CAMBRIDGE

Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

1 Routes to international political economy: accounting for international monetary order

Towards an interdisciplinary international political economy

The renaissance of international political economy (IPE) scholarship on the international monetary system (IMS) is now twenty years old. It crystallized in 1977 with the publication of Benjamin Cohen's *Organizing the World's Money* and Fred Block's *The Origins of International Economic Disorder*, both of which reflected a growing belief among a small band of scholars that the disciplines of economics and politics could no longer credibly uphold their claims to being the monopolistic heirs of knowledge on monetary issues.[1] As IPE coalesced as a field of inquiry in the late 1970s and early 1980s, other studies picked up and extended the themes that have come to mark the core of its analysis of the IMS.[2] With the publication over the last ten years of work as diverse as Susan Strange's *Casino Capitalism* and Ethan Kapstein's *Governing the Global Economy*, IPE must now be considered one of the central avenues of inquiry through which the

[1] In charting their way, Cohen and Block were able to draw on the pioneering work of a handful of scholars who had themselves begun fashioning a political economy approach to international economic and/or monetary relations, among them Feis (1930/1964), Brown (1940/1970), Polanyi (1944/1957), Triffin (1960), Hirsch (1967), Clarke (1967), Cooper (1968), Gardner (1969), Meyer (1970), Strange (1971) Kindleberger (1973/1986), and de Cecco (1974). The monetary crisis of the mid-1970s prompted the publication of further analyses, including Rowland (1976), Strange (1976), and Hirsch *et al.* (1977), all of whose points of departure reflected the gathering strength of IPE as an approach to monetary relations.

[2] These studies include Crough (1979), Gilbert (1980), Calleo (1982), Lombra and Witte (1982), Odell (1982), Zysman (1983), Spindler (1984), and Kindleberger (1984/1993).

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

organization of the IMS is explored.[3] This renaissance has been driven in part by the way in which IPE both cuts across disciplinary boundaries and seeks to understand the totality of its subject matter, free from the intellectual chains of a single, entrenched discipline. More by accident than design, IPE has begun to emerge as a discipline in its own right.

Despite the claims of many IPE scholars, however, two significant hurdles stand in the way of developing IPE as a more self-conscious or reflexive field of social inquiry.[4] The first hurdle is the imperial pretensions which both politics and economics harbor towards their erstwhile progeny. Indeed, there is a discernible trend in contemporary scholarship which views IPE as the logical outgrowth of each discipline's natural arc of inquiry. In economics, this tendency is best exemplified in the public choice approach to the interaction between economies and polities. Its hallmark is the use of neo-classical economic techniques, principally the application of rational choice analysis, to understand decision-making at the international level (Frey, 1984; Frey and Serna, 1995). While this type of analysis has advanced our understanding of how to frame the costs and benefits to states of adopting particular economic strategies, it should not obscure the imperial pretensions represented by this view, namely the emergence of an economic theory of international politics.

Such intellectual imperialism is replicated in the appropriation of IPE by political science. It is best captured in the title of a popular IPE textbook first published in the late 1970s, Joan Spero's *The Politics of International Economic Relations* (1977/1990). Spero's goal was to subject economic processes to a political logic in a mirror image of the economists' attempt to subject political processes to an economic logic. Although both of these imperial routes have yielded intellectual dividends for their respective disciplines, they have also constrained the emergence of a dialogue which might allow IPE to move in an interdisciplinary direction. Trying to establish *international political economy* as a truly distinct field of inquiry from the starting point of

[3] In addition to the work of Strange and Kapstein, we may count Frieden (1987), Hawley (1987), Pauly (1988), Eichengreen (1990, 1992), O'Brien (1992), Goodman (1992), Walter (1993), Porter (1993), Helleiner (1994), Sobel (1994), and Kirshner (1995) as part of this growing field.

[4] I am using "reflexive" here in the sense of its use by those international relations (IR) theorists who consider the development of theory to be integrally linked to the capacity to understand its origins and account for its own development. See for example Walker (1987), Hoffman (1987), Lapid (1987), and Neufeld (1995).

