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AMERICAN STRUCTURAL POWER WITHIN INTERNATIONAL FINANCIAL GOVERNANCE: FROM BRETTON WOODS TO GLOBALIZATION

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Abstract: From the 1950s to the 1990s, the international monetary and financial system underwent deep changes with profound consequences, including the breakdown of Bretton Woods and the emergence of the globalized financial system. This paper aims to understand how American domestic political and economic challenges and responses in the 1970s reframed the superpowers' foreign policy goals with respect to global financial governance. Drawing on the international political economy theory of structural power, this article analyzes U.S. domestic and foreign economic policy and examines international governance outcomes from a historical perspective. It argues that U.S. replies to domestic and international political and economic constraints prompted significant structural changes to the international monetary and financial system. The paper concludes that it is American domestic decision-making that determines the structure of the international financial system due to American structural power to underwrite and rewrite the norms and rules of the international financial governance.

Keywords: Structural power; International Financial Governance; U.S. Domestic Political Economy.

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I. Introduction

The international monetary system is one of the main realms of international relations because it depicts the way in which national currencies are exchanged in par values, or the way in which exchange rates will be set, as well as the spectrum of state intervention versus private freedom in these exchanges and in the levels of capital flows between nations. In addition to ordering interstate and private agents' monetary relations, this system also sets the general norms under which international financial institutions, both public and private, operate—i.e., it regulates international finance. Thus, it is possible to talk about an international monetary *and* financial system to refer to these two different but related legs. The system's importance relates to how wealth is denominated and managed domestically and internationally, with direct impacts on power relations.

As in any sphere of interstate relations, subjection to power or behavior constraints is dramatically present in international financial relations. A large part of the International Political Economy (IPE) literature shows that states have historically been in coordination to set patterns of monetary and financial behaviors, norms, and procedures in the international arena—always with the imposition of more powerful states' preferences and interests over the others' (GERMAIN, 1997; HELLEINER, 1994; TORRES FILHO, 2018). Therefore, understanding how power is intermingled with monetary and financial relations in the international sphere allows for the comprehension of why the rules of operation of the international financial system are established in a certain form in favor of some and at the expense of others.

One of the main research methods in the political economy study of the international financial system is to focus on how the hegemonic state historically sets the rules of operation within a system. Although such studies focus on the international constraints hegemonic states impose on others and investigate domestic motivations and interests with respect to why hegemons proceed in the ways they do, few of these studies explore the hegemon's behavior as a response to imposed domestic and international pressures and to the structure of the hegemon itself (KINDLEBERGER, 1986; GILPIN, 2000).

This article aims to undertake an IPE literature review that addresses this lacuna by showing that the ability of a hegemonic state to determine the *modus operandi* of the international financial system, destruct it when international constraints limit its power autonomy, and rearrange it according to hegemonic interests is a feature of what Susan Strange calls *structural power*. The paper argues that the exercise of American

structural power – from the end of II World War to the beginning of global financial integration in the 1990s – was constructed through American authorities' domestic decisions that in the face of international developments write, erase, and rewrite the rules of operation of the international monetary and financial system according to its interests. As a result, what the system *is* derives from what American decision makers want it to be, without any other major power capacity to confront it.

In this way, the paper serves as a reread of the evolutionary path and rationality in the behavior of the financial hegemon under the lens of structural power—a controversial theory that nevertheless helps to explain major changes in the international monetary and financial system in the 20th century from the point of view of interstate power relations. The paper reviews major shifts in the international financial system, with a focus on how U.S. policy makers realized international challenges and responded to them domestically, ultimately demonstrating how structural power was exercised during decisive events.

Accordingly, the study of the structural changes in the period analyzed sheds light on the underpinning components of the modern global financial system. Furthermore, connecting domestic and international American policymakers' perceptions as determinant variables of the exercise of structural power makes the theory more instrumental and thus more methodologically useful for further analysis.

More specifically, this paper examines how U.S. power coalitions shaped domestic economic and foreign policies via assessing U.S. foreign economic policy engagement from the end of World War II through the 1990s in structuring and governing the international monetary and financial system. Not only did domestic political groups' mindsets have an impact on the behavior of the United States towards the international financial system, but also international economic developments changed domestic perceptions of how the U.S. should guide international financial governance. That reversal opened space for a new domestic political coalition – the Conservatives – to emerge and shape a new foreign economic policy from the 1970s, changing the established paradigms for international monetary and financial governance the 1940s New Deal coalition had underpinned until then, despite other states' opposition, in a clear exercise of structural power.

Developments to the American and international financial systems in the 1960s strengthened conservatives' critics of Bretton Woods' pillars: fixed exchange rates and capital controls cooperation. By the end of the 1970s and the beginning of the 1980s, conservatives had fully taken power with the support of private financial interests and changed American behavior towards global financial governance, resettling how the exchange rate regime and

international capital movements should operate. . Throughout the structuring changes of the period, other states and private actors could only adjust to the new American imperatives, unable to cope with American power. By the mid-1990s, therefore, American financial structural power had already completely reframed the *modus operandi* of the global financial system according to American public and private agents' interests, also setting international financial regulation as a new pillar of global financial governance.

