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The Coming Global Monetary (Dis)Order

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Nearly half a decade after the start of the global economic crisis, the international monetary system is still in turmoil. In Europe, sovereign debt problems threaten the survival of the euro, the European Union's (EU's) grand experiment in currency union. In the United States (US), political dysfunction continues to erode confidence in the dollar, the central lynchpin of global finance. In China, determined intervention still holds down the value of its currency, the yuan, sustaining massive trade surpluses. And elsewhere governments struggle to cope with volatility of capital flows and exchange rates, feeding worries about the possibility of outright "currency wars". The question on everyone's mind is: Can monetary order be restored, or is there worse to come?

When the global crisis first broke, following the collapse of the US housing bubble in 2007, hopes were high that events might provide the necessary catalyst for a fundamental reordering of monetary affairs. Attention focused on the Group of 20 (G20), freshly empowered to act as a steering group for the world economy. Many spoke of a new "Bretton Woods moment" – once again an opportunity, like that at the Bretton Woods conference of 1944, to reshape the design of the international financial architecture (Helleiner 2010).

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Others, however, including myself (Cohen 2008), were sceptical, and that scepticism has proved warranted. As this chapter is written, the monetary system looks further from reform, and closer to chaos, than ever.

This does not mean that chaos is inevitable. To paraphrase Winston Churchill's famous remark about the US, we can usually rely on the world's leaders to do the right thing – after they've tried everything else. Governments can probably be counted on to avert outright disaster. No one wants a repeat of the 1930s. But that is hardly the same thing as positive reform. However much we might like to see the financial architecture newly reconstructed, the prospect really is rather less heartening. At best, I would contend, we can hope that our leaders will manage to muddle through, patching up the architecture wherever cracks or leaks appear – but little else. We will all have to learn to live with a certain measure of monetary disorder.

The Central Challenge

Some might object. After all, one might argue, our leaders are not without insight. They understand the issues and know their history. Surely it is not beyond the wit of persons of good will to design proper solutions to our problems. And one would be right.

Wit, however, is not the issue. Rather, it is politics – the good old game of power and interests. The central challenge is *governance*: the formulation, implementation and enforcement of norms for behaviour; in short, the rules of the game. The central question is: Who will do the governing? Bluntly, who's in charge? At any level of human interaction, the authority to govern rarely goes uncontested. And nowhere is that authority more contested than at the global level, where no central government exists to impose enforceable norms on individual nations.

Like it or not, we live in a world in which politics is organized in terms of territorially defined states, each one formally sovereign within its own borders – a principle going back to



the Peace of Westphalia of 1648. In the Westphalian system, the sovereign state is enshrined as the basic unit of political authority. There is no higher authority. Though sovereignty at the national level may not be absolute, states do all they can to preserve as much autonomy of action as possible. Hence, if any governance is to be exercised at the international level, it must rely on some degree of cooperation, more or less institutionalized, among states – what political scientists call “governance without government” (Rosenau and Cziempel 1992). Inter-state cooperation has been famously defined by Robert Keohane (1984) as a mutual adjustment of behaviour achieved through some process of policy coordination. The challenge of global monetary governance, as in all relations between states, is to find ways to promote and enforce such policy coordination.

That raises two problems in particular. First is the fact that policy coordination almost always requires some degree of compromise to accommodate the demands of national sovereignty. Hence the mechanisms of governance – the rules of the game – are bound in some measure to be sub-optimal. And second is the fact that compliance with the rules can never be absolutely assured. If sovereignty means anything, it means that states may at times flout the rules when they feel it to be in their interest. Hence the practice of governance – actual behaviour – is likely to be imperfect as well. Given such problems, we should probably be grateful that the degree of monetary disorder today is not even greater than it is.

Monetary Governance

By long-standing convention, global monetary governance is traditionally seen as comprising three critical elements: adjustment, liquidity and confidence. *Adjustment* is concerned with the resolution of payments imbalances among states and focuses in particular on the key role of exchange rates. *Liquidity* has to do with the management of the overall supply of financing for payments deficits or related purposes.

