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978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

The Federal Reserve's Role in the Global Economy

The importance of international considerations in the US Federal Reserve System's deliberations has grown over time as global financial crises and events create ever stronger repercussions in the US economy. This book critically evaluates the role of the Federal Reserve System as a player in the international monetary system over the past 100 years, starting with its initial responsibility under the gold standard and looking ahead to the challenges it will face in the twenty-first century under the fiat standard. The book is based on a conference of the same name held at the Federal Reserve Bank of Dallas in September 2014, as part of the Federal Reserve System's centennial, and contributors include many of the most highly regarded financial historians and policymakers.

Michael D. Bordo is Board of Governors Professor of Economics at Rutgers University. He is also a research associate of the NBER and a distinguished visiting fellow at the Hoover Institution, Stanford University. He has published widely in monetary economics and economic history with 15 books and over 200 journal articles and chapter contributions.

Mark A. Wynne is a vice president at the Federal Reserve Bank of Dallas, Associate Director of Research for International Economics, and the founding Director of the Bank's Globalization and Monetary Policy Institute. In the latter role, Wynne is responsible for developing and leading the Bank's research program on globalization and understanding its implications for the conduct of US monetary policy.

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Frontmatter

[More information](#)

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Frontmatter

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(continued after index)

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Frontmatter

[More information](#)

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Frontmatter

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A Historical Perspective

Edited by

MICHAEL D. BORDO

Rutgers University, New Jersey

MARK A. WYNNE

Federal Reserve Bank of Dallas



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Information on this title: www.cambridge.org/9781107141445

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First published 2016

A catalog record for this publication is available from the British Library.

Library of Congress Cataloging in Publication Data

Names: Bordo, Michael D., editor. | Wynne, Mark A., editor.

Title: The Federal Reserve's role in the global economy : a historical perspective / edited by Michael D. Bordo, Mark A. Wynne.

Description: New York : Cambridge University Press, 2016. |

Series: Studies in macroeconomic history |

Includes bibliographical references and index.

Identifiers: LCCN 2015043517 | ISBN 9781107141445 (hardback)

Subjects: LCSH: Federal Reserve Banks. | Monetary policy – United States. |

Financial crises – United States. | United States – Economic policy – 2009– |

BISAC: BUSINESS & ECONOMICS / Economics / Macroeconomics.

Classification: LCC HG2563.F463 2016 | DDC 332/.042–dc23

LC record available at <http://lcn.loc.gov/2015043517>

ISBN 978-1-107-14144-5 Hardback

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Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

Contents

| | |
|---|----------------|
| <i>Contributor Biographies</i> | <i>page</i> ix |
| <i>Acknowledgments</i> | xix |
| 1. Introduction | 1 |
| <i>Michael D. Bordo and Mark A. Wynne</i> | |
| 2. Doctrinal Determinants, Domestic and International, of Federal Reserve Policy 1914–1933 | 14 |
| <i>Barry Eichengreen</i> | |
| Comments on Eichengreen by | 46 |
| <i>Harold James</i> | |
| 3. Navigating Constraints: The Evolution of Federal Reserve Monetary Policy, 1935–1959 | 50 |
| <i>Mark A. Carlson and David C. Wheelock</i> | |
| Comments on Carlson and Wheelock by | 84 |
| <i>Gary Richardson</i> | |
| 4. Federal Reserve Policy and Bretton Woods | 89 |
| <i>Michael D. Bordo and Owen F. Humpage</i> | |
| Comments on Bordo and Humpage by | 121 |
| <i>James M. Boughton</i> | |
| 5. The Federal Reserve Engages the World (1970–2000): An Insider's Narrative of the Transition to Managed Floating and Financial Turbulence | 128 |
| <i>Edwin M. Truman</i> | |
| Comments on Truman by | 191 |
| <i>Michael P. Dooley</i> | |

Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

viii

Contents

| | | |
|----|---|-----|
| 6. | The Federal Reserve in a Globalized World Economy | 195 |
| | <i>John B. Taylor</i> | |
| | Comments on Taylor by | 218 |
| | <i>Richard H. Clarida</i> | |
| 7. | Unprecedented Actions: The Federal Reserve's Response to the Global Financial Crisis in Historical Perspective | 220 |
| | <i>Frederic S. Mishkin and Eugene N. White</i> | |
| | Comments on Mishkin and White by | 259 |
| | <i>Steven B. Kamin</i> | |
| 8. | Panel Discussion on the Federal Reserve's Role in International Financial Crises | |
| | The Fed's Role in International Crises by | 266 |
| | <i>Donald Kohn</i> | |
| | The Fed in International Crises by | 274 |
| | <i>Charles Bean</i> | |
| | The Global Dollar System by | 278 |
| | <i>Stephen G. Cecchetti</i> | |
| | Perspectives of the Fed's Role in International Crises by | 285 |
| | <i>Guillermo Ortiz</i> | |
| 9. | The Robert V. Roosa Lecture: Excerpts from a Conversation between Richard W. Fisher and Paul A. Volcker | 292 |
| | <i>Index</i> | 301 |

Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

Contributor Biographies

Charles Bean served as deputy governor for monetary policy at the Bank of England, a position he held from 2008 until June 2014. Prior to that, he held positions as executive director and chief economist at the Bank. Bean has served in a variety of other public policy roles, including as a consultant to HM Treasury; special adviser to both the Treasury Committee of the House of Commons and to the Economic and Monetary Affairs Committee of the European Parliament; and as special adviser to the House of Lords inquiry into the European Central Bank. Other previous posts include roles in HM Treasury; professor and department chair at the London School of Economics; and visiting professor at Stanford University. He has published widely, in both professional journals and more popular media, on monetary policy, European unemployment, and macroeconomics, generally. He has served on the boards of several academic journals and was managing editor of the *Review of Economic Studies*. Bean was named president of the Royal Economic Society in 2013 and knighted in June 2014. He earned a BA in economics and mathematics from Emmanuel College, Cambridge, and a PhD from Massachusetts Institute of Technology.

Michael D. Bordo is Board of Governors Professor of Economics and director of the Center for Monetary and Financial History at Rutgers University. He has held previous academic positions at the University of South Carolina and Carleton University in Ottawa, Canada. Bordo has been a visiting professor at the University of California, Los Angeles; Carnegie Mellon University; Princeton University; Harvard University; and Cambridge University, where he was Pitt Professor of American History and Institutions. He is currently a distinguished visiting fellow at the Hoover Institution at Stanford University. Bordo has been a visiting scholar at the International Monetary Fund; Federal Reserve Banks of St.

Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

Louis, Cleveland, and Dallas; Federal Reserve Board of Governors; Bank of Canada; Bank of England; and the Bank for International Settlements. He is a research associate of the National Bureau of Economic Research. He is also a member of the Shadow Open Market Committee. He has published many articles in leading journals and thirteen books on monetary economics and monetary history. He is editor of a series of books for Cambridge University Press titled *Studies in Macroeconomic History*. Bordo has a BA from McGill University, an MSc from the London School of Economics, and a PhD from the University of Chicago.

James M. Boughton is a senior fellow at the Center for International Governance Innovation (CIGI). Prior to joining CIGI, he held a number of positions at the International Monetary Fund, serving as historian, assistant director in the Strategy, Policy, and Review Department, and in various positions in the Research Department. He also was a professor of economics at Indiana University and an economist in the Monetary Division at the Organization for Economic Cooperation and Development in Paris. Boughton is the author of two volumes of IMF history: *Silent Revolution: The International Monetary Fund 1979–1989* and *Tearing Down Walls: The International Monetary Fund 1990–1999*. His other publications include a textbook on money and banking, a book on the US federal funds market, three books on IMF topics that he coedited, and articles in professional journals on international finance, monetary theory and policy, international policy coordination, and the history of economic thought. Boughton earned a BA in economics from Duke University, an MA in economics from the University of Michigan, and a PhD in economics from Duke University.

Mark A. Carlson is a senior economist in the Division of Monetary Affairs at the Federal Reserve Board of Governors. In addition to contributing to staff efforts supporting monetary policy at the Federal Reserve, he has worked on issues related to financial stability and to developments in the commercial banking sector. His research focuses on understanding financial crises, particularly historical episodes such as the banking crises of the 1930s and the panics of the National Banking Era, and on understanding the impact of such crises on financial intermediation. Dr. Carlson's work has been published in the *Journal of Political Economy*; the *Journal of Money, Credit and Banking*; the *Berkeley Economic Journal of Economic Analysis and Policy*; and *Explorations in Economic History*. He received his PhD from the University of California, Berkeley.

Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

Stephen G. Cecchetti is academic dean and a professor of international economics at Brandeis International Business School. Prior to rejoining Brandeis in January 2014, he completed a five-year term as economic adviser and head of the Monetary and Economic Department at the Bank for International Settlements in Basel, Switzerland. While there, Cecchetti participated in numerous postcrisis global regulatory reform initiatives, including involvement with both the Basel Committee on Banking Supervision and the Financial Stability Board in establishing new international standards. Cecchetti's academic appointments include serving on the faculties of the Stern School of Business at New York University and the Department of Economics at the Ohio State University. He has also served as executive vice president and director of research at the Federal Reserve Bank of New York; editor of *Journal of Money, Credit and Banking*; research associate at the National Bureau of Economic Research; and as research fellow at the Center for Economic Policy Research. Cecchetti received a PhD in economics from the University of California, Berkeley.

Richard H. Clarida is the C. Lowell Harriss Professor of Economics and International Affairs at Columbia University, where he has taught since 1988. From February 2002 until May 2003, he served as assistant secretary of the Treasury for economic policy, working as chief economic adviser to the Treasury secretary. Other positions have included chairman of the economics department at Columbia University, professor at Yale University, and senior staff economist with the Reagan administration's Council of Economic Advisers. Clarida's work on monetary policy, exchange rates, interest rates, and international capital flows has appeared in academic journals. He has been a global strategic adviser with PIMCO since 2006. Clarida is a member of the Council on Foreign Relations and the National Bureau of Economic Research. With NBER, he has served as director of the project on and editor of *G7 Current Account Imbalances: Sustainability and Adjustment* (University of Chicago Press, 2007). Since 2004, he has served as coeditor of the *NBER International Macroeconomics Annual* and since 2009 as co-managing editor of the *Journal of Applied Financial Economics*. Clarida received his BS from the University of Illinois and his MA and PhD from Harvard University.

Michael P. Dooley has served as professor of economics at the University of California, Santa Cruz since 1992, after holding positions at the Board of Governors of the Federal Reserve System and in the Research Department of the International Monetary Fund. He is a partner at Cabezon Investment

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978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

Group and Drobny Global Advisors. His research includes issues in open-economy macroeconomics, including Bretton Woods II, crises in emerging markets, debt management, capital controls, capital flight, and liberalization of financial markets. Dooley is also a research associate at the National Bureau of Economic Research and an international research fellow with the Kiel Institute for the World Economy. He is an editor with the *International Journal of Finance and Economics*. Dooley earned a BS in economics from Duquesne University, an MA in economics from the University of Delaware, and a PhD in economics from Pennsylvania State University.

Barry Eichengreen is the George C. Pardee and Helen N. Pardee Professor of Economics and Professor of Political Science at the University of California, Berkeley, where he has taught since 1987. He is also a research associate of the National Bureau of Economic Research, research fellow of the Center for Economic Policy Research, and a fellow of the American Academy of Arts and Sciences. Eichengreen is the convener of the Bellagio Group of academics and economic officials and chair of the Peterson Institute of International Economics' academic advisory committee. He has served as senior policy adviser at the International Monetary Fund, has held Guggenheim and Fulbright fellowships, and has been a fellow of the Center for Advanced Study in the Behavioral Sciences at Stanford University and of the Institute for Advanced Study in Berlin. Eichengreen's recent books are *From Miracle to Maturity: The Growth of the Korean Economy*, with Dwight H. Perkins and Kwanho Shin, and *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. He is also a regular monthly columnist for *Project Syndicate*. Eichengreen earned a PhD in economics from Yale University.

