CHAPTER

19

International Flows and Macroeconomic Policy

National policies require national boundaries. Yet, as globalization eradicates boundaries, even its advocates agree that "the world will move from closed, nationally controlled systems toward one open, global system under no one's control."[1] If no one is in control, no one makes policies. We have already discussed some of the ways in which globalization undermines the ability of nations to determine their own policies concerning the environment. We will now turn our attention to the impact of globalization of financial capital on macroeconomic policy.

Most financial capital flows are in the forms of electrons flitting from one computer to the next, but such flows can have serious impacts not only on the output of real goods and services, but also on the ability of governments to enact economic policies. According to the IMF, "globalization may be expected to increasingly constrain governments' choices of tax structures and tax rates."[2] The IMF also claims that it is the nation-state that must address issues of distribution and social welfare. Yet the pursuit of global free markets weakens the national policy levers necessary to achieve these goals. We will explain in greater detail how this happens, but an adequate explanation first requires a certain amount of background material on the balance of payments and exchange rate regimes.

[1]L. Bryan and D. Farrell, *Market Unbound: Unleashing Global Capitalism*, New York: Wiley, 1996.

[2]International Monetary Fund, World Economic Outlook, Washington, DC: IMF, 1997.

Balance of Payments

There are two basic types of economic transactions between residents of different countries: the exchange of real goods and services and the exchange of assets. The net outcome of these transactions is measured by the **balance of payments (BOP)**. The BOP has two components, current accounts and capital accounts, corresponding to the two types of transactions.

The **current account** measures the exchange of real goods and services as well as transfer payments. Goods and services are generally consumed in the current period, which is why it is called the current account. Real goods, of course, are market goods. Services include interest payments on loans, royalties on intellectual property, profits earned on investments abroad, and similar transactions. Transfer payments include money workers abroad send home to families, grants to foreign countries, and similar transactions. **Capital accounts** include stocks, bonds, and property abroad. These items are not consumed. They are a stock of capital yielding a flow of revenue.

The *balance of payments* (BOP) is the sum of the current account and capital account.

The *current account* measures the exchange of real goods and services as well as transfer payments—things consumed in the current period.

The *capital account* measures stocks, bonds, and capital abroad—stocks of capital yielding flows of revenue.

Money flowing into a country increases the balance on current account or capital account, and money flowing out of a country decreases it. If a country imports more goods and services than it exports, it runs a deficit in its current account, and if it exports more than it imports, it runs a surplus. Similarly, if foreigners purchase more assets in the home country than the home country purchases abroad, the home country runs a capital account surplus, and if the opposite is true, it runs a deficit. Note that a surplus in the current account can balance out a deficit in the capital account, and vice versa, to keep the balance of payments neutral.

In general, countries try to keep their balance of payments neutral, running neither a surplus nor a deficit. In an accounting sense, formal balance (capital plus current account) is guaranteed by a residual balancing item, formerly gold under the gold standard, but is now guaranteed by changes in a nation's foreign exchange reserves, short-term IMF credits (special drawing rights or SDRs), and IOUs from deficit countries called short-term capital flows.

Exchange Rate Regimes

An **exchange rate** is the amount of one currency you would have to pay to receive a given amount of another. For example, in May 2003 one U.S. dollar could purchase about 70 Angolan kwanza. Any international exchange of goods, services, or assets requires an exchange of currencies, as those who sell generally want to be paid in their own currency. How the exchange of currency takes place depends on the exchange rate regime

used by a particular country, and this regime also determines how economic globalization affects domestic policy levers. There are two basic types of regime: fixed and flexible. When discussing exchange rates, "floating" is synonymous with "flexible."

In a **fixed exchange rate regime**, the value of one country's currency is pegged to that of another country. For example, from 1991 to 2002, the Argentine peso was pegged to the U.S. dollar at a one-to-one ratio; that is, the Central Bank of Argentina agreed to sell as many dollars as anyone wanted for one peso each. Obviously, the central bank needed to have foreign currency on hand to make this exchange. Ideally, this currency came from demand for Argentine products. When an American wanted to buy beef from Argentina or Argentine bonds, the central bank would also sell the required pesos for $1 each.

