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The avoidance of monetary system conflict: A role for recognition theory in reconstituting the global monetary system

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Abstract: This article examines the ongoing conflict in the global monetary system as a struggle over norms of recognition between the US Federal Reserve and the emerging market economies. The analysis demonstrates that the Fed, though dominant actor in the global monetary system, adopts a US-centric perspective and relies upon inadequate economic constructs that *misrecognise* periphery members and justify a dismissal of criticisms of its monetary policy actions. The article shows how the adoption of recognition principles in reconstituting the monetary rules of the game would provide the Fed with an understanding of the political economic essentials of member countries, a greater awareness of potential harms of its monetary policy actions and the importance of cooperation in reducing conflict and mitigating episodes of monetary instability.

Keywords: Federal Reserve; monetary policy; recognition theory

Introduction

The avoidance of monetary policy conflict is a critical element in maintaining good relations among countries. Yet, there have been unresolved tensions in the global monetary arena since the introduction of accommodative monetary policy by the US Federal Reserve (the Fed) in response to the global financial crisis of 2007–2012. The Emerging Market Economies (EME) and their supporters criticised the Fed for the negative consequences in the EME and challenged its US-centric perspective. The EME registered formal complaints and theorists argued their case, calling for a global perspective on policy and a coordinated monetary regime where all members would have more say. The Fed was not willing to acknowledge the negative consequences of its crisis response policies, nor would it consider requests for updated rules of the game from those who claimed standing as members of the US dollar dominated global monetary system.

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The analysis shows that the EME had grounds for complaints but more importantly demonstrates why a stable monetary system depends on the EME being given standing to have its criticisms and challenges heard. In a globalised world, the monetary policy of the dominant actor, at present the Fed, not only shapes the global economy but also in large part the political economy of each individual country. In this way, the dominant actor is clearly a major determinant of relations between countries and should be accountable to the constraints and responsibilities of an international perspective.

I demonstrate that the deficiency of the Fed's approach comes down to what International Relations (IR) theorists have observed as a recurrent problem in international matters, namely that utilitarian logics (in our case of the economic sort) give insufficient attention to the relational dimensions and responsibilities of a constitutional order.[1] This utilitarian logic, where abstract, aggregative calculations and pragmatic, egoistic interests prevail,[2] is built into Fed decision processes, inhibiting the constitution of a monetary order designed to mitigate the peripheral negative effects.[3]

Despite the observed inadequacies in the Fed's approach, an alternative framework has not been proposed for countering the utilitarian logics and encouraging a global perspective. This article argues and demonstrates that recognition theory represents a viable alternative. It analyses the ongoing conflict in terms of recognition theory and then proposes a framework based on recognition principles for reconstituting the monetary policy system based in a rule-informed, open dialogue.

The article proceeds as follows. Part I begins with two brief background expositions, first a summary treatment of recognition theory and then of the political economic problems that are the subject of the EME complaints. The substantive analysis then begins, framing the conflict as a struggle over norms of recognition and recreating the field of interaction of monetary policy in the back and forth between central bankers and monetary theorists. The analysis provides examples of the arguments the EME and its supporters

[1] For example see T Lindemann, 'Peace through Recognition: An Interactionist Interpretation of International Crises' (2011) 5 Journal of Political Sociology 68; T Lindemann, *Causes of War: The Struggle for Recognition* (ECPR Press, Colchester, 2010).

[2] I do not explore the theoretical aspects of formal consequentialist reasoning in this article. See the discussions of formal rationality in J Feldmann and J Kelsay, 'Inside the Iron Cage: Notes on Rationality and Global Capital Markets' (1996) 79 *Soundings* 385; J Feldmann and J Kelsay, 'Unlocking the Iron Cage: The Hidden Risks of Formal Rationality' (1997) 80 *Soundings* 201. These papers draw from S Kalberg, 'Max Weber's Types of Rationality: Cornerstones for the Analysis of Rationalization Processes in History' (1980) 85 *American Journal of Sociology* 1145.

[3] For a more detailed review of the substantive ethical issues at stake in Fed monetary policy decisions see J Feldmann, 'The Fed as a Moral Enterprise' (2012) 95 *Soundings* 420; J Feldmann, 'The Federal Reserve, the Global Monetary Regime and Real World Economic Justice' (2014) 97 *Soundings* 131.

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have used to present their criticisms and arguments for recognition and the various ways the Fed as dominant actor has effectively used economic terms and method as, what I call, 'norms of *mis*recognition' to dismiss both its critics and the evidence of negative effects of its policies.

Part II discusses the recognition paradigm in detail, demonstrating its potential usefulness in understanding the monetary conflict. The analysis shows how recognition principles function as 'inclusionary' norms of recognition and then demonstrates the utility of a recognition framework in increasing the probability of establishing a shared understanding of norms as a first step in reconstituting the globalised monetary system. The argument relies on the work of several recognition theorists. The work of Thomas Lindemann and James Tully inform the overall perspective on recognition theory and conflict avoidance that underlies the study. The discussion of recognition theory as a reflective decision framework readily available to the monetary arena practitioner relies primarily on the analytical categories of James Tully, Pierre Allan and Alexis Keller. The categories I draw from their work – the *thick theory of recognition, renouncement, rule, and the open dialogical mode* – constitute the inclusionary norms of recognition that allow for more participation and a wider perspective in the global monetary decision process.

Within the global constitutionalism project this might be seen as a 'pluralist' effort,[4] initiating a critical and problem-oriented dialogue to help clarify the contemporary crisis in the monetary arena.[5] Part I would be seen as 'mapping' exercise[6] – examining the processes of an unexplored aspect of global economic constitutionalism[7] – the constitutionalising attempts taking place in the monetary sphere. Part II offers recognition principles as a normative procedural framework for guiding the progressive development and 'shaping' of the global monetary system.[8]

Part I

A brief background on recognition theory

Recognition theory will be discussed extensively in Part II. However, a brief discussion of recognition theory is called for as I employ the basic concepts in framing the current monetary conflict in Part I.

[4] A Wiener, AF Lang Jr., J Tully, MP Maduro and M Kumm, 'Global Constitutionalism: Human Rights, Democracy, and the Rule of Law' (2012) 1 *Global Constitutionalism* 1, 7.

[5] J Tully, JL Dunoff, AF Lang Jr., M Kumm and A Wiener, 'Introducing Global Integral Constitutionalism' (2016) 5 *Global Constitutionalism* 1, 1.

[6] (n 4) 7–8.

[7] (n 5) 7.

[8] (n 4) 7–8.

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As applied in the IR field, the recognition paradigm has evolved as a useful analytical framework for understanding state interactions and competitive behaviour and conflict among countries.[9] I use recognition theory to describe the monetary system as an arena in which nations are involved in a 'struggle over recognition'.[10] Following Tully, I see this as a struggle over the *norms of recognition* that govern the exercise of political economic power and the distribution of economic benefit that devolves therefrom.[11] Under our recognition framing, these norms of recognition represent the informal constitution for the operation of the monetary system, consisting of the rules of behaviour and conventions that govern who has standing and voice in the process.[12] The struggle on the part of EME members is basically for status, consideration, and an empathetic understanding – a 'self-decenterment of the dominant actor'[13] – in establishing norms of recognition. As shall be seen, the global monetary system is a 'voluntary governmental network'[14] and the governing norms and conventions are not well-defined explicit rules. Rather they are normative and prescriptive conventions that have evolved from the practice of monetary policy, and thus are concealed within and expressed through economic concepts and methodologies that rationalise this practice. As such, they are subject to application as exclusionary political rules operating in economic clothing, so to speak. Although an economic construct may be presented as immutable truth, the implicit norms are like other consensual norms: context-dependent and open to interpretation and contestation.[15] In such a framing, the criticisms of the EME can be seen as complaints about economic constructs being used by the dominant actor (Fed) as norms of *mis*recognition – exclusionary interpretations of economic reality

[9] For relevant discussions of recognition theory and principles as applied to IR see T Lindemann and E Ringmar (eds), *The International Politics of Recognition* (Paradigm Publishers, Boulder, CO, 2012); J Tully, 'Approaches to Recognition, Power and Dialogue' (2004) 32 *Political Theory* 855; J Tully, 'Recognition and Dialogue: The Emergence of a New Field' (2007) 7 *Critical Review of International Political and Social Philosophy* 84. For general background see S Thompson, *The Political Theory of Recognition: A Critical Introduction* (Wiley, New York, NY, 2006).

[10] Tully, 'Approaches to Recognition, Power and Dialogue' (n 9) 859. The analysis of the struggle over recognition in terms of dominant actor misrecognition – a central feature in the monetary policy conflict – relies on T Lindemann 2011 (n 1). The monetary policy conflict might be insightfully analysed in contestation frameworks: see A Wiener, 'Theory of Contestation: A Concise Summary of Its Argument and Concepts' (2017) 49 *Polity* 1.

[11] Tully, 'Approaches to Recognition, Power and Dialogue' (n 9) 855.

[12] Tully, 'Recognition and Dialogue: The Emergence of a New Field' (n 9) 86.

[13] This is a T Lindemann description of the change in mindset.

[14] AM Slaughter, *A New World Order* (Princeton University Press, Princeton, NJ, 2004) 19.

[15] See Wiener (n 10); also A Wiener, 'Contested Compliance: Interventions on the Normative Structure of World Politics' (2004) 10 *European Journal of International Relations* 189, 201.

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grounded in a domestic-centric perspective. These norms of misrecognition (sometimes non-recognition) thereby function to exclude both the EME criticisms and the critics from the monetary policy discussion. The EME call for 'updated rules'[16] can be seen as part of the 'ongoing (re)construction of the normative structure',[17] as an appeal for inclusive norms and a revised constitution acknowledging interdependence and the benefits of a global monetary perspective. It is important to note here that there may well be rational purposes and benign intent behind the exclusionary interpretations of the part of the dominant actor. However, I would contend that the analysis demonstrates that the rationality of exclusion of utilitarian logics is self-destructive and that inclusionary norms are ultimately essential in avoiding conflict and preserving a stable monetary order.

