Central Europe. In this respect, it is useful to recall how many one-sided concessions Khrushchev made to settle the clash in the Caribbean peacefully. In November 1962, without receiving anything substantive in return, Khrushchev withdrew his atomic-capable IL-28 bombers from Cuba, evacuated some Soviet troops, and accepted that he would not receive an unconditional noninvasion pledge from John F. Kennedy. Meanwhile, he decided to take pressure off the neutral Laotian government because he knew that Washington was watching.[15] Not playing the Berlin card in 1962–63 was perhaps less the product of a new European settlement than of the Kremlin's reluctant acceptance of the international status quo.

If the settlement of 1963 was a Soviet surrender, the question remains as to why there were no more Berlin crises later in the Cold War. Perhaps one answer is that individuals do matter. Khrushchev was removed in October 1964, and his successor, Leonid Brezhnev, was not a devotee of the *fait accompli* anywhere. Meanwhile, the Kremlin's favorite German bogeyman, Konrad Adenauer, left the scene in 1963. But perhaps there is a realist explanation. Changes in the balance of power in the late 1960s eliminated the Kremlin's need to use blunt instruments such as Berlin to hit Washington over the head. It may not be a coincidence that the Soviets' achievement of nuclear parity coincided with the Western and Socialist acceptance of *Ostpolitik* and the formal recognition of the two Germanys and a West Berlin. Until more high-level evidence flows from the former Soviet Union, however, the role of the Berlin card in Soviet foreign policy must remain a matter of speculation. In any case, there appears to have been much more at stake than simply Moscow's concern over German nuclear weapons.

The rebuttals above, however, only demonstrate how thought-provoking and profound is Marc Trachtenberg's book. It sets the agenda for the next wave of studies on the high politics of the Kennedy-Khrushchev years and should be an instant classic for students of power politics, not to mention the point of reference for future researchers in Kremlin materials.

Economists to the Rescue
by Francis J. Gavin

Towards a New International Financial Architecture: A Practical Post-Asia Agenda. By Barry Eichengreen. (Washington, D.C.: Institute for International Economics, 1999. 200 pp. $18.95.)

[15] Ibid., p. 323.

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The Return of Depression Economics. By Paul Krugman. (New York: W. W. Norton and Company, 1999. 176 pp. $23.95.)

Money on the Move: The Revolution in International Finance since 1980. By Robert Solomon. (Princeton: Princeton University Press, 1999. 224 pp. $29.95.)

Two recent events highlighted the importance of the new books reviewed in this essay. The protests in Seattle that scuttled the World Trade Organization (WTO) meeting revealed a stunning ignorance of the basic facts of international economic life among the protesters, politicians, and pundits. The second event, while obscure, was perhaps more disturbing. The official listserver of American diplomatic historians, H-Diplo, recently discussed the Bernath Lecture delivered by Robert Buzzanco of the University of Houston.[1] If historians are wondering why their voices are so rarely heeded by policymakers or the public, they need look no further than this speech and the debate it engendered.[2] Buzzanco ranted against the retreat of "materialist" and economic interpretations of American foreign policy among historians, targeting in particular those who failed to understand the Cold War as a product of America's relentless search for markets and resources. The United States militarized its domestic economy, established a hegemonic trading order, and pursued murderous imperial policies in order to impose a global market that exploited the rest of the world—all, Buzzanco claims, to bring profit to Wall Street and American arms merchants. Nor did that process end with the Cold War: "Powerful countries, such as the United States, must maintain power by preventing other nations or systems from succeeding and thereby providing an alternative model of development."[3]

The motives and wisdom of America's foreign policy during the past fifty years certainly leave ample room for debate. But as any knowledgeable economic historian could tell you, few major economies have ever been less dependent on global markets and resources for their well-being than was the United States in 1945. Even today, at the height of globalization, a collapse of world trade would hurt the United States far less than it would most other countries. How many empires have watched their total share of world gross domestic product (GDP) drop so quickly as the United States during the Cold War? American Cold War policies actually *encouraged* major allies to install

[1] The Bernath Lecture Prize is given out by the Society of Historians of American Foreign Relations in order "to recognize and encourage excellence in teaching and research in the field of foreign relations by younger scholars" (http://www.ohiou.edu/shafr/prizes.htm).