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And *confidence* is about the composition of liquidity – specifically, maintenance of trust in the principal instruments of global finance, meaning especially the major international currencies.

To these three elements, I consider it necessary to add a fourth: *leadership*. Collective rules governing such matters as exchange rates or liquidity are unlikely to spring up on their own and certainly are unable to enforce themselves. Someone must take responsibility for employing the traditional means of governance – coercion, bribery or persuasion – to ensure that at least some degree of policy coordination is encouraged and sustained. In other words, someone must lead.

Implicitly, all this was understood by the negotiators at Bretton Woods when they wrote the charter of the International Monetary Fund (IMF). A formal governance regime, they concurred, was needed to ensure a degree of order in monetary affairs. Adjustment would work through a system of “pegged but adjustable” exchange rates, as laid out in Article IV of the IMF’s Articles of Agreement. Each government was to establish a “par value” for its currency and to maintain its parity within narrow limits, imposing a form of discipline on national policy. Par values could be revised only in the event of “fundamental disequilibrium”. Liquidity would be provided by the newly created Fund according to a strict set of quotas and subject to some degree of conditionality. Confidence was not considered an issue since the principal instrument of financing at the time, the US dollar, was universally regarded as being “as good as gold”, if not better. And no one doubted the leadership of the United States, the dominant monetary power of the day, with Britain as a junior partner.

Underlying it all was an unquestioned belief that for monetary governance to be effective, the regime had to be state-centric. Key decisions should be taken by governments or by an institution, the IMF, with powers delegated by its member states; and the rules were to be clear and transparent. Exchange rates were to be established and maintained by

national authorities. Likewise, access to payments financing and the terms of that financing were to be controlled by the IMF acting as agent for the community of nations. And behind it all was a well understood and accepted structure of leadership, headed by the United States.

Over time, however, much changed to obscure the clarity and transparency of the Bretton Woods regime, generating ever-greater uncertainty. On the one hand, global financial markets revived, substantially altering the balance of authority between governments and societal actors. On the other hand, the dominant power of the United States gradually faded, leading as well to a wider diffusion of authority among states. Neither development is necessarily undesirable. Indeed, much benefit is derived from both more open markets and less political monopoly. But plainly there are disadvantages, too. As a direct result of both developments, the foundations of monetary governance have been steadily eroded. Prevailing norms have become increasingly opaque, leading to the heightened risk of disorder that we face today.

With the revival of global financial markets, key elements of the governance regime have become increasingly “privatized”. The move toward floating exchange rates, starting in the early 1970s, effectively meant that for many currencies values would now be determined by market actors, not governments. Likewise, the re-emergence of international lending via banks and bond markets effectively meant that for countries judged sufficiently creditworthy, access to financing would now also be market-determined. And, of course, with capital now freer to move across national borders, vulnerability to destabilizing shifts of confidence among the major currencies has been heightened as well. In all these respects, the system is now ever more exposed to the volatility of expectations and herd behaviour so characteristic of financial markets. The price we pay for privatization is a sharper risk of the sort of systemic crisis that we have been living with for the past half-decade.

Similarly, with the wider diffusion of power among states, inter-governmental decision making has become increasingly

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difficult, leaving many problems unresolved. Leadership was a relatively uncomplicated affair when there was just one dominant power with undoubted legitimacy. But the task of coordination has become ever more challenging as the inner club has expanded, first to the Group of Seven (G7) and now to the G20. The larger the designated steering group, the greater the risk of stalemate over divergent interests and the greater the uncertainty over who actually is in charge. Deadlocked leadership, too, can sharpen the risk of systemic crisis.

Can anything be done to improve matters? The answer requires a closer look at each of the four key elements of monetary governance today.

Adjustment

Begin with adjustment. Once exchange rates began to float, it was clear that the old rules for currency management were defunct. In response, under the Second Amendment of the IMF's Articles of Agreement adopted in 1978, the charter's critical Article IV was revised to lay out a new set of rights and obligations for governments. Out was the uniform "stable but adjustable" formula of par values. In was a new latitude allowing states to choose virtually any currency policy they wanted, from the hardest of pegs to the cleanest of floats, subject only to the admonition that they "avoid manipulating exchange rates . . . to prevent effective balance of payments adjustment or to gain an unfair competitive advantage". In lieu of the discipline of the par value system, mutual forbearance was now to be the system's prevailing norm. In the one remaining element of global governance, the Fund was directed to "exercise firm surveillance over the exchange rate policies of members" in hopes of ensuring general compliance.

