Globalizing Capital: A History of the International Monetary System, Second Edition

Barry Eichengreen
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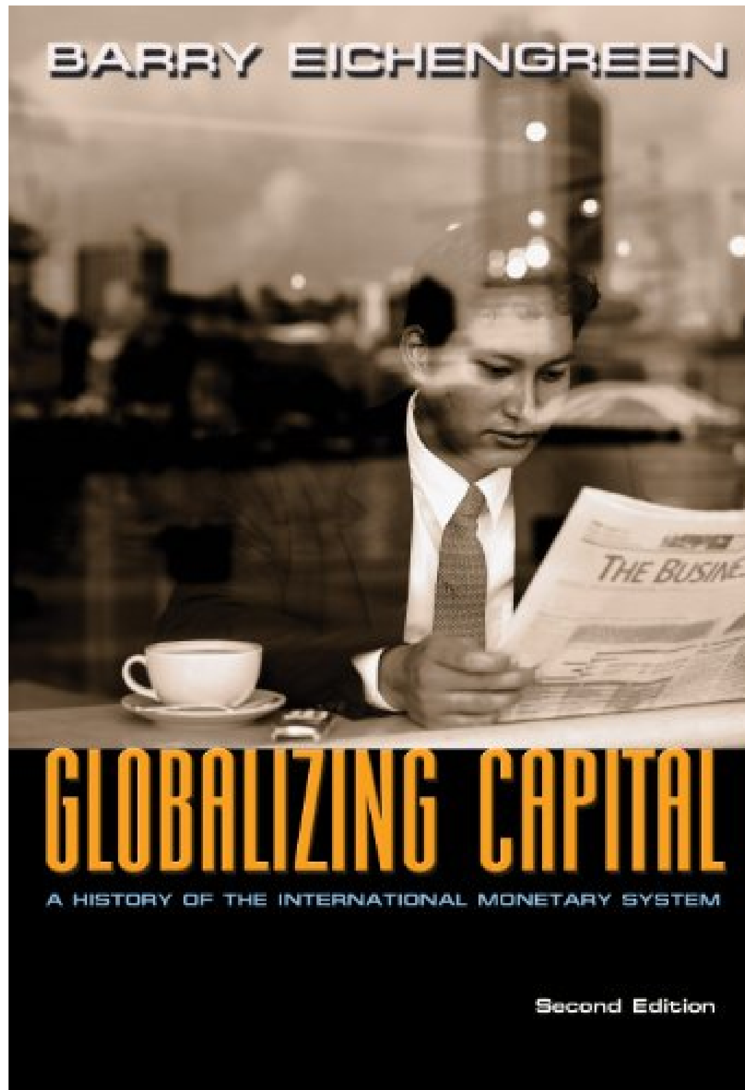

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Barry Eichengreen : Globalizing Capital: A History of the International Monetary System, Second Edition before purchasing it in order to gage whether or not it would be worth my time, and all praised Globalizing Capital: A History of the International Monetary System, Second Edition:

6 of 7 people found the following review helpful. You can't have-your-cake-and-eat-it-tooBy T. GraczewskiA dilemma rests at the heart of the international monetary system. A stable and predictable international currency regime is a necessary catalyst to international trade. So too is capital mobility, allowing the efficient allocation of foreign investment and spurring global economic growth. The rub is that high capital mobility tends to undermine stable,

