PART ONE

Power, Statecraft, and International Monetary Relations

CHAPTER ONE

Monetary Power and Monetary Statecraft

David M. Andrews

On October 31, 1956, British and French military forces invaded Egypt, determined to seize the Suez Canal and humiliate Egyptian president Gamal Abdel Nasser, who had nationalized the international waterway some three months earlier. About a week after the invasion, on November 5, the pound sterling came under sustained pressure on international markets. The following day, British officials contacted their U.S. counterparts to request support; they were, instead, told that no help would be forthcoming until Britain conformed to a U.S.-sponsored UN resolution calling for an immediate ceasefire and withdrawal of its forces from Egypt. In addition to the market pressure, the British were told, the United States would block the United Kingdom's access even to its own reserves in the International Monetary Fund (IMF). On the other hand, if London withdrew its forces the United States would not only cooperate with the United Kingdom at the IMF but would provide additional resources in the form of an immediate export-import credit.

"This was blackmail," recalled Richard A. Butler, a senior adviser to Prime Minister Anthony Eden and former chancellor of the Exchequer. "But we were in no position to argue."[1] Harold Macmillan, his successor as chancellor, agreed and then delivered the bad news to the war cabinet. The run on the pound, he explained, had been "viciously orchestrated" by the United States and would end only if a cease-fire were ordered by midnight that evening.[2] In fact, Britain capitulated ahead of schedule, announcing a cease-fire at 5 p.m. on November 6—despite the entreaties

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1. Richard A. Butler, *The Art of the Possible: The Memoirs of Lord Butler* (Boston: Gambit, 1972), 195.
2. Alistair Horne, *Harold MacMillan,* volume 1: 1894–1956 (New York: Viking, 1989), 440.

of its French ally. "Thus the United States," as Jonathan Kirshner observes, "was able to stop a military invasion in its tracks."[3]

This episode gives rise to certain questions. What circumstances allowed U.S. authorities to achieve this stunning shift in British foreign policy? What lessons can be drawn from this incident, as well as from other instances of monetary statecraft? More generally, what are the sources of international monetary power? How can it be exploited, and what are its limits?

In this chapter, I provide an introduction to the subject and survey our collective findings. The first two sections discuss international monetary power as a relational concept and the different forms it can assume. The remainder of the chapter distinguishes monetary power from monetary statecraft, examines monetary statecraft more closely, and discusses limits to the exercise of monetary power.

Power and International Monetary Relations

As explained in the introduction to this volume, we understand international monetary power as a relational property; it is manifest when one state's behavior changes because of its monetary relationship with another state. In defining monetary power in this fashion, we are adopting a particular view of causality. To say that state *A* has power over state *B* is to make the claim that *A*'s relationship with *B* is causing *B* to behave in a certain way with respect to policy *C*. Of course, *A* may not be the sole cause of *B*'s behavior; social reality is complex and explanations are therefore typically multivariate in nature. But the claim does imply a counterfactual corollary: *B*'s relationship with *A* is causing *B* to behave differently than would otherwise be the case. Unless this corollary obtains, the claim that *A* has power over *B* is meaningless.[4]

Accordingly, claims regarding power require a certain precision if they are to be evaluated. Specifically, claims about an actor's power must be described in terms of scope (that is, power with respect to which policies or behaviors?) and domain (power over which other actors?).[5] In assessing questions of scope and domain, it is useful to consider just how monetary power—understood as a relational property—manifests itself.

Monetary relations can alter policy behavior both directly and indirectly. Indirect means of influence involve issue linkage—connecting outcomes on subject *x* (regarding monetary affairs) to outcomes on subject *y* (on some unrelated topic), or

3. Jonathan Kirshner, *Currency and Coercion: The Political Economy of International Monetary Power* (Princeton: Princeton University Press, 1995), 64–70, quotation on 70.

4. Although the emphasis here is on the observable, *behavior* can instead be understood very broadly, as including "beliefs, attitudes, opinions, expectations, emotions, and/or predispositions to act"; see David A. Baldwin *Economic Statecraft* (Princeton: Princeton University Press, 1985), 20n.42.

5. These terms date back to Harold D. Lasswell and Abraham Kaplan, *Power and Society: A Framework for Political Inquiry* (New Haven: Yale University Press, 1950). Even contingent claims require qualification in terms of scope and domain; see the discussion in David A. Baldwin, ed., *Neorealism and Neoliberalism: The Contemporary Debate* (New York: Columbia University Press, 1993), 16–17.

vice versa. Plainly governments can and sometimes do seek to gain leverage by linking monetary behavior to other matters, as the Suez example demonstrates; indeed the availability and utility of such linkages is the major reason why high politics cannot be separated from low politics.[6]

Linking monetary relations to states' foreign policy objectives was a major focus of Jonathan Kirshner's 1995 study *Currency and Coercion;* in the present volume, Kirshner (chap. 7) evaluates the continuing relevance of such efforts in light of changes to global political and economic relations. But linkage strategies involving monetary relations cannot be properly understood without first understanding power relations within the scope of monetary policy itself; otherwise, we cannot understand when and why such efforts succeed. We are therefore concerned, first and foremost, with the power implications intrinsic to international monetary relations. For example, national authorities will at least occasionally have different preferences regarding currency use, currencies' mutual values, payments financing, and liquidity provision.[7] How will the resulting collision of preferences be resolved?

To illustrate this problem, consider another example of monetary statecraft, once again involving the major economic powers of the day—in this case, the United States, West Germany, and Japan in the mid-1970s. Upon assuming office, economic officials in the Jimmy Carter administration were not satisfied with the pace of global economic recovery from the recession caused by the first oil crisis. However, the Carter team preferred not to stimulate the U.S. economy in isolation, which would have aggravated the current account deficit. Instead, they advocated stimulus within countries with current account surpluses—Germany and Japan in particular—on the theory that these "locomotives" should drive global recovery. When the governments in Bonn and Tokyo resisted this notion, U.S. officials let it be known that they would be content to allow and even to encourage the dollar to depreciate against their currencies. In the face of the subsequent appreciation of the yen, the Japanese government committed, in a bilateral agreement in early 1978, to a program of fiscal stimulus; the German government agreed to similar measures at the Bonn summit of 1978. Although the latter development was part of a larger, more balanced package (in which the United States agreed to decontrol oil prices and France and Italy agreed to conclude the Tokyo round of trade negotiations), the Germans almost certainly would not have consented to stimulate their economy in the absence of deliberate U.S. pressure on the dollar-deutschmark exchange rate.[8]

In short, the monetary policy preferences of the United States prevailed—al-

6. A distinction coined by Stanley Hoffmann, "Obstinate or Obsolete? The Fate of the Nation-State in Western Europe Today," *Daedalus* 95, no. 3 (1966): 862–916.

7. Note that in developing this list we confine ourselves to finance's monetary dimension; for treatments of broader issues of international credit, see the references in the introduction to this volume.