[2] Robert Buzzanco, "What Happened to the New Left? Toward a Radical Reading of American Foreign Relations," *Diplomatic History*, Fall 1999, pp. 575–608. See also the online discussion of this lecture (http://h-net2.msu.edu/~diplo/).

[3] Buzzanco, "What Happened to the New Left?" p. 598.

capital controls and form trade and currency blocs that discriminated against dollar goods. Indeed, the United States allowed Japan and Western Europe to become its major economic *competitors* with the help of billions of dollars in aid and military protection. Moreover, since wealthy countries rarely trade with poorer ones, America's economic interaction with the developing world as a percentage of total GDP has always been tiny.[4] And the fearsome military-industrial complex that purportedly drove American foreign policy could not stop sudden and dramatic cuts in military spending in the late 1940s, the 1970s, and the 1990s, or keep dozens of defense contractors from going out of business over the last fifty years.

Pernicious historical myths such as those peddled by Buzzanco feed into the skewed logic employed by the anti-WTO protesters. To be sure, economic globalization is a complex and at times frightening process, and legitimate and important issues must still be addressed. But to argue that it is part of a decades-old American conspiracy to exploit the developing world is not only ludicrous, but irresponsible. Economics has demonstrated one simple, indisputable fact: international trade makes nations, particularly poor nations, wealthier. Before historians, environmentalists, unionists, or anarchists criticize the global financial order and its history, they should consider the lives of everyday people throughout the world. As Paul Krugman points out, export-led growth between 1968 and 1990 increased life expectancy in Indonesia from 46 to 63 and per capita caloric intake from 2,000 to 2,700 calories per day (p. 18). As anyone living in North Korea would understand, the issues debated on H-Diplo and in Seattle are not about academic tenure or the corporate practices of Starbucks Coffee. They are about *how much people eat* and *how long they live*.

Professional economists undoubtedly share responsibility for this woeful ignorance. Hiding behind obscure theoretical models and highly technical quantification, they have failed to engage and instruct the general public about the basic facts of international economic life. Fortunately, that appears to be changing as economists have begun to recognize the gap between their expertise and the layman's incomprehension. In the works reviewed here, Barry Eichengreen, Paul Krugman, and Robert Solomon successfully translate the complicated world of international financial, regulatory, and monetary economics into lively prose and sensible policy recommendations. Given the nonsense swirling around Seattle and the academic listservers, they arrive none too soon.

[4] Perhaps some obscure (and wrong-headed) economic motivation inspired America's involvement in Southeast Asia, but by the early 1970s the war helped usher in a decade of low growth, high inflation, and increased unemployment. After claiming that America's actions in Southeast Asia were motivated by economic gain, Buzzanco correctly points out the Vietnam War was an economic disaster. Bizarrely, he fails to comprehend that you cannot have a foreign policy driven by domestic economic gain when that policy worsens your domestic economy, especially when the policy is resisted by the same "elite" that supposedly drove these policies—bankers, corporate leaders, and the Federal Reserve. See ibid., pp. 593–96.

In these short works, all three authors highlight the fragility of the world's monetary system, agree that the financial revolution has benefited some countries and classes more than others, and advocate reforms to the international financial architecture to avoid destabilizing crises. But they also stress the enormous benefits that international trade and capital mobility have brought and will, one hopes, continue to bring to those countries that participate in the global system. Anyone who wants to debate the merits of the international trade and monetary order and America's role in it—past, present, and future—should be required to read these books.

Money—Keep on Moving

It is not widely recognized that the worldwide explosion of capital flows came only *after* the Bretton Woods system of fixed exchange rates and dollar-gold convertibility collapsed in the early 1970s. By the end of that decade, many developed countries began to abandon the array of capital controls that had been necessary to maintain strict par values. Exchange-rate flexibility, deregulation of the financial markets, improved technology, and the development of innovative financial hedge instruments that protected against exchange-rate risks all combined to encourage a massive increase in cross-border capital movements. Even more significantly, the direction of these flows changed as more capital began to move to the developing economies around the world, particularly in East Asia and Latin America.