This article proceeds as follows: section two discusses how International Political Economy literature considers domestic influence in foreign policy decision making, and how superpowers may underline the operations of international systems in keeping up with its interests. The subsequent three sections discuss three different periods with respective inflexion points to the international monetary and financial governance: the formation of the Bretton Woods system after World War II; the Nixon shock in the 1970s and the beginning of structural changes in the international financial system and formation of *ad hoc* governance in the mid-1980s; and finally, the emergence of the globalized financial system at the end of the 1980s, as well as the American domestic financial deregulation process and the control of international regulatory standards by transnational financial firms. The final section offers final remarks.

II. Domestic changes and structural power: a possible interconnection

In accordance with Cox, public policy faces both domestic and external pressures in its agenda setting and implementation. In the same way, the foreign policy of a state is directly influenced by its domestic policy, which is designed by the political coalition that comes into power. This coalition, moreover, guides its decision making through certain pressures faced, values, and worldviews. Nevertheless, the traditional view of international relations analysts is that foreign policies and domestic policies respond to different levels of causation. Whereas domestic policies respond to pressures of domestic interests, foreign policies respond to a set of rational choices due to states' inner incentives of power maximization (COX, 1981).

Katzenstein builds on Cox's view, arguing that states respond to international developments, since they impact the prosecution of domestic established goals and as a consequence affect the formulation of foreign policies. —The author observes in his comparative study of French and American domestic and external policies in 1970s that “French financial policy fell short of success for the simple reason that France lacked the

absorptive capacity of, and relative autonomy from, international effects which the United States enjoyed for reasons of sheer size” (KATZENSTEIN, 1976, p. 43).

That means some states, due to their economic power, can maintain policy autonomy and pursue objectives in line with national interests, even when the international economy does not present favorable conditions, while other states cannot. Notwithstanding, Katzenstein, despite taking into account that “differences in the constraints of domestic structures will result in *dissimilar* policy responses” (KATZENSTEIN, 1976, p. 4), does not develop an explanation of why some states tend to have a tighter grip of their foreign policy goals in the face of adverse international developments, while others do not. Cox helps to fill this gap. For Cox, states’ power is not equally distributed as the image of balance of power from traditional international relations theory defends. Instead, in international systems, a hegemonic state emerges from its peers. This most powerful state formulates foreign policies that aim not only to achieve national goals, but also to structure the world order. By this, Cox means that for a hegemonic state to establish and maintain its status quo in the international system and over the international economy, it must prompt norms and procedures that impact the way other states act. In other words, for a hegemonic state to have its national economic interests granted, it must establish a world order that will compel other states to behave in a way that ensures its national interests are safeguarded (COX, 1981).

The exercise of hegemonic power must balance coercion and consent. The former is exercised through its military and economic might, and the latter is achieved through universal values and practices that will become norms and patterns of behavior disseminated globally via different international organizations controlled by the hegemon. Utilizing international organizations for the exercise of power under the form of consent is important, because those institutions have the stamp of legitimacy due to mechanisms of representativeness (Ibid.). This specific form of exercise of power is called by Castro “governance”, since it is a form of government the superpower is exerting over other states, but using different legitimate institutions than those that underpin domestic state authority. Thus, it can be said that foreign policy in hegemonic states is a function of its exercise of international governance (CASTRO, 2012).

However, conceptions of the exercise of international governance as restricted to international organizations, and the absence of studies on how hegemonic states react to and maintain hegemony under stressful and pressing conditions, limit Cox’s theory on the construction of norms and rules by the superpower. Conversely, Strange explains this same phenomenon using structural power analysis, in which she contends that structural power is

the capacity of a state (particularly the United States) to underwrite the norms and paradigms of the operations of the international economic and financial system pursuant to its own interests. It is also the power to rewrite those norms when they do not attend to the superpower's interests. Central to this analysis is the role of bargain and negotiation between policymakers influenced by interests of power and private agents led by for-profit motives in determining the guidelines of domestic policy and the shaping of core national interests (STRANGE, 2015).

Although the author frames a general theory on the exercise of power through norms and rules, Strange does not describe the mechanisms through which this kind of power is exerted. In line with Katzenstein, observing the domestic structure of states and how they react to impacts of international developments in their foreign policies is a proficient method to identify how structural power is performed by a hegemon. Important to this search is considering how power is exercised beyond international organizations. From a historical perspective, it is possible to observe that the exercise of power to write rules and norms, deny the existing ones at any moment, and rewrite the rules according to the hegemon's own changing interests is a direct result of how international developments impact the domestic structures of the hegemonic state and how its domestic responses to international challenges generate a structural change in international norms, rules and procedures. In accordance with Torres Filho (2018) this kind of exercise of structural power is demonstrated by the United States from the mid-20th century to the present.

III. The New Dealers and the Bretton Woods system

Emerging out of World War II as the hegemonic power, the United States laid down the basis for the governance of the international monetary system through the Bretton Woods Conference. This set the general normative standards in which the international system would operate: states would be granted the right to control, manage, and supervise macroeconomic policy. The conference reflected a domestic policy change in the United States since the Great Depression, when a political coalition inspired by Keynesian ideas, the New Dealers, promoted a deep state intervention into the financial system and the whole economy. Duménil and Lévy go further in saying the Bretton Woods system was the international component of the macroeconomic stabilization the New Dealers sustained as political commitment (DUMÉNIL; LÉVY, 2011).

Moffit argues that the New Deal coalition of the 1940s brought about not only a domestic conception of economic planning and state intervention, but also an international conception of order based on free trade and access to credit. After the 1929 crisis, financial institutions were in part blamed for the New York Stock Exchange crash and the collapse of the American financial system by this new coalition of policymakers. That drove them to implement a more interventionist economic policy aiming at regulating the financial system and putting macroeconomic policy under state control (MOFFIT, 1984).