8. I. M. Destler and Hisao Mitsuyu, "Locomotives on Different Tracks: Macroeconomic Diplomacy, 1977–1979," in *Coping with U.S.-Japanese Economic Conflicts,* ed. I. M. Destler and Hideo Sato (Lexington: Lexington Books, 1982), 243–70; Robert D. Putnam and C. Randall Henning, "The Bonn Summit of 1978: A Case Study in Coordination," in *Can Nations Agree? Issues in International Economic Cooperation,* ed. Richard N. Cooper, Robert D. Putnam, C. Randall Henning, and Gerald Holtham (Washington, D.C.: Brookings Institution, 1989), 12–140.

though admittedly not without some offsetting concessions from Washington. But those concessions, although real, were not the heart of the matter. Why was the United States able to pressure its largest economic partners into altering their domestic policies? More generally, how is the pursuit of different national monetary preferences resolved in an interdependent setting? What are the characteristics of power in such interactions? Satisfactory answers to these questions are necessary to improve our understanding both of monetary relations between states and of international relations more generally.

Forms of International Monetary Power

Pathways for the exercise of monetary power are to be found both at the state or macro-level and through nonstate actors at the micro-level. These two dimensions of monetary power are, of course, connected: micro-level behavior can result in pressure for changes in macro-level policy, and vice-versa. Still, the two can be distinguished for analytical purposes, and by distinguishing between them we can better understand the power implications of each.

At the macro-level, the problem of adjustment to balance-of-payments disequilibrium is central to discussions of monetary power. Payments imbalances (or prospective imbalances) can result in pressures on states to abandon preferred policies; witness the events leading to the Bonn summit, as already discussed. This problem is ubiquitous among politically independent states, whether they organize their monetary systems nationally or collectively.[9] But the problem of adjustment is particularly pronounced in modern democracies because the expectations of electorates regarding national economic policy performance have risen dramatically. In such societies, resistance to changing domestic policy because of external pressures has become increasingly pronounced in the last hundred-odd years. As a result, the distribution of adjustment costs among states is intensely contested.

Of course, there are technical aspects of this distribution that are uncontroversial. Payments deficits result from the national absorption of resources in excess of current income; it therefore follows that a return to balance requires the deficit state to reduce its absorption of resources relative to income.[10] From the standpoint of traditional economic theory, therefore, real adjustment—as opposed to financing a continuation of the imbalance—always results in a reduction in a deficit state's absorption relative to its income. Less of the deficit state's national income is spent and more saved.

As we will see, however, neither standard economic theory nor modern political economy makes strong positive claims about precisely how the interstate adjustment process actually occurs—in other words, about the path for return to payments

9. Even the participants in a monetary union experience the problem of payments imbalances as part of their dealings with the outside world.

10. A qualifier is in order; sometimes payments deficits result from states borrowing from abroad to finance productive development at home, in which case the imbalance is temporary and self-correcting. For a more complete discussion, see Benjamin J. Cohen (chap. 2 in this volume).

equilibrium. This omission is of more than merely academic interest: at stake is the capacity of national authorities to make basic decisions about their national economies—about taxing and spending; about the level of interest rates; and about inflation, employment, and growth—independently of external influences.[11] To put it bluntly, will payments balance be restored by inflating surplus economies or by disinflating deficit economies? Questions like this are intensely political, and power relations play a central role in their resolution.

Adjustment is therefore a central feature of monetary relations bearing on power; but it is not the only such issue. At the micro-level, the organization of a monetary system, whether national or collective, can shape private-sector behavior and even individual consciousness in ways that, in turn, influence policy choices. Likewise, international monetary relations—relations between monetary systems—can help rearticulate economic interests and redefine social identity. Our examination of monetary power therefore examines not only the logic of monetary adjustment; we consider as well the implications of interstate monetary relations for individual and collective behavior, preferences, and even self-understanding. To ignore these features of the monetary landscape would be to grossly underestimate the reach of international monetary power.

A more complete discussion of these issues follows; but suffice it to say that, at the macro-level, the key issue is who *pays* the costs of adjustment. Adjustment costs are not uniform; some are continuing, others transitional. Monetary power at the macro-level consists of the capacity either to delay payment of adjustment's continuing costs or to deflect its transitional costs on to others. Different mechanisms are associated with these two capacities, each with distinctive sources.

At the micro-level, by contrast, the chief issue is who *benefits* from the organization of international monetary affairs. For example, specific producer and consumer interests may have different preferences (with varying levels of intensity) for exchange-rate levels or for particular exchange-rate regimes.[12] But static analysis of these and related matters is often insufficient to assess power relations. Why? Because monetary relations sometimes encourage substate actors to rearticulate their interests or even to reconstruct their self-conceptions. Such changes can then have serious repercussions for the economic, social, and even political allegiances of individuals and groups. As at the macro-level, different mechanisms—rooted in different sources—exist for accomplishing these varied micro-level tasks.

Attention to these different pathways for influence is critical given our understanding of international monetary power—that is, a relational property that exists whenever one state's behavior changes because of its monetary relationship with another state. Analysis must therefore be multidimensional, as monetary power can as-

11. A less conspicuous distributional concern at the interstate level involves the benefits derived from seigniorage—that is, the revenues to public authorities deriving from the difference between the nominal value of currencies and the costs of their production. See the discussion in Benjamin J. Cohen, *The Geography of Money* (Ithaca: Cornell University Press, 1998), 39–42, 123–25.

12. This is a central concern of political economy theorists focusing on domestic distributional concerns (see references in the introduction to this volume). For a summary, see Lawrence J. Broz and Jeffry Frieden, "The Political Economy of International Monetary Relations," *Annual Review of Political Science* 4 (June 2001), 317–43.

Table 1.1 Forms of international monetary power

	Level of analysis			
	Macro-level		Micro-level	
Power to . . .	deflect the transitional costs of adjustment	delay the continuing costs of adjustment	rearticulate actor interests	reconstruct actor identities
Primary mechanisms	Passivity with respect to adjustment pressures, thus encouraging other states to bear the brunt of price and income changes required for mutual adjustment	Drawing down reserves or borrowing from abroad, thus postponing real adjustment	Adoption of an extraterritorial currency for at least some purposes, resulting in: Reduction of mutual transaction costs; trade diversion; and formation of new private sector coalitions	Adoption of an extraterritorial currency for at least some purposes, resulting in: Collective experience of monetary phenomena; symbolic role of money in identity formation
Principal sources	Fundamental economic characteristics (esp. relative economic size and openness)	Overall liquidity position (foreign reserves plus access to international credit)	Functional attractiveness of extra-territorial currencies; side payments from interested parties to key decision makers	
	Credibility of policy framework; quality of financial market institutions			

sume different forms depending on the nature of the relationship in question. Four distinct forms (or types) of international monetary power are summarized in table 1.1; the following sections survey each in more detail.

The Macro-Dimension: Who Pays?