Following James Tully and Antje Wiener in terms of method I begin by examining the discourse in the 'field of interaction' and in 'concrete cases of conflict'.[18] The field of interaction in the case of monetary conflict are the gatherings of central bankers, such as the IMF or G-20 meetings where speeches, official statements and media releases are used to convey the opposing viewpoints. These documentary materials represent what Antje Wiener describes as 'discursive interventions'[19] in the struggle over norms of recognition. The conflictual interactions between the leading voices illustrate how economic terms and method function as competing norms of recognition. The EME critics Guido Mantega from Brazil and Raghuram Rajan of India and the monetary experts who support the EME argument are taken as proponents of inclusionary norms of recognition. The statements of former Fed Chairman Ben Bernanke, the architect and major defender of Fed policies, are taken to illustrate and describe the operation of the existing norms of misrecognition. Although the discussion is critical in nature, it is important to emphasise that it is not directed at Bernanke as an individual; rather I take Bernanke as an example of misrecognition through abstraction, reflecting the mindset and perspective that currently dominate the governance of the monetary system. The analysis of the Bernanke discourse is designed to show how a dominant actor in the monetary arena can effectively use economic terminology and method as exclusionary norms, or norms of *mis*recognition, to rule out of order the evidence and criticisms of subordinate countries.

[16] R Rajan, 'Competitive Monetary Easing: Is It Yesterday Once More?' (Remarks at the Brookings Institution, 10 April 2014) <https://www.brookings.edu/wp-content/uploads/2016/07/rajan_remarks_at_brookings.pdf>.

[17] Wiener (n 15) 194.

[18] Tully, 'Recognition and Dialogue: The Emergence of a New Field' (n 9) 86: Tully, 'Approaches to Recognition, Power and Dialogue' (n 9) 855.

[19] Wiener (n 15) 201.

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Background on the economic problems behind the conflict

In the period following the financial crisis of 2007–2012, the US Federal Reserve responded with unprecedented accommodationist monetary policies. It sought to open credit channels and provide liquidity to the US and global economy with the now familiar programmes, Zero Interest Rate Policy (ZIRP) and Quantitative Easing (QE). In the process the Fed lowered policy rates to almost zero and created massive dollar liquidity by buying US Treasury and Mortgage Backed Securities, eventually amassing some $4.5 trillion in assets on its balance sheet. Although initial reactions to QE1 in 2008 were positive even from future critics in the international community,[20] some researchers immediately raised red flags.[21] A chorus of criticisms emerged when, even though the crisis conditions had largely subsided, additional credit easing measures, QE2 (2010) and QE3 (2012), were rolled out and the unprecedented zero interest rate policy was kept in place. As problems arose in EME countries, questions were raised whether the Fed was thinking about the negative effects this liquidity would have on the EME. Soon, finance ministers and central bankers in the developing countries began to register criticisms asserting that these negative effects were due to Fed policies, and the Fed was not paying attention.

What were these EME complaints all about? The problems attributed to QE and ZIRP policies were referred to under generic descriptions like ‘spillovers’, ‘externalities’ and ‘economic woes’. These consisted of significant economic and political economy problems manifested in various ways in the different EME countries. I orient this brief summary with excerpts from a 2011 Brookings Institution study entitled *Rethinking Central Banking*.[22] For a thorough treatment, the Bank for International Settlements (BIS) has produced detailed studies of the

[20] J Caruana, ‘International Monetary Policy Interactions: Challenges and Prospects’ (Speech delivered at CEMLA-SEACEN Conference, Punta del Este, Uruguay, 16 November 2012), <http://www.bis.org/speeches/sp121116.pdf>; R Rajan, ‘Statement by Dr. Raghuram Rajan, Governor, Reserve Bank of India, on behalf of Bangladesh, Bhutan, India, and Sri Lanka’ (International Monetary and Financial Committee, Washington, DC, 12 April 2014), <https://www.imf.org/External/spring/2014/imfc/statement/eng/ind.pdf>.

[21] For example, N Krichene, ‘Recent Inflationary Trends in World Commodities Markets’ (2008) (IMF Working Paper 130, International Monetary Fund, May 2008) 1, <https://www.imf.org/external/pubs/ft/wp/2008/wp08130.pdf>.

[22] B Eichengreen *et al.*, ‘Rethinking Central Banking’ (Committee on International Economic Policy and Reform, Brookings Institution, 2011), <http://www.brookings.edu/research/reports/2011/09/ciepr-central-banking>. The committee is described as a nonpartisan and nonideological group of independent experts, composed of academics and former government and central bank officials.

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various economic problems attributed to QE, both during and since the financial crisis.[23]

The Brookings report found that the unconventional monetary policies of large-country central banks created liquidity that had 'especially large and complex cross-border spillovers' with 'a substantial impact on their neighbors'. These consisted of capital surges, commodity price spikes, currency volatility, huge pools of 'footloose international capital', rising local interest rates, and spikes in sovereign and corporate debt issuance attracting ever-increasing inward capital flows.[24] The study traced the bulk of the spillovers to Fed policy. The reason: 'The dollar is the currency that underpins the global banking system as the funding currency for global banks.' Thereby, 'permissive US liquidity conditions are transmitted globally, and US monetary policy becomes global monetary policy'.[25] The Brookings report was early in identifying the problems, but a voluminous literature has emerged supporting their early work.[26] To mention a few references, a 2015 BIS study describes how Fed QE/ZIRP policies led to EME currency appreciation and local bank debt creation and created a high risk of financial crisis and instability in the EME.[27] As a result of large pools of investment capital, another BIS study reported that US dollar debt issued to EME sovereign and corporate borrowers increased over 50 per cent to $9 trillion between 2010 and 2015.[28] This is viewed as a serious credit

[23] See generally the studies of Claudio Borio, Director of Research at the BIS. For a recent BIS study with many references see MS Mohanty, 'The Transmission of Unconventional Monetary Policy to the Emerging Markets' (BIS Papers No 78, Bank for International Settlements, August 2014) 1.

[24] (n 22) 13–21.

[25] ibid 14, 20.

[26] This literature is surveyed in R Koepke, 'What Drives Capital Flows to Emerging Markets? A Survey of the Empirical Literature' (IIF Working Paper, Institute of International Finance, Washington, DC, April 2015); D Bowman, J Londono and H Sapriza, 'US Unconventional Monetary Policy and Transmission to Emerging Market Economies' (2014) 55 *Journal of International Money and Finance* 57–9; J Gagnon, T Bayoumi, J Londono-Yarce, C Saborowski and H Sapriza, 'Direct and Spillover Effects of Unconventional Monetary and Exchange Rate Policies' (paper presented at the 16th Jacques Polak Annual Research Conference, International Monetary Fund, Washington, DC, 5–6 November, 2015). A recent note disputes these findings, though using a different methodology: J Clark, N Converse, B Coulibaly and S Kamin, 'Emerging Market Capital Flows and US Monetary Policy' (International Finance Discussion Paper Note, Board of Governors of the Federal Reserve System, October 2016).

[27] J Sobrun and P Turner, 'Bond Markets and Monetary Policy Dilemmas for the Emerging Markets' (BIS Working Papers No 508, Bank for International Settlements, Monetary and Economic Department, August 2015), <http://www.bis.org/publ/work508.pdf>.

[28] RN McCauley, P McGuire and V Sushko, 'Global Dollar Credit: Links to US Monetary Policy and Leverage' (BIS Working Papers No 483, Bank for International Settlements, Monetary and Economic Department, January 2015), <http://www.bis.org/publ/work483.pdf>.

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default concern since the US dollar has also appreciated 25 per cent against local EME currencies, making dollar-based debt correspondingly more expensive to pay back. Another 2015 study confirmed early complaints that Fed policy had influenced commodity price demand shocks that increased food price indices as much as 90 per cent as low interest rates made speculation in storable commodities cheap.[29]

The Brookings report also found Fed officials dismissing the EME, saying, 'everything will be okay if you just let your currencies appreciate'.[30] Yet the Brookings study concluded that policymakers in countries on the receiving end of these capital flows actually could not escape by appreciating the currency. If they allowed their currency to appreciate, they would expose themselves to overvaluation, loss of competitiveness, and exports reductions. But if they fought the appreciation via intervention, they would find themselves on the receiving end of ever-larger inflows.[31]

This is a summary picture of the spillovers and economic/political economy woes of the EME – countries awash in liquidity, commodity demand shocks and no policy escape route. In the discussion below we hear these problems debated in the exchanges between the EME critics and their supporters on the one side, and the Fed on the other.

The 'concrete case' studies: The EME discursive interventions and the Fed responses

With this general background, I now look at the concrete language of the conflict. Guido Mantega, then Finance Minister of Brazil, was perhaps most outspoken and considered a major critic and antagonist of the Fed. Mantega had begun in 2010 lodging a 'currency war' criticism of the Fed.[32] In 2011 he began formalising his criticisms in his annual International Monetary Fund Statements where he not only was speaking for Brazil but also was delegated to speak on behalf of many other EME countries as well, including at various times Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago.

[29] A Amatov and J Dorfman, 'Extraordinary Monetary Policy Effects on Commodity Prices' (Proceedings of the NCCC-134 Conference on Applied Commodity Price Analysis, Forecasting, and Market Risk Management, St. Louis, Missouri, MO, 21–22 April 2015), <http://www.farmdoc.illinois.edu/nccc134/conf_2015/pdf/Amatov_Dorfman_NCCC_134_2015.pdf>; A Anzuini, MJ Lombardi and P Pagano, 'The Impact of Monetary Policy Shocks on Commodity Prices' (2013) *International Journal of Central Banking*, <http://www.ijcb.org/journal/ijcb13q3a4.pdf>.

[30] (n 22) 21.

[31] ibid 21.

[32] J Wheatley and P Graham, 'Brazil in Currency War Alert' *Financial Times Online* (27 September 2010).

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> Major reserve currency issuing countries continue to resort to *ultra-expansionary monetary policies, the primary trigger of many of today's economic woes*. Excessive liquidity contributes to rapid credit expansion and asset price booms, as well as oil and other commodity price bubbles. Rises in oil and commodity prices increase the cost of living, especially for the poorest.[33]

Mantega also made the case in this official statement that the reserve currency central banks (the Fed) are too domestic centric.

> Domestic political constraints have been too easily invoked by reserve currency issuing countries as a reason for adopting ultra-expansionary monetary policies, but this does not change the fact that *these policies generate spillovers*.[34]

Mantega basically reiterated and expanded this general message in his 2012, 2013 and 2014 IMF official statements, again speaking on behalf of many other countries. He emphasised the imbalance in the fact that the EME economies were paying a high price for US-centric monetary policies but without standing or consideration.[35] Mantega asked the Fed for a 'rebalancing' of Fed priorities that would reduce the significant influence of Fed policies in the EME.[36] In terms of the struggle for recognition, Mantega's statements are asking broadly for norms that would have the Fed putting less emphasis on domestic politics and produce a global perspective in Fed policymaking.