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

either politics or economics appears to be the scholarly equivalent of mixing oil and water.

The second hurdle IPE faces in its bid to become a self-conscious field of social inquiry is the problem of defining its central object of inquiry. Many scholars have looked to states and their national economies as the principal objects of inquiry for IPE.[5] Following Stephen Krasner (1976), they have argued that the international economy is the creation of state practices in so far as states, and the national economies they govern, provide the foundations or preferences which make international transactions possible.[6] Others have chosen to consider IPE as a methodology or an approach that promises a more comprehensive analysis of contemporary political–economic problems than either discipline can offer on its own. What both groups of scholars share, however, is an underlying conception of the international economy as the cumulative product of economic exchange between national economies.[7] Jeffry Frieden nicely captures this conception of the international economy when he asserts (1987: 4) that: "there is, after all, no international economy in the abstract . . . The international economy is simply the sum of many national economies, and each national economy is subject to powerful domestic pressures."

This consensus regarding the central object of inquiry for IPE is clearly evident in scholarship on the IMS. Despite very different theoretical starting points, Barry Eichengreen's definition of the IMS as "a set of rules or conventions governing the economic policies of nations" (1990: 271), for example, corresponds precisely to Fred Block's formulation of the IMS as "simply the sum of all of the devices by which nations organize their international economic relations"

[5] This focus on national economies has led to a large literature in IPE on the role of particular states in the international economy, especially the United States. With reference to monetary scholarship, examples include Odell (1982), Gowa (1983), Cohen (1986), Hawley (1987), and Frieden (1987).

[6] Even where international economic structures are the primary unit of consideration, the national basis of this international economic structure is clear. Thus David Lake can argue that "the IES [international economic structure] is defined by the two dimensions of relative size and relative productivity . . . relative size will be measured by a *nation's* proportion of world trade. Relative productivity will be measured by a *nation's* output per man-hour relative to average output per man-hour in the other middle and large sized nations" (1984: 146, emphasis added).

[7] See for example Gilpin (1987: 9), Calleo (1982: 79–84), Cohen (1977: 2–8), and Block (1977: 1).

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

(1977: 1).[8] While under some circumstances this consensus on the object of study might conceivably promote disciplinary cross-fertilization, for IPE it has meant that scholars rooted in each discipline have little incentive to adopt a less imperial approach to IPE: each discipline can continue to claim that it provides an authoritative account of its perceived domain by virtue of applying a discipline-specific logic to the phenomena under study. Since a crucial test to decide between the two accounts is not available to those working in the social sciences, the actual amount of interdisciplinary learning is limited.[9] Such an apparently low level of interdisciplinary learning between politics and economics is a significant brake on the development of IPE as a robust area of social inquiry.

If IPE is to develop into a self-conscious and reflexive field of study, it will have to loosen the grip of economics and politics as its principal intellectual guardians, and advance a conception of its central object of inquiry that invites genuine interdisciplinary exploration. To do this, it will need to advance in two directions. The first direction must broaden the disciplines used to inform IPE analysis beyond the standard refrain of politics and economics. The second direction must advance a conception of IPE's central object of inquiry that is able to provide a theoretical and empirical anchor against which competing claims of knowledge can be framed, explored, and assessed. In other words, IPE scholars must be able to define clearly the international political economy as a distinctive social sphere in which a multiplicity of tools can be used for analysis. This study aims to contribute towards the establishment of these new directions for IPE, and in the process to further the self-conscious identity of IPE as an area of inquiry in its own right. While some may see in this privileging of subject matter over methodology the spectre of closure, it is argued here that the attempt to provide IPE with a clear and broad focus of inquiry is in fact necessary if it is to remain open to more than one disciplinary or methodological approach. Providing IPE with a distinctive subject matter that cuts across established disciplinary bound-

[8] This understanding of the IMS is widely shared by IPE scholars from either side of the politics–economics divide. See for example Cohen (1977: 3), and Cooper (1987: 7).

