A REVALUATION OF A DIALOGUE

A REVALUATION OF A DIALOGUE: A RATIONAL – CONSTRUCTIVIST SYNTHESIS APPROACH TO INTERNATIONAL MONETARY AFFAIRS

BY

STEFAN A. SKOCYLAS, B.A., B.Sc.

A Thesis

Submitted to the School of Graduate Studies

in Partial Fulfillment of the Requirements

for the Degree

Master of Arts

McMaster University

MASTER OF ART (2006) McMaster University
(Political Science) Hamilton, Ontario

TITLE:

AUTHOR: Stefan Andrew Skocylas, B.A., B,Sc. (Simon Fraser University)

SUPERVISOR: Professor Tony Porter

NUMBER OF PAGES: vi, 119

ABSTRACT

The primary goal of this thesis is to evaluate the possibility of a rational – constructivist synthesis approach to international political economy (IPE) through a comparative case study approach. Following the approach suggested by Hasenclever, Rittberger and Mayer (1997, 2000) for constructing a synthesis approach; this thesis develops a framework and testable hypotheses specific to international macroeconomic coordination. Utilizing a comparative framework between two periods of global macroeconomic imbalances (1982 – 1985 and 2003 – 2006) this thesis compares and contrasts three traditional approaches to IPE, interest-based rationalism, power-based rationalism and constructivism to the rational-constructivists synthesis approach. It is found that many of the anomalies generated by the three traditional approaches to IPE are answered by the rational-constructivist approach, thus arguing for the further development of this approach.

ACKNOWLEDGEMENTS

I would first like to thank my supportive committee members for both their encouragement but also for their constructive suggestions. This thesis would not have been possible without the supportive advice and guidance of my supervisor, Tony Porter. I would also like to specially thank the advice of Bill Scarth, for his advice and guidance in covering the economic literature found within this thesis. I would also like to thank my other committee members, Robert O'Brien and William Coleman, for their constructive dialogue and advice. Most importantly, I would like to thank my family for their encouragement and support in conducting my graduate work, as without it, the completion of this project would have been difficult. Finally, to Jessica, thank you for your support and feedback.

CONTENTS

ILLUSTRATIONS

> "The international monetary system is the glue that binds national economies together. Its role is to lend order and stability to foreign exchange markets, to encourage the elimination of balance-of-payments problems, and to provide access to international credits in the event of disruptive shocks. Nations find it difficult to efficiently exploit the gains from trade and foreign lending in the absence of an adequately functioning international monetary mechanism. Whether the mechanism is functioning poorly or well, it is impossible to understand the operation of the international economy without also understanding its monetary system" (Eichengreen 1996, 1).

Introduction

If one were to follow the advice that Barry Eichengreen's gives in the above statement, one would notice that the international monetary system entered the 21st century in a particularly fragile state. This fragility has emerged due to divergent and contradictory national macroeconomic policies that have led to the creation of large bilateral macroeconomic imbalances. Such an environment is not without historical precedent as numerous times throughout history such imbalances have emerged. Unfortunately, during many of these times such imbalances were punctuated by financial crises and trade protectionism. The situation that has emerged since 2003 raises the possibility that such an outcome could occur again despite the lessons and costs that were endured during previous periods of international monetary instability. Incentives for the primary protagonists to employ a cooperative strategy to resolve their bilateral macroeconomic imbalances has been fraught with conflicting domestic distributional conflicts leading to an escalation of antagonistic signaling and foreign policy choices that could lead to a protracted trade conflict.

In contrast to previous periods of global monetary instability, the current period is being examined and hypothesized in real time leading to the emergence of an extraordinary literature through new mediums of communication amongst academics, bureaucrats and private market participants. This literature has formed through blogs, working papers and conferences amongst participants in this dialogue that was made possible because of the revolution that has occurred in information technology and the internet. Only recently has this dialogue emerged amongst the traditional channels of academic communication, articulating only the top of this real but informal literature leading to the possibility of a change in how academics communicate and generate knowledge.

Unfortunately, this literature has been a relatively closed affair amongst economists, such that these economists have engaged in ad hoc political analysis to explain the apparent discrepancies that exist between their own preferred framework and the empirical data that has been generated by the global macroeconomic imbalances. This literature however has generated many more questions and puzzles then it has answers. As such, this thesis in part represents a tentative response from the international political economy (IPE) tradition on both the dialogue that has emerged but also presents alternative conceptions of the global macroeconomic imbalances that emerged between 2003 and 2006.

This thesis however argues for a movement beyond both the traditional approaches to IPE but also the dialogues that have emerged in the literature between these traditional approaches to IPE that have dominated theory building within the literature. A particularly tense dialogue has emerged between proponents of the logic of appropriateness and consequentiality, such that some scholars have argued for a synthesis approach to integrate the insights that both approaches generate. Unfortunately, these calls have been limited to arguing over the potential of such an approach with limited movement towards the development of such an approach. An exception to this trend has been found in the work of Hasenclever, Rittberger and Mayer who have argued that such an approach is both possible but also potentially profitable in terms of explanatory power that such an approach would have (1997, 2000). Utilization of a logical sequencing of the two contrasting forms of logic utilized by rationalists and constructivists allows Hasenclever et al. to form a synthesis approach to international regimes.

Taking this as approach as a base, this thesis extends this logic into working hypotheses that are tested against hypotheses generated by traditional approaches to IPE. As such, this thesis represents an attempt to move beyond the dialogue that has hampered such an approach but also an attempt to test the applicability of such an approach to empirical examples, specifically international monetary affairs.

The first chapter of this thesis reviews the traditional approaches to international political economy utilizing a three-part typology: power-based rationalism, interest-based rationalism and constructivism, and the empirical evidence utilized to support these approaches from within international monetary affairs. The second chapter introduces the rational-constructivist synthesis approach that integrates rationalist and constructivist methodologies through a logical sequence. The third and the fourth chapters present a stylized narrative of global macroeconomic imbalances that emerged between 1982 to 1985 and 2003 to 2006 respectively. The final concluding chapter compares the two two-periods and evaluates the insights and predictions generated by each of the four approaches, with particular focus on the unique insights generated by the rational-constructivist synthesis.

Where It All Begins: A Brief Literature Review

Introduction

Do states need to manage the international economy? If so, what is to be managed and who is to do the managing? Such are some of the questions that define international monetary affairs and the literature that has developed to explain such phenomena. One of the most prominent focuses within the literature of the International Monetary System (IMS) has been on stability and its opposite, financial crises. Such a focus is understandable, as stability within the IMS has been argued to be a key component to an open, liberal economic global economy, while crises pose a threat to an open, liberal economy (See Lake 1993, 462-3). A retreat from an open, liberal economic order is seen as leading to a reduction in aggregate welfare for all states and therefore avoiding such a situation has become a clear concern for both international political economists and liberal economists. The recent Asian Financial Crisis has created a significant volume of research and literature on the nature of financial crisis and the types of monetary and financial policies that can help avoid such situations (See Kenen 2001; Sharma 2003; Eichengreen and Bordo 2002). While such literature has opened new venues to new systematic understandings of the IMS, much of this literature has assumed the continuation of the current liberal IMS by focusing on steps that could be taken to strengthen it, notably on the role of transparency and credibility (See Soederberger 2001).

This literature has generally failed however to specify what role monetary coordination[1] might play in reducing dramatic imbalances from emerging and the types of adjustment options that states face in dealing with such imbalances[2] either autonomously or through cooperative action. The exception to this void has been the literature on the neo-Bretton Woods System forwarded by Dooley, Folkerts-Landau and Garber (DFG 2003, 2004a, b; See Roubini and Setser 2004 and Goldstein and Lardy 2005 for a critique of the neo-Bretton Woods System hypothesis). This literature has been dominated by economists as noted earlier in the introduction, but the role for coordination within this framework has been limited to functional descriptions of actions taken by states with no systematic theory of how or why such coordination is taking place (See Eichengreen 2004). Taking this starting point, this chapter will provide an overview of the international political economy (IPE) literature on coordination and cooperation within the IMS by dividing this literature into three general approaches or hypothesis to interstate interaction and the types of predictions such hypothesis generate regarding coordination within the IMS.

Organizing Ones Self: A Typology

Attempting to categorize the wide variety of approaches to cooperation and coordination within international financial and monetary affairs is unlikely to satisfy all concerned and likely to contain omissions and hold biases. As such, this typology takes a

[1] International monetary coordination is defined within this thesis as the reciprocal actions taken by state agents in response to bilateral and multilateral macroeconomic conditions.

[2] Imbalances are defined within thesis as macroeconomic conditions, internationally and domestic, that states interpret as macroeconomic conditions that are not sustainable.

different tack, by classifying theoretical approaches according to how the situational environment influences agent behavior and interaction. This situational environment is one of asymmetrical interdependence, as market processes bind together domestic economies through legal or illegal market economy and monetary transactions. Interdependence is assumed to create some level of interaction between states, formally and/or informally, that produces at least a thin regime[3] that governs such interstate interaction within the issue area of international monetary affairs.

Within this typology, states are considered the main agent due to the particular role that they play within the IMS as primary suppliers of currency and dominant legitimate political actor (See Cohen 1998, Helleiner 1994, or Strange 1998 for examples of this hypothesis). This typology focuses on the question of adjustment over the question of regime creation or maintenance, though regime failure is inherently tied to the failure of adjustment mechanisms to distribute international imbalances within the IMS.

The three approaches utilized within this typology are Power-based rationalism, Interest-based rationalism and Constructivism. The first two approaches typify what Hasenclever et al. (1997, 136) call the *homo economicus* approach due to the rational epistemology employed and the third approach represents *homo sapiens* approach due to the sociological basis that this approach employs. While these three hypothesis privilege

[3] Definitions of what a regime is has been extensively debated and divisive with little consensus generated other then an understanding that regimes do exist but their form is heterogeneous (See Hasenclever et al. 1997, Chapter 2). Using the understanding that all interactions requires some form of understanding or translation, the use of the term regimes within this typology is based on Krasner's definition (1983) but the acceptance of convergence of policies is questioned as this implies that contestation of a regime does not exist or that if contestation exists regimes do not exist and anarchy reins. Rather the concept of regimes used here implies convergent norms and beliefs but expectations may not due to differing interests that states possess.

a static view of international monetary system due to the focus on stability, which inherently favors historical power relations, it should be noted that such a static perspective allows for a basis of understanding of when dynamic change may be present in the IMS due to instability or conditions when states economies change in a stable manner.

Power-based Rationalism

Arguably, explaining international monetary affairs through the hypothesis of competitive interstate interaction has been both the traditional way of doing so but also the most dominant way of doing so. Recent examples of this approach are highlighted by the works of Cohen (1998, 2004) and Helleiner (1994). A most succinct summarization of the competitive dynamics that this approach embodies is given by Kirshner, who argues that,

> Money is Power… one way in which money is just like almost everything else is that those who can influence it use that power to advance their interests. Those who can hold, lend, and move money do so for a purpose, typically a self-interested purpose… This is even more apparent internationally, where it is more commonly understood that states pursue their narrow interests. States routinely try and shape the nature and extent of their interaction with the international monetary system, either to enhance domestic policy autonomy, advance foreign policy goals, or accommodate concerns for national security. (Kirshner 2003, 646)

Traditionally this grouping would be labeled as the realist school or approach within IPE. This label however belies the immense diversity of power-based approaches to international monetary affairs that have been developed, including the work of Jennifer Sterling-Folker or Stephen Kirshner, which extends the realist approach beyond classical realism and neorealism identified by Brooks (See Brooks 1997). As such, this approach focuses the types of hypothesis that lead to competitive dynamics between states.

This approach is based around the assumptions that the international system is composed of instrumentally rational, unitary states which interact in an anarchical environment (Mearsheimer 1995, 9-10). Gilpin argues that the unitary state hypothesis finds support for the notion that "human beings confront one another ultimately as members of groups, not as isolated individuals" (Gilpin 1984, 290). The anarchic environment is viewed as a systematic structural constraint that states face when interacting within the international system, as states both constituent parts of the international system but are constrained in their ability to act by the presence of other states within the international system (Powell 1994, 317). States are therefore primarily concerned with relative gains and the distributional allocation of benefits that cooperation creates (Grieco 1988).

This leads Hasenclever et al. to term states within this approach as 'defensive positionalists' due to the hypothesis that states are not only concerned about the immediate distribution of gains, such that the long-term implication of the asymmetrical distribution of those gains that could lead to a deterioration of their relative position (1997, 119-20). Following from a distinct political economy perspective, Gilpin's asserts, "the process of uneven growth stimulates political conflict because it undermines the international status quo. Shifts in the location of economic activities change the distribution of wealth and power among the states in the system. This distribution of power and its effects on the standing and welfare of individual states accentuate the conflict between rising and decline states" (1987, 54).

One hypothesis that the power-based rationalist approach generates is that international institutions should reflect the distribution of power amongst states and that the benefits provided by international institutions primarily benefit states that are more powerful (Mearsheimer 1995, 13). This hypothesis has been traditionally dominated by the Hegemonic Stability Theory (HST) within international monetary and financial relations, which originated from the works of Charles Kindleberger (1971). Kindleberger viewed the instability of the Interwar Period as a result of lack of a single state that was able to provide stability within the IMS which he viewed as a collective or public good (ibid, 11). As such, an open, liberal world economy required the existence of a hegemonic power, as it is assumed that a liberal economic system cannot be self-sustaining (Gilpin 1987, 74). This view was inspired by the works of Olson (1965) who argued that collective goods provision was inversely related to the number of participants involved in the issue area. As such, large groups are unlikely to provide an optimal level of the collective good, whereas a single agent is more likely able to provide sufficient provision given that such an agent is able and willing to do so (Krasner 1971, 1991; Gilpin 1987, 74). Kindleberger's hypothesis represents the strong form of HST when he states, "that for the world economy to be stabilized there had to be a stabilizer, one stabilizer" (1973, 305).

Another approach that has emerged from HST has been a so-called leadership theory, whereby it is argued that leadership is crucial for a formation and maintenance of regimes, particularly leadership by the hegemonic state. This simple extension of the HST approach has been extended by Gallarotti, whereby he focuses on secondary states providing such leadership for self-interested reasons. Gallarotti introduces the idea that non-hegemonic states can act in a way that is consistent with the attributes generally applied to hegemonic states within this issue area. Specifically, Gallarotti introduces the idea that the Bank of France, not the Bank of England, was the effective lender-of-last resort through preventative lending to states that were facing balance of payment difficulties (2005). Such balance-of-payment lending provided liquidity to the gold system, when the Bank of England was unable to do so because of its relatively small gold holdings compared to those held by the Bank of France. Gallarotti approach however differs from the traditional application of HST because he argues that France did not want to surpass Britain but was comfortable providing leadership to maintain stability within the IMS (ibid 628). British hegemony within the IMS was protected by the transactional network of the British Pound, and the role that interest rate setting by the Bank of England had coordinating macroeconomic policy in a counter-cyclical fashion (ibid 631).

The role of transactional networks within international monetary affairs appears to be inherently competitive, as it is argued that states would all prefer to have currencies with large transactional networks due to the benefits that such networks derive according to Cohen (1998). Such an interpretation however breaks away from traditional conceptions within this approach through the introduction of the concept the world's currency is a forum of competition whereby states are competing for use of their currencies within the world's currencies markets, thus states that have currencies with largest transactional networks gain increasing benefits from such networks (ibid 113-15). Cohen presents a currency pyramid that introduces a hierarchy to currencies, where top currencies dominate smaller currencies, thus states with such currencies are able to shape the IMS in a way that is most beneficial for themselves, without necessarily formal cooperation by other states, as market agents help drive this process. Within this process, it is not necessarily clear however what role international organizations or multilateral cooperation would have within Cohen's 'medieval' IMS regime, where states remain the primary actor in some affairs such as the supply of money but not in others, such as in the demand of money which has become dominated by market participants.

The conception that states face structural constraints in the international system due to changing international economic phenomena is supported by David Andrews' Capital Mobility Hypothesis (1994) and Michael Webb's third-image approach to capital mobility (1991). According to Webb,

> The distribution of power alone cannot explain patterns of macroeconomic policy coordination, an area central to the concerns of governments; we also need to look at the characteristics of the international economy that persist over time and systematically influence how governments relate to each other....
>
> All...the advanced capitalist countries... respond in a similar, though not identical, fashion to changes in international capital mobility. According to Kenneth Waltz (1979), if different states act similarly in response to similar phenomena, we are justified in thinking that there may be some kind of structural effect at work (Webb 1991, 312 in Andrews 1994, 196-7)

This structural effect has been coined the Capital Mobility Hypothesis, which Andrews indicates, constrains what actions states may pursue within fiscal and monetary policy but such constraints are not symmetrically distributed. According to Andrews, these structural constraints generate "[n]ew competitive pressures between states [that] have unleashed, resulting in new patterns of adjustment and adaptation" (Andrews 1997, 199). Power relations are thus likely to play a dominant explanatory position in explaining why certain states are able to achieve their monetary and fiscal objectives, while other states are unable to (ibid 213). States are therefore likely to act competitively in their interactions, as states that are more powerful are unlikely to cooperate as they can unilaterally achieve their goals through these new structural elements of the IMS.

This hypothesis that structural constraints are independent of states has been disputed by Helleiner (1994) and Sterling-Folker (2004) who argue that states interact competitively to pursue their own interests and this explains such apparent 'structural' elements. Helleiner argues that financial liberalization was pursued actively through both action and inaction (this description follows Susan Strange's opinion (1986)) by certain states, specifically the US and the UK. As such, the structural constraint seen by Andrews and Willet (1997) and Webb (1991) is in fact an artificial one that Helleiner believes can removed or manipulated should key states choose to do so. Sterling-Folker taking a different perspective, finds that states attempting to maintain their own domestic autonomy and structure the international system in a way that furthers both their own goals, but also increases their autonomy of action (2002). As states interact competitively to maintain their autonomy but also pursue their own goals, cooperative behavior is likely to be limited to when interests converge, but the case of EU highlights that monetary integration can be undertaken to increase autonomy vis-à-vis other states.

Interest-based Rationalism

This grouping finds its historical roots in two different sources that attempt to focus on how states should best manage their interdependence and avoid suboptimal outcomes. The first source is Richard Cooper's seminal 1968 work, *The Economics of Interdependence,* in which Cooper argues that technological and economic changes were increasing the interdependence that states faced. Such changes according to Richard Cooper created an international environment where coordination amongst states of macroeconomic policies was the best alternative to confronting the challenge that increased interdependence placed upon states (1972).[4] This conclusion can trace its lineage to liberal economics that sees international coordination of macroeconomic policies as a way of avoiding sub-optimal economic outcomes (Keohane 1984, 8). Such a focus on the aggregate welfare is highlighted by the role that efficiency plays within how liberal economists tackle problems that territoriality places on the global economy. Problems of interdependence therefore are one of a coordination problem that collective good provision creates that is to be tackled, rather then necessarily a distributional conflict as assumed by realists. Liberal IPE theorists have thus often tackled the question of how states can manage their interactions to solve common problems using regimes, such as the such as the formation of the Bretton Woods Institutions after World War II (Keohane and Nye 1979).[5]

---

[4] Kindleberger in fact supports Cooper's position by either stating that economic stability can be provided through agreed upon rules binding upon all or continuous policy coordination among the reigning economic powers, aside from a single hegemon (1981, 251-2).

[5] Within this thesis, formal and informal institutions will be treated similarly unless otherwise stated because of the role that such institutions similarly have on shaping the types of interaction that occurs amongst states, particularly in terms of signaling and information sharing.