Two economic policies had a great impact in changing the relation between state and private financial firms. One was the Glass-Steagall Act, which regulated the American financial system by enforcing separation between commercial banks and investment banks, impeding security firms from taking deposits, limiting speculation through interest rate ceilings, and forming a safety net to deposits with the creation of the Federal Deposit Insurance Corporation (FDIC). The other was the elevation of the Federal Reserve as the central institution to control macroeconomics and boost the continuous use of monetary and fiscal expansionary policies as a means to overcome the Great Depression (DUMÉNIL; LÉVY, 2011).

Despite many criticisms concerning the effectiveness of the law, especially in the way financial firms explored loopholes in regulation, it marked a fundamental difference with regard to the pre-Great Depression period, when the American financial system was deregulated and operated free of state intervention. In fact, the whole international financial system of *haut finance*, to which the New York and London financial markets were central during the late 19th century and in the interwar period, was governed in a liberal fashion, interconnecting major financial markets throughout the world without state intervention (FIORI, 1999).

Given the centrality of the New York financial market (the deepest and most liquid in the world), the usage of the dollar as international currency, and the sheer size of the American economy, regulation of the American financial system determined the way the international financial system would be governed. As both the American financial system and macroeconomic policies were directly under state intervention, a process led by the New Deal coalition, the same pattern of American domestic economic policy was reflected in American foreign economic policy following World War II, with profound impacts on how Bretton Woods was structured. Dexter White, the New Dealer U.S. Secretary of Treasury in the Bretton Woods Conference found in the second most relevant country in international finance,

Great Britain, a peer with the same thoughts on state intervention regarding finance and economics, none other than John Maynard Keynes.

Helleiner points out the relevance of White and Keynes's joint understanding of the need of an international monetary and financial system which could give countries the capacity to intervene in economy and finance with the aim of pursuing national economic interests of growth and development. For Helleiner, despite disagreements between the two over whether or not the dollar should serve as international currency, they agreed on a fundamental idea: the international financial system had to promote stability and countries should have enough autonomy to carry on that (HELLEINER, 1994).

Development and stability were achieved through two fundamental goals: price stability in the long term, related to the monetary leg, and macroeconomic autonomy, related to the financial leg. With regard to the former, some key instruments were central in making the system fully operable. Most important was the convertibility of the dollar to gold at a fixed rate, but other instruments were equally relevant, including: U.S. government financial aid for allies, foreign direct investment from U.S. multinational firms, U.S. commercial deficits (through allowing allies to resort to dumping practices, for instance), and credit from American private banks, through the hegemonic position of the New York financial markets (KONNINGS, 2010). All of these instruments injected liquidity into the system, making possible national currencies to be convertible into dollars. In addition, flexible adjustments to imbalances-of-payments were also highly important. These were operated through IMF credit lines and governments' exchange rates devaluation. Consequent to U.S. action as a driving force of its operations, the monetary pillar of the Bretton Woods system was consolidated (MOFFIT, 1984).

On the financial pillar, as showed by Helleiner, it was the cooperation of capital controls of both inflows and outflows – with American support – that prevented speculative capital movements to undermine the fixed exchange rate parities, reinforcing the stability of the international monetary and financial system that permitted the post-II World War boom to become true. In the Bretton Woods system, although financial markets and financial institutions did operate nationally and internationally, they were under rigid governmental control, giving the international monetary and financial system a state-centric and multilaterally operated character (HELLEINER, 1994). By the Bretton Wood era, the main objective of the superpower was to grant stability and avoid crisis, allowing states to be sovereign in their conduct of economic policies, as equal as the hegemon's domestic objectives.

Spero resumes the general ideas underlying the Bretton Woods system:

(...) countries also agreed that the liberal economic system required governmental intervention. In the era after World War II, national governments assumed responsibility for the economic well-being of their citizens, and employment, stability, and growth became important objects of public policy. The welfare state was a response to the Great Depression, which created a popular demand for governmental intervention in the economy, and out of the theoretical contributions of the Keynesian school of economics, which prescribed governmental intervention to maintain adequate levels of employment (HART; SPERO, 2009, p. 2)

Steil, however, does not see the U.S. organization of the international monetary system under Bretton Woods as a benevolent attitude as Kindleberger (1986) would argue. For the former, U.S. concerns over stability derived from a warfare economy the capitalist world was facing after 1947, when U.S. firmly undertook a contention policy towards the Communist world, meant stability and growth were fundamental pillars in this struggle (KINDLEBERGER, 1986; STEIL, 2013).

Independent of the underlying purposes in structuring Bretton Woods, it is important to observe that the system reflected the international conception of what should be a functional and desirable political and economic system – at least to developed capitalist countries and some of the developing countries – matched faithfully how American decision makers thought. In Strange's structural power terms, it could be said the U.S. dominated after World War II not only in security, productivity, and the financial system, but also as a knowledge structure, responsible for promoting its values and world views universally (STRANGE, 2015).

The establishment of American hegemony after World War II was guided by American national interests, values, policy structures and world views shaping the international system. Indeed, domestic choices were translated into international financial governance. American decision makers by the time, the New Dealers, had a seminal role in shaping the framework of the new world economic and political order from what they saw as the main pillars to the proper functioning of the world's political economic system. Those pillars were centered in state intervention on the economic side, as well as states' engagement in multilateral fora and institutions on the political side, reflecting Keynesian ideals and American republican values. Notwithstanding, here it is important to notice that the Bretton Woods multilateral system was a forum in which the U.S. sought dialogue and consent. At the same time, it was a forum in which the U.S. set international mindsets and policy options that were already domestically decided and preferred.