Despite the centrality of monetary adjustment to international economic theory, the standard literature provides very little guidance about the precise route that adjustment will take.[13] Neither economics nor political science makes clear claims about exactly who adjusts to whom.[14] Indeed, lacking a strong positive model about

13. Optimum currency area theory is a partial (but only partial) exception, and even its highly qualified claims are primarily exhortatory: it offers a framework for determining how governments *should* organize their monetary affairs, not how they *do* organize them. See the references in the introduction to this volume.

14. Despite its title, *Who Adjusts? Domestic Sources of Foreign Economic Policy during the Interwar Years* (Princeton: Princeton University Press, 1994) by Beth Simmons does not take up this question. Its discussion is limited to differences in states' willingness to comply with a given set of adjustment rules rather than addressing how those rules were arrived at or whom they benefited.

how adjustment takes place, even prescriptive arguments about the adjustment process are generally weak.[15]

Among the very few works to address this issue seriously is a 1966 article by one of the contributors to this project, Benjamin Cohen.[16] In this unjustly neglected work, Cohen explicitly distinguishes between continuing and transitional adjustment costs. The *continuing* cost of adjustment is the cost that prevails after all change associated with the return to payments equilibrium has occurred. This cost must be paid by the (formerly) deficit state—because by definition deficit states absorb resources in excess of their income, and a return to balance means that this state of affairs has ceased. The *transitional* cost of adjustment, by contrast, refers to the cost of the change itself—that is, the cost associated with restoring payments balance. Economic theory provides no guidance whatsoever as to how this cost will be paid; its distribution is, as Cohen argues (chap. 2 in this volume), "up for grabs."

This distinction is critical. Although the costs associated with the transition to payments equilibrium are by definition temporary, the relevant time horizon for national leaders is often limited to that transitional period. Leaders care about the costs of transition and generally prefer to have others pay them—to externalize adjustment costs. They cannot, however, all be successful in this endeavor; hence, international monetary relations have an inherently competitive dimension. The results of that competition are likely to be decided on the basis of power.

In returning to this subject, Cohen explicitly addresses the power implications of his earlier analysis. Corresponding to the different forms of adjustment costs, he argues, are two very different forms of monetary power: the Power to Delay payment of the continuing costs of adjustment, and the Power to Deflect adjustment's transitional costs.

Because it serves the interests of deficit countries to postpone the payment of the continuing costs of adjustment for as long as possible, the Power to Delay has enormous significance. The most critical determinants of this capacity, Cohen argues, are financial variables—above all, a country's international liquidity position, which encompasses both foreign reserves and access to external credit. The more liquidity a country has at its disposal, the longer it can postpone adjustment of its balance of payments. The Power to Deflect, on the other hand, concerns the capacity of states to pass on the transitional costs of adjustment to their economic partners. Instead of deriving from financial variables, this capacity originates in more fundamental economic variables that distinguish one national economy from another. Two fea-

15. There is a large literature on macroeconomic policy coordination that discusses how adjustments should be made; see references in Thomas D. Willett, "Developments in the Political Economy of Policy Coordination," *Open Economies Review* 10, no. 2 (May 1999): 221–53. But, as Richard N. Cooper puts it, "Ideally, responsibility for adjustment between deficit and surplus countries would be divided according to some world welfare criteria, but we have no such criteria." "Comments on Adjustment Responsibilities," in *The International Monetary System: Problems and Proposals,* ed. Lawrence H. Officer and Thomas D. Willett, 135–38 (Englewood Hills: Prentice-Hall, 1969), quotation on 136.

16. Benjamin J. Cohen, "Adjustment Costs and the Distribution of New Reserves," *Princeton Studies in International Finance,* no. 18 (1966).

tures in particular stand out: the relative openness and degree of adaptability of each individual economy.

Thus understood, the Power to Delay the continuing costs of adjustment can be enhanced by improving the state's international liquidity position; the Power to Deflect the transitional costs of adjustment can likewise be magnified by altering the state's underlying economic characteristics.[17] But these are not trivial undertakings: none of the associated variables is subject to easy manipulation. Although states may jostle for position within what Cohen calls "the currency pyramid," it is difficult to replace a monetary leader.[18]

In fact, even modest differences in initial economic and financial conditions are likely to result in highly asymmetrical relations among monetary players; the resulting hierarchy is characterized by what I call (chap. 5 in this volume) "passive leadership" at the top and policy subordination by follower states. The subject of monetary leadership is therefore an important one. Andrew Walter (chap. 3 in this volume) distinguishes between two aspects of international monetary leadership—currency leadership and liquidity leadership. Walter argues that currency leadership, which occurs when a national currency plays a dominant role as an anchor, vehicle, and investment currency for international transactions between public or private actors in the world economy, is logically prior to liquidity leadership, which occurs when one or more countries provide short- and longer-term liquidity to the world economy in a stabilizing, countercyclical fashion. Walter identifies the domestic monetary and financial arrangements necessary for developing and sustaining such leadership. In particular, he argues, currency leaders need institutional arrangements that make the conservative commitments of monetary policy makers credible and that facilitate the emergence of well-developed financial markets.

Within the resulting international monetary hierarchy, improvement relative to others is generally possible only at the margins or over the long haul. That said, important changes can result from negotiating new political arrangements within states (or among them) that reduce national vulnerability to external influences. This was certainly the case with the introduction of Economic and Monetary Union (EMU) in Europe. C. Randall Henning (chap. 6 in this volume) examines instances of significant, long-term changes in monetary and other economic arrangements in both Europe and Japan, and the circumstances that prompted them. Having been exposed repeatedly to U.S. monetary statecraft (as in the run-up to the Bonn summit), both European and Japanese authorities embarked on projects to deploy countermeasures; EMU was one of these.

Thus, although it is difficult to engineer changes in the power position of states in the international monetary arena are difficult to engineer, it is not impossible. Henning's chapter assesses the effectiveness of ongoing efforts to this end by the leading economic partners of the United States.

17. Or by altering the political domain of a currency, as, for example, through the formation of a currency union.

18. Cohen, *Geography of Money,* 113–18.

The Micro-Dimension: Who Benefits?

Standard economic studies of international monetary relations have tended to focus almost exclusively on the macro-level questions previously raised. The political economy literature, on the other hand, has recently begun to explore micro-level questions, especially those related to the aggregation and mediation of economic interests (primarily at the national level) with respect to exchange-rate policy.[19] This literature has important implications for the study of international monetary power, although most of those implications remain unexplored.