Such a view finds its sources in the works of Robert Keohane (1984, 1989), who argued that despite arguments to the contrary, international institutions and regimes do in fact matter in their own right. Keohane's approach is based on the observation that key international economic organizations continued to exist and function despite the decline of American hegemony, something that realist theory could not adequately explain, particularly HST (1984, 9-10).[6] Rather, Keohane argues that hegemony is neither necessary nor a sufficient condition for cooperation within the international system (ibid, Chapter 3), leading to the conclusion that a hegemon actually requires asymmetrical cooperation, or at least deference, of other states to enforce its choice of regimes (ibid, 46). Regimes help states to mitigate the effects of international anarchy by aiding in decentralized enforcement of agreements (Milner 1992, 475). "International regimes can correct institutional defects in world politics along any these three dimensions (liability, information, transactions costs), they may becomes efficient devices for the achievement of state purposes" (Keohane 1989, 111). This focus on state interests is a necessary component of a cooperative approach, as it defines the type of rational behavior that we expect states to exhibit in interstate interactions.

Liberals argue that states are rational egoists whom attempt to maximize their own utility function independently of the utility function of other states (Hasenclever et al. 1997, 115). This position clashes with power-based rationalism that is based on instrumental rationalism that focuses on the distributional issues, rather then rational egoism that focuses on maximization of independent utility functions of states. These

[6] It should be noted however that Keohane's position on the relative decline of American hegemony and its consequences has created a veritable cottage industry on the topic. For example, see Strange 1987.

differing focuses are idealized types that are unlikely to exist independently, as Keohane notes frequently, such that distributional issues are likely to exists but can be dealt with through the use of side-payments within his neoliberal framework (1989, 113). This situation leads Milner (1992) to argue that it is difficult to theoretically ground absolute gains and reciprocity, as they are theoretically similar to the relative gains argument, but literature on the differentiation is unfortunately limited.

The Prisoner's Dilemma game is the basis of Keohane's neoliberal institutionalism and highlights the methodology employed by rational choice theorists in explaining how states can achieve cooperative outcomes through the use of institutions to overcome the difficulties that the international system creates for such cooperation. One conclusion that this literature develops is that while a single iteration of the PD game produces a non-cooperative outcome due to defection of both players, multiple iterations of the PD produces outcomes that are cooperative in nature. It is argued that defection becomes less desirable in terms of legitimacy costs and loss of long-term utility maximization as other states are less likely to cooperate if you are an unreliable partner (See also Milner 1992, 470-1, 475). Lisa Martin has extended this rational choice methodology to multilateral cooperation under four different situations: collaboration, coordination, suasion, and assurance (1992). Each of these situations creates unique problems that regimes and institutions must overcome for states to successful create agreements to further their own interests.[7] Martin argues that the US establishment of the

---

[7] For more recent work on rational choice and multilateralism, see Autumn 2001 International Organization 55(4)

postwar monetary order was a situation of a coordination problem (1992, 777), however in a multipolar world, Martin argues that multilateralism becomes less palatable for key states (ibid 789).

A further hypothesis based on rational choice but finding its initial development being spurred by HST, Duncan Snidal argues that nothing within public goods theory described by Olson requires that a single hegemon be present because a k-group of states are able to jointly provide a collective good such as international monetary stability (Snidal 1985, 601). Snidal's hypothesizes that a k-group of states is able to substitute the unilateral action of a single hegemonic state to jointly provide a collective good (1985, 598-612). This hypothesis requires that the individual states of the k-group receive benefits of that are greater then their individual expenditures and that states interact strategically, such that defection of one state of the k-group results in the collapse of the coalition, removing any of the gains. Snidal's weak form of HST can be viewed of in either of two ways, cooperative (as Snidal appears to argue) or coercively (as Gruber 2000 argues). However, the fact that states are interacting in a cooperative manner based on their own self-interest places this hypothesis within interest-based rationalism and is a hypothesis that appears to have some empirical support. This empirical support emerges in the form of the role that the G3 and G7 have played in orchestrating the management of the IMS (Snidal 1985, 604-6), or the role that this group has had in focusing GATT and WTO prenegotiations (See Martin 1992).

A further way that regimes and institutions can help states cooperate is through the provision of information about both the issue-area via epistemic communities and about states themselves (Hasenclever et al. 1997, 34). Keohane (1989) argues that uncertainty is a variable that diminishes the chance that states will cooperate, but Young (1989) argues that uncertainty allows for integrative bargaining, such that states work out together that their utility function should look like, as states are often do not know all possible strategies that might be available to them. Either way, the role that transaction costs that states face are likely to be a function of the uncertainty that they face, as greater informational costs make cooperation less likely to occur all else equal. It is hypothesized that epistemic communities can reduce the transaction costs that states face by providing information and allowing states to learn from their expertise (See Haas 1990). Examples of such behavior have been typically limited to environmental issue areas (See Adler and Haas, 1992).

The interest-based rationalist approach has been framed around the concept of institutions and showing that they matter and how they work, as shown above, but unfortunately it is difficult to say what institutions will matter or why prior to any event, as each event is idiosyncratic. However, the primary testable hypothesis that this approach generates is that cooperation is more likely to occur if relations are institutionalized, such that a convergence of expectations can occur. Within this respect, stability is likely to occur if monetary relations are institutionalized, allowing domestic monetary coordination to occur. Evidence for this kind of dynamic has been exhibited by both the Group of Three and the Group of Seven (Putnam and Baynes 1993). Further, the European Monetary Union provides an interesting example of where states are able to cooperate via institutions, the European Union, in furthering their own interests (See

McNamara 1999), which appears liberal in characteristic within the EMU but realist outside of the EMU.

Constructivism

The constructivist research project is an attempt to reconceptualize the role and nature of the state and the international system, where both the state and the international system are socially constructed. The existence of states and their interests are therefore no longer given, and the system in which they are embedded must be investigated rather then assumed as in the previous two approaches. The international system is therefore viewed as a social construction based on norms, beliefs and ideas that are intersubjectively held, or rather such norms, beliefs and ideas only exist through their collective use in interactions between agents (Adler 1997, 325). Interaction thus creates reality and object and subject can no longer be appropriately separated, as the subject creates the object, rather then the objecting existing priori to the subject. Adler discussing Searle's description of this type of situation states,

> Thus, God could not see money or private property. Instead he would see 'us treating certain objects' as money and private property. In other words, Searle makes the obvious yet usually unrecognized point that 'there are portions of the real world, objective facts in the world, that are only facts by human agreement' (Searle, 1995: 1, 12 in Adler 1997, 328).

This approach also represents a point of departure from the two preceding approaches, as this approach does not make claims regarding the nature of social life and social change (Finnemore and Sikkink 2001, 393).

In comparison to the rational choice framework that utilizes the logic of consequentiality which argues that agents will attempt to pursue the best possible outcome, constructivism utilizes the logic of appropriateness, which argues that agents act in a way that they feel is appropriate for a given situation (March and Olson 1989: 21-6, 160-2 in Hasenclever et al. 1997, 155). Further, rationalism is based on an individualist ontology versus the collective or holism ontology that constructivism is based upon (Muller 2004, 396). Ideas are therefore constitutive of the agents (such as states), rather then intervening variables that (may) help explain individual decision making processes in the material world (Adler 1997, 324). This has led Wendt to state that anarchy is what states make of it, but also helps to specify the types of policies that states will pursue, as the cognitive frameworks that they view world with, they will attempt to reproduce in the world around them (Wendt 1992). Therefore, the chances of cooperation or coordination must be viewed as outcomes of the types of policy choices that states believe that they have depending on the cognitive frameworks that they are utilizing to interpret the world around them.

The role of interpretation becomes intertwined in the analysis of interstate coordination and IMS stability according to this approach. The role of interpretation is the key to intersubjectivity, as any social institution or construction can only be understood through the variety of interpretations that interacting agents have regarding said construction. If such interpretations differ substantially, conflict is likely to emerge as no social collective fact emerges which all agents can agree to as being correct and thus some form of interpretation convergence is required if further interaction is to continue without conflict. The role of epistemic communities providing such convergent interpretations by providing new knowledge or understandings that help that various parties create a focal point around which cooperation can occur (P. Hass notes that policy coordination between states can be helped by epistemic communities (1992; see also Adler 1997, 344)).

Further, epistemic communities can be both static by continuing to define what is possible but can also be dynamic when new normative frameworks are developed (Adler 1997, 344). Such shifts in normative frameworks have been explained by Finnemore and Sikkink who argue that norms, such as what is appropriate monetary policy goes through a life cycle (1998, 888). The role of epistemic communities under a constructivist approach differs from that of the liberal or cooperative-dynamic approach in that the epistemic community can actually alter the preferences or interests held by states during interstate interaction, rather then simply informing states of the strategies or causal relations that might exist. Widmaier highlights this type of shift in normative frameworks by economists when focusing on the change from the Keynesian economic framework to the monetarist framework when explaining the shift in exchange rate system deployed by developed states, such as the US (2003). John Ikenberry (1992) examines the American and British economists that helped the formation of the Bretton Woods System through an epistemic community conceptualization. It is argued that this epistemic community helped alter both the preferences but also the strategies that the US and Britain employed in the reconstruction of the IMS after World War II. Kathleen McNamara argues that European monetary integration was result of policy convergence around neoliberal monetary prescriptions (1999). This result highlights the role that ideational constructions play within monetary affairs and the role that convergence of ideational constructions can play in allowing states to cooperate.

Two authors have applied a constructivist framework to current topics within the IMS, and this analysis generates some unique insights into what had traditionally defined the type of economic behavior states could engage in. Wesley Widmaier applying a constructivist approach to the 'Unholy Trinity' generates the hypothesis that this apparent accounting identity, widely accepted within the liberal economic literature, is in fact a normative construction based on a specific worldview (2004). Cooperation or conflict is thus a function of how states view their interests in terms of this ideational construction, with conflict more likely when this ideational construction is being utilized. The hypothesis generated by Widmaier that monetary economics is an ideational construction is supported by Stephen Kirshner's assertion that monetary economics is indeterminate in terms of distributional issues and the role that politics plays in mediating interstate conflict within the monetary issue area (Kirshner 2003).[8] Rather, Kirshner argues that conflict or cooperation will often be determined along material and knowledge resource lines, such that states with more resources are likely to be able to set the agenda and tone that any interstate interaction within this issue area is likely to take.

[8] Kirshner's (2003) assertion is however bounded by the role that monetary economics has in defining the scope of possible outcomes that can emerge in monetary affairs.

A RATIONAL-SYNTHESIS -CONSTRUCTIVIST APPROACH

A MIDDLE GROUND APPROACH?

A tense relationship has emerged between rationalist and other "constructivist" or "reflexivist" scholars, such that dialogue between the two approaches has been strained and difficult to maintain due to divergent metatheoretical constructions both approaches utilize while interpreting the world. This difference is highlighted by the contrasting types of questions the two approaches focus upon, as the difference in the questions asked are as different as the approaches themselves and the types of scholars that utilize them. The difference in the types of questions asked however represents a unique opportunity, as new questions could be asked from an integrated approach that combines questions that had previously been treated in isolation.

The possibility has raised some interest amongst various scholars in an integrated or middle ground approach (See Katzenstein et al 1997; Checkel 1997; Wendt and Fearon 2002) but there has also been a vocal rejection of this possibility (See Kratochwil an Ruggie 1986, Smith 1996a, 13). Recent literature in both international relations and comparative studies has however opened up possible venues for such a project. Examples of this burgeoning literature is found in Jupille et al (2003), Zurn and Checkel (2005), Fearon and Wendt (2002), and Hasenclever et al. (1998, 2000), who have all supported a middle ground approach to exploring IR in which the dichotomous positioning of the two approaches is avoided and constructive dialogue between the two approaches is sought. Possibilities of this type of an approach have been pursued through constructive testing of rational and constructivist approaches to explain "and/both" logic (Checkel 2005) to explicit staging of rational and constructivist elements within an overall framework (Hasenclever et al. 2000). This thesis locates its theoretical approach within this middle ground community, but takes aim at the separation of logic typologies that this middle ground literature has attempted to constitute (See Muller 2004; Wendt and Fearon 2002).

The Recipe

The concept of combining rational and constructivist frameworks together finds its home in the work of Hasenclever, Mayer and Rittberger (1997, 2000). In their work that covers the diverse regimes literature, Hasenclever et al. argue that each individual theory of international regimes can be considered a hypothesis of institutionalized social interaction amongst agents if one considers society to be a historically unique institution, whereby each theory creates both insights but also blind spots that limit the theories' overall capabilities (2000, 5-6). Such blind spots have been the focus of much of the dialogue between competing theoretical approaches, as scholars attempt to persuade one another that their own approach has fewer such deficiencies than other approaches (See Mearscheimer 1994/5 for an example of such a discourse from a neorealist perspective).

Hasenclever et al. further argue that none of the traditional regime theories are able to subsume other approaches to provide a grand approach to regimes. Rather they argue that each of the theories offers a unique perspective on regimes. This is most vividly illustrated by the proposition that the two rationalist theories (interest-based and power-based) represent special cases of the same theory and their artificial separation simply unnecessarily truncates the predictive and explanatory of the rationalist theories individually (2000, 12). A rational synthesis therefore offers the possibility of defining when states interact in absolute vs. relative sum strategic behavior. Defining such variables is necessary as it helps to define the boundaries of the logic of consequentiality (by explaining a portion of both agency and structure that help to define interactions amongst agents).

Such boundaries emerge around the methodological choice and necessity of making the assumption that preferences are exogenous to interactions and stable over time. Such a position has been criticized by both constructivists and post-modernists, as theorists in these traditions feel that the interesting stuff is found within the ideational and how preferences are created and manipulated. This assumption held by rationalists has been the defining boundary in the dialogue between rationalist and reflexivist approaches to IR.

Reflexivists have argued that preferences can be neither assumed nor simply functions of utility curves of state actors, rather preferences are the result of social and ideational constructions that define both how agents interpret their own preferences but also the types of interaction and behavioral characteristics that they are predisposed towards. Preferences for reflexivists are therefore endogenous to the interaction as agents are believed to follow the logic of appropriateness which creates a typology of rules that agents both follow and perform. Yet this typology appears to be unnecessarily static, as this typology creates a logical problem: If agents are to be rule-following entities, then such rules cannot change, or at least not very quickly, because if they did, agents would not know what rules to follow, leading to anarchy. If the interaction is therefore to occur, then everyone must know the same rules, thus leading to a static social structure and removing the possibility of agency or at least making agency very difficult (See Checkel 1998).

A possible way of bridging this apparent divide between the rationalist and cognitive approaches is by refocusing attention on the assumption that rationalists make regarding preferences and the role of ideas. Rather then making it a boundary between the two approaches, Hasenclever et al. argue that a rational-cognitive synthesis is possible through the logical sequencing of the two approaches utilizing this assumption as the delineation point (2000, 26).

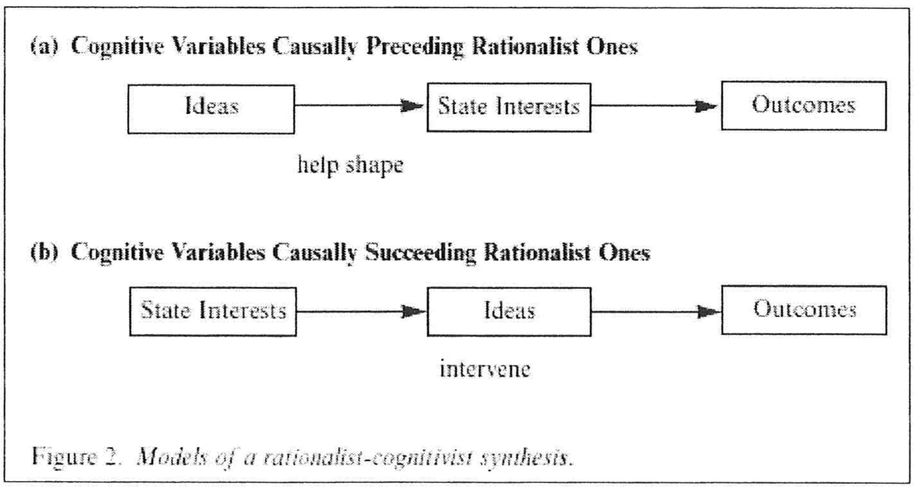

Figure 2.1: Models of a rational-constructivist synthesis. Hasenclever et al. (2000)

Using the above causal chains, Hasenclever et al. argue that depending on the location of ideas within the causal linkage, ideas help to either explain change in interests held by actors or act as focal points for cooperation (2000, 27, 29). While outlining these causal chains, Hasenclever et al. focus predominantly on the second causal chain as it appears to have the most supporting literature but it also appears to fit within existing neo-liberal literature that have incorporated simple learning into their approach, as illustrated by the work by Goldstein and Keohane (1993). This thesis on the other hand will utilize the alternative approach, focusing on first causal linkage whereby ideas help shape state interests, as it appears to offer some advantages when applied to political economy type questions but also avoids a potential logical inconsistency.

When visualizing the causal logic that a hybrid approach might take, one must be cognizant of how such causal logic can be turned into a falsifiable hypothesis that generates alternative conclusions to that of other theories (See Zurn and Checkel 2005). With this in mind, the second causal linkage described by Hasenclever et al. falls into a logical inconsistency. This logic inconsistency is located in the utilization of ideas as intervening variables that create focal points for cooperative interactions between states to relieve the problem of multi-Pareto optimal or improving equilibriums (Hasenclever et al. 2000, 28). However, why do such ideas not inform the interest of states prior to interaction, as it would seem that states acting rationally would see the potential adjustment of their interests through interaction assuming this casual sequence? It appears that Hasenclever et al. note this problem when they state that cognitive factors might influence the definition of state interests (29), but such a proposition undermines the purpose of logically sequencing the two methodologies as ideas are now prior to interaction as well therefore removing the sequencing required for logic of consequentiality.

Second, the second causal sequence falls prey to towards a bias of cooperative behavior that prior functionalist explanations of state interaction had generated (Keohane 1975, 363). This bias emerges because the cognitivist element assumes a certain degree of cooperative interaction that allows states to utilize ideas as focal points to align interests and preferences. The sequencing of ideas in the second causal chain also raises the question of why ideas only intervene in helping states structure their interests, rather then creating those interests. This raises the further question of whether the introduction of ideas at this stage fundamentally alters this middle ground approach from the interest-based rationalist approach, particularly the neoliberal institutionalist approach.

The first causal sequence in comparison offers some attractive features over either the two rationalist and constructivist approaches. The first major attraction is that this middle ground approach helps delineate both the types of games states may play when they are interacting but also how states construct those games in terms of socialization and practice. This implies that the issue area is not the sole determinant of the selection of game that states play as hypothesized by rational choice scholarship (Hasenclever et al. 1997, 58 ft 29), but rather is a function of both the issue area *and* how states interpret these issue areas through their cognitive frameworks. Secondly, through applying a rational choice methodology to a constructivist approach, the first causal sequence is potentially not as inherently static nor as anarchic as some constructivist approaches have been criticized for being (Wiener 2003, 254). The approach that will be delineated below does however show some similarity to that of the approach advocated for by weak cognitivists. Weak cognitivists argues that epistemic communities can influence the interests of states prior to negotiations (Adler and Haas 1992, 369) which is similar to the proposed rational-constructivist approach in respect to the synthesis' first logical part but the two approaches are significantly different in terms of the second logical part of the synthesis due to competing methodological assumptions.

The Framework

The following proposed framework is based on the logical sequencing of constructivism and rationalism, in which cognitive structures and material resources inform the interests and preferences that agents have. Such interests and preferences are then transmitted – transformed into action plans along the lines that have been hypothesized by rational choice theorists. This approach is inspired by the proposed logical sequencing of cognitive and rationalist elements introduced earlier by Hasenclever et al., but moves beyond this minimalist proposal.

The first element in the logical sequence being employed is a constructivist element that delineates the social and ideational constructions that agents inhabit and embody. This element requires the assumption that agents have both prior knowledge and material resources, which implies that they are path-dependent in the sense that they are following a history of experiences and consequences. This assumption is compatible with both rationalist and constructivist methodologies, and is implied by Hasenclever et al. (2000, 10). This first assumption allows for a development of a narrative about the agent(s) and their environmental surroundings, removing the black box that is often put around such elements but implicitly utilized by theorists, particularly rationalist theorists

(Wendt 1994). This narrative delineates the knowledge and material resources that the agents have, the sub-agents are specified if an agent is an aggregate body, and the environmental surrounding of the agents and the agents' relationship to other agents. However, the task of developing a narrative in terms of the approach being specified here requires the introduction of a problem or challenge that agents face that allows the cognitive frameworks of agents to be utilized.

