Index

Ability-to-pay principle, 88
Adverse development, degrees of, 24
Allocational efficiency, 111
Allocational incentives, 75–78
Aoki, M., 305, 326n18
Assignment problem, 175n5
Autonomy, 6, 9–12, 15

Bagehot, Walter, 75, 99–100
Balance of payments
  continuous equilibrium in, 184
  crisis in, 31
  domestic expenditures and, 161
  financing of, 58
  monetary approach to analysis of, 184
  policies for, 12–13
Banking crisis, 26–28, 33, 35–41
Banking, international problems of, 40
Benefit principle, 88
Bhagwati, Jagdish, 121n46, 251
Bond covenants, 257
Bonds, international, 138–140, 142
Bonn economic summit, 63–64
Borrowing
  external, 234–235, 247–253, 258–259, 262–265, 267 (see also Debt, external)
Braga de Macedo, J., 326n13
Breakdown, as degree of adverse development, 24, 48
Breton, A., 131
Bretton Woods Agreement, 7–8, 13, 29–30, 311
Bretton Woods system, breakdown of, 31–33
Bryant, R. C., 325n5, 326n11
Burke, Edmund, 98–99

Cairncross, A. K., 134
Callaghan, James, 224
Capital markets
  distinguished from money markets, 137
  domestic, 148
  indirect linkages between, 141–142
  integration of, 140, 144, 147, 151–154
  interdependence of, 148–151
Capital mobility, 155, 159, 168, 179. See also Capital movements
domestic implications of, 147–148
and exchange-rate policy, 151
in Fleming's open-economy model, 182–184
interest sensitivity of, 181–182, 184, 189
and interest taxation, 150
restrictions on, 8, 196
short-term, 141
Capital movements, 138–142. See also Capital mobility
  and foreign-trade multipliers, 160–162
  equilibrium models of, 183–190
  interest sensitivity of, 173–174, 182
  portfolio balance and, 174
  short-term, 105
Carter, Jimmy (President), 62
Catastrophe, as degree of adverse development, 24
Caves, R., 183
Central American Common Market, 134
Centralization, 15–18, 134–135
Choudry, N., 183
CIEC, 59
Closed economies, 80
  and expenditure location, 79–81
  monetary policy in, 180
  repudiation risk in, 236
Cohen, D., 253, 256
Index