In reality, however, Fund surveillance turned out to be anything but firm, and compliance, as a result, has been anything but general. This has not been for a lack of will. Indeed, as early as 1977, even before the Second Amendment

was fully ratified, the Fund sought to specify a series of principles for its exercise of surveillance, including a number of indicators – such as “protracted large-scale intervention in one direction in the exchange markets” – that might trigger a “discussion” with an offending member. To convert principle into practice, a calendar of annual “Article IV consultations” was initiated to keep an eye on possible offenders. But very quickly it became clear that governments were broadly resistant to any sort of serious oversight by unelected international bureaucrats. For the most part, the Fund was effectively marginalized, leaving states more or less free to do their own thing.

Not surprisingly, therefore, abuses have accumulated, as ever more governments learn to enjoy the freedom to manage their exchange rates as they like. Some intervene openly in the exchange market, using central bank reserves to steer currency movements. Others rely on more indirect levers, such as interest rates or even newly fashionable capital controls. Should we be shocked, then, by growing talk of “currency wars”? Especially since the start of the current global crisis, “dirty floats” have become increasingly prevalent, inhibiting adjustment and exacerbating currency volatility. Today, many states may fairly be accused of exchange rate manipulation – none more so than China, whose determined efforts to hold down the value of the yuan have resulted in the biggest build-up of currency reserves in history, now worth well in excess of three trillion dollars.

Precisely because of China, the IMF moved in 2007 to update its principles of surveillance, now adding “external stability” to the list of criteria for judging policy behaviour. External stability meant avoiding payments imbalances that might generate disruptive currency movements. In addition to protracted large-scale exchange intervention, indicators of misbehaviour would now include “excessive” reserve accumulations, “fundamental exchange rate misalignment”, and “large and prolonged surpluses” – all obviously aimed at Beijing. Additionally, in 2009, the Fund was directed by the G20 to monitor a new Mutual Assessment Process among

its members, a critical cornerstone of the group's grand pledge to promote a Framework for Strong, Sustainable and Balanced Growth. Henceforth, the Fund was to provide "candid, even-handed, and balanced analyses" of policies. And even more recently the organization has launched, experimentally, regular "spillover reports" on the world's five most systemically significant economies – US, Britain, the Eurozone, China and Japan – in an effort to forestall policy inconsistencies or the spread of negative externalities. Implementation of its ambitions, however, continues to be spotty at best, as the IMF itself acknowledges. As recently as November 2011, following a comprehensive review of its surveillance procedures, the Fund executive board ruefully admitted that, still, "the current legal framework does not sufficiently account for economic realities". Though China is the target most on everyone's mind, Beijing remains adamant in its refusal to modify its currency practices.

Why has IMF surveillance been so ineffective? Plainly, it has much to do with the inability of a multilateral agency, however well respected, to impose its will on national governments jealous of their sovereignty. Except for countries that are in desperate need of finance, the Fund lacks even the most rudimentary means to enforce norms or sanction members for non-compliance. Were the organization to be granted truly effective supranational powers, the risk of currency wars would be greatly reduced. But, frustratingly, that seems far beyond what member states are prepared to accept.

Liquidity

Nor does the outlook seem much more promising when it comes to the management of liquidity. Once banks and bonds supplanted the IMF as major sources of financing, the overall supply of liquidity effectively became hostage to the vagaries of international investor sentiment, which as we know can ebb and flow like the tides. The challenge of governing liquidity gradually merged into the broader

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question of how to maintain stability in global financial markets.