The introduction of the problem, introduces the second assumption in that agents recognize either that a problem exists or that they acknowledge that others have identified a problem that they have not recognized. The establishment of a problem is necessarily a cognitive reaction by the agent(s) and as such, the typology of logic of appropriateness grounds this stage of the analysis. The logic of appropriateness specifies that agents ask themselves how they should act in a given situation but also what their interests and preferences are in a given situation (March and Olsen 1998). Material resources further structure and limit the possible preferences and interests held by agents and reflect the internal distribution of such resources in aggregate bodies, such as states.

This is most notable with states which are not unitary agents and in which domestic politics can have a significant influence upon a states foreign and domestic policy interests and preferences. The role that domestic politics can have on the formation of a state's foreign policy has been illustrated using both rational based theories, such as the two-level game utilized by Putnam (1988) and Milner (1997), or through the constructivist approach as illustrated by Checkel (1997, 1998). Within the context of the approach being advocated for here, domestic politics helps to establish which domestic players create foreign and domestic policy choices along the institutional arrangement of the government within a state. The logic of appropriateness that is utilized during this stage implies that agents act according to preconceptions of both what is possible but also what is appropriate, thereby generating the preferences and interests that these agents pursue within the institutional environment found both domestically but also internationally.

The second element within the framework is the introduction of the logic of consequentiality, such that actors specify how they will go about obtaining their preferred outcomes based on their interests and preferences that are held constant during this phase of the proposed framework. Any theory based on rational methodology requires an assumption regarding the premises of action that agents will take (See Snidal 2002, 74-5). This assumption is satisfied within the proposed framework by the view that agents are risk averse in terms of their material resources and their relational standing to other agents and act as a unitary agent if they are an aggregate body.[9] Agents calculate the course of action that will maximize both their material resources and their relational position to other agents as a function of their preferences. This step will help to determine whether material or relational concerns will dominate and follows the type of approach utilized by Hasenclever et al.'s proposed rational synthesis approach (2000, 12-15). The approach outlined here however differs significantly in its approach to identifying the situational structure that formats the type of interactions that emerge between agents. Hasenclever et al. follow the approach that is utilized within rational choice literature, in

[9] Agents attempt to minimize their potential loses but also to maximize their potential gains.

which the issue area that states find themselves interacting within will determine and structure the types of games that they will become involved in, such as a Prisoner's Dilemma or Coordination game (ibid, 13). In comparison, this proposal argues that both the issue area and how states interpret said issue area structure the types of games that states will play in there interactions, not just the intrinsic character of the issue area.

The next step reflects the interactions that will occur amongst agents and the outcomes that such interactions generate.[10] This step focuses on the aggregate outcome that emerges when agents interact following their previously determined 'game plans' that outline their preferences and interests and how they intend to achieve these objectives. Borrowing from the constructivist approach, interaction is conceived to occur amongst agents within social institutions that structure the dialogue and signaling that occurs between agents, such that institutions and practices can change if states feel that such changes are warranted in terms of their 'game plans'. The outcome of these interactions has been traditionally defined in terms of a dichotomous choice between conflict and cooperation but such a dichotomy appears to artificial limit the scope of interactions that occurs amongst states. The outcomes that this approach will generate

[10] The artificiality of this stage is recognized in that interaction amongst agents occurs at all periods, as the logic of appropriateness and consequentiality both require that interaction occurs but that analytically they separate periods of interaction such that agents can structure their preferences and preferred outcomes prior to interactions. Thus, even though the socialization mechanism that underlines that logic of appropriateness requires interaction, an artificial analytical step is required to understand how an agent might approach a given situation, while the logic of consequentiality implicitly assumes this step when preferences are delineated.

will follow Keohane's example by delineating three possible outcome types of status quo, cooperation and conflict.[11]

The first of the possible outcomes to be examined is the status quo outcome. As used within this framework, a status quo simply represents a given social and material environment in which states find themselves indifferent to the actions being pursued by other states. Such indifference however does not imply that a status quo environment is harmonious or free of potential conflicts or problems but a situation where agents interpret their own interests as being insufficiently affected as to require a reaction to the actions of other states. This indifference however does not imply that no spillover or linkage effects exist between states. Rather it is assumed that one state's policies may affect the other states due to the interdependence that exists between states, particularly within economic issue areas. A status quo outcome simply implies that such linkages and spillover effects are of such a size as to not warrant a reaction but if such linkages and spillover effects generate sufficiently large costs to warrant a state to act, either a cooperative or conflictual outcome is likely to emerge.

Conflict is marked by divergent interests and interpretations within a given issue area, as states come to interpret the actions of other states as being detrimental to their own interests. Such an outcome is likely to entail a lack of a consensus in how to interpret a given a given issue area or problem amongst agents, combined with divergent and

---

[11] Keohane utilizes a harmony, cooperation and conflict typology but the harmony typology unnecessarily reflects an optimistic outlook towards interstate interaction in which neither cooperation or conflict are occurring. Rather, this thesis utilizes the term status quo to reflect an international environment in which states are indifferent to the actions of other states but such indifference is not a reflection of harmonious policy convergence rather that the costs associated with the actions taken by other states are not large enough to warrant a response.

potential diverse interests and preferences that are not readily accommodated within existing understandings held by states. A conflict can emerge out of divergent and contradictory internal polices or over differing interpretations regarding both the nature of a given problem and various potential solutions available. As states begin to interpret the actions of other states as being detrimental to their own interests, they will engage in reciprocal actions that are designed or intended to alter the position or interests of other states by increasing the costs of non-cooperation. The outcome of conflict is difficult to specify, but following the framework delineated above, conflict is likely to be resolved when either the costs of such conflict emerge to irrational to continue or that states alter their preferences in such a way that either causes a unilateral alteration of policies or allows for a multilateral solution.

As numerous definitions or typologies exist to define what cooperation is, this thesis adopts the one offered by Keohane such that cooperation is the mutual adjustment of policy choices as the result of a process of policy coordination (1984, 52). Such coordination occurs in a 'mixed-motive situation' such that states must have common interests and though not identical preferences for cooperation to emerge. Compatible interpretations amongst agents are a further requirement for cooperative action to occur, as compatible interpretations of a phenomenon argue for a similar understanding of both the causal mechanisms behind a phenomenon but also the potential viable solutions that such a phenomenon is receptive to. The role of interpretation is particularly sensitive as many issue areas have multiple potential interpretations, as no hegemonic understanding underwrites many issues areas. The area of monetary affairs is notable in this light, as no consensual understanding of monetary and macroeconomic phenomena exists, though various conceptual understandings hold various levels of academic and bureaucratic support.

From the abstract to testable hypotheses

The above framework presented a generalized approach to a rational-constructivist synthesis that developed a typology that centered on the potential outcomes that agent-to-agent interaction could generate. This typology helps to set up potential hypotheses that a rational-constructivist synthesis approach might generates in terms of international monetary affairs. The following section will attempt to build such hypotheses based around the framework developed in the previous section. These hypotheses set out three patterns of interactions that can be expected to emerge in monetary relations. The empirical chapters that follow this chapter will assess the adequacy of each of these hypothesized patterns, and in doing so will also provide the basis for assessing the potential utility of the rationalist-constructivist synthesis that is the larger goal of this thesis.

The first hypothesis generated from the above framework in regards to international monetary affairs is a status quo hypothesis, in which states neither cooperate nor act antagonistically towards each other generating conflict. Such a setting can be considered the neutral position of the IMS as is implied by monetary theory (Andrews and Willett 1997). A neutral state of international monetary affairs however does not imply that all states have balanced external account balances, rather that these balances that emerge due to differential economic growth rates and development cause external surpluses and deficits with the global current account position equaling zero by definition. Such a definition arises due to the role that currency plays in allowing international trade to occur, such that states with trade surpluses experience the appreciation of the real exchange rates of currencies in relation to states that they export goods and services to. As the surpluses state's currency appreciates, domestically produced goods become more expensive in relation to foreign produced ones, causing an expenditure switching effect to occur such that the surplus state imports more and exports less causing a devaluation in their currency. This implies that in a perfect market environment, global macroeconomic imbalances that emerge will be automatically corrected through price level adjustment. Such automatic expenditure switching can be offset using debt instruments by deficit states or through sterilized currency intervention by surplus states but such policies create a price. This price is that the cost of adjustment is past onto the future, particularly for deficit states, whereby future generations pay for the consumption of the current generation. The level of debt that is believed to be sustainable is partly a reflection of a state's ability to carry debt but also a reflection of the fact that future debt payments will lower the aggregate income enjoyed by that state, thereby lowering future consumption and standards of life. States therefore must balance current consumption against future consumption, all within the political framework that governs that state and the preferences that it holds.

A status quo hypothesis is hypothesized to emerge when states interpret their own international and domestic macroeconomic position in a way that privileges domestic concerns over international concerns, such that economic linkages between states are not being interpreted as constraining the domestic policy autonomy of a state. This implies that the interpretations being generated by states leads to preferences and interests that do favor either cooperative or conflictual foreign policy directives. Therefore, if states are domestically focused, states are likely to continue previously existing foreign policy initiatives that are priori specified that do not create cooperative or conflictual interstate interactions.

If BOP surpluses and deficits however become significant such that states interpret such bilateral and global imbalances as significantly reducing their domestic policy autonomy or are causing significant domestic economic costs thereby creating political costs for a states political leadership leading to the potential for political conflict to emerge between states. The second hypothesis is therefore generated around the likelihood of conflict to emerge between states due to differing interpretations of international macroeconomic imbalance that lead to divergent interests and preferences. Attempting to distinguish when states are in conflict or when they are in a period of status quo within economic issue areas can be difficult due to the number of linkages involved, the role of the market movements and domestic political linkages. Utilizing a solution developed by Keohane (1989) for identifying periods of cooperation over periods of convergent policies, this hypothesis will utilize the idea that periods of conflict are dominated by reciprocal policies between states that are aimed to raise the costs of maintaining specific domestic and foreign economic policies in other states. The goal of such reciprocal policies is to make such policies too costly to continue unaltered.

The cognitive basis of this hypothesis is that policy makers within states identify that other states are pursuing economic policies that are against their own interests and against their own beliefs about how economic policy should be generated and conducted. As policy makers are utilizing the logic of appropriateness when they identify 'inappropriate' economic policy in other states, such identification is key in allowing policy makers to identify if their own interests are being affected and if so, how. If a state should identify that other states are conducting 'inappropriate' economic policy resulting in material losses in their own interests, states are likely to attempt to alter this situation.

The question of whether a state adopts a conflictual or cooperative stance based on its interpretation of a given situation is a function of the institutions, power resources distribution and constellation of interests amongst states. From the rational-constructivist synthesis approach developed above, it is hypothesized that conflict will emerge when the interests and interpretations of a given macroeconomic situations are divergent and incompatible between the key, significant states. The chance of a conflictual outcome is increased when there is a lack of an institutional environment in which key, significant states are able to socialize and interact such that differing interpretations of a given situation can be evaluated. Further, conflict is more likely to occur when domestic political groups create linkages between the monetary sphere and the trade sphere. This is because the international trade regime is more pluralistic then the IMS, such that domestic groups are able to better influence international trade affairs in an attempt to create the most beneficial system for themselves that is likely to be contested by other political groups both domestically and internationally (See Broz and Frieden 2001;

Bernhard et al. 2000 for a discussion of such linkages). As such, attempts by states to locate a mechanism to reduce bilateral and multilateral macroeconomic imbalances must be filtered through these domestic groups and their effects on the interpretations states have in terms of what is possible. Therefore, trade linkages increases the chance of a conflictual outcome as no domestic political group or state wants to bear the costs of adjustment.

There is however, the chance that states will locate their own interests in a cooperative approach to global macroeconomic imbalances due to their own interpretations and interests. Such a situation defines the third hypothesis, that states will interact in a cooperative fashion to reduce global macroeconomic imbalances as suitable institutional fora, convergent and complimentary interests and interpretations exists amongst states. Following the definition used for conflict, cooperation is defined when states undertake reciprocal actions that affect one another, whereby such actions are aimed at reducing the imbalances that exist between states. How states achieve such coordination however is dominated by the cognitive frameworks that states utilize in interpreting economic phenomena. These interpretations allow states to develop potential strategies that are compatible with their interests and preferences and the material resources of the state and its relational position to other states within the IMS.

States will rationally attempt to minimize the potential costs that any coordinated action will involve but maximize their own benefits. It should be noted however, that this hypothesis does not reflect the outcome of a cooperative interaction amongst states, rather the types of policies that they take in relation to other states. This is important, as the success or failure of any cooperative action is difficult to predict due to the role that markets have in macroeconomic and monetary affairs. The role of perceptions held by states regarding the potential success of a given cooperative effort will increase the odds that any cooperative actions will be successful, as markets will act in a self-corrective way, as market participants believe such changes are both necessary but also credible in light of state signaling. If such credibility is found to be lacking, it is likely that such cooperative actions will fail or be made more difficult and costly in terms of state adjustment actions to induce the appropriate macroeconomic changes. Unfortunately, the cognitive frameworks that market participants utilize in interpreting state action are extremely unstable and not understood particularly well, as a significant aggregation problem exists in understanding their aggregate behavior even if we have significant knowledge of a selection of market participants (See MacKenzie 2003). As such, it is difficult to say priori what role markets will have in determining the success or failure that any coordination scheme would have.

The cooperation hypothesis that a rational-constructivist synthesis approach generates in terms of international monetary affairs and macroeconomic coordination is specified by compatible and convergent interests and preferences with similar interpretations of a given situation. Similar interpretations allow states to develop similar preferences in terms of adjustment strategies that allow states to focus on the costs of adjustment rather then both adjustement mechanism and distribution of costs. Finally, institutions are hypothesized to help states to coordinate in the adjustement of global macroeconomic imbalances, as they help states to specify their viewpoints and allow states to interpret the actions of other states through direct socialization rather then simply through signaling.

Plaza Accord: Conflict and Cooperation amongst the G3

The case studies of this thesis look into the phenomenon of global macroeconomic imbalances by studying two time periods that offer similar narratives about global macroeconomic imbalances and the relationships between these imbalances and policy coordination amongst the world's largest economies. Two time-periods will be examined over the next two chapters that will focus on the conflict that such macroeconomic imbalances generate and the types of policy coordination, if any, that occurs amongst states in an attempt to deal with such imbalances and conflict. Both time-periods represent periods of divergent domestic monetary and macroeconomic policies amongst the world's largest economies that lead to imbalances in trade, exchange rates and financial flows. Such imbalances generate political conflict amongst states; as such, imbalances inevitably generate domestic costs that must be accommodated within each country's political institutions.

The first period is highlighted by the Plaza Accord in 1985. Focusing on the run up to the Plaza Accord, the narrative that will be generated in this first empirical chapter will focus on the types of macroeconomic imbalances present, the types of monetary and fiscal policy chosen by the systematically important states, the political and cognitive positions held by key politicians and bureaucrats, and finally, the institutional fora in which systematically important states met to tackle macroeconomic imbalances. This narrative will attempt to present a balanced view of the three dominant states of American, Japan and Germany. The second section of this chapter will focus on applying the three traditional political economy approaches and the proposed rationalist-cognitive approach to this period for the types of insights and predictions generated by each of the four approaches.

The second time-period that will be examined in the following chapter will be the current global macroeconomic imbalances that began to emerge since 2000, but will focus primarily on the 2003-2006 period as the imbalances have generated the most interest amongst both economists and politicians during this time-period. As no definitive narrative has been yet written about this time-period, in comparison to the Plaza Accord, this chapter will present the competing narratives that attempt to explain the current global macroeconomic imbalances, the political situations that exist within the systematically important states, and the institutional fora that states are utilizing to manage such imbalances. One difficulty that will be faced within this chapter is a lack of inside knowledge regarding the positions and beliefs held by key politicians and bureaucrats as the imbalances described in this chapter are on going and as such, tensions exists between both key participants within states and between states.

There are however unifying themes between the two chapters that aid in drawing comparisons between outcomes in the two periods and allow for comparisons of insights generated between the four political economy approaches to the IMS. The first theme is the role of the United States' negative external balance and the resulting international financing of such deficits. The proximate cause for such external deficits are thought to be expansionary US fiscal policy and an overvaluation of the USD. This overvaluation leads to concerns that the USD may crash amongst market participants and foreign states, as the possibility that market participants or foreign central bankers might radically alter their holdings of USDs. The second theme is the threat of trade protectionism by the US Congress that emerges due to the misalignment[12] of the USD to its major trading partners that has resulted in the lost competitiveness of specific US industrial segments. The third theme is the role that markets have in evaluating the interaction amongst states in relation to their attempts at macroeconomic coordination. Conversely, this third theme highlights how states strategically manipulate markets and market participants to acting in specific ways be altering market fundamentals that market participants respond to. The fourth theme is the limited role that institutional fora play in facilitating interstate macroeconomic coordination. This situation is best described as a 'non-system', as no formalized regime exists to manage the IMS and as such states rely on bilateral and multilateral interaction to tackle to problems posed by global macroeconomic imbalances.

While there are at least as many interpretations of how and why the Plaza Accord came about, one of the best is given by Funabashi when he states that,

> "[t]he Plaza strategy was the political manifestation of the Reagan administration's decision to succumb to reality…The rest of the G5 participants supported the new policy initiative primarily out of fear of the destructive effects of protectionism and of recession caused by unsustainable imbalances" (1989, 4).

The Plaza Accord can therefore be seen as a juncture where the US, as both the world's largest economy and issuer of the world's reserve currency, was forced into recognizing

[12] The usage of the term 'misalignment' has had multiple interpretations within the political economy literature on international monetary affairs with no consensus position appearing. As such, within this thesis 'misalignment' refers to an interpretation of a given macroeconomic position either that is believed to be at odds with 'fundamental' economic position of an economy or that the 'sustainability' of a given macroeconomic position is unknown. The terms 'fundamental' and 'sustainable' further highlight the interpretive nature of identifying a misalignment.

its limitation in pursuing domestic policies at the expense of international ones in an interdependent global economy. The global macroeconomic situation that precipitated these events was extraordinary for the time.

The global macroeconomic situation was dominated by the misalignment of the US dollar that was overvalued by 30-35 % according to its trade-weighted exchange rate during the spring of 1985. The US became a debtor nation for the first time during this time with a current account deficit of 3.5% of GDP, an unheard of value for the time-period for an industrialized state. Finally, the US current account deficit was matched by an enormous fiscal deficit of 152.6 billion USD, an increase of 345% since 1980.

The root causes of the US's twin deficits during this period have generated serious debate amongst academics and policy makers, as many of the potential sources for the imbalances are endogenous to each other, leading to problems of indicators confounding one another, with no single source signaling causation. However, having no single source for imbalances can be reconciled through a narrative that highlights and evaluates the various catalysts that came together to create the imbalances. This approach takes seriously the fact that it is unlikely that any single factor or catalyst causes a socioeconomic phenomena to occur; rather socioeconomic phenomena emerge out of a multiplicity of interactions.

The macroeconomic policies of the United States during the early 1980s were dominated by supply-side politicians and academics who were attempting to put their theoretical and ideological approach to practical use through the Presidency of Ronald Reagan. This approach was characterized by major tax cuts that were initiated in 1981 and were complemented through an expansionary fiscal policy that was created dominantly through a major surge in military spending due to high levels of tension during this period of the Cold War. This macroeconomic policy became known as "Reaganomics" and it succeeded in stimulating domestic demand, as many within the Administration believed that it would.

