

# *Theory Talks*

*Presents*

---

## THEORY TALK #17

---

### BENJAMIN JERRY COHEN ON CURRENCY WARS AND REVIVING THE 'POLITICAL' IN INTERNATIONAL POLITICAL ECONOMY

#### Theory Talks

is an interactive forum for discussion on actual International Relations-related topics for both students and specialists. Theory Talks frequently invites cutting-edge specialists in the field to open a debate, discuss current issues or elucidate a theory.

**Citation:** Schouten, P (2008) 'Theory Talk #17: Benjamin Jerry Cohen on Currency Wars and reviving the 'Political' in International Political Economy', *Theory Talks*, <http://www.theory-talks.org/2008/09/theory-talk-17.html> (05-09-2008)

---

## BENJAMIN JERRY COHEN ON CURRENCY WARS AND REVIVING THE 'POLITICAL' IN INTERNATIONAL POLITICAL ECONOMY



International Political Economy (IPE) is now part of the mainstream curriculum of International Relations but this has not always been so. Benjamin Jerry Cohen is part of the first influential generation of IPE scholars, that established this subfield of IR as the intellectual response to a major change in the international system. Since then, argues Benjamin Jerry Cohen, IPE has 'normalized' and now needs to confront again a changing international system. In this Talk, he – amongst others – explains how IPE might confront a changing world, how serious 'currency wars' are and the current global financial crisis.

**What is, according to you, the biggest challenge / principal debate in current IR? What is your position or answer to this challenge / in this debate?**

Since I mainly work in International Political Economy (IPE), I'll answer this question with regards to that field within IR. It's ironic that you ask, because I've recently published an article followed by my most recent book, *International Political Economy: An Intellectual History* (2008), and both have caused quite a stir within the community of IPE scholars, for defining in a particular way the current challenges and debates within the field.

I take, in these recent works, the decreasing pluralism of the mainstream version of American IPE to be a major issue. The field of IPE started out in the '60s when scholars felt they were facing a major change that they could not explain with existing theories. It was, in the words of Robert Keohane who was part of that first generation, a period of 'intellectual adventure'. But gradually, the mainstream version has become increasingly narrow, state-centric, and now depends mainly on a quantitative, empiric and positivist social science model in asking its questions and answering them, thus excluding a variety of important questions central to traditions of IPE in other parts of the world. On top of that, it's also become wedded to a liberal outlook on the world, which in turn excludes critical or Marxist views. The only questions this liberal-positivist epistemic community comes up with are less interesting mid-level questions that don't actually allow for exploring the broad structure of the international system -- what Robert Cox would call 'problem-solving theory,' focusing on narrow relationships between dependent and independent variables. As Geoffrey Underhill rightly asserts in Theory Talk # 14, you almost have to be liberal in order to be able to publish in the US – partly because the other (in my opinion, extremely important) questions of systemic change and global governance cannot be easily quantified and thus are not addressed within the liberal-positivist matrix. So methodology narrows down the choice of subject matter, which is not a good thing.

The big challenge is to go back to the origins of the field and to reestablish some kind of connection between the American version of IPE and – mainly but not solely – the British version, which is much more historical, critical, normative and concerned with questions of justice and equity. Fortunately, there's interest in this question in both the US and Britain, with journals dedicating special issues to this challenge.

### **How did you arrive at where you currently are in IR?**

I started out with a PhD in (international) economics. I worked as a conventional economist for about a decade, until the late '60s and early '70s, a period of intellectual turmoil, when students challenged me to include the adjective 'political' in my analysis of international economics. They wanted to know about issues of power, distribution and equity, and I really felt I had to address these kinds of questions. So I wrote a book on economic imperialism and questions of dominance and dependence among nations, and that definitively launched my interest in international political economy. As I attended conferences with people such as Robert Keohane and Robert Gilpin, I got more and more drawn into the field. By the '80s, all my scholarly work was directed toward political scientists and I'd left behind the 'clean' international economics.

In terms of events, I think the breakdown of the Bretton-Woods system in '71-'73 was a major turning point for me. I was really concerned about what this might mean, and I was fascinated by the accompanying literature on monetary reform issues. I worked a lot on this theme until the debt crisis of '82, which shifted my focus from the triad of the big economical powers (US, Europe and Japan) to the Third World, because now, all of a sudden, the major threat to the international monetary system came not from the few and rich but from the many poor.

Throughout my voyage, certain individuals who influenced me cannot be left out. The first was the late Susan Strange, who gained a prominent position in my intellectual history of IPE. As I describe there, I met Susan in London, and her insistence on the adjective 'political' in international economics meant a lot to me. Also, Albert O. Hirschman's book *National Power and the Structure of Foreign Trade* ([read summary](#)) was a real eye-opener concerning the instrumentality of trade in service of power – the idea that something, in my mind, as 'innocent' as trade relations might actually be used for political purposes. Then there was Robert Gilpin, who was working just across the hall from me at Princeton. On the many occasions that we discussed our mutual interests, he'd educate me from the IR perspective, and I vice versa from the side of economics. And one cannot forget others from that first generation, such as [Robert Keohane](#), [Peter Katzenstein](#) and Stephen Krasner.