In sum, American domestic policies influenced the way U.S. officials structured the post-World War II international and monetary system. The fact that this was accomplished in a multilateral forum and through consent is mere detail, since what really mattered were American imperatives. As Cox argues, the hegemonic state frames an international order, so its economic power can be maintained and advanced. This is demonstrated by American behavior in the Bretton Woods system. Tavares points out that the world usage of the dollar as international currency and the U.S. injection of liquidity into the world economy were not benevolent actions of the superpower to constitute the international system of payments. When countries use the dollar as an international means of payment and reserve currency, they automatically finance U.S. deficits while exchanging their surplus dollar with U.S. public bonds, sustaining the American war apparatus which is the major part of its public spending and a key pillar of its hegemonic power (TAVARES, 1997).

IV. The Nixon shock and the 1970s' changing paradigms in the international financial system

For Gilpin, in the beginning and mid-1960s, the United States was blind to the changes in international economics, especially because of its superiority in commerce and industry. Therefore, the issue of national autonomy was not at stake. However, by the end of the 1960s, trade competition pressured the U.S. balance of payments, given the enormous fiscal deficit due to America's military expenses. This increased the erosion of confidence in the convertibility of the dollar into gold and prompted speculative attacks against the dollar and in favor of U.S. allies' currencies, leaving their economies unstable (GILPIN, 2000).

Throughout the 1960s, Presidents Kennedy and Johnson managed to sustain the convertibility of the dollar into gold as part of a deep American commitment to the international community. Within that effort, the U.S. engaged in cooperative instruments such as the Gold Common Fund, a multilateral fund used to intervene in the gold market in response to speculative attacks on the dollar. Another form of cooperation was swap arrangements, in which the FED² bought gold reserves in foreign currencies from surplus countries. In addition, the U.S. approved the Special Drawing Rights initiative in the IMF, an international reserve alternative to gold and the dollar that could only be used in interstate transactions within the Fund (MOFFIT, 1984).

² Federal Reserve System the American equivalent to the institution of a Central Bank.

Nevertheless, mechanisms for halting depreciation of the dollar and destabilizing speculative capital movements were not functioning properly since offset finance³ could not counter-attack the enormous volume of international financial flows given the developments of the Euromarket, trade transactions, multinational intrafirm financial operations, and telecommunications. Moreover, states were unwilling to cooperate in offset funds because of criticisms that adequate orthodox policies were not being pursued (HELLEINER, 1994).

Erosion in the confidence of dollar coincided with the time when America faced serious challenges and pressures, leading to a discourse on the end of American hegemony among academics. Fiori analyzes that in the 1960s, the U.S. was not handling communist expansion in Cuba or Vietnam, economic partners like Germany and Japan had become aggressive market competitors, military costs were skyrocketing, and G-77 pressures for developing and less developed nations to be favored in commerce proved contrary to American national interests (FIORI, 2001). Further, the foundation of OPEC⁴ and the transfer of power from American multinationals and the U.S. government to OPEC countries also undermined U.S. hegemony (GILPIN, 2000).

In the face of these systemic pressures, the American commitment to a stable international monetary and financial system could not be maintained. As the fixed parity eroded the confidence in the dollar, making agents migrate to gold as the international currency, it posed a serious threat to American monetary and fiscal autonomy, badly needed to fight the Cold War in the 1970s (AGUIAR, 2016).

Facing the crisis of the Bretton Woods System, the Nixon Presidency decided not abide by it any longer, propelling a deep change in the way the United States managed the international financial governance in the Bretton Woods era. As Aguiar shows, U.S. officials under Nixon started to see the dollar convertibility to gold as a constraint to American political autonomy, since confidence in the currency had been eroding and governments pressured the superpower to reduce spending through fiscal adjustment. The U.S. did not accept foreign dictation over its economic policy, and pursuing its national interest of expanding social and military budgets, suspended the fixed rate parity convertibility between

³ An important leg of international cooperation with respect to capital controls were funds for offsetting short-term capital movements that would cause imbalances of payments. These were advanced mainly by the Bank of International Settlements and the Organization for Cooperation and Economic Development, together with IMF (AGUIAR, 2016; HELLEINER, 1994).

⁴ Organization of Petroleum Exporting Countries, an organization founded in 1960 with the aim of controlling the supply of oil and thus setting its international price. Its abrupt price increase in the 1970s, prompting the oil shock, is said to have undermined U.S. autonomy at the time (Gilpin, 2000).

the dollar and gold, putting an end to the monetary pillar of the Bretton Woods system (AGUIAR, 2016).

Aguiar defends that for the U.S. it was not clear what the new structure of the international monetary system would be once dollar-gold convertibility was demised. The U.S. only knew its own national interests, but did not stop trying to make the international monetary and financial system operable. According to Cohen, the issuer of the international currency needs to set up and organize the norms of the international monetary and financial system, especially since international use of the dollar is an instrument of power (COHEN, 1971).

