Volume Title: Globalization in an Age of Crisis: Multilateral Economic Cooperation in the Twenty-First Century

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Volume Publisher: University of Chicago Press

Volume ISBN: cloth: 978-0-226-03075-3

eISBN: 978-0-226-03089-0

Volume URL: http://www.nber.org/books/feen11-1

Conference Date: September 15-16, 2011

Publication Date: December 2013

Chapter Title: Comment on "International Policy Coordination: The Long View"

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Chapter URL: http://www.nber.org/chapters/c12580

Chapter pages in book: (p. 86 - 89)

At that meeting, G7 principals threw away a vapid draft communiqué produced earlier by their deputies and, working off a blueprint provided by Chairman Bernanke and prompted by some of the actions announced in the United Kingdom earlier that week, announced in a terse statement, a five-point plan to stabilize the situation. That plan comprised: a pledge to prevent further failures of systemically important banks; continued abundant liquidity provision by central banks; recapitalization of banking systems, if necessary, by the taxpayer; strengthening of depositor protection; and increased transparency of bank losses. Not only did they announce such a plan, they also implemented it in the following days and weeks. Those actions played a central role in preventing a collapse of the financial system. But the crisis and the closeness of the participants helped to make it possible.

In conclusion, I want to make a rather obvious point that connects with the last of Barry's four principles. Coordination is easier in smaller groups, with relatively strong mutual understanding and trust, together with shared interests. At G7 meetings, there are only about twenty people around the table. The G20, though more representative, lacks the same degree of homogeneity of interest. And in a typical G20 meeting, there are more than sixty people around the table, with the same amount sitting behind them. This is not the sort of environment that encourages frank interchange and decisive decision making. As a consequence, maintaining the G20's new-found status as the premier forum for economic cooperation once the crisis recedes into history is likely to be a challenge.

Comment Gerardo della Paolera

In Eichengreen's chapter, the first question he addresses is whether international monetary and financial cooperation—with a substantive impact on actual economic affairs—has had a regular occurrence throughout our most recent macroeconomic history. To answer that question we have to first ask when, if at all, the global economy has experienced a cooperative international monetary and financial regime. Was cooperation present during the Gold Standard era? Or during the dollar-gold exchange standard regime best known as the Bretton Woods regime? Of course, the author also masterfully describes the problematic international political economy realities during the interwar period. This is probably the most vivid example of a time of generalized leadership failure to assess the economic benefits to cooperation, so as to avoid an economic abyss—something that was appar-

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For acknowledgments, sources of research support, and disclosure of the author's material financial relationships, if any, please see http://www.nber.org/chapters/c12580.ack.

ent to all actors involved in the 1930s, though they were unable to devise the means to tackle the meltdown of the global economy.

The chapter describes four sets of circumstances in which international cooperation would be most likely to occur. It is likely to happen if it centers on technical issues, since technocrats know better or share the same technical views about how, for example, financial prudential supervision and regulation might work. Or it is likely when it is institutionalized, as in, say, the Bretton Woods regime. Or when concerned with preserving a policy regime, as with central bank cooperation during the Baring crisis of 1890 to preserve the Gold Standard, or the ill-fated Gold Pool plan to sustain the dollar-gold exchange standard or Bretton Woods system. Finally, macroeconomic and financial cooperation is most likely in a context of broad comity among nations, as in the relatively peaceful span from 1880 until the outbreak of World War I.

I am interested in two main issues addressed by Barry Eichengreen that have had a great influence on the fate, and welfare-improving (or welfare-reducing) consequences, of international policy cooperation in monetary and financial matters. These two issues are: (1) the actual influence and eventual inbreeding of thinking within an epistemic community; and (2) the importance of an accepted hegemon in monetary and financial matters to lead an international regime.

With respect to the epistemic community, I believe that club thinking can sometimes produce devastating results when "cooperating" entails an insistence by the actors on preserving regimes or policies that are destined to fail under a different political economy scenario.