I think that in the end, because of my economics training, my approach to the field has been strongly conditioned by classical liberal convictions (not of the modern American political liberalism) such as a strong belief in markets. For me, markets are fundamentally productive, though they do also have a tendency to fail from time to time – and that's where the politics come in.

**What would a student need to become a specialist in IR or understand the world in a global way?**

When talking about IR students interested in IPE, I would say: study economics. It's really astounding how many political science students say they specialize in IPE while they cannot produce more than, say, the Stolper-Samuelson theorem or the Mundell-Fleming model, the latter of which suggests that the effectiveness of monetary policy with macro-economic tools would depend very much on capital mobility and on whether or not you have fixed or flexible exchange rates. One cannot write about these kinds of models without understanding the assumptions, nuances and theory behind them, and yet many IR specialists submit papers clearly lacking the necessary understanding. It reminds me of the Alexander Pope-line: 'A little knowledge is a dangerous thing; drink deep, or taste not, the Pierian spring: there shallow draughts intoxicate the brain, and drinking largely sobers us again' (Alexander Pope, *An Essay on Criticism*, 1709). So this would be my advice: when interested in any other field than pure IR, either read enough or refrain from applying this curiosity.

**Is International Political Economy strictly about state actors?**

If you would let the mainstream of American IPE answer, the response clearly would be 'yes'. In the mainstream, it is always about trying to understand and explain state behavior, and where other actors (such as international organizations or transnational corporations) come in, they do so solely as stimuli to or constraints on state behavior -- in other words, as part of the explanans (the explanation), not as part of the explanandum (that which is to be explained). This is something natural when we think about where IPE came from in the United States: from a group of IR scholars looking for other explanations for their central problematic – explaining the relations between sovereign states.

But this approach is clearly inadequate. IPE is about much more than interstate relations. One of the critical differences between the American and British schools of IPE is the answer they give to the question: 'Is IR part of IPE or the other way around?' For the British, IR is part of IPE, and I'm sympathetic to that view, because it allows one to include questions about the relationship between state and society, international networks, etc. – dynamics that don't necessarily have anything to do with state sovereignty.

**In your most recent book, you argue that 'contingency' and 'agency' are central to the field, referring to the necessary awareness that the field is socially constructed by certain individuals – and that things might have been different. As an authority in the field, do you envisage steady growth of the field or radical change?**

I use the terms 'contingency' and 'agency' deliberately in order to demonstrate that, firstly, the field could have developed in other ways – IPE was called into life because specific groups in Britain and in the US felt the necessity in a specific context for another approach to international economic problems; and because, secondly, the field was constructed by specific people, which is why the two Anglo-Saxon approaches are so different – had it not been Susan Strange but

someone else, British IPE might have looked quite different. That doesn't mean I believe in the 'Great Men (or Women) Theory of History', but these people did shape the field and gave it its current emphases and priorities.

To get to the 'change'-part of your question, I think it to be routine in science to have periods of normalization followed by intellectual eruption and revolution. I've certainly seen it in economics: we had the Keynesian revolution in the 1930s, afterwards some decades of 'normal science', followed by the monetarist revolution starting in the 1960s. I think the same holds for IPE: although I was not there when Keynes and others discussed the Bretton-Woods deal, it must have been exciting for political scientists; the '70s were certainly a period of 'joyous contagion' for us. And now, after two generations, we seem to have entered (as argued by David Lake) a period of normalization, which may have lasted too long: we need a new generation of scholars without vested interests to discover anomalies and introduce some paradigmatic change. That'll give them the chance to establish themselves professionally as well as to (re-)introduce qualitative interpretation, normative issues, constructivism and the likes into American IPE.

**You discuss the so-called 'geopolitics of currencies', comprising two tendencies: dollarization, or the increased interest of countries to adopt the dollar instead of their own national currencies, and the expansion of the Euro. Is the Euro going to take over the position of the U.S. Dollar as the world's most important international currency, and what are the implications of such tendencies?**

*If the Euro were really to surpass the dollar, it would have a major impact on the ability of the United States to project power in the world, since so much of that ability rests on the fact that we don't have to worry about our balance of payments.*

What did in the British and the French, in the 40s and 50s, was that their balance of payments wouldn't allow them to spend what was necessary to project power – that's why the Suez-venture in '56 failed. The United States has enjoyed what Charles de Gaulle called 'the exorbitant privilege' ever since World War II -- the privilege of being able to finance external deficits with our own currency. Therefore, we don't have to worry about spending as much as the government feels necessary to pursue and promote its interests around the world – what other government could've spent over 500 billion dollars on a war in Iraq? No-one else could have done that. The US can do that only because of the international position of the dollar as the world's main currency. So if the Euro were to surpass the dollar, it would really mean the curtailing of American ability to project power.