This expansionary fiscal policy was combined with a domestic monetary policy under Federal Reserve Governor Volcker that was restrictive in an attempt to reduce the double-digit inflation rate that had emerged during 1970s due to previously overly expansionary monetary policy and the oil crises. Volcker initiated a monetary policy influenced by monetarism, in which the focus of the Fed was the constant growth of the money supply, allowing interest rates to rise or fall to achieve a constant level of growth within the money supply (Henning 1994, 270). This approach led to high interest rates and an appreciation of the USD as international funds were attracted to the substantially higher US treasury and interest rates over the London Interbank Order Rate (LIBOR). As Tomomitsu Oba, former Vice Minister of Finance for International Affairs stated, "The high interest rates of the US drew money from the world to American financial markets and this further exerted upward pressure on the dollar" (*The Nikkei Weekly* Sept. 20, 2005).

The upward appreciation of the USD was not resisted by the US Treasury, as the Treasury Department in 1981 announced that it would not intervene in international currency markets to prevent the appreciation of the USD, allowing the market to determine appropriate exchange level (Henning 1994, 272). As Henning explains, the

Reagan administration was conscious of the need for foreign financing of the US's twin deficits, and thereby helped engineer financial products and regulations to allow foreigners to purchase USD-based financial instruments without penalty (Ibid 274). This position was reinforced by the belief that the market was best left alone to determine the value of the USD and that a strong USD was something to be desired in of itself, as it represented the strength of the American economy.

The combined affects of Reagan's expansionary fiscal policy and Volcker's restrictive monetary policy led to an overvaluation of the USD and a massive current account deficit that brought into question the wisdom of Reaganomics. Protectionist forces within Congress became active and were beginning to work on protectionist legislation to protect US export industries that were being hurt by the overvalued USD. As Funabashi indicates, the Reagan administration's political and ideological commitments led it to take a hands-off approach to economic policy due to its ideological commitment to market forces and its overriding belief in the tax cuts (1989, 9).

As Randall Henning states, the Reagan administration focused primarily on domestic economic policy to the detriment of international economic policy that was consistent with the tradition of US administrations:

> "The United States often neglected the impact of exchange rates on the competitiveness of its traded goods sectors altogether. The United States adjusted domestic monetary policy for external reasons only rarely, and in those cases to support, not depress, the value of the dollar" (Henning 1994, 1).

The Reagan Administration is further elaborated by Sterling-Folker who states succinctly, "In a throwback to the early Carter administration's attitudes, Reagan monetary decision makers expected others to adjust to America's macroeconomic policies and not vice versa" (Sterling-Folker 2002, 159). As US Federal Reserve Governor Volcker has stated, the early 1980s were not a particularly a high point in the niceties of international diplomacy between the US and economic trading partners (Sterling-Folker 2002, 161). Further, Martin Feldstein states, "Treasury Secretary Regan apparently believed that the budget deficit had no effect on the dollar" (Feldstein 1988, 7). This position was reinforced by the relatively closed nature of the American economy that limited spillover effects of the large external imbalances and an institutional arrangement that leaves exchange rate and monetary policy relatively autonomous from domestic groups, limiting the pressure that policy makers face (Henning 1994, 5).

The rising dollar had however begun to negatively affect some of the administration's most important allies in the business lobby. In early 1985, the National Association of Manufacturers said the $112 billion merchandise trade deficit of 1984 - then a record, and double the amount of the previous year - was a "disaster" that was crimping growth and "radically changing the way American firms are doing business" by "driving more and more of them abroad" (*New York Times*, Dec. 19, 2004). This elicited a response from then incoming Treasury Secretary Baker who stated that the Treasury's policies of non-intervention needed to be reexamined in light of the global macroeconomic environment. By February 1985, the United States had started intervening in the currency markets to weaken the dollar. This major shift in position can be seen as either the administration learning from its past policy mistakes and reacting accordingly to rectify the situation or that it judged that the USD was a political liability and the easiest way of reducing the current account deficit was through a depreciation of the USD, and thereby potentially exporting the costs of any adjustments to other states.

Embedded within the IMS were contradictory policy paths as both Japan and Germany were engaged in a process of either lowering or holding low their interest rates to minimize a slow down in economic growth that was occurring in these two economies due to the second oil crisis in the late 1970s. This caused the interest rate differential between these two states and the US to increase significantly, such that financial funds flowed into the US to take advantage of this, causing an appreciation of the USD.[13] While the US may have championed a strong USD, the Japanese under Prime Minister Nakasone were reformulating domestic economic policy to accommodate a stronger yen in anticipation of potential trade tensions that were emerging due to Japan's trade surplus. This change in policy represented a sea of change for Japanese economic policy formulation in which the Ministry of Finance had traditionally enshrined a weak yen policy based on the belief that the Japanese economy was weak and backwards and required a weak yen to stimulate the export led growth they had pursued since the end of WWII (Funabashi 1989, 94-5). Nakasone felt however that a stronger yen would reflect the new found strength of the Japanese economy and better reflect its international status as the world's second largest economy behind the US. A stronger yen policy would also open policy space for reform efforts at deregulation and liberalization of markets that

[13] This type of financial flow is often called a "carry trade" as financial market participants borrow money in domestic financial markets with low interest rates and it invest in other financial markets that have higher interest rates. This is also called interest rate arbitrage, which theoretically is supposed to remove the possibility of differential interest rates if complete capital mobility exists between differing financial markets. As interest rate differentials still exist, complete capital mobility does not therefore exist, though the degree of capital mobility is hypothesized to limit the amount that such divergence can take (See Andrews and Willet 1997).

Nakasone was attempting to initiate (Funabashi 1989, 92) and help alleviate Japan's balance of payment problems that came to the fore during the two oil-crisis of the previous decade. A stronger yen would also help deal with the burgeoning bilateral trade surplus with the US and to ignite growth via domestic demand rather then strictly via export led growth strategies that Japan had pursued since the end of the WWII (Funabashi 1989, 89).

The Japanese approach to international coordination of macroeconomic policy was dominated by the MOF, who approached such efforts in a cautious, pragmatic way. This approach was highlighted by a willingness to coordinate exchange rate levels but an unwillingness to negotiate movement of fiscal or monetary policy. This was considered to be 'outsider' or 'foreign' pressure that would upset the delicate political culture that had developed in Japan between the Liberal Democratic Party (LDP), bureaucrats, 'policy tribes', and entrenched interests. Thus while the Japanese through Nakasone argued for a tripod framework between Japan, the US, and Germany to stabilize the exchange rates of their respective currencies, it was less then approachable when it came to discussing tax reform as argued for by Treasury Secretary Regan (Henning 1994, 95). The MOF's reluctance to engage in coordinated macroeconomic policy can be seen as a legacy affect, or rather institutional learning, from the 'locomotive' strategy of the Bonn Summit of 1978 which created large fiscal deficits which ran counter to the MOF belief in sound fiscal policy (Henning 1994, 94). The Japanese further viewed its international position through the prism of its bilateral relationship with the US, particularly in terms of the above mention tripod framework for coordination, while the Germans viewed such attempts for coordination through the same lens, simply reversed.

As Funabashi indicates,

> "The German diagnosis of external imbalances and currency misalignment boiled down to the mistakes of US macroeconomic policy and the trade problem between the US and Japan. The Germans accepted no part of the blame... From their point of view, the potential for inflation caused by a cheaper deutsche mark necessitated modest currency realignment, but they rejected out of hand the notion that coordination of macroeconomic policies beyond that extend was required" (Funabashi 1989, 110).

This fear of inflation was an outgrowth of the desire for price stability that had underwritten both monetary and fiscal policy within Germany and the role of the Bundesbank within German politics since the end of the WWII and the period of hyperinflation that had preceded the war. The Germans also feared a hard landing of the USD and the consequences that such an outcome could have for the European Monetary System (EMS) which they had just formed in 1979 (109-110). Any potential threat to the EMS, the Bundesbank took seriously because of the special role that the deutschmark played within the EMS as an anchor currency for the international transactions of the zone. The Germans appear to been interested in fixed ER within the EMS but floating, market determined rates with the US and Japan. This position is supported by the limited ER exposure the Germany economy experienced in relation to the US and Japan as export markets, with 10% and 3% of total exports respectively going to each state.

The second oil crisis in 1979 combined with the locomotive strategy devised at the 1978 Bonn Summit to revive global economic growth led to the first external deficits Germany had experienced since 1965, leading to a rise of consumer price inflation from

2.6% in 1978 to 6.4% in 1981 and an increase in unemployment to rates not seen since the 1950s (Henning 1994, 190-1). As a result, the Bundesbank only slowly lifted interest rates, allowing the deutschmark to depreciate against the USD, thereby improving the competitiveness of German exports. This policy was supported through currency intervention to prevent the deutschmark from over depreciating as a 10% spread had emerged between German and US interest rates (ibid 192-3).

This weakness was offset in 1983 when domestic growth and an external surplus returned. However, the continued weakness of the D-mark relative to USD combined with a large interest rate differential between the two states, led the Bundesbank to intervene heavily to support the D-mark and sell the USD from 1983 up to the Plaza accord, buying 51 billion D-mark in the process (Henning 1994, 199-200). This intervention however failed to cap the USD rise, and in January 1985, the Germans asked Japan and the US to help cap the dollar's rise. Nevertheless, as Henning states, neither Japan nor the US actually carried out any significant operations despite agreeing to do so, thus creating resentment amongst German officials when Japan and the US came to them for help later that year (Henning 1994, 200). This resentment underlined the German position towards any further coordination amongst the G3 states, particularly when it came to the costs that each state would be responsible for under any coordination scheme. Germany also wanted Europe to be treated as a unified entity within the IMS because of the EMS and the role of the deutschmark as the anchor currency of the EMS. Thus, Germany wanted any coordinated interventions in the currency markets to be spread amongst the EMS participants, thus reducing the costs that Germany would face under any coordination scheme. For the most part, it would appear that other EMS participants, including France and Italy, were supportive of such position (Funabashi 1989, 135).

The Agreement

The Plaza Accord was reached on Sept. 22, 1985 in New York City by the G5 that specified that "some further orderly appreciation of the main non-dollar currencies against the dollar is desirable". The agreement aimed at intervening in currency markets to depreciate the value of the USD in relation to its major trading partners, though this desire was stated indirectly and the agreement contained no clear commitments to fiscal or monetary coordination (Henning 1994, 281). The agreement was an outgrowth of earlier bilateral discussions between Japan and the US over the large bilateral trade imbalance that had emerged between the two states. The strong USD as noted earlier, combined with strong US domestic consumption demand, was causing Congressional leaders to pressure the Administration to rectify the problem, as protectionist legislation was beginning to be introduced into Congress that would have added tariffs and levies to Japanese imports. The US was looking for an increase in Japan's domestic demand growth and a stronger yen to help American exports into the Japanese market and reduce the profitability of Japanese exports to the US. The US proposed that tax cuts, market liberalization and increased fiscal spending were required of surplus countries to help maintain world growth as the US corrected its balance of payment problems. In response, Japan argued that European states should be involved in any such rebalancing effort, particularly Germany. When Germany was approached by the US and Japan at a G5 meeting later that year, the Germans were reluctant to engage in such discussions because they felt that the problem existed between Japan and the US and not with Germany. Such divergent outlooks were highlighted by how participants viewed the imbalances and the corrective measures required.

The US during the negotiations of the Plaza Accord focused on exchange rates and current account balances because of political nature of the trade deficit which these indicators were proxies for. Whereas Germany and Japan appear to have focused on fiscal deficits and interest rates of the US, as these indicators highlighted the role that domestic monetary and fiscal policy played in creating the external imbalances within the IMS (Funabashi 1989, 136). These divergences appear to center around how states viewed exchange rates and the linkage between exchange rates and other economic indicators. Germany and Japan appear to have viewed exchange rates as a residual of domestic macroeconomic policy, whereas the US appears to have viewed them as a distinct policy objective in and of themselves after 1985, a change from previously when the US did not appear to have a cohesive approach to exchange rates. Thus, we can see why the US did not recognize the linkage between the US fiscal deficit and strict monetary policy for its current account deficit, whereas Germany and Japan both viewed the US's current account deficit as directly related to its domestic policy choices.

Therefore, while Japan was already independently looking at some forms of market liberalization before bilateral discussions began and was receptive to such linkages, it was less receptive to the idea of increased fiscal spending and tax reforms argued for by the US, as MOF perceived increased fiscal spending as inflationary. Such incompatible viewpoints over the nature and remedies to imbalances within the IMS during early 1980s led to a focus on exchange rate intervention. As Webb (1994) states, a desire for simplicity in conceptualizing the imbalances and disagreement about indicators of disequilibrium and unwillingness to accept international constraints over domestic policies have "contributed to an undue emphasis on exchange rates and foreign exchange market intervention in G-7 meetings (Webb 1994, 409). Further, as Bergsten and Henning (1996) argue, the Americans had viewed the 1978 Bonn Summit of monetary coordination as a positive outcome and were keen to do something similar again by focusing on exchange rates whereas the Germans and some Japanese officials viewed the Summit as a disaster that triggered inflationary excess in the late 1970s and early 1980s and had partially laid the ground work for the current imbalances (Bergsten and Henning 1996, 57).

This conflict was born out of competing views over distribution of intervention costs and appropriate monetary policy goals that each state should take. This conflict is highlighted by Funabashi when he describes negotiations amongst both G5 and the G5D in the lead up to the actual agreement signing on Sept. 22 on the wording that the communiqué might entail. It would appear however, that in the final communiqué the US was able to prevail in its preferred wording in terms of describing the need for realignment of surplus states and not of deficit states nor the level of intervention that was to be initiated (Funabashi 1989, 15). The communiqué argued for a 10 to 12 percent revaluation of surplus states which was less than what the US was looking for and less then Japan was anticipating for but was more than the Germans were comfortable with. Further, the communiqué clearly reflects that central bankers were concerned about a 'hard landing' of the USD should the markets overreact and instigate a major sell off of the USD. Thus the word 'orderly' was added to the communiqué at the insistence of the Volcker and Pohl in the hope of reassuring the markets that any revaluation would be smooth and not disorderly which could cause a much larger problem.

The success of the Plaza agreement appears to have been viewed in two different ways. On the one hand, the agreement was successful in devaluing the USD and reducing the US trade deficit. On the other hand, it has been noted that the USD had already been depreciating when the Plaza agreement was signed, as Germany had already been intervening in the currency market and market sentiment appeared to have felt that the USD had peaked in value early in 1985. Further, the goal of macroeconomic and monetary policy coordination was not achieved due to the divergent views of participant states as noted earlier. This lack of policy coordination in many ways undermined the success that the devaluation of the USD had created, and led to new problems such as the stock market crash in 1987 and the necessity of the Louvre Accord to stabilize the USD from free falling as it did in January 1987. Further, the Plaza and Louvre Accords are blamed by many in Japan for the asset bubble and subsequent deflationary macroeconomic environment that Japan has struggled through for the last 15 years (*The Nikkei Weekly* Sept. 20, 2005). The appreciation of the Yen however begins a process of foreign direct investment export from Japan starting in 1986 and peaking a decade later that radically alters the export-led growth strategy employed by the Japanese (Pempel 2000).

What can IPE theory tell us?

The narrative of the Plaza agreement presented above presents the multiple viewpoints that the major participants held during the period. I hope that the narrative provided a brief glimpse of how diverse these multiple view points and interests were. Attempting to provide both a convincing theoretical overview of events but also a complete and harmonious overview of events is likely to be beyond the grasp of any theoretical construction. However, this does not imply that the theoretical constructions and approaches detailed in the previous two chapters are of no help because each approach highlights key insights that are likely to be missed in a strictly narrative approach to events.

The three traditional approaches to explaining the Plaza agreement are as follows. From the power-based rationalist vantage, the Plaza agreement represents the ability of the US to get other states to pick up the tab on its own domestic programs, as the agreement clearly benefited the US the most, yet the US did the least, particularly in terms of currency intervention and fiscal policy reduction. This position is further strengthened by the fact that Japan would have preferred to coordinate much earlier then did occur. The liberal approach highlights the fact that the small, informal arrangement of the G5 allowed states to privately do their laundry and reach an agreement. Specifically, the liberals would note that institutions do matter, as the US was unable to successfully conduct the equivalent outcome via bilateral negotiations nor was the US able to act unilaterally in achieving its desired outcome. The role of the G5 in creating a negotiated settlement from which the Plaza agreement was crafted was crucial, as it allowed states to create an agreement that was more efficient than a unilateral approach would have created. The constructivist or cognitivist approach notes how no agreement was possible until they arrived at a compatible understanding of the problem and what appropriate measures would be to solve such a problem. This approach provides insights into not only why only exchange rate intervention was undertaken and not more extensive fiscal and monetary coordination, as exchange rate intervention was understood in compatible terms, while fiscal and monetary coordination were not similarly understood. What follows is a more complete analysis from each of these approaches and what has been said from within these traditions towards the Plaza agreement within the IPE literature.

The power-based tradition in many ways has the largest literature available, as the majority of IPE specialists that focus on monetary and currency affairs appear to work from within this tradition, such as Jennifer Sterling-Folker, Michael Webb, Benjamin Cohen, Jonathan Kirshner, and Susan Strange. This approach focuses on two different yet interconnected variables. The first variable is the focus on the international system as a structural feature that affects all states and yet is constituted by states. The second variable that realists focus on is power and its influence over how states behave and interact.

The dominant strain of the power-based approach in terms of monetary affairs has been the hegemonic stability theory that posits that a hegemon is required and necessary for collective action within the IMS, whereas a declining hegemon makes such collective actions more difficult and can become a 'predatory' hegemon, forcing other states to shoulder the burden of collective action. From this vantage, one would anticipate that the US as a declining hegemon in economic relations, would be less willing to shoulder the costs of maintaining the IMS, and that collective action was unlikely to occur. Susan Strange (2002) however argues that the decline of American hegemony does not necessarily lead to less collective action but any such collective action still requires that US to take the lead in any such due to its hegemonic position within the global economy (140). Thus, according to this view, American hegemony may have declined in relative terms, its absolute hegemony within economic relations was still so significant that any collective action still required its presence.

Such a prediction would imply that the US is unlikely to change its own policy preference if it believes that any collective action response to IMS imbalances requires its participation, and therefore would have a strategic advantage in any negotiations as it had an effective veto power over such negotiations. In fact, Volcker argues that the Plaza agreement had no implications for American monetary policy making, as the Fed did not anticipate rising rates any time soon, and therefore no change in domestic policy in the US was required to maintain the agreement from the American perspective (Volcker 1994).

In an apparent response to liberal theorists that have argued that intellectual consensus is a requirement for the production of collective action, Webb argues, "the political power of the United States was the decisive factor, not intellectual consensus among economists. Policymakers also did not use econometric models to guide coordination" (1995, 203). The position that Webb argues for is based on the premise that "monetary and fiscal policy policies are a government's most important influence over domestic economic conditions; therefore, domestic political considerations are central to macroeconomic policy-making (1995, 188).

Such arguments regarding autonomy fall in line with Sterling-Folker's realist-constructivist approach that argues that states will attempt to preserve their domestic autonomy when interacting with other states, such that the anarchy of the international system that realists see as conditioning the actions of states occurs through filters at the domestic level and filter into a state's foreign policy decisions (2002, 103). These two analyses appear to fit well with the foreign economic policy decisions made by the G3 states in terms of the Plaza agreement, as each attempted to preserve domestic fiscal and monetary autonomy, though it is unclear if by attempting to maintain domestic autonomy individually, they were able to increase their actual autonomy in terms of policy action space. This conclusion is supported by Andrews and Willet (1997) when they argue that increased integration of national financial markets can either increase or reduce the amount of policy autonomy a state enjoys, with states with more economic power enjoying more autonomy then smaller states. However, many economists continue to argue that the most efficient way of increasing actual autonomy that states enjoy in terms of markets, is to give up some autonomy vis-à-vis other states through the coordination of domestic economic policy. As such, it is unclear if capital mobility as a structural constraint has altered the way in which states coordinate economic policy to increase their own domestic policy autonomy, as increased integration has increased spill over effects of domestic policy choices but has increased the autonomy experienced by privileged states, though as the Plaza agreement shows, even the US as the most privileged of states cannot pursue a domestic policy of autonomy indefinitely.