Some initial observations have been offered, however, and much of the most sophisticated analysis along these lines has been done by Jonathan Kirshner. Drawing on the work of Albert Hirschman, Kirshner directs attention to "the transformation of interests that results from participation in a currency system," a process he calls "entrapment."[20] Membership in a currency area can divert trade and strengthen private-sector coalitions with close economic ties to the dominant state; it can also lead member governments to acquire an interest in the stability and value of the dominant state's currency.[21] These forms of dependence can reinforce the power of the dominant state in indirect ways that, although difficult to measure, may nevertheless be highly significant.[22] Put differently, money has the Power to Rearticulate the economic interests of important societal actors.[23]

Kirshner's analysis suggests that currency areas amount to a political exchange of sorts, in which monetary leaders provide certain benefits to followers either directly (for example, by pooling their foreign-exchange reserves with smaller members) or indirectly (in the form of side payments). For their part, followers cede control over certain of their internal policies; they also incur opportunity costs with respect to the resources extracted by the leader. Focusing on the domestic distribution of the costs and benefits of currency-area membership provides insights into when such an exchange is likely to prove stable. Scott Cooper (chap. 8 in this volume) examines the dynamics of these relationships, with attention to how currency areas create opportunities for both leaders and followers to engage in monetary statecraft.

But the micro-dimension of international monetary power is not limited to the rearticulation of economic interests; it also entails the Power to Reconstruct, at least at the margins, societal actors' very sense of identity. For example, Eric Helleiner has argued that the use of a common money may foster a sense of community be-

19. See the references in the introduction to this volume.

20. Kirshner, *Currency and Coercion,* 117–19, quotation on 118; Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1969).

21. Currency areas may entail the use of a common currency, as is the case with the CFA (Communauté financière d'Afrique) franc zone in West Africa, or the tying together of national currencies through an exchange-rate mechanism, as prevailed in the European Monetary System prior to the shift to EMU.

22. Kirshner, *Currency and Coercion,* 167, 268. Indeed, Kirshner argues (169, 249, 267) that the goal of currency entrapment has been the most important reason why dominant states have created currency areas, as Britain, France, and Germany did during the 1930s.

23. For a parallel argument about the effects of international trade, see Scott C. James and David A. Lake, "The Second Face of Hegemony: Britain's Repeal of the Corn Laws and the American Walker Tariff of 1846," *International Organization* 43, no. 1 (1989): 1–29, especially 3–9.

cause money acts, like language, as a basic medium of social communication.[24] As with language, a common currency can foster a sense of common identity, especially as individuals experience monetary phenomena together. Helleiner (chap. 4 in this volume) expands on these points and discusses how the reduction of transaction costs within a currency bloc, the development of a common interest in the value and stability of the core currency, the collective experience of monetary phenomena, and the symbolic role of money can work together to alter both interests and identity. In a fashion analogous to endogenous optimum currency area theory, he argues that a currency union at once requires a degree of social trust and mutual identification among its users and that it can help generate that trust.[25]

Monetary Power versus Monetary Statecraft

To summarize, international monetary power can assume any of a number of different forms: the Power to Deflect the transitional costs of monetary adjustment, the Power to Delay payment of adjustment's continuing costs, the Power to Rearticulate actors' economic interests, and the Power to Reconstruct actors' social identities. Regardless of the form it assumes, however, monetary power must be distinguished from monetary statecraft. Although monetary power exists whenever a state's behavior changes because of its monetary relationship with another state, monetary statecraft has a more restricted meaning: the conscious manipulation of monetary relations in order to affect the policies of other states.

Put differently, monetary power does not correspond to control; it corresponds, instead, to influence. This distinction, which hinges on the notion of intent, is essential to power analysis. To illustrate, if a parent behaves badly, this behavior may cause the parent's child to behave badly as well. This may not be the parent's intent; the parent may be saddened at this outcome, or may remain oblivious to it. Nevertheless, the child's poor behavior may reflect the parent's power or influence, understood as a relational property.

Thus, it is one thing to claim that power exists; this refers to a kind of relationship. But efforts to exploit this relationship—that is, to manipulate it in order to pursue specific objectives—are quite another matter.[26] Such undertakings—or in-

24. Eric Helleiner, "National Currencies and National Identities," *American Behavioral Scientist* 41, no. 10 (1998): 1409–36; Eric Helleiner, *The Making of National Money: Territorial Currencies in Historical Perspective* (Ithaca: Cornell University Press, 2003), 100–120.

25. On endogenous optimum currency-area theory, see Jeffrey A. Frankel and Andrew K. Rose, "The Endogeneity of Optimum Currency Area Criteria," *The Economic Journal* 108, no. 449 (1998): 1009–25. On money and social trust, see Cohen, *Geography of Money,* 10–13; Matthias Kaelberer, "The Euro and European Identity: Symbols, Power and the Politics of European Monetary Union," *Review of International Studies* 30, no. 2 (April 2004): 161–78; Andrew Walter (chap. 3 in this volume).

26. Alternatively, some discussions of power assert that intent is essential to the concept. For example, Bertrand Russell, in *Power: A New Social Analysis* (London: Unwin Books, 1962), holds that "power may be defined as the production of intended effects" (25). Robert Dahl's "intuitive idea of power,"

fluence attempts—are purposeful acts; they are means toward an end, intended to bring about desired changes in the behavior of others. These influence attempts are sometimes called statecraft.

Statecraft consists of the art of conducting state affairs; gradually the use of the term has come to refer almost exclusively to a state's foreign relations. Building on an analytical foundation originally developed by Harold D. Lasswell, David Baldwin devised a fourfold division of policy instruments available to officials wishing to exercise influence abroad, composed of propaganda, diplomacy, economic statecraft, and military statecraft. Baldwin describes economic statecraft as "influence attempts relying primarily on resources which have a reasonable semblance of a market price in terms of money."[27] Monetary statecraft, we submit, is a subset of this category; it refers to influence attempts that rely primarily on the manipulation of monetary relations between states.

How would we know if monetary power is being intentionally harnessed—that is, if a change in an actor's behavior is the result of statecraft? Returning to the example introduced earlier—*A*'s power over *B* with respect to issue *C*—merely asserting that *B*'s new behavior conforms to *A*'s preferences is not sufficient to establish deliberate manipulation. It may well be that *A* had no intention of altering *B*'s behavior—that is, *A* made no explicit influence attempt. If so, it may still be the case that *A* has power over *B* (understood as a causal description of their relationship).[28] But absent an undertaking, the mere alignment of a less powerful actor's behavior with a more powerful actor's preferences is insufficient to establish conscious design on the part of that more powerful agent.

In short, power can exist even absent purposeful efforts to exploit it. Several of the contributors to this volume, especially David Andrews and Eric Helleiner, draw attention to the indirect and even nonintentional exercise of power.[29] But in order for these discussions to have concrete meaning, they rely on the distinction between power as a relational property—the power to act and to avoid being acted upon—and the deliberate exploitation of such a relationship.

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namely that "A has power over B to the extent that he can get B to do something that B would not otherwise do"—although less clear on this point—also appears to incorporate intent as a matter of definition. "The Concept of Power," *Behavioral Science* 2 (1957): 201–15; quotation on 202–3. Such views are significantly different from Herbert Simon's claim, in *Models of Man* (New York: Wiley, 1957), that "for the assertion, 'A has power over B,' we can substitute the assertion, 'A's behavior causes B's behavior'" (5). Following Simon, we distinguish between power as a relational property, which is an assertion of a causal relationship without reference to intent, and the instrumental use of power.