Nevertheless, under the Nixon presidency, the world saw a clear end of the U.S.'s search for stability and development in the international monetary system. Up to that point, the superpower did not seek to preserve countries' autonomy in a broad sense like Kennedy and Johnson at least tried. Instead, the Nixon administration fought to preserve the autonomy of the U.S.'s own interests. A few months after the end of the dollar convertibility to gold, the Smithsonian Agreement was established between U.S. and the Group of Ten (G-10)⁵ in which the superpower agreed on pegging the dollar to gold with a depreciation of the hegemonic currency and developed countries agreed to appreciate their currencies. Notwithstanding, for Gilpin it was a protectionist and imposing measure, not an agreement:

the Administration imposed a 10 percent surcharge on imports into the American economy and announced that the surcharge would be removed only after a satisfactory devaluation of the dollar had been achieved. Following bitter denunciations, especially by West Europeans, of this unilateral American action and intense negotiations, the dollar was indeed substantially devalued by the Smithsonian Agreement of December 1971, when other countries agreed to appreciate their currencies (GILPIN, 2000, p. 70).

In fact, after the breakdown of Bretton Woods, the U.S. sought to indulge an exchange rate regime in line with its new goals. Throughout the 1970s the superpower actively defended floating exchange rates as a new pattern for the international monetary system. American policy makers argued it automatically adjusted prices in the economy and thus brought stability, besides seeing it as an instrument to compel U.S. allies to adjust their surplus economies in the face of the American deficit. The way whereby the superpower

⁵ The G-10 is a forum formed by Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and United States. These countries gathered in 1962 to provide the IMF with additional funds, and since then they became the major decision makers in international financial governance outcomes, at least until the Asian crisis in 1997 and more decisively after the 2008 crisis, when emerging countries were brought to the forefront in international financial fora.

engaged in the floating system defense since the 1970s was also radically different from how it acted to structure and govern the Bretton Woods system. The U.S. abided by direct coordination in international fora and let the governance of the international monetary and financial system be guided in an *ad hoc* fashion (TORRES FILHO, 2014).

This meant the agenda-setting was based on conjunctural and punctual issues directly related to U.S. national interests, which were imposed or bargained with main allies. Throughout the 1970s and the 1980s, the U.S. cooperated with its main allies in most ways through *ad hoc* agreements on currency appreciation or depreciation. Central to these agreements were the Smithsonian (1973), the Bonn (1977), the Plaza (1985) and the Louvre meetings (1987). Most important in these agreements was the fact that U.S. allies needed to support the dollar because its misalignment could provoke speculative movement or reduce competitiveness in exports, which gave power of bargain to the United States, allowing it to dictate the rules of the emerging foreign exchange regime (EICHENGREEN, 1996).

In the financial pillar, after the breakdown of Bretton Woods, the American commitment to capital controls to avoid short-term speculative capital movements began to change. Policymakers started to view speculative capital flows, together with floating exchange rate regimes, as requiring structural adjustments. In 1974, the U.S. put an end to capital controls, making their use by other countries ineffective because for them to be fully effective, as they were in the Bretton Woods system, states had to cooperate in both capital inflows and outflows with American support (HELLEINER, 1994). By not cooperating in capital controls, capital outflowed from the U.S. to central countries, increasing their monetary basis and making them raise interest rates, causing a forced adjustment as the superpower intended. Indeed, the U.S. did not undergo a fiscal adjustment to hold the dollar devaluation, but it made the global economy adjust to its deficits, appreciating central currencies vis-à-vis the dollar. In addition, through vetoing the recycling of petrodollars in the IMF, the U.S. attracted them to its own financial system. Hence, capital movements liberalization gave the superpower the use of the dollar as a weapon, because it enabled the country to attract an enormous amount of capital inflow to finance its external deficit (TAVARES, 1997).

Again there was a change in the American posture towards international governance. In Bretton Woods, America's firm commitment to countries' economic stabilization and policy autonomy led it to go against the financial industry interests of liberalization of capital flows. By the 1970s, international cooperation in capital controls was seen by private and political interests as harming American political autonomy. For Walter, from the 1970s, households'

private savings in U.S. were not enough to finance investments and governments deficits, being private fund's portfolios and capital inflows responsible for it. This trend was even stronger in the 1980s due to high real interest, the disengagement of American banks from international lending due to Latin America debt crisis, the removal of capital controls in other countries, and the absence of attractive investment opportunities elsewhere (WALTER, 1998, p. 205)

Through liberalization of capital movements, the U.S. granted itself policy autonomy vis-à-vis other countries. In the words of Gilpin:

[Free movements of international capital] (...) means that the macroeconomic policies of one country have a significant impact on the economic welfare of other countries. For example, (...) [if the US] raises its interest rates to decrease domestic inflationary pressures, those higher rates will attract capital from other countries with lower interest rates, and the resulting increase in [any] country (...) money supply then contributes to the inflationary pressures that higher interest rates were intended to counter. Simultaneously, economic activity is reduced in the economies experiencing capital outflow. In this way, [liberalization of capital accounts] (...) actually reduced macroeconomic policy autonomy [of other countries in relation to the US] (GILPIN, 2000, p. 74).

Helleiner explains that when the U.S. liberalized capital accounts, it pressed central countries towards a movement of competitive capital accounts liberalization, since internationally operated financial institutions tend to move capital to the U.S. because it is the deepest and most liquid financial market worldwide. The consequence, together with the increasing difficulties of controlling capital movements, as due to the continuous failures in offset finance states and multilateral arrangements were facing, was that countries sequentially adopted the flexible exchange rate as means to deal with currency volatility without stressing sterilizing costs. As Eichengreen shows, from 1984 to 1994 pegged exchange regime countries fell from 71,4% to 45,2% (EICHENGREEN, 1996, p. 138).