[9] A good example of the problem of interdisciplinary learning can be found in the laudable and innovative analysis of regionalism in the Asia-Pacific region edited by Frankel and Kahler (1993). Especially illuminating are the comments by Gilpin and Hoshi.

© Cambridge University Press www.cambridge.org

Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

aries is one important strategy for maintaining the openness which many of its practitioners so rightly prize.

To accomplish this task I proceed along three fronts. First, I draw upon the work of a small number of scholars who have similarly sought to straddle the politics–economics divide, in order to establish the intellectual foundations for considering IPE along the lines proposed here. Second, I develop a particular structural understanding of IPE, informed by what I call the historical mode of thought, as one avenue through which the study of IPE may be pursued. And finally, I turn to history, and in particular to economic and business history, as the chief means by which successive structural orderings of the international political economy can be traced. I call this the world-economy approach to IPE, and argue that it provides an historical–institutional future for the discipline which both relaxes its current disciplinary barriers and articulates a conception of the international political economy as a distinct social sphere of inquiry. The medium through which this study proceeds is an argument about how we should account for international monetary order, with a special focus on what I call the international organization of credit.

Accounting for international monetary order

Most attempts within the IPE tradition to explain the construction or erosion of monetary order emphasize one of two related arguments. The first and most common argument is that monetary order is created by states, and that the aims, interests, and powers of major states are the principal moving forces to investigate. This argument has been most forcefully explored in a number of works associated with the interwar period, which take as their theoretical point of departure some version of hegemonic stability theory. Charles Kindleberger provides one of the earliest and strongest forms of this argument when he argues, with reference to the interwar period, that the United States was unwilling and Britain unable to take the necessary steps to confront the problems of war reparations, inter-allied loans and lender-of-last resort requirements at the beginning of the depression in 1929. He maintains that the post-1919 leadership vacuum exacerbated the monetary problems of the interwar period and ensured that the depression was longer and more scarring than it needed to be. Such claims are echoed by virtually all scholars who

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

dwell at any length on monetary aspects of interwar history.[10] This view also informs several recent studies of global finance which suggest that, contrary to common perceptions of the origins of integration and globalization in the IMS over the past twenty years, states in fact have been in the vanguard of these developments.[11] Without embracing hegemonic stability theory, this scholarship argues that the foundation of the IMS remains a political creation, and that transnational processes are always and everywhere mediated by specific state structures. While states may operate within clear constraints that are more severe for some than others, it is nevertheless states which in the end choose to allow financial markets to operate with any particular degree of openness. National and international markets are always socially and politically embedded; thus politics and the exercise of sovereign authority cannot be absent from any account of the foundations of international monetary order (Underhill, 1995).

A second and often related argument centers on the effects of economic efficiency on monetary order. Here the basic claim is that efficient markets lead to a stable IMS while inefficient markets lead to an unstable IMS. This argument, whether from scholars of a more liberal persuasion (such as Richard Rosecrance [1986]), or of a more mercantilist bent (such as Robert Gilpin [1987]), sees the erosion of efficiency as inevitably leading to a reduction in the capacity of a dominant economy to generate wealth and power. As national economic efficiencies wax and wane, growth becomes uneven, leading to the international redistribution of wealth and power – the natural by-product of uneven growth in this reading (Gilpin, 1987; Kennedy, 1987). In the monetary field, for example, Gilpin argues that the inability of hegemons to fund growing expenditures over time, due to flagging growth rates and escalating imperial costs, results in an increasing debt load that leads almost of necessity to economic decline and the abdication of hegemonic responsibilities (1987: 339–40). When directly linked to the paramount role of the state, changes in national economic efficiency help to account for the political foundation of monetary order. Taking account of the role of

[10] Similar arguments, albeit with different emphases, have been made with respect to the interwar period by Block (1977: 19), Calleo (1976c: 237–46), Cohen (1977: 83–9), Eichengreen (1990: 271–311), Gill and Law (1988: 129–36), Rowland (1976), and Strange (1988: 100–1).

[11] For example, see Frieden (1987), Goodman and Pauly (1993), Helleiner (1994), Schwartz (1994), and Strange (1986, 1989).