27. Baldwin, *Economic Statecraft,* 13–14; Harold Lasswell, *Politics: Who Gets What, When, How* (New York: Meridian Books, 1958), 204–5 (in a postscript to a volume originally published in 1936).

28. If *B*'s behavior with respect to issue *C* is different than it would be absent *B*'s relationship with *A.* Unless this obtains, the statement that *A* has power over *B* with respect to issue *C* is devoid of meaning.

29. As do James and Lake, "The Second Face of Hegemony," in their discussion of coercive hegemony: "The invisible hand of market power, moreover, need not be exercised consciously by the hegemon" (8).

Elements of Monetary Statecraft

What aspects of interstate monetary relations are subject to deliberate manipulation? In addressing this question, we identify two broad categories: currency relations and financial relations (with the latter limited to its monetary aspects).[30] Within the broad category of currency relations, we distinguish between policies regarding currency values and those regarding currency use. Within the broad category of financial relations, we distinguish between policies regarding payments financing and those regarding liquidity provision.

These distinctions have to do with the means associated with monetary statecraft; but the manipulation of monetary relationships can also be usefully classified, even though with reservations, with respect to its immediate ends. Those ends, or objectives, may be primarily internal or external in their orientation.[31] For example, authorities may desire to lower interest rates without incurring substantial collateral costs (e.g., capital outflows); here the objective is primarily internal, even though the pursuit of that objective may involve the use of controls on external capital movements. On the other hand, national authorities might want to encourage their economic partners to stimulate their economies or perhaps to warn some state against devaluing the exchange rate of its currency. It might be argued that the ultimate purpose behind even these last actions is internal—that is, the real aim of stimulating economic activity elsewhere is to expand national export markets, and the purpose of defending stable exchange rates is to protect existing markets.[32] But certainly the immediate objectives of such actions are external.

Table 1.2 summarizes the resulting typology. Four policy areas—the manipulation of currency values, currency use, payments financing, and liquidity provision—are conjoined with the internal/external dichotomy regarding their immediate orientation. The resulting range of eight general policy objectives, and some of the associated policy strategies, is discussed in greater detail later; first, however, I briefly survey the major points of this schema.

With respect to currency values, national authorities might have the internal objective of insulating domestic monetary policy, an ambition that could be pursued by deploying a system of capital controls (although other strategies are available as well); alternatively, authorities might have the external objective of manipulating currencies' exchange rates, possibly in order to promote exports but also in order to exact concessions on other issues. With respect to currency use, authorities might wish to restrict external employment of the national currency, in order to preserve

30. Without this constraint, financial relations would be far too broad a category to be usefully construed as a subset of monetary affairs. On the political economy of credit more generally, see the references in the introduction to this volume.

31. As the discussion in the remainder of this paragraph suggests, describing the ultimate orientation of policy as either internal or external is more challenging; hence our focus on immediate objectives.

32. In turn, it might be argued that a still deeper motivation is to secure the reelection of the government, and so on.

Table 1.2 Objectives and instruments of monetary statecraft

		Policy area			
		Currency relations		Financial relations	
		Currency value	Currency use	Payments financing	Liquidity provision
Immediate orientation of policy	Primary internal	Domestic policy insulation (e.g., via capital controls) Example: Malaysia following the Asian currency crisis	Restricting external employment of the currency Example: German policy under the EMS	Developing and maintaining access to external sources of payments financing with minimal policy constraints Example: IMF net reserve positions	Ensuring that domestic access to official liquidity is not a policy constraint Example: Creation of SDRs
	Primary external	External currency manipulation (e.g., talking the dollar down) Example: U.S. policy prior to Bonn summit	Promoting external employment of the currency Example: U.S. policy after World War II	Providing limited and conditional access to payments financing Example: Financial aspects of the Suez crisis	Exploiting others' reliance on official liquidity Example: U.S. opposition to the formation of an Asian Monetary Fund

EMS, European Monetary Systems
SDRs, Special Drawing Rights

domestic autonomy; on the other hand, there are substantial incentives to enhance the external employment of the national currency, not least the profits deriving from seigniorage.[33] With respect to financial relations, likely debtors may seek to ensure access to payments financing and to develop sources of official liquidity, in order to buffer themselves against the whims of creditors. Those same potential creditors, on the other hand, have the opposite set of incentives: to exploit others' reliance on payments financing and to provide liquidity in limited amounts and subject to some form of conditionality.

Table 1.2 includes illustrations of strategies associated with these objectives; these examples are intended to be broadly suggestive, not exclusive or exhaustive. Some of these cases have already been discussed; others are noted in the pages that follow.

33. See note 11.

Currency Relations: Domestic Policy Insulation and Exchange-Rate Manipulation

One possible objective of monetary statecraft is to insulate domestic monetary policy from external pressures, or in other words to preserve monetary autonomy, to the fullest extent possible. A state could do this by becoming a regional or global monetary leader and encouraging follower states to adapt to its policy preferences; but, as a matter of definition, not all states can be monetary leaders. For the vast majority of states, the prospects for policy insulation depend instead on the availability of intermediate options for productive engagement with the global economy—options between the logical extremes of complete integration, on the one hand, and autarky, on the other.

A prominent policy tool available to authorities seeking such a balanced outcome is the use of capital controls.[34] Capital controls may induce a great deal of evasion, but that does not mean that they are never effective; in recent years, the Chilean experience, among others, has demonstrated that the use of selective controls can produce certain positive results.[35] And though capital controls remain a blunt instrument for insulating domestic policies from external influences, they may form part of a more comprehensive strategy that includes securing cheap and reliable access to payments financing and international liquidity (as discussed later).

Malaysia's imposition of a capital control regime following the Asian currency crisis, and the response of U.S. authorities to that development, is discussed by Kirshner (chap. 7 in this volume). But capital controls are not the only means whereby national authorities can enhance domestic policy autonomy. Alternatively, authorities may pursue a strategy of exchange-rate floating, an approach that reduces reliance on both capital controls and external financing; Louis Pauly (chap. 9 in this volume) reviews the Canadian experience on this front.

As Pauly notes, the choice of strategy—the search for a reasonably stable solution to the problems of the "messy middle" between the "corner solutions" of exchange-rate fixing and floating[36]—will depend critically on the characteristics of the state's domestic political economy. For example, Austria's corporatist political economy made possible a strategy entirely at odds with the Canadian approach. By comparing postwar monetary policy in these two small economies, Pauly is able to survey

34. This was well understood by the designers of the Bretton Woods institutions, as Eric Helleiner demonstrates in *States and the Re-emergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994). But the IMF's Articles of Agreement failed to realize in full the shared goals of Maynard Keynes and Harry Dexter White with respect to capital controls; see David M. Andrews, "The Bretton Woods Agreement as an Invitation to Struggle," in *The Economy as a Polity: The Political Constitution of Contemporary Capitalism,* ed. Christian Joerges, Bo Stråth, and Peter Wagner, 77–97 (London: University College London Press, 2005).