Has this revolution in capital mobility been a good thing for the world? An excellent place to look for an answer is Robert Solomon's *Money on the Move: The Revolution in International Finance since 1980*. Solomon, for many years the chief international economist at the Federal Reserve Board, is the author of the well-respected book *The International Monetary System, 1945–1981*.[5] In the shorter sequel, he chronicles the profound transformation in the world's economy during the last twenty years. Previously poor East Asian economies have become economic dynamos in record time, most of the former Soviet empire has joined the world trading system, and the European Union has begun a once-unthinkable experiment with a single currency. Never in history has there been such breathtaking change in international monetary relations in so short a period of time.

While Solomon lays out the unquestionable benefits that the international financial revolution has brought to the world, he does not gloss over the more disturbing aspects of capital mobility: the volatility of the dollar's exchange rate in the 1980s, the debt crisis that burdened Latin America and threatened the solvency of major Western banks, and the bumpy road to the European Monetary Union. But Solomon gives a balanced assessment of the

[5] Robert Solomon, *The International Monetary System, 1945–1981* (New York: Harper and Row, 1982).

history of these events and the debates among economists over what policy options are best. Most important, he correctly links the vicissitudes of international finance to the macroeconomic policies of the countries involved. In other words, Solomon recognizes that most monetary and financial crises are not simply the product of "unfair speculation" or herd behavior. A real-world culprit almost always exists, be it loose monetary policies, fiscal largesse, or insufficient supervision of domestic financial institutions. Fortunately, as the links among macroeconomics, regulatory problems, and monetary chaos are better understood, destabilizing crises should become far more rare.

Peddling Depression Economics

I was not prepared to like Paul Krugman's new book, *The Return of Depression Economics*. First, I was suspicious of the title—what depression was he talking about? A quick glance at the Emerging Market Indicators in a recent issue of *The Economist* revealed a robust recovery in East Asia. In the third quarter of 1999, South Korea's GDP increased 12.3 percent, Taiwan's 5.1 percent, the People's Republic of China's 7.0 percent, and Malaysia's 8.1 percent. Even Thailand and Indonesia, the hardest hit by the Asian financial crisis, saw third-quarter growth of 3.5 percent and 0.5 percent, respectively. All of these countries have rebuilt and increased their holdings of foreign reserves to protect themselves against further currency crises. Despite the turmoil of the past two years, the World Bank has predicted that in the next ten years East Asia's per capita GDP will increase 5.2 percent annually. And the mature yet dynamic American economy continues to perform beyond expectations, growing by an astounding 5.5 percent in the third quarter of 1999.[6]

Secondly, Krugman often writes as if he were the Stephen Jay Gould of international economics—a clear, vivid, but occasionally condescending popularizer who often wins easy debating points by knocking down intellectual straw men. Supply-siders, strategic traders, and Lester Thurow become the economic equivalents of Gould's evolutionary determinists and creationists.[7] But whatever its merits in evolutionary biology, this method works poorly in international monetary economics, where (as Eichengreen's and Solomon's accounts make clear), broad agreement exists as to the causes of crises.

Finally, this breezy essay sails all over the place, from the East Asian financial crisis to slow growth in Latin America to financial irregularities in

[6] Statistics taken from *The Economist*, Dec. 11–18, 1999, pp. 96 and 98.

[7] Interestingly enough, as if to inoculate himself from this obvious comparison, Krugman has written an essay criticizing Gould's writings on evolutionary biology. See Paul Krugman, "What Economists Can Learn From Evolutionary Theorists" (A talk given to the European Association for Evolutionary Political Economy), Nov. 1996 (http://web.mit.edu/krugman/www/evolute.html).

Russia to hedge fund abuses in the United States to the disturbing economic slowdown in Japan. These phenomena are all related, some more directly than others, but it would be impossible to cover all these subjects in the depth necessary in just 168 pages.