By 2012 Mantega began to ratchet up his public rhetoric, criticising the Fed for 'a selfish policy that weakens the efforts for concerted action' and for 'reignit[ing] the currency wars with potentially drastic consequences

[33] G Mantega, 'Statement by Guido Mantega, Minister of Finance of Brazil, on behalf of Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago' (Twenty-Third Meeting, International Monetary and Financial Committee, 16 April 2011). (Emphasis added.)

[34] ibid (emphasis added).

[35] G Mantega, 'Statement by Guido Mantega, Minister of Finance of Brazil, on behalf of Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago' (Twenty-Fifth Meeting, International Monetary and Financial Committee, 21 April 2012).

[36] G Mantega, 'Statement by Guido Mantega, Minister of Finance of Brazil, on behalf of Brazil, Cape Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago' (Twenty-Seventh Meeting, International Monetary and Financial Committee, 20 April 2013); G Mantega, 'Statement by Guido Mantega, Minister of Finance of Brazil, on behalf of Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago' (Twenty-Ninth Meeting, International Monetary and Financial Committee, 12 April 2014).

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for the rest of the world'.[37] This stronger statement echoed sentiments of many in the EME. Philippines' central bank Governor Amando Tetangco also saw challenges to monetary policy presented by Fed actions.[38] China similarly expressed concern at the possible side effects of QE, with Zhou Xiaochuan, China's central bank governor, questioning whether Fed monetary easing was actually good for the global economy.[39] A United Nations official and former Finance Minister of Colombia José Ocampo encapsulated the EME arguments: 'Given the role of the US dollar as the dominant global currency, the Fed's expansionary monetary policy generates significant externalities for the rest of the world – effects that the Fed is certainly not taking into account.'[40]

These are all explicit 'recognition' appeals to the Fed to eschew a US-centric, selfish stance and stop ignoring externalities and to consider the good of the global economy – all representing a general push toward inclusive norms of recognition. Ocampo gives these claims a constitutional basis, suggesting that the US dollar status as the global reserve currency carries implicit obligations.

The reserve currency based claim for recognition is important, so a little background is in order. Indicating its transactional importance, the US dollar is involved in over 85 per cent of foreign exchange transactions,[41] and over 100 countries either use the US dollar directly or as a peg or reference currency.[42] Furthermore, the countries in the rest of the world now hold roughly $4.2 trillion in US Treasury securities as currency reserves, constituting 64 per cent of global reserves, making the Fed by far the dominant reserve currency bank.[43]

[37] M Zhang, 'Bernanke Defends Fed from Claims It Is Being Selfish and Hurting Emerging Economies' *IBTimes Online* (12 October 2012), <http://www.ibtimes.com/bernanke-defends-fed-claims-it-being-selfish-hurting-emerging-economies-846263>.

[38] ibid.

[39] P Inman, 'US Accused of Forcing Up World Food Prices,' *GuardianOnline* (5 November 2010), <http://www.theguardian.com/business/2010/nov/05/us-accused-of-worsening-price-rises>.

[40] JA Ocampo, 'The Federal Reserve and the Currency Wars' *Project Syndicate* (2 October 2012), <https://www.project-syndicate.org/commentary/mantega-fed-ecb-monetary-quantitative-easing-by-jose-antonio-ocampo?barrier=true>.

[41] Bank for International Settlements, 'Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in 2013' (September 2015), <http://www.bis.org/publ/rpfx13.htm>.

[42] L Goldberg, 'Is the International Role of the Dollar Changing?' (2010) 16(1) *Current Issues in Economics and Finance* 3, Table 1, <https://www.newyorkfed.org/medialibrary/media/research/current_issues/ci16-1.pdf>; L Goldberg, 'The International Role of the Dollar: Does It Matter if This Changes?' (Staff Report No 522, Federal Reserve Bank of New York, October 2011) 1–23, <https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr522.pdf>.

[43] US Treasury, 'Major Foreign Holders of Treasury Securities', <http://ticdata.treasury.gov/Publish/mfh.txt>; International Monetary Fund, 'Currency Composition of Official Foreign Exchange Reserves 2012–2015', <http://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>.

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Some may still question whether US reserve currency status necessarily entails implicit constitutional duties to monetary system members as Ocampo (and others) suggest. Those who argue for more attention to other members point to the significant benefits attached to dominance and reserve currency status. Although hard to value, total tangible and intangible benefits have caused reserve currency status to be characterised by monetary experts as an 'exorbitant privilege'.[44] Whether exorbitant or not, the privileged status has raised expectations among those EME using the US dollar as reserve currency that the Federal Reserve should consider not only US domestic interests but also the interests of other countries holding dollars as well.[45]

Returning to analysis of the concrete case of conflict, the criticisms of the Fed also come from another set of important players in the monetary arena – the monetary theorists, a group Wiener calls normative interventionists.[46] A considerable literature has tracked the effects of Fed QE and ZIRP policies, most taking the side of the EME that the Fed should at least acknowledge the linkages and take greater responsibility for spillovers. The literature is now extensive but I will mention a few representative early studies and criticisms.

In an early paper, Noureddine Krichene of the IMF Africa Department drew the linkages between Fed policies and EME problems, showing that low policy interest rates (ZIRP), monetary expansion, and US dollar exchange rate all contributed to increasing upward pressures on commodities' prices (including food prices in the developing countries) because low interest rates made speculation cheap and these prices are all quoted in US dollars.[47] '[E]xpansionary monetary policies of the developed countries, mainly the Fed, [are] setting commodity prices soaring … leading to a speculative "demand shock".'[48] A 2009 paper

[44] The issue of exorbitant privilege and corresponding responsibilities is discussed in B Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar* (Oxford University Press, New York, NY, 2012); ES Prasad, *The Dollar Trap: How the U. S. Dollar Tightened Its Grip on Global Finance* (Princeton University Press, Princeton, NJ, 2014); also see a classical treatment: RZ Aliber, 'The Costs and Benefits of the U.S. Role as a Reserve Currency Country' (1964) 78(3) *The Quarterly Journal of Economics* 442.

[45] The responsibilities of the exorbitant privilege are discussed in PO Gourinchas and H Rey, 'From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege' in RH Clarida (ed), *G7 Current Account Imbalances: Sustainability and Adjustment* (University of Chicago Press, Chicago, IL, 2007) 11; revised with updated data, PO Gourinchas, H Rey and N Govillot, 'Exorbitant Privilege and Exorbitant Duty' (UC Berkeley Working Paper, February 2014), <http://socrates.berkeley.edu/~pog/academic/duty4c.pdf>.

[46] See Wiener (n 10). In contestation, the scholars' engagement represents a practice of normative intervention.

[47] Krichene (n 21).

[48] Ibid 1, 17, 24.

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found the Federal Reserve was primarily responsible more generally for the global asset price shocks and their consequences.[49]

A report issued in 2015 by the International Institute of Finance reviewed the numerous studies of EME capital flows. It is hard to capture the nuances of these studies in summary form, but in general the studies reflect the mounting evidence indicating that Fed policies are causing harms globally and the Fed has a duty to take notice and end harmful policies where they exist. Such evidence can be easily dismissed if there is no constituted enforcement process for registering complaints.

The Bernanke response to the EME

Despite the mounting criticism and accumulating research findings of Fed responsibility for the negative effects of Fed policies, Chairman Ben Bernanke consistently resisted and dismissed the EME challenges. Media reports such as 'Fed Chief Ben Bernanke Denies US Policy behind Record Global Food Prices'[50] and Bernanke's speeches at the time succinctly capture the Fed position. In a 2012 speech held in conjunction with the IMF meetings in Tokyo, Bernanke argued 'that advanced-economy monetary policies are not the dominant factor behind emerging market capital flows'.[51] Further, Bernanke suggests that he does not look at the effects on individual countries but rather at net aggregates, a misrecognition through abstraction. 'It is not at all clear that accommodative policies in advanced economies impose *net costs* on emerging market economies.'[52] Bernanke's refusal to accept responsibility for the capital flow and asset price problems also rested on responses like the following: '[T]he *linkage* between advanced-economy monetary policies and international capital flows *is looser* than is sometimes asserted,'[53] and, 'My reading of the recent research makes me skeptical that these policy differences are the dominant force behind capital

[49] M Fratzscher, 'What Explains Global Exchange Rate Movements during the Financial Crisis?' (2009) 28(8) *Journal of International Money and Finance* 1390; J Hausman and J Wongswan, 'Global Asset Prices and FOMC Announcements' (2011) 30(3) *Journal of International Money and Finance* 547.

[50] R Blackden and H Wilson, 'Fed Chief Ben Bernanke Denies US Policy behind Record Global Food Prices' *The Telegraph* (2 February 2011), <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/8302111/Fed-chief-Ben-Bernanke-denies-US-policy-behind-record-global-food-prices.html>.

[51] B Bernanke, 'U.S. Monetary Policy and International Implications' (Speech delivered at Tokyo Monetary Conference 'Challenges of the Global Financial System: Risks and Governance under Evolving Globalization', Tokyo (14 October 2012), <http://www.federalreserve.gov/newsevents/speech/bernanke20121014a.htm>.

[52] Ibid (emphasis added).

[53] Ibid (emphasis added).

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flows to emerging market economies.'[54] Bernanke laid out what he thought the determinant factor actually was, 'effects of capital inflows, whatever their cause, on emerging market economies are *not predetermined, but instead depend greatly on the choices made by policymakers*'.[55] He bolsters this argument with 'I think it's entirely unfair to attribute excess demand pressures in emerging markets to US monetary policy, because emerging markets *have all the tools they need* to address excess demand in those countries. They can, for example, *use monetary policy of their own*.'[56] Again, we see Bernanke's perception that the EME are in control of their own destiny. This argument of EME free policy choice is key for Bernanke, but as a factual claim it is dubious as we will see below. Instead of seeing any negative effects, Bernanke points to the aggregate global benefits of Fed policy. 'This policy not only helps strengthen the US economic recovery, but by boosting US spending and growth, it has the effect of helping support the global economy as well.'[57]

Under a recognition framework, in order for the EME to be recognised by Bernanke – that is, for Bernanke to give consideration to EME evidence – he is essentially telling the critics that there are 'norms of recognition' that they have to satisfy. The EME have to show that the Fed is dominant cause; that the EME has no free choice or monetary tools of their own; that linkages are tight; and that there are 'net costs'. These are high hurdles of economic proof and collectively represent norms of misrecognition used as reasons not to consider the EME claims seriously. Bernanke consistently refused to admit causation or accept the assignment of responsibility for negative effects throughout his Fed chairmanship. And this stance continued after he left office as Fed Chairman in January 2014.

