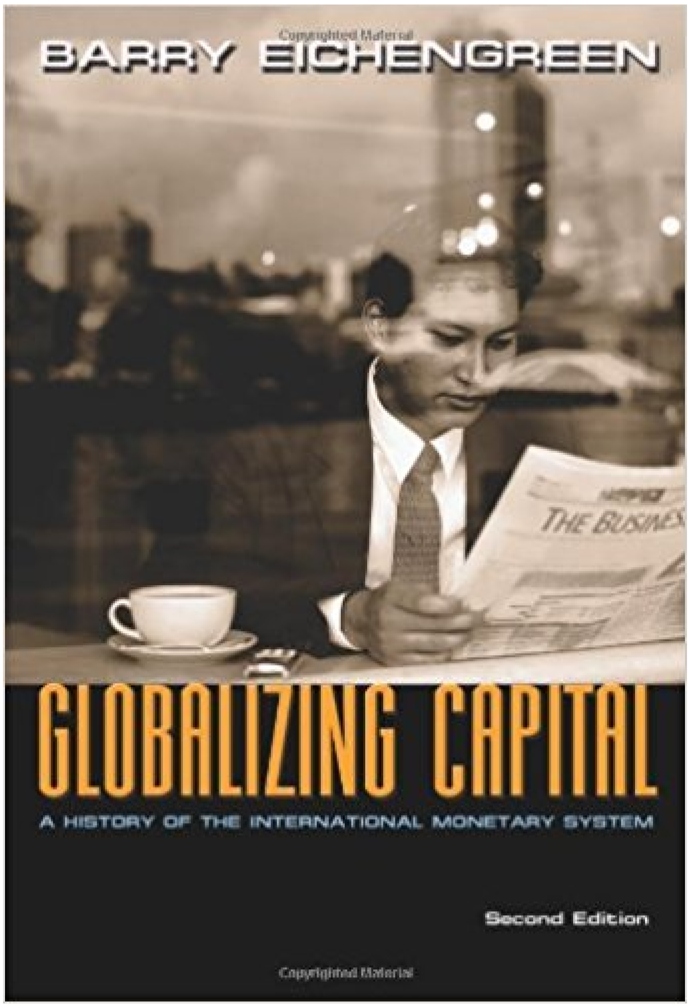
Globalizing Capital: A History Of The International Monetary System, Second Edition



Synopsis

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.

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Customer Reviews

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."--Choice

Praise 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 Tide

A 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

I 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.

Very nice, as described fast delivery.

Simple, realistic and easy way to understand the global monetary system without be marriage with ideals or doctrines, just facts

indepth reading

Eichengreen’s analysis is very thorough. He provides a very rich explanation for the reasons why countries moved from bimetallism to the gold standard, and from fixed exchange rates to floating exchange rates. The book covers very heavy, and sometimes dry, subjects but is overall very useful for understanding a globalized world and the effects of globalization on capital. I highly recommend this book as an introductory book for understanding international political economy.

Mr. Eichengreen has written a very informative book on the global financial system starting with the pre World War I (often called classic) gold standard. This work is extremely well referenced with a truly astounding number of sources, both in the footnotes and in the bibliography at the end. Mr. Eichengreen has also provided a very informative glossary at the end of the book.Mr. Eichengreen starts by describing the pre World War I gold standard. He demonstrates that this gold standard came in being rather accidentally. The authorities in England without detailed market knowledge overvalued gold coin in respect to silver. Thus gold became the currency of the realm. Later problems with bimetallism (use of silver coin as well as gold) became apparent and caused the United Kingdom and other countries to go on the gold standard.The author demonstrates that the pre World War I gold standard with its currencies pegged to gold was a historically specific institution. The United Kingdom was the major industrial power of the era. Its central bank stood ready to take action to ward off any financial threats to the gold standard. The central banks of the major European powers cooperated with the Bank of England to help maintain the pegged exchange rates of the gold standard. Any European country whose imports lagged exports and was having trouble meeting demand for its gold reserves could depend on the aid of the central banks of Europe. The conditions for this gold stand did not exist after 1914.Mr. Eichengreen demonstrates that fixed exchange rates including in particular the gold standard rates depend on international cooperation to succeed. The the pre World War I gold standard and the Bretton Woods system of exchange rates lasted as long as they did because of the extensive cooperation between the major industrial and financial powers within the systems. In the Bretton Woods system in particular there was a large degree of cooperation and mutual aid among the financial authorities.In essence fixed exchange rates fail because of the movement of capital. Capital flows of investment and speculative funds from one country to another are not like the trade in goods. Capital funds are unpredictable and subject to sudden change. These funds make the maintenance of fixed exchange rates virtually impossible. There is too much speculation against the weakest currency.Mr. Eichengreen also wrote chapters on the failed gold standard of the 1920s and 1930s which lead to the Great Depression, and the system of floating exchange rates after 1971 when the Bretton Woods system dissolved. The latter period encompassed exchange rate difficulties in several developing countries and their resolution. Also described is the integration of much of Europe into a single currency area to escape floating exchange rate fluctuations.This work is a very thorough and informative resource. I did find the extensive discussion of the European attempts at monetary integration prior to the euro somewhat long winded. However I guess this is part of the story.This book is excellent and should be read by all economics students.

Great book. Moves a little quickly, but it is meant to be a brief history. I would love for the author to write something like this and expound on each subject a little bit more.

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