International Monetary Cooperation Since Bretton Woods

Harold James

Washington, D.C. International Monetary Fund and New York Oxford Oxford University Press

1**996**

•

•

Contents

•

		Page
For	reword	iii
Preface		v
Ab	breviations	xv
1	Interdependence in the World Economic System Responses to Internationalization 4 Disintegration and Integration 9 A New Disintegration of the International Economy 17	1
2	"Prosperity Has No Fixed Limits" Lessons of the Past 31 Preparing for Peace: The Challenge 33 The Evolution of Supra-Nationalism 39 Bilateral Agreement 45 Universal Institutions 48 Success at Bretton Woods 53	27
3	The Compromise Unravels The Past Re-Emerges 61 America Rethinks 64 Britain Collapses 67 The Soviet Hesitation 68 The Magic Fades 71 European Recovery 72 Political Blocs Emerge 77 The Death of Automaticity 78	58
4	Richesse Oblige: The Establishment of Convertibility The Dollar Shortage 88 Dollar Hegemony 90 Devaluations 91 European Payments Union in Practice 95 Great Britain Is Brought to Heel 99 France: La Grande Nation Stabilizes 103 A Model for Imitation 108	85

.

	German Surpluses 110 The Liberalization of the Japanese Economy 116	
5	Development and Bretton Woods The Clash of Ideas 124 The Sociology of Politics 129 The Politics of the International System 131 Approaching the International System 136 More Than Balance of Payments 142 Commodities 144 Reserves 145	120
6	The Heyday of Bretton Woods and the Reserve Debate Trade and Shocks 150 U.S. Deficits 154 U.S. Adjustment 157 The Outer Perimeter Defenses 159 The General Arrangements to Borrow 161 Reserve Creation 165	148
7	Surveillance, Growth, and Crisis The Euromarkets 179 Institutional Mechanisms 181 The United Kingdom and the Sterling Issue 183 The Problems of the Surplus Countries 191 The Battle of the Franc 193 Inflation as an International Phenomenon 197	175
8	The End of Bretton Woods? U.S. Deficits 207 Power and Economics 209 The International Exchange Rate System 213 German Unilateralism 214 The U.S. Response 216 The Final Crisis 218 A System Without Rules 219	205
9	Reform of the International Monetary System, or Nonsystem? Trade Liberalization 230 The Floating Option 234 The G-10 at Work 235 New Uncertainty 238 A Final Collapse 241 Institutional Reform 243 The Price Surge 251 A Temporary Halting of Reform 255	228

	Contents	xi
10	Personalities and Institutions: The Redesigning of the International Monetary Order An Insuperable Challenge 265 The Library Group 266 The Summit 267 The Second Amendment of the Articles of Agreement 270 The Industrial Countries Totter 277 The United Kingdom 279 Italy 283 Policy Divergence 285 International Linkage 289 A Global Solution 296 A European Initiative 297 The Crisis of the Dollar 303	260
11	The 1970s: Capital Markets Versus the New International Economic Order Distributing the Burden of Adjustment 312 Accepting Oil Deficits 316 Conditionality 322 Successful Adjustment 335 Quotas and the Size of the Fund 337	309
12	The Debt Crisis The Confidence of Bankers 351 The Interest Rate Shock 354 Commodity Shocks 355 Anticipatory Tremors 359 An East European Crisis 361 The Emergence of a Mexican Problem 362 Tackling the Mexican Crisis 367 A General Crisis? 374 Brazil 381 The Wider Crisis 385 A Systemic Crisis and a Systemic Solution 388 The Baker Plan 396 Debt Relief 399	347
13	Consensus in Cooperation and Its Fragility Supply-Side Economics 415 Policy Coordination 421 Greater Exchange Rate Stability 433 Indicators 440 The "Group of Two" and "Key Currencies" 446 Larger Stability 450 Crash 454 The Fading or Maturing of Coordination? 455	409

•

.

14	The Problems of the New Regionalism European Economics 475 Shocks and the CFA Franc 489 Currency Blocs 495 Asian Economics 496	4 67
15	Low-Income Countries and the International Financial System A Crisis of Growth 512 A Systemic Problem of Development 518 Arrears and the Fund 532 Hopes for Successful Adjustment 539	509
16	Plan or Price? The Transformation of Centrally Planned Economies Reform and Political Stability 553 The Long Path to Reform in Central Europe 558 A Model Reformer 563 Why Hesitate? 573 The Technical Support of Reform 576 The Soviet Crisis 576	547
17	From Bretton Woods to the Information Age The Historical Argument 586 The Problems 594 The Chances 599 The Consensus 601 The Overlap 617	586
Note	S	621
Bibli	ography	689
Inde	x	721
1-2 4-1 5-1 5-2 6-1 6-2 6-3 7-1	res Volume of World Trade in Manufactured Products 6 World Manufacturing and Trade 7 United States: Balance of Payments 119 Price Indices of World Trade 126 Drawings on the IMF as a Share of World Imports 138 Total World Reserves as a Share of World Imports 153 IMF Quotas as a Share of World Imports 154 World Reserves and Their Composition as a Share of World Imports 173 Consumer Price Inflation in United States, Japan, and Germany 198 Money Growth in United States, Japan, and Germany 199	

- 9-1 World Exports 252
- 10-1 World and U.S. Monetary Growth 262
- 11-1 International Capital Movements 319
- 11-2 Total IMF Credit Outstanding to Members 340
- 11-3 IMF Charges and Commercial Interest Rates 343
- 12-1 Real Non-Oil Primary Commodity Prices 356
- 12-2 Annual Net Resource Transfers: Argentina, Brazil, and Mexico 391
- 12-3 Foreign Direct Investment: Argentina, Brazil, Korea, Mexico, and Turkey 403
- 13-1 Cumulative Changes in Real Effective and Nominal Exchange Rates 412
- 13-2 World Economic Outlook: Projection Errors for GDP (Year Ahead) 443
- 14-1 European Community Exports as a Proportion of World Exports 472
- 14-2 Japanese Exports as a Proportion of World Exports 474
- 14-3 Exchange Rate Mechanism: Consumer Price Inflation 478
- 15-1 Gross Domestic Product Per Capita in Sub-Saharan Africa and Other Development Countries 518
- 16-1 Stylized Representation of Crisis, Adjustment, and Reform 584
- 17-1 IMF Quotas and the World Economy 604
- 17-2 Small IMF 618
- 17-3 Large IMF 619

Tables

- 9-1 Summary of Payments Balances on Current Account 232
- 9-2 Ratio of IMF Quotas to Selected Economic Indicators 233
- 14-1 Italy, Spain, and United Kingdom: Capital Inflows 480
- 15-1 Net Debt-Related Flows and Transfers to Severely Indebted Low-Income Countries 522
- 15-2 Arrears to the IMF of Countries with Obligations Overdue by More Than Six Months 533
- 17-1 Membership of International Organizations 602