Colbert, J. B., 97, 98
Collapse. See Breakdown
Commodity markets, internationalization of, 78
Concessional aid, 270
Conference on International Economic Cooperation, 59
Consumption smoothing rule, 240
Cooper, C. A., 126
Cooperation, international advantages of, 309–310
developing countries and, 48–49
erosion of, 47–49
oil crisis and, 59–60
Coordination of economic policy, 64–66, 155–178, 314–319
lack of, 173
and national objectives, 173
obstacles to, 321–323
Corporate havens, 107
Country factor, in international lending, 261
Cournot, August, 71, 292, 307, 312
Cournot-Nash noncooperative solution, 307, 312
Credit rationing, 235
Credit squeeze, with devaluation, 212
Crisis, as degree of adverse development, 24, 48
Currency speculation, 188
Debt, external, 138
of government, 261
and macroeconomic policy, 259–261
taxation of, 251
Debt/GDP ratio, 265, 267–269
Debt maturity, 251–253, 272
Debtor utility, 237
instantaneous, 238
intertemporal, 238–239, 244
Debt policy, goal of, 237
Debt relief, 236, 247
Debt repudiation, 253–259
Debt rescheduling, 37–38
Debt-servicing ratio, 265
Debt servicing, taxation and, 244, 247, 270
Decentralization. See Centralization
Decentralized system, stabilization in, 305–306
Default, 36–38
Demand aggregate, 73, 94, 206–213, 224
deficient, 94–95
Devaluation accompanied by expansionary policies, 213
concerns about, 200, 214–215, 223
in developing countries, 200, 202
effects of, 200–226, 260
management of, 222, 224–226
in multiple-exchange-rate system, 200–202
standard analysis of, 200, 203, 213–224
and wage-price spiral, 218, 222
Developing countries devaluation in (see Devaluation, effects of) and foreign-exchange system, 200
inflationary policies pursued by, 203
integration of, 134
laissez faire as borrowing strategy in, 261
as markets, 62
Díaz-Alejandro, C. F., 211, 250
Distance, economic, 78–80, 113–114
Distributional aims, 109, 111
Distributive effect, 210
Disturbance, as degree of adverse development, 24
Disturbances, 126, 128–130
exogenous, 293
of expenditure, 161, 167–172
monetary, 161, 167–179
pooling of, 83
Dornbusch, R., 186, 191, 230
Dual-exchange-rate system, 213
Dynamic adjustment model, 156–174
Dynamic budget constraint, 230–231
Dynamic economic structure, equation for, 301
Economies of scale, 75, 90, 96, 126–127, 132–133
Educational subsidies, and national market, 76
Enclaves, 117n6
Endogenous disturbances, interdependence among, 289
Energy policy, in macroeconomic policy, 66–67
Equilibrium change, 79–81, 160
Equity markets, integration in, 144, 149
Eurocurrency market, 35, 105, 107, 141–142
European Economic Community, 20, 44, 106, 124, 133, 313, 318–319
Exchange rates. See also Fixed exchange rate; Floating exchange rate
alteration of, by monetary action, 87
and capital markets, 143
manipulation of, 28, 201–203
and national policies, 9
regime for, 12, 85, 197
Export-credit concessions, 12
Export goods, 203–204
Externalities, 75, 83, 89–90, 96, 126–127, 132
Factor markets, 78
Factor mobility, 128–129, 132
Factor-price level, changes in, 194–196
Federal Reserve System, 39–41, 50n4, 67n5, 100
Fiscal policy
coordination of, 63, 66
effectiveness of, 73–74, 78, 81–85
and interest rates, 169
in mathematical models, 159, 294–297, 299
Fixed exchange rate, 7, 8, 16, 32, 105, 186, 189, 311
in Bretton Woods system, 32
in cooperative model, 311–312
in dynamic adjustment model, 157, 173
and external borrowing, 260
and monetary control, 260
in small-country models, 181–183, 185, 294–297
Flags of convenience, 9–10, 20
Fleming, M., 179–180, 184
Fleming open-economy model, 180–183, 185
fiscal policy in, 182
fixed vs. floating exchange rates in, 181–182
monetary policy in, 181–182
results of, 182–183, 186, 190
small-country assumptions of, 181
weaknesses of, 183–198
Floating exchange rate, 12, 17, 32–35, 65–66, 106, 189–190, 192, 195
in cooperative models, 307–311
and financial markets, 86–87
in Genberg-Kierzkowski model, 186–188
insulation provided by, 192–194
and interdependence, 301, 315