This idea that policy coordination at the international level can improve the policy autonomy and the aggregate welfare of participating states underlines the liberal approach to coordination of macroeconomic policy. By focusing on creating agreements that are Pareto-optimal, liberals hope to influence states toward acting in ways that raise the aggregate level of welfare enjoyed by all states. One of the many ways liberals argue that states with diverse interests can coordinate policy actions is through the learning effect that regular consultation and negotiations can have. This type of institutional effect is noted by Willett in that international organizations appear to help policy coordination by citing the example of Wendy Dobson (1991), a former Canadian member of the G-7 Deputies,

> "that some of her initial skepticism about policy coordination was softened because her participation in the G-7 process made it 'apparent how much governments' domestic policy objectives and analytical framework can differ, and how far policymakers have yet to travel before they think in terms of the international as well as the domestic consequences of their policy options'" (Willett 1999, 231).

One way of maximizing potential welfare is through the use of an exchange rate zone system, where exchange rates would be free to float within a specific band but not outside of this band according to some economists (See Kenen 2001 for more detailed discussion of this literature). France was one of the biggest proponents of this type of system during the Plaza period and its influence can be seen in the formation of the EMS. However, there has been less then a consensus on this point of view, particularly amongst public policy officials and among academic economists. This lack of consensus brings into question one of Sterling-Folker's main arguments in terms of state behavior during this period.

> "Regardless of what monetary elites from other nation-states were doing, if liberal cooperation theory is correct we should see a pattern of US monetary elite behavior after BW which supports the development of such a target zone system. That behavioral pattern must also be progressive because within the parameters of regimes creation a target zone exchange rate system represents a functional efficient ideal toward which monetary elite behavior should be consistently inclined over time... Indeed liberal cooperation theory anticipates stages of learning, experimentation, and institutional innovations" (Sterling-Folker 2002, 130).

An alternative way of viewing the Plaza Accord is to view it as a type of regime maintenance that started at the Bonn Summit in 1978 that represents the first attempt of coordinating macro and monetary policy since the collapse of BWS and the introduction of floating ER, and thus represents a period of regime creation in 1978. It however set a very small bar to pass over in terms of what states would have to do to comply with regime maintenance. One question that arise is did states learn that cooperation would help them improve their lot since the Bonn Accord in 1978? This appears to be unclear, as the US appears to learn and unlearn previous experience, as highlighted by Henning's description of American policy behavior to towards the exchange rate as flipping between periods of neglect and activism, bordering on aggressive activism (1994). The liberal approach thus appears to highlight the learning effect that international institutions can have on states and the types of foreign policy they might embody, but it is relatively unclear what this foreign policy should be, especially in cases where there exists no single Pareto-optimal solution or consensus amongst experts.

The constructivist point attempts to fill this gap by bring to the front the types of ideas that states have and how these ideas help formulate policy that states pursue.[14] Focusing predominantly upon the ideas and cognitive frameworks employed by economists and economic theory policy makers, this approach attempts to identify the linkages that exist between the practices and the ideas that inform such practices. With that said, this approach does not have a well-defined approach to understanding of how the mechanics of coordination amongst states might come about. However, constructivists would rightly highlight that conflict is more likely to occur when states have differing ideational constructions regarding the linkages that exist between various economic factors, than they would have if they agreed upon the linkages between economic factors.

Conflict can also occur even if key states have similar frames of reference in terms of economic linkages. Wesley Widmaier argues that Classical economic frameworks tend to socialize states to "look after themselves in self-help fashion… Classical views, when replicated across the system, so engender a near-Hobbesian culture, in which states refrain from any cooperation, and take no steps to prevent one another from 'monetary

---

[14] When constructivists talk of states, they often are referring to aggregate position of key agents found within the state, though all three of traditional approaches appear to do this.

violence' of a speculative attack" (Widmaier 2004, 437). From this perspective, the fact that conflict emerged in the early 1980s is not a surprise, as the three key participant states were all engaged in domestically oriented macroeconomic policy making and as such viewed international macroeconomic imbalances as a product of imprudent domestic policy making by others. This view fits particularly well with Germany, in that they viewed the imbalances as an external problem caused by the US, with its imprudent fiscal deficits and monetary restraint. Further, the Neoclassical view that "efficiency with which markets formed expectations would even obscure the need for cooperation to stabilize fluctuations of floating exchange rates" (Widmaier 1994, 448) appears to describe the American position on intervention in currency markets prior to the Plaza agreement.

The constructivist approach however has difficulty approaching the role that agency has in transforming the actions and behavior of states. This is noticeable in that the monetary and fiscal policy choices remained constant in the shift from conflict to cooperation as signaled by the Plaza Accord. The key point of this shift appears to be less cognitive and more political, as a reaction to Congressional pressure and a change in key Treasury personnel. While it might be expedient to locate a cognitive shift in the change of Treasury personnel, from Regan to Baker, this would contradict the evidence that both Baker and Regan favored the monetarist approach but also that Japan and Germany did not shift their cognitive frameworks in any way. It would appear that the shifting interests of the US played a larger role in the formation of the Plaza Accord but this agreement would not be possible without the belief amongst participants that exchange rate intervention would be effective, as this mechanism has multiple interpretations within the economics literature during this period (See Taylor 2002). As such, despite the apparent monetarist framework employed by key participants, currency intervention was still found to be a useful policy tool despite the contradiction such a policy tool has within the monetarist framework that views that intervention has no effect on the long-term valuation of currencies.

The rational-constructivist approach proposed in this thesis is an attempt to combine the insights the liberalism and realism develop out of their approach to agency and the structural insights that constructivism highlights due to its focus on the ideational that frames social interactions. As outlined in the previous chapter, this thesis is presenting three generic hypotheses that are generated by a rational-constructivist approach to international coordination. The Plaza Accord can be thought of in two stages. The first stage is the initial run up to the Plaza Accord in which the current account imbalances increase and the second stage is the Agreement itself in which the current account imbalances decrease. The first stage appears to be dominated by the differing cognitive frameworks between the US and Germany and Japan. The Americans view the strong dollar as a positive outcome despite the current account imbalances that it is generating, as a strong dollar allows the US to externally finance the major fiscal deficits its domestic and military spending policies have generated. This position implies that it is unlikely to coordinate international macroeconomic policies at this stage to alleviate the growing current account imbalances. The Germans and Japanese at this stage appear to focus on their experience from the Bonn Summit in which they view coordination in a negative light; as the inflationary consequences of the summit conflicted with the macroeconomic frameworks they utilized to guide their domestic policy management. However, both Germany and Japan view the exchange rate levels between the three currencies in a negative light, leading them to unilaterally intervene in the currency markets. This first stage appears to represent a period of stalemate, or hypothesis number three, as differing interests and cognitive frameworks limit the possibility of coordination amongst states. Such a stalemate appears to represent a period of status quo continuation as three key states maintained unilateral macroeconomic policies.

The Plaza agreement represents hypothesis number two of coordination, as the three key states appear to reach a consensus cognitive position in terms of exchange rate coordination, though no such consensus existed in terms of domestic fiscal and monetary policy coordination amongst the three states. While it appears that the three states agreed that some form of devaluation of the USD was required, the key to the agreement appears to be that the interests of the three states were compatible. This can be shown as the US and Japan became obsessed with the size of the trade surplus Japan was experiencing with the US and Congressional pressure to alleviate the pressure on American export firms. The Germans appear to feel that any negative decline in the USD could happen in an abrupt fashion that could place the recently formed EMS at risk, a position that is as much theoretically based as politically motivated. Such a congruence of interests and agreement over an appropriate mechanism for solving the imbalances appears to have allowed the Plaza agreement to proceed.

A distinct difference between the liberal and rational-constructivist approach can be seen in light of how the Plaza agreement did not encompass domestic fiscal and monetary coordination, as the liberal approach would highlight this as the pareto-optimal solution as identified by economists in terms of efficiency in reaching a collective good. Whereas the rational-constructivist approach does not specify that any agreement occupy a pareto-improving position in terms of outcomes, as outcomes are determined by the cognitive frameworks, interests and resources that states command. While the Plaza agreement does not represent an efficient outcome, nor does it necessary represent a unilateral outcome, as envisioned by realists, particularly Webb and Strange.

Conflict between the in Club and the Outsiders: Global Macroeconomic Imbalances between 2003 and 2006

Much has been made in the press recently about the size of America's 'twin deficits', trade tensions between the US and China, and whether or not Japan has finally emerged from its period of deflation. Unfortunately many of these reports treat the various aspects in isolation and thereby do not consider the possibility that they are all linked to each other and historically contingent. The beginning of the current round of global macroeconomic imbalances can find its place in the 1997 Asian financial crisis and the lessons that those Asian states learned from this event.

The Asian Crisis has been extensively documented with various accounts being presented, locating causation in a number of places including institutional weakness in the Asian states, the lack of financial regulation amongst G7 states and the role of pegged exchange rates (See Sharma 2003 for an extensive overview of this literature). A further source that has been less extensively documented has been the role that American monetary policy tightening and the revaluation of the Chinese Renminbi had in altering the risk – reward calculations of market participants, thereby producing unstable and unsustainable capital flows (See Kenen 2001). From this experience, it can be argued that Asian states adopted a stance that reflected self-sufficiency through massive foreign exchange reserves and a notable hesitation to work with international economic institutions such as the IMF.

This learning experience has altered the way most developing states approach the IMS and their own domestic growth strategies, which has in turn led to a change in the

IMS itself and turned the logic of capital flows between developing and developed states on its head. What has emerged is that the developing world is both saving considerably more than they are investing and the resulting savings surpluses are flowing into the US. Such investment flows have been made up of a mixed participation of central bankers and market participants, with central bankers often being the dominant actor. These capital flows have helped build up the foreign exchange reserves of participating central banks but have also minimized the appreciation of their respective currencies against the USD.

The sustainability of this situation is unlikely to persist, but it has persisted longer than many thought it would (Roach, Morgan Stanley GEF, June 16, 2006). Questioning the sustainability of the current capital flows and economic policies has led to calls for action amongst the world's leading economic states to deal with the imbalances that have resulted before a global recession ensues. Such an outcome has been termed the 'hard landing' in which the US dollar crashes in value, causes a major spike in interest rates and thereby depresses world demand and ultimately leads to political conflict (See Roubini and Setser 2004, 2005 for a leading proponent of such an outcome). Yet trying to explain how the various components of the IMS have come together to create such imbalances and how such imbalances have managed to avoid a correction has created a cottage industry of economist in both academia and in the private sector who have proposed various theories to explain the apparent illogic of the situation.

In response to these imbalances, states have remained particularly quiet in respect to their own contributions but more vocal in terms of the contributions of others. Recently the G7 states promise to change their ways and called on non-participating states to do so as well, particularly China, leading to a slightly change in the debate (http://www.g8finance.ru/doc_eng_010606.htm). What is clear however is that like the period leading up to the Plaza Accord, two primary protagonists exist, in the form of China and the US. While these two states are not alone in contributing the current global macroeconomic imbalances, they have played a pivotal role in their development through their domestic economic policies. What follows in this chapter is first an attempt to provide a narrative of the current economic and political positions of primary protagonists (the US, China, and Japan). The second section of this chapter will focus on four perspectives that have been utilized to conceptualize the various components of the IMS that have come to define the current imbalances. The third section of this chapter will focus on the insights that the four political economy approaches utilized in thesis can bring to bear on the current account imbalances.

The Narrative

The narrative of this time period, like the Plaza Accord time period, is one of reciprocal imbalances between the United States and other states, in this case China, Japan and East Asia. The imbalances are based around divergent macroeconomic policies pursued between these two regions, such that the autonomy experienced by each region is reciprocally related to the other region continuing its particular course of action. The reciprocal relationship that has evolved between these regions has allowed these regions to evade macroeconomic policy changes that would be necessary in absence of such a relationship. This phenomenon has been anticipated by the IPE literature on financial integration and globalization, as increased surpluses and deficits are believed to be serviceable in comparison to previous periods under the Bretton Woods System due to increased capital flows (Andrews and Willett 1997). In line with such expectations, the current imbalances that have emerged between the US and East Asian states have been larger then experienced previously during the Bretton Woods System and at the Plaza Accord.

The basis of this narrative focuses on the role of the United States as an expansionary consumer and East Asia, particularly China, as an expansionary investor. These two approaches to domestic economic growth have produced extraordinary current account deficits and surpluses between these two states, yet also extraordinary domestic growth and domestic imbalances.

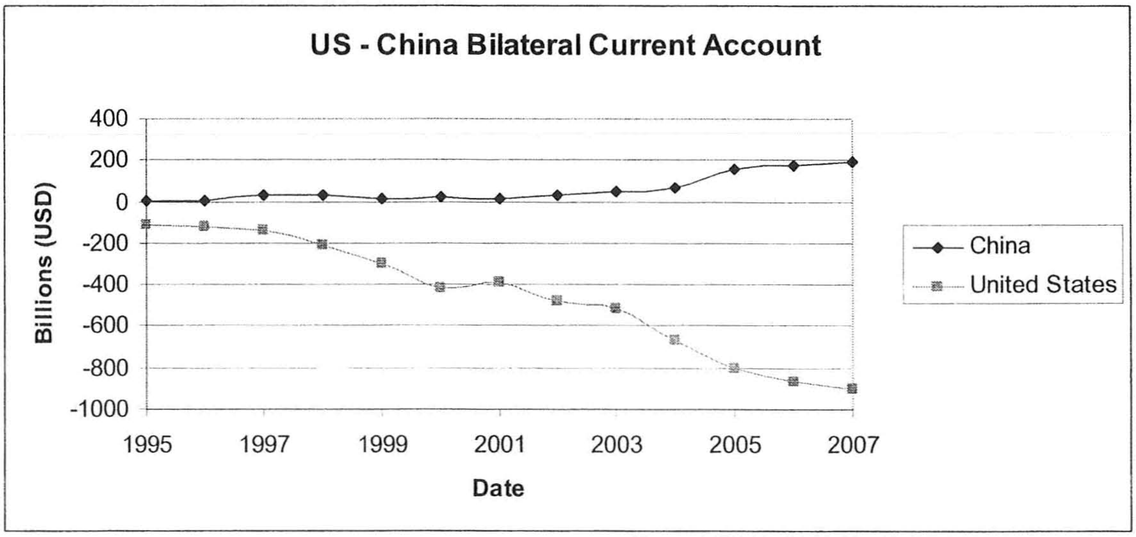

Figure 4.1 US – China Bilateral Current Account 1995 – 2007 (Predicted) (Source IMF WEO Database 2006)

The United States entered the current period of interest after the Asian financial crisis in relatively good shape as it sustained strong economic growth, generally above 4% per annum. Such growth was overseen by what was considered to be phenomenal monetary policy management under Alan Greenspan in which inflation rates were kept remarkably low and inflation volatility was reduced significantly from earlier time periods (Mankiw 2001).

A partial explanation for the phenomenal macroeconomic stability and economic growth was attributed to the rise of the 'New Economy' that created an apparent rise in productivity of the economy. This rise in productivity was matched by the most spectacular bull market Wall Street had every experienced, which in turn led to the sound economic growth that Americans in general enjoyed. Such growth also underwrote continued and increased private consumption, which led to increased inflation, which was quickly tackled through aggressive increases in the US Federal Funds Rate. Private consumption during this period has been dominated by credit-based consumption, as real income growth during the time period was minimal.

The soundness of the economic growth experienced within the US under the banner of the 'New Economy' was brought into question during the "Tech Crash" in 2000, in which the NASDAQ composite fell from over 5000 to just under 2000 in a period of months. The collapse was felt greatest by technology companies that had benefited the most in the previous year's run up in their stock prices. This correction however was felt across a wide range of firms and industries in American and other national economies as their stock markets adjusted in response to the American situation.

In response, the US Federal Reserve began a process of monetary easement to counteract the deflationary pressure that the stock market crash would have on private and corporate spending. This period of monetary easement was continued after the Sept. 11 attacks, as it was feared at the time that the attacks could cause a major recession to set in, particularly occurring so closely to the stock market correction, which wiped out considerable equity that many individuals had invested into the market, particularly people who had invested their retirement savings. The low interest rates were hoped to counteract the withdrawal of liquidity that would occur as people adjusted to a new economic reality that they would have to save more, as high rates of return within the stock markets appeared to be over. The Federal Reserve would eventually bring the Funds rate down to just less than 1%, an unprecedented level.

During this period of monetary easement within the US, the US Federal government was undergoing a period of fiscal expansion and tax legislation reform under the Bush Administration. The tax policy legislation was a major focal point of the Administration's election campaign and highlighted the preference within the Administration for economic policies that relied on market mechanisms and reduced the size of the government intervention within the economy, particularly in terms of taxes, pensions, unemployment insurance, and Medicare. This economic policy mix was initially supposed to balance cuts in revenue with cuts in expenditures, but the Sept. 11 attacks caused a significant increase in military and security expenditures. This rise in military expenditures was only matched by Congressional opposition to cuts in many spending programs, which has led to an astronomical rise in the fiscal deficit of the

United States. This combination of expansionary fiscal policy and accommodative monetary policy was notably divergent from other industrial states, as illustrated below, except for the United Kingdom that was even more accommodating.

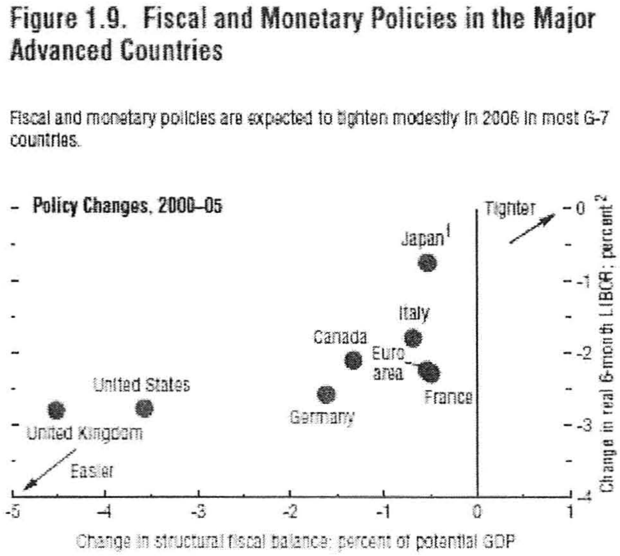

Figure 4.2: Fiscal and Monetary Policies in the Major Advanced Countries

Source IMF WEO Sept 2005

The evolution of the USD exchange rate during this period has been a relatively volatile affair. After the introduction of the Euro, the USD appreciated against the Euro and Yen till the middle of 2001, after which it appreciated primarily against the Euro and remaining constant against the Yen. The exchange rate policy of the Clinton Administration was devised by then Treasury Secretary Robert Rubin that aimed for a 'strong dollar', but such aims were met with a particular ambivalence towards the actual exchange rate (See Eichengreen and Yung 2004). The incoming Bush Administration appears to have reasserted its preference for a 'strong dollar', as argued for by then

Treasury Secretary John Snow in 2001 but market reactions have in fact led to a depreciation of the USD against the Euro but not against most East Asian currencies. The adoption of a strong-dollar policy appears to be simply a continuation of previous administrations policy towards the exchange rate movements of the USD (Henning 1994). The depreciation of the USD since the middle of 2001 has a multitude of explanations but the dominant ones are fears about further terrorist activities since Sept. 11, 2001 and a wide interest rate differential between the US and the EMU. The decline in the USD has however been argued to be insufficient to correct the current account and trade deficit currently experienced by the US (See Roubini and Setser 2004, 2005).