Raghuram Rajan: Discursive interventionist in the field of interaction

Raghuram Rajan, another important player in the monetary field of interaction, was a participant in the 2011 Brookings study and had been a long-standing critic of Fed policy while chief economist at the IMF. In 2014 Rajan became Governor of the Royal Bank of India. I discuss Rajan's

[54] B Bernanke, 'Monetary Policy and the Global Economy' (Speech delivered at the London School of Economics, 25 March 2013), <http://www.federalreserve.gov/newsevents/speech/bernanke20130325a.htm>.

[55] Bernanke (n 51) (emphasis added).

[56] R Harding and A Rappeport, 'Fed Denies Policy Is Causing Food Rises' *Financial Times Online* (4 February 2011), <https://www.ft.com/content/5c4aeaea-2fbd-11e0-91f8-00144feabdc0> (emphasis added); also Blackden and Wilson (n 50).

[57] Bernanke (n 51).

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arguments in detail in Part II below, but in this section I describe an important episode where Rajan acts as discursive intervenor in the EME struggle for recognition. The exchange is telling as it reveals Bernanke's resolute commitment to a scientific way of doing monetary policy grounded in abstract, aggregative empirical assessments – and the reputational challenge he feels as the EME criticisms call this method and perspective into question. Bernanke had been defending this methodology against many critics who claimed the Fed had not only missed but also mishandled the financial crisis. For example, in a 2010 speech Bernanke acknowledged some observers had called 'for an overhaul of economics as a discipline'. But he argued that 'economic science' was concerned with theoretical and empirical generalisations and had not been at fault and therefore calls for a radical reworking were not warranted.[58] Now he was on the defence against the EME.

In April 2014 Rajan gave a speech at a Brookings Institution gathering of monetary experts where again he went over the problems of Fed unconventional monetary policy – the spillover effects and the surges of capital into the EME.[59] However, Rajan took a different tack: he presented a narrative form empirical assessment, explaining step by step how the Fed policies affected the periphery countries. Rajan thereby established the linkages between Fed policies and spillover effects that Bernanke had long denied. Rajan's narrative empirical account stood in contrast with the abstract, quantitative assessments of Bernanke stylised models by which Bernanke was able to screen out externalities and spillovers. Rajan directly challenged this method of modelled abstraction for ignoring the obvious. 'By downplaying the adverse effects of cross-border monetary transmission of unconventional policies, we are overlooking the elephant in the post-crisis room.'[60]

Bernanke had become a Senior Brookings Fellow after leaving the Fed and was in the audience. He challenged Rajan's account in an exchange that was seen as intense and sharp in tone. The exchange between bankers made international news, indicative of the broad interest in this still smouldering conflict in the international community. It was described in the media as a surprising face-off, 'Bernanke, Rajan face-off over US QE spillover'[61]

[58] B Bernanke, 'Implications of the Financial Crisis for Economics' (Speech delivered at the Bendheim Conference, Center for Economic Policy Studies and the Center for Finance, Princeton University, Princeton, NJ, 24 September 2010), <https://www.federalreserve.gov/newsevents/speech/bernanke20100924a.htm>.

[59] (n 16).

[60] Ibid 6.

[61] ENS Economic Bureau, 'Bernanke, Rajan Face-Off over US QE Spillover' *Indian Express* (12 April 2014), <http://indianexpress.com/article/business/business-others/bernanke-rajan-face-off-over-us-qe-spillover/>.

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and ‘Banker showdown: Bernanke tells off India’s Rajan.’[62] The actual verbal exchange was quite short, though telling. In brief, Bernanke replied: ‘[Your] speech just reflects the fact that you are very skeptical of unconventional monetary policies … you want the rules of the game to prevent policies with large adverse spillovers and questionable domestic benefits’; and ‘you have a different empirical assessment than I do’.[63] Bernanke’s objection that Rajan’s narrative empirical assessment is different is basically saying that it does not meet Bernanke’s empirical assessment standards. Bernanke sees his methodology as representing all that needs to be known and Rajan’s as inadequate. Bernanke also attempts to question the objectivity of Rajan’s type of empirical analysis with claims of intellectual bias – driven by Rajan’s scepticism about QE and agenda to change the rules.

Bernanke’s strong reaction against the narrative empirical assessment used by Rajan is readily explained by the fact it criticises the aggregated quantitative methodology for missing the elephant in the room. This goes to the very heart of the misrecognition scheme that Bernanke (and others who rely on similar methodology) use to control what empirical assessments are permitted and who has a say. If Rajan’s narrative approach were to become the norm, Bernanke could no longer so easily rule EME arguments out of order. Inconvenient facts and previously ignored countries might have a say. In his face-off with Rajan, Bernanke thus adds another requirement before he will consider the criticisms: the EME must use his empirical assessment, the methodology that allegedly overlooks the elephant in the room.

Helene Rey: A ‘normative interventionist’ in the ‘case of conflict’

The final person to be examined in the field of interaction is a monetary theorist, Helene Rey of the London Business School, whose studies linking Fed crisis policies and spillover effects in EME appeared in 2007.[64] Rey was a Committee member of the Brookings initiative *Rethinking Central Banking* in 2011 and authored several papers on the global effects of Fed policies. In August 2013, Rey took her criticisms directly to the Federal Reserve in a speech at the Kansas City Federal Reserve Bank annual meeting in Jackson Hole, Wyoming. At the 2013 event, Rey put forth her theory of the Fed’s causative role in EME negative effects, stating that an ‘important

[62] M Caruso-Cabrera, ‘Banker Showdown: Bernanke Tells off India’s Rajan’ *CNBC News* (10 April 2014), <http://www.cnbc.com/2014/04/10/banker-showdown-bernanke-tells-off-indias-rajan.html>.

[63] Ibid.

[64] As early as 2007, H Rey and co-author P Gourinchas argued that the ‘exorbitant’ benefits received by the US as reserve currency were an implicit insurance premium that created a duty upon the Fed to act as a lender of last resort in a crisis (n 45).

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determinant of the global financial cycle is monetary policy in the centre country'.[65] Her paper recounts the litany of the EME political economy woes in the global financial cycle: 'low interest rates lead to bidding up of commodity prices'; 'surges in capital flows, especially credit flows; monetary conditions in the centre country transmitted world-wide through these cross-border flows'.[66]

In December 2014, Rey was given a chance to extend her argument in the prestigious Mundell-Fleming lecture. By the time of the 2014 speech a considerable body of research was documenting 'massive spillovers'[67] and supporting Rey's case for dominance of Fed monetary policy and Fed responsibility for negative effects in the EME.[68] In her Mundell-Fleming talk, Rey hit her key arguments in direct terms. 'Because the dollar is an important funding currency around the world … US monetary policy … changes the net worth of economic actors worldwide … of banks, asset managers, households, corporates.'[69] Furthermore, Rey advanced

[65] H Rey, 'Dilemma Not Trilemma: The Global Financial Cycle and Monetary Policy Independence' (Paper presented at Kansas City Federal Reserve Conference, Jackson Hole, WY, 26 August 2013), 310 <http://www.kc.frb.org/publicat/sympos/2013/2013Rey.pdf>.

[66] Ibid 302–3.

[67] Koepke (n 26) 2. A recent paper supports Rey's Mundellian thesis: G Plantin and HS Shin, 'Exchange Rates and Monetary Spillovers' (BIS Working Papers No 537, Bank for International Settlements, January 2016).

[68] See M Fratzscher, M Lo Duca and R Straub, 'On the International Spillovers of US Quantitative Easing' (Working Paper Series No 1557, European Central Bank, 2013) 3, <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1557.pdf>; S Ahmed and A Zlate, 'Capital Flows to Emerging Market Economies: A Brave New World' (2013) 48 *Journal of International Money and Finance* 221; JH Rogers, S Chiara and J Wright, 'Evaluating Asset-Market Effects of Unconventional Monetary Policy: A Cross-Country Comparison' (FRB International Finance Discussion Papers No 1101, Board of Governors of the Federal Reserve System, Washington, DC, March 2014), <http://www.federalreserve.gov/pubs/ifdp/2014/1101/ifdp1101.pdf>; D Bowman, J Londono and H Sapriza, 'U.S. Unconventional Monetary Policy and Transmission to Emerging Market Economies' (FRB International Finance Discussion Papers 1109, Board of Governors of the Federal Reserve System, Washington, DC, June 2014), <https://www.federalreserve.gov/pubs/ifdp/2014/1109/ifdp1109.pdf>; V Bruno and HS Shin, 'Capital Flows and the Risk-taking Channel of Monetary Policy' (2015) 71 *Journal of Monetary Finance* 119, 120; O Davis, 'How Do U.S. Interest Rate Hikes Affect Emerging Markets?' *IBTimes* (17 September 2015), <http://www.ibtimes.com/how-do-us-interest-rate-hikes-affect-emerging-markets-2102118>.

[69] H Rey, 'International Channels of Transmission of Monetary Policy and the Mundellian Trilemma'(paper presented at the 15th Jacques Polak Annual Research Conference, International Monetary Fund, Washington, DC, 13–14 November 2014) 26, <http://www.imf.org/external/np/res/seminars/2014/arc/pdf/Rey.pdf>. This speech was updated subsequent to the Ben Bernanke 2015 Mundell-Fleming lecture: H Rey, 'International Channels of Transmission of Monetary Policy and the Mundellian Trilemma' 22 December 2015, <http://www.helenerey.eu/AjaxRequestHandler.ashx?Function=GetSecuredDOC&DOCUrl=App_Data/helenerey_eu/Published-Papers_en-GB/_Documents_2015-16/157224237_67186463733_21decemberMundellFleming.pdf>.

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her argument that the actions of the Fed are determinant and demonstrated that the EME have little choice in countering the effects of Fed policies.[70] Rey concluded with findings that go to the heart of the Fed dismissal of EME criticisms. 'In an environment with foreign debt (US dollar debt) on balance sheets, even with flexible exchange rates, the apparent ability to set its own interest rate is not enough for an EME central bank to achieve monetary autonomy.' 'Monetary policy in the center country may therefore transmit itself internationally.'[71] Finally, she concludes that 'the (Mundell-Fleming) Trilemma misleads us' by assuming that a country can control its monetary and financial future.[72]

Rey's findings are important because they are a direct challenge not only to Fed policies but also to the Mundellian Trilemma hypothesis,[73] one of the pillars on which Bernanke's case (and much current thinking in monetary policy) rests and by which the prevailing system of misrecognition is justified. This Mundellian Trilemma (MT), sometimes called the Impossible Trinity, is a foundational theory in international economics, perhaps Article 1 of the informal constitution of the global monetary system. MT forms the premises of the Mundell-Fleming model that is the primer for small open economy monetary management.[74] A key assumption of the MT theory and model is that peripheral central banks have 'autonomy' in the monetary policy realm – this being the basis of Bernanke's free choice argument. Rey's finding of virtually total Fed dominance and the Mundellian theory as misleading thus challenged three of Bernanke's defences: i) that the Fed is not the dominant or determinant factor; ii) that the EME has autonomy or free policy choice; and iii) that the Mundellian theory finds fault with the EME. This assumption of independent autonomous central banks and the applicability of Mundell-Fleming are the core norms of misrecognition that Bernanke used to deny standing to Mantega and other EME criticisms. However, it seems Bernanke's assumption that Mundell holds may be in error. Or at least, in Rey's terms, it may be time 'to qualify its meaning in a significant way'.[75]

[70] (n 65) 22; Rey, 'International Channels of Transmission of Monetary Policy and the Mundellian Trilemma' (n 69) 26.

