different fractions of the capitalist class. Attempting to draw parallels today, a number of scholars have cited the potential for divisions between the interests of transnational financial capital and those of transnational and national productive capital.[22] One example here is the way that the deflationary bias of financial capital, and the lower growth which this implies, can hurt the profits of productive capital due to lower sales. Another example is the risk to corporate profits posed by volatile price movements (i.e. interest and exchange rate fluctuations) which result from the speculative activities of financial capital. However, the interests of productive capital may have been incorporated to a greater extent than was the case in the early twentieth century due to the rise of institutional investors. One reason why this has occurred is that many corporations now derive a large portion of their profits from speculation; either through their own proprietary trading departments or through their investments in hedge funds and the like. For example, in 1993, American Airlines began selling its own mutual fund in conjunction with its frequent-flyer programme (Stevenson, 1993: 13). The productive fractions of capital, both national and transnational, are also less subject to the volatility created by speculative capital flows. Through the increasing use of derivatives, these corporations have been able to offset risks relating to price fluctuations (Frankel, 1996: 52). Finally, these corporations may also benefit from some elements of the coercive reproduction of neoliberalism – such as a more flexible workforce – which has accompanied the rise of institutional investors. Therefore, while it may be possible to view derivatives and proprietary trading as a form of self-protection against the commodification of capital, it would appear that these measures are more 'privatized' than their earlier counterparts. As a result, there may be less chance of these fractions of capital participating in a counter-hegemonic historic bloc.

Institutional investors and civil society

A second trend which may also limit participation in a counter-hegemonic historic bloc is the way that institutional investors have also served to incorporate the interests of other elements within civil society. Important here has been the growth of mutual and pension funds and the direct material benefits which many individuals receive from them. Illustrating this trend towards a broader incorporation of interests is the rise in mutual fund ownership, among US households, from 6 per cent in 1980 to over 30 per cent in 1995 (*The Economist*, 1995: 75). Moreover, given that the median income of these individual investors is approximately $50,000, it would seem that '[n]ow even the humblest saver has quick and relatively cheap access to the best fund managers in town' (ibid.: 77). While much more research is necessary to determine the extent to which the interests of institutional investors are being universalized, some indicators do point in this direction. In the wake of the 1994–5 Mexican peso crisis, for example, this trend was used to justify the socialization of market risk in the form of the US-led bail-out of Mexico. As *Time* magazine argued:

> What many Americans discovered last week was that for all the beltway rhetoric pitting Wall Street against Main Street, Wall Street long ago intersected with Main Street. At risk in [Mexico] were not only U.S. banks and giant investment firms but mutual funds held by tens of millions of little-guy investors who bet their savings on double-digit yields in emerging markets like Mexico. 'This wasn't about bailing out Wall Street' a congressional staff member said of [the rescue package], 'but about mutual and pension funds and that means average Americans.'
>
> (Church, 1995: 35)

Potentially serving to reinforce this universalization of interests is the contribution made by institutional investors to the creation of what Gill terms 'market civilization'. Simply put, 'market civilization' refers to the way that capitalist norms and practices are becoming culturally embedded into the structures of people's everyday lives (Gill, 1995). In contrast to 'passive' investment vehicles such as bank deposits and pension fund contributions, investing in mutual funds requires a higher level of attention on the part of individuals. As a result, one contribution of institutional investors to the creation of market civilization is the way that individuals now concern themselves with the day-to-day workings of the market in tracking their investments. Representing a concrete indicator of this trend is the fact that '[n]ewspapers in America, Britain, France and Japan [now] dedicate pages to changes in the value of mutual funds' (Stevenson, 1993: 7). In a similar fashion, institutional investors have also contributed to the creation of market civilization through pedagogy. Specifically, because of the higher level of individual attention involved in mutual fund investing, a number of companies have begun to offer seminars designed to teach individual investors basic financial skills. In fact, some companies have even begun to run investment clubs for children (Phillips, 1996). In this way then, it would appear that investment skills are increasingly becoming life skills and this, in turn, may help to facilitate the internalization of ideas about financial orthodoxy and individualism which underpin neoliberal ideology.