This strong-dollar policy has however had a severe effect on the American economy, in that the strong-dollar caused expenditure switching between domestic and import products, such that import products became comparatively cheaper then American goods, leading to a surge in imports from foreign producers. This surge in import demand negatively affected many American manufacturers, which are relatively well organized in their ability to mobilize political support for their interests in the American political system. Pressure from American manufacturers has led to Congressional investigations into the trade deficit and the exchange rate regimes of surplus Asian states, such that new legislation has been introduced into Congress that would restrict and reduce the competitiveness of import goods from states with significant trade surpluses. The logic behind these potential trade restrictions is that imports from Asia are unfairly competitive because of exchange rate manipulation. China has been singled out by Congressional leaders because of the large trade surplus it enjoys with the US. Such pressure however has led to a conflict between the interest of the Administration and Congressional leaders that have different political bases and hence different interests and concerns. Notably, the Administration appears to be preoccupied by its focus on terrorism and North Korea in its dealings with the Chinese government.

Recently, the Bush Administration has attempted to persuade China to allow the renminbi to float or to be revalued, to reduce the trade deficit that exists between the two states to avert a potential trade war between the two states. Pressure towards other Asian states has been at best intermittent, as Administration calls for further exchange rate flexibility within the region have not been followed up by further concrete action or negotiation with Asian states that have been maintaining a defacto peg. Japan has however been able to avoid Congressional anger and thus avoid offending the Bush Administration despite its enormous interventions into the currency markets to reduce the value of the yen in relation to the USD up to the end of 2004 at which point it apparently ceased conducting such interventions (See Balls and Giles 2005).

A possible explanation for the differing treatments that Japan and China have experienced are liable to be extensive but one explanation that takes into account the apparent divergence in both economic policies but also domestic and international constraints is that China is utilizing sterilized currency intervention to prevent the appreciation of the renminbi and to prevent inflationary pressure. Japan in comparison is utilizing unsterilized intervention to introduce inflation into its deflationary economy. Therefore it could be argued China is being pressured because of it is apparently mercantilist domestic policies whereas Japan is viewed as utilizing appropriate macroeconomic tools given its own situation. In addition, it likely helps that Japan's bilateral surplus with the US is considerably smaller then China's bilateral trade surplus with the US.

Policies and Perspectives

The framework that the Japanese have towards domestic macroeconomic policies and its position within the IMS are dominated by the legacy of a decade of deflationary pressure and a resounding hesitation towards the leadership of the MOF-BOJ to navigate changes in domestic and international macroeconomic environment. Such hesitation extends to Japan's position on the global imbalances that have emerged, as previous attempts at macroeconomic coordination are blamed for having led to the deflationary spiral Japan has endured (*Nikkei Weekly*, Sept. 19 2005). Despite the recent increase in domestic prices and growth signaling that the Japanese economy appears to be emerging from deflationary macroeconomic conditions, Japanese officials are cognizant that 2004 represents the third time since 1992 that Japan has grown over 2.5% before collapsing. As such, any appreciation of the yen is still likely to be undesired due to its effects on exports, as the hesitation the BOJ in tightening domestic monetary conditions indicates (Ito 2004, 174).

One facet of the quantitative easement of monetary policy that the BOJ has undertaken to inflate the Japanese economy has been the use of unsterilized intervention in the currency market to introduce liquidity into the Japanese financial markets by buying USD and selling Yen. This intervention strategy has also allowed Japanese companies' exports to be more competitive in the global market, particularly in relation to China that competes in the US market. The level of intervention appears to have built up until the middle of 2004 when the BOJ bought over 95 billion USD in a three-month period. Since this ubiquitous level of intervention in 2004, Japanese officials appear to have not intervened in currency markets. Instead it appears that BOJ has adopted the strategy of talking down the yen when reaches a particular level. "The impact of yen movements (on the economy) should be carefully monitored," said Sadakazu Tanigaki, finance minister (*Financial Times*, May 16, 2006, pg. 2). While recently there appears to be discussion emerging from the MOF-BOJ in March 2006 that they are considering a move away from quantitative easing, they appear unsure of continued domestic growth, as they have continued to argue that they would act swiftly should economic activity or inflation slow. During 2004, the current account surplus of Japan was 172 billion USD and has since declined to an estimated 133 billion USD for 2007 (IMF WEO Database 2006). This current account surplus is significantly larger than that represented by China, 2.5 times larger in fact in 2004, though the trajectories of the two surpluses are divergent, with China's surplus increasingly rapidly.

Japan's position towards a coordinated attempt to reduce global imbalances is likely to be severely negative, as institutional learning from previous periods of such attempted coordination have not gone particularly well from the Japanese perspective nor is monetary coordination viewed as protecting Japan's interests (See Jiji Press Sept. 22, 2005). Japan's policy towards exchange rates is likely to view any movements in its own currency as being implicitly linked to changes in the value of the renminbi, as China has become a strategic economic and military rival. This rivalry however fails to significantly address the degree to which the two economies have become integrated and interdependent. This process has occurred as Japanese firms have moved offshore to China to reduce their manufacturing costs. Initially such movement was of basic component manufacturing but recently more sophisticated technological manufacturing has moved from Japan to China (See Goldstein 2004).

China is typically viewed as utilizing a framework that sees its own domestic macroeconomic policy and economic position through an investment and export based growth strategy, such that monetary policy has been relatively loose and the Yuan has been fixed with its largest export market, the US (Sharma 2003). However, as Goldstein and Lardy (2004) argue that this view may be incorrect as they have underlined that it is investment and consumption that have the dominant weights (above 40 percent each) in China's GDP and that it is their behavior that typically drives GDP growth in China—not net exports. Last year, China's net exports as a function of GDP were just under 3 percent.

Despite this difficulty in analyzing the Chinese economy, its economic development has been both rapid and massive, such that China has become one of the world's largest economies. Such rapid development has been accompanied by a transition for a planned to a market economy, whereby massive restructuring and turmoil have emerged. This economic restructuring has had a profound influence on the decisions made by Chinese officials that focus on social stability, which has been built around a pact of economic growth in exchange for restrictions on political activities and the continued leadership of the Chinese Communist Party. As noted by a forum about the Chinese economic miracle, many academics have pointed out the fact that legitimacy for the Chinese Communist Party appears to directly linked to the economic growth that it has sustained since the 1970s, which has averaged 10% for the last 15 years (*Foreign Policy* May/June 2006, pg. 66-74). While Chinese officials are likely to choose domestic priorities over international ones, China's currency and capital account represent a pressing problem for both Chinese domestic and international economic positions.

The Chinese government has utilized a fixed exchange rate policy that has been combined with a relatively closed capital account, limiting inflows and outflows of capital from the Chinese economy. This combination has arguably allowed China to both stabilize internal expectations towards business investment in export dependent areas and to remove a key source of pressure that many developing states experience through the capital account (Goldstein and Lardy 2004). In 1994, the Chinese government devalued the renminbi down 50% to bring it more in line with its internationally determined exchange rate. This revaluation at the time was significant, as it appears to have helped China from experiencing many of the direct financial affects of the Asian Crisis, though it still felt effects of the Asian crisis through trade channels (Sharma 2003).

Despite a recent revaluation of the renminbi of 3% in two stages, the renminbi is still considered by some analysts to be approximately 30 – 40% undervalued in terms of trade-weight exchange rate (Obstfeld and Rogoff 2005). This value is however debated, as it is not entirely clear what the market value of the renminbi would be given the Chinese financial system, which has recently been cited as a significant source of weakness towards future economic growth. This weakness has been offset by official transfers from the Chinese Central Bank to other government owned banks. The source of the funds utilized for these transfers are from the enormous reserves that the CCB has amassed through its policy of maintaining a fixed exchange rate.

The CCB has maintained a fixed exchange rate peg to the USD utilizing sterilized currency intervention, whereby such interventions have led to a massive accumulation of foreign exchange due to the appreciative effect of China's strong current account surplus, which currently stands at 7% of GDP. Currently, China has accumulated 200 billion USD in 2005 alone, bringing China's foreign exchange reserves close to 875 billion USD at the beginning of 2006, which is larger then the Japanese holdings of foreign exchange (Roach *Morgan Stanley GEF* May 5 2006). However, this foreign exchange intervention has been not been completely sterilized and money supply growth and inflation have both increased recently. This has forced the CCB to increase the lending rate that banks charge its customers and increased capital requirements banks face in an attempt to limit the growth effect that increased liquidity within the bank sector has caused (Greenspan 2004).

China's large foreign exchange reserves and that associated foreign exchange intervention have not gone unnoticed and have drawn the ire of American officials as indicated by John Snow's comments regarding the valuation of the renminbi and his diplomatic efforts for such a revaluation (See Snow 2003; Balls 2005). Such pressure has resulted in the CCB's governor Wu Xiaoling to state that "It is not proper to say that China's [exchange rate] reform will proceed under external pressure" (Asia Times Online

May 13, 2005). Further, Wu has fired back at proposed protectionist legislation from the US Congress stating, "We don't think that this is a good thing, this has increased trade frictions and increased the pressure on the Yuan to increase" (Wu 2005).

The conflict that has emerged between the US and China is likely to remain tense, where any serious protectionist legislation against Chinese goods would likely lead to retaliatory measures (Economy and Segal 2003). What retaliatory measures it would be willing to utilize are unclear but the size of the CCB's USD denominated assets and Treasury bill holdings are significant, thereby a potential economic weapon should the Chinese be willing to sell them rapidly at a loss (See Kempe 2006). This stalemate between the US and China over their bilateral trade dispute was highlighted by a visit to the US by Hu in April 2006 that produced no significant statement or agreement between the two states (See Jackson 2006). Further a statement by the G7 calling for further Chinese exchange rate adjustments (April 21, 2006) has yet to produce a response from China.

Trying to bring it together, economists tell their own story

The above narrative describes various cognitive and material positions held by key states within the IMS, but such individual pieces fail to aggregate neatly to explain the current IMS imbalances. Though this may be the case, this has not meant that there have not been proposals to explain how the current imbalances arose and why. These proposals represent a significant change in how academics, market participants and policy makers have interacted, as the internet has both increased the speed with which competing theories can be launched, contemplated and compared but the level of dissemination that is possible. Websites, blogs and email have radically altered the way in which academics, particularly and dominantly economists have tackled the problem of global imbalances. Whereas in studying the Plaza Accord and its run up, we have privileged information regarding the positions and frameworks participants utilized during these negotiations that was acquired through interviews after the agreement was reached, no such knowledge is currently available. This is because no such agreement currently exists nor have policy makers discussed their positions, as such negotiations are ongoing in the G7, BIS, IMF and bilaterally. As such, the following section will look at the contending theories that have emerged to explain the various elements of the IMS imbalances.

The first characterization that was proposed regarding the IMS imbalances emerged in 2003 by three economists of Deutsche Bank, Dooley, Folkerts-Landau and Garber (2003) in which they compared the current international monetary system to the Bretton Woods System (BWS), arguing that the current relationship between the US and Asian states constituted a revival of the BWS. This revival was based on the notion that the US acted as a core and Asian states acted as a periphery, where the periphery's growth was based on export-based strategies. As such, the periphery runs a trade surplus with the core, which results in the periphery having to recycle its trade surplus back to the core via the purchase of core debt and equity instruments to minimize exchange rate appreciation experienced in periphery states but also exchange rate depreciation in the core.[15] This monetary policy has had a significant side effect, in that large reserves have accumulated in periphery states with correspondingly large external and internal debts within the core. These relationships have allowed the core to consume beyond its available means, essentially on cheap credit, while periphery states are able to expand domestic productive capacity at a pace that exceeds domestic economic consumption capacity.

Dooley, Folkerts-Landau and Garber argue that the system is stable indefinitely because of the motivations of the states involved, such that no periphery state would want the US dollar to significantly depreciate and hence lead to an economic collapse within the US domestic economy and thus a potential economic collapse within periphery states due to a lack of demand for their export-based goods. This position has however been challenged by Barry Eichengreen who argues that the political assumptions of DFG are not reflective of reality nor of the BWS itself but also that the imbalances are historically out of tune with what is considered stable over the long-run (2004). This critique finds support in the work of Goldstein and Lardy (2005) in which they question the assumptions of Dooley, Folkerts-Landau and Garber regarding China's development strategy and its choice of a undervalued fixed exchange rate regime against the USD. Rather they argue that it is more likely that China will choose the USD peg for domestic financial and monetary stability and that China may be becoming increasingly unsatisfied with this option but has yet to see an appropriate exit strategy.

[15] It should however be noted that in the original Bretton Woods System, periphery states did not in fact buy US debt but held onto USDs (Eichengreen 1996).

Further criticism has emerged from work regarding the overvaluation of the US dollar and the potential size of adjustments that would be required to bring American deficits into line with what is generally considered sustainable (Bergsten and Williamson 2003, 2004). The literature around Bergsten and Williamson has been focused on the fact that some form of adjustment will be required by all parties, particularly China, but that the US itself will have to reduce both its fiscal deficit but also its external balance of payment deficits. This position has been taken the furthest through the work of Roubini and Setser (2004, 2005) who have argued that the external American imbalances are simply unsustainable and are likely to lead to a 'hard landing' in which the global economy ends up in a recession or possibly worse as global imbalances adjust to a more sustainable level if immediate adjustment measures are not initiated within the US to reduce both the fiscal deficit but also increasing domestic savings. As such, they appear to locate the majority of the blame for current economic imbalances with the US but with a significant nod towards the Chinese.

The criticisms that have been generated have widely brought into question both the assumptions and validity of the conclusions of Dooley, Folkerts-Landau and Garber, and led others to take up the task of explaining why the imbalances have emerged but also why such imbalances are likely to remain. These new explanatory theories have focused on defining exactly what America's external balances are and what such balances imply. The fact that economists have yet to concisely define exactly what the global imbalances are and where they came from is an interesting proposition, as current macroeconomic theory appears to be ill suited to explain current global economic patterns nor is data from which economists generate models particularly accurate (See Chinn and Prasad 2003 for an overview).

Hausmann and Struzenegger (2005) focus on the fact that the economic data that has been utilized to explain imbalances is apparently contradictory and inaccurate. Their argument has been coined the 'dark matter thesis' which argues that the current negative balance of payment position of the US is actually illusionary in that the US is not a debtor nation because it actually receives a positive external income balance from the rest of the world from its foreign assets, which therefore implies that the US must have a positive credit balance by definition because of these foreign assets that are producing income. The explanation given for this apparent discrepancy is that the US is generating this income via 'dark matter' that is generated through particular US technological expertise, insurance premiums on US debt and securities and liquidity services provided by the US dollar. This explanation has however not been particularly well received, with Setser (2006), DeLong (2006) and Higgens et al. (2006) arguing that the concept is both ill conceived in explaining the current imbalances but also that if the concept was applied to states other then the US, then according to the 'dark matter' hypothesis the US should have even larger external liabilities than it currently does. Further, the dark matter hypothesis appears to have an expiration date, as current foreign investment income generated by Americans is approaching zero and anticipated to be negative either this year or next year.

In an attempt to explain the apparent fact that the US has been easily able to finance its current fiscal and current account deficits, Bernanke (2005) and Hubbard

(2005), have argued that the world is currently experiencing a period of over saving outside of the US and these funds are drawn towards the deficits of the US to make up for the shortfall in domestic savings available in the US. These excess savings it is argued have occurred due to a combination of demographics, rapid growth, high oil prices, and financial development that have encouraged saving over investment outside of the US. This implies and assumes that the current external imbalances that are facing the US are both sustainable but also market-driven due to changing savings and investment preferences, particularly in Asia, are privately driven not publicly driven.

Geithner (2006) however argues that the current imbalances reflect the fact that official intervention has been widespread in American financial markets, particularly in the Treasuries bill markets. In fact this counterargument finds support in critiques of Dooley et al.'s revived Bretton Woods theory, in that a major source of international capital flows that are financing the US deficits are official, non-market participants, which has caused a reduction in interest rates within the US, as the majority of this official intervention has occurred via Treasury securities (See Roubini and Setser 2004). Therefore, if current global capital flows are being directed by official participants and not market participants as assumed by Bernanke, then the possibility of rapid unwinding of current global external imbalances becomes a distinct possibility it can be argued due to the political nature of such decisions (ibid).[16] Further, official intervention is likely to prevent normal adjustment processes from occurring, as official interventions are not

[16] While it is unclear why public agents would be more volatile then market agents, it would appear that the assumption is based on the economic framework utilized by Roubini and Setser.

focused on profit motivations, a key assumption for most explanations of balance of payment adjustment models.

In an attempt to locate the catalyst to today's global imbalances, Gruber and Kamin (2005) argue that the apparent global codependency between Asia and US was initially triggered by the Asian financial crisis, whereby Asian states have responded by developing extraordinary foreign exchange reserves to prevent a reoccurrence of the crisis as argued for in the beginning of this chapter. This argument was developed out of the fact that current monetary models were unable to explain the size of current account imbalances and the addition of a variable to account for financial crisis helps to explain the empirical pattern. Their modeling therefore introduces a theoretical basis to the global savings glut thesis but undercuts the BW2 thesis. The modeling of Gruber and Kamin appears however to be at odds with the work of Chinn and Prasad (2003) who argue that current account positions are positively correlated with government fiscal position and initial stock of foreign assets, something that is not found in the work of Gruber and Kamin.

The above hypotheses all highlight some facet of the current IMS imbalances but privilege certain factors over others to do so. As such, we are given less then a full explanation, particularly given the fact that traditional macroeconomic models have had difficulty in explaining the size of the imbalances, particularly the size of the American current account deficit, the size of foreign exchange intervention, nor the fact that capital flows are emerging from the developing world and heading to the developed world. Further issues emerge regarding the political structure that underline this economic phenomena and to which the above hypotheses have speculated upon. The following section will present the four IPE approaches to the current period, with the aim of deriving defining characteristics and predictions.

A Second Look, Formally Introducing Politics

As noted earlier, the realist approach to monetary affairs has been dominated by either the hegemonic stability theory of Gilpin, Kindleberger or Cohen or a structural – autonomy approach of Webb, Andrews or Sterling-Folker. Utilizing the hegemonic stability approach, it would be key to note that the US continues to be the world's largest economy and that the USD is the reserve currency of choice. It is however unclear whether this constitutes hegemony in the traditional sense, as the hegemony of the US was already under question during the Plaza Accord and both the relative and absolute position of the US's economic position has declined in relation to three potential challengers emerging in the form of the EU and the Euro, China and the renminbi, and Japan and the yen.

Two hypotheses thus are possible from the hegemonic stability approach. The first is that the US is able to force others to cover imbalances in the IMS because of its hegemonic position, as it acts in a predatory fashion as argued by Strange (1987). The second hypothesis is that the US is no longer in a hegemonic position, thus trying to provide stability within the IMS should be more difficult, as states must now collaborate to achieve the collective good of IMS stability rather then relying on the US to do so.

The first hypothesis finds some evidence and support in the work of Dooley et al., as the US has been able to finance its twin deficits through debt issued in its own currency with a substantial portion of such debt being purchased by central banks of Asian states. The predatory implications are formed when one considers that the US is in the driving position vis-à-vis these Asian states, as it can either default on its debt obligations, devalue its currency to reduce its debt obligations or introduce trade restrictions against surplus Asian states. This type of implicit threat is consistent with the work of Kirshner (2003) and the use of monetary power but also builds linkages to trade related hegemonic stability approaches discussed by Gilpin (1987). Further, asymmetrical interdependence argued for by Keohane (1989) in that the US is a declining hegemon that has become unwilling to absorb the full costs of maintaining the stability of the IMS and thus has linked the stability of the IMS to the international trade regime through its twin deficits and position of export market of last resort.

