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## Book Reviews

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## BOOK REVIEWS

### **THE INTERNATIONAL MONETARY SYSTEM, 1945-1976: AN INSIDER'S VIEW. By Robert Solomon. New York: Harper & Row, 1977.**

Robert Solomon's *The International Monetary System, 1945-1976: An Insider's View* is an historical recounting of the events surrounding the evolution of the international monetary system from the 1944 Bretton Woods Conference, where the postwar international monetary system was born, until 1976. The author briefly touches upon the early period of the international monetary system, which lasted until the 1950's, when United States dominance in the political and industrial arenas was concomitantly reflected in the international monetary system. The focus of the work, however, is devoted mainly to a discussion of the period after 1960 in which the United States was no longer the monetary overseer for the world. It was in this time frame that the United States was faced with increasing economic problems including domestic recession and external deficit while the economies of West Germany and Japan were recovering strongly from the ravages of World War II. Paramount emphasis is given to the seemingly never-ceasing monetary crises emerging in the mid-1960's and the efforts of the world's major economic powers to resolve them through international cooperation. Attention is paid to such crises as the 1964-1968 sterling crises, the gold rush of 1967-1968, the French-German currency crises of 1968-1969, and the various crises creating downward pressure upon the dollar. Particular stress is placed upon the evolution from a static exchange rate system to a more fluid floating exchange rate system.

The work is a picture of representatives of the world's major economic powers struggling to maintain order in the international monetary process. We learn that, by and large, this effort has been a successful one. Indeed, the author instructs that "there are no deep-seated national interests standing in the way of an improved monetary system." (p. xii).

The author, for many years the Federal Reserve Board's chief international economist, was an observer and participant in this story of evolving international monetary relations. His discussion of the technically complex issues involved and of the sometimes competing proposals proffered by various nations is both lucid and candid. In particular, his discussion of various personalities in this process is revealing.

Allusion should be made to what this work is not. One will not find a systematic analysis of the Eurodollar or Euro-currency markets. Nor are the problems of European integration given great breadth as emphasis is placed to a greater extent on developments in this country. There is little treatment of the problems of the developing world, although the reader will find an excellent analysis of the economic impact of the policies of the Organization of Petroleum-Exporting Countries (OPEC).

One might comment on the book's structure. The chronological and logical arrangement of the treatment of the major developments in the international monetary realm is notable. An excellent chronology of major international monetary events may be found at the conclusion of the book's text. However, one would have hoped that for the sake of convenience and, therefore, maximum utility, that source notes would have been found otherwise than at the end of the work, either as footnotes or at the conclusion of each chapter.

For those practitioners interested in this most fascinating area, Robert Solomon has set forth an interesting and valuable history which should be of immeasurable benefit. Students of the international monetary system would do well to have this masterly volume added to their private collections.

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\*The views expressed in this review are those of the author and do not necessarily represent the position of the Overseas Private Investment Corporation.

**ORGANIZING THE WORLD'S MONEY.** By Benjamin J. Cohen. New York: Basic Books, 1977. pp. x, 305. Index.

**THE INTERNATIONAL MONETARY SYSTEM.** By Andreas F. Lowenfeld. New York: Matthew Bender, 1977. pp. xiii, 303. Documents Supplement. Table of Cases. Index.

The workings and underpinnings of the international monetary system are an enigma to many legal practitioners. Yet many legal problems, both of a domestic and international nature, can be better handled with a good understanding of the dynamics of international monetary relations. Benjamin J. Cohen's *Organizing the World's Money* and Andreas F. Lowenfeld's *The International Monetary System*, the fourth in his series of texts on International Economic Law,<sup>1</sup> are two new books which can provide just such an understanding of the framework of today's interna-

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<sup>1</sup> See J. Dalzell's review of the first volume in the series, *INTERNATIONAL PRIVATE TRADE*, in 2 N.C.J. INT'L L. & COMM. REG. 211 (1977).

tional monetary relations. Of even greater value, given the dynamic nature of these relations and the tremendous changes which have taken place in the past seven years,<sup>2</sup> the careful and concerned reader can come away with a fairly sophisticated feeling for where the international monetary system is heading and what legal problems it may pose for his or her clients in the years to come.

The two books have very different aims. Andreas Lowenfeld, Professor of Law at New York University, relies almost exclusively on primary source material to explain the fundamentals of the Bretton Woods system, the historical events which best illustrate its weaknesses (e.g., Britain's devaluation in 1967), and how the system ultimately succumbed to pressures on it in 1971-1973. Similarly, by setting forth International Monetary Fund (IMF) documents, official communiques, press reports and with great emphasis on rules and regulations, Professor Lowenfeld describes the present system of a "managed float" regime, the IMF and how its members' activities are prescribed (by quotas, interventions in currency markets, etc.) and proscribed (e.g., no "dirty" floating). Because of these attributes, the lawyer or scholar in search of specific information about the legal parameters of states' activities in the international monetary system will find Professor Lowenfeld's book very valuable. Besides footnoting his 303 pages of text with citations directly to IMF materials, an ample Documents Supplement, containing important IMF and statutory materials, is offered.