in open economy, 181–183
policy dilemmas resulting from, 34
as shock absorber, 35
Flow equilibrium model, 186
Foreign borrowing. See Borrowing, external; Debt, external
Foreign exchange
crisis in, 33–34
rationing of, 204–205
Franklin National Bank, 38–40, 50n15, 61
Free markets, historical development
toward, 73, 96–108
Friedman, Milton, 50n4
Functional federalism, 112, 132–133
Galbraith, J. K., 23, 222
GATT. See General Agreement on Tariffs and Trade
Genberg, H., 186, 188
Genberg-Kierzkowski open-economy devaluation model, 186–189
General Agreement on Tariffs and Trade, 29–30, 111, 124, 319
Geographic effects, in expansionary fiscal policy, 73–74
Gold standard, 27–28
Government expenditure, in mathematical models, 157, 161, 294, 296
Government responsibility, in external borrowing, 250, 258, 262–265
Hamada, K., 306–307, 311
Hanson, J., 186
Heckscher, Eli, 98
Heckscher-Ohlin-Samuelson theorem, 128
Heller, Walter, 59–60
Hirschman, Albert, 324n1
Hoover, Herbert (President), 26, 28–29
Human capital, 76
Hume, David, 184
IEA. See International Energy Agency
IMF. See International Monetary Fund
Import liberalization, with devaluation, 212, 215–218, 225
Import-substituting investment, 200–201, 203
Income redistribution, 87–89, 91, 95, 104
Industrial locations, competition for, 106
Industrial policy, 323
Infinite-horizon problem, 239, 275–276
Information, exchange of, 315, 317–318
Integrated area, optimal size of, 124–125, 127–133
Integration, 129–130, 291–292
  distinctions within concept of, 124–126
  institutional, 124
  regional vs. global, 134
Interdependence
causal, 289
economic, vs. psychological, 5
institutional, 5
vs. integration, 292–292
multidimensionality of, 290, 302
and national policies, 5–9, 13–21, 85, 294–299
national responses to, 9–13, 148–151, 314–319
parameters of, 156, 173–174
sensitivity, 19, 290–291
structural, 292–300
types of, 292–293
vulnerability, 325n3
Interest-equization tax, 148, 258, 315
Interest rates
  change in, 185
  convergence of, 143–144
differentials in, 159
as marginal cost measure, 238
as policy target, 160
and solvency constraint, 133–134
International Bank for Reconstruction and Development. See World Bank
International economic system, 33, 51n21
International Energy Agency, 44–45, 57
International Monetary Fund, 30, 34, 46, 58, 199, 202
Investment
direct, 141–142, 271
foreign equity, 270–271
Japan, as oligop, 313
Jensen, M., 256
Johnson, H. G., 126
Kaiser, Karl, 21n3
Kemp, Murray, 227n5
Kenin, P. B., 129–130, 185–186
  open-economy model of, 185
Keohane, R. O., 290
Keynes, J. M., 54–55, 73, 84–85, 109, 173
Kharas, H. J., 246
Kierzkowski, H., 186, 188
Kindleberger, C. P., 26, 121n44, 323
Kissinger, Henry, 57
Laissez faire, 97–99, 110
  and foreign borrowing, 241, 249–251, 261–265
Laursen-Metzler effect, 227n5
Lender of last resort, 40–41, 61
Lending cutoff, and optimal borrowing strategy, 248–249
Lindahl, Erik, 88
Linkages, international, 297–299
Liquidity risks, short-run, 248–249
Locomotive theory, 61–64, 68n9, 68n10
Machlup, F., 201
McKinnon, R. I., 114, 130, 184, 190
Markets
classification of. See Assignment problem
  failure of, 75–76
  fragmentation of, 5, 10
  growth of, 96–108
  internalization of, 71–72, 85–87
  national, 72–73
  reliance on, 72–78
  secondary, 139–140
Marshall, Alfred, 71–72, 209, 292
Marshall-Lerner condition, 209
Massel, B. V. E., 126
Meckling, W., 256
Metzler, L. A., 155, 227n5
Mobility
  and allocation of resources, 89
  and domestic policies, 78, 94, 101–105, 107
  and jurisdiction size, 128
  policy responses to, 94–96, 108
  and regulation, 89, 93, 128, 324
  and world economy, 105–108
Monetary policy
  and balance-of-payments position, 147
  capital-market integration and, 147
  demand and, 169
  and national markets, 74–75, 87
  in noncooperative regime, 311–312
Money illusion, 130, 194–196
Money markets, 99, 137, 141. See also Capital markets
Monnet, Jean, 125
Monopoly, 93
Multilateral Trade Negotiations, 47
Mundell, R. A., 129–130, 155–156, 163,
Index