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

economic efficiency is therefore critical to a political economy understanding of monetary order.

In the case of the postwar period, these two general arguments provide the basic framework through which the creation and demise of Bretton Woods as a fixed exchange rate system is understood. In this reading, the question of maintaining monetary order in the postwar period became embroiled with the attempt to sustain the exchange rate regime under conditions of increasing financial and political uncertainty (Volcker and Gyohten, 1992). This uncertainty was most closely associated with the creation and distribution of international liquidity, defined as those assets which governments can readily use to support their currencies and run balance of payments deficits. The financial dimension was accurately identified by Robert Triffin (1960) shortly after the assumption of full currency convertibility by western European governments in 1958. He argued that continued US balance of payments deficits would create a dollar overhang that must inevitably outgrow US gold stocks and prompt a crisis in the fixed value of the dollar related to gold. The solution to this problem became known as the "Triffin Dilemma," on the basis that any attempt to narrow or eradicate the US balance of payments deficit would necessarily compromise the provision of credit to the international economy. Europe was especially vulnerable, since at this time it depended on US deficits for additions to its official reserves. The problem of monetary order thus became bound up with the question of how to increase official liquidity without undermining the fixed exchange rate regime. For liberal scholars in particular, this came to define the problem of the postwar IMS.[12]

It was of course a difficult problem to solve because of the emerging uncertainty surrounding the political commitment of the United States to live within the rules of Bretton Woods as its own economic position evolved through these years. This political commitment was itself dependent on maintaining Bretton Woods as a creditor-biased system, from which the United States derived significant privileges. There were two main aspects to this bias. First, the adjustment mechanism built into the Bretton Woods Agreements placed the brunt of adjustment costs onto economies in deficit on their current account. These economies had generally to borrow abroad to finance their

[12] This formulation of the problem was central to the investigations of Gilbert (1980), Cohen (1977), Cooper (1968), and Gardner (1969).

© Cambridge University Press www.cambridge.org

Cambridge
Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

deficits, thus bestowing a privileged position onto the surplus economies which financed these deficits.[13] This privileged position ensured that change in the system became a matter for negotiation among creditor countries alone. Second, by linking the parities of all currencies to gold through the US dollar, the exchange rate regime allowed for only one source of credit growth in the system: US balance of payments deficits.[14] Increases in international liquidity were thus entirely the prerogative of the US government and economy, providing American authorities with unparalleled choice in determining how much credit was created, and an exorbitant influence over the purposes to which this credit could (or could not) be put within the international economy. Unsurprisingly, this proved to be a privilege the United States was reluctant to abandon. The political uncertainty which came to dominate Bretton Woods in its later years thus became almost entirely a question of American management of the monetary system.

Those accounts which choose not to emphasize the related arguments of state power and economic efficiency in the construction and erosion of monetary order take as their starting point the institutions of finance and their interaction with political authority. Porter (1993), for example, explores the effectiveness of selected international institutions (the Basle Committee on Banking Supervision and IOSCO) within the context of the relationship between inter-state regimes and the structure of the industries they regulate. He concludes that the strength of these regimes – an important dimension of monetary order – is directly dependent upon industrial structure: highly competitive industries are open to the development of strong inter-state regimes under certain circumstances, and oligopolistic industries less so. Another recent analysis has argued that hegemonic stability theory is rarely able to explain the construction and erosion of monetary order. It contends that "hegemony is certainly not a sufficient condition for international monetary stability and there seems to be no strong *a priori* arguments that it is even a necessary condition" (Walter, 1993:

[13] Domestic alternatives to borrowing abroad to finance deficits included raising taxes and printing money. If the former was everywhere politically unpalatable, the latter ultimately led to an increase in inflation, thereby placing downward pressure on the currency and returning policy-makers to the original dilemma of how to maintain a fixed parity in the face of a payments imbalance.

[14] While increases in world gold stocks could also theoretically increase global liquidity, there was no practical way to ensure that increases in gold stocks could keep pace with the demands of international trade.