[71] Rey, 'International Channels of Transmission of Monetary Policy and the Mundellian Trilemma' (n 69) 6.

[72] Ibid 2.

[73] Ibid 1.

[74] G Corsetti, 'New Open Economy Macroeconomics' in SN Durlauf and LE Blume (eds), *The New Palgrave Dictionary of Economics* (2nd edn, Palgrave Macmillan, 2008); *The New Palgrave Dictionary of Economics Online*, Palgrave Macmillan, <http://www.dictionaryofeconomics.com/article?id=pde2008_N000060>.

[75] Rey, 'International Channels of Transmission of Monetary Policy and the Mundellian Trilemma' (n 69) 1.

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Bernanke responds to Mantega, Rajan and Rey

Bernanke was invited to deliver the annual Mundell-Fleming IMF Lecture in November 2015, the year after Rey, thus providing an opportunity to respond to his critics.[76] This is now about five years after the original criticisms from the EME and 18 months since the confrontation with Rajan at Brookings. Unfortunately, although Bernanke admits some evidence of linkages, he basically uses the speech to deny Fed monetary policy was at fault, using an array of economic arguments to deflect rather than engage in dialogue with EME critics. I will not analyse the lengthy speech in any detail but rather highlight a few examples that further illustrate Bernanke's consistent approach of dismissal and denial.

First, Bernanke singles out EME protagonists Rajan and Mantega as his major critics. Although he expressed tremendous sympathy for fellow EME central bankers, the content of his response contained no concessions to his critics or acknowledgement of responsibility for the consequences of Fed policy actions. His arguments were more debate points than substantive engagement in the issues. For example, even though Bernanke admitted that the arguments of Rajan and Mantega 'overlap',[77] he proceeded to artificially divide the currency war argument of Mantega from the financial stability argument of Rajan. To anyone who had been engaged in or closely following the ongoing monetary arena debate, this comes across as a rhetorical dodge. The criticisms that Mantega lodged against Fed policies under currency war and spillovers are fundamentally similar to the criticisms that Rajan included under his criticisms of financial destabilization and spillovers. They both had to do with the very wide range of interconnected negative effects of Fed policy in the EME.

Bernanke then proceeded to respond specifically to Mantega's charge of currency war by defining it narrowly in terms of classical economic theory, which he described, 'when a country eases monetary policy specifically

[76] The content of the Bernanke Mundell-Fleming lecture actually appeared in several forms – an oral lecture (a), a paper (b) and a summarising blog (c): B Bernanke, 'Federal Reserve Policy in an International Context' (Mundell-Fleming Lecture, 16th Jacques Polak Annual Research Conference, International Monetary Fund, Washington, DC, 5 November 2015), transcript at <https://www.brookings.edu/wp-content/uploads/2015/11/110515BROOKINGSBERNANKE-1.pdf>. A paper based on the speech, but with changes, was later published as B Bernanke, 'Federal Reserve Policy in an International Context' (Mundell-Fleming Lecture, 16th Jacques Polak Annual Research Conference, International Monetary Fund, Washington, DC, 5 November 5 2015), available at <https://www.imf.org/external/np/res/seminars/2015/arc/pdf/Bernanke.pdf>. And Bernanke summarised the speech in a blog, 'What Did You Do in the Currency War, Daddy?' (5 January 2016) available at <http://www.brookings.edu/blogs/ben-bernanke/posts/2016/01/05-currency-war-daddy>.

[77] Bernanke, 'Federal Reserve Policy in an International Context' (n 76a) 22.

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to depreciate its currency, with the ultimate objective of cheapening its exports and gaining unfair competitive advantage in international trade'.[78] Using this narrow definition, Bernanke goes on to claim that since the Fed was not intentionally trying to depreciate currency in order to gain export advantage (even though that may be what happened), therefore the Fed wasn't guilty of starting a currency war.[79] Despite the fact Mantega did use the term currency war in media interviews, in his official statements to the IMF Mantega's empirical claims cited the widespread spillover effects to the EME countries – the capital surges, excessive liquidity, rapid credit expansion and asset price booms, etc. Bernanke's lumping of Mantega's criticisms under a narrow definition of currency war then simply allows him to dodge the main thrust of the Mantega arguments against QE. In Bernanke's narrow technical reading of Mantega's currency war reference, we see an economic construct used as a norm of misrecognition to exclude critical information and justify dismissing the criticisms of Mantega and the many countries he represented in his IMF Statements. So it seems despite all the evidence that has come in, Bernanke still sees no need to grapple with the issues in terms of the evidence that the EME introduced. Instead, Bernanke is still definitionally imposing the terminological norms that justify his misrecognition of the critics' points. In the 2015 lecture, Bernanke also addresses the research community and Helene Rey in particular. Although Bernanke acknowledged the linkages established in the research of Rey and others, in the end he summarily dismissed the Rey thesis and conclusions that questioned Mundellian principles and put Fed monetary policy at fault. And he purports to do so on utilitarian formalist methodological grounds: for 'lack of global factor benchmark, heterogeneity', and for failure to consider 'long period buildup effects'.[80] Again in Bernanke's long rebuttal, we see no joining of the issue on substance but rather economic constructs again being used as 'exclusionary' norms of non-recognition. Bernanke once again avoids coming to grips with the EME claims, no matter how well supported. Bernanke also uses the Mundell-Fleming lecture to dismiss the call for more cooperation in monetary system – which many in the research community and the EME have argued to be critically important – using a 'very simple' hypothetical model, which Bernanke himself calls a 'toy model'.[81] Analysing the model

[78] Bernanke, 'What Did You Do in the Currency War, Daddy?' (n 76).

[79] For a discussion of intent and causal responsibility see J Feldmann, 'Causation and Consequences in Monetary Policy: Are Federal Reserve Policies Based on an Inadequate Theory of Causal Responsibility?' (2016) 99(3) *Soundings* 321.

[80] Bernanke, 'Federal Reserve Policy in an International Context' (n 76a) 52–64; Bernanke 'Federal Reserve Policy in an International Context' (n 76b) 23–37.

[81] Bernanke, 'Federal Reserve Policy in an International Context' (n 76a) 37–41.

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would be a lengthy exercise so I don't go into detail. In brief, in his toy model Bernanke relies upon the Mundellian hypothesis to show that the EME tried to achieve both a lower interest rate and a competitive currency exchange rate (in support of full employment and exports) and thus violated the Trilemma dictates. Bernanke uses the model to conclude that the US really can't help the EME avoid negative spillovers because the fault lies within the EME policies. Furthermore, Bernanke's model finds that any small benefit the US could provide would be available only if the US does not pursue entirely its own interest to achieve maximum output. But Bernanke dismisses the idea that the US would not pursue maximum output in order to help an EME country as 'pie in the sky' and not 'realistic'.[82] So he concludes there is only a small scope for monetary policy cooperation 'given the empirical evidence we now have'. Thus he effectively ignores Rey using a toy model resting on Mundellian premises that she has demonstrated as misleading. Bernanke then uses this simple model to summarily dismiss the critics' important suggestion that the Fed as the dominant reserve currency bank might help out the EME and the US by coordinating policy and thus achieve a cooperative optimal outcome.

In the Mundell-Fleming lecture, we thus observe additional instances where Bernanke insists on his own economic terms and methods as norms of recognition. Bernanke is able to ignore inconvenient facts and thereby deflect criticism: separating the Mantega and Rajan arguments, defining currency war narrowly, dismissing Helene Rey's argument, using a 'toy model' to dismiss cooperation, and attributing the responsibility for spillovers to EME policies and failed macro prudential policy. This speech encapsulates why a reform of monetary system decision processes and reconstitution of the global monetary system is being called for. We see how aggregative thinking neutralises natural sentiments of empathy, thus preventing the econometricians from 'acknowledging and experiencing our concrete and practical connections to others' suffering and the burdens of responsibility that those connections entail'.[83]

Part I portrays the current conflict in the monetary system as a struggle over recognition with the Fed imposing norms of misrecognition and effectively freezing out the EME and research community criticisms. We see a global monetary system of central banks and finance ministries controlled by a dominant policy actor but no constituted regulative authority or formal redress and enforcement mechanisms.[84] In light of the described

[82] Ibid (n 76a) 14.

[83] JL Schiff, *Burdens of Political Responsibility: Narrative and the Cultivation of Responsiveness* (Cambridge University Press, Cambridge, 2014) 127.

[84] Ibid.

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inadequacies in how monetary policy is formulated and conflicts addressed in the current monetary system, I propose the framework and principles of recognition theory.

Part II: Recognition Theory: Framework for a New Constitution

I turn now to a discussion of how recognition theory might provide for more comprehensive empirical assessments, institutionalise 'inclusionary' norms of recognition and reconstitute the global monetary system in a participatory, global perspective mode.

There are many strands of recognition theory, so numerous in fact that recognition theory has been criticised by Jens Bartelson as the 'Swiss army knife' of international relations studies.[85] Following his injunction to delimit applications of recognition theory, I focus our inquiry on Bartelson's idea of 'political recognition' – on recognition theory having to do with relative standing among states and why conflicts emerge.[86] Narrowing further, our application focuses on political recognition among monetary officials, specifically on the struggle for recognition by the periphery countries of the monetary system in the face of a resistant dominant actor. Bartelson sees three areas of inquiry in political recognition: i) how subordinate actors acquire status or standing by virtue of seeking a change of the norms of recognition; ii) how the dominant party handles (or should handle) its dominance status in granting or withholding recognition; and, finally iii) how it sees these demands as challenges to its dominance.[87] I focus mostly on the second in this part and try to show how recognition principles aid the dominant actor in handling its policy formation and administrative responsibilities in the monetary arena. I necessarily must leave important questions being debated in recognition theory to future studies, conceding that the issues may need to be addressed ultimately. For example, I do not get into the question of whether inclusive recognition norms and open dialogue might also lead to conflict situations. Also, although our issue blurs the line, I also demur on the theoretical debates over whether recognition theory has to do more with distribution or with freedom.

