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Woodrow Wilson's Problem in Reverse
*The Continuing Challenge of Making American
Democracy Safe for the World*

In a path-breaking paper and then in *The End of Liberalism*, Ted Lowi reflected on the politics of American foreign policymaking. He distinguished between decisions made by US leaders during crises, when they could be remarkably coherent and effective, and decisions made during calmer moments, when they were shaped by distributive politics. He came to the following conclusion:

Most people would prefer a foreign policy establishment working regularly and normally as it works in crises. Most would also agree that this is not the case, that the establishment falls far short of that ideal whereby responsible officials work together without outside hindrance, in the context of immediate support and ultimate accountability. Since the United States' plunge into the hostile waters of world leadership, much effort has gone into the creation of a special establishment that would work as an extension of the system of crisis politics. After World War II, for instance, much was done, in the interests of peacetime, to capture the spirit and perpetuate the organizational innovations of war. However, possibly because our peculiar tradition of foreign affairs or because of the immediacy of our new role, we ended up instead with an extension of domestic processes, practices, and values. As a result, we have the reverse of Wilson's problem. We have not yet succeeded in making democracy safe for the world.¹

Lowi was right then, and, unfortunately, he remains right now. During the global economic crisis of 2007–2009, for example, US officials once again demonstrated their ability to make and execute costly decisions based on a keen understanding of long-term American interests. With the lightest of legislative cover, among other surprising and dramatic actions, they used US fiscal resources indirectly to subsidize foreign financial institutions at a moment of extreme systemic fragility. During the course of a crisis that extended from the end of one Administration to the beginning of

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the next, the executive branch made a few mistakes, but in the end, together with the Federal Reserve, it did deliver effective global leadership. The second Great Depression seemed imminent in the summer of 2008. That decisive US policy action had little to do with its avoidance is implausible

When the crisis passed, however, the President, the Treasury and the Fed struggled mightily to reform regulatory policies with the aims of preventing a relapse and reining in the moral hazards now deeply entrenched in a financial system dominated by intermediaries deemed too big or or too interconnected to fail. By late 2009, with crisis-driven political energy quickly dissipating, they had failed to convince Congress of the need for new global instruments for systemic stabilization. Inside the Washington beltway, interest group liberalism once again characterized the basic nature of American politics in this policy arena. By the end of 2009, it certainly looked like well-paid financiers, with their ultimate risks underwritten by the American taxpayer, could have their cake and eat it too. Given the continuing importance of US financial markets to an integrating global economy but also given the rise of new power centers, the system as a whole was now more, not less, fragile. In short, although they proved once again that they can manage full-blown crises, US leaders had still not managed to make American democracy safe for the world.

In this essay, I will elucidate this argument through a closer look at the recent experience of financial crisis management. But first I will place it into the larger context of US foreign policymaking in the post-Cold War period, when US elites ever more directly confronted the constitutional idiosyncrasies and interest group politics Lowi highlighted long ago. As in the seminal period immediately after 1945, the systemic leadership of the United States depended upon the willingness of others to acquiesce in the limitations of internal American governance. In this regard, I will suggest that international organizations like the International Monetary Fund played a role in helping US elites manage crises but a more important role in encouraging followership after crises subsided. In a system now characterized by a greater dispersion of power, that latter role is now constrained.

The shifting prospects of international organizations created after World War II provide a means of clarifying the evolving character and quality of US leadership. A truly global political economy

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in the imaginable future depends upon resolving the reverse Wilsonian problem—or in finding a clear substitute for American leadership. Nothing in recent experience suggests the feasibility of either option. The consequent dilemma awaits the attention of a new generation. Its task, in turn, is rendered doubly difficult by the fact that effective global collaboration must now be nurtured in a much more complex set of external circumstances. Understanding conceptually and historically what it takes to induce followership helps put the problem into perspective.

Leadership and Followership in the International System

Global order is not spontaneously generated.² Policy shapes it, although, to adapt the famous formulation of Marx, not necessarily in circumstances of policymakers' own choosing. The specific policies of some states are more important than others. China, India, and other rising powers now matter, but in terms of shaping a system supportive of long-term American interests, the policies of the United States still matter more. The last system-reshaping moment came in the mid-1940s, when the United States confronted its broadest choices in the foreign policy realm. We continue to live in its shadow.

After the end of the Cold War, internal debate about reforming systemic governance in a manner compatible with American interests turned on a subtle shift from the logic of international interdependence to the logic of global collaboration. Where the former assumed no deep political change, the latter signified the transformative growth of many, and potentially cross-cutting, connections among people living anywhere and everywhere on the planet. US leadership after 1945 was not easy, straightforward, or unproblematic. Under conditions of globalization, effective leadership becomes much more difficult to deliver.

