

*The Money Doctors: The Experience of International Financial Advising 1850-2000*. Ed. by Marc Flandreau. London and New York, Routledge, 2003. Pp 1-312, \$135, cloth.

This fine collection of 10 papers, with an overview introduction by Marc Flandreau, spans how foreign advisors proffered advice to countries suffering financial crises during the classical gold standard before 1914, the more chaotic interwar period of the 1920s into the early 1940s, and then the postwar doctrines of the International Monetary Fund (IMF) when it was the world's chief monetary physician.

The three periods are more remarkable for their similarities than their differences. Recurring bouts of countries' losing monetary or fiscal control, often accompanied by international over borrowing followed by threatened devaluation, is depressingly familiar. Foreign advice, if it was to have a chance to be effective, carried with it the (implicit) promise of international bridging finance—often associated with debt consolidation—to help the country surmount its crisis with less painful internal retrenchment.

In the first two periods, however, this bridging finance was usually provided by some major international investment house—such as Rothschild or J.P. Morgan—with the money doctors being remarkable individuals. One such was the Princeton Professor Edwin Kemmerer, who promoted monetary reforms throughout Latin America and some parts of Asia from 1903 into the 1930s. Immediately after World War II, however, it was government agencies such as the U.S Treasury with its Marshall Plan and various development assistance programs. Since then, the IMF has been the principal international crisis manager—with less scope for colorful free-lance money doctors.

Has the quality of monetary medical care improved with its greater bureaucratization? A loaded question to be sure. However, in each period, institutional arrangements in the international economy *and* economic doctrines, which cycle through time, predominated. Under the gold standard, the traditional conservative advice was to consolidate errant public finances and tighten domestic monetary policy in preparation for a return to full convertibility at the traditional mint parity, if possible. Insofar as a new or revamped central bank was set up as in the Kemmerer missions, the central bank's future flexibility was to be severely limited by the gold convertibility constraint and the “real bills” doctrine: that discount loans could only be made on the basis of fully

collateralized commercial paper, with no direct lending to the government or its designees. Some of the international bridging loans, which would be conditional on these reforms being made, could provide gold backing for any new currency issued.

Rather than accepting a permanent devaluation, the post-crisis appreciation back to a traditional parity would make it easier for domestic private debtors, as well as the government, to repay their (restructured) foreign currency debts. And, of course, the international banking house, which was the lead manager for the bridge loan, was mainly interested in having it and its syndicated co-lenders be repaid. Unlike the modern period, poverty alleviation and “development” were not explicit objectives. But perhaps this tough love worked better, at least until the implosion of the international gold standard in the 1930s.

With the collapse of the gold standard and the advent of Keynesian economics, the ideology of monetary reform for developing countries changed dramatically. In a fascinating chapter, Eric Helleiner shows how, immediately after World War II, money doctoring, led by Yale University’s Robert Triffin together with U.S. Federal Reserve and Treasury officials, turned away from the traditional Kemmerer fixed-exchange-rate orthodoxy of gearing monetary policy to respond to changes in the balance of payments. Instead, economic development became the focus: the government was not discouraged from leaning on the central bank to direct subsidized credit to the private sector or to government-controlled agencies. In addition, capital controls and tariffs were considered complementary to a more nationally oriented monetary policy—particularly in Latin America where Robert Triffin and Raul Prebisch made common cause.

An intriguing subtext in Helleiner’s paper was the pressure from the new money doctors, often American but including the IMF and IBRD, to hasten the dissolution of currency boards in ex-British colonies in East and West Africa, the Indian subcontinent, and Malaya, in favor of national central banks. Partly to preserve the sterling area as a potential financial resource for Britain, but also because of the suspicion that newly independent governments might well abuse their money-issuing powers, the British Treasury lobbied hard to keep currency boards—particularly those spanning contiguous countries—intact. But anti-imperialist money doctors, notably Thomas Balogh of Cambridge University, made common cause with left-of-center native politicians in the

newly independent countries to force the breakup of regional currency boards into national central banks. France resisted this change in ideology much more effectively, and maintained its CFA zone in Africa more or less intact with only one or two defections. Subsequently, the French African countries have had a much better record of monetary stability than the rest of Africa.

The irony in all of this is that, by the 1990s, the IMF had returned to trying to impose “hard” money systems, including the occasional currency board or outright dollarization, on its struggling clients in Africa and Latin America, but with indifferent success. After recognizing that the gold standard is passé, a resurrected Professor Edwin Kemmerer might well feel vindicated—although somewhat saddened—by the monetary chaos in so many of his former clients.

Ronald McKinnon  
Stanford University