Indeed, floating exchange rates and capital account liberalization reinforced each other in the framing of the emerging globalized financial system. Furthermore, another important American move was essential in restructuring the international financial order: the Volcker shock. It was a 1979 high rise in the federal funds rate – the American short-term rate – carried by the then-nominated FED's governor Paul Volcker, which aimed to tackle American inflation. Despite its domestic consequences, which are not the focus of this work, the Volcker shock was a fundamental instrument in provoking world adjustment vis-à-vis the American deficit, as Helleiner and Gilpin put it, because high real interests rates in the U.S.

made international capital flow to America, leaving countries with dollar shortages obliged to devalue their currencies and spending levels.

For Helleiner, the Volcker shock was a market operation to restore American compromise with monetary confidence in the face of American inflation and the devalued dollar, but it was not really threatened by any other currency, since the dollar was the currency promoting the globalization of the monetary and financial international system. It means it was the unique in promoting financial market integration and the world's financial transactions. As Walter highlights, by the time of the Volcker shock, the dollar was already consolidated as the main financial currency:

[T]hough volatility has increased the exchange risk of holding dollar assets as a store of value, the high liquidity of dollar markets, the broad range of dollar instruments and the low transaction costs in dollar markets ensure that it remains the main transactions and denominations currency in financial markets (WALTER, 1998, p. 201).

The reason why the U.S. abandoned former compromises in international financial governance was the continuous defeat of New Dealers and Keynesian-oriented officials in the U.S. administration from the 1970s. Conservatives, whose aim was to lean state power over private power, took positions in the Nixon administration, but it was in Carter's and Reagan's governments that the conservative coalition actually came to power (HELLEINER, 1994). They were representatives of pro-business lobbies that, feeling threatened by the economic conjuncture of 1970s stagflation, profit squeeze, tough regulation, hostile tax legislation and policy makers, consumers and workers' criticisms, managed to advance a market-friendly agenda in the U.S. Blyth shows that the funding of electoral campaigns and think tanks were central in this strategy as a means to influence decision makers and the whole population to a frame of mind that would benefit large American business associations (BLYTH, 2002).

The conservative coalition was fundamental in reorganizing and restructuring the United States domestically and internationally. Blyth points to the role the U.S. conservative coalition had in opening space for financial interests to be represented in policymaking through think tank and media mass propaganda of pro-business agendas. In fact, floating rates, capital accounts liberalization, and the Volcker shock – the three structuring policies of the emerging global financial system – come out of this new coalition intelligentsia, since the three reinforced financial private interests. Conservatives were not acting only domestically. Helleiner observes that the coalition formed a transnational advocacy group that used the same instruments of mass mind frame and policymaking influence in other central countries,

so that the agenda of floating exchange regimes, free capital movement, and financial deregulation were globally enhanced (BLYTH, 2002; HELLEINER, 1994).

In sum, in the 1970s and 1980s, a new social force took power in the U.S. and changed economic policy conception. The Bretton Woods' fixed exchange rate regime was seen as undermining American policy autonomy, considered by the new political coalition as more important than granting multilateral macroeconomic policy autonomy. Capital liberalization was seen a means of promoting efficient capital allocation, despite speculative movements that were seen as positive in enhancing countries' adjustments in the face of growing U.S. deficits. In this aspect, the end of restrictions of capital movements increased capital inflows to the U.S., especially after the Volcker shock introduced high real interest rates, financing the U.S. deficit, which was needed for the U.S. to fight the Cold War. In short, according to Helleiner the framing of the post-Bretton Woods system – the globalized financial system – was one non-negotiated, market-based system, where political decisions tended to strengthen private financial actors' capacities as a way to strengthen the American state power, not the contrary (HELLEINER, 1994).

The floating exchange regime, capital liberalization, and financial deregulation reinforced the competitiveness and the centrality of the American financial system in the post-Bretton Woods era. It is necessary to see both the dollar and the American financial system as the basis of U.S. hegemonic power, restructured and renewed by the mid-1980s, when the globalization of financial markets spread, consolidating a new phase of international monetary and financial governance: the international deregulatory movement and international standard-setting pushed by transnational private actors with the support of the American state.

V. Global financial markets, competitive deregulation, and international financial standards

The 1980s saw a trend in deregulating financial markets and liberalizing capital accounts. By the 1990s, deregulation was complete: central countries did not retain interest rate ceilings for banks, neither investment requirements for securities intermediaries. Controls on foreign exchanges were no longer executed. Both Helleiner and Walter agree financial deregulation was pushed for its competitive nature: with the effect that a country adopting onerous regulations would push financial business to other countries. According to Walter, financial regulation had become a form of “competition between rules”. Once there were differences in financial transaction costs due to different national regulatory regimes,

regulatory arbitrage started to influence capital flows among countries (HELLEINER, 1994; WALTER, 1998).

The U.S. was the driving force in domestic and international financial deregulation. By the 1980s, the U.S. focused on the deregulation of its domestic financial market to expand it globally. Since U.S. financial firms faced fierce international competition, both the banking system and the securities markets were deregulated. In 1981, the U.S. accepted non-taxed, non-regulated financial institutions within its territory as a way to dislocate Euromarket activity back to U.S. While Europeans, especially the British, avoided putting restrictions on its financial institutions because it would reduce their competitiveness (WALTER, 1998). Torres Filho observes a change in the international financial architecture from the 1980s to the 1990s. For him, the G-7⁶ lost decision-making power to U.S. and U.K. transnational financial institutions. As a result, international financial governance developed from an *ad hoc* coordination among major states to a global forum guided by transnational private agents' interests (TORRES FILHO, 2014).