According to the Oxford English Dictionary, a leader is, quite simply, "one who is followed." That quickly gets to the heart of the matter. In his classic book, *The World in Depression, 1929–1939* (1973), Charles Kindleberger convincingly argued that economic crisis turned catastrophic in the 1930s partly because Britain no longer proved capable of leading the system, while its only plausible successor, the United States, proved unwilling to seize the mantle. The now-conventional story is that the Americans had refused in

1920 to embrace their own brainchild, the League of Nations, had retreated from Europe, and, after a period of phony peace, had sought to address internal economic troubles by raising tariffs and cutting ties to a restored gold standard. In consequence, the desultory inter-war attempt to resurrect a functioning security structure on the back of a stable global economy reminiscent of the one preceding the Great War collapsed.

We now know that the kernel of truth here is obscured by exaggeration. The United States, for example, stayed engaged in many operations of the League, and on neither economic nor security matters, did it ever fully withdraw into isolation.³ But the commonplace view after World War II was that the United States had finally learned its lesson. It came out of the war with a new purpose. It would lead the world, and it would do so benevolently, guided by a liberal vision of open markets, international cooperation, anti-militarism, and limited forms of international burden sharing to facilitate social and economic adjustment. Nothing better expressed that vision than the building of a broadly defined security community among advanced industrial countries, a community symbolized by the United Nations, the Bretton Woods institutions, and the General Agreement on Tariffs and Trade.⁴

A hefty dose of exaggeration marked this image too. Hegemonic stability theory has been justly attacked for oversimplifying a complex reality. More accurately, the United States stood at the apex of a stable hierarchy, one structured and deeply marked by the exigencies of the Cold War, the dynamism of American society, divisions within the US state, and the non-threatening creativity of key American allies.⁵ But surely a liberal internationalist self-image within the United States helped shape the country's system-stabilizing foreign policy during the early post-World War II period. Arguably, that policy and its institutional manifestations met the basic conditions necessary to attract and motivate followers.

In our justifiable fascination with the subject of leadership, scholars of international relations have left the phenomenon of followership undertheorized. This is not the place for a full exploration, but a few points are relevant for present purposes. Followership is not synonymous with discipleship. It involves, rather, a significant degree of autonomy for the follower, a retention of its capacity potentially to impose costs on the leader. It rests on active, dynamic decision-making.

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The literature on followership is mainly cast at the individual level and suggests that people follow leaders for three main reasons: utility, identity, and values.⁶ When a utilitarian calculus is all that motivates followers, a leader needs direct mechanisms of influence and intrusive means of surveillance. The leader must also provide constantly recalculated reminders of the benefits of compliance. In contrast, when identity most obviously motivates followers, a sense of belonging draws them in to repeated encounters with the leader, the leader attracts more than demands, and there is an expectation of a continuing two-way relationship. Finally, when values primarily motivate followers, there is a deeply shared perception of normative congruence, means and ends on both sides are synchronically reconceptualized as the external environment changes, and a basic internalization occurs in any negotiation process. Stark lines around the authority of the leader begin to fade.

Drawing analogies to the group level in international relations is an imperfect but suggestive exercise.⁷ The United States never demonstrated the capacity or the will to be the undisputed ruler of the post-1945 system. But in the exceptional circumstances created by intervention in two world wars and in the subsequent struggle against communism, the American people came to accept the necessity of their state attempting to steer future global developments. Joseph Nye famously asserted that the United States was “bound to lead.”⁸ A serious question is whether Americans can continue to be convinced of that, and here is where followership comes back in. Even in the difficult circumstances George W. Bush bequeathed to his successor, and in the absence of attractive alternatives, it remains in the fundamental interest of others that the United States continues to lead. Followers, however, now wield more influence in determining whether it will do so.⁹ So-called middle powers capable collectively of disrupting the system through excessive free riding hold the key.

For most of the post-war period, the United States arguably bore much of the cost of system stabilization and also reaped the largest share of the benefit. Utilitarian calculations among follower states could have underemphasized the former and exaggerated the latter. The routine expectation of strictly reciprocal bargains would have made the task of leadership extremely difficult. When they functioned properly, international institutions built around the American political identity helped transcend strict utilitarianism.

Beyond open markets, rule of law, and a basic commitment to participation in decision-making by both the authors and the targets of decision, institutions like the IMF and the WTO evolved over time not only to push members beyond cautious reciprocity in their dealings with one another, but also to develop a meaningful sense of mutual accountability among leaders and followers. Their day-to-day operations and their agreed dispute-settlement procedures, in fact, rested on notions of collective responsibility, as well as on the provision of opportunities for followers to exercise voice. By accepting associated obligations Americans never gave up their Constitution, but they did find ways to open the binding around that sacred text.

