## BOOK REVIEW

**Atish R. Ghosh and Mahvash S.Qureshi., From Great Depression to Great Recession: The Elusive Quest for International Policy Cooperation., 2017, published by the International Monetary Fund pages 237 price US $ 27.00**

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In January 2015, the International Monetary Fund conducted a symposium, "**From Great Depression to Great Recession: The Elusive Quest for International Policy Cooperation**." The book edited by Atish R. Ghosh the Historian of the IMF and Mahvash S. Qureshi, the Deputy Chief of the Systemic Issues Division in the Research Department of IMF is a compilation of 17 papers and a preface by David Lipton, the First Deputy Managing Director of the International Monetary Fund. The chapters are contributed by prominent central bankers, economists and economic historians including Paul Volker, Maurice Obstfeld, Catherine R. Schenk, Edwin M. Truman, James Boughton and Harold James.

David Lipton, the First Deputy Managing Director of IMF in the **Preface** says that there are parallels between the Great Depression and the Great Recession. There is a rise in populism, nationalism and extremism – arising from unemployment, economic frustration and social tension: all of which are a legacy of the financial crisis. Secular stagnation, a phrase coined by a Harvard Professor Alvin Hansen in 1938 was used by Larry Summers in 2014. The currency wars of today resemble the currency depreciations, exchange rate restrictions and trade barriers of the 1930s. The current issues witnessed in the international monetary system - the scramble for international reserves, the risk of secular stagnation and the world of secular stagnation becoming a world of currency wars were witnessed in the past too. With monetary policy at its limits, fiscal policy hobbled by high debt and political constraints, it becomes very tempting to boost aggregate demand through currency depreciation. David Lipton further says that the issue of international policy coordination requires multilateralism.

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Editors Atish R. Ghosh and Mahvash S Qureshi in the **Introductory Chapter** give a broad overview of the key events that shaped the international monetary system over the past century. Pre-World War I, the highly credible gold standard provided long term exchange rate stability and eliminated exchange rate risk. The October 1929, the Great Depression meant a sudden stop of foreign capital flows to United States and Europe. As the pound was devalued, massive capital flight occurred resulting in competitive devaluations, exchange restrictions, capital controls and trade barriers. The 1944 Bretton Woods Conference resulted in the creation of the International Monetary Fund and formulation of a set of rules to address the challenges. By 1972, the Bretton Woods Agreement had collapsed and the IMF's Articles of Agreement were amended to legitimize floating exchange rates. The first 20 years of floating exchange rates were disappointing with the emergence of imbalances between the advanced economies and the developing countries. Capital account crises were witnessed in several emerging market countries in 1990s to 2000s like Mexico in 1994, Asian Economies in 1996/97, Russia in 1998, Brazil in 1999, Turkey in 2001 and Argentina in 2002. The IMF was in doldrums in the early 2000s, with no lending, except for concessional lending to Low Income Countries. The United States kept running large deficits while China, Japan and Germany ran large current account surpluses. The Great Recession occurred in 2008. During the Great Recession, as in the Great Depression, the world economy witnessed volatile capital flows, scramble for reserves, an asymmetric burden of adjustment, secular stagnation and concerns about currency wars.

In addition to the overview chapter, the book is divided into 4 chapters, each corresponding to a session of the symposium. Part I. Perspectives from the Past: Secular Stagnation and Asymmetric Burden of Adjustment; Part II. International Monetary Negotiations and International Monetary System; Part III. Currency Wars and Secular Stagnation and Part IV. Prospects for the Future: Towards a Cooperative System.

Part I. is titled "**Perspectives from the Past: Secular Stagnation and Asymmetric Burden of Adjustment**". Harold James examines the inter war perspective of current and capital account imbalances. Emmanuel Mourlon Droul looks at the European adjustment experience in the 1960s and 1970s to draw lessons. Catherine Schenk looks at policy coordination failures since Bretton Woods that contributed to large and persistent imbalances. Michael Bourdo and Harold James explain the problem of adjustment in terms of four distinct policy constrains or trilemmas that arise from international capital mobility.

Harold James, Professor of History and International Affairs at Princeton University in his paper titled "**The Inter-War Perspective of Current and Capital Account Imbalances**" provides a comprehensive examination of the 1929-31 economic crisis. The 1929 crash of the US stock market has never been rationally explained and remains an intriguing intellectual puzzle. The 1931 crisis was a European banking crisis, resulting from bank weaknesses reflected in inflation,

hyper-inflation and destruction of bank balance sheets. The inter war experience was that in 1931, the United States was running a substantial current account surplus and Germany was running a substantial current account deficit, both saw large credit and property price booms. Germany also accumulated huge foreign currency based debts from Switzerland and the Netherlands. The Reichsbank as the lender of last resort, could not provide an adequate safety net once the banking crisis erupted involving not only Germany but Switzerland and the Netherlands as well. While the American Banking system had collapsed, Great Britain which was the most mature economy and the financial center of the world was stable. The Bank of England called the 2008 conditions as the worst financial crisis in human history. Several economists have argued that a savings glut reflected in the large Asian current account surpluses was at the root of the global financial crisis that erupted in 2007. Drawing parallels with the 2008 crisis, Harold James says that United States is playing the role of Great Britain a century earlier, while China looks like Imperial Germany with a quickly growing economy. The legacy of the last two financial crisis – 1907 and 1929-31- tragically resulted in World Wars.