The second hypothesis focuses on how states attempt to maintain domestic policy autonomy in face increasingly constrained domestic policy autonomy due to structural changes within the IMS related to increased capital flows and financial market integration finds support in the work of global savings glut hypothesis, though not in the way that this thesis might imply. The narrative that this approach develops is that Asian states in reaction to Chinese and Japanese defacto pegging to the USD, maintain similar pegs as they compete for a similar export market, which they do so through currency intervention that results in a dramatic rise in foreign exchange reserves held by the regions central bankers. Such reserve accumulation is further simulated by the fact that Asian states have experienced a drop in investment rates while savings rates have accelerated since the Asian financial crisis, thus Asian states, excluding China and Japan, have found the increase in their reserves beneficial to increase the own domestic autonomy. China has found the current arrangement beneficial as it has provided domestic monetary stability and an export market client in the form of the US, thus their foreign exchange reserves are being used for growth and stability purposes. The rise in China's economic status is highlighted by its ability to withstand American pressure to absorb more of the costs associated with the current IMS imbalances and appears to be aiming at altering its exchange rate regime and capital account regulations at a pace consistent with domestic financial stability, to which 'excess' foreign exchange reserves are being transferred to increase the capital reserves of state owned banks. Japan for its part doesn't mind holding USD debt and securities, as this central bank intervention is a form of a carry trade, where low interest Japanese debt is being issued to buy USD securities that have a significantly higher interest rate, thus providing the central bank with a significant profit of at least 5 to 6 billion USD a year. The US has been able to maintain strong domestic economic growth through a combination of fiscal expansion and loose monetary conditions despite terrorist attacks, stock market collapse and foreign war effort. Increased global financial integration has meant that the US has been able to successfully finance its twin deficits via foreign sources as hypothesized by Andrews (1994).

The liberal approach to the current IMS imbalances would highlight the fact that the traditional groups responsible for the maintenance of the stability of the IMS, the G7, the IMF and the BIS, have become outdated, as new states have emerged that represent primary and significant economic powers, particularly China and India. While the G3 and G7 were able to successfully deal with the imbalances that emerged during the Plaza Agreement, the current lack of progress represents the fact that not all of the significant economic players have become institutionalized into the key world economic institutions. As such, it is consistent with this approach that no collective action can take place till all stake holders are able to negotiate in a common institutional environment, which has yet to take place. One might question the role that the IMF would have within such imbalances, but as noted by transactional cost theory, the large number of states involved within the IMF despite its weighted voting system reduces the viability of successful negotiations between the dominate states and such negotiations have therefore occurred in separate institutional fora.

One overlap between the hegemonic stability theory and the liberal intuitionalist approach is the idea of k-groups, where a group of significant states emerge that share a similar consensus regarding their interests in a stable IMS and are therefore willing to share the costs of maintaining the IMS. From within this sub-approach, it seems unlikely that any form of cooperative behavior emerges until surplus and deficit states agree on what is destabilizing and what is stabilizing, as currently the two groups have failed to reach similar interests, particularly China and the US.

This focus on similar interests brings into focus the constructivist approach that would argue that cooperation and coordination are more likely to occur when participating states share similar economic conceptions, particularly between the linkage between domestic and international economic policy. The current conceptions employed by both the US and China have been speculated upon above but it would appear that both view the international imbalances as reflective of inappropriate behavior of other states, then of their own policy choices. Such an approach follows Widmaier's (2003) discussion of how neoclassical economics tends to focus on domestic policy choices and argues that international coordination is ineffective because such coordination is likely to be suboptimal. This is exemplified by the fact that the global savings glut was first postulated by Ben Bernanke, who is now the Federal Reserve Chairman. However, the current period represents a period of incomplete understanding as the competing explanatory theories regarding the imbalances imply. Such cognitive dissonance is highlighted within the US Federal Reserve, as President of the NY Federal Reserve Geithner has argued against Bernanke's position, specifying that one of the driving forces of the current imbalances is the size of the US fiscal deficit, not of a global savings glut. It is therefore likely, that cooperative efforts in such an environment would be limited, as both the cognitive frameworks employed are potentially divergent and if not divergent, then unlikely to support coordination because of theoretical considerations, as implied by Bernanke's approach.

The proposed rational-constructivist approach would highlight the variable experiences and cognitive frameworks that the significant participating states have regarding the global imbalances. The most prominent of these differences is between the US's previous experience with imbalances where it was able to pass on the costs of such coordination and the Chinese experience of watching the costs that Japan faced during the coordination of the Plaza and Louvre Accords in which Japan entered a significant period of deflation and the aftermath of the Asian financial crisis in which many within Asia perceived that the workout forced unnecessary costs onto victim states while saving Western financial firms. When identifying the cognitive frameworks utilized by China and the US, one must keep in mind the material constraints that each state faces, as they are considerably different.

The most obvious difference is that China is a developing state and economy that is progressing from a rural agrarian economy to an industrial economy whereas the US economy is both the world's largest and most developed economy that has entered a post-industrial developmental stage termed the 'new' economy whereby services and technology surpass industrial manufacturing. These material constraints significantly influence the cognitive frameworks that each state would utilize when interpreting their domestic economy and its position within global economy. Both states have developed the belief that their economic policies were successful, as they have been, as both states have enjoyed strong growth during the period under examination in this chapter.

While there appears to be some awareness that current economic policies cannot be maintained indefinitely, key policymaking officials in both states appear to be focused on similar domestic economic problems, particularly liquidity driven real estate bubbles, though the reason for these bubbles is significantly different. The US is currently experiencing a period increasing monetary tightening, of a slowing economic growth, a housing bubble and extremely low personal savings. In comparison, China is experiencing a period of extremely strong growth, potentially too strong, because of loose monetary conditions and capital inflows, which has raised the potential for bottlenecks and overheating. These divergent economic environments require substantially different policies, implying that coordination is unlikely to occur simply due to a preoccupation with domestic problems that share little common ground, other than their external imbalances, to which both states have been remarkably uninterested.

Accordingly, the current situation appears to follow the status quo hypothesis outlined in the second chapter, as neither the US nor China has significant leverage through material, knowledge or institutional resources to force a cooperative outcome. Nor are the US and China likely to cooperate as both their material interests and cognitive frameworks are divergent, such that both locate the source of the imbalance in the other. The question is therefore would conflict emerge from the apparent maintenance of the status quo as exhibited by the Chinese small revaluation and the Bush Administration's attempt to pacify Congress? Time will likely tell but the recent sell off in emerging markets, may spark a reexamination of the risks of holding USD in light of its large twin deficits, and thus thrust market participants into deciding the fate of this conflict.

Conclusion – An Examination and Rethinking of International Monetary Affairs

International monetary affairs has traditionally been dominated by the type of approaches represented best by Charles Kindleberger and Benjamin Cohen who have utilized economic principles and power-based rationalist theories to explain the pattern of affairs that have emerged amongst the world's largest states and economies. Such works have focused on the apparent linkage that has emerged between periods of stability and hegemonic states that utilize their own currencies to control the international monetary system. Periods of instability within this literature have been linked to a lack of hegemon or to a hegemon that was unwilling to carry the costs of maintaining stability within the IMS.

The previous chapters of this thesis have presented a stylized view of two such periods of the IMS whereby the US as the world's largest economy both benefited but was also constrained by its position, such that it required the collaborative efforts of other key states to achieve stability within the IMS. One period produced coordinated intervention within foreign exchange markets to reduce the imbalances within the global economy that had emerged amongst the world's largest economies. In the second period, despite even larger global macroeconomic imbalances, no coordinated effort has emerged in which to tackle such imbalances as occurred during the first period.

The plan for this concluding framework is first to quickly restate the competing theoretical frameworks that have been covered in this thesis. This restatement will be followed by an analysis of how well rationalist and constructivist approaches were able to explain the Plaza Accord case and the contemporary case, respectively. The following section will examine the ability of the rational-constructivist synthesis approach to explain the two periods and the utility that that three hypothesis proposed in Chapter Two have in explaining international monetary affairs. Concluding this chapter will be a final evaluation of the prospects and significance of the rational-constructivist synthesis approach to explain international political economy phenomena in relation to the rationalism and constructivist approaches to IPE.

A Restating: Rationalism vs. Constructivism vs. Rational-Constructivism

IPE has been traditionally approached through a rationalist-based approach that focused on explaining the outcome of interstate interaction within an anarchical environment. Within this general rationalist-based approach, two sub-groups have competed vigorously to claim that their own approach was more appropriate at describing the international system. *Power-based* rationalist approaches have argued that states are most concerned with relative gains issues, as a loss of such relative gains within an anarchical system implies that other states in the future may be able to extract further concessions due to an increased power differential between two states. As such, power-based approaches have focused on the structural constraints states face within an anarchical international system but also the goal that states have in maintaining the autonomy that they have over their actions. This implies that cooperation amongst states is likely to be short-lived and limited with collective goods only being provided by a single, hegemonic state to which its own interests are tied.

In comparison, *interest-based* rational approaches have argued that while states may in fact find themselves in an anarchical environment, conflict is not a given, as cooperative interaction can successfully occur to maximize the individual benefits that states may accrue. Such a position is based on the notion that in many situations states are more concerned with their own absolute welfare than that of the relative gains distribution issue that plagues cooperative efforts for power-based theorists. Simple learning and information distribution have been identified as key reasons that institutions help states in forming cooperative agreements to avoid issues of free-riding and defection.

In relation to the two rationalist based approaches, *constructivists* argue that states act according to the logic of appropriateness and not necessarily of the logic of consequentiality as argued by rationalists. This implies that the anarchy that states feel within the international system is a product of socialization, such that states act in a way that they deem to be appropriate based on certain ideational constructions. Cooperation and conflict for constructivists is seen as a function of how different ideational constructions and socializations interact in practice, such that states that hold more similar ideational constructions, hence preferences and possibly interests, are more likely to cooperate. Interests and preferences are therefore thought to be endogenous to interaction in relation to the methodological assumption utilized by rationalists that interests and preferences are exogenous and relatively static over time.

An alternative approach to IPE was proposed in Chapter Two in the form of a *rational-constructivist synthesis*. Such a synthesis approach would attempt to blend the best aspects of both the rational and constructivist approaches. This approach takes the cognitive element of constructivists to help define the interests and preferences held by states, and then utilize the rationalist framework for analyzing how states interact given their previously determined interests and preferences. This approach has been extended within Chapter Two to produce three monetary specific hypotheses, of cooperation, conflict and status quo.

Does Absolute or Relative Gains Behavior Explain International Monetary Coordination?

The two periods of global macroeconomic imbalances that were covered within this thesis have presented an interesting if not difficult case for the two rationalist-based approaches to examine. The ability of the two rationalist approaches to examine the Plaza Accord appears to be linked to each other, though for different reasons. On the one hand, the power-based approach correctly identified that the US would have a central role in any cooperative effort, as it was the world's largest economy and holder of the world's reserve currency. The agreement itself clearly benefited the US more then other states, as it was able to force the majority of the costs of intervention onto other states. Equally important, however, was the key role that institutions played in defining the terms of cooperation, as the US was unable to unilaterally alter the global imbalances. Thus, interest-based theories correctly identify that institutions, such as the G-3 and G-5 are facilitators of interest aggregation, such that the collective action problem presented by global macroeconomic imbalances could be rectified by helping states to alleviate the Prisoner's Dilemma that they face in such situations. However, the choice of a nonpareto optimum strategy of foreign exchange intervention is difficult to account for as the state of economic theory during this period questioned the efficacy of foreign exchange intervention and argued for coordinated domestic macroeconomic management. Finally, it is difficult to evaluate how states interpreted and learnt from the Bonn Summit and the locomotive strategy that was devised, as the locomotive strategy was considered disastrous for both Germany and Japan but not for the US. This may explain why Germany and Japan favored foreign exchange intervention due to their previous experience of coordinating domestic macroeconomic policy.

The contemporary case of global macroeconomic imbalances presents a significant challenge to both rationalist approaches as the contemporary configuration of the global economy and political relations have changed dramatically since the Plaza Accord. During the Plaza Accord, the global macroeconomic imbalances were between developed states, such that developed states had relatively similar political – economic configurations, and that the USD was the undisputed reserve currency that the IMS was based around.[17] The current global macroeconomic imbalances have emerged between developed and developing states, in which the USD is still the reserve currency of choice but no longer occupies this position undisputed since the introduction of the Euro. Within such an environment, approaching global macroeconomic imbalances through a power-based approach would generate a conclusion that cooperation is unlikely to occur, as the US is likely to act as a predatory hegemon as its relative share of the global economy

[17] This is of course a gross simplification as a great deal of variation exists between the various political – economic configurations employed amongst the US, Japan and Germany but the similarities between these state are considerably large then the differences when viewed in comparison to China.

continues to decline and that the role of the USD still provides a framework to the IMS. This focus on distributional issues is particularly important as all states involved have serious domestic macroeconomic problems despite their strong growth-rates. This suggests that states will attempt to maintain as much autonomy as possible to maintain such growth rates while attempting to pass on the costs of such policies onto others.

Similarly, the interest-based approach would generate the expectation that cooperation is unlikely to occur to rectify the current global macroeconomic imbalances as long as no suitable institutional fora exists in which all of the key states involved in the imbalances are able to negotiate and reduce the disparities that exist between their competing interests. Of particular importance, would be the role of the simple learning effect that such an institutional environment can provide in bring the positions held by the US and China into closer alignment in regards to the management of the global economy as they are both predominately focused on domestic issues currently. The question of the potential use of forums such as the IMF however raises interesting questions regarding ability of these types of forums to bring together the key states, as previous experience would seem to indicate that such states prefer other fora such as the G7. However, the IMF could act in an information providing and monitoring role that it has recently begun to undertake in relation to global macroeconomic imbalances (BBC April 21, 2006).

A significant difference between the two periods for the rationalist approaches is the changing composition of the international system and of the global economy. As the international system and global economy have become more pluralistic, collective action problems become more pronounced as no state is either able to or willing to provide such public goods in a unilateral fashion. Nor have the international organizations of the international system kept pace with the changing dynamics that have emerged between developing and developed states, as 'high' diplomacy is no longer the exclusive purview of developed states that it was during the Plaza Accord period. Further, the number of key states has grown, such that transactional costs should rise with the increased number of states involved in the current imbalances then those that emerged during Plaza Accord, thereby further reducing the possibility of a cooperative outcome. This implies that the game that states are playing has changed, from one that approximated a Prisoner's Dilemma game towards a game of Suasion (See Hasenclever et al. 1997, 50).

Thus from a power-based approach, the provision of collective goods, such as the reduction of global macroeconomic imbalances will less likely occur in the contemporary environment then during the Plaza Accord. From a interest-based approach, a similar outcome is likely to occur as the cost and potential for defection and free riding become a significant obstacle for cooperative outcomes to emerge between states. Such conceptions however fail to specify why state interests have developed so differently during the two periods, something that could have a dramatic effect on the chances of cooperative behavior to emerge.

Bringing Back Preference and Interest Formation: A Constructivist Twist

A constructivist approach to the two periods of global macroeconomic imbalances is relatively interesting due to the difference in ideational constructions utilized by states involved. In the first period, states utilized similar cognitive frameworks but generated significantly different interpretations of the fundamental mechanisms behind the imbalances. The second period highlights both differing cognitive frameworks and interpretations of the fundamental mechanisms behind the global macroeconomic imbalances.

During the Plaza Accord, the key participant states utilized similar classical or neoclassical economic frameworks that played down the importance or potential success that coordinated action could have on global macroeconomic imbalances. Such a framework argued for a focus on the 'appropriate' domestic macroeconomic policy mix to deal with the global macroeconomic imbalances. From this perspective, it is completely reasonable that such imbalances would emerge, as states would be inclined to ignore the spillover effects of their policies. The problem is that states still cooperated, albeit in a limited fashion, which is particularly difficult to reconcile with the cognitive frameworks they were purported to utilize. It would appear that as Webb suggested, politics played a larger role in determining that some form of cooperative arrangement was required, as the costs associated with the non-agreement were too high in political terms (Webb 1995). As such, it would appear that previous experience in dealing with such global imbalances dominated the approach generated, thereby focusing on foreign exchange intervention and not extending such cooperative action towards coordinated domestic macroeconomic management. Thus, socialization in terms of diplomacy was a more significant variable than the cognitive frameworks economic policy makers used during this period, creating a large source of contradiction within the constructivist approach.

In the contemporary period of global macroeconomic imbalances, the global macroeconomic imbalances that have dominated the bilateral relationship between the US and China, are being interpreted by the two states in dramatically different ways as their approaches to domestic macroeconomic policy are at odds over the relationship between state and market. Within a constructivist approach, this setting would be inclined to delineate a period of conflict, as neither participant is able to recognize the spillover effects of their own policies. This does not however specify that they are unable to locate such spillover effects caused by other states in terms of their own interests. This insight appears to be drawn out by statements and positions taken by China and the US, as both have ignored their own role in the current imbalances and located the source of such imbalances elsewhere (See BBC Feb. 17, 2006). A further insight that could be generated is that China has not been successfully 'socialized' into global economic management diplomacy regime. As it could be argued that, as China is relatively new to such affairs, it could be argued that it is unfamiliar with the proper etiquette that such a situation requires. This argument however belies the history of such diplomacy that has seen most participant states acting in ways that are similar to the way the Chinese government is currently reacting to global macroeconomic imbalances.[18]

Of interest however, is the recognition that interests need not be similar for cooperation to occur. The key it appears to successful coordination in the reduction of global macroeconomic imbalances is that the diversity of interests and preferences be complementary, particularly in terms of the adjustment mechanism chosen. Defining

[18] The most notable examples of this is the role that the US has played in these two time-periods, as it has tended to ignore its role in global macroeconomic imbalances.

what complementary interests priori to interaction is likely to be an extremely difficult endeavor, as states have a multitude of interests in any given issue area that they weigh with differing amounts of importance.

Filling in the Blanks: The Rational-Constructivist Synthesis

While the three previous approaches (power-based rationalism, interest-based rationalism and constructivism) have all provided unique insights into the behavior exhibited by states during the two periods of global macroeconomic imbalances covered in this thesis, all three had significant deficiencies in their explanations that required additional theorizing beyond the scope of their approach. The proposed rational-constructivist synthesis attempts to take advantage of the unique insights that each approach generates on its own but sequence them such that additional theorizing is not required.

During the Plaza Accord period, Japan appears to be cognizant of both its location within the international system in terms of its relational position but also in terms of structuring a potential cooperative agreement utilizing preexisting institutional fora. Such an insight is coherent with the Synthesis approach but not with any of the three other approaches. This is because, the Japanese position was a blend of elements that included relative and absolute gains concerns, the belief that institutions might curtail the unilateral behavior of the US but also that the US was a requirement for cooperative action, as a combination of Germany and Japan teaming against the US would be unlikely to be successful. The choice of utilizing foreign exchange intervention as an adjustement mechanism is also not surprising utilizing a Synthesis approach as preexisting experience conditions the cognitive frameworks utilized, such that Germany and Japan were unlikely to repeat a 'locomotive' type strategy as was conducted after the Bonn Summit, despite the desire for this outcome during the Plaza Accord from the US (See Funabashi 1998, 140). Such a strategy also insulates their domestic policy autonomy, something that states appear to be socialized to protect, as the politics of domestic autonomy appear sacrosanct.[19] From this, a further mystery is answered in terms of why did Japan and Germany go along with the foreign exchange intervention despite the apparent free-riding of the US? A possible explanation is that continued intervention was rational and cost effective for Japan and Germany, as a continuation of global imbalances would be more costly for their interests and preferences.

In the case of the contemporary global macroeconomic imbalances, a key mystery has been explaining China's policy preferences and actions, which has led to the creation of a large and diverse literature in competing theories over this issue. Two questions however must be answered that none of the previous approaches have satisfactorily answered. The first is why China has recycled its surplus back into USD denominated debt when such actions increase its asymmetrical sensitivity to US domestic macroeconomic policy. Secondly, why has the Chinese government continued its fixed-

[19] However, the logic behind the formation of the Euro slightly underwrites this condition, as the formation of the Euro effectively curtailed the unilateral domestic autonomy exhibited by states. Nevertheless, if one considers the proliferation of independent central banks, the utilization of monetary policy for domestic purposes has been severely curtailed, and thus the Euro represented a significant increase in autonomy for states, as the increased transactional network of the Euro protected states from movements in international foreign exchange markets while still achieving the benefits that have a independent central bank has.

exchange rate regime despite the significant problems that have emerged from this regime in terms of its own domestic growth and stability?

