14 International regimes

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As an institutionalist macroeconomics, the concepts and formulations of *régulation* theory often privilege the nation state, so that most of the research that it has inspired concerns the dynamics of nations. The aim of this chapter is to present the paths by which the regulationist method can be applied to an analysis of international dynamics.

Three approaches to international *régulation*

In the approach developed by Gérard de Bernis (1987) and Rolande Borelly (1990), later referred to as 'the Grenoble *régulation* school', the fundamental entity is the productive system, rather than the nation state. The productive system is defined as a multinational group of closely integrated productive activities. The British Empire (not the British economy) is an excellent example of an earlier productive system. The productive system is a space, as defined by François Perroux, made up of a home country and affiliated countries, in which the process of capital accumulation develops. *Régulation* is a set of adjustments and institutions which operate as counter-tendencies to a lowering of the profit rate, ensuring the circulation of capital between branches and reproducing the hegemony of the home country. It is characterised, among other things, by unified monetary circulation, with the currencies of affiliated countries acting as multiples or sub-multiples of the home country's currency. This is often accompanied by a mechanism for centralising currencies, which thus avoids or diminishes difficulties in the balance of payments between countries within the same productive system. From this perspective, regionalisation mechanisms override both national and global dynamics.

International monetary regimes have been analysed in particular by 'the Parisian *régulation* school', especially Michel Aglietta (1986a); the reader is referred to his contribution in the present volume (Chapter 8), as well as to that of Robert Guttmann (Chapter 7). Jacques Mistral (1986) has proposed a grid of analysis for stability and change in international economic relations. Unlike the Grenoble school, this analysis focuses on nation states and competitive relations between industrialised countries.

Each nation has productive resources and related *régulations* that reflect attitudes towards technological change and which ensure arbitration to resolve conflicts linked with competition and income distribution. International relations develop from the initiatives of private agents and in response to the structural differences between countries. They reproduce these differences while integrating them at a national level. The international regime transforms this tension into a growth system, by developing complementarity between nations and by limiting differences between nations to tolerable variations, thereby also restricting destructive competition.

The nature of the international regime is particularly linked with the dynamics of the dominant economy. This economy is characterised by its great potential for technological and social innovation. It offers opportunities for growth to other countries while simultaneously imposing constraints on them. The competitiveness of a national economy is founded on its ability to transform its domestic relations so as to adapt to international norms. This involves the ability to engage in sectors with increasing returns and in markets that are growing rapidly, while simultaneously managing a domestic market.

International *régulation* translates the principles of the international regime into norms and institutions which direct the decisions of private agents and which determine the rules for state intervention. The principal forms of international *régulation* are trade and financial networks, multinational firms, the international monetary system and trade agreements.

The 'American school of international regimes', which refers to research collected by Stephen Krasner (1983) and published in the journal *International Organisation*, analyses mainly the development of international economic institutions in the broad sense and can be described as *internationalist institutionalism*. For the American theory of international regimes, an international regime is a set of principles, norms, rules and decision-making processes which ensure the stability and coherence of behaviour by the different international actors, and which are instituted in order to avoid expensive conflicts. According to this approach, the notion of an international regime can be applied to a specific sector (such as oil) or may have a wider field of applicability, as in the GATT agreements. It may be made explicit through official agreements, or it may be the result of informal practices. The strength or weakness of a regime is reflected by how frequently norms are fully respected.

The different meanings given to the concept of an international regime in the three approaches referred to above is a consequence of the theoretical hypotheses of the different authors. It also derives from the fact that the international economy is so multi-faceted that it is very difficult to interpret it within an overall framework.

Is the *régulation* and international economy approach an adequate method?

In order to transpose the *régulation* method to the international economy in a legitimate fashion it is necessary to show that international exchanges follow stable trends and developments over sufficiently long periods, that international relations are framed by coherent institutions which are respected, and that international fluctuations are contained by stabilising adjustment processes.

With the aid of research synthesising the history of the international economy, particularly the work of A.G. Kenwood and A.L. Lougheed (1971), it is possible to focus on two periods characterised by relatively stable and coherent tendencies.

The first is the two or three decades preceding the First World War. In terms of volume and value, the expansion of trade in manufactured products and of that in raw materials were equivalent; raw materials represented a stable proportion at about 60 per cent of world trade; most trade took place between industrialised countries and primarily exporting countries. During this period, north-western Europe, the cradle of industrialisation, experienced moderate growth, while new countries, which were the rich, primarily exporting countries (the United States, Argentina and Australia), benefited from a rapid increase in exports. Meanwhile Italy, Russia and Japan experienced strong industrial growth. The new powers issued massive bond loans on the London and Paris markets, using them mainly to finance the extension of transport networks. The tendencies of world trade were mainly connected with extensive geographical expansion.