Richard W. Fisher was president and CEO of the Federal Reserve Bank of Dallas from 2005 to 2015. Fisher served as a member of the Federal Open Market Committee, the Federal Reserve's principal monetary policymaking group. He is a former vice chairman of Kissinger McLarty Associates and was founder of Fisher Capital Management and Fisher Ewing Partners. He served as assistant to the secretary of the Treasury during the Carter administration. As deputy US trade representative from 1997 to 2001, Fisher oversaw the implementation of NAFTA and various agreements with Vietnam, Korea, Japan, Chile, and Singapore. He was a senior member of the team that negotiated the bilateral accords for China and Taiwan's accession to the World Trade Organization. Throughout his career, Fisher has served on numerous for-profit and not-for-profit boards, taught graduate courses, and served on several university boards. He also serves on

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978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

Harvard University's Board of Overseers, one of the university's two governing boards. Fisher was a Weatherhead Fellow at Harvard in 2001, is an honorary fellow of Hertford College at Oxford University, and is a fellow of the American Academy of Arts and Sciences. He is a recipient of the Service to Democracy Award and Dwight D. Eisenhower Medal for Public Service from the American Assembly and a Dallas Business Hall of Fame inductee. Fisher attended the US Naval Academy, earned a degree in economics from Harvard University, read Latin American politics at Oxford, and received an MBA from Stanford University.

Owen F. Humpage is a senior economic advisor specializing in international economics in the Research Department of the Federal Reserve Bank of Cleveland. His research focuses on the international aspects of central-bank policies and has appeared in the *International Journal of Central Banking*, the *International Journal of Finance and Economics*, and the *Journal of Money, Credit and Banking*. Humpage has taught at Case Western Reserve University, Oberlin College, Cleveland State University, and Baldwin-Wallace College. He holds a BA in economics from the University of Dayton, an MA in economics from Miami University, and a PhD in economics from Case Western Reserve University.

Harold James, who studies economic and financial history and modern German history, is the Claude and Lore Kelly Professor in European Studies, a professor of history and international affairs, and director of the Contemporary European Politics and Society program at Princeton University. He is also a Marie Curie Visiting Professor at the European University Institute. Before joining Princeton in 1986, he was a fellow of Peterhouse at Cambridge University for eight years. James has authored a number of books, including *International Monetary Cooperation since Bretton Woods*, *The End of Globalization*, and *Making the European Monetary Union*. He is a past recipient of the Helmut Schmidt Prize in German-American Economic History and the Ludwig Erhard Prize for writing about economics. As coauthor of *The Deutsche Bank, 1870–1995*, he won the Financial Times Global Business Book Award in 1996. James holds a PhD from Cambridge University.

Steven B. Kamin is director of the International Finance Division at the Board of Governors of the Federal Reserve System. His fields of interest are open-economy macroeconomics and international finance. Kamin has held a number of positions at the Board, including serving as chief of the international development section and as senior economist. He has also worked

Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

xiv

Contributor Biographies

as a visiting economist at the Bank for International Settlements, senior economist with the Council of Economic Advisers, and as research consultant at the World Bank. Kamin's most recent work has been published in the *Journal of International Economics*, *Journal of Money, Credit and Banking*, and *Journal of International Money and Finance*. Kamin earned a BA in economics and history from the University of California, Berkeley and a PhD in economics from the Massachusetts Institute of Technology.

Donald Kohn is Robert S. Kerr Senior Fellow in the Economic Studies Program at the Brookings Institution. He is also a member of the Financial Policy Committee at the Bank of England. A former vice chairman of the Federal Reserve, he is an expert on monetary policy, financial regulation, and macroeconomics. He advised former Federal Reserve Chairman Ben Bernanke throughout the 2008–09 financial crisis and was a key adviser to former Fed Chairman Alan Greenspan. Kohn is a forty-year veteran of the Federal Reserve System. He has served as an adviser to the Board for monetary policy, secretary of the Federal Open Market Committee, director of the Division of Monetary Affairs, and in a number of other staff positions at the Board of Governors. He was appointed to the Board in 2002 and as vice chair in 2006. He also served as chairman of the Committee on the Global Financial System, a central bank panel that monitors and examines broad issues related to financial markets and systems. Kohn has written extensively on issues related to monetary policy and financial stability. He holds a PhD in economics from the University of Michigan.

