

Princeton University
Woodrow Wilson School of Public and International Affairs

Graduate Program
Spring Term 2009

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Office Hours: Monday 2-4, 113 Fisher

WWS 594a Policy Analysis: The Evolution of the International Monetary System

This course will review the evolution of the international monetary system since the end of the Second World War, with particular attention to the roles of the International Monetary Fund (IMF) and of the United States and US dollar. It will focus on critical episodes that altered the system but will also examine developments in Europe, including the formation of the European Monetary Union (EMU), the emerging-market crises of the 1980s and 1990s, and the global economic crisis that began in 2007.

Beginning with the fourth week of the course, the lectures and discussion will be supplemented by students' oral reports on key episodes and issues, based on the required and recommended readings. A list of topics for those reports will be distributed at the second meeting of the course, and students will be asked to choose the topics on which they would like to make their own reports.

Grades in the course will be based on the students' participation in classroom discussion, their oral reports, and a written review of one of the books listed at the end of the syllabus. These reviews should not exceed 2000 words and should be submitted no later than 5:00 pm, Monday, March 23.

Course Outline and Readings

Required readings are marked with an asterisk; all others are recommended. Required readings should be completed by the start of the class session for which they are listed. As you read, bear in mind the list of topics and issues listed before below for each week's readings. [Note that recommended readings are sometimes interspersed with required readings rather than being added after the required readings. That is because they deal directly with topics in the required readings just above them.]

Week 1: The Origins, Functioning, and Collapse of the Bretton Woods System

The legacy of the interwar experience and its influence on the design of the Bretton Woods System; the structure and functioning of the IMF; the collapse of the system in 1971-73.

*Harold James, *International Monetary Cooperation Since Bretton Woods*, 1-57

*Miles Kahler, "Bretton Woods and Its Competitors: The Political Economy of Institutional Choice," in D.M. Andrews, ed., *Governing the World's Money*, 48-59

Barry Eichengreen, *Global Imbalances and the Lessons of Bretton Woods*

Week 2: The Advent of Floating Exchange Rates and Efforts at Collective Management

Floating exchange rates and the growing role of capital flows; attempts at collective management and the Plaza and Louvre Accords; the developing countries' debt crises of the 1990s and the role of the IMF.

- *Robert D. Putnam and Nicholas Bayne, *Hanging Together*, pp. 11-99
- *Yoichi Funabashi, *Managing the Dollar from the Plaza to the Louvre*, chs. 1, 8
Mark Sobel and Louellen Stedman, "The Evolution of the G-7 and Economic Policy Coordination: Occasional Paper 3, U.S. Treasury
- *Peter B. Kenen, *The International Financial Architecture*, chs. 2, 4
- *Paul Krugman, "U.S. Policy on Developing Country Debt," in M. Feldstein, ed., *American Economic Policy in the 1980s*, pp. 691-719
IMF Independent Evaluation Office, *The IMF and Recent Capital Account Crises*, chs. 1-6

Week 3: Europe's Quest for Exchange Rate Stability: The European Monetary System (EMS) and European Monetary Union (EMU)

Antecedents of monetary cooperation in Europe; the European Monetary System (EMS); the EMS crisis of the 1990s and the revival of interest in monetary union; the Maastricht Treaty and the creation of the European Central Bank (ECB); the organization and mandate of the ECB; comparing the ECB with the US Federal Reserve System.

- *Peter B. Kenen, *Economic and Monetary Union in Europe*, chs. 1, 2, 4, 5
- *European Central Bank, *Monthly Bulletin: 10th Anniversary of the ECB*, pp. 21-63
- *Elias Papaionnou and Richard Portes, *The International Role of the Euro: A Status Report*, European Commission, Economic Papers 3171
Susan Schadler et al, *Adopting the Euro in Central Europe*, International Monetary Fund, Occasional Paper 234, 2005

Week 4: The Emergence of Asia, Global Imbalances, and the Threat to the Global Primacy of the Dollar

Asian exchange-rate policies after the crisis of the 1990s; export-led growth and the emergence of China; the relevance of the Lewis model: growth with unlimited supplies of labor; laying blame for the transpacific imbalance; obstacles to Asian monetary integration; reserve-currency competition and the future of the dollar as a reserve currency.

- *Richard Clarida, ed., *G7 Current Account Imbalances*, pp. 11-35, 56-97, 103-125, 283-318, 339-375
- *Richard N. Cooper, "Living with Global Imbalances: A Contrarian View," *Journal of Policy Modeling* 28, pp. 615-627
W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labor," *Manchester School of Economics and Social Studies*, vol. 22, pp. 139-91
- *Michael Dooley, David Folkerts-Landau, and Peter Garber, "An Essay on the Revived Bretton Woods System," NBER Working Paper 9971
- *Peter B. Kenen and Ellen E Meade, *Regional Monetary Integration*, chs. 1, 6.
Benjamin J. Cohen, "Global Currency Rivalry: Can the Euro Ever Challenge the Dollar?" *Journal of Common Market Studies*, 2003, pp. 575-95
- *Edward M. Truman, ed., *Reforming the IMF for the 21st Century*, chs. 2, 27, 29

Peter B. Kenen, *Reform of the International Monetary Fund*, Council Special Report 29,
Council on Foreign Relations, 2007

Week 5: How the Subprime Mortgage Crisis Turned Into a Global Economic Crisis

The securitization of household debt: collateralized debt obligations (CDOs), conduits, and the globalization of derivative instruments; betting on default with credit default swaps (CDSs); too big to fail and the dilemma posed by Lehman and AIG; central bank cooperation and the revival of the IMF; incremental reform or a second Bretton Woods Conference? Issues posed by the proliferation of sovereign wealth funds.

*Brad W. Setser, *Sovereign Wealth Funds and Sovereign Power*, Council on Foreign Relations, 2008

*International Working Group of Sovereign Wealth Funds, "Sovereign Wealth Funds: Santiago Principles: Objective and Purpose," 2008, pp. 1-9

NB: Additional readings will be assigned for this week as they become available

Week 6: Completion of Students' Oral Reports (no additional reading)

Book Review Topics:

Write a *critical* review of one of the following works, making comparisons, where appropriate, with views expressed by the authors of the required and recommended readings.

Paul Blustein, *The Chastening* (revised edition)

A financial journalist's account of the Asian crisis

David Andrews, ed., *International Monetary Power*, chs. 1-7

The political economy of the international monetary system

Martin Wolf, *Fixing Global Finance*

Published before the global crisis that began in 2007, it deals mainly with issues posed by the crises of the 1990s and the transpacific imbalance