A problem can occur when nationals of a fixed rate country consistently want to buy more (or fewer) goods, services, and assets from other countries than other countries want to purchase from them, that is, when the fixed rate country is running a BOP deficit (or surplus). If the fixed rate country runs a BOP surplus, it will accumulate excess reserves of foreign currency for which there is insufficient demand. This will put pressure on the country to revalue its currency—for example, offer more dollars per Argentine peso. If the fixed rate country runs a BOP deficit for too long, it will run out of foreign reserves. In this case, there will be pressure to borrow money from abroad and/or devalue its currency—offer fewer dollars per Argentine peso. This is what happened to Argentina when it was forced to devalue its currency in January 2002.

In a **flexible exchange rate regime**, exchange rates are determined by global supply and demand for currencies, and central banks play no direct role. The only foreign currency available for purchase for foreign goods, services, and assets is that which foreigners spend on the purchase of domestic goods, services, and assets. If there is more demand for foreign currency than national currency, the national currency depreciates, and when the opposite is true, the national currency appreciates.[3] Market forces determine the exchange rate. This means that the BOP must always be zero—a current account deficit must be financed by a capital account surplus, and vice versa.

Most of the developed countries have flexible exchange rate regimes, but in reality, they are not perfectly flexible. In many cases, countries will

[3]Under a fixed exchange rate regime, when the domestic currency loses value it is known as devaluation, and when it gains value it is known as revaluation. In either case, this happens directly as a result of central bank policy. Under a flexible exchange rate regime, when market forces cause a currency to lose value, it is known as depreciation, and a gain in value is known as appreciation.

grow concerned that their currencies are overvalued or undervalued, and will buy or sell currency to correct the perceived imbalance. For example, in September 2000, the central banks of the G7 countries[4] coordinated policies to prop up the euro, which had fallen 30% against other currencies in the year since its release.[5] Some countries try to keep their exchange rate within a certain range, which is known as a managed float, somewhat of a hybrid between a fixed and flexible exchange rate.

Potentially, countries can manipulate the supply and demand for their own currencies. For example, high tariffs on imports will reduce the demand for imports, and hence the demand for foreign currencies. Alternatively, a country may simply control capital flows, directly determining the supply of its own currency and the demand for foreign currencies. In this case, national policies can determine the BOP under a fixed rate regime or affect the exchange rate under a flexible rate regime.

Capital Mobility and National Policy Levers

What happens to countries with these two types of exchange rate regimes under economic globalization, when there are no barriers to international exchange of goods, services, and assets (perfect capital mobility)?

Fixed Rate Regimes

Let's take the case of a country in recession. As we discussed in Chapter 16, a country that wants to stimulate economic growth can use either fiscal policy or monetary policy. This is not true, however, in an open economy, where perfect capital mobility means that interest rates between nations cannot vary by much, as money will simply flow to the country offering the highest returns.[6]

For example, what happens when a country with a fixed exchange rate regime wants to stimulate the economy by increasing the money supply? Normally, this approach would lower interest rates, stimulate consumption and investment, and hopefully revive the economy. However, in the absence of restrictions on international capital flows, people can respond to lower interest rates by moving their savings to a country that offers higher rates. To do so, they will sell domestic currency to the central bank in exchange for foreign currency. This reduces the money supply in a process that will theoretically continue until domestic interest rates are ap-

[4]G7 stands for the Group of 7, the seven most powerful industrialized nations in the world—the U.S., Canada, Germany, Japan, Italy, England, and France.

[5]BBC News, September 23, 2000. G7 Ready for Further Euro Action. Online: http://news.bbc.co.uk/hi/english/business/newsid_936000/936917.stm.

[6]In reality, investors are also concerned with risk and look to risk-adjusted returns.

proximately equal to interest rates available elsewhere, thereby reducing foreign reserves in the process. Similarly, if the monetary authority in a fixed exchange rate country tries to reduce the money supply to curb inflationary pressures, it cannot do so. A higher interest rate attracts foreign investors, who purchase domestic currency, driving the money supply back up and the interest rate back down.

What about fiscal policy? What happens if the fixed rate country instead decides to pursue an expansionary fiscal policy to stimulate economic growth and increase employment? Theoretically, an expansionary fiscal policy (i.e., the government spends more than it taxes) will increase domestic interest rates. If high capital mobility means that global interest rates must be approximately equal, an increase in interest rates will lead to an increase in foreign investment in domestic assets. This will increase the surplus in the capital accounts, thus leading to a balance of payments surplus. Moreover, the central bank will be forced to sell domestic currency, increasing the money supply, and driving interest rates back down, further stimulating the economy. By purchasing international currency, the central bank accumulates foreign reserves. It seems then that fiscal policy is particularly effective in the presence of fixed exchange rates and open markets.