The second period to which this method can be applied without serious difficulties is the 1950s and 1960s. This period was characterised by a far more rapid increase in trade in manufactured products than in raw materials. The role of trade between industrialised countries increased rapidly, the market share of the developing countries (except the oil-producing countries) decreased and trade in similar products between similar, neighbouring countries developed far faster than trade between different countries. It was thus possible to realise increasingly high returns and to find large markets for standardised products. Direct international investment by American firms was the main form of international movements of capital. These developments correspond to the spread of intensive accumulation from the United States to Europe and Japan, which were gradually moving towards the level of American productivity thanks to a rapid overhaul of their production systems and ways of life.

Were stable and coherent international institutions set up? Close analysis shows that it is difficult to speak of ‘regimes’ (Palan, 1998; Kébabdjian, 1999) framing international relations, even during periods of stability, as some significant examples have shown.

It is difficult to give a precise definition of the trade regime for the years 1890–1913, since practices varied greatly from one country to another, as demonstrated in the in-depth analysis of Paul Bairoch (1989). From 1840 to 1850 Great Britain, the champion of free trade, launched a kind of 'unilateral disarmament' but nevertheless retained customs duties on tropical products and alcohol. Following Germany, which raised its tariffs unilaterally in 1879, from 1880 to 1890 Western European countries adopted increasingly protectionist policies. Tariffs also varied tremendously from one product to another. The United States and Russia imposed prohibitive tariffs equivalent on average to 40 per cent on imports. The most that can be argued is that continental Western European countries applied average rates of customs duties, and that these were moderated by trade agreements.

The institutional framework of the 1950s and 1960s was perhaps less coherent than theoretical analyses might lead one to believe. The free trade regime that was gradually instituted included many exceptions. Thus one of the major principles, stated in the first GATT agreement, was non-discrimination and 'most favoured nation' status, though in fact preferential agreements multiplied over the next three decades – for example, the European common market, multi-fibre arrangements, export restriction agreements and the Lomé accords. Many products were excluded from free trade for a long time; it is true, however, that the Uruguay round later abolished many of these exceptions.

The 'Bretton Woods monetary regime', understood in the strong sense, did not last very long. The principles of the 1944 agreement could only really be applied as of 1958 when the European currencies became convertible; the first attacks on the dollar occurred in 1961, and in 1968 the instituting of the double gold market limited the convertibility of the dollar. However, the principle of fixed but adjustable exchange rates was applied from 1949 to 1971. International regimes are often a combination of haughtily affirmed principles and vague and flexible rules of application. As a striking example one might cite a regime with exchange rates which are in principle fixed but with a total margin of fluctuation of 30 per cent. One of the reasons for this is that sovereignty is still an international principle.

Were international fluctuations limited by stabilising adjustment processes? During periods of stability, adjustments limited the extent of international fluctuations by lessening the processes of transmitting economic conditions between countries, and especially the impact of the cycles of the dominant economy on the rest of the world.

During the decades preceding the 1914–18 war there were three principal mechanisms limiting international fluctuations:

1 The major role of agriculture in production and global trade, which weakened international multiplier effects.
2 The difference between the development of the United Kingdom's domestic and foreign investment flows, or the 'Atlantic cycle', which

> limited the impact of the British economy on the rest of the world, and which contributed to equilibrium in the balance of payments, through the adjustment of the capital balance with the current balance. In the short term (but not the long term) international prices fluctuated only slightly.

The limited fluctuation of prices is difficult to explain. It can be seen partly as a result of the rapid development of the transport network, which regulated the world supply of staple commodities, and partly as due to belief in the stability of nominal prices that was linked with the gold standard and generated expectations which had a stabilising effect. On the other hand, great international mobility of capital guaranteed the connection of monetary markets so that interest rates varied synchronously in many countries. The rise in interest rates, which was inevitable in a system where the money supply had to be proportionate to gold reserves in the medium term, could trigger a financial crisis, particularly in new or semi-industrialised countries that were accumulating foreign debt in order to finance their development.

During the 1950s and 1960s many mechanisms limited the international transmission of local economic conditions. Monopolistic *régulation*, with its automatic stabilising properties linked with the welfare state and to a fixed wage bill, restricted fluctuations in demand, and consequently imports from the great powers, as well as variations in the prices of manufactured products. Short-term capital movements were partly controlled, and rates of interest were often regulated, so that connections between monetary markets were slight. Contrary to what is often claimed, it appears that the issuing of international liquidity in dollars was regulated by spontaneous mechanisms that ensured a partial adjustment of the American balance of payments. In fact an expansion movement in the United States led to a deterioration in the trade balance. However, the increase in domestic profits and interest rates reduced the outflow of capital, so that variation in the balance of liquidity was attenuated; during periods of recession symmetrical effects often came into play (Vidal, 1989).

The rise and fall of international *régulations*

The American perspective on international regimes, which analyses the emergence of international institutions in particular, proposes several theoretical interpretations.