At a more theoretical level, the ability of institutional investors to incorporate a broader range of interests suggests a need to rethink 'traditional' understandings of class and class fractions. For example, the transformation of some workers and savers into investors may indicate the potential for the emergence of an 'investor aristocracy' (rather than a labour aristocracy) among workers. In other words, rather than being incorporated into a dominant historic bloc primarily through their wages – as occurred during the post-war Pax Americana – some workers may instead become incorporated through their investments. In a similar fashion, the role played by institutional investors in transcending some of the traditional divisions between different fractions of capital also needs to be brought into a new understanding of class dynamics. Not only does it challenge the notion that the interests of financial and productive capital have become increasingly divorced from one another, but it also challenges how we understand the nature of class fraction integration when it does occur. In contrast to earlier theorizations, which emphasize the way that banks can come to have a 'vested interest' in the companies which they lend to, the rise of speculative investing by corporations suggests the potential for a reversal of this relationship; that is, that productive capital may now have a vested interest in the well-being of the funds in which they invest and, thus, in the continuation of any 'embedded financial orthodoxy' (Cerny, 1993). In terms of states, the ability of institutional investors to reproduce neoliberalism in a consensual manner suggests the potential for hegemony to be constructed in a more 'privatized' fashion. If this is in fact the case, it may be necessary to rethink the role of the state in the construction of hegemony. Finally, while these trends towards the consensual reproduction of neoliberalism do not eliminate the potential for a Polanyian-style countermovement, they do suggest that the neoliberal project may be more sustainable than previously thought. Accordingly, there would seem to be a need for further research on which social forces might participate in a countermovement and, in turn, on precisely how such a countermovement might be reconfigured in the contemporary context.

CONCLUDING REFLECTIONS: A CASE FOR FURTHER RESEARCH

Rather than summarizing the arguments presented in this article, the remaining pages are used to make a brief case for further research into the role played by institutional investors in the reproduction of neoliberalism. The first reason for a greater focus on institutional investors relates to the theoretical question: what is new about the contemporary financial system? After all, capital mobility and the associated pressures on decision makers also existed in the inter-war period and, more recently, in the decades following the breakdown of the Bretton Woods monetary order. However, in both of these periods, the capital allocation process was dominated by commercial banks and individual investors. In contrast, as this article has sought to demonstrate, capital allocation today is increasingly dominated by institutional investors. While this trend may be new in comparison to the inter-war period and to the decades immediately following the collapse of Bretton Woods, one could still argue that the importance of institutional investors has been growing for some time now and that this fact has not gone unnoticed by scholars. In fact, since the early 1970s, a number of studies – such as Peter Drucker's *Unseen Revolution: How Pension Fund Socialism Came to America* – have examined this trend. However, virtually without exception, these studies have had pension funds as their primary focus. As a result, they have not dealt with those institutions which may in fact be what is new in the 1990s; that is, mutual funds and hedge funds.

As demonstrated earlier, mutual funds and hedge funds seem to have overtaken pension funds in importance due, respectively, to the greater share of assets which they directly control and their greater ability to act as market leaders. Moreover, it is the specific institutional characteristics of mutual and hedge funds which makes their dominance distinct from that of banks, individuals and pension funds. As this article has argued, it is these funds which, through their promotion of centralization and herd instincts, seem to have increased the extent to which capital is collectively allocated in the present context. Also, it is these funds which, due to the differing competitive pressures upon them, have been the most responsible for the extremely short-term horizons of contemporary financial capital, even more so than pension funds. Taken together then, it would also seem that it is mutual and hedge funds which primarily account for the massive price overshooting and structural pressures which have served to increase the constraints on national policy autonomy even under floating exchange rates. In terms of the incorporation of interests, the role played by mutual and hedge funds also appears to be both the most important and what is new. First, unlike the small returns delivered by bank deposits, individuals and corporations receive much higher yields from their investments in mutual and hedge funds. Second, unlike the 'passive' form of investing which characterizes bank and pension fund investments, mutual and hedge funds require a much higher level of attention on the part of the individual and, therefore, it is these funds which would appear to be making the largest contribution to 'market civilization' and to the internalization of ideas about financial orthodoxy.