In consequence of the system they now led, even if their spokesmen sometimes needed to deny it, the United States and key follower states moved cautiously beyond reluctant interdependence.¹⁰ For its part, the United States did so deliberately, and it did so successfully, to encourage the reconstruction of political identities around the world—precisely to make the world safer for Americans. What it did not do successfully was to take the one further step of fostering durable followership based on an unambiguous sense of value congruence. For a brief moment during the 1990s, Americans managed to convince themselves that the world shared not just certain procedural preferences but also their most basic values. If parts of the world still held out, they seemed to believe, then the manifold pressures of deeper integration would eventually force convergence. In this light, especially during the East Asian debt crisis, the United States pushed the international institutions it created too hard. And certainly after the debacle in the UN Security Council in the run-up to the Iraq War, it fomented a distinct retreat from value congruence and stimulated a new if variegated wave of anti-Americanism abroad.¹¹ Through subsequent actions, like extravagantly tightening borders in North America—a futile exercise if ever there was one, it also began to erode seemingly entrenched identity-based motivations for followership. A reversion to utilitarianism seemed likely in response to US efforts to reinforce a hierarchical system. Their unintended consequences, especially in rising powers like China and India, rendered it more difficult for American policymakers to manage the internal political task of convincing the American people themselves to continue bearing a disproportionate share of the costs of system maintenance.

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Followership, in turn, became much more difficult to nurture, and forms of subtle resistance much easier to see.

The Vietnam War and its economic legacy had first prompted profound questioning among America's allies and fellow-travelers. In its aftermath, for example, the central commitment of the Bretton Woods Agreement—pegged exchange rates—was formally abrogated, inflation coursed through the international economy, non-tariff barriers to trade multiplied, sophisticated weapons proliferated, and American society itself appeared to come unhinged. Throughout the 1980s, the questioning of US leadership became more insistent, both inside the country and outside. Was it in its own interests to lead? What vision truly rendered its claim to leadership legitimate? Could it be benevolent—if not necessarily altruistic, then at least not excessively self-absorbed? Was it still in the interests of others to follow?

Throughout the 1990s, reasons for doubt multiplied. Political realists started warning that Europeans and Americans in particular would soon forget the lessons of the inter-war period. Some even held that we would all miss the Cold War, which in their view acted to suppress national antagonisms and encourage the degree of cooperation among allies necessary to prevail in a great ideological struggle. Others guessed that the structure of world order would soon come to be characterized by relatively closed and competitive regional blocs. Simultaneously, scholars from a broad range of disciplines in effect followed Lowi's lead and began to inquire into the intimate and complex linkage between the domestic economic and political structures in the United States and the conditions conducive to global stability and prosperity.

Post-war international organizations remained central to theoretical and policy debates on the nature and quality of that linkage. For neo-realists, they had never been more than epiphenomena, reflections of deeper realities of power. For liberals, conversely, they had promised a deepening process of information sharing and knowledge building ultimately capable of encouraging cooperative decisions based on common interests and shared long-term goals; in Wilsonian terms, they had helped cast the shadow of the future on present calculations of interest. For constructivists, meanwhile, they had signified much more—the expressions of a unique connections among power and legitimate social purpose and the hope of transforming the very identities of citizens and decision-makers.¹² At the heart of

all three major perspectives was a sense that global order still very much began at home, and especially at home in the United States.¹³

Foundations of World Order

The raw power of the United States in 1945 was formidable. Although reduced now in relative terms, it remains formidable. But coercion is costly. As the Romans proved in the heyday of the Republic, the indirect extension of authority can work better for all concerned than the alternative mechanism of empire.¹⁴ Raw power capable of being used is certainly useful, but if it actually needs to be used, it can quickly dissipate, not least because of revulsion or increasing reluctance to bear costs within the society of the power-wielder. A wise leader, in short, uses the technique of restraint to generate willing followers. In this regard, a mutually acceptable guiding vision is important.