Emmanuel Mourlon-Druol, Lecturer in the Adam Smith Business School, University of Glasgow in his paper titled "**The Economic Adjustment in Europe before the Euro**" says the idea of policy cooperation among EU member states had been a constant feature of discussions prior to the creation of the EEC in 1957. Economic convergence remained on the policy agenda through the 1970s. In 1974, the EEC felt that there can be no gradual attainment of Economic and Monetary Union unless the economic policies pursued by member states converge. The Franco-German efforts led to the creation of the European Monetary System in 1979 where most of the European countries linked their currencies to prevent large fluctuations relative to one another. Three countries – Great Britain, Ireland and Italy - made it clear that they may not be able to maintain their currencies within the new community exchange system as their economies were weaker than those of Germany and the Netherlands. The Treaty on European Union also known as Maastricht Treaty of 1992 focused exclusively on currency relations and overlooked many aspects of economic adjustment. The 2009 crisis and historical review throw up several failures in the euro area design. The most prominent among them are the independence of institutions like the European Central Bank and the legitimacy of the EU institutions.

Catherine R. Schenk, Professor of International Economic History at the University of Glasgow in her paper "**Coordination Failures during and after Bretton Woods**" deals with the elusive quest for exchange rate stability. The Bretton Woods conference created an elaborate set of formal rules to which a large number of countries adhered and placed the IMF as the platform for coordination. The IMF was a source of funds for members to overcome their short term imbalances without restricting their external economic relations. That said, the IMF placed the onus of adjustment on the deficit countries. The United States was the world's surplus creditor in 1946 but the inability of the IMF to bring pressure on the persistent surpluses of Japan and Germany led to the abandonment of the Bretton Woods system in 1971. Another asymmetry in

the Bretton Woods system was the role of the US dollar in the global monetary system. The fundamental flaw in identifying a national currency as the main global currency conferred a poisoned privilege on the US dollar. The role of the dollar made the global economic system vulnerable to the national economic policy of the United States. The IMF played a marginal role in the devaluation of the European currencies in 1949, and the sterling devaluation in 1967. The centrality of the IMF as the pinnacle forum for policy coordination eroded in the 1960s as the interests of countries leading the reform diverged from the IMF's more inclusive structures. Thus were born the alternate groupings of inter-governmental cooperation - G-10 deputies, OECD working party, Committee of 20, G-5/ G-7, Interim Committee of the IMF and the Group of 24 on the International Monetary Affairs (G-24). However these bodies were not representative in character and were less successful than the IMF at evolving a global consensus for international monetary reform.

Michael Bordo Professor of Economics and Director of the Center for Monetary and Financial History at the Rutgers University and Harold James Professor of History and International Affairs at the Princeton University in their paper "**Capital Flows and International Order**" discuss the policy trilemmas that arise from capital flows. The first trilemma discussed is the incompatibility of capital flows with monetary policy autonomy and a fixed exchange rate. The second trilemma discussed is the incompatibility between financial stability and capital mobility. The third trilemma discussed is the strains between democratic politics, monetary policy and capital mobility. Finally the paper discusses the interaction of democracy with capital flows and international order. The authors cite the events of the 1997 East Asian crisis had its origins in financial liberalization when Thailand established the Bangkok International Banking Facility allowing a substantial number of domestic and foreign banks to operate an international banking business. These banks engaged in heavy foreign exchange borrowing, which they then used to expand credit domestically. A banking crisis resulted. The general lessons from the historical episodes is that liberalized financial systems weaken financing constraints, thereby providing more room for the buildup of financial imbalances.

Part II. "**International Monetary Negotiations and the International Monetary System**" discusses how the international monetary system continues to be shaped through international financial diplomacy. It has 3 Chapters – Chapter 6 Eric Helleiner debunks the myth that Bretton Woods was the brainchild of Keynes and White alone; although these men were the main protagonists there were delegates from 44 Nations represented at the conference; Chapter 7 by Benn Steil, deals with the efforts of the Emerging Market Economies trying to craft new institutions like the BRICS that will result in a less G-7 centric international monetary system; Chapter 8 by James Boughton, reiterates the central role the IMF has played and continues to play in the international monetary system.