In the end, however, one cannot help but be impressed by Krugman's sheer intelligence and the clarity with which he lays out complicated ideas. Unfortunately, he is less insightful than Eichengreen and Solomon on the causes of and plausible solutions to international monetary instability. Krugman seems reluctant to admit what Eichengreen and Solomon understand—that greater exchange-rate flexibility combined with more financial oversight, instead of an unworkable "Tobin Tax" on short-term capital flows, could prevent or at least soften currency crises in the developing world.

Two parts of Krugman's book are especially impressive. The first deals with Japan's decade-long slowdown, and Krugman is rightly outraged that the vast underperformance of the world's second-largest economy has sparked so little discussion. Krugman argues that Japan, like the United States in the 1930s, is in a liquidity trap. In other words, Japan's citizens refuse to spend enough to use the economy's capacity, even as the country's interest rates hover around zero. The United States finally escaped a similar (though far more severe) situation through massive deficit spending during the mobilization for World War II. But such desperate fiscal measures are often politically unpopular, and Krugman instead recommends a radical monetary policy of "managed inflation" to encourage Japanese consumers to spend. While many would jump to predict the policy's failure, Krugman should be commended for his willingness to think "outside the box" about a problem that has vexed Japan for years.

The other fascinating argument in this book involves the character and sources of growth in East Asia in the past few decades. Using Robert Solow's growth theory and total factor productivity (TFP) analysis, Krugman compares East Asia's and Latin America's growth with that experienced by the United States and Great Britain in earlier periods. It turns out that East Asia's growth may have been similar to that experienced in Khrushchev's Russia (1956–64)—high output based on increasing investment, but with little productivity growth. Without increases in labor productivity, such as those produced by technological innovation, returns on capital are bound to diminish, and at some point GDP growth must stop. The seemingly robust recovery currently under way in East Asia may ultimately contradict Krugman's TFP analysis, but he again should be lauded for innovative thinking. And although his tone seems arrogant and provocative at times, those are desirable traits in a gadfly, and Krugman should be applauded for playing this role.

The Return of Political Economy

Barry Eichengreen has positioned himself as a worthy successor to Charles Kindelberger, weaving economic theory within thoughtful historical narratives to provide a fuller understanding of how "real-world" global monetary relations work. Eichengreen is the author of several outstanding works of international financial history, including *Golden Fetters* and *Globalizing Capital*.[8] His new book, *Toward a New International Financial Architecture*, offers a sound analysis of the causes of the Asian financial crisis. More important, Eichengreen has laid out a feasible agenda for international financial reform. In the past two years, many economists and public policy experts—including Krugman—have given in to the temptation to use frightening headlines to propose innovative but politically unreasonable solutions. In this short book, Eichengreen assesses these proposals for reform and suggests a politically practical agenda for change. While he finds merit in many of the plans, they are either so bold as to be politically impractical (such as plans to create an international bankruptcy court, central bank, and credit-rating agencies) or too timid. In response, he prescribes his own remedies.

Eichengreen trains his analysis less on governments' macroeconomic policies than on institutional arrangements such as bank regulation and bankruptcy. In order to prevent crises, he recommends international financial standards that include recognized accounting and auditing procedures, creditor rights, protection against insider trading, and fair bankruptcy procedures. Banks must be encouraged to adopt more effective risk-management policies. He also suggests a number of steps to restructure international debt, including the creation of standing committees of creditors, encouragement of exchange-rate flexibility, prevention of weak banking systems from short-term borrowing abroad, and an increase in the International Monetary Fund's powers of surveillance over troubled economies. While modest, Eichengreen's proposals are politically feasible and would strengthen the world's international financial architecture without changing its fundamental character.

In sum, Eichengreen, Krugman, and Solomon have all tried in their own ways to reach beyond their discipline to educate policymakers, academics, and laymen about the facts of international economic life, and should be commended for their efforts. But the riots in Seattle and the nationwide apathy that greeted the collapse of the WTO conference in the United States provide proof enough that they have their work cut out for them. The next time a group of historians decides to debate international economics, let us hope Eichengreen, Krugman, and Solomon can be persuaded to join the fray, for it is high time that myth be refuted by fact.

[8] Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (New York: Oxford University Press, 1992); and *Globalizing Capital: A History of the International Monetary System* (Princeton: Princeton University Press, 1996).