179, 183, 185, 304, 326n18
Mutual dependence, 290–291
Myrdal, Gunnar, 22n11

Nash, G. D., 236, 307, 312
Nash bargaining solution, with repudiation 236
Nation-states, as ideal type, 15–16
New Economic Policy of 1971 (U.S.), 22n12
Noncooperative solution, outcome of, 313–314
Nontradeables, in optimal borrowing model, 241–243, 267–268
Nordhaus, William, 69n14
nth-country problem, 317
Nye, J. S., 290

Oates, Wallace, 114, 120n41
OECD. See Organization for Economic Cooperation and Development
Ohlin, B., 117n3
Oil crisis
  current threat of, 31, 33, 41–46
  IEA sharing plan for, 45, 57
  inadequacy of preparation for, 43, 48
  military action in, 45–46
  of 1974, 41–42, 44, 53–55
  of 1979, 41–42, 45
  secondary impact on economies of, 42–43
Oil import dependency, reduction of, 44
Oil price increase, effects of, 42, 53–56, 66–67
Oligops, 313–314
OPEC. See Organization of Petroleum Exporting Countries
Openness, 291, 325n5, 325n7
Optimal-tariff theory, 219
Organization for Economic Cooperation and Development, 46, 49, 57–60, 62, 66, 140
Organization of Petroleum Exporting Countries, 36, 39–49, 53–54, 57, 59, 66
Overborrowing, 246, 250, 257
Overshooting, 65
Oxenstierna, Axel, 97–98

Patinkin, D., 187
Payments, fundamental disequilibrium of, 199, 206

Phelps, E. S., 67n2
Policy-adjustment rule, 304
Policy coefficients, 326n13
Policy instruments, 156, 200, 212, 313–314
and mobility, 94–95, 314
and openness, 299, 314
and higher interdependence, 323
in mathematical models, 159–160, 162–163, 294–297
search for, 314–315, 323
Policy interdependence, 293
Policy making, decentralized, 156, 319–324
Policy-objective interdependence, 292–293
Portfolio-equilibrium model. See Stock-equilibrium model
Protectionism, 46–47, 315, 317
Public expenditure, financing of, 88
Public goods, 125–127
  international, 313
  optimal provision for, 89–90, 126, 130–132, 134
Reciprocal dependence. See Mutual dependence
Recycling problem, 58
Regional economic jurisdictions, 123–126, 133–135
Regulation
  history of, in U.S., 101–105
  of incorporated businesses, 102
  in late Middle Ages, 97–99
  and mobility, 93
  and national markets, 77–78
  as a public good, 92–93
  redistribution as motive for, 93
Repudiation risk, in external borrowing, 235–237, 253–259, 267
Resource efficiency effect, 212–213
Reuber, G., 183
Revaluation, 199, 211–212
Rhomberg, R., 183
Rule-bound international regimes, 319–321

Sachs, J., 230, 240, 253, 256, 328n33
Samuelson, P. A., 132
Schwartz, Anna, 50n4
Small-country assumptions, 181
Smith, Adam, 98, 110–111, 257
Social-welfare function, 230, 237, 241
Solvency constraint, 231–234, 239–247, 267
   defined, 232
   and interest rates, 233–234
Sovereignty, economic, 21n4. See also
   Autonomy
Special Drawing Rights, 5, 32, 201, 312,
   317, 320
Speculative effect, in devaluation, 210
Srinivasan, T. N., 251
Stabilization, 126, 128–130, 132, 185–186,
   191
   under decentralized system, 111
   and exchange-rate regimes, 185, 191
   expenditure locus in, 78–79
   fiscal policy used for, 73, 78–85, 186
   monetary policy used for, 141, 147–148,
   186
Stackelberg, H. von, 307, 312
Stackelberg–Nash solution, 307, 312
Stock-equilibrium model, 183–188
Subsidies, and national markets, 75–78
Supranational state, as ideal type, 15–16,
   150
System capacity, 131

Tariff war, 26
Taxation
   beyond national boundaries, 150
   history of, in U.S., 101–105
   redistributive, 92
   by states, 102–103
Tax ceiling, and solvency constraint, 245
Tax/expenditure system, 88–91, 323
Tax jurisdiction, mobility and, 92
Temin, Peter, 26
Tiebout, Charles, 89, 95–96, 118n12
Tinbergen, J., 156, 304
Tobin, J., 187, 326n13
Tradeables, in optimal borrowing model,
   241–243, 267–268
Trade credits, 271–272
Trade wars, 33, 46–47
Trading blocs, 123, 126
Triffin, Robert, 125

Unemployment, exportation of, 4
United States
   hegemony of, 16
   expansionary monetary policy of, 62–63,
   105
   as oligop, 313