Eric Helleiner  the Faculty of Arts chair of International Political Economy at the University of Waterloo in his paper "**The Forgotten Foundations of Bretton Woods**" highlights India's deep engagement in the debates at Bretton Woods. India was a British colony at the time and was represented at the Bretton Woods Conference by a British run government of India. After the publication of the Anglo-American Joint Statement of 1944, the Government of India sent the document for comments to all provincial governments and chambers of commerce. Few other Governments involved in Bretton Woods negotiations engaged in this kind of consultation of public opinion in advance of the July conference. In addition to India – Brazil and China were also actively involved in the Bretton Woods discussions, which made it much more than an Anglo – American affair.

Benn Steil, the Senior Fellow and the Director of International Economics at the Council on Foreign Relations New York in his paper titled "**Hurling BRICS at the International Monetary System**" begins with Reserve Bank of India's Governor Raghuram Rajan's statement in January 2014 that international monetary cooperation has broken down amidst the taper tantrums. The Federal Reserve had agreed to provide temporary swap lines to large countries that were important to the US financial system: Brazil, Korea, Mexico and Singapore all of which could spread their problems to American markets. In 2014, the BRICS countries established a contingent reserve arrangement (CRA) which created the foundation for effective protection of their economies from a crisis in financial markets. The maximum borrowing permissible under the CRA is US $ 5.4 billion. The CRA along with the Chiang Mai Initiative Multilateralization 2010 are efforts to establish monetary cooperation without the United States. That said, the US financial leadership is difficult to be substituted. Back-up from foreign exchange reserves and the IMF are essential for developing nations to cope with the vicissitudes of the dollar denominated global monetary and financial infrastructure.

James M. Boughton, the Senior Fellow at the Centre for International Governance Innovation and former Historian of the IMF is his paper titled "**The IMF Is – or Was? – the Keystone of the International Financial System**" says that in 1944 the IMF was built as the keystone of the international financial system. By 1990s the IMF was in an existential crisis, from which it has been trying to extricate itself since the millennium. The IMF has since adopted new Conditionality guidelines in 2002 and the new Surveillance guidelines in 2007. Boughton recommends 3 reforms that would take the system a long way in the right direction. Modernize the governance of the IMF so that the institution can look forward and overcome the inertia; Build on the revival of the SDR that began with the allocation of SDRs in 2009 and third establish a more rational balance between the IMF and other international institutions particularly the G-20, the WTO, the Financial Stability Board and regional agencies.

Part III. "**Currency Wars and Secular Stagnation – the New Normal?"** brings the discussion to the present day. In Chapter 9 Richard Cooper, proposes an indicator based approach to

discipline exchange rate policies, particularly for surplus countries that are typically not subject to market discipline. In Chapter 10 Robert McCauley looks at monetary spillovers and the possibility of national politics being at cross-purposes in globally integrated bond markets where assets are close substitutes. In Chapter 11 Edwin Truman assesses the issue of global liquidity and asks whether the IMF has sufficient resources to assist countries facing balance of payments difficulties.

Richard N. Cooper, the Professor of International Economics at Harvard University, in his paper titled "**Reform of the International Monetary System – A Modest Proposal**" says that the proposal is to issue SDRs at five year intervals equal to internationally agreed-upon national target levels of reserves and to enforce adjustment to these targets. This would accomplish three objectives with respect to the international monetary system. First it would introduce a meaningful and operational indicator for balance of payment adjustment in a world with a globalized capital market. Second it would introduce symmetry into the adjustment process, requiring countries with balance of payments surpluses to adjust along with those in deficits. Third it would provide incremental liquidity into the world market in the form of an internationally agreed unit in addition to national currencies.

Robert N. McCauley, Senior Advisor in the Monetary and Economics Department at the Bank for International Settlements (BIS) in his paper titled "**Global Bond Market Spillovers from Monetary Policy and Reserve Management**" says that unconventional monetary policy and reserve management involve purchases (and potentially sales) of bonds. High substitutability of bonds in private portfolios means that the total purchases by central banks have an impact on global bond yields and thereby on global financial conditions. At present, large bond purchases by the European Central Bank and the Bank of Japan may be countered to some extent by bond sales by major reserve holders resisting domestic currency depreciation. With the Federal Reserve signaling higher policy rates followed at some point by rundown of its holdings of bonds, policy frictions could arise in the global bond market.

Part IV presents a brief overview of the analytics of **International Policy Coordination** by Atish R. Ghosh and the proceedings of a panel discussion moderated by Olivier Blanchard on Prospects for the Future: Towards a More Cooperative System with Maurice Obstfeld the Economic Counsellor and Director Research at the IMF, Jose Anonio Ocampo Professor of Developmental Policy at Columbia University, Alexander K. Swoboda Professor of International Economics at the Graduate Institute of International and Developmental Studies Geneva and Paul Volker the Chairman of the Federal Reserve as participants. The participants discuss the many obstacles to successful international policy cooperation and recognize that political and practical difficulties remain in achieving greater coordination even as they seek to address them.

A thoroughly enjoyable read.

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