There is no question that capital markets perform many valuable functions, helping governments and societal actors alike to supplement financial resources, when needed, or to diversify risk. But there is also no question that, too often, investor behaviour turns out to be pro-cyclical – rushing to make credit available when times are good; then fleeing the scene like so many lemmings when the going gets rough. The result is a proneness to repeated crises, often quite broad and prolonged, which destabilize economies and sap growth. The international community has yet to find a way to temper the risk of such crises or to cope with them adequately when they recur.

The pattern is sadly familiar. We saw it in the 1970s, when banks optimistically poured money into Latin America, only to recoil in the 1980s, contributing to what Latin Americans still recall as a “decade of lost growth”. We saw it again in the early 1990s, when bond markets opened up the sluice gates to emerging market economies, leading ultimately to a series of crises *inter alia* in Mexico (1995), East Asia (1997–8), Brazil (1999), and Argentina (2001). Most recently, we saw it in the worldwide lending boom of the early 2000s, which, as we know, soon spawned the world’s biggest financial collapse since the 1930s and led directly to today’s sovereign debt problems in Europe. Such cycles seem to be built into the DNA of capital markets.

Also sadly familiar is the pattern of failed response by the international community, which after each episode pledges yet again to find effective means to reduce the risk of crises and to manage them better, only to fall short of what is needed. The best governments seem to be able to do is open up new sources of liquidity to better defend themselves against adverse market pressures. So it was after the troubles of the late 1990s, when talk of reforming the international financial architecture, as it was then newly called, soon came to naught. Apart from additional resources for the IMF, the only tangible result was creation of the Financial Stability

Forum – later renamed the Financial Stability Board (FSB) – gathering together top financial officials from some two dozen countries and a variety of international institutions to share information and coordinate policy initiatives. The same pattern appears evident once more today, despite the best of intentions. The IMF, G20 and FSB have all promised fervently to strengthen global rules for financial supervision and to enhance multilateral collaboration to reduce the scope for regulatory arbitrage. To date, however – apart, once again, from new resources for the IMF – remarkably little has actually been accomplished.

Admittedly, some national legislation has been passed, most notably the Dodd-Frank Bill in the United States, as well as new reforms in Britain and the EU. But few observers would contend that, on their own, these initiatives are anywhere near enough to ensure greater financial stability; and, already, there is much evidence of vigorous “push back” by financial interests determined to preserve as much freedom of action as possible. At the international level, new capital requirements for financial enterprises – dubbed “Basle III” – have been agreed upon by the Basle Committee on Banking Supervision. But with full implementation to be delayed until as late as 2019, there remains considerable uncertainty over how much impact the modified standards may ultimately have.

Nowhere has the failure of response been more glaring than in Europe’s desperate efforts to come to grips with its sovereign debt troubles. Repeatedly, since the threat of default first erupted in Greece in early 2010, leaders have met to announce a “comprehensive” solution, only to fall short of their goal. Rescue packages were thrown together to bail out Athens, then Ireland and Portugal, but in amounts and on terms that were insufficient to stop market pressures from spreading to Spain, Italy, Cyprus and possibly others. A temporary Financial Stability Facility was established to provide a “firewall” against financial contagion, to be followed in time by a permanent European Stability Mechanism, but with funding that persistently proved to be

inadequate. And new capital requirements were promulgated for European banks, but at levels that provided no real protection against the risk of fatal insolvencies. At each step, governments have persistently lagged behind the curve, always one or two steps short of what was needed. Strategy has been reactive and incremental, seemingly meant to do little more than buy time. Some call it “temporizing” or “muddling through” or “kicking the can down the road”. I am inclined to call it Micawberish, after the Dickens character Mr. Micawber who optimistically lived in hope that one day “something will turn up”. Something might not turn up.

Again, none of this is for lack of wit. Since the beginning of the most recent round of crisis, all kinds of imaginative ideas have been floated for systemic reform, coming from a variety of public and private quarters. To help prevent more crises in the future, proposals have ranged from a new emphasis on so-called “macroprudential regulation” to a broad-based tax on financial transactions – all intended to reduce the pro-cyclicality of market lending. Likewise, to help manage possible crises more effectively, a variety of institutional innovations have been suggested ranging from improved lender-of-last-resort facilities at the IMF or elsewhere to some kind of global debt restructuring agency. Barry Eichengreen (2009) has even gone “out of the box” to contemplate the possibility of an entirely new World Financial Organization (WFO), parallel to the already existing World Trade Organization, to establish binding commitments to common standards for prudential supervision and regulation. On purely economic grounds, many such proposals make perfectly good sense.