Disciples or acolytes might need little convincing, but reliable followers, once again, need to have a sense that the leader's choices are informed by more than narrow calculations of self-interest. The claim to leadership is a claim to legitimacy. Authority willingly acquiesced is likely to be more enduring than power bluntly asserted. The United States made such a claim to leadership after 1945, and the credible commitment to broad-mindedness enshrined in multilateral institutions certainly did garner support, often in the form of active burden-sharing.¹⁵ Sometimes such institutions actually helped resolve crises, but mainly they generated followership. Whatever else they accomplished, they did partially succeed in masking America power, rendering it more acceptable and sometimes more effective in a world still highly prizing national autonomy. Not least, they promoted and helped repair the principal mechanism favored by the United States for pacifying and guiding the system as a whole—globalizing markets. What such institutions did not do, however, was to insulate other countries from market-destabilizing impulses emanating from within the United States itself. As Lowi's famous analytic framework would suggest, during non-crisis periods international institutions would recede into the background of American politics, just as the normal patterns of domestic distributive politics would reassert themselves. In short, international institutions could be useful during crises, but they did little fundamentally to resolve the reverse-Wilsonian problem.

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A decade after the end of the Cold War, informed by a nagging suspicion that basic choices were again up for grabs, scholars reconsidered the post-1945 period. At the same time, the political space seemed to open within the United States to revisit a number of basic foreign policy choices.¹⁶ One early and soon-abandoned idea was cosmopolitan in nature, envisaging global instruments for economic management and even for the control of quickly developing nuclear weaponry. Of related parentage, an alternative vision that did gain some traction—not least because it promised the benefits of globalism without the political costs—centered on an open trading system, which once established might automatically tie basic national interests together. A more realistic but still problematic vision focused on more or less open world regions, spheres of influence reasonably cohesive on their own and capable of balancing one another in a multipolar arrangement.¹⁷ As Lowi might have predicted, however, a divided US domestic system proved incapable of operationalizing any of these visions after the crises bred by depression and war passed.

A more practicable vision did eventually emerge at the heart of post-1945 US foreign policy. It encompassed permanent and deep forward military and economic engagement by the United States in Canada, Latin America, Japan, and Western Europe aimed at extending diversely defined notions of freedom and prosperity to the entire world. It countenanced an integrating European regional economy, not wide open to US exports but ever more open to expanding US corporate investment, and it permitted a relatively less open economy in a demilitarized Japan. In his memoirs, Henry Stimson, the classic establishment conservative who had been Secretary of War in the cabinets of Howard Taft and Franklin Roosevelt, as well as Secretary of State under Herbert Hoover, encapsulated the vision as follows:

It is the first condition of effective foreign policy that this nation put away forever any thought that America can again be an island unto herself. No private program and no public policy, in any sector of national life, can now escape from the compelling fact that if it is not framed with reference to the world, it is framed with perfect futility . . . [I]t follows that we shall be wholly wrong if we attempt to set a maximum or margin to our activity as members of the world. . . . Can we make freedom and prosperity real in the present world? . . . [W]e must remember that we are building

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world peace, not an American peace. Freedom demands tolerance, and many Americans have much to learn about the variety of forms which free societies may take.¹⁸

This vision hardened into a more assertive policy line after 1947, when US leaders looked to western Europe and Japan to serve as firm bulwarks against the spread of communism. It also set the intergovernmental economic machinery established at war's end on a mission to nudge states in the direction of freer and more open markets, eventually including financial markets. The vision accommodated, even celebrated, domestic structural diversity and, partly through the operations of international organizations but mainly through the active role of American banks and corporations in financing recovery and development abroad, it countenanced a blurring of the lines between private and public authority. The US dollar as *de facto* global reserve currency rationalized through treaty-based international organization, an institutionalized regime aimed at freer trade and international investment, and military alliances decisively shaped by US military capabilities, rightly symbolized the resulting system. Hierarchy, acquiesced in and not resisted, characterized the political foundations of an eventual world order consistent with this fourth vision.¹⁹ Leadership, in the sense discussed above, will do just as well.

Perhaps much of the world prospered in the post-1945 period by chance. As Lowi has reminded generations of students attending his popular lectures, luck should never be discounted as a dominant force in human affairs. It is at least arguable, however, that this complicated fourth vision of world order generally conformed to broad expectations of the best that could be achieved under the circumstances, both inside the United States and among the principal followers at the core of the system. (Whether it turned the United States itself into a less admirable state, not least by giving free rein to its now corporation-dominated distributive politics, is another and much debated matter.)²⁰ Despite its highly problematic domestic governing structure, its anti-statism, and its nativist traditions, however, the more defensible proposition is that the United States led the world in a progressive direction for nearly fifty years. It is undoubtedly the case that many people and many countries were left behind. But at least until 2001, those left behind had not managed to gather enough usable power to shake the foundations

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of the system. The United States, moreover, proved itself able to stay engaged in the effort to manage the system, again, not least through formal international organizations like the IMF and through less formal instruments like the G-7, the Basel Committee on Banking Supervision, and standard-setting codes of the OECD. Those institutions promoted core American interests, gave others a limited voice in the definition, articulation, and expression of those interests, and promised to facilitate communication and collaboration during crises.