From the three elements that compose the global financial system: the floating exchange regime, the liberalization of capital accounts, and financial deregulation, only the last one was subjected to private-public bargain. Market movements by themselves pressured governments to adopt the floating exchange regime and liberalize capital accounts due to sterilizing and inflationary costs, so private agents did not need to lobby governments to adopt these measures, neither have they required a permanent coordination as long as market arbitrage makes foreign exchange and capital movements operable at the expenses of governments. Nevertheless, the same could not be said about financial regulation, since it involved the direct supervision and intervention by governments, in such a manner that private agents had to make efforts to influence their conduct. In a globalized system with private agents' interests extending beyond national borders, transnational financial institutions started to concern themselves with transnational financial regulation, as it became the main aspect of global financial governance. That made financial institutions start to interfere in regulatory matters in their favor.

Financial institutions had been worrying about regulation since the 1980s due to increasing competition faced by both banking and non-banking institutions by the virtue of structural changes in financial systems, of which financial innovations and the globalization

⁶ Group of the seven most advanced economies in the world, according to IMF. These are: The United States, United Kingdom, France, Germany, Italy, and Japan. The European Union is also represented in the arrangement.

of domestic financial markets were keystones. Both affected banking and securities markets activities, especially in major financial centers. In keeping with Guttman, the development of money markets changed structurally the role of banks in the financial system, with deep implications as to how they pressed regulatory changes in the 1980s (GUTTMANN, 2016).

Money markets are composed of financial institutions that transact assets of short-term maturity (one day to one year) to promote liquidity of the financial system. Those assets have higher returns than bank deposits and are as safe as them. That has undermined the traditional function of banks as intermediate institutions in a payments system. This process came to be known as financial disintermediation and led banks to assume riskier positions, once they were not constrained by liquidity obligations from deposits (TORRES FILHO, 2014). Since they had a liquidity channel, they assumed leveraged positions to increase gains through risk, but capital requirements impeded banks from leveraging too much⁷. In such way, they influenced regulators to low capital requirements as a means of boosting banking activity, as Urpia demonstrates in the SEC⁸ attitude to lower capital requirements from investment banks in the 1980s (URPIA, 2015). By that time, American banks were under fierce competition with non-bank financial institutions and international banks. Therefore, U.S. banks pressed for the end of interest rate ceilings and the modernization of financial regulation, so they could be more competitive (CARDIM, 2005).

In consonance with Martins and Torres Filho:

[As of the 1980's] "an integrated and globalized system came up, emerging from deregulation and denationalization of domestic financial systems. That promoted an increase in competition, reduction of intermediation costs and stimulus for financial innovation in unprecedentedly levels (...). (MARTINS; TORRES FILHO, 2017, p. 3, our translation).

Relations between private financial interests and the U.S. government in the boom of financial globalization became evident in the first international agreement on banking activities regulation, the Basel I agreement, established in 1988 under the auspices of the Basel Committee of Banking Supervision (BCBS). As American banks were facing hard losses due to the Latin American debt crisis, they needed to be regulated, especially with regard to capital requirements. However, it would make them less competitive than Japanese

⁷ For the reader not familiar with banking and finance jargon, let us assume money markets increased banks' sources of capital available to direct disposal. That made banks engage in riskier investments, since they could invest now not only with their own capital but also with credit at their disposal, a process called leverage. As capital requirements regulation obliged banks to dispose some part of their own capital in their financial activities, they started lobby regulatory agencies so they could dispose less capital of their own when engaging in riskier ventures.

⁸ Securities and Exchange Commission, the American regulatory authority for securities markets.

and German transnational banks, which had lower capital requirements than American regulators intended to demand from American banks. The Basel I agreement was a means the American government had to press for levelling the playing field in international banking and protect the American banking sector. It was meant to make all important internationally active banks subjected to the same capital requirements regulation (CARDIM, 2005).

With the support of the U.K., the U.S. used rules of compliance as an instrument of power by threatening to punish those countries that were not to adequate their banking systems to the desired American regulatory framework with the prohibition to operate in the American financial market. The American threat would seriously harm the financial institutions unwilling to undertake regulatory reform following the American standards, since that would push their business off the most liquid and deep financial market in world . That was a clear proof of the American state's capacity in altering the rules of the international financial governance for its own purposes, with the political objective of protecting the fundamental basis of the American power in the globalized era: its financial system.

As reported by Walter and Sen:

Similar British [financial competition] concerns facilitated a US-U.K. deal on minimum risk-weighted capital adequacy standards in 1987. (...) The explicit threat that London and New York might refuse entry to affiliates of banks from non-complying countries facilitated the 1988 Basle Capital Adequacy Accord (SEN; WALTER, 2009, p. 182).

Globalization, telecommunication developments, and financial competition also threatened the American hegemonic position on securities markets. Chaffee points out that with the globalization of security markets, the U.S. started to lose positions to other domestic financial markets in terms of competition, and as the United States did not enjoy the world's fastest growing economy, international investors' positions in the American capital markets were central to American economic development. Besides, technology had pushed security market globalization, with investors taking positions around the world and moving these positions quickly through different securities markets in search for profit and regulatory arbitrage (CHAFFEE, 2010).