Sidestepping theoretical discussions for now, I instead set a practical task, seeking a framework of recognition concepts and principles that could be readily used in the process of monetary policy formulation. The objective is an alternative process to counter the utilitarian logics and to encourage

[85] Ibid.
[86] Ibid 111.
[87] Ibid 112.

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an other-regarding global perspective in monetary policy deliberations. Although the several theorists that I rely upon represent a wide diversity in intellectual lineage – Montesquieu and Rousseau, Hegel, Kant – they have common central themes and common intellectual foes. The central ideas are in order to avoid conflict (or to resolve it once it arises) the various actors in a collective scheme, including the dominant actor, must do several things: acknowledge there is a common struggle; have a thorough understanding of the other side; be willing to listen and engage in dialogue; and be ever open to conciliation or compromise. The recognition concepts our theorists derive can also be understood by the intellectual forces that they stand against, especially the monological political administration and anthropology of Hobbesian theory and the related egoistic utilitarian logics of rational actor maximisation. The elements of recognition theory that I use in forming a practitioner's framework for the monetary system are drawn from the work of theorists Pierre Allan, Alexis Keller, James Tully and Thomas Lindemann. There are other recognition theorists – and other frameworks that might be proposed. However, the theorists chosen have a practical orientation in their theories of conflict causation and avoidance and thus provide a good start in bringing recognition theory to monetary affairs. Lindemann's work is especially important in understanding how conflicts arise and how international crises can be reframed in terms of recognition theory.[88] Allan and Keller provide a four element intuitive framework for conflict avoidance methodology. Tully provides a framing of these elements as norms of mutual recognition structure ensuring dialogical openness and endless revisability. The recognition framework that emerges from this synthesis is designed to get beyond the model driven accounts of current monetary economics, countering the aggregative, US-centric utilitarian logic that characterises current Fed practices and inhibits appropriate empirical assessments and policy responses.

Norms of mutual recognition

As James Tully describes international conflicts generally, conflicts within the global monetary system can be seen as struggles over the prevailing 'norms of mutual recognition' under which a system or practice is governed.[89] I adopt Tully's concept of 'norms' as rules, conventions, customs under which members of the practice recognise each other and coordinate their actions. 'Norms of recognition give to partners in practice the opportunity

[88] T Lindemann, 'Peace through Recognition: An Interactionist Interpretation of International Crises' (2011) 5 *International Political Sociology* 68; Lindemann, *Causes of War; The Struggle for Recognition* (n 1).

[89] Tully, 'Recognition and Dialogue: The Emergence of a New Field' (n 9) 86.

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to call into question and renegotiate freely the subject to becoming outdated, always less than perfect existing norms.'[90] To facilitate the analysis I introduced above the category of 'exclusionary norms', or norms of misrecognition to denote the norms that prevent partners from calling into question or renegotiating norms.

Under this framework, the first step in understanding monetary system conflicts is seeing the monetary realm as an arena of struggle over competing norms where misrecognition and non-recognition take place on the part of the dominant actor. This occurs as a by-product of a dominant actor treating its own methodology as all that needs to be known and alternative methodologies being treated as inadequate, leading to 'others' being viewed as instruments for the dominant actor's own ends, denied recognition on their own terms, and assigned a lower status.[91] This places the analytical emphasis on identifying the functioning norms of misrecognition. In the monetary arena this exercise can often be difficult because, as shown above, the norms of misrecognition are embedded in economic constructs under which alternative versions of economic reality are presented – hidden in economic hypotheses, definitional conventions, or model assumptions.

An example of how norms of misrecognition can be hidden in complex economic theories is the Mundellian Trilemma (MT), the 'Impossible Trinity' that was discussed above. To recall, MT is a foundational theory in international economics and forms the premises of the Mundell-Fleming model for small open economy monetary management. It holds that it is 'impossible', that is, certain failure, for central banks to pursue three of the following at the same time: a fixed foreign exchange rate; free capital movement; and an autonomous, independent monetary policy.

In understanding the struggle for recognition, the Mundellian Trilemma premises (and other constructs like it) must be seen as prescriptive in nature,[92] functioning as implicit norms of *non*-recognition. The MFT injunction – that a small country *must* not attempt to pursue the three policies simultaneously because they will ultimately fail – functions prescriptively as a protection of the dominant bank's imposed monetary

[90] Ibid 84.

[91] S Thompson and M Yar (eds), *Politics of Misrecognition* (Routledge, New York, NY, 2016) 170, 172.

[92] The Mundell-Fleming Theory is partly a hypothesis based on the uncovered interest rate parity condition and a finding from empirical studies where governments that have tried to simultaneously pursue all three goals and have failed. This theory reveals a lurking descriptive/prescriptive ambiguity in economic theorems whereby inductively derived rules of thumb become a prescriptive norms of practice. See J Feldmann, 'A Social Contract and Rules of Practice for the Fed' (2016) 99 *Soundings* 1, 11ff.

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system and policies. This failure is not a feature of the natural world; it is a feature of the Fed policy modelled world. The pursuit of all three policies fails, as revealed in Helene Rey's work, due to centre bank policy dominance. 'Monetary policy in the center country transmits itself internationally.'[93] This is why Rey concludes 'the Trilemma misleads us' by assuming a country can control its monetary and economic future.[94] This assumption of autonomous central banks in control of their own futures and able to set policy on their own is the rationale of non-recognition that Bernanke has used to deny standing to Mantega's criticisms. However, it now seems Bernanke's case for non-recognition may be subject to question.

In another example of how Mundell-Fleming 'requirements' are elements of an economic hypothesis that can function as norms of misrecognition, Bernanke used an extensive 'toy model' exercise in his lecture to suggest that Brazil had broken the monetary conventions of the Mundell-Fleming model in trying to take all three policy actions (maintain a low policy rate, keep currency values fixed, and control capital flows). Under the terms of our analysis, Bernanke's exercise may be interpreted as showing Mantega had breached prescriptive norms of recognition and thus was not entitled to be listened to in the complaints that he was making.

The proper way of looking at the Rey findings in terms of norms of recognition is that since the Mundell-Fleming premises no longer hold in the real world, then this particular economic convention is outdated, and its meaning and applications must be qualified in a significant way. Put more directly, the MFT hypothesis should no longer be a norm of recognition for the global monetary system. We can see the EME criticisms and the research theories as calls for outdated and exclusionary norms of recognition like MFT to be changed as circumstances and events unfold. In this way, the EME members have attempted – in classic recognition terms – to challenge the legitimacy of certain norms and to struggle to renegotiate the framework of unfair or oppressive norms of the monetary system.[95] From these examples, one might also see how other conventional economic concepts are used by Bernanke to function as norms of misrecognition. We saw how Bernanke skirted the currency war issue by defining it in textbook terms and then insisting on his form of empirical assessment. Another recent example is in the Fed paper, Clark *et al.* (2016), cited above,[96] that purported to support Bernanke's argument by showing that the inflows to the EME were not really that significant. However,

[93] Rey, 'International Channels of Transmission of Monetary Policy and the Mundellian Trilemma' (n 69) 6.

[94] Ibid 2.

[95] Tully, 'Approaches to Recognition, Power and Dialogue' (n 9).

[96] Clark *et al.* (n 26).

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the researchers skirted the central issue by focusing on different economic constructs – *net inflows* and Foreign Direct Investment rather than the hot money Portfolio and Banking Channel *total flows* that the EME was criticising. Again we see a use of selected economic constructs functioning as exclusionary norms to rule out relevant EME evidence. Instances such as these illustrate how the Fed's imposition of the economic terms, hypotheses, and categories of analysis can be employed as norms of misrecognition – or non-recognition – allowing the dominant actor to limit information and participation and thus control the terms of the debate. This sort of systematic misrecognition is a constitutive feature of the system of limited participation that characterises the current monetary system.[97] The first step in a recognition analysis is to expose these economic constructs and open up the debate. Prescinding from the particulars, this discussion helps explain why Bernanke is resistant to the EME criticisms. As we can see, norms of recognition ensconced in economic methodologies establish and hold in place certain relations of meaning and power.[98] When the circumstances change, the power relationship and norms of recognition holding it in place are under a threat to be changed as well. Thus a call for change in norms means that the power configuration is under challenge. In debates over effective monetary policy there also are professional reputations and status at risk as well. The EME critics thus not only challenge the Fed policies but also threaten preferred analytical framework essential to his research agenda and standing as a leading macroeconomist. The dominant actor would understandably tend to resist because its status and preferred recognition framework – enabling it to ignore evidence and argument as it sees fit, a prerogative of its dominant status – is put at risk through the challenge. This might partly explain the Fed tendency to resist the EME challenge and hold to its dominant position with exclusionary norms of non-recognition as long as it can, even seemingly against its own (or US) evident best interest.

Monological vs dialogical modes

In the exchanges above, we see what amounts to a refusal by the dominant actor to engage dialogically. The misrecognition that takes place (for example, in how Bernanke applies the Mundell framework) allows the Fed to impose monetary economics constructs from above 'monologically'.[99] This is a

[97] Tully, 'Recognition and Dialogue: The Emergence of a New Field' (n 9) 87.

[98] Ibid 88.

[99] See P Allan and A Keller, 'Is a Just Peace Possible without Thin and Thick Recognition?' in T Lindemann and E Ringmar (eds), *The International Politics of Recognition* (Paradigm Publishers, Boulder, CO, 2007) 73; Tully, 'Recognition and Dialogue: The Emergence of a New Field' (n 9) 90.