Example 1: The initial cooperation to support the return of the United Kingdom to the gold standard in the 1920s at the prewar parity was a deflationary-prone policy in spite of having at hand economists from outside accepted circles who recognized alternative monetary arrangements such as Gesell (1909) and Keynes (1923).[1]

Example 2: We are always surprised by the recurrence of banking and financial crises while we had at hand proposals in the 1930s by Henry Simons (1933) and Irving Fisher (1933), then in the post–World War II years by Milton Friedman (1959) and Hyman Minsky (1977), and more recently by Tom Sargent (1993). These were all solid proposals to avert an inconsistent and inherently unstable system that blurs money and credit. Until we recognize that the job of private systemic banks cannot be a riskless activity subject

1. Silvio Gesell had a huge influence on Irving Fisher, in particular regarding the topic of Stamp Currency; Keynes also quotes him extensively in his *General Theory* (1936, chap. 23): "Gesell was a successful German merchant in Buenos Aires who has led to the study of monetary problems by the crisis of the late eighties which was especially violent in the Argentine. . . . Since his death in 1930 . . . its main strength lying today in the United States, where Professor Irving Fisher, alone amongst academic economists, has recognized its significance. . . . The idea behind stamped money is sound."

constantly to the risk of bailouts that socialize the losses in a downturn, incentives are just a derivative problem of the distortion created by the blurring of money and credit.

Example 3: Consider the eurozone situation. In 1998, with my friend and colleague Alan Taylor, I was fortunate to have an extended lunch with Milton Friedman in San Francisco, where we discussed the imminent launching of the euro currency. He said to us, concerning a stable monetary system: "I could imagine a country without a central bank. However, I cannot imagine a central bank without a country [behind it]." I told that story for many years to a great deal of "established" scholars and policymakers, only to receive a reaction of how dismal and naïve was the statement. Yet now, all too late, it is common to read tons of literature on the explosive situation of centralizing monetary policy without engineering a fiscal union. The "epistemic" community thought that you could in effect adopt a single currency without taking into consideration the other side of the coin of monetary policy, which is to say the solvency of fiscal policy.

Example 4: The case of the bailout (bailouts, in plural). Is this a case of immiserizing cooperation? Is it about technocratic or academic ignorance or about political economy vested interests? I am inclined to see the influence of political economy intentionality to force Greece to an unsustainable bailout scheme to delay the sharing of the costs of an exuberant overexposure of German and French banks that were heavily invested in Greek public bonds. In that situation, "cooperation" means to cooperate with banks at the core of the European countries and transfer the bulk of the adjustment to the Greek economy with results that are by now woefully clear (with similarities in the case of Irish bank debt). Cooperation by vested interests to "force" an unsustainable regime can lead to an inferior welfare situation.

On the importance of a predominant hegemon to reach a global monetary architecture, let me provide a reminder of some glimpses from economic history. For the author (Eichengreen 2011), the 1880–1913 Gold Standard period was more of a spontaneous order than the result of a plan or international agreement. However, it is legitimate to ask whether there was a clearly recognized monetary and financial hegemon until 1913. And the answer is yes, it was Great Britain. True, indeed, short-lived central banking cooperative interventions were there—but they shared the benefits of the regime with an undisputed hegemon. Borrowing Barry's expression, I believe taken from Keynes, "you could travel all around the world until 1913 and you could settle transactions in sterling." The 1913–1939 period was a transitional no man's land until the 1930s when the United States took the lead, almost certainly too late, as many observers would agree.

In 1944, the United States heads off Keynes's proposal to establish a global reserve currency the Bancor. Instead, the Bretton Woods system established a dollar-gold exchange standard and the new hegemon, the United States, desperately attempted to maintain the convertibility of the US dollar in an inconsistent regime. In the waning days, the experiment of the "cooperative" Gold Pool failed, and with it the last remains of a metallic regime. From 1973 onwards we enter a world of fully fiduciary regimes in which the world's key currencies are quoted under the logic of a floating exchange-rate regime. The question here is why do we need cooperation? An international anchor needs cooperation, but an unanchored regime? A shortcut for this is that the role of the US dollar, and its advantages as the world's key currency, have not diminished, even while, in some instances, it has pursued clear inflationary or expansionary policies.

For the post–Bretton Woods period (1973–2007), the Gaulliste expression "exorbitant privilege" for the reality of a US dollar as the central world reserve currency was in its heyday. However, as mentioned in the chapter, the 2007–2011 crises have produced some cracks in the façade of a leader-follower model, but the daunting prospects of the eurozone have put some sand in the wheels concerning discussions about a new global currency.

What we have seen is an unending search and thirst to find a global monetary and financial architecture, but do we have a leader-follower model to anchor a viable proposal? The heterogeneity of international actors in terms of the perceived advantages to structure a new regime that is markedly different from the current actual unanchored regime is palpable. Is there some room to imagine a global reserve currency as a composite of key currencies? Can it be a realistic priority given the most basic flaws in many of the biggest domestic economies? The jury is out—until the next big global foreign exchange crisis.

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