Competitive pressures in securities markets derived from demutualization and transnationalization of securities exchanges and securities houses, as well as from the removal of capital controls and domestic openness to securities trade. That consolidated a trend of diversification of investment portfolios transnationally, which increased financial competitiveness and deregulatory pressures. Chaffee argues that, in general, national regulators

did not regulate securities, with fears their markets could not compete globally. In the words of Chaffee:

During much of the twentieth century, the world took a weak regulatory convergence approach to international securities regulation because the United States occupied a dominant position as a securities regulator, and other nations mimicked its securities laws. (...) As the dominance of the United States has begun to wane, a regulatory competition approach has emerged because nations are now competing to adopt systems of securities regulation that will attract issuers and investors (CHAFFEE, 2010, pp. 199 – 200).

In fact, the United States has done much to halt international financial regulatory competition and dictate standard-setting as well as set the pace of regulatory harmonization, for the strategical importance these elements have in global financial integration. According to Sen and Walter, much of the international securities markets' regulation control is exercised through an Anglo-American alliance that exerts influence over the technical committee of IOSCO⁹. By this, the U.K. and U.S. grant a say in relevant markets' standards, practices, issues at discussions and analysis, focusing on putting their views as imperatives, as long as standard-setting bodies aim to promote compliance and national adaption to major countries' interests and worries about regulatory arbitrage (SEN; WALTER, 2009).

For Underhill, IOSCO does not represent only the major countries interests, but also the interests of the major transnational financial firms. In line with the author, the first cooperative arrangements in the international securities markets regulation at IOSCO aimed to grant stability to securities firms acting in a volatile and crisis-prone monetary and financial system. So, IOSCO aimed to facilitate the process of cross-board securities transnationalization through regulatory international standards. This happened in this way because the securities industry has a tradition of self-regulation in many countries, especially in the U.S. and the U.K. where securities markets are most developed. Inclusively, in the pre-2008 crisis period, U.S. and U.K. national securities markets regulators used to delegate their powers to private self-regulator entities at IOSCO. Consequently, a model of international private governance had been consolidated towards international securities markets standards. Most of the decision-making process is not in the hands of policymakers solely, but in the relation between regulators, self-regulators, and market actors (UNDERHILL, 1995).

This model of governance has created a self-preservation system where large firms and financial centers from powerful states – mainly from the U.S. and the U.K. – tend to privilege

⁹ International Organization of Securities Commissions. It is an international organization founded in the end of the 1980s with the aim of promoting cooperation between national securities markets regulators.

its regulatory arbitrage competitive concerns despite smaller firms and smaller financial centers. In fact, once a major financial center modifies regulation, small financial centers need to do the same, at the risk of losing capital. Indeed, integration between major financial centers induces small centers to run after domestic reforms to avoid capital outflows. In the end, IOSCO is an organization to make emerging securities markets adapt to major securities markets' regulatory changes more smoothly – which is in fact the function and objective of the international financial standards approach to securities markets (Ibid). American private financial agents become, then, an instrument of the U.S. state power while matching their own interests. Once they conduct the norms of the global financial integration in line with the superpower's interests of having international capital flows directed to its hegemonic financial market, they support the state economic growth and warfare spending as well as reinforce their central position in the global financial system competitiveness.

In sum, the conservative turn in the U.S. reinforced the power of influence of financial institutions, which pressured regulatory authorities towards financial deregulation due to the pressing financial competition related to financial innovation and international financial integration. This made international financial regulatory standards become the central aspect of international financial governance in the emergence of global financial markets throughout the 1980s and the 1990s. Throughout this period, the U.S. conducted both banking and capital markets' regulation with the aim to center American financial institutions in a privileged position of competition faced by its transnational peers.

VI. Final remarks

Through researching the link between the developments in the international monetary and financial system and U.S. domestic decision making changing imperatives during this time, this paper threw light on how the country has exerted its structural power. Domestic decision making was altered by new political coalitions' perspectives on how economic and political challenges should be faced and how the existing main pillars of the international financial system operation should be restructured—namely, the foreign exchange rate regime and the rules of capital controls.

With the conservative coalition ascension, the goal of macroeconomic stability that underpinned the fixed exchange rate regime and the cooperation over capital controls was seen as harmful to the needs of structural macroeconomic adjustments. International financial governance based on a multilateral forum in which states were granted macroeconomic

autonomy by the U.S. started to be seen by the new coalition as dampening the American state autonomy. The conservative response was to abide by direct coordinating action and undertake unilateral measures that resulted in the destruction of the existing *modus operandi* of the international monetary and financial system, such as putting an end to the fixed parity between the dollar and gold in 1971 and stopping American capital controls in 1974. Lasting that states had no other option than that had to adapt to the new domestic policies of U.S. – floating exchange rate regime and free movements of international capital. Moreover, the U.S., while deregulating its own financial system between the 1980's and 1990's imposed the same American domestic regulatory standards over the international financial regulatory boards by using its bargaining power.

The specificity of taking domestic actions with global impacts that are capable to restructure an international economic system operation through new norms and rules, without leaving allies and contenders the capacity to respond and defend from those movements, is what underlies the exercise of structural power. Indeed, this work has sought, through this IPE literature review, to make this fundamental concept more instrumental. This specificity, as we argued, has been clearly observed within the American governance of the international financial system and has been exclusively exercised by this state in determining the outcomes of that realm.

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