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'handing down from on high rather than passing through a participatory process'.[100] This monological perspective and method of operation is not a feature peculiar to Bernanke or the Fed, but rather a natural by-product of the rational actor formalist rationality that dominates macroeconomic thinking and monetary policy decision methodologies. Through a monological administration,[101] the Fed can sweep the periphery countries into its own economic system – whose elements it represents as universal – by monetary policy edicts issued in the form of Fed proclamations. These edicts rest on numerous stated and unstated economic constructs and are communicated in many forms, including Federal Open Market Committee (FOMC) Statements, FOMC Minutes, Fed speeches, FRB papers, G-20 presentations, and press conferences. Recognising how monological administration takes place in these edicts and seeing the difference in a dialogical norm formation process are critical components in applying the recognition framework to the monetary arena. Under an open dialogical process, all countries would have a forum to challenge both the policy edicts and underlying economic constructs and thereby be protected against being ignored in an abstract, aggregated calculus. The give and take of the dialogical process in renegotiating the norms in particular circumstances provide the comprehensive empirical assessments and increased mutual self-understanding that is critical to conflict avoidance and a stable monetary order. An inclusionary norms of recognition regime implemented dialogically, provides for a full recognition of other countries[102] and a proper circumscription of the dominant actor position. Of particular importance to the monetary realm, Tully's form of recognition theory underscores the reality that the outcomes of struggles for recognition and dialogue are rarely final or definitive. The struggle for recognition is an ongoing process as monetary arena circumstances change and thus the dialogue must remain always open. As Tully puts it, '[A]n institution must always be open to the partners in practice of governance to call into question and renegotiate freely the always less than perfect norms of mutual recognition to which they are subject and be able to negotiate without recourse to force.'[103]

Recognition theory thus entails the realistic concession that reasonable disagreements are likely to remain a permanent feature of a regime such as the global monetary system where there are no laws but rather only circumstance-conditional economic conventions facing constantly

[100] Tully, 'Recognition and Dialogue: The Emergence of a New Field' (n 9) 91.
[101] Ibid 93–4.
[102] Allan and Keller (n 99) 71–2.
[103] Tully, 'Approaches to Recognition, Power and Dialogue' (n 9) 85.

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changing circumstances. The recognition struggle as Tully sees it thus incorporates a process of endless revisability, requiring continued open dialogue among disagreeing parties seeking to achieve the best decisions possible, respecting legitimate differential and competing interests. It recognises that ignoring this principle (e.g., through monological imposition by the dominant partner) leads only to further antagonism, instability and conflict. This idea of endless revisability is key in the monetary arena because the economic constructs that govern the consensus formation are always circumstance-dependent rules of thumb, not universal laws, and thus in need of constant review.[104] It should be noted that Tully underlines another key point that a dialogical, negotiative process of understanding others is not only obligatory in establishing inclusionary norms of recognition but also essential to ensuring mutual recognition.[105]

As I wind up the discussion of dialogical mode, I would be remiss in failing to note the potential application of Jurgen Habermas's constructs in designing an alternative analytical framework for the monetary realm. The many parallels with his work are evident. He too has notably advocated a non-nationalistic perspective and his frameworks explicitly address the threat of an unconstrained dominant actor. Further, the open dialogue of norm renegotiation that I develop here might be seen as an approximation of the ideal speech situation of Habermas's communication ethics: using recognition frames. For Habermas, '(open dialogue means that the discourse is) immunised against repression and inequality in a special way'.[106] This immunisation of repression and preservation of equal status is quite similar to Tully's rule of protected open dialogue. However, Tully and other theorists seem a better starting point for our initial proposal for the monetary arena. Habermas – looking mainly at political and not economic networks – might be willing to admit a certain finality of the open dialogue process, such as seen in his concerns for 'enduring controversy' and 'dissensus'.[107] Although this point would require more discussion, these concerns seem to cut against 'rejection of finality' and 'endless revisability' of Tully that are critical in the monetary realm because, as we have seen,

[104] See the discussion of the conditional nature of rules of thumb in J Feldmann, 'A Social Contract and Rules of Practice for the Fed' (2016) 99(1) *Soundings* 1.

[105] Tully, 'Recognition and Dialogue: The Emergence of a New Field' (n 9) 88.

[106] J Habermas, *The Theory of Communicative Action: Volume One—Reason and the Rationalization of Society*, translated by Thomas A McCarthy (Beacon Press, Boston, MA, 1984).

[107] L Thomassen, 'A Bizarre, Almost Opaque Practice: Habermas on Constitutionalism and Democracy' in L Thomassen (ed), *The Derrida-Habermas Reader* (University of Chicago Press, Chicago, IL, 2006) 178–80.

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circumstances, rules, and consensus are never going to be final and fixed. Rather, the operative rules are embedded in a consensus built around circumstance-contingent economic constructs and methodologies. As circumstances change, the economic constructs and norms will endlessly need revising, and always in the full light of day. In addition, Habermas's concern for 'dissensus' is not so much an issue in the monetary realm because participation in the monetary system is in the end voluntary. If dissatisfied, a party can, though not without difficulty, minimise contact with – and thus the influence of – a particular monetary regime, such as by reducing the US dollar in favour of the euro, yen, or eventually the yuan/reminbi. This is admittedly an all too brief treatment of the potential implications of Habermas's work in any rethinking of monetary system. His early work on the potential problems of the European currency union revealed that he shared the central concerns of the EME case, that a dominant monetary policy would remove the capability of subordinate states to 'macroeconomically steer' necessary economic adjustments.[108] This short excursus is only to concede that Habermas should be engaged in future studies of the proper constitution of a global monetary system.

Recognition principles: Constituting a stable monetary order

Following the line of reasoning of Pierre Allan and Alexis Keller on a just peace, a recognition process that would bring about a stable international monetary order would take account of four principles of recognition: a thin theory of recognition, a thick theory of recognition, renouncement, and rules.[109]

The distinction between a thin and thick recognition is an important one for understanding the disagreement discussed above between Bernanke and Rajan at the Brookings Institution in April 2014 regarding the appropriate empirical assessment. As might be seen, Bernanke basically follows the thin theory and Rajan the thick theory. Per Allan and Keller, a thin theory is in place where the right of a member to exist as independent is recognised and there is a formal recognition of the potential for the differential experience of changing circumstances. But there is not a requirement on the parties substantively to recognise the particularities of other members – or potential negative effects of policy actions. The thin theory of recognition is approximately what exists today in the global monetary system from the point of view of the Fed as dominant actor. The other members of the monetary regime are minimally recognised by

[108] J Habermas, *The Postnational Constellation: Political Essays*, edited by Max Pensky (Polity, Cambridge, 2001).

[109] Allan and Keller (n 99) 72ff.

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the Fed, as having standing as independent, autonomous participants, sufficient for them to be represented deterministically and reductionistically in Fed models. Furthermore, each member is expected to look out for itself. Recall the Bernanke claims that emerging markets have free choice and all the tools they need to address excess demand in their countries. However, we saw that Rey called misleading the Mundell-Fleming hypothesis that each country is theoretically autonomous and independent with its own monetary tools. So a thin theory assumption is arguably insufficient in the light of the current facts.

A fundamental tenet of recognition theory is that the dominant party must not only acknowledge the existence of others but must also have a thick understanding of the other member countries – and subgroups – in terms of their cultural, political and economic essentials.[110] The detailed empirical assessment envisioned in thick theory descriptions would bring out the needed information on the detailed inner workings of the periphery members and, in Rajan's terms, avoid missing the elephant in the room. A thick theory of recognition means that the potential threats, harms, or difficulties created by the dominant policymaker and impacting other members are not only known intellectually, but, importantly, are empathetically taken into account. A thick theory of recognition thus involves a mutual empathy, an 'inter-subjective consensus of what each side profoundly needs to remain self', in other words, to maintain its socio-cultural stability and political economic identity and integrity.[111] And as we have seen, identity and integrity are clearly at risk in a non-empathetic imposition of monetary policy by an unnoticing dominant actor.

As envisioned by Allan and Keller, a thick theory of recognition would produce a sense of mutual empathy so that 'red lines' would not be crossed and subgroup essentials would not be threatened.[112] Under a thick theory of recognition the Fed would be fully cognizant of the negative effects of an expectable commodity price shock that exchange rate fluctuations would cause in the lives of vulnerable subgroups in the global population that are missed in aggregative calculations.

A thicker, more qualitative, empathetic sort of assessment of the effects of these Fed decisions would entail regular analyses of the impacts of US monetary policy on the prices of necessity commodities around the world, such as an examination of the effects of monetary policy on world staples like palm oil, corn, soybeans, rice, etc. The experience in world

[110] Ibid 77.
[111] Ibid 72.
[112] Ibid 77.

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food prices post QE provides an important example of harms that can occur from a monetary policy that fails to consider the full array of negative global effects. Take India as an example of how subgroups can be ignored in an abstract, aggregated calculus and would benefit from a thick theory norm of recognition. A thick narrative description would reveal how devastating a dramatic increase in the costs of essential foodstuffs (of the sort researchers attribute to Fed monetary policy) would be to the Indian agricultural labourers who constitute hundreds of millions of the Indian population and for whom food is 67 per cent of the household budget.[113] Without this essential detail it is not possible for the Fed to fully comprehend the linkages and negative effects that broader empirical assessments could incorporate such as, for example, in Rajan's narrative. The thin recognition of Bernanke's aggregative calculation, which rests on the fact that EME aggregate GDP growth had increased, would give no indication of the harmful effects that were being produced to individual countries and subgroups in the EME by Fed monetary policy. A lack of detailed information and misleading aggregative abstract conceptualisations can facilitate a neutralisation of empathy and a misrecognition and minimisation of others' identities and interests, even among those of benign intent. With misrecognition, as Jade Schiff warns, 'it is easier to see suffering as having nothing to do with us – indeed, not to see it at all'.[114]

A thick theory of recognition also facilitates coordination and the achievement of jointly optimal outcomes. By undertaking the more detailed and nuanced empirical assessment of the thick recognition and having an empathetic understanding of each member's essentials, the dominant party would come to understand the ways in which it is similar and connected to – and even reliant upon – all of the other members in order to make the global monetary system work. This leads to an appreciation of interdependency and potential for mutual benefit, the basis for cooperative decision-making and jointly optimal outcomes as advocated by Rajan, Eichengreen and others. The thin theory unfortunately does not lead to any notion of interdependency or the idea of mutual benefit; from the thin theory perspective coordination is in Bernanke's words, 'pie in the sky'.

[113] D Dasgupta, RN Dubey and R Sathish, 'Domestic Wheat Price Formation and Food Inflation in India: International Prices, Domestic Drivers (Stocks, Weather, Public Policy), and the Efficacy of Public Policy Interventions in Wheat Markets' (Working Doc No 2/2011-DEA, Department of Economic Affairs, Ministry of Finance, Government of India, 2011), 1 <http://finmin.nic.in/workingpaper/Domestic_Wheat_Price_Formation_Food_Inflation_India.pdf>. For a general discussion of Fed monetary policy effects on commodity prices, see Krichene (n 21).

[114] Schiff (n 83) 118.

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Rajan and the other Fed critics clearly want to go beyond the thin theory as seen in his sharp criticism of the current monetary realm as a non-system, 'my call is for more coordination in monetary policy because I think it would be an immense improvement over the current international non-system'.[115] Rajan has in mind the constitution of an inclusionary monetary system with responsibilities, conventions, rules, and ways to register complaints more fully mapped out.