Frederic S. Mishkin is the Alfred Lerner Professor of Banking and Financial Institutions at the Graduate School of Business at Columbia University and a research associate at the National Bureau of Economic Research. His research focuses on monetary policy and its impact on financial markets and the aggregate economy. Mishkin is a former member of the Board of Governors of the Federal Reserve System, and he previously served as senior fellow at the FDIC Center for Banking Research, president of the Eastern Economic Association, executive vice president and director of research at the Federal Reserve Bank of New York, and associate economist of the Federal Open Market Committee. Mishkin has taught at the University of Chicago, Northwestern University, Princeton University, and Columbia. He has authored more than 20 books, including *The Economics of Money, Banking and Financial Markets*, and *Financial Markets and Institutions*, and he has published over 200 articles in professional journals and books. Mishkin has served as editor and on the editorial board for numerous academic journals. He has been a consultant to the Federal

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978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)*Contributor Biographies*

xv

Reserve Board, the World Bank, the Inter-American Development Bank, and the International Monetary Fund, as well as to central banks throughout the world. He was also a member of the International Advisory Board to the Financial Supervisory Service of South Korea and an adviser to the Institute for Monetary and Economic Research at the Bank of Korea. Mishkin received his PhD in economics from the Massachusetts Institute of Technology.

Guillermo Ortiz is chairman of Grupo Financiero Banorte–IXE. He was governor of the Banco de México from 1998 to 2009. He served as secretary of Mexico's Finance Ministry from 1994 to 1997 and undersecretary from 1988 to 1994. He is a member of the Group of Thirty. He chairs the Per Jacobsson Foundation and is on the board of the Center for Financial Stability, the advisory council of the SWIFT Institute, and the advisory board of the Globalization and Monetary Policy Institute at the Federal Reserve Bank of Dallas. Ortiz is also director and member of other international organizations and serves on the board of several companies. His previous posts include executive director at the International Monetary Fund and manager in the Economic Research Department of the Banco de México. He served as chairman of the board of the Bank for International Settlements, where he also chaired the Central Bank Governance Forum. Ortiz also was a member of the Committee to Study Sustainable Long-Term Financing of the IMF and on the Committee on IMF Governance Reform. While at the IMF, he chaired the External Panel for the Review of the Fund's Risk Management Framework. Ortiz has taught at universities in Mexico and the United States. He has written and published two books and numerous papers on economics and finance in specialized journals in Mexico and abroad and has received several honors and awards. He graduated from the National Autonomous University of Mexico (UNAM) and earned master's and doctoral degrees in economics from Stanford University.

Gary Richardson joined the Federal Reserve System as historian in 2012. The position was established in connection with the centennial of the Federal Reserve, which marked its hundredth anniversary in December 2013. As the Fed's historian, Richardson collaborates with experts at the Federal Reserve and other organizations to identify, preserve, and make accessible the Fed's historical materials. At the time of his appointment at the Fed, Richardson was an economics professor at the University of California, Irvine and served as a faculty research associate at the National Bureau of Economic Research. He has lectured and written numerous articles on banking, monetary policy, and the Fed. Richardson conducts his

Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)

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John B. Taylor is the Mary and Robert Raymond Professor of Economics at Stanford University and the director of the Introductory Economics Center. He is also the George P. Shultz Senior Fellow in Economics at the Hoover Institution and a senior fellow of the Stanford Institute for Economic Policy Research. Taylor's academic fields of expertise are macroeconomics, monetary economics, and international economics. His research on the foundations of modern monetary theory and policy has been applied by central banks and financial market analysts around the world. He has been on the President's Council of Economic Advisers, the Congressional Budget Office's Panel of Economic Advisers, and the California Governor's Council of Economic Advisors. Taylor served as Undersecretary of Treasury for International Affairs from 2001 to 2005. He is the author of *Global Financial Warriors: The Untold Story of International Finance in the Post-9/11 World*; *Getting Off Track: How Government Actions and Interventions Caused, Prolonged and Worsened the Financial Crisis*; and *First Principles: Five Keys to Restoring America's Prosperity*, for which he was awarded the Hayek Prize. Among other awards, he received the Treasury Distinguished Service Award and the Medal of the Republic of Uruguay. Taylor is a Guggenheim Fellow and a fellow of the American Academy of Arts and Sciences and the Econometric Society. He formerly served as professor of economics at Princeton University and Columbia University. Taylor received a BA in economics from Princeton and a PhD in economics from Stanford.