But I happen to be a skeptic on the Euro. I have great debates with some of my European friends, who are much more positive about the future of their currency. Nor are they alone; there are also a lot of hopeful and optimistic Americans like Jeffrey Frankel at Harvard University or Fred Bergsten in Washington. I've been writing for years that there are structural deficiencies which will prevent the Euro from ever moving even to a position of parity, let alone surpass the dollar. I'm working on an article right now calling the present system a 'one-and-a-half currency system', because my sense is that the Euro will never be able to match the dollar in terms of leadership in international monetary affairs. Sure, the Euro will continue to expand its regional

role, but the dollar will remain the only truly global currency. There's no question that the Euro has established itself as the number two, but if one looks at the data, one sees that the growth of the international use of the Euro has leveled off in recent years, after the introductory boom which led observers to propose its rivalry with the dollar. We don't see a lot of growth of the adoption of the Euro for important international roles, such as the quantity of Euros in central bank reserves outside of Europe.

This is such an important issue that I have no doubt that the US is determined to curb the spread of the Euro. The US government is very eager to prevent the Euro from posing a serious threat. I have written that if there is going to be a contestation beyond the European region, it's going to be in either of two regions: the Middle East and East Asia. It actually already started with Saddam Hussein in the year 2000, when he decided to insist on being paid in Euros for his oil rather than in dollars, which happened to be very profitable for him. And there are people who swear that the invasion in Iraq was motivated by the desire to preserve the role of the dollar. They call this a 'currency-war'; and although I am skeptical about it, it does say something about the seriousness of the issue and the role of currency in international politics. But you have to look not at what people say but at what actually happens. For instance, every time the dollar is weak, OPEC countries indicate that maybe it wouldn't be so bad to have a part of their cash-flows in another, presumably more stable, currency. So this pushing and pulling with currencies has gone on for a long time already. But if you look at what they've actually done, none of them has followed Iraq's example, not even Iran, which would certainly benefit from independence from the dollar.

Why don't they shift? Because the US has given the Gulf countries all kinds of assurances in terms of military security to keep them on board. In East Asia things are more complicated since China, formally a geopolitical rival of the US, has reserves worth some \$1.8 trillion, most of which is in US dollars – so while China wants to compete with the United States, it also has an interest in protecting a stable dollar. And, apart from that, I have no doubt the US government is doing everything possible as well to persuade the Chinese to stay on board.

### **We all read newspapers, but they not always clarify things as we want. Can you help us understand the global financial crisis in a simple way?**

I speak with humility since some of the greatest minds in the world are now dedicated to this question. I think the current situation has its roots about twenty years ago in the securitization of financial markets. We've always had securities markets (trading bonds and debts of other kinds). But when international capital markets were revived after World War II, it was primarily based on bank lending, which made the debt crisis of the '80s so serious – banks were on the verge of default and could have gone bankrupt, making normal people the potential victims.

That's why the US came up with the so-called Brady bonds, which basically meant the securitization of debts, making them 'safe' while putting them into the market, making them able to be sold, so as to not have debts concentrated again in one sensitive spot like banks. But then this got out of control: all kinds of debts were being put on the market, and people got into more debt than their initial product or income was worth. Debts being resold and remarketed presupposes trust among all these different layers of sellers and buyers, which becomes like a

house of cards – when trust is broken somewhere along the line, and these products cannot be sold any longer, the whole system collapses. Which is what we're now looking at, in staggering numbers. Financial institutions globally, as a result of this collapse of credit, will have total losses of at least 400 billion dollars. Luckily, that's not the worst-case scenario. We can thank sovereign wealth funds, that is, states, for putting more than 60 billion dollars into defaulting financial institutions such as Citibank in 2007 alone. Basically, reselling debts was not a good idea.

### **Last question. What's the biggest issue that students of IR or IPE miss out on?**

The big issue that is missed is the question of systemic transformation. There are enormous transformations going on, with the emergence of the so-called BRICs (Brazil, Russia, India, China) and with some reversal of the process of 'globalization' that reached its height in the late '90s. American IPE misses out on these changes completely and does not address the normative and distributive consequences of these transformations.

**Benjamin Jerry Cohen is Professor of International Political Economy at the University of California, Santa Barbara since 1991. He previously taught at Princeton University and at the Fletcher School of Law and Diplomacy, Tufts University. His research interests mainly involve issues of international monetary and financial relations, and he has written about matters ranging from exchange rates and monetary integration to financial markets and international debt. His newest book, *International Political Economy: An Intellectual History*, was published in February 2008 by Princeton University Press.**

### ***Related links***

- [Cohen's faculty profile at UCSB](#)
- Read the introduction from Cohen's *International political economy : an intellectual history* (2008) [here](#) (pdf)
- Read Cohen's article *The international monetary system : diffusion and ambiguity* (International Affairs, 2008) [here](#) (pdf)
- Read Cohen's *Dollarization, Rest in Peace* (International Journal of Political Economy, 2003) [here](#) (pdf)