35. The Chilean experience suggests that controls can help change the composition of capital flows in helpful ways; they were less successful in limiting exchange-rate appreciation. For a more general discussion, see Benjamin Cohen, *The Future of Money* (Princeton: Princeton University Press, 2004), 104–21.

36. David M. Andrews, C. Randall Henning, and Louis W. Pauly, eds., *Governing the World's Money* (Ithaca: Cornell University Press, 2002), 4–5.

the means at the disposal of monetary followers seeking to buffer the influence of monetary leaders. Depending on their internal characteristics, he argues, states in broadly similar international situations may choose dramatically different strategies for limiting the influence of powerful partners.

Another element of monetary statecraft is the manipulation of currencies' external values, or exchange rates. This is a broad category of policy activities with any of several possible objectives.[37] Those objectives may be benign, as in efforts to stabilize a currency's external value (whether unilaterally or as part of a pegged exchange-rate regime); or they may be sinister, as in efforts to undermine a particular national economy or to disrupt a given international regime.[38] Often the objective is of an intermediate nature—coercive without being destructive—as was the case with U.S. policy prior to the Bonn summit and, in fact, more generally in the cases surveyed by Henning (chap. 6 in this volume).

Regardless of the goal, the most direct mechanism for exchange-rate manipulation is foreign-exchange market intervention using national reserves (or, in explicitly predatory actions, counterfeiting the currency of a country targeted for disruption). Less direct mechanisms include arranging credit to pursue additional market interventions, persuading other public authorities (e.g., foreign central banks) to intervene in the exchange market in support of shared objectives, or persuading private actors to engage in speculative activities in support of policy goals (e.g., "talking the dollar down").[39] Conversely, authorities might endeavor to persuade public or private actors *not* to engage in any of these actions.

Kirshner (chap. 7) and Henning (chap. 6 in this volume) address external currency manipulation as an objective of monetary statecraft in the face of changing circumstances. Kirshner argues that the political attractiveness of currency manipulation depends in part on environmental characteristics, including the degree of capital mobility (influencing the means by which this objective can be achieved) and the overall distribution of power within the international system (influencing the policy objectives of states). On balance, however, he finds that opportunities for politically motivated currency manipulation continue to abound. Henning draws somewhat different conclusions, arguing that the employment of the exchange-rate weapon creates its own resistance and, more specifically, that authorities in Japan and Europe have now substantially insulated themselves from this form of coercion emanating from the United States.

37. Kirshner, *Currency and Coercion,* defines currency manipulation as "actions taken to affect the stability or value of target currencies" (8). National authorities do not typically want their currency to be relatively costly or cheap as an end in itself; nevertheless, they sometimes desire to manipulate their currencies' values in order to achieve other objectives, such as promoting exports or maintaining a supply of affordable imports. See Broz and Frieden, "Political Economy of International Monetary Relations," especially 319, 331–35.

38. Or, as in the case of "strategic disruption," to extract side payments because of credible threats to engage in such disruption. For a discussion, see Kirshner, *Currency and Coercion,* 171–73.

39. Once again, *in extremis* authorities might encourage other parties to counterfeit a targeted currency; Jonathan Kirshner (chap. 7 in this volume) provides examples and a discussion.

Currency Relations: Influencing Currency Use

Another channel of monetary statecraft involves the promotion (or discouragement) of a currency's external use. Rather than seeking to influence a currency's external value, the aim here is to influence its external employment—the variety of purposes to which it is put and the variety of locales in which it functions.[40] Increased external use enhances the issuing state's capacity to extract wealth from abroad (through seigniorage); it may also allow the issuing state to enjoy some of the benefits associated with currency entrapment, as previously described. Thus, there are powerful arguments in favor of expansion of external use.[41]

But the widespread employment of a given national currency outside the borders of the issuing authority is not necessarily an unalloyed benefit; it can impose certain costs as well. Certainly the problems experienced by postwar Britain in managing the sterling balances held by other members of the Commonwealth suggest the enormous potential costs of allowing a national money to serve as a reserve currency.[42] This lesson was not lost on West German policy makers when the external use of the deutschmark threatened to expand during the 1970s and 1980s as a result of the currency's pivotal role in the European Monetary System (EMS), and German authorities took active measures to discourage this outcome. Japanese officials were likewise wary about an international role for the yen.[43]

Understanding these different policy preferences requires grappling more carefully with the power implications of external use. For example, although enhanced foreign use can result in increased seigniorage, it also entails at least a potential future cost: should the foreign holders decide (en masse) to dump these holdings in favor of another currency and should these foreign holdings be significant, the effects on the currency's value could be considerable. Calculations vary as to the likelihood of this outcome and its expected effects should it occur, as Cooper explains in his discussion of the politics of currency areas (chap. 8 in this volume). National authorities have therefore varied substantially in their approach to this matter, with some—like the British during World War II—actively promoting their currencies' employment abroad. Certainly U.S. authorities were not averse to expanding the dollar's role as an international currency after 1945.[44] Other states—notably Germany, Japan, and Switzerland during the 1970s and 1980s—have taken steps to limit foreign use of the national currency.[45]

40. On the dynamics and scale of currency internationalization (the use of a currency for cross-border transactions) and currency substitution (the use of a currency to perform some or all of the traditional functions of money within a foreign state), see Cohen, *Geography of Money,* 92–118.

41. On the other hand, some of the benefits of entrapment can be achieved without requiring enhanced external use of a nation's currency (e.g., by promoting stable exchange rates with selected partners); see, in this regard, note 21.

42. For discussions of these difficulties, see Benjamin J. Cohen, *The Future of Sterling as an International Currency* (London: Macmillan, 1971); Susan Strange, *Sterling and British Policy: A Political Study of An International Currency in Decline* (London: Oxford University Press, 1971).

43. C. Randall Henning, *Currencies and Politics in the United States, Germany, and Japan* (Washington, D.C.: Institute for International Economics, 1994), 316–20.

44. Ibid., 320–21.

45. Even strict neutrality with respect to external use constitutes a policy decision; this is the case

The techniques associated with currency promotion, at least in the present day, are typically indirect; they tend to involve persuasion of one form or another.[46] As Walter notes (chap. 3 in this volume), the most powerful form of persuasion is to have an attractive currency, supported by an appropriate policy mix and a credible set of domestic institutions; but these conditions are hardly susceptible to easy manipulation. Instead, official decisions to "dollarize" (a term sometimes employed to describe substitution of the domestic currency, even when the substitute is not the greenback) often involve side payments. These may be relatively transparent, as with arrangements for access to lender-of-last-resort facilities within a currency area, or more opaque, as with the military arrangements that sometimes accompany currency use decisions.[47] The point is that policy decisions to adopt another state's currency for certain purposes, or even as legal tender, are apt to involve multiple considerations.[48]

Financial Relations: Control of Payments Financing and Liquidity Provision

Although international financial relations are a broad subject extending well beyond the ambit of this study, there are aspects of financial relations that impinge directly on monetary policy and international monetary relations—especially payments financing and the provision of official liquidity. In fact, the distinction between these two areas is a fine one, having to do primarily with the ways in which payments deficits can be financed (and, hence, real adjustment can be avoided). The essential distinction here is between liability financing and asset financing. Liability financing means running up external liabilities by borrowing; asset financing is about drawing down existing savings or reserves. Either method can be used to finance deficits, each with its own advantages and disadvantages.