A second reason for further research on institutional investors relates to the more practical issue of how states might increase their policy autonomy in the contemporary context of capital mobility and price overshooting. Specifically, by focusing on institutional investors as a site of political struggle, it may be possible to open up additional opportunities for counter-hegemonic forces. For example, one such opportunity proceeds from the fact that individuals, in their role as investors, own much of the capital which adversely affects them in their role as workers. A second opportunity relates to the socially constructed nature of short-term and neoliberal investment criteria. Taken together, it may be possible for workers to reassert control over their investments in such a way as to reconstruct investment criteria along more sustainable lines. One way this might occur is, as Gill and Law note, 'through the mobilization of funds at the expense of orthodox capital, for example in the form of "ethical" investment trusts' (1993: 122–3). In fact, funds of this type have already begun to emerge in the form of labour-sponsored venture-capital funds, such as the Working Ventures Canadian Fund,[23] and in the form of 'green' funds, such as those run by Clean Environment Mutual Funds Ltd.[24] Moreover, this reassertion of control could also take place under the auspices of states. For example, during the October 1995 sovereignty referendum in Quebec, La Caisse de dépôt et placement du Québec – Canada's most powerful institutional investor – was used to stabilize the Canadian dollar 'to support separatist arguments that a Yes vote would not unsettle financial markets' (Simon, 1996: 11). Given this potential for state intervention, it might also be possible for a government to make use of (nationalized) institutional assets to stabilize its currency similarly during an attempt at macroeconomic stimulus.

In a similar fashion, it may also be possible for states to intervene to reconstruct investment criteria among the orthodox investors themselves. At present, the proposal for a currency transactions tax – the Tobin tax – appears to be the only avenue by which states might be able (collectively) to discourage the short-term horizons of investors. However, the centralization of investment decision making associated with institutional investors may provide a specific site both for determining the origins of these short-term horizons and for facilitating regulatory intervention. For example, governments might be able to alter those competitive and institutional mechanisms – such as the ability of individuals to redeem their shares quickly, pay and bonus structures which emphasize near-term performance and the use of leveraging – which contribute to short-term horizons. In any case, what would seem necessary is further research into the role of institutional investors in the reproduction of neoliberal social relations of production. It is only through a complete and pessimistic appreciation of the obstacles facing counter-hegemonic forces that they may begin to move forward to the more optimistic measures for overcoming them.

NOTES

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1 While not examining their role in the reproduction of neoliberalism, some studies of institutional investors do exist. See Drucker (1976), Ghilarducci (1992), Minns (1980a, 1980b, 1996), O'Barr and Conley (1992a, 1992b), Useem (1996).
2 See, for example, Glasgall *et al.* (1995), Levinson *et al.* (1995), Wriston (1992).
3 See, for example, Gill and Law (1993).
4 On the trend towards disintermediation, see Sinclair (1994a: 448–51).
5 For examples of a similar view; within the financial community see Wriston (1992); among policy makers (US presidential adviser Laura Tyson), see Woodward (1994).
6 This view has been made most notably by Francis Fukuyama. See Fukuyama (1989).
7 For a review of the behavioural finance literature see Heisler (1994), De Bondt and Thaler (1994).
8 Indexing refers to a passive investment strategy where the investor, rather than attempting to outperform the market, places funds in a predetermined list (or index) of companies such as the Standard and Poor 500.
9 The phrase 'Washington consensus' was coined by John Williamson of the Institute for International Economics and refers to a collection of policies relating to liberalized markets and sound money.
10 The share of commercial banks in total financial assets has dropped from over 50 per cent in the 1920s to only 25 per cent in 1994 (Woodall, 1995: 11).
11 All figures in US dollars.
12 Mutual fund assets have also risen in the European Community where they have more than doubled since 1987 to over $900 billion in 1993 (Stevenson, 1993: 23).
13 One reason for the lack of information available on hedge funds is that, by having less than 100 'partners' (i.e. shareholders), they are not required to file reports with any regulatory agencies.
14 Similar evidence was found in a survey conducted by the fund tracking and consulting firm Tass Management. Cited in Iskandar (1996).
15 See, for example, Stevenson (1993: 30).
16 For example, George Soros (1987) has described how he achieved success, not by arbitraging against noise traders but, instead, by leading a trend to its high point and then selling out. Describing this strategy as one of 'pumping up the tulips', John Train – in his (1989) examination of successful investors – has also noted the benefits of manipulating noise traders rather than arbitraging against them.

17 For a review of this literature see Thrift (1994).
18 On the large role played by institutional investors in the 1994 Mexican peso crisis see IMF (1995), Naim (1995), Woodall (1995).
19 These pressures tend to be even greater among hedge fund managers as they must report to investors on a weekly basis and as their investors need give only one week's notice before redeeming their shares (Bennett and Shirreff, 1994).
20 On the concepts of exit and voice, see Hirschman (1970).
21 Cited in Bennett and Shirreff (1994: 32).
22 See, for example, Overbeek and van der Pijl (1993).
23 See Luukko (1996).
24 See Anderson (1996).

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