Viewing these two questions through the synthesis approach, these two questions become interrelated. This is because the continuation of such policies is rational in terms of being cost-effective, as the increased costs that such policies are generating are smaller then the potential costs associated with changing domestic macroeconomic policies that have underwritten the strong economic growth and relative political stability that China has enjoyed. The potential for domestic political conflict that could emerge from potential changes to its foreign exchange regime is critical, as China perceives that its domestic financial system is unlikely to be prepared to effectively deal with a change to an open current account and a floating exchange rate (Rajan 2006). While such an interpretation focuses on China, a similar argument can be made about the US, as domestic policy makers are likely well aware that any potential slow down in growth could lead to a recession which would be costly in terms of political support for incumbent politicians. A key difference in explaining the outcomes of the two periods in terms of cooperative action from within the synthesis approach is the role that interpretation played in understanding adjustment mechanisms. During the Plaza Accord, the main participants had similar interpretations in terms of currency intervention but not of macroeconomic management, whereas the current period offers no similar interpretation amongst key participants.

Is it worth it? A Finally Evaluation of a Synthetic Approach

As this thesis has shown, a rational-constructivist synthesis approach develops unique insights into international monetary phenomena, particularly global macroeconomic imbalances. Such insights help to bring together some of the best aspects of the rationalist and constructivist approaches, as the insights generated by these approaches are quite often complementary despite the claims to the opposite. Rather, this thesis has followed the argument initially made by Hasenclever et al. (2000) that rational and constructivist approaches to IPE can be complimentary and that a synthesis type approach can bring together these approaches to provide a richer understanding of IPE.

Assessing whether the extra steps involved in utilizing a synthesis type approach are effective is a difficult task. The explicit introduction of socialization and cognitive frameworks into the rationalist-based approaches is crucial to the understanding of complex social phenomena, as the utilization of only the scientific methodology towards social phenomena is inherently different from the basic principles governing natural sciences phenomena and as such, the unaltered utilization of the scientific methodology is potentially misleading. This is because social phenomena are dynamic with no constant being exploitable to understanding such change. This is something that the physical sciences do not have to contend with, as atoms are governed by preexisting fundamental laws that are derived from constants that do not change with time. On the other hand, the scientific methodology is an incredibly powerful tool that has brought a significant progress to the state of knowledge in both the natural sciences but also within the social sciences and as such, this thesis does not argue for its removal. Rather, this thesis argues for a revaluation and evolution of the scientific methodology within the social sciences that explicitly recognizes the dynamic nature of social phenomena that accounts for the role that ideational constructions and socialization has in determining how agents behave in given circumstances. An evolution of the scientific methodology within the social sciences to incorporate such elements has the potential to bring concrete proposals to dealing with the multitude of global problems that challenges the world's governments and populations that no longer fit traditional conceptions of governance and human motivation.

The promise offered by a rational-constructivist synthesis approach argues powerfully for the further development and refinement of this approach beyond the simple sketch provided by this thesis. The synthesis approach highlights both the partial artificiality of the divide that exists between constructivists and rationalists that has emerged in the IPE literature but also the very real difficulty in assessing two very different metatheoretical approaches. The reconciliation between these two approaches is however has not been argued for, as further dialogue is required to establish the boundaries of both metatheoretical approaches that might ultimately provide a better understanding of social-economic phenomena. Reconciliation is however argued for between economics and political economy, as this thesis has demonstrated that some socio-economic phenomena require the knowledge and understandings of both disciplines. The current division between theorists of economics and international political economy only helps to propagate the failure in the provision of tangible proposals for tackling the world's economic and political challenges. This state of affairs is both disconcerting but also unnecessary, such that in conclusion this thesis calls for a reemergence of a dialogue between economists and IPE scholars to tackle real economic problems such as the current global macroeconomic imbalances.

Bibliography

Adler, Emmanuel, 1997. "Seizing the Middle ground: constructivism in world politics". *European Journal of International Relations*. 3(3): 319-63

Adler, Emmanuel and Peter Haas, 1992. "Conclusion: Epistemic Communities, World Order, and the Creation of a Reflective Research Program". *International Organization*. 46(1): 367-390

Andrews, David 1994. "Capital Mobility and State Autonomy: Toward a Structural Theory of International Monetary Relations". *International Studies Quarterly* 38: 193-218

Andrews, David and Thomas Willett 1997. "Financial interdependence and autonomy of the state". *International Organization* 51(3): 479-511

Asia Times Online May 13, 2005 "US begging for dollar devaluation". *Asian Times Online.* www.atimes.com/atimes/China/GE13Ad02.html

Baldwin, David 1993. "Neoliberalism, neorealism, and world politics" in Neorealism and Neoliberalism: The Contemporary Debate. Ed. David Baldwin. New York: Columbia University Press

Balls, Andrew and Chris Giles 2005. "Bright spots can't hide a precarious balancing act". *Financial Times*. Proquest Search. October 7, 2005. Pg.1

Balls, Andrew, Mure Dickie and Edward Alden 2005. "Foreign exchanges: The American diplomacy behind China's revlauation". *Financial Times.* Proquest Search. July 25, 2005. Pg.15

BBC News February 17, 2006. "Fears of growing US trade rift with China". news.bbc.co.uk/2/hi/business/4719826.stm. July 17, 2006

BBC News April 21, 2006. "IMF faces new pressures to reform". news.bbc.co.uk/2/hi/business/4929636.stm. July 17, 2006

Bernhard, William, J. Lawrence Broz and William Clark 2000. "The Political Economy of Monetary Institutions". *International Organziation.* 56(4): 693-723

Best, Jacquelin 2003. "From the top-down: the new financial architecture and the re-embedding of global finance". *New Political Economy.* 8(3): 363-84

Broz, Lawerence and Jeffrey Frieden 2001. "The Political Economy of International Monetary Relations". *Annual Review of Political Science.* 4: 317-343

Cerny, Philip 1995. "Globalization and the Changing Logic of Collective Action". *International Organization*. 49(4): 595-625

Checkel, Jeffrey 1997. "International norms and domestic politics: bridging the rationalist-constructivist debate". *European Journal of International Relations*. 3: 473-95

Checkel, Jeffrey 1998. "The constructivist turn in international relations theory". *World Politics*. 50: 324-48

Chinn, Menzie and Eswar Prasad 2003. "Medium-term determinants of current accounts in industrial and developing countries: an empirical exploration". *Journal of International Economics*. 59: 47-76

Coeure, Benoit and Hean Pisani-Ferry 1997. "The Case Against Benign Neglect of Exchange Rates". *Finanance and Development*. 36(3): 5-8

Cohen, Benjamin 2004. The Future of money. Princeton, NJ: Princeton University Press

Cooper, Richard 1986. Economic Policy in an Interdependent World: essays in world economics. Cambridge, Mass. : MIT Press

Cooper, Richard 1975. "Prolegonema of the choice of an international monetary system". *International Organization*. 29(1): 63-97

Crock, Hilary, Steve Kamin and Sylvain Leduc 2005. "Financial Market Developments and Economic Activity during Current Account Adjustments in Industrial Countries". *International Finance Discussion Paper*, Board of Governors of the Federal Reserve System. http://www.federalreserve.gov/pubs/ifdp/

De Goede, Marieke 2003. "Beyond Economism in international political economy". *Review of International Studies*. 29: 79-97

Dooley, M., D. Folkerts-Landau and P. Garber 2003. "An Essay on the revised Bretton Woods System". *NBER Working Paper* #9971

Dooley, M., D. Folkerts-Landau and P. Garber 2004. "The Revised Bretton Woods System: The effects of periphery intervention and reserve management on interest rates and exchange rates in center countries". *NBER Working Paper* #10332

Economy, Elizabeth and Adam Segal 2003. "Trade Tensions". *Council on Foreign Relations Op-ed* www.cfr.org/publications/6591/trade_tensions.html. July 15, 2005

Eichengreen, Barry 1987. "Hegemonic Stability Theory of the International Monetary System". *NBER Working Paper* #2193

Eichengreen, Barry 2004. "Global Imbalances and the Lessons of the Bretton Woods". *NBER Working Paper* #10497

Eichengreen, Barry 1996. Globalizing Capital: A History of the International Monetary System . Princeton NJ: Princeton University Press

Eichengreen, Barry and Michael Bordo 2002. "Crises now and then: What lessons from the last era of financial globalization". *NBER Working Paper*. #8716

Eichengreen, Barry and Yung Chil Park 2004. "The Dollar and the Policy Mix Redux". Paper presented at the Korean Development Institute March 23, 2004. www.econ.berkley.edu/~eichengr/policy/globalimbalances3jun9-04.pdf

Finnemore, Martha and Kathryn Sikkink 2001. "Taking Stock: The constructivist research program in international relations and compartative politics". *Annual Review of Political Science*. 4: 391-417

Finnemore, Martha and Kathryn Sikkink 1998. "International Norm Dynamics and International Change". *International Organization*. 52(4): 887-917

Fratianni, Michele and Andreas Hauskrecht 1998. "From the Gold Standard to a Bipolar Monetary System". *Open economies review*. 9:S1: 609–635

Frenkel, Jacob and Morris Goldstein 1989. "Exchange Rate Volatility and Misalignment: Evaluating Some Proposal for Reform". *NBER Working Paper*. #2894

Funabashi, Yoichi 1988. Managing the Dollar: From the Plaza to Louvre Washington: Institute for International Economics

Gallarotti, Giulio 2005. "Hegemons of a lesser God: the Bank of France and monetary leadership under the classical gold standard". *Review of International Political Economy*. 12(4): 624-46

Geithner, Timothy 2006. Remarks at the Global Financial Imbalances Conference at Chatham House, London. http://www.ny.frb.org/newsevents/speeches/2006/gei060123.html, January 23, 2006

Gilpin, Robert 1987. The Political Economy of International Relations. Princeton, NJ: Princeton University Press

Goldstein, Morris and Nicholas Lardy 2005. "China's role in the revised Bretton Woods System: A Case of Mistaken Identity". *IIE Working Paper Series*, March 2005 IIE. WP 05-2

Goldstein, Morris 2004. "Adjusting China's exchange rate policies". *Institute for International Economics Working Paper.* www.iie.com/publications/wp/wp04-1.pdf

Gowa, J. 1994. Allies, Adversaries, and International Trade. Princeton, NJ: Princeton University Press.

Greenspan, Alan 2004. "Greenspan says weaker dollar will help US narrow trade gap Text of Greenspan's remarks March 2, 2004". hongkong.usconsulate.gov/uscn/others/2004/030201.htm

Grieco, Joseph 1988. "Anarchy and the limits of cooperation: A realist critique of the newest Liberal Institutionalism". *International Organization.* 42(3)

Haas, Peter 1992. "Introduction: Epistemic Communities and International Policy Coordination". *International Organization.* 46: 1-35

Hasenclever, Andreas, Peter Mayer and Volker Rittberger 2000. "Integrating Theories of international regimes". *Review of International Studies.* 26: 3-33

Hasenclever, Andreas, Peter Mayer and Volker Rittberger 1997. Theories of International Regimes. Cambridge: Cambridge University Press

Helleiner, Eric 1994. States and the Reemergence of Global Finance: From Bretton Woods to the 1990s. Ithaca, N.Y.: Cornell University Press.

Henning, C. Randall 1994. Currencies and Politics in the United States, Germany, and Japan. Washington, D.C.: Institute for International Economics.

Ikenberry, G. John 1992. "A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement". *International Organization.* 46(1): 289-321

Ito, Takatoshi 2004. "The Yen and the Japanese Economy, 2004" in Dollar Adjustment: How Far? Against What?. Institute for International Economics. Pg. 171-196

Jackson, David 2006. "Bush-Hu talks center on trade gap dispute". *USA Today.* www.usatoday.com/news/world/2006-04-20-hu-visit_x.htm 4/20/2006

James, Harold 1996. "International Monetary Cooperation Since Bretton Woods" *International Monetary Fund Working Paper*. www.imf.org

Jupille, Joseph, James Caparso and Jeffery Checkel 2003. "Integrating Institutions: Rationalism, Constructivism, and the Study of the European Union". *Comparative Political Studies*. 36(1/2): 7-40

Kempe, Frederick 2006. "Why Economists Worry About Who Holds Foreign Currency Reserves". *The Wall Street Journal*. 9-May-06: A8

Kenen, Peter 2001. The International Financial Architecture: What's New? What's Missing?. Washington, D.C.: Institute for International Economics.

Keohane, Robert 1997. "Problem lucidity: Stephen Krasner's State Power and the Structure of International Trade". *World Politics*. 50: 150-70

Keohane, Robert 1989. International Institutions and State Power. Boulder, San Francisco, London: Westview Press

Keohane, Robert 1984. After Hegemony: Cooperation and Discord in the World Political Economy. Princeton, NJ: Princeton University Press

Keohane, Robert 1982. "Demand for international regimes". *International Organization* 36(2): 325-55

Keohane, Robert 1975. "International Organization and the Crisis of Interdependence". *International Organization*. 29(2)

Kindleberger, Charles 1986. "International Public Goods without International Government". *The American Economic Review*. 76(1)

Kindleberger, Charles 1981. "Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides". *International Studies Quarterly*. 25: 242-54

Kindleberger, Charles 1989. Manias, Panics, and Crashes: a history of financial crisis. New York: Basic Books

Kindleberger, Charles 1973. The World in Depression, 1929 – 1939. Berkley: University of California Press

Kirshner, Jonathan 2003. "Money is Politics". *Review of International Political Economy*. 10(4): 645-60

Krasner, Stephen 1991. "Global Communications and National Power: Life on the Pareto Frontier". *World Politics*. 43(3): 336-66

Krasner, Stephen 1976. "State power and the structure of international trade".*World Politics*. 28: 317-47

Kuttner, Kenneth and Adam Posen 2001. Beyond Bipolar: A three dimensional assesment of monetary frameworks. Washington DC: Institute for International Economics

Lake, David 1988. Power, Protection and Free Trade. Ithaca, NY: Cornell Univ. Press

Lake, David 1993. "Leadership, hegemony and the International Economy". *International Studies Quarterly*. 37:459-89

MacKenzie, David 2003. "An Equation and its World". *Social Studies of Science*. 33(6): 831-868

Mankiw, Gregory 2001. "US Monetary Policy During the 1990s". *NBER Working Paper*. #8471

Mann, Catherine 2004. "Managing Exchange Rates: Achievement of Global Rebalancing or evidence of global co-dependency". *Business Economics*. July

Martin, Lisa 1992. "Interests, Power, and Multilateralism". *International Organization*. 46: 765-92

McNamara, Kathleen 1999. "Consensus and Constaint - ideas and capital mobility in european monetary integration". *Journal of Common Market Studies*. 37(3): 455-76

Mearsheimer, John 1994/5. "The False Promise of International Institutions". *International Security*. 19(3): 5-49

Milner, Helen 1997. Interests, Institutions and Information: Domestic Politics and International Relations. Cambridge: Princeton University Press

Obtsfeld, Maurice and Kenneth Rogoff 2005. "Global Current Account Imbalances and Exchange Rate Adjustment" Draft

Olson, Mancur 1965. The Logic of Collective Action: Public Goods and the Theory of Groups. Cambridge: Princeton University Press

Pempel, T.J. 2000. "International Finance and Asian regionalism". *The Pacific Review.* 13(1): 57-72

Rajan, Raghuram 2006. "Financial System Reform and the Global Current Account Imbalances". Remarks made at the American Economic Association meeting in Boston, MA on January 8, 2006. www.imf.org/external/speeches/2006/010806.htm

Roubini, Nouriel and Brad Setser 2005. "Will the Bretton Woods 2 Regime Unravel Soon – A Case for a Hard Landing". Paper from the Symposium on the "Revived Bretton Woods System: A New Paradigm for Asian Development?" organized by the Federal Reserve Bank of San Francisco and UC Berkeley, San Francisco, February 4th, 2005. www.rgemonitor.com

Roubini, Nouriel and Brad Setser 2004. "The US as a Net Debtor: The Sustainability of the US External Imbalances". www.rgemonitor.com

Ruggie, John 1998. Constructing the World Polity: Essays in International Institutionalization. London: Rutledge

Sarno, Lucio and Mark Taylor 2001. "Official Intervention in the Foreign Exchange Market: Is it effective, and if so, how?". *Journal of Economic Literature.* September: 839-868

Sharma, Shalendra 2003. The Asian Financial Crisis: Crisis, reform and recovery. Manchester, UK: Manchester University Press

Smith, Steve 2000. "The discipline of international relations: still an American social science". *British Journal of Politics and International Relations*

Smith , Steve 1996. "Positivsm and Beyond" in International Theory: Positivism and Beyond. Ed. Ken Booth and Marysia Zalewski. Cambridge: Cambridge University Press. 11-44

Smith, Steve and Martin Hollis 1996. "Why Epistemology Matters in International Theory". *Review of International Studies.* 22(1): 111-116

Snidal, Duncan 1985. "The Limits of Hegemonic Stability Theory". *International Organization.* 39(4): 579-614

Snow, John 2003. Press Roundtable Transcript with Treasury Secretary Snow in Beijing, China on Sept. 3, 2004. The Department of the Treasury www.treas.gov/press/releases/js692/htm. Sept. 3, 2003

Soederberger, Sussane 2001. "The Emporor's New Suit: The New International Financial Architecture as a Reinvention of the Washington Consesus". *Global Goverance.* 7: 453-67

Sterling-Folker, Jennifer 2002a. Theories of International Cooperation and the Primacy of Anarchy: Explaining U.S. International Monetary Policy-Making after Bretton Woods. Albany: State University of New York Press

Sterling-Folker, Jennifer 2002b. "Realism and the Constructivst Challenge: Rejecting, Reconstructing, or Rereading". *International Studies Review*

Sterling-Folker, Jennifer 1997. "Realist Environment, Liberal Process, and Domestic-level Variables". *International Studies Quarterly.* 41: 1-25

Strange, Susan 1998. Mad Money: When Markets Outgrow Governments

Strange, Susan 1987. "The Persistent Myth of Lost Hegemony". *International Organization.* 41: Autumn

Taylor, Lance 2002. "Exchange Rate indeterminancy in the portfolio balances, Mundell-Fleming and uncovered interest rate parity models". *CEPA Working Papers*

Volcker, Paul 1994. "Monetary Policy" in American Economic Policy Since 1980. Ed. Martin Feldstein. National Bureau of Economic Research Conference Report

Webb, Michael 1991. "International Economic Structures, Government Interests, and Internatioal Coordination of Macroeconomic Adjustment Policies". *International Organization.* 45:309-342

Webb, Michael 1995. The Political Economy of Policy Coordination: international adjustment since 1945. Ithaca, NY: Cornell Univ. Press

Wendt, Alexander 1999. Social Theory of International Politics. Cambridge: Cambridge University Press

Wendt, Alexander 1987. "The agent-structure problem in international relations theory". *International Organization.* 41: 335-70

Wendt, Alexander 1992. "Anarchy is what states make of it". *International Organization.* 46: 391-425

Wendt, Alexander 1994. "Collective identity formation and the international state". *American Political Science Review.* 88: 384-96

Wendt, Alexander 1998. "On the constitution and causation in international relations". *Review of International Studies*. 24: 101-117

Widmaier, Wesley 2003. "Constructing monetary crises: New Keynesian understandings and monetary cooperation in the 1990s". *Review of International Studies*. 29: 61-77

Widmaier, Wesley 2004. "The Social Construction of the 'Impossible Trinity': The Intersubjective Bases of Monetary Cooperation". *International Studies Quarterly*. 48: 433-453

Wiener, Antje 2003. "Constructivism: The Limits of Bridging Gaps". *Journal of International Relations and Development*. 6(3): 252-275

Wu , Xiaoling 2005. "Pressure on yean revaluation won't work". Embassy of the People Republic of China in the United States of America us.china-embassy.org/eng/xw/t195378.htm 5/12/2005

Young , Oran 1999. Governance in World Affairs. Ithaca, NY: Cornell Univ. Press

Young, Oran 1986. "International Regimes: Toward a New Theory of Institutions". *World Politics*. 39: 117-21