By payments financing, then, we mean liability financing—that is, access to external credit; examples include currency-swap arrangements between central banks and borrowing from the IMF. By liquidity provision, we mean asset financing—that is, accumulating reserve assets or their equivalents; examples include unconditional lines of credit—which amount to the creation of new assets—and the distribution of Special Drawing Rights (SDRs), a reserve asset created in the 1960s by the member states of the IMF in an attempt to reduce reliance on the dollar.[49]

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with the European Central Bank (ECB), whose policy with respect to the euro (at least in its official articulation) is neither to promote nor to discourage its foreign employment through specific measures.

46. This was not always the case; during the colonial era, efforts to enforce the external use of particular currencies were sometimes both direct and forceful.

47. Of course, even more blatant side payments, such as bribes to individual decision makers, are not out of the question, especially in currency areas involving states with weak administrative and legal safeguards.

48. As a general matter, efforts to influence private decisions about currency use offer reduced opportunities for side payments, given the diffuse nature of the targeted audience. Such opportunities nevertheless exist when crucial decisions are centralized in the hands of major market actors.

49. For a comprehensive exposition of the origins of the SDR, see John S. Odell, *U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change* (Princeton: Princeton University Press,

What are the objectives of monetary authorities with respect to these instruments? In general, authorities from deficit states, or from states where authorities regard future deficits as likely, would like to ensure that internal policies will not be constrained by the absence of liquidity (regardless of its source—that is, regardless of whether it takes the form of payments financing or official liquidity provision). In this respect, their objectives are similar to those previously discussed with respect to domestic policy insulation; the difference is the means that are employed to secure this objective. Instead of (or in addition to) seeking to insulate their economies from external influence through the use of capital controls and related instruments, authorities may hope to develop arrangements that will secure a supply of liquidity that is both reliable and inexpensive. Examples of such arrangements include member states' net reserve positions at the IMF, from which they can borrow without conditions.

Authorities from surplus states, on the other hand, are understandably interested in controlling the access of outsiders to their resources or even to the resources of others. This interest derives in the first instance from their fiduciary responsibilities: they want to make sure that policies are in place to ensure repayment. In addition, there is a natural temptation to exploit others' reliance on these resources in order to accomplish ancillary objectives; examples include IMF loan programs, which are typically associated with conditionality. As Kirshner (chap. 7 in this volume) discusses, IMF negotiations over aid to South Korea in the wake of the Asian financial crisis covered a range of topics well beyond the fund's normal remit, topics that had long been on the wish list of the U.S. Treasury.

The conflicting objectives of debtors and creditors have been one of the defining features of international monetary politics. Certainly the Suez case demonstrates the substantial leverage that a creditor state (the United States) was able to impose on a debtor (the United Kingdom).[50] And just as concerns about the provision of international liquidity led to the introduction of SDRs during the 1960s, similar worries—and especially the widespread view among Asian governments that the United States abused its influence in the IMF during the currency crises of the 1990s—have led to more recent pressures for the formation of an Asian Monetary Fund, a subject discussed by both Henning and Kirshner.

The Limits to Monetary Statecraft

The preceding sections have outlined our understanding of power generally, of monetary power in particular, and of the elements of monetary statecraft. We have

1982), 79–164. Some hoped that the European Currency Unit (ECU) would likewise serve as a source of official liquidity within the EMS; instead, this pseudo-currency acted merely as an accounting instrument.

50. There is some dispute as to whether the United States helped precipitate sterling's problems in this episode. There is no doubt, however, that Washington took advantage of the resulting situation, as described at the beginning of this chapter.

distinguished between power itself and efforts to harness it—that is, efforts by a powerful actor to sway others' behavior in particular ways. That distinction becomes especially important as we discuss the limits to monetary statecraft.

Monetary statecraft entails the employment of policy tools for instrumental purposes; but this is easier said than done. In fact, among the central findings of our study are the substantial impediments to the efficient exercise of monetary power as a deliberate instrument of economic statecraft. Above all, the same quality of publicness that led Joanne Gowa to distinguish the domestic politics of money from its policy counterparts—for example, trade or industrial policies—has parallel implications for the study of monetary statecraft.[51] As a result, the tools of monetary statecraft—especially those tools having to do with currency relations—are often too blunt to be effective when they would most be desired and too diffuse to be directed at particular targets without incurring substantial collateral damage.[52]

To illustrate this problem, consider a final case, one that some commentators regard as the exercise of monetary power par excellence: the 1971 closure of the "gold window," the facility at the U.S. Treasury through which foreign central banks could convert their dollar holdings into gold. Many scholars argue that this development demonstrated the capacity of the United States to rewrite the rules of the Bretton Woods system unilaterally—changes that were later reluctantly ratified by Washington's allies in the Smithsonian Agreement. As Susan Strange later put it, "to decide one August morning that dollars can no longer be converted into gold was a progression from exorbitant privilege to super-exorbitant privilege; the US government was exercising the unconstrained right to print money that others could not (save at unacceptable cost) refuse to accept."[53]

This case does indeed demonstrate U.S. economic power; but a closer look at the facts reveals distinct limits to the ability of the United States to manipulate monetary relations. The August 15, 1971, announcement that the gold window would be closed—subsequently referred to in Japan as "the Nixon shock"—was preceded by a meeting at Camp David of top U.S. economic officials. Although there were prominent clashes at this meeting between Federal Reserve chairman Arthur Burns and Secretary of Treasury John Connally, perhaps the most interesting role was played by Treasury Undersecretary for Monetary Affairs Paul Volcker. Volcker had been a consistent advocate of the Bretton Woods system, and of fixed exchange rates, since

51. Joanne S. Gowa, "Public Goods and Political Institutions: Trade and Monetary Policy Processes in the United States," *International Organization* 42, no. 1 (winter 1988): 15–32.

52. Although focusing on the domestic implications of this observation, Broz and Frieden, "Political Economy of International Monetary Relations," note that "exchange rate policy is less excludable than trade policy" (328). For a more general discussion of the characteristics of public goods (including their nonexcludability), see Duncan Snidal, "Public Goods, Property Rights, and Political Organizations," *International Studies Quarterly* 23, no. 4 (December 1979): 532–66; for the degree to which different policy areas have these characteristics, see Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39, no. 4 (autumn 1985): 579–614.

