

Preface

On this summer day in July 2009, dark clouds are passing rapidly overhead, and are moving eastward towards Mt. Washington. Against this splendid scene, stands the Mount Washington Hotel, where my wife and I can be found, seated at the veranda. The roof of the long veranda that stretches around three sides of the Mount Washington Hotel protects us, along with a small number of other hotel guests, from the rain. As we sit comfortably on soft, pillowed wicker chairs, we observe several people huddled under a small shelter on the golf course that lies between the hotel and the dark green forest at the base of Mt. Washington. Soon, the peak of the mountain disappears in the clouds, leaving visibly only the tree-covered lower sections of the highest mountain in the eastern half of the United States.

I try to imagine similar summer storms passing over the hotel 65 years earlier in July 1944, when John Maynard Keynes, Harry Dexter White, and nearly 500 other economists and government officials from the 44 Allied nations fighting World War II met here at the Mount Washington Hotel in Bretton Woods, New Hampshire. Of course, turbulent weather was probably the least of their concerns. They had come to this beautiful hotel in this peaceful natural setting as delegates to a conference organized to come up with a set of rules under which the international financial system would operate after the war. They were given three weeks to complete the task.

It is tempting to find parallels between 1944 with 2009; after all, the 2008 financial crisis and the serious global recession that followed have, in 2009, caused annual global output to decline for the first time since the end of World War II. Upon further reflection, however, it would be arrogant on our part to give our current economic problems equal billing with those in 1944.

The financial and political clouds hanging over Bretton Woods in 1944 were darker and much more threatening than anything we are experiencing in 2009. The 1944 guests at the Mount Washington Hotel were living through the most destructive and deadly war ever, which had followed closely on the heels of the Great Depression, the collapse of globalization, and World War I. Yet, despite the difficult situation, approximately 500 men and one woman who made up the delegations attending the Bretton Woods Conference managed to agree on a new set of global institutions and rules that would permit global output to grow for 65 years!

Still, it is important to ask why the growth of world GDP suddenly collapsed in 2009. Was there a flaw in the system that John Maynard Keynes, Harry Dexter White, and their fellow delegates put together 65 years ago? Or was their work undermined by subsequent changes in the rules and institutions? I cannot help but question why the Mount Washington Hotel at present is not bustling with economists, government officials, and central bankers in search of a reformed system that can restore economic health for another 65 years. However, this July of 2009, only the thunder of the passing storm disrupts the tranquility of the stately Mount Washington Hotel.

I hope that this textbook on international finance and open-economy macroeconomics will communicate an appreciation for what went on at Bretton Woods in 1944 and a concern about the shortcomings of our current international financial system. Perhaps the success of the Bretton Woods “system” over the past 65 years has reduced the urgency sensed by the 1944 Bretton Woods conference delegates. Surely the 2009 worldwide recession makes it clear that not everything is right with our current system.

More specifically, the purpose of this textbook is to describe how the international financial system operates within the set of economic,

social, and natural environments that we humans inhabit. I hope that the evolutionary perspective of economic theory, combined with historical events and policy debates, succeeds in giving the reader a comprehensible and accurate view of the fascinating complexity of our human existence. Of course, I also hope that I can communicate to you the importance of the international financial system to how humanity copes with the complexity of its existence. However, the accomplishments of Keynes and the others here in Bretton Woods 65 years ago reassure us that humanity has enough knowledge and understanding to shape and improve the economic outcomes generated by these complex interactions. I hope this book gives you a comprehensible view at our human existence and the importance of the international financial system within that existence.

In closing, I would like to thank my wife Barbara for her constant and competent support in my efforts to write a relevant textbook on international finance. Without her suggestions, enthusiastic research, and critical proof-reading, this book would not have been completed. I also want to thank the several hundred students in my undergraduate and graduate international finance classes here at the University of Nebraska for their many comments and suggestions on earlier drafts of this book. Finally, I must acknowledge a huge debt to all the thinkers, teachers, and questioners who, over the centuries, provided the insights that help us make sense of our world today. Holistically, there is really no such thing as a personal accomplishment; everything we do is but a small extension of the efforts and contributions of countless others.

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