The thick theory, in the end, requires and rests on James Tully's concept of dialogical mode: open ended and endlessly revisable. The empirical assessment that Allan and Keller propose requires a dialogical modality by which all parties have an equal chance to have their positions heard in their own terms and against their own standards as to what constitutes negative effects. With a thick assessment, the dominant large country central banks would no longer be free to monologically impose the empirical assessments or economic theorems to be used such as in Bernanke's conceptualisations in the Mundell-Fleming lecture. The Tully dialogical mode of endless revisability with no finality helps to ensure an extended conversation and a thick recognition of political and economic essentials. In this sort of framework one can see how the thick theory, dialogical modality, interdependency, and cooperative intent all work together in constituting a reformed monetary system.

The thick theory requirements draw into serious question whether aggregative econometric models are suitable for setting monetary policy in a complex global economy. Instead they suggest that a more comprehensive empirical assessment like Rajan's might better account for assessing the full consequences of policy actions. This is essentially the issue that Rajan was raising in saying that current norms of recognition are missing the elephant in the room. Despite such criticisms, if the 2015 Mundell Fleming speech is indicative, Bernanke seemingly remains absolutely committed to the theoretical methodologies of 'economic science' that he set forth in his 2010 speech.[116]

Renouncement and rule: The other key principles of recognition theory

According to Allan and Keller's principles of recognition, there are two other requirements for a stable order. They term these principles *renouncement* and *rule*. Under the renouncement requirement Allan and Keller offer an important insight, namely that for a stable order to exist, the dominant policymaker must not only fully understand the other but

[115] Rajan (n 16) 4.
[116] Bernanke (n 58).

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also be open to – and even ready to make – concessions or compromises in favour of the other.[117] (This of course flies in the face of the rational actor model so essential in current economic constructs.) Conflict theorist Thomas Lindemann captures this same insight in his idea of 'conciliatory recognition'.[118] They envision a world order of unequal parties in a constant negotiation (similar to Tully), where to achieve stability the dominant party must confer equal status on other members of the practice for purposes of the open dialogue and at least be willing to sacrifice what it may consider its priorities and maximal outcomes. Renouncement is a foundational inclusionary norm of recognition.

Rajan seems to be seeking this sort of conciliatory recognition in the monetary realm in the request for a specific new convention to avoid and thus internalise spillovers.

> I propose that large country central banks … [be] forced by new conventions or the 'rules of the game' to avoid unconventional policies with large adverse spillovers and questionable domestic benefits.[119]

Avoidance of spillovers would often require concessionary formulations and a sacrifice of optimal outcomes by the dominant party. What Rajan and the Brookings report are calling for in the discussion of spillovers is that the dominant central banks internalise, that is, admit the negative consequences and absorb more of the economic pain rather than exporting it to the smaller less-developed countries. As we saw, at this point Bernanke's view is that this is pie in the sky. But Bernanke might reconsider his position if he took into account long-term negative consequences and the nuances of recognition theory, under which a dominant party would not necessarily be expected to make concessions if its own identity or integrity is threatened; the important thing is to narrow the grounds of 'reasonable disagreement'[120] as much as possible.

The fourth principle of recognition theory that Allan and Keller propose is the requirement of 'rule'. The requirement that they are getting at is respect for the idea of rule itself – the commitment to a rule-informed practice. It is essential that this commitment to rule be honoured even when outcomes might not go the actor's way. Tully's ideas of endless revisability and rejection of finality both depend on and provide support for a rule-committed process. Even compromises of interest would not ensure that a permanent consensus

[117] Allan and Keller (n 99) 78.

[118] Lindemann, 'Peace through Recognition: An Interactionist Interpretation of International Crises' (n 1) 68.

[119] Rajan (n 16) 4.

[120] Tully, 'Recognition and Dialogue: The Emergence of a New Field' (n 9) 95.

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on specific rules could ever be reached. The idea of rule is especially important in a voluntary network such as the monetary system where there will likely never be written and enforceable rules.

In terms of specific rules, it is worth pointing out that renouncement and rule come together in the avoidance of spillovers. The renouncement that is sought – an internalisation of some of the negative effects – would become a new rule of the game, a new norm of recognition. Rajan is saying that there are implicit rules in monetary policy that the largest central banks, the dominant reserve currency banks, should be observing. The periphery members should be able to rely upon the dominant party to respect this basic rule-oriented framework.

Rajan's vision for a coordinated global monetary regime and an updating of rules gets close to the dialogical mode that Tully seeks to institutionalise. One question that arises is whether Rajan's request for updated rules is truly an appeal for a global perspective or simply in India's self-interest.[121] Rajan anticipates the charge of potential self-interest and claims the high ground. 'My remarks are motivated by the desire for a more stable international system, … not the specifics of our [India's] situation.'[122] Thus the content of rule that Rajan advocates is not seemingly self-interest oriented but rather what General Director of the Bank for International Settlements Jaime Caruana has referred to as the rule of 'international perspective'.[123]

In Practice. Can this more extensive recognition approach work in practice in crisis conditions? This is an important question inasmuch as a crisis is often the justification for reducing the consequences that must be taken into consideration. We can look at the recent financial crisis to see if Bernanke and the Fed would have been able to react under the recognition-based monetary policy formation framework that I have suggested. First of all, the word crisis suggests a need for immediate action – no time for prolonged assessments and discussions. However, the idea of crisis as necessarily time urgent must be looked at closely with regard to financial crises. It is important to recall that the failure of Lehman occurred in

[121] Under recognition theory, the attempt by Rajan to get the dominant actor to engage in dialogue and concession interest could be criticised as simply an example of a 'masked interest' inasmuch as Rajan is presenting the case on behalf of the weaker actor, the EME, so he has more to gain by dialogue and change of rules. See T Lindemann and A Giacomelli, 'Recognition Theory and Material "Interests" in Humanitarian (Non) Intervention', Mimeo (presented at a conference in July 2014, unpublished).

[122] Rajan (n 16) 1.

[123] J Caruana, 'Policymaking in an Interconnected World' (Speech delivered at The Federal Reserve Bank of Kansas City's 36th Economic Policy Symposium on 'The Changing Policy Landscape', Jackson Hole, 31 August 2012) 5–6.

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September 2008 but there were clear signals in 2005 and major bankruptcies in 2007.[124] The Fed received warnings, which it minimised and dismissed. For example, in May 2007 Bernanke was still maintaining 'we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system'.[125] The initial QE policy action was not taken until November 2008, well over a year later. Furthermore, there was ample time to reconsider its policies even after the policies were initiated. The initial stages of QE1 programme initiated in November 2008 consisted of monthly purchases of $30 billion to be continued over 20 months. The policy could have been modified at any time. QE2 did not begin until 2010 and QE3 not until 2012. There was time for the Fed to conduct proper analyses of the global effects of QE – and to recalibrate as necessary. The point is there was not an environment of immediacy usually conveyed in the term crisis. There would have been time for a thorough recognition analysis with appropriate revisions of policy. Fed policymaking could have benefited from listening to and engaging in dialogue with EME central bankers and outside theorists along the way rather than rejecting the criticisms and alternative assessments presented by the EME. In this case, and often in monetary matters more generally, there is really no immediate crisis in the conventional sense of the term – or necessarily an urgent need of response. Monetary policies are deployed over a long time, and there is time to review and adjust. So I would argue that the recognition framework based on thick assessments and open dialogue described above is feasible and would have time to be deployed. As far as the feasibility of institutionalising the recognition framework, the Brookings report *Rethinking Central Banking* called for a formal mechanism whereby central bankers of the larger countries would pay more attention to 'the complicated and interconnected world that we now live in'[126] and the effects of policies on the rest of the world.[127]

III. Concluding thoughts

This analysis of the recent monetary conflict demonstrates that the global monetary system constitutes an arena of contestation in international

[124] See the Final Report of the Financial Crisis Inquiry Commission, issued pursuant to Public Law 111-21 (January 2011) at <http://fcic-static.law.stanford.edu/cdn_media/fcic-reports/fcic_final_report_full.pdf>.

[125] B Bernanke, 'The Subprime Mortgage Market' (Speech delivered at the Federal Reserve Bank of Chicago's 43rd Annual Conference on Bank Structure and Competition, Chicago, 17 May 2007), <http://www.federalreserve.gov/newsevents/speech/bernanke20070517a.htm>.

[126] (n 22) 35.

[127] Ibid 35.

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relations. The picture presented by the EME critics is of a dominant actor, the Fed, overlooking the elephant in the room maintaining a US-centric perspective, unjustifiably dismissing criticisms and appeals for cooperation. The work of Helene Rey and others show a Fed using 'misleading' economic constructs, incorrectly assuming each EME member is able to conduct independent monetary policy. Under their research, the US dollar and Fed policy are shown to be so dominant that there is little EME policy autonomy, and the need to counter Fed spillovers effectively drives monetary policy and shapes the political economy in the EME economies. With no officially constituted regulatory mechanism,[128] Fed monetary policy edicts can be imposed monologically with no chance to register complaints or participate in open dialogue.[129] The monetary arena is in the words of Rajan a 'non-system', precariously unstable and awaiting future crises. The analysis describes the current conflict in terms of a struggle for recognition with the Fed's dominant position supported by exclusionary norms of misrecognition.

In response, I describe a recognition framework for monetary policymaking. Under a recognition analysis, the EME is seen as calling for a constitutional change in the global monetary system built around a set of inclusionary norms of recognition. These would include a qualitative empirical assessment, a thick recognition of political and economic essentials, a cooperative and conciliatory posture of mutual renouncement, and participation in setting the rules of the game as changing circumstances require. And all to be bound up in in a rule of respect for a process of open-ended dialogue and endless revisability for negotiating and renegotiating norms of recognition. Together these processes would form a basis for reconstituting the monetary realm around ideas of mutual recognition, interdependency, and a global perspective. This contrasts with the current approach that is rooted in traditional economic constructs with each nation state basically on its own and expected to maximise its own self-interest. As a counter to this viewpoint, the principles of recognition involve a process whereby the dominant party might come to understand the other members of the mutually supported network. In coming to understand others, the dominant actors may also come to understand and redefine their own role and identity more in terms of the responsibilities of dominant actors.[130] The initial challenge confronting the Fed and other dominant members of the global monetary system is that of putting domestic interests aside and committing to a change in perspective and a reconstituted global monetary system.

[128] Slaughter (n 14) 19.
[129] (n 22).
[130] Allan and Keller (n 99) 74, 77.

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