The theory of hegemonic stability attributes the establishment and dissipation of international regimes to the rise and fall of a dominant power. For example, the collapse of the liberal order and the 1929 crisis were consequences of the decline of British power (Kindleberger, 1986), while the new international order instituted between 1944 and 1947 was connected with the activities of the United States, whose relative weakening led to disturbances again in the 1970s. But the means of action of hegemonic powers vary and thus contribute greatly to determining the character of a regime. The colonial system is based on coercion, although asymmetries between industrialised countries cannot be based on force in a stable manner (Snidal, 1985). The hegemonic power must therefore negotiate and make at least some concessions. A good example is the negotiations pursued by the United States first of all with the United Kingdom and then with other European countries between 1942 and 1948 (Gardner, 1980). The first GATT agreements were largely reflective of American interests, but the United States had to set an example by agreeing to higher tariff concessions than those offered by its partners.

The theory of hegemonic power has one essential weakness: the nature of the international regime cannot be determined solely on the basis of the nature of the dominant economy. The international regime instituted at the end of the Second World War moved away from traditional liberalism, since it recognised the importance of social equilibrium, especially full employment. The Bretton Woods accords authorised devaluation and encouraged signatory countries to apply foreign exchange controls (which is surprising in retrospect) in order to avoid deficits in the balance of payments and the flight of capital being re-absorbed by deflation. These arrangements, which were requested in particular by the British delegation, were accepted by the Americans, since generally they reflected developments in economic doctrine among the industrialised nations (Gardner, 1980).

A negotiated order is based on voluntary agreements. It probably implies a limited number of partners, for the complexity and cost of negotiations grow disproportionally with the number of participants. However, the mechanism of the GATT agreement shows that negotiations can be concluded between two or three major powers and the results imposed on smaller countries in return for a few concessions. Changes in power relations between countries and the spread of economic doctrines are no doubt the essential factors in the development of international institutions. From a long-term point of view it is possible that the development of the European Union may be explained partly by the supremacy of the mark in addition to the increasing influence of liberal ideas.

The spontaneous order favoured by Hayek is probably quite common in international relations. It appears that the main international institutions at the end of the nineteenth century were the result of spontaneous convergence rather than hegemony or negotiation. Thus clearly the United Kingdom had no interest in reinforcing protectionism, but it was unable to avoid it.

There is no convincing evidence that the gold standard was imposed by the United Kingdom. Before 1871 very few countries made use of this monetary regime, but during the 1870s most of the countries of Western Europe adopted it. The members of the Latin Union were obliged to abandon bimetallism essentially because of the steep decline in the value of money and Germany's decision to adopt the gold standard, which amplified the mechanisms of Gresham's law. Becoming aware of the relative weakening of their country in comparison with Western Europe, Russian governments adopted an industrialisation programme based on the construction of infrastructure networks. To obtain international finance, they decided to stabilise the rouble in relation to gold. Thus in its concern to ensure credibility in the eyes of private capital lenders, Russia was led to adherence to the gold standard, although previously it had frequently employed a compulsory exchange rate.

How therefore should the concept of international *régulation* be understood? It is largely the result of the interaction of national *régulations*, brought together by the exchange of goods and capital, mainly through private decisions. The evolution of national *régulations* is based partly on domestic factors, especially major crises, but also on constraints imposed by the country's international insertion (Palan, 1998; Kébabdjian, 1999).

Many examples suggest that international movements of capital have major effects on national monetary and financial *régulations* (Aglietta, 1995; Aglietta and De Boissieu, 1998). Besides the instance of the spread of the gold standard, one could mention the role played by the increased mobility of capital in the move to flexible foreign exchange rates during the 1970s and in the deregulation of financial systems during the 1980s. These transformations modified the methods and efficiency of monetary and financial policies quite dramatically, and probably contributed to the rapid deterioration of balances during the 1980s, which were then forced to undergo readjustment during the 1990–3 recession.

The effect of the exchange of commodities on work relations is more ambiguous. It appears that even if exchange is based on specialisation in the traditional sense, marked differences will remain in workforce management methods (Wallerstein, 1980, 1984). Indeed, each country is bound to a specific range of products and sectors, whose technical characteristics, growth and productivity potential and markets are very specific, so that in order to remain competitive each country moves towards particular work relations. On the other hand, if the exchanges are between branches, with different countries producing similar goods, it is possible that those wishing to make exchanges will be obliged to conform with the most effective. However, there is a great deal of inertia in work relations, for they are strongly 'embedded' in non-trade-based relations, so that this type of development can be difficult to achieve, as can be seen by the differences among European countries even in the 1990s.

The difficulty of analysing international *régulation* is that it must always define several relevant levels (region, nation or world) acting simultaneously. The effects of internationalisation are ambiguous: it produces homogeneity while also reproducing or amplifying differences between the national and regional levels.