The problem, as always, is politics – the demands of national sovereignty, with all their inevitable compromises and accommodations. Governments have been resistant to any step that might disadvantage their separate economies or the interests of key domestic constituencies. Why, for example, should we believe that states would be any more amenable to the strictures of a WFO than they are now to

the surveillance procedures of the IMF? Even in Europe, which has been chipping away at national sovereignty for well over half a century, leaders find it difficult to subordinate their divergent preferences to common objectives. Very little in recent history gives us reason to anticipate the kind of decisive action that would be required to truly tame the financial system's proneness to repeated bouts of *Sturm und Drang*.

Confidence

With the privatization of the monetary regime, it is not just the overall supply of financing that has become hostage to the vagaries of investor sentiment. So too has the *composition* of liquidity, meaning the relationship among the principal instruments of financing. Even apart from their role as a source of credit, banks and bond markets can destabilize the broader system through sudden shifts of confidence among major currencies. Regrettably, here too governments have yet to find a way to temper the risk of disorder.

Of course, no such risk would arise if there were just a single world currency, issued and managed by the equivalent of a global central bank. It is obvious that for the world economy to flourish, some kind of internationally acceptable money is needed. Otherwise, states would be reduced to crude barter, severely limiting gains from cross-border trade or investment. From an efficiency point of view, a single supranational currency would seem to make the most sense, since transactions costs would be minimized. As Nobel laureate Robert Mundell has quipped, the optimum number of currencies is like the optimum number of gods – “an odd number, preferably less than three”. But can anyone seriously believe that in our fragmented Westphalian system, credible agreement can be reached on terms for the creation and management of a genuine global money? From a political point of view the option seems unattainable, even risible. Much more realistic is the prospect that the world economy

will continue in the future, as it has in the past, to rely mainly on a limited selection of national currencies to play vital international roles. Hence it is realistic to assume that the confidence problem will remain a salient issue as well.

The closest we have ever come to single world currency was at the time of the Bretton Woods conference, when the US dollar was without serious rival as international money. (Britain's pound was also used internationally at the time, but only within the tight confines of the sterling area.) In the immediate post-war period, trust in the greenback was unsurpassed, encouraging acquisitions. The dollar was, as mentioned, "as good as gold", if not better. By the 1960s, however, as US liabilities continued to mount and the Treasury's gold stock began to shrink, worries crept in, leading economist Robert Triffin to formulate his notorious Dilemma – the increasingly obvious fact that the global economy's need for reserve growth and America's need to sustain confidence in the dollar were mutually incompatible. The world could not continue to rely on US payments deficits to expand international liquidity without risking a flight from the greenback. It was largely to deal with the Triffin Dilemma that the IMF's Special Drawing Right (SDR) was created, though not in time to prevent the crisis in 1971 that led Washington to terminate the dollar's link to gold.

In the four decades since, new rivals have occasionally emerged to challenge the dollar, including, for a time, Germany's Deutsche mark (DM); later, Japan's yen; and, most recently, Europe's euro (replacing the DM). And just over the horizon looms the Chinese yuan, which many see as the international money of the future. No other currency, however, at the moment comes even close to replacing the greenback at the peak of what I have elsewhere called the Currency Pyramid (Cohen 1998). America's money is still the lynchpin of global finance. Its top position may be weakening under the weight of Washington's dysfunctional politics and steady accumulation of debt. But neither is there any obvious new leader lurking in the wings, just waiting to take centre stage. Instead, we find ourselves gradually moving

toward a more fragmented monetary universe, with several currencies in contention but none clearly in the lead – what may fairly be called a *leaderless* currency system (Cohen 2011: ch. 9).