Unfortunately, global investors may punish countries that run fiscal deficits. Such countries may be perceived as pursuing unsound macroeconomic policies, increasing the risk of economic instability. Investors dislike risk, and may withdraw money in spite of the higher interest rates. "Risky" countries generally must offer very high interest rates to attract foreign currencies. The higher interest rates, of course, dramatically increase the debt burden on the government, forcing even greater fiscal deficits and subsequent instability (increasing the risk premium once again, in a vicious cycle), or else dramatic cuts in other government programs, which are of course likely to have recessionary impacts. In addition, if the fixed rate country has previously borrowed money from the IMF to maintain its balance of payments, conditions on the loan probably forbid the borrower from increasing its fiscal deficit.

Flexible Rate Regimes

Continuing with our assumption of perfect capital mobility and hence a common international interest rate, what is the impact of a perfectly flexible exchange rate regime on fiscal and monetary policy levers? To understand this scenario, we must make explicit an intuitively obvious point. Under open market regimes, demand for domestically produced goods is determined by domestic demand plus foreign demand for domestic goods. When the domestic currency is highly valued relative to other currencies, foreign goods and services will be cheap relative to domestic ones.

Thus, a strong national currency (a high exchange rate relative to other currencies) increases the demand for imports and reduces the demand for exports, thus reducing national income, and a weak currency decreases the demand for imports and increases the demand for exports, increasing national income. When a currency appreciates or is revalued, it will be similar to a contractionary fiscal policy (i.e., a decrease in government spending, or a shift to the left of the IS curve), and when a currency depreciates or is devalued, it will be similar to an expansionary fiscal policy (i.e., an increase in government spending, or a shift to the right of the IS curve).

Now let's take a look at monetary policy in a country with perfectly flexible exchange rates that wants to stimulate the economy by increasing the money supply and lowering interest rates. Investors then want to transfer domestic currency out of the domestic economy to seek higher returns elsewhere, and they must buy foreign currency to do so. The increased demand for foreign currency drives up its price relative to the domestic currency, which then depreciates. Depreciation of the domestic currency makes domestic production cheaper relative to imports and increases global demand for domestic production. The net result should be greater national income at the same interest rate. It appears, then, that under a flexible exchange rate regime, monetary policy should be highly effective. We should note, however, that global demand has really not changed. Depreciation of the domestic currency implies an appreciation of foreign currencies and reduced income in those countries.

Fiscal policy under a flexible exchange rate regime is a different story, however. If a country in recession attempts to stimulate its economy through government expenditure or tax cuts, this will drive up interest rates. As soon as interest rates increase above the international level, foreign investment in domestic assets will increase. Flexible exchange rates immediately lead to appreciation of the currency, driving up the price of exports and reducing the price of imports. People stop consuming domestic products and purchase imports instead. Firms reduce investment, lay off workers, and/or reduce wages to compensate, lowering the increased interest rates and counteracting the effects of increased government expenditure. In this simplified world, fiscal policy is completely ineffective in the long run.

■ ECONOMIC STABILITY

We now turn to the question of economic stability. Much of the above discussion implicitly assumed perfectly informed, rational actors, who would respond to changes in investment opportunities (such as interest rates) instantaneously and appropriately. Yet global financial capital markets are

characterized by extreme volatility. We frequently see sudden, unpredicted changes in international capital flows in and out of countries that have dramatic impacts on real economic variables in those countries. These impacts tend to spread from country to country and can even lead to global economic crises. Here are some examples:

1. The Latin American debt crisis, which started in 1982 when Mexico found itself unable to make payments on its debt, and quickly spread to 39 other countries.
2. The Tequila crisis, which began in Mexico in December 1994 and required emergency loans of $52 billion from the U.S. Treasury and the IMF.
3. The Asian flu, starting in Thailand in 1997, quickly spreading throughout South East Asia, then on to Africa, Russia, Poland, and Argentina.