53. Susan Strange, "The Persistent Myth of Lost Hegemony," *International Organization* 41, no.: 4 (1987): 551–74, quotation on 569. For classic political science analyses of the closing of the gold window, see Joanne S. Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (Ithaca: Cornell University Press, 1983); Odell, *U.S. International Monetary Policy,* 165–291.

his days at the New York Federal Reserve. But at the Camp David meeting, he wavered. "I hate to do this, to close the window. All my life I have defended exchange rates, but I think it is needed. . . . But don't let's close the window and sit—let's get other governments to negotiate new rates."[54]

Volcker's statement reveals the central dilemma for the U.S. team. Reviewing this period many years later, Volcker wrote that America's partners, and Japanese officials in particular, "misunderstood our intentions" when the gold window closed.

> The Japanese assumed we simply wanted to avoid gold sales. They would have been perfectly happy to buy and hold dollars; what they did not want was a change in the exchange rate. But that, of course, was exactly what we had decided was essential. What we did not really want, and really had been forced upon us, was a change in the official price of gold that a succession of administrations had pledged was inviolate.[55]

Why did Volcker believe a change in the gold price was undesirable but ultimately acceptable, whereas a negotiated change in exchange rates was highly desirable but impossible? Because "I did not believe, and John Connally certainly did not believe, that we could go to the Japanese and the Europeans and say, in effect, 'Look, contrary to all we've said for seven years, we want a big realignment of exchange rates. Let's arrange it this weekend before the markets open on Monday.'"[56] Pressed on this issue at the Camp David meeting, Volcker was forced to concede that negotiating a realignment would be an impossible task. "They [the Japanese and Europeans] certainly would have refused." Indeed, "they would also immediately have been placed in an intolerable position."[57]

Volcker therefore reluctantly endorsed the course of unilateral action. Closing the gold window was not the outcome U.S. officials wanted, but it was the one they controlled, and they could use it to help bring about the changes that they really desired: "a big shift in exchange rates, trade liberalization by [U.S. economic partners], and more help on our overseas defense costs as well."[58]

But if closing the gold window was not the policy objective, neither was it an adequate tool to bring about the policy changes the United States desired. Volcker later confessed his naïveté on this matter: "I thought we could wrap up an exchange rate realignment and start talking about reform [of the international monetary system] in a month or two; say, by the IMF meeting in late September." On the other hand,

54. William Safire, *Before the Fall: An Inside View of the Pre-Watergate White House* (Garden City, N.Y.: Doubleday, 1975), 513–15.

55. Paul A. Volcker and Toyoo Gyohten, *Changing Fortunes: The World's Money and the Threat to American Leadership* (New York: Times Books, 1992), 80–81.

56. Ibid., 78. Such a timetable would have been necessary because extended talks on the subject would become public knowledge and precipitate yet another run on the dollar.

57. Volcker added, "How could they continue to hold and buy dollars in the market and not convert them into gold? How could we possibly avoid leaks of information and enormous speculation? And how would we cope with that situation—other than to suspend gold payments right away, with the appearance of defeat and the loss of initiative." Volcker and Gyohten, *Changing Fortunes,* 78.

58. Ibid., 81.

"Connally assumed from the start that it would take months to put the other countries in a mood to accept sufficiently large exchange rate changes."[59]

In fact, Connally (together with Nixon) had foreseen the end game to these negotiations in a way that Volcker did not. Much to Volcker's consternation, "a lot of time was spent at Camp David in dealing with what to me was a side issue"—a series of import surcharges imposed at the time of the gold window's closure, and legal justifications for these tariffs (which violated international trade agreements to which the United States was a party). Volcker initially attributed this discussion entirely to a campaign promise the president had made to textile manufacturers, a "pledge that the president apparently felt more strongly about than gold."[60] But the import surcharge turned out to be crucial in the negotiations leading to the eventual ratification of the U.S. reform agenda because, in the ensuing negotiations, lifting this tax was the only concession that the United States team (as led by Connally) was prepared to make. The gold window was not reopened, the dollar was devalued against gold, and a substantial realignment against the Japanese and European currencies was agreed on, all in exchange for relief on the import surcharges—much as Nixon and Connally had envisioned.[61]

Again, interpreters of this episode have made much of the ability of the United States to rewrite the rules of the international monetary system at the drop of a hat. In fact, that redrafting took months to negotiate and ultimately depended on trade concessions—lifting the Nixon surcharge—for its success. Put differently, the dollar's central role in the world monetary system was not a sufficient basis to renegotiate even the terms of that role, much less the comprehensive package of concessions sought by Washington. Only in conjunction with targeted trade sanctions was the Nixon team able to bring about the Smithsonian Agreement; the monetary options were too blunt, and too indiscriminate, to be effective negotiating tools.

This is not always the case; often monetary relations can be manipulated as an effective instrument of statecraft. But because the capacity of governments to discriminate in such efforts—to target particular actors while shielding others—is limited (especially with respect to currency relations), monetary threats are sometimes less attractive—and less credible—than certain other forms of economic coercion.[62] Certainly the moments when the deliberate application of monetary pressure can be

59. Ibid., 80.

60. Ibid., 79.

61. The United States largely realized its goals with respect to exchange-rate realignment, whereas trade liberalization concessions by its partners were minimal and military offset negotiations remained more or less continual. But, much to the administration's consternation, there was no formal devaluation of the U.S. dollar against the currency of its largest trading partner—Canada—because authorities in Ottawa refused to end their exchange-rate float. For a discussion, see Louis Pauly (chap. 9 in this volume).

62. For example, a large body of recent scholarly work has addressed the implications of a strategic understanding of power for the assessment of international economic sanctions. These studies call into question the prior consensus, widely held by mainstream international relations scholars, that sanctions are ineffective as policy tools. See, for example, Alistair Smith, "The Success and Use of Economic Sanctions," *International Interactions* 21, no. 3 (1996): 229–45; T. Clifton Morgan and Anne C. Meiers, "When

decisive—as in the Suez case—are rare. Hence, although the power element in international monetary relations is ubiquitous, opportunities to engage successfully in monetary statecraft are not.

As states and citizens struggle to organize their societies to meet the challenges of the twenty-first century, they will need to take international monetary power into account. Likewise, and despite its limitations, monetary statecraft will at least periodically shape behavior in its intended targets. In this volume, we have outlined a framework for understanding both monetary power and monetary statecraft, and the relationship between them. Future research should examine the limits to monetary statecraft more closely—a subject this volume only begins to explore—because the exercise of monetary power is bound to remain a salient feature of international relations.

Threats Succeed: A Formal Model of the Threat and Use of Economic Sanctions," paper presented at the 95th annual meeting of the American Political Science Association, Atlanta, Georgia, September 1999; Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (New York: Cambridge University Press, 1999); Dean Lacy and Emerson M. S. Niou, "A Theory of Economic Sanctions" (unpublished manuscript), Duke University, Durham, North Carolina, 2000; Daniel W. Drezner, "The Hidden Hand of Economic Coercion," *International Organization* 57 (summer 2003): 643–59.