For many, the arrival of the dollar’s new rivals is a welcome development. A broader multi-currency system, it is argued, will widen the range of choice for market actors, thus making it harder for the United States to act in arbitrary, unilateral fashion. For years Washington has been criticized for exploiting the “exorbitant privilege” of a *de facto* monopoly, putting the exigencies of its own balance of payments and borrowing needs above any concern for systemic stability. The result, it is said, has been long-term erosion of trust in the dollar and periodic bouts of monetary disorder. Once viable alternatives are available, however, it can be expected that greater discipline will be imposed on US policy. Washington will be compelled to pay more attention to the risk of capital flight and therefore will have more incentive to accommodate the interests of others. In the words of C. Fred Bergsten (2011), an advocate of a wider mix of global currencies, “pressure from abroad can be constructive in promoting needed adjustment” in the United States. In principle, American exceptionalism would at last be curbed, imparting more stability to the system.

But that is not the only possible outcome. In practice, regrettably, discipline across the system may well be weakened rather than improved. Again, the reason is politics. For every issuer of an international currency, the imperative remains the same. National interest must be balanced against international responsibility – a delicate task, at best – and there is no guarantee that other newly empowered countries might not seek to enjoy an exorbitant privilege as well, narrowly prioritizing their own interests. Why should they too not want to enjoy the privileges of international currency status? In a multi-currency system, the challenge posed by the Triffin Dilemma is, if anything, multiplied. Effectively, banks and bond markets will be given even more scope to bet for or against individual currencies. As more monies

compete at the peak of the Currency Pyramid, the risk of destabilizing shifts of confidence could be greater than ever.

Leadership

In sum, the outlook for the three traditional elements of monetary governance is anything but promising. Current provisions for surveillance of exchange rate policies seem inadequate to prevent possible currency wars. The management of the supply as well as the composition of liquidity remains hostage to investor sentiment. Yet none of these challenges is necessarily insurmountable, if only there were sufficient leadership to promote effective solutions. So why has no one led? Why has the requisite policy coordination been so difficult to organize?

Certainly the circumstances have seemed propitious. Back at the start of the global crisis, as the world teetered on the edge of disaster, the benefits of cooperation could not have been more obvious. Observers were not wrong to speak of a Bretton Woods moment. Admittedly, arranging the necessary agreement is not easy. New international commitments, by definition, would impose limits on the autonomy of financial policy, which governments prize for its importance to economic management at home. When conditions are relatively calm, the desire to maintain control of domestic monetary conditions typically prevails. But in moments of crisis, when all are faced by common dangers, calculations may well shift, as I have noted previously (Cohen 1993). At such times governments have often demonstrated a willingness to relax their resistance to compromise. Given all that seemed to be going wrong after the US housing bubble burst, it was only natural that many might look to the “old” Bretton Woods for inspiration. If effective reforms could be agreed then, why not now?

Unfortunately, those who dreamed of a new Bretton Woods forgot what it took to make the success of the old Bretton Woods possible. From a small ski resort in New Hampshire came an outcome that was truly historic – for

the first time ever, a fully negotiated regime to govern global monetary relations. Looking back, it is clear that two factors were paramount (Andrews 2008; Cohen 2008). The first was an unusual degree of consensus on basic principles, which made it easier to sweat the details. Delegates, we know, were not agreed on everything. Bitter fights were fought, for example, over some of the powers to be granted to the new International Monetary Fund they were creating. But on the fundamentals, such as the nature of the exchange rate regime or the need for an adequate supply of liquidity, there was a striking coincidence of views. And second was effective leadership by the dominant monetary powers of the day, the United States and its junior partner Britain. Before the conference, stretching back more than two years, an arduous process of preparation was led by two key officials, America's Harry Dexter White and Britain's John Maynard Keynes. Without their determined efforts, which managed to resolve most if not all the issues on the table even before the meeting started, it is doubtful that the delegates could have achieved what they did.