All of these crises had certain elements in common. They caught the global markets by surprise, lowered economic output in the affected countries without any change in physical productive capacity, spread from country to country, and had triggers beyond the control of the affected countries. Such crises have occurred at regular intervals for literally hundreds of years. While this means that crises are not solely a consequence

BOX 19-1 PETRO-DOLLARS AND THE LATIN AMERICAN DEBT CRISIS

One of the causes of the Latin American debt crisis was almost certainly the recycling of "petro-dollars," the high profits from the 1973 and 1979 oil price increases invested in banks by the OPEC countries. These petro-dollars were loaned at very low interest rates to LDCs. Unfortunately, the interest rates were floating; that is, they moved up and down with changes in the global interest rate.

In 1981, the U.S. Federal Reserve Bank implemented a tight monetary policy in the U.S. to curb inflation induced by increased oil prices. Simultaneously, the Reagan government engaged in record levels of deficit spending. Both actions drove up interest rates on the dollar, from about 3% in the early 1970s to more than 16% a decade later. At the same time, these high interest rates in the U.S. increased demand for dollars, driving up the value of the dollar relative to other currencies by 11% in 1981 and 17% in 1982, further increasing the dollar denominated debt burden.[a] Not surprisingly, the debtor countries had considerable difficulty repaying their loans under these terms.

[a] *Federal Deposit Insurance Corporation, History of the Eighties—Lessons for the Future, 2001. Online: http://www.fdic.gov/bank/historical/history/index.html.*

of the current push for globalization, it is likely that the increase in the speed and quantity of global financial transactions can dramatically increase their frequency and impacts. Unfortunately, no one understands the dynamics sufficiently to predict the next occurrence.[7] Not only does such volatility reduce the ability of national policy makers to manage the economy, but it can have seriously negative impacts on human well-being.

Financial Crises

Why do such financial crises occur? There are a number of theories. While it is beyond the scope of this text to present them in great detail, we'll mention them briefly. Some crisis may occur as a result of speculative bubbles. Some asset is increasing in value, which attracts investors. The increased demand drives the price of the asset up further, bringing in yet more investors. Investors may know the asset is overvalued, but in any period there is a probability the price will increase and a probability it will crash, so many rational investors risk continued investment. Most economists consider the eventual crash a "market correction."

Other crises result from **moral hazard**. Investors believe they will be bailed out by someone (e.g., by the IMF, as happens frequently) and hence make risky investments. It is a case of a gamble in which the investor keeps the winnings if it succeeds, yet risks little loss if it fails, so investment in the gamble is far higher than it should be.

Yet other crises occur when the "fundamentals" are wrong. Countries allow their exchange rates to become overvalued, run current account deficits that are too high, or print too much money. Speculators see these signs and bet money that corrective action will be taken. Yet again, many economists view the resulting crash as a "market correction"—though many also recognize that the market may take the "correction" too far.

None of these theories adequately explains what happened in Mexico in 1994 and in Asia in 1997, or to a lesser extent in Brazil in 1997–1998.[8] In all of these countries, the evidence points to a self-fulfilling panic. In such a panic, some investors begin to fear that a government will be unable to service its debt because of rising interest rates, falling exchange rates, and/or economic recession. If a government is unable to service its debt, investors will lose on holdings of dollar denominated assets (which are all essentially a form of debt). If the country is unable to maintain its

[7]D. M. Roodman, Still Waiting for the Jubilee: Pragmatic Solutions for the Third World Debt Crisis, World Watch paper 155, Washington, DC: World Watch, 2001.

[8]Brazil reacted quickly to prevent the spread of the flu, but raised the question if the cure was worse than the disease. The country spent some $35 billion in foreign reserves to defend its currency, increased interest rates to over 40%, and introduced budget cuts and tax increases. Economic growth slowed and unemployment increased, but a nearly 70% depreciation of the Brazilian currency since December 1998 was not prevented.

exchange rate, foreign investors will lose on assets denominated in local currency. As some investors withdraw, others become more jittery.

A chain reaction occurs. Capital flees the country *en masse*. With fixed or managed exchange rates, capital flight forces governments to buy local currency and sell dollars, depleting foreign reserves, depriving them of the resources required to pay the foreign debt and maintain exchange rates. While the initial decision to flee was irrational before it was taken, it now becomes a rational decision for any remaining investors to join the panic. Investment in the affected country is now very risky, and national bonds are rated as "junk bonds." Desperate to attain capital, governments are forced to offer higher interest rates to attract the dollars needed to meet short-term obligations, increasing the likelihood that they will be unable to repay this new debt. With higher interest rates and no foreign capital available, local businesses collapse, and the domestic economy spirals downward. Now governments lose the tax revenue necessary to meet debt obligations. Governments are forced to turn to a floating exchange rate, which is almost inevitably accompanied by massive devaluations. Everything the speculators feared comes to pass, but only because investors acted on their fears.

