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0521843898 - Globalization and the International Financial System: What's Wrong and What Can Be Done

Peter Isard

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GLOBALIZATION AND THE INTERNATIONAL FINANCIAL SYSTEM

Economic globalization has given rise to frequent and severe financial crises in emerging market economies. Many other countries have been unsuccessful in their efforts to generate economic growth and reduce poverty. This book provides perspectives on various aspects of the international financial system that contribute to financial crises and growth failures, and it discusses the remedies that economists have suggested for addressing the underlying problems. It also sheds light on a central feature of the international financial system that remains mysterious to many economists and most noneconomists: the activities of the International Monetary Fund and the factors that influence its effectiveness. Drawing on the views and proposals of leading scholars, Dr. Isard offers policy perspectives on what countries can do to reduce their vulnerabilities to financial crises and growth failures, as well as a number of general directions for systemic reform. The breadth of the agenda provides grounds for optimism that the international financial system can be strengthened considerably without revolutionary change.

Peter Isard is a Senior Advisor at the International Monetary Fund, where he has spent nearly twenty years in the Research Department and now teaches in, and helps manage, the IMF Institute. From 1972 through 1985, Dr. Isard held research and managerial positions in the International Finance Division of the Federal Reserve Board. He has published numerous articles on the behavior of exchange rates, strategies for monetary policy, and directions for reforming the international financial system. His book *Exchange Rate Economics* (Cambridge University Press, 1995) is widely acclaimed.

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*to my father, Walter Isard,
who inspired me to study economics
and strongly encouraged me to write this book*

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WHAT'S WRONG AND WHAT CAN BE DONE

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International Monetary Fund



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List of Abbreviations

CCL	Contingent Credit Line
CFF	Compensatory Finance Facility
EC	European Community
ECB	European Central Bank
EFF	Extended Fund Facility
EMS	European Monetary System
EMU	European Economic and Monetary Union
ERM	Exchange Rate Mechanism
EU	European Union
FDI	foreign direct investment
FSA	financial sector assessment
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
G-5	Group of Five
G-7	Group of Seven
G-8	Group of Eight
G-10	Group of Ten
G-24	Group of Twenty-Four
GATT	General Agreement on Tariffs and Trade
GDDS	General Data Dissemination System
GDP	gross domestic product
HIPC	heavily indebted poor country
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
ITO	International Trade Organization
LIBOR	London interbank offer rate
LOLR	lender of last resort
LTCM	Long-Term Capital Management
NAFTA	North American Free Trade Agreement
NDA	net domestic assets

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NGO	nongovernmental organization
NIPA	national income and product accounts
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PPP	purchasing power parity
PRSP	Poverty-Reduction Strategy Paper
ROSC	Report on the Observance of Standards and Codes
SAF	Structural Adjustment Facility
SBA	stand-by arrangement
SDDS	Special Data Dissemination Standard
SDR	special drawing right
SDRM	Sovereign Debt-Restructuring Mechanism
SRF	Supplemental Reserve Facility
UDROP	Universal Debt Rollover Option with a Penalty
WEO	<i>World Economic Outlook</i>
WTO	World Trade Organization

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Acknowledgments and Disclaimer

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The analysis and opinions in this book are those of the author and, unless otherwise indicated, do not necessarily reflect the views of the IMF or others on its staff. The manuscript was submitted in October 2003; data have been updated through the end of 2003 or early 2004, but the book includes only a few references to material that has become available since October 2003. I have made considerable efforts to avoid factual errors and to provide balanced perspectives on the issues addressed, but the nature of the undertaking suggests that some sins of commission or omission will no doubt be discovered, for which I accept full responsibility.