If it is true that this latter vision did succeed in anchoring US foreign policy in the post-1945 period, to what extent did that success actually depend upon a sense of clear and present danger, such that the anti-statist traditions alive in American society could be resisted inside the United States itself? Going back to Lowi's original diagnosis, to what extent was a widely shared perception of crisis actually essential to sustaining the bipartisan consensus needed to make the awkward machinery of American government work in such a way that follower states benefited enough to resist their own temptations to defect? As we consider such a question, the distinction between willing deference and quiet resistance on the part of followers is essential. Such a distinction certainly became clear when sympathetic foreign reactions to the events of September 11, 2001, are contrasted with skeptical foreign reactions to the US decision to topple Saddam Hussein a year and a half later. Nevertheless, notwithstanding the controversial policies of the Bush Administration after 2003, and the reactions to those policies inside key allies, it is hard to argue that the fourth vision of the post-war era has been definitively supplanted by another, either within the United States or among elites in Canada, Western Europe, and Japan.

To be sure, two radical challenges to that vision were now more visible. The first has both a left variant and a right variant. On the left, proponents appear to want to revive the vision of a cosmopolitan order rejected in the aftermath of World War II. Especially in light of mounting environmental problems, they seek global governance with a democratic face, conceived generally as world federalism, or environmentally sound social democracy on a global scale. Post-modern criticism aside, the new idealists are tapping into a deep vein. Although they have not yet come close to tipping the internal scales of actual government, many Americans clinging to the hope that national autonomy and global problem-solving are not inimical seem

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supportive in principle. The right-wing variant is again a vision of global markets, automatically adjusting, self-governing. As the economic crisis of 2007–2009 suggested, Karl Polanyi's insight in this regard remains as relevant today as it did in 1944: the self-regulating global market is a chimera.²¹ When push came to shove after 2007, however, even an ideologically driven US administration proved unwilling to risk social disaster by standing back when financial markets began collapsing. As we shall see in more detail below, it intervened directly in a broad range of domestic markets, and it worked assiduously behind the scenes with foreign governments and central banks to restore order and confidence.

During that crisis, it was also possible to hear echoes of the third vision for the post-1945 era, when Europeans attempted made-in-Europe policy responses, when East Asians sheltered behind massive foreign exchange reserves, and when Chinese officials began publicly to worry about the value of their dollar assets. What actually happened is worth pondering more fully, for it speaks to the resilience of the actual post-1945 consensus, but also to the stronger pressures currently weighing upon it.

The Crisis of 2007–2009

When doubts began emerging in 2007 about the sustainability of US real estate prices, and therefore about the security of global markets directly or indirectly linked to US mortgages, banks in Germany and the United Kingdom were among the first to begin failing. When a shocking bank run occurred in the UK in September 2007, it foretold much that would follow. The sense of crisis mounted in January 2008, when US authorities acquiesced in the purchase of the country's largest mortgage originator, Countrywide Financial, by Bank of America. Then, in a series of emergency moves beginning late in 2008, the Fed and the US Treasury effectively began extending the official banking safety net into the investment banking sector. As the Fed flooded the system as a whole with liquidity, with obvious Treasury support it forced and subsidized the merger of Bear Stearns into JP Morgan Chase. The situation nevertheless continued worsening around the world, despite *ad hoc* coordination on massive interest rate cuts by the major central banks of the world and despite an array of market interventions undertaken by regulatory authorities. In September, the US

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Treasury nationalized Freddie Mac and Fannie Mae, the two largest insurers of mortgages in the United States. That same month, it and the Fed made what looked in retrospect to be a near-catastrophic mistake, when they allowed the 158 year-old Lehman Brothers to declare bankruptcy instead of engineering another Bear Stearns-style takeover. One day later, on September 15, they reversed course and forced the merger of the giant Merrill Lynch brokerage into Bank of America. On September 16, the Fed then lent insurance giant American International Group (AIG) \$85 billion in exchange for nearly 80 percent of its stock. Two days later, the Treasury went to Capitol Hill for the cash necessary to recapitalize banks that still threatened to fail and for legislative cover for the range of highly unusual extensions of public authority that it had undertaken and would likely continue to undertake in the period ahead.