In contrast, the object of Professor B.J. Cohen, Associate Professor of International Economic Relations at the Fletcher School of Law and Diplomacy, is to help the reader evaluate from whence the present system has come and where it ought to be headed, using as a measuring stick the generally recognized objectives of what an international monetary system should achieve, namely, efficiency and consistency.<sup>3</sup> Thus, *Organizing the World's Money* can be useful to policy-makers and students, as well as to practitioners of international business and law. Because of Professor Cohen's political-economic approach, however, the lawyer in search of quick information "on point" will perhaps find the exposition, although erudite, somewhat frustrating. Thus, *Organizing the World's Money* is not recommended as a handbook. Instead, the lawyer could best utilize the book's excellent resources as a means both to a comprehension of the system as a whole as well as to an understanding of its potential weak points. What makes Professor Cohen's book special is that although his discussion of terminology is sophisticated and well-referenced, he persuades his reader that a

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<sup>2</sup> Namely, the demise of the Bretton Woods system of pegged exchange rates and the introduction of the "managed float."

<sup>3</sup> By efficiency, Professor Cohen means some minimum level of economic efficiency. The second measure is defined as ensuring some minimum degree of consistency among national policies. B. COHEN, *ORGANIZING THE WORLD'S MONEY* 8 (1977).

common sense treatment of international monetary economics and policy-making is possible, something often doubted by lawyers and businessmen alike.

While both books, given their respective orientations, are quite successful in conveying important information to the reader, each has its weaknesses. In *The International Monetary System*, for example, too little effort is made to acquaint the reader with the basic jargon at the outset. With a little effort this defect could have been cured. Take Professor Lowenfeld's use of the term currency "swap" at p. 55. Unfortunately, "swaps" are not defined until p. 73, leaving the reader unacquainted with the term for some eighteen pages. Furthermore, the introduction's brief review of exchange rate regimes at pp. 8 through 13 is confusing. The discussion of "flexible exchange rates" also describes the pure floating rate system, but no mention is made of this fact in the discussion. Also, the presentation under the heading "Government Controlled Exchange Rates" is confined to a discussion of fixed exchange rates, even though the "pegged-rate" system (*i.e.*, the Bretton Woods system) was also a system of government controlled exchange rates and is not entirely synonymous with fixed exchange rates. Furthermore, even under the present "managed float," governments may exercise some short term control over exchange rates. Therefore, the narrowness of the discussion of exchange rate regimes deprives the reader of the good theoretical foundation he or she needs in order to comprehend the detail of official IMF materials. Finally, at points some secondary-source references are really needed. For example, at sections 9.31-9.33, where private sector responses to exchange rate fluctuations are discussed, a footnote to a reference work such as D. K. Eiteman and A. Stonehill's *Multinational Business Finance*<sup>4</sup> would be useful to the reader who might like to learn more about how the private sector responds to exchange rate fluctuations and limits on convertibility.

Where *The International Monetary System* leaves off in terms of explanations, analysis and secondary references, *Organizing the World's Money* picks up.<sup>5</sup> The only difficulty with Professor Cohen's approach is that at a very few points the discussions accelerate too rapidly for the average reader. Take as an example a short passage at p. 170, relating to the transmission of inflation under a floating exchange rate regime:

But what happens in the event of foreign unemployment (monetary deflation)? In that case, stability of the domestic price level cannot be safely assumed, because of the likely impact of the ensuing depreciation of the exchange rate on income claims by particular groups in the local economy. The equilibrating effects of the

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<sup>4</sup> D.K. EITEMAN and A. STONEHILL, *MULTINATIONAL BUSINESS FINANCE* (1972).

<sup>5</sup> See, *e.g.*, the clear, concise explanations of the gold standard, the "pegged rate" system, and floating rates at pages 72, 91, and 162 respectively. Similarly, what *ORGANIZING THE WORLD'S MONEY* lacks in readily accessible primary resources can be found in *THE INTERNATIONAL MONETARY SYSTEM*.

depreciation will very likely be offset by compensatory wage and price increases at home, since a decline of the exchange rate is understood to increase local-currency prices in the tradable-goods sector (and since these increases are unlikely to be balanced by decreases in other sectors, at least in the short term). The authorities will then be placed under precisely the same pressures as in a fixed-rate regime to permit the growth of domestic money supply required to validate the imported price rises.

In order for this reader to grasp the import of this excerpt, it was necessary to take pad and pencil in hand and recall that foreign unemployment leads to a decrease in demand for "domestic" country's exports, which, in turn results in that "ensuing depreciation of the domestic exchange rate." Furthermore, the depreciation will result in an increased demand for domestically produced goods (as substitutes for more expensive foreign made goods) as well as a tendency on the part of the government to increase the money supply in order to reach that "offset [of] compensatory wage and price increases at home" mentioned in Professor Cohen's next sentence. For the quicker mind these intermediary steps may come easily, but for the legal practitioner with a rusty recall of international economic principles or the neophyte in international economics, it can be a slow process of reconstruction.

These two books could well be viewed as complementary. For a well-rounded picture of how theory and practice go together, as well as for excellent references to other experts in the field, the Cohen book should be consulted. As a documentary handbook with historical perspective, the Lowenfeld volume would be a welcome addition to a practitioner's library. In short, either book is well worth the investment. To have access to both would, in this reader's opinion, optimize the usefulness of each.

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