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

79). Rather, order within the IMS is much more firmly linked to the durability of social consensus within national economies and to the balance of international transactions which this consensus is able to support.

Such conclusions are supported by the work of other scholars who focus on factors within the financial system itself which tend towards stability and/or instability.[15] Their common point of reference is the close attention paid to the economic and financial dimensions of monetary order, and especially to the fragile institutional artifice commonly identified as "finance." In particular, they view the mechanisms by which networks of monetary agents transfer wealth throughout the international economy as central to the way in which order is constructed within an IMS. Thus, while some scholars have attempted to explain the operation of the IMS in the early twentieth century with reference to a world credit system centered around cities acting as international clearing centers (Brown, 1940/1970), others point to the way in which London absorbed overseas balances, especially those of Britain's colonial crown jewel, India, as the chief means by which the pre-1914 gold standard achieved its much-vaunted stability (de Cecco, 1974). This sensitivity to institutional factors is embraced by others whose work explores the wider structural parameters of the international economy. Cox, for example, points to the changing nature of social relations as a key attribute of the structural transformation of the postwar period. In his analysis of the Bretton Woods era, global finance became the preeminent agency of conformity to world order, and as such a principal institution of the *Pax Americana* (Cox, 1987: 267). Cox argues that the subsequent unravelling of Bretton Woods has placed the role of global finance in a precarious position: it might be strengthened or weakened depending upon whether a state-capitalist or hyper-liberal state emerges as a principal structural characteristic of the emerging world order.[16] The utility of these approaches lies in both embedding the IMS into the structural foundations of the international economy and in exploring the institutional basis (public and private) of its organizational form.

Others have reflected on the wider institutional basis of the IMS to argue that monetary order in the postwar period exhibits a remarkable

[15] See for example Eichengreen (1990), de Cecco (1974), Brown (1940/1970), and Feis (1930/1964).

[16] This general conclusion finds echoes in the work of Gill and Law (1988), and Ruggie (1982).

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-59142-3 - The International Organization of Credit: States and Global Finance in the World-Economy
Randall D. Germain
Excerpt
More information

degree of continuity despite the widespread perception of fundamental change. For example, neither Palloix (1975) nor Andreff (1984) see a "breakdown" in monetary order occurring in 1971. Their focus on class relations and the restructuring of economic life leads them to conclude that global finance has emerged from the crisis of the 1970s stronger and more privileged than ever. Susan Strange and Charles Kindleberger, iconoclasts from within their respective disciplines, have arrived at substantially similar conclusions. Strange sees 1971 as an important date because it marks the extraordinary power of the United States unilaterally both to change the rules of the game and to reduce systematically the scale of public control over the activities of private financial firms (1986/1989: chapter 2; 1982: 79–82). Kindleberger, on the other hand, while conceding that 1971 is an important date, points out that the perceived root cause of monetary instability – the American balance of payments deficit – was in actuality nothing more than the efficient performance by New York of international financial mediation, borrowing short to lend long (1969/1981: 43–5). And finally, Walter argues that "the image of the 'breakdown' of Bretton Woods . . . is most misleading because it underestimates the *continuity* in the evolution of the international monetary system since the late 1950s" (1993: 190, emphasis in original). The utility of this broad spectrum of scholarship lies precisely in its treatment of the way in which private financial institutions are organized within the IMS. Whether framed in terms of class relations, market operations, or institutional structure, this sensitivity to how social forces are organized provides the starting point in reconsidering the foundations of international monetary order.

From money to finance: reconsidering the IMS

In general, the renaissance of political economy scholarship on the IMS shares several common traits with regard to the question of how international monetary order is constructed. First, there is a common understanding of the IMS as the set of rules governing the policies nations adopt in the course of carrying out their international economic transactions. Second, there is common agreement on the central issues under study: monetary order within the IMS is the result of an adequate provision of liquidity, the establishment of stable exchange rates, and the smooth operation of an adjustment mechanism working through appropriate levels of capital mobility.

© Cambridge University Press www.cambridge.org