The first draft of the Treasury's bailout plan was three pages long; among the purposes to be served by a breathtaking expansion of executive authority, it promised to make up to \$700 billion in US taxpayer funds available to any financial institution with "headquarters in the United States."²² That, and much else, changed within 24 hours, after the Treasury was apparently reminded that nearly 25 percent of the US domestic financial system was now managed by foreign-headquartered intermediaries. Nevertheless, the amended bill was defeated in the House on September 28. An extraordinary display of executive and legislative collaboration followed as markets plummeted around the world. The Emergency Economic Stabilization Act, now quite voluminous, now very quickly passed the House and Senate and was signed into law on October 3, 2008. In Section 3.5, it authorized the flow of funds from the Treasury to all "institutions with significant operations in the United States, excluding foreign central banks or institutions owned by foreign governments."²³

In the fullness of time, it became clear that the bailout of AIG alone had fully covered many domestic and foreign bank counterparties—from Goldman Sachs to Deutsche Bank, which were ultimately able to unwind associated contracts at par, that is, without a discount. The goal may have been system stabilization, even if specific transactions could be interpreted as egregious evidence of regulatory capture. But the fact is that when they were done and when they were disclosed, they proved to be both effec-

tive in terms of stabilizing global markets and politically tolerable inside the United States.

Canada and Japan, key US allies since 1945, had suffered through earlier financial crises, but this time they happily stayed on the sidelines; they had no vital reasons for resisting US actions and they were basically supportive. Europe was not so lucky, and although much noisy rhetoric surrounded reactions to financial turmoil within many European states, the US policy line clearly helped stabilize markets on the continent. The European Central Bank worked closely, if informally, with the Fed. Hardly smoothly but ultimately effectively, European finance ministers collaborated in an *ad hoc* fashion among themselves and prevented a reprise of the Creditanstalt debacle of 1931. The idea of building a single pan-European market less affected by turbulence emanating from the United States, however, moved ever further into the distant future. After the crisis subsided, the trans-Atlantic partnership of the post-1945 period looked no more and no less stable than ever. The reverse Wilsonian problem remained for Canada, Japan, and Europe, that is, the United States could continue to generate serious difficulties for them, but crisis management by the United States could still be relied upon to help address those difficulties. On balance, the opportunities created by integration in a US-led system obviously still outweighed the costs of serious resistance. Although during the crisis international economic organizations like the IMF and World Bank did little to ameliorate those costs. On the margins of actual decision-making, they did help coordinate separate national policy actions. Much more importantly, however, they were mobilized to help countries hard hit by the crisis. The response was hardly adequate, but it was better than nothing.

The longer term challenge came from rising follower states across the Pacific. A key question remained whether the emergency would perversely encourage the building up of reserves, rendering more difficult US leadership of a collaborative and integrating system—and marginalizing international economic organizations. The most serious doubts focused on a system built around exchange rates that could but might not float freely after the pegged rate arrangement agreed at Bretton Woods in 1944 was abandoned in the early 1970s. To substitute for the earlier commitment on exchange rates aimed at the avoidance of competitive devaluations, Article IV of the IMF's Articles as amended and finally ratified in 1976 mandated the organization to "oversee the international monetary system" and to

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“exercise firm surveillance over the exchange rate policies of members.” The Article also specified the obligation of all members to “avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.” A 1977 decision of the Fund’s Executive Board re-articulated the obligation as a formally binding principle—that members *shall* avoid manipulating exchange rates or the system as a whole to avoid adjustment or to gain a competitive advantage. Two non-binding principles complemented it: that members *should* intervene in exchange markets to counter disorderly conditions and that members *should* take into account in their intervention policies the interests of other members. Regular surveillance by Fund staff was to track and evaluate actual national practices in this regard.

Soon after 1977, it became clear that capital markets and not IMF-monitored exchange rates would become much more significant in structuring the way national economies would henceforth influence one another. As national financial policies through the 1980s and 1990s moved ever more decisively in the direction of openness and liberalization, exchange rates became less relevant as long as countries did not try to peg them. That is precisely the issue that China and its East Asian neighbors now poses.

In 1995, after the succession of financial crises in emerging markets where pegging was still attempted, the Executive Board of the Fund amended its 1977 Decision. To a list of developments that could mandate special discussions between the Fund and a member, it added “unsustainable flows of private capital.” The Board also directed Fund staff, “in the context of promoting broader market liberalization, to pay increased attention to capital account issues . . . and to give more attention to the soundness of financial systems” (*IMF Survey*, October 23, 1995, 314–15). Twelve years later, on the eve of the financial shocks more threatening to systemic stability than any experienced since 1945, the Board again amended the 1977 Decision to widen the scope of the Fund’s surveillance authority. To the three basic commitments of Fund members, it added a new proscription against “exchange rate policies that result in external instability” (Decision on Bilateral Surveillance over Members’ Policies, June 15, 2007).

