This history of the international monetary system is short in two senses of the word. First, I concentrate on a short period: the century and a half from 1850 to today. Many of the developments I describe have roots in earlier eras, but to draw out their implications I need only consider this relatively short time span. Second, I have sought to write a short book emphasizing thematic material rather than describing international monetary arrangements in exhaustive detail.

I attempt to speak to several audiences. One is students in economics seeking historical and institutional flesh to place on their textbooks’ theoretical bones. They will find references here to concepts and models familiar from the literature of macroeconomics and international economics. A second audience, students in history, will encounter familiar historical concepts and methodologies. General readers interested in monetary reform and conscious that the history of the international monetary system continues to shape its operation and future prospects will, I hope, find this material accessible as well. To facilitate their understanding, a glossary of technical terms follows the text: entries in the glossary are printed in italics in the text the first time they appear.

This manuscript originated as the Gaston Eyskens Lectures at the Catholic University of Leuven. For their kind invitation I thank my friends in the Economics Department at Leuven, especially Erik Buyst, Paul De Grauwe, and Herman van der Wee. The Research Department of the International Monetary Fund, the International Finance Division of the Board of Governors of the Federal Reserve System, and the Indian Council for Research on International Economic Relations provided hospitable settings for revisions. It will be clear that the opinions expressed here are not necessarily those of my institutional hosts.

Progress in economics is said to take place through a cumulative process in which scholars build on the work of their predecessors. In an age when graduate syllabi contain few references to books and articles written as many as ten years ago, this is too infrequently the case. In the present instance I hope that the footnotes will make clear the extent of my debt to previous scholars. This is not to slight my debt to my contemporaries, to whom I owe thanks for
comments on previous drafts. For their patience and constructive criticism I am grateful to Michael Bordo, Charles Calomiris, Richard Cooper, Max Corden, Paul De Grauwe, Trevor Dick, Marc Flandreau, Jeffry Frieden, Giulio Gallarotti, Richard Grossman, Randall Henning, Douglas Irwin, Harold James, Lars Jonung, Peter Kenen, Ian McLean, Jacques Melitz, Allan Meltzer, Martha Olney, Leslie Pressnell, Angela Redish, Peter Solar, Nathan Sussman, Pierre Sicsic, Giuseppe Tattara, Peter Temin, David Vines, and Mira Wilkins. They should be absolved of responsibility for remaining errors, which reflect the obstinacy of the author.

The second edition of this book added coverage of the years 1996 to 2007. The key event of this period was the Asian financial crisis, in which exchange rates played a central role. It continued with European monetary unification, a development unprecedented in the annals of monetary history. The period also saw the emergence of developing countries as central players in the international monetary system. It is impossible to understand how the United States was able to run such large current account deficits for much of this period, for example, without reference to the developing countries that provided the bulk of the finance. Together, these developments—chronic U.S. deficits, the advent of the euro, and new consciousness of the capacity of emerging markets to shape the international monetary order—raise questions about the role of the United States and the dollar in international monetary relations going forward.

The events covered in this third edition, spanning 2007 to 2018, were even more dramatic and did even more to point up the limits of the international monetary system. The period opened with the Subprime Crisis in 2007 and the Global Financial Crisis of 2008–9. Capital flows between the United States and Europe having played a key role in these crises. Chapter 7 focuses on their role.

Next in line was the euro crisis at the end of 2009: In this case, it was not the exchange rate but lack of an exchange rate that was crucial. The euro first encouraged financial capital flows from the core to the periphery of the euro area; it then constrained the policy options available to the countries of the euro-area periphery once those flows collapsed. The question was whether Europe’s monetary union was fatally flawed and, if so, what consequences followed. It was whether the member states would be able to correct the shortcomings of their regional monetary arrangement or whether the problem would be “resolved” through dissolution of the euro area.

Central banks in Europe and the United States responded to these crises by cutting interest rates to zero and implementing unconventional monetary policies. This caused discomfort for emerging markets, which complained about the resulting capital inflows, exchange-rate overvaluation, and inflation; they accused the advanced countries of engaging in “currency wars.” Those
complaints led to a reassessment by the official community of policy toward international capital movements in general and capital controls in particular. And they prompted a reassessment of the merits of the prevailing dollar-based international monetary system. A notable change from earlier discussions was the prominence in these debates of the rising power. This experience left no doubt that China’s views will have to be reckoned with in the future.

As in the previous edition, I have again resisted the temptation to comprehensively revise earlier chapters, limiting myself to a few small changes for internal consistency. I am grateful to Cheryl Applewood and Peter Dougherty for help with the second edition and to Alison Rice-Swiss, Joseph Mendoza, Joe Jackson, and Cyd Westmoreland for help with the third. Michelle Bricker helped with everything, as always.

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