Self-fulfilling panics are basically instances of multiple equilibriums. If speculators withdraw their capital, the rational thing for others is to withdraw capital also, leading to one equilibrium. If speculators leave their capital in place or invest more, then this also becomes the rational act for others, leading to a different equilibrium.[9] The point is that the decision to remain or withdraw is based on imperfect knowledge.

Compounding the problem, when one country devalues its currency, it becomes more competitive in the export market against similar countries. Speculators are then justified in believing that those similar countries will lose access to the resources required to meet their debt obligations. As more economies succumb, the demand for exports decreases. Financial crises clearly generate negative externalities affecting other countries, and economic stability is thus a public good. The instabilities associated with large foreign debt is one reason we like Keynes' rejected idea of the International Clearing Union (discussed in Chapter 17) that penalized both surplus and deficit countries, giving all countries an incentive to avoid large balance of payments deficits that cumulate into foreign debt.

Economic stability is a public good and an important objective of economic policy. If having a larger economy in the distant future is the only goal, then instability does not matter a great deal as long as the long-run

[9]J. A. Sachs, A. Tornell, and A. Velasco, The Mexican Peso Crisis: Sudden Death or Death Foretold? *Journal of International Economics* 41: 265–283 (1996); P. Krugman, Are Currency Crises Self-Fulfilling?, *NBER Macroeconomics Annual*, 345–378 (1996).

BOX 19-2 SELLING SHORT

Another factor contributing to financial instability is when speculators sell the local currency short. To sell short, a speculator essentially borrows the currency from someone else and sells it at the going price, betting that the price will fall (i.e., the government will be forced to devalue) and the local currency loan can be paid back at a lower dollar cost.[a] Simplifying greatly, selling short increases the supply of domestic currency, putting downward pressure on the price. Governments are forced to sell dollars to cover these short positions. If the banks lack the resources, they cannot cover the positions and are forced to devalue. If enough people sell short, devaluation is inevitable, and the speculators profit. If someone highly resected for their financial acumen makes a big speculative investment to sell short another currency, other speculators will take notice and put their money alongside his. Currency speculators can often outspend national governments, forcing even developed countries to devalue their currencies, as happened to England in 1992. This type of herd behavior can turn selling short into a self-fulfilling prophecy.

The perversity of this type of profit from speculation is that the speculators increase their entitlements to real goods and services by controlling more financial resources, yet the production of real goods and services actually declines. When greater wealth goes to those who produce, we call it earned income. What should we call it when greater wealth goes to those who destroy productive capacity?

[a]For example, you borrow pesos and use them to buy dollars. You then hold the dollars waiting for a peso devaluation. Then you use the dollars to buy pesos. You get a lot more pesos than you originally borrowed, thanks to the devaluation. You pay back your loan and have a lot of pesos left over!

trend is toward growth. But a richer future cannot be the only goal for LDCs. When a country's income falls, that means the incomes of people within that country fall. For many people, no income means no access to the basic necessities of life. Governments will find it difficult to defend an economic policy that lets people starve this year by claiming that those starving people will be able to eat three times as much next year. Indeed, it is a fairly well established fact that people react differently to gains than losses, even when they are of the same magnitude. This, in fact, is a basic implication of the theory of diminishing marginal utility. Yet too many economists still seem to miss this point.

THINK ABOUT IT!

Can you explain why the law of diminishing marginal utility suggests we should give more weight to the loss of something than to a gain of equal magnitude?

Box 19-3 Is Risk Aversion Irrational?

It is telling that advocates of globalization complain that "U.S. households show an irrational preference for 'safe' bonds, bank deposits, and money market funds over 'risky' equities, especially where their retirement savings are concerned."[a] The same advocates would have us believe that a desire for stability and security for countries is as irrational as for retirees, as they go on to assert that

> *We are about to enter into an era of explosive growth and change as a result [of globalization], but the journey to prosperity will not be entirely smooth. The capital market will force governments to cut unsustainable entitlement policies including pensions, subsidized healthcare or welfare, and force businesses dependent on government protection to restructure or perish. There are likely to be massive job losses and great social and personal dislocations as these changes take place. The turmoil will be the greatest in Europe and in the developing countries. . . .*[b]

In spite of assertions to the contrary, it is not irrational to favor a small but secure income over a gamble between starvation and fabulous wealth, even if the risk of starvation is small. Nor is it evident that the benefits of explosive growth will compensate for massive job losses, social and personal dislocations, and general turmoil—to say nothing of potential ecological impacts.