predictable currency exchange rates.Is it possible to have a stable exchange rate regime and high capital mobility, combining to promote international trade and global economic growth, the proverbial rising-tide-that-lifts-all-boats? "Yes," says distinguished economist Barry Eichengreen in "Globalizing Capital: A History of the International Monetary System." Paradoxically, the one modern period that witnessed precisely such a mutually reinforcing regime was the gold standard era (1870-1913), a system shunned today as archaic, if not asinine.The gold standard was an "accident of history" according to the author, the result of England's unilateral decision to adopt only gold convertibility for the pound in the early nineteenth century. Given British economic dominance in the early industrial era, a network effect took hold as other nations adopted gold as a means to lubricate the movement of goods and money with the British capitalist dynamo. By 1870, the world's leading economies had converged on a gold standard.Eichengreen stresses that this system was effective only because governments were committed and able to defend their currency pegs to gold by raising interest rates and/or cutting domestic spending to defend against devaluation. Two facts contributed to this ability to defend the currency. First, the domestic macroeconomic impact of monetary and fiscal policy was poorly understood. For instance, there was little appreciation that raising domestic interest rates would dampen business investment, leading to a rise in unemployment. Second, and related to the first, the author notes that workers and labor groups had limited political power during this period and thus could not put pressure on governments to take policy actions that staved off unemployment rather than currency devaluation, even if they had understood the relationship. Because governments had a free hand to take whatever necessary policy steps to keep the currency in line, international investors made moves that worked as self-corrected capital flows. If a currency looked overvalued and devaluation against gold appeared likely, foreign capital would flood into the country anticipating a rise in domestic interest rates to defend the currency. Eichengreen writes that these reactions were so quick and thorough that the imbalance often corrected itself without government intervention: "Knowing that the authorities would ultimately take whatever steps were needed to defend the convertibility, investors shifted capital toward weak-currency countries, financing their deficits even when their central banks temporarily violated the rules of the game."In the post-gold standard world the opposite was the case. And, in a sense, Eichengreen seems to argue that world political and economic leaders have been searching in vain for a full century now for a system that worked as well as the gold standard, at least from the perspective of promoting trade, stable exchange rates and capital mobility.The brief and volatile period following the First World War when exchange rates were allowed to float spooked treasury officials and politicians for at least a generation. "Past experience," he tells us, "continued to shape - some would say distort - contemporary perceptions of the international monetary regime." The British and others went to such herculean efforts to reintroduce gold at the pre-war exchange rate precisely because they believed it was the only tonic to soothe the dizzying gyrations and hyperinflation of the early 1920s. But, as the author stresses, the political landscape had fundamentally changed. Going back to the "good old days" of gold was not an option. Newly empowered labor unions and worker-friendly political parties began to flex their muscle, fighting hard to keep interest rates low and social benefits flowing from the central government, actions that were almost certain to lead to a weakened currency on the global market. And once investors lost faith in a country's ability and willingness to defend their currency, capital mobility exacerbated the currency's weakness, rather than mitigating that weakness as it had during the gold standard when government defense of convertibility was a given. Once the macroeconomic indicators hinted that a currency would need to be devalued, capital flight out of the country and currency was the response, accelerating the devaluation that investors feared and the governments were increasingly unable to counteract.The world's leading economies wrestled with the issue again in the wake of the Second World War. The proposed answer was the Bretton Woods System, an approach that Eichengreen scoffs at, still an "enigma" today. Bretton Woods departed from the traditional gold standard in three substantive ways: 1) pegged exchange rates became adjustable, but only in response to an ill-defined "fundamental disequilibrium"; 2) capital controls were implemented to thwart the flow of money; and 3) a new institution, the IMF, was created to extend balance-of-payments financing to at-risk countries. The author practically guffaws at the absurdity of Bretton Woods: "The belief that this system could work was extraordinarily naiuml;ve"..."the marvel is that it survived so long."At the heart of the trouble was the so-called Tifflin Dilemma - the destabilizing tendency of the Bretton Woods System to meet demand for reserves through the growth of foreign dollar balances. By 1960, foreign US dollar holdings eclipsed domestic US gold reserves. The imbalance only grew as Washington printed dollars to fund major social programs and fight the war in Vietnam. By the early 1970s the system was dead."The quarter-century since the collapse of the Bretton Woods System," Eichengreen writes,"brought frustrated ambitions and uncomfortable compromises." "Efforts to reconstruct a system of pegged but adjustable exchange rates [European Monetary System, the Snake, etc.] failed repeatedly. At the root of that failure was the ineluctable rise in international capital mobility, which made currency pegs more fragile and periodic adjustments more difficulty." This combination of high capital mobility and international trade growth has pushed countries inexorably in the direction of free floating currency exchange rates. Today, as many as 30% of currencies float with more being added; a decade ago only about 10% were.The dour conclusion of "Globalizing Capital," it seems to me, is that you-can't-have-your-cake-and-eat-it-too, a problem that is particularly acute with Americans. We want low taxes, low interest rates, a strong military, government services-a-plenty, a balanced budget,

and a trade surplus. Well, you can't have it all - or at least not forever. By and large, we HAVE been having-our-cake-and-eating-it-too. We've been funding our insatiable appetite to consume with household savings from Asia. Or as Eichengreen cleverly puts it: "The United States in effect had a comparative advantage in producing and exporting liquid financial assets, while China had a comparative advantage in producing and exporting manufactured goods."A couple of additional thoughts in closing. "Globalizing Capital" is a well structured and relatively concise history of the international monetary system, but it is not a breezy read. The book includes a helpful glossary of economic terms and the target audience feels to be undergraduate economics majors. It is accessible enough for any educated layman, although the writing at times is densely academic. I had been hoping for a tight and sharp history, particularly an explanation of the workings of the gold standard, something like an extended profile in "The Economist" magazine. This book is not that, unfortunately. I certainly learned a few things and the main themes were evident enough; it was just more of a trial to read and digest than I would have preferred.0 of 0 people found the following review helpful. Better than expectedBy Patrick SI read this for a grad class in international finance and it was surprisingly readable after the first few chapters. A very good history of the last 150 years or so of global trade.0 of 0 people found the following review helpful. Five StarsBy jegVery nice, as described fast delivery.

First published more than a decade ago, Globalizing Capital remains an indispensable part of the economic literature today. Written by renowned economist Barry Eichengreen, this classic book emphasizes the importance of the international monetary system for understanding the international economy. Brief and lucid, Globalizing Capital is intended not only for economists, but also a general audience of historians, political scientists, professionals in government and business, and anyone with a broad interest in international relations. Eichengreen demonstrates that the international monetary system can be understood and effectively governed only if it is seen as a historical phenomenon extending from the period of the gold standard to today's world of fluctuating prices. This updated edition continues to document the effect of floating exchange rates and contains a new chapter on the Asian financial crisis, the advent of the euro, the future of the dollar, and related topics. Globalizing Capital shows how these and other recent developments can be put in perspective only once their political and historical contexts are understood.

Praise for the first edition: "This book by a prominent historian is a succinct and well-written history of the international monetary system. . . . [It] provides useful historical background for understanding current European efforts to create a monetary union."--Richard N. Cooper, Foreign AffairsPraise for the first edition: "Capital flows in the recent period, unlike those in the earlier one, proved to be incompatible with exchange rate stability. [Eichengreen's] reasons for the difference . . . constitute a unique insight and contribution."--ChoiceFrom the Back CoverPraise for the first edition: "Eichengreen's purpose is to provide a brief history of the international monetary system. In this, he succeeds magnificently. Globalizing Capital will become a classic."--Douglas Irwin, author of Against the TideAbout the AuthorBarry Eichengreen is the George C. Pardee and Helen N. Pardee Professor of Economics and Political Science at the University of California, Berkeley. His books include "Golden Fetters" and "The European Economy since 1945" (Princeton).