Edwin M. Truman, joined the Peterson Institute for International Economics as a senior fellow in 2001, and has been a nonresident senior fellow since 2013. Previously he served as Assistant Secretary of the US Treasury for International Affairs from December 1998 to January 2001 and returned as counselor to the secretary in 2009. He also served as director of the Division of International Finance of the Board of Governors of the Federal Reserve System and was one of three economists on the staff of the Federal Open Market Committee. Truman has been a member of numerous international groups working on economic and financial issues. He has also been a visiting economics lecturer at Amherst College and a visiting economics professor at Williams College. He has published on international monetary economics, international debt problems, economic development, and European economic integration. He is the author, coauthor or editor of

Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

[More information](#)*Contributor Biographies*

xvii

Sovereign Wealth Funds: Threat or Salvation? (2010), *Reforming the IMF for the 21st Century* (2006), *A Strategy for IMF Reform* (2006), *Chasing Dirty Money: The Fight Against Money Laundering* (2004), and *Inflation Targeting in the World Economy* (2003). Truman has a BA from Amherst College and a PhD in economics from Yale University.

Paul A. Volcker launched the Volcker Alliance in 2013 to address the challenge of effective execution of public policies and to help rebuild trust in government. Volcker worked in the US federal government for almost thirty years, culminating in two terms as chairman of the Board of Governors of the Federal Reserve System from 1979 to 1987. For ten years, he served as chairman of Wolfensohn & Co., as well as professor emeritus of International Economic Policy at Princeton University. From 1996 to 1999, he was chairman of a committee to determine existing dormant accounts and other assets in Swiss banks of victims of Nazi persecution. From 2000 to 2005, he served as chairman of the board of trustees of the International Accounting Standards Committee. In April 2004, he was asked by UN Secretary-General Kofi Annan to chair an inquiry into the United Nations' Oil-for-Food Program. In 2007, he was asked by the president of the World Bank to chair a panel of experts to review the operations of the bank's Department of Institutional Integrity. From November 2008 to 2011, he served as chairman of the President's Economic Recovery Advisory Board. Volcker was educated at Princeton, Harvard, and the London School of Economics.

David C. Wheelock, who joined the Federal Reserve Bank of St. Louis in 1993, is vice president and deputy director of the Research Division. He serves as an adviser to the Bank president on monetary policy and conducts policy-related economic research. Before joining the St. Louis Fed, Wheelock was a faculty member of the Department of Economics at the University of Texas at Austin. He has written numerous articles on banking and monetary policy topics for professional journals and Federal Reserve publications. Wheelock is the author of *The Strategy and Consistency of Federal Reserve Monetary Policy, 1924–1933*. Wheelock received a BS from Iowa State University and an MS and PhD from the University of Illinois at Urbana-Champaign.

Eugene N. White is Distinguished Professor of Economics at Rutgers University and a research associate of the National Bureau of Economic Research. He has written extensively on stock market and real estate booms and crashes, conflicts of interest, deposit insurance, banking supervision,

Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

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the microstructure of securities markets, and war finance. He testified before the Congressional Oversight Panel for the Troubled Asset Relief Program and served on the Federal Reserve's Centennial Advisory Council. He is currently at work on studies of the evolution of bank supervision in the United States and of central banking in Europe. On sabbatical this year, he is a visiting scholar at the Banque de France and a visiting professor at the École des Hautes Études en Sciences Sociales in Paris. White earned an AB in history from Harvard University, a BA in history and economics from Oxford University, and an MA and PhD in economics from the University of Illinois Urbana-Champaign.

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Cambridge University Press

978-1-107-14144-5 - The Federal Reserve's Role in the Global Economy: A Historical Perspective

Edited by Michael D. Bordo and Mark A. Wynne

Frontmatter

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Acknowledgments

The chapters in this book were prepared for a conference on “The Federal Reserve’s Role in the Global Economy: A Historical Perspective” that was hosted by the Federal Reserve Bank of Dallas on September 18–19, 2014, as part of the Federal Reserve System’s centennial observances. We would like to thank Richard Fisher, former president and chief executive officer of the Federal Reserve Bank of Dallas, and Harvey Rosenblum, former executive vice president and director of Research at the Federal Reserve Bank of Dallas, for their support for the conference. We would also like to thank Kay Gribbin, Laurel Brewster, Jenae Golden, and Magda Salazar for logistical support during the conference, and especially Valerie Grossman for her outstanding assistance with the preparation of this book.