Contrast that with the deliberations of the G20 over the past half-decade. At the outset, participants did manage to agree on some common policies, including, in particular, programs of fiscal stimulus by everyone concerned. But that was more akin to what Keohane (1984) described as harmony – a spontaneous coincidence of preferences – rather than cooperation in the sense of a true mutual adjustment of behaviour. With the prospect of a new Great Depression looming, it was not hard to conclude that spending increases were needed all round. In the years since, as divergent interests have reasserted themselves, accomplishments have been thin. Meetings have occurred regularly and detailed communiqués have been issued, replete with high-minded pronouncements of principle; and, sometimes, grand new initiatives have been announced, like the Framework for Strong, Sustainable and Balanced Growth and its associated Mutual Assessment Process. But all the fine words tend to come with few tangible demands. For the most part,

therefore, policymakers have simply returned home and continued to go their own way. The only exceptions have been Greece and other heavily indebted countries at the periphery of the Eurozone that have been forced by their creditors to acquiesce to costly austerity programmes. Overall, it is fair to say, effective monetary governance in the recent period has been most conspicuous by its absence.

The reasons are obvious. Neither of the factors that were so influential in 1944 are in evidence today. As Eric Helleiner (2010: 619, 636) has perceptively noted: “The success of the Bretton Woods conference was a product of a remarkable combination of concentrated power in the state system [and] a transnational expert consensus. . . . The political conditions that generated the innovations of Bretton Woods were unique and are not present today”.

On the one hand, consensus has clearly broken down. Governments seem unable to agree even on what the most important problems are, let alone how to deal with them. Some stress the anarchy of the exchange rate regime, others the unpredictability of financial markets or the still exorbitant privileges of the dollar. Should the authority of the IMF be enhanced? Should the influence of investors be curbed? Should Special Drawing Rights replace the greenback? The questions seem endless, and policymakers have not even begun to figure out how to answer them.

On the other hand, power is no longer so concentrated, further inhibiting agreement. In monetary affairs, power has two dimensions: *autonomy*, an ability to act without restraint; and *influence*, an ability to change the behaviour of others (Cohen 2006). In 1944, the United States enjoyed unparalleled power in both respects, giving it an unprecedented capacity for leadership. But those days are long gone. Today, as the new prominence of the G20 testifies, monetary power has become much more widely diffused. The increase of numbers at the table is challenge enough. Worse is the fact, as I have noted elsewhere (Cohen 2011: ch. 10), that the diffusion of power has been mainly in the dimension of autonomy rather than influence. While more states have

gained a degree of insulation from outside pressures, few as yet are able to exercise greater authority to shape the rules of the game. Hence, few are willing to take the responsibility to lead. Most, rather, seem to prefer simply to enjoy their new-found ability to do their own thing, to the extent possible, with little regard for the preferences of others. Is it any wonder, then, that the requisite policy coordination has been so difficult to organize?

Conclusion

Difficult, however, is not the same as impossible. The outlook for the monetary system may be grim; conditions may not be ripe for extensive reform. But that does not mean that no improvements are feasible. It means only that hopes should not be unrealistically high. Aspirations must accept the limits imposed by the nature of the Westphalian system in which we live.

In the Westphalian system, reform does not come about without a struggle. As the Bretton Woods experience suggests, what is needed is an effective political strategy combining two critical elements. First is the need to find some common ground on key issues that goes beyond vague pronouncements of principle. And second is the need to assemble a winning coalition of influential states. All that is easier said than done, of course. But when the alternative could be outright chaos, neither element seems entirely out of reach.

My own guess is that as the threat of disorder looms ever larger, some modest improvements are likely to emerge over the medium term. To make exchange rate surveillance at least a bit more effective, for instance, the IMF may well be given some additional authority to “name and shame” errant governments, as Jeffrey Chwieroth (2010) has proposed, in hopes of persuading policymakers to mend their ways. Likewise, governments can be expected to continue to tinker with their regulatory systems to temper the dangerous volatility of financial markets, as Randall Germain (2010) has

suggested. And, as monetary power continues to diffuse, more states are likely to come to appreciate the need to share in the responsibility of leadership. Some semblance of governance will be provided.

It will, however, be imperfect governance. Even more than it does now, the international monetary system will come out looking something like the proverbial camel – a horse designed by a committee. The patchwork will not be pretty. But even a distinctly sub-optimal outcome will be preferable to no action at all. Better to muddle through than to succumb to crisis.

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