Preface

In a world where national economies have become more and more integrated, there is an urgent need to study the nature of interdependence among national economies. The nature of interdependence differs depending on whether the international monetary system is based on fixed exchange rates or on flexible exchange rates. Thus, the choice of an international monetary regime strongly influences the joint outcomes of the macroeconomic policies pursued by each country.

Two questions emerge when we consider the problem of the choice of an international monetary regime. First, how does the choice affect the nature of policy interdependence and the distribution of economic welfare among countries? Second, given the answer to the first question, what kind of international monetary regime will each country desire, and what kind of international monetary regime is likely to be realized?

I have been studying the politico-economic aspects of the choice of an international monetary regime and the interdependence of national monetary policies from these perspectives for more than ten years. This book integrates my articles on these subjects into a unified framework that is accessible to nontechnical readers.

In the first three chapters, I discuss the kinds of incentives participating countries face when deciding whether to agree on the adoption or alteration of a monetary regime. I will not be concerned so much with the question that already has been discussed extensively—the question of what is the ideal international monetary system—as with the question of what kinds of monetary regimes are more likely to be agreed on given the structure of the benefits and costs that those regimes confer on participating countries. In the second half of the book, I discuss how the nature of policy interdependence differs depending on the exchange rate regime. The linkages between national economies will be discussed not only in the context of extreme models of the Keynesian and monetarist types but also in the context of models in which inflation and unemployment coexist.

Throughout the book I appeal to the modern apparatus of economic theory. The concepts and frameworks of game theory, public economics, and oligopoly theory will be utilized extensively. These concepts and analytical methods will help us to understand the logical structure of the problem of interdependence.

In a world in which a few large nations have substantial influence, the recognition of mutual strategic interdependence is crucial. The analytical methods of oligopoly theory and game theory are effective for studying these situations. A system of flexible exchange rates has the merit of granting a higher degree of autonomy to the monetary authorities of participating countries as compared with a system of fixed exchange rates.

In the course of preparing this book, I have received support and assistance from many friends and colleagues. Makoto Sakurai of the Export-Import Bank of Japan kindly allowed me to incorporate a paper I wrote jointly with him into chapter 7. I would like to thank particularly Professor Ken-ichi Inada, editor of the Series of Quantitative Economics, and two anonymous referees for their helpful comments. Many other people have commented on various parts of the manuscript, and their help will be acknowledged at the beginning of each chapter. I am grateful to the Institute for Industrial Economics, the University of Tokyo, and the Tokyo Center for Economic Research for financial assistance. Finally, I thank Yūko Matsumoto and Yuriko Hiratsuka, who helped in preparing the manuscript, and Satoko Akita, who proofread the text. Mitsuo Koyama of the Sōbunsha Company edited the manuscript with great care and improved it substantially.

This book is dedicated to the late Professor Tsunehiko Watanabe. Tsunehiko Watanabe was not a specialist in international finance; however, he gave me stimulating criticism when I first presented some of the basic ideas developed in this book in a fragmentary, premature form at the Zushi Conference, organized by the Tokyo Center for Economic Research, in 1966. In the last conversation I had with him before his death, I told him of my plans to publish this book in the Series of Quantitative Economics, of which he was one of the enthusiastic editors. He always loved to talk to younger economists and to encourage our researches and experiments. I feel, still now, as if he were just about to appear beside my desk with his smiling, youthful face.

This is an adapted translation of my book *Kokusai Kinyū no Seiji Keizaigaku*, published by Sōbunsha in 1982. To this edition I have added a short postscript on recent developments in the field that seem to be attracting much attention.

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Koichi Hamada
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