At that point in time, this seemingly innocuous phrase was widely understood to target China, which many in the US Congress

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in particular suspected of manipulating the value of the renminbi in order to stimulate exports. By using the Fund in this way, the US Treasury could deflect pressure for direct retaliation coming from struggling American exporters and import-competing industries. China, in turn, nevertheless saw itself as unfairly accused. It objected inside the Fund but was overridden. As soon as the decision was announced, China immediately closed the doors of its finance ministry and central bank to Fund staff. For the next two years, precisely during the crisis of 2007–2009, those doors would remain closed. And during those two years, the US posture on the issue changed abruptly. In the context of crisis, US policymakers switched their overt policy preferences from naming and shaming China to currying its favor. As their own financial system began to crumble from within, they found themselves desperately needing emergency capital transfusions, not least from reserve-rich China.

By 2009, it had become clear that the idea of placing negative labels on members' currency policies was undermining the effectiveness of Fund surveillance. The term "fundamental currency misalignment" was therefore explicitly repudiated in new operational guidance given to staff. After that, China once again welcomed an IMF surveillance team, and in the diplomatically worded report that followed, the staff simply stated that, despite a 25 percent upward valuation in 2008 and 2009, the renminbi remained "substantially undervalued." Nearly simultaneously, the Fund announced that China was considering buying US\$50 billion in notes issued by the Fund. Through this innovative operation, it could diversify its reserves and shift some of the risk of future dollar depreciation to the Fund. The Fund, in turn, would be in a better position to help other members.

The vital question of whether the growing imbalance in the Chinese capital account was sustainable now precisely mirrored the question of whether the policies lying behind the post-1970s US current account deficit—arguably, the engine pulling the global economy—were any longer sustainable. Global financial stability now turned on the as yet unknown answer.

The continuing failure of the United States and key followers deliberately to coordinate their macroeconomic policies left the uncertain politics of financial emergency management, partly legitimated through international institutions, the actual linchpin of the post-1970s system. Those institutions still held the promise that

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adjustment and development could be mutually reinforcing. Given the vagaries of actual systemic power, they also accommodated and all-too-partially compensated for the fact that most of that adjustment would be borne by the weak, while most of that development benefited the strong. Without requiring even lukewarm supporters to relinquish any ideological priors, their continued if troubled existence speaks to a less-than-transparent broader objective: a stable and reasonably efficient international economy still led by the United States. It is no coincidence that tension between principles of efficiency and justice at the international level continued to evolve in a manner parallel to a similar and enduring struggle inside American society itself, a struggle only masked periodically by booming markets.

That said, the outlines of feasible if undesirable challenges to the US-led post-1945 economic order are becoming clearer in the gathering erosion of normative solidarity represented by a proliferation of regional competitors and alternative fora with selective memberships and weak or non-existent secretariats. In part, concerns about the reliability of the United States, about the export of its own internal adjustment costs, and about systemic risks generated by domestic American political and social conflicts lie behind these challenges. After the emergence of the euro, European members shifted their attention away from Washington toward Frankfurt, even as they demonstrated little interest in reducing their formal stakes in the less-relevant Bretton Woods institutions. In their own regional context, the efforts of China and other East Asian states to insulate themselves with excessive monetary reserves and bilateral deals on reserve-sharing take on special meaning. If rising states cannot be brought fully into an order not dominated but still essentially led by the United States, the increasingly obvious threat is that they will gradually seek to build another for themselves.

Conclusion

After 1945, the United States led a system shattered by world war, which means that it somehow came to understand why followers followed. In part, after the war ended, the United States and its major allies institutionalized this knowledge in discrete international organizations, which they pretended to be technical but knew to be profoundly political. Eventually, those organizations began tentatively to

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affect the way many Americans thought about their own sovereignty. It would be nice to believe that foresight found expression in this way; but again, the twilight struggle of the Cold War probably provided the real incentive. It would also be nice to believe that the fears of the new America-firsters are not yet sufficient to prompt a decisive reversion to the delusion of Fortress America.

In the shadow of September 11, 2001, Charles Kupchan persuasively argued that “the peaceful management of relations among proximate centers of power requires three essential ingredients: the exercise of strategic restraint, the establishment of binding and bounding institutions, and the pursuit of social integration needed to promote familiarity, trust and a sense of common identity and purpose.”²⁴ A fundamental purpose of the international organizations created after World War II was to encourage followership in this very sense, and thereby to render the burdens of leadership politically tolerable inside the United States. Their multilateral character accomplished this objective in substantial part.²⁵ Even now, after a decade of crises and mounting acrimony, no insurmountable obstacle exists to the adaptation and improvement of those organizations—from the Security Council of the UN to the Bretton Woods institutions and their analogues in other systemic arenas. New and less formal institutions might also be shaped and rendered effective. If fully shared values can't be nurtured quickly enough, reconstructing a basic sense of shared identity might be enough. Optimism in this regard becomes especially compelling after we subject the main alternatives to critical scrutiny: that national governments seriously believe their citizens are willing to bear the full costs of abandoning economic interdependence, that the politics of collaboration among states primed for cooperation has been superseded by the self-regulating discipline of markets, or that a commitment to collective security is no longer required to address the terrifying new threats posed by the proliferation of massively destructive weapons and by destructive changes in a shared natural environment. Nevertheless, Ted Lowi's diagnosis of the gap between the collaborative policies the world needs to resolve its heightened dilemmas of collective action and the kind of leadership the United States is capable of delivering remains timely, disturbing, and deeply insightful.

