Introduction

Chapter 1 examines the economic policy of a fictional world consisting of only one state. This fictional world allows us to examine how states make domestic economic policy (DEP) when they are free from foreign economic policy (FEP) constraints, and doubts regarding whether and how to control private capital. We analyze the basic tools of economic policy, such as the banking system and creation of money, interest rate, government bond market and the yield curve as the fundamental building blocks of financial infrastructure of states. We compare the monetary authority, the central bank (CB) and the fiscal authority (FA) in their role as makers of economic policy. We elucidate the policy options of states by building up a framework that exposes the trade-offs involved in each of them.

Chapter 2 uses a two-state world to examine an intractable trilemma or impossible trinity: when private capital is free to move from state to state, countries cannot pursue, simultaneously, DEP autonomy and a stable FEP. This chapter introduces concepts such as the balance of payments, and examines how states intervene in the market to gain a comparative advantage over other states. We explore how countries live with the impossible trinity by controlling capital and building foreign exchange reserves as a war chest.

Chapter 3 investigates how the United States, because of its position as the global economic sovereign, shapes and often dictates the policy options of other states. States, as this book elaborates, fall into a pyramid in terms of economic power. Their currency, a vehicle of economic dominance, determines whether they make it to the top or bottom of the pyramid. This chapter examines, in detail, the US economic system and policy and how this system has been used to address financial crises. The coordination, between the US Treasury and the Federal Reserve System (FRS) provides diverse insights into how economic policy works in practice.

Chapter 4 examines the policies of core and peripheral states and how these policies accommodate the economic stance of the sovereign. We probe into how China succeeded in making the yuan a global reserve currency and what it needs to accomplish next if it aspires to dethrone the dollar and establish its currency as the prime global reserve currency. We analyze the economic policies of open peripheral states and their dependence on the DEP of the United States, the global sovereign. The accumulation of large amounts of dollar-denominated debt and fixed exchange rates often lock these states into an irresolvable trilemma, as the cases of Nigeria and Argentina demonstrate. The case study of Japan helps us understand the phenomenon of prolonged deflation and psychological barriers that prevent countries from exiting that state. The eurozone case study is a demonstration of how the first monetary union has dealt with crises by adopting emergency measures and imposing fiscal austerity.

Part III chronicles the evolution of global economic institutions and provides real world examples of how states have conflicted with each other or worked together to coordinate their economic policies. We explore the roles of International Monetary Fund (IMF), Group of 7 states (G-7) and Group of 20 states (G-20) in managing the international financial system. Chapter 6 scrutinizes the period of first globalization, when the gold standard reigned, by exploring how states struggled to neutralize the havoc unleashed into their economies by the abrupt movements of gold. The interwar period, set forth in Chapter 7, is an instructive example of how uncoordinated national economic policies and haphazard tit-for-tat devaluations can breed an economic war that harms all states. The Bretton Woods system established after World War II, analyzed in Chapter 8, gives us the opportunity to delve into the foundations of the first international monetary institution, the IMF. We discuss the underpinnings of the Bretton Woods and negotiations that led to the establishment of the first formally agreed-upon economic order. We shed light on a conundrum that has driven most economic conflicts: how to distribute the burden of 'adjustment' among states that face external imbalances. The clashes between surplus states and deficit states, about who should bear the burden of changing their DEP to correct global imbalances, are a source of acrimony and resentment in the international community.

Chapter 9 analyzes the politics that led the United States to abolish the convertibility of the dollar into gold, a decision that triggered the Bretton Woods demise and boosted the role of dollar as the global reserve currency. Chapter 10 focuses on two agreements, the Plaza and Louvre accords, that helped states coordinate their economic policies in the 1980s. It further investigates the causes of Latin American debt crisis and measures adopted to address that crisis. Chapter 11 deals with the 1990s East Asian crisis and lessons learnt from it. Chapter 12 explores how the G-20 dealt with the 2008 global financial crisis, including the adoption of coordinated fiscal expansion and subsequent austerity during that period. Chapter 13 focuses on the structure of the IMF, and its policies of conditionality and surveillance and the backlash they have provoked in developing states. Part IV delves into the club-like makeup of international financial infrastructure and international regulatory organizations. Chapter 14 exposes the roots of transnational financial law-making and modalities through which it shapes the global financial order. Chapter 15 examines the global financial infrastructure. It explores how financial markets have tried to police themselves and why this may be insufficient, as demonstrated by the various financial scandals that shake the world and worsen crises. We analyze how global financial institutions have been harnessed to impose economic sanctions on states and how informal networks and alternative currencies have been used to bypass official systems.

Chapter 16 examines the global financial organizations, such as the Basel Committee on Banking Supervision and its contribution to the shaping of banking standards. Other institutions examined in this chapter include the Financial Stability Board and the Financial Action Task Force. We evaluate the effectiveness and legitimacy of these institutions, especially because they promulgate rules that impact states beyond their members. The Bank of International Settlements and its role as CB of CBs, and how successfully it has played that role, are examined in Chapter 17. We also explore a number of regional arrangements including the Chiang Mai Initiative, the Latin American Reserve Fund and the BRICS Contingent Reserve Arrangement. This chapter focuses on the institutions and tools used in the debt re-organization of states including the London and Paris clubs and the collective action clauses in government bonds. We analyze further the case law stemming from disagreements between debtor states and their creditors. The feasibility of developing a Sovereign Debt Restructuring Mechanism is discussed at length.

In Chapter 18, the case study of Greece elucidates the perpetual conflict between states and their creditors as it unfolded between 2009 and 2018 in the eurozone. This chapter investigates the causes of the Greek debt crisis. The travails of Greece and the frustration of its creditors provide numerous insights into the constraints placed on open democracies that are unable to print their own currency and cannot run a DEP that fits their needs. Part IV concludes that the global economic status quo is primed to endure well into the future. The political motivations of economic policy-makers propel them toward the zealous preservation of the current minimum order and against the pursuit of a maximum order, the development of a global safety net that could benefit all states. As long as a dose of economic instability, controlled by the few, remains necessary to safeguard their global dominance, a maximum world order – defined as the minimum conditions for a dignified human existence for all – will remain elusive.