[a] *L. L. Bryan and D. Farrel, Buy Stocks, Shun Bonds (Opportunities in the Global Capital Market),* The McKinsey Quarterly *167 (1996).*

[b] *Op. cit.*

Along with the public good/externality problem, two other market failures in financial markets deserve mentioning. Moral hazard, as briefly described above, is widely recognized as a market failure. Yet financial crises are contagious not just between countries, but also between financial institutions. When some banks started to fail during the great depression, this triggered panic that caused other banks to fail. When a financial institution is "too large to fail," governments feel obliged to bail them out, so moral hazard is difficult to avoid if large financial institutions are unregulated. Yet regulated financial sectors have fewer investment opportunities than unregulated sectors, and are likely to be less profitable and attract fewer investors. After all, if the added safety of regulation compensated for the diminished profits, then the financial sector would regulate itself, yet this is clearly not the case. Thus, countries may pursue a "race to the bottom" in terms of financial regulation.

Another serious market failure is the information asymmetry that always exists between lenders and borrowers, which is aggravated when capital crosses international boundaries. Lenders price loans according to

the risks involved, but the borrowers generally have a much clearer understanding of the risks than the lenders. This can lead to adverse selection. If lenders raise interest rates to compensate for unknown risks, then the only borrowers will be those engaged in the riskiest activities.

What has been the global policy response? In both Asian and Mexican crises, the IMF response was to impose tight fiscal and monetary policies on the affected countries. The IMF saw this as imposing discipline on those economies; however, the effect of such policies is to plunge them even further into recession. The IMF is also pursuing further deregulation of global financial movements. In an official communiqué of the IMF Interim Committee issued in April 1998, the IMF declared that it will amend its articles to "[make] the liberalization of capital movements one of the purposes of the Fund and [extend], as needed, the Fund's jurisdiction for this purpose."[10] This in spite of the fact that Michel Camdessus, then president of the IMF, predicted that "a number of developing countries may come under speculative attacks after opening their capital account" as a result of their unsound macroeconomic policies.[11] This, of course, ignores the possibility of self-fulfilling panics and contradicts the original IMF charter to protect the stability of national economies.

Why does the IMF stubbornly pursue such policies, in the face of so much evidence that they are wrong? IMF economists are almost all trained in neoclassical economics. They believe well-informed people make rational choices based on rational expectations. As a result, they believe market prices are rational and lead markets to general rational equilibrium. Where effective markets don't exist, they must be created in order to achieve these harmonious results. The IMF routinely bets billions of other people's dollars that this is the case. In contrast, George Soros, a renowned international financier, routinely bets billions of his own dollars that this is not the case. In his own words, he believes that "people act on the basis of imperfect understanding and equilibrium is beyond reach," and as a result, "market prices are always wrong, in the sense that they present a biased view of the future."[12] Soros frequently wins his bets, while the IMF record speaks for itself. Finally, Soros further claims that

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[10]International Monetary Fund, Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund, Press Release No. 98/14, Washington, D.C., April 16, 1998. Cited in M. Chossudovsky, *Financial Warfare*. Online: http://www.corpwatch.org/trac/globalization/financial/warfare.html.

[11]Communiqué of the IMF Interim Committee, Hong Kong, September 21, 1997. Cited in ibid.

[12]Quoted in W. Greider, *One World, Ready or Not: The Manic Logic of Global Capitalism*, New York: Simon & Schuster, 1997, p. 242.

"extending the market mechanism to all domains has the potential of destroying society,"[13] a belief with which we strongly concur.

BIG IDEAS to remember

- Balance of payments (BOP)
- Current account
- Capital account
- Fixed vs. flexible exchange rates
- Monetary policy under different exchange rate regimes
- Fiscal policy under different exchange rate regimes
- Petro-dollars and debt
- Financial crises
- Speculation
- Economic stability as a public good
- Moral hazard

[13]See Society Under Threat—Soros, *The Guardian*, London, October 31, 1997. Cited in Chossudovsky, op. cit.