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Notes

1. Theodore J. Lowi, "Making Democracy Safe for the World," in James N. Rosenau, ed., *Domestic Sources of Foreign Policy* (New York: The Free Press, 1967), 301–302.

2. This essay follows up and develops my "American Foreign Policy and the Foundations of World Order," in Raymond Breton and Jeffrey Reitz, eds. *Globalization and Society* (London and Westport, CT: Praeger, 2004), 37–47; and "Managing Financial Emergencies in an Integrating World," *Globalizations* 6/3 (September 2009), 353–364. Continuing research on this theme is supported by the Canada Research Chair Program of the Social Sciences and Humanities Research Council of Canada.

3. See Louis W. Pauly, *Who Elected the Bankers?* (Ithaca, NY: Cornell University Press, 1997).

4. Emanuel Adler and Michael Barnett, eds. *Security Communities* (Cambridge: Cambridge University Press, 1998).

5. Rawi Abdelal, *Capital Rules* (Cambridge, MA: Harvard University Press, 2007).

6. See, for example, Liisa Välikangas and Akihiro Okumura, "Why Do People Follow?" *Leadership Quarterly* 8/3 (1997), 313–37.

7. See Andrew Fenton Cooper, Richard A. Higgott, and Kim Richard Nossal, "Bound to Follow?" *Political Studies Quarterly* 106/3 (1991), 391–410.

8. Joseph Nye, *Bound to Lead?* (New York: Basic Books, 1990).

9. The foundational idea was clearly articulated by Robert O. Keohane in *After Hegemony* (Princeton: Princeton University Press, 1984).

10. Edgar Grande and Louis W. Pauly, eds., *Complex Sovereignty* (Toronto: University of Toronto Press, 2005).

11. Peter J. Katzenstein and Robert O. Keohane, eds., *Anti-Americanisms in World Politics* (Ithaca, NY: Cornell University Press, 2006).

12. See John Mearsheimer, "The false promise of international institutions," *International Security* 19/3 (1994–95), 5–49; follow-up criticisms encapsulated in a special forum published in *International Security* 20/1 (1995); and John Gerard Ruggie, *Constructing the World Polity* (London: Routledge, 1998).

13. For a nuanced realist position, see Henry Nau, *At Home Abroad* (Ithaca, NY: Cornell University Press, 2002).

14. Robert Morstein Kallet-Marx, *Hegemony to Empire* (Berkeley: University of California Press, 1995).

15. See Rosemary Foot, S. Neil MacFarlane, and Michael Mastanduno, eds., *US Hegemony and International Organizations* (Oxford: Oxford University Press, 2003).

16. For two of the best examples, see G. John Ikenberry, *After Victory* (Princeton: Princeton University Press, 2001) and Walter Russell Mead, *Special Providence* (New York: Alfred Knopf, 2001).

17. For an assessment of the idea and its actual evolution, see Peter J. Katzenstein, *A World of Regions* (Ithaca, NY: Cornell University Press, 2005).
18. Henry Stimson and McGeorge Bundy, *On Active Service in Peace and War* (New York: Harper & Brothers Publishers, 1947), II, 652–54.
19. David Lake, *Hierarchy in International Relations*. (Ithaca, NY: Cornell University Press, 2009).
20. See the essay in this volume by Jentleson and Keller.
21. Karl, Polanyi, *The Great Transformation*. (Boston: Beacon Press, 1957.)
22. US Treasury, “Legislative Proposal for Treasury Authority to Purchase Mortgage-Related Assets,” published in *New York Times*, September 20, 2008.
23. US Congress, “Emergency Economic Stabilization Act,” H. R. 1424, 110th Congress of the United States of America, Second Session, October 3, 2008.
24. Charles Kupchan, *The End of the American Era* (New York: Alfred Knopf, 2002), 248.
25. See Michael Barnett and Martha Finnemore, *Rules for the World* (Ithaca, NY: Cornell University Press, 2004).

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