

three “doorstep conditions” that make the transition to open-access societies possible must be attained.

This is particularly important in the case of the key doorstep condition—consolidated political control of the military. North, Wallis, and Weingast’s analysis thus also explains why the Great Transition is sometimes accompanied by great violence, but often it is not. The key here is that the natural state’s mode of controlling violence (essentially a power-sharing arrangement among privileged elites) not collapse before the open-access societies’ mode (consolidated political control of the military) is in place. The communist regimes installed in Eastern Europe by the Soviets after World War II were ugly, brutal, and reprehensible, but it also the case that they were generally characterized by consolidated political control of the military. When these regimes fell, most of these countries were soon at least on the way to becoming open-access, market-oriented democracies with virtually no violence, despite wrenching economic and political dislocations. In Yugoslavia, in contrast, a large portion of the military, the Territorial Defense Forces, had been organized into ethnically homogenous units within each republic, province, and commune—a very old-school, natural state arrangement. In light of North, Wallis, and Weingast’s analysis, results were predictable.

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*Global Imbalances and the Lessons of Bretton Woods.* The Cairoli Lectures, Universidad Torcuato Di Tella. By Barry Eichengreen. Cambridge, MA and London: The MIT Press, 2007. Pp. xiv, 187. \$26.

Published before the onset of the Great Recession of 2008/09, this book is worth re-reading with the benefit of hindsight. At a time when both policy makers and the informed public opinion are paying greater attention to history, Barry Eichengreen brings four relevant case studies to our attention as a reminder “that history must be read carefully for its policy implications” (p. xi). Today as in the past, the creation of a stable international monetary system meets with formidable collective action problems. They may be summarized by Beth Simmons’ question: “Who adjusts?” The four case studies covered in Eichengreen’s Cairoli Lectures all indirectly relate to that question.

The first lecture is about global imbalances and the lessons of Bretton Woods—a system doomed to fail from the beginning and yet “striking for how many years jerry-rigged solutions kept [it] afloat” (p. 15). Is there an analogy with the present position of the United States? In the 1960s the system worked on the assumption that the United States would permanently run external deficits as a quid pro quo to providing international liquidity in the required amount. But “history must be read carefully”: today’s “New Bretton Woods System” is different from the original brand. The “Asian periphery” is now less cohesive than the then “European periphery,” and perhaps less inclined to see the quid pro quo as mutually advantageous. Moreover, there are more serious rivals to the dollar as reserve currency than there were in the 1960s (a theme developed in the last lecture), the U.S. external deficit is larger than ever, free capital mobility makes it difficult to “bottle-up the private-sector portfolio adjustments” by central banks “seeking to maintain the prevailing constellation of exchange rates” (p. 28), and domestic financial markets have changed beyond recognition. Finally, and this point is noteworthy to economic historians, Eichengreen argues that governments in the

periphery are aware of the Bretton Woods experience and therefore seek to build more diversified economies. He might have added the lessons learned in the crisis of the late 1990s, namely the fact that international support came with too many strings attached convinced many countries to build large and diversified reserve buffers to better fend for themselves in the next crisis. One should also add that the Cold War shaped international relations among U.S.-led western countries making it easier then than now to solve the collective action problem, De Gaulle notwithstanding.

The second and third lectures are the most interesting as they contain some fresh research on the Gold Pool and Japan's exit from the Bretton Woods peg. The Gold pool is probably the most interesting among the numerous "jerry-rigged solutions" produced by the fertile mind of policy makers to prop up the Bretton Woods system. It provides an excellent example of effective collective action under strong leadership (and willingness to pay by the leader). It is better understood—though one cannot ask too much of single lecture—in the context of the other actions of mutual support: the Basel Agreement, Swap Networks, Bilateral Concentré, and those undertaken to support the junior reserve currency (the pound) on the assumption that loopholes in the system would precipitate its fall.

The third lecture, slightly more "technical" than the others discusses the fairly effective, but eventually inflationary, policies followed by Japan in the early 1970s to exit the dollar peg by balancing revaluation against the needs to maintain high growth. The "lesson" here, according to Eichengreen, is that the United States should not press too hard on China's swift revaluation of the renminbi at the risk of "killing the golden goose of economic growth."

The last lecture deals with reserve currencies, comparing the historical experiences of sterling and the dollar. Eichengreen shows that there was never a single reserve currency before 1939 (witness the difficult and largely ineffective Tripartite Agreement of three years earlier). The dollar however dominated for the thirty-odd years after the end of the war and is still more widely used as international liquidity (reserve) than sterling ever was. Competition among the main currencies is the rule rather than the exception and prevalence of one over the other depends, Eichengreen argues, primarily on the country's share of world trade and on the depth and liquidity of its financial markets. That is, of course, not enough. Nothing is as political as money, and international money is no exception. Empires, formal and informal, contributed to the reserve status of the sterling and the dollar and, Eichengreen interestingly notes, domestic policy consideration prevented the franc, the mark and the yen from acquiring a larger international weight after the Second World War. Today, Europe's inadequate political clout stands in the way of the euro's ambitions as reserve currency. If, as it seems likely, a decade of wars and a major financial crisis (with its attendant public-finance consequences) accelerated the longer-term decline of the United States as *the* world power, one would be surprised if—possibly later rather than sooner—the dollar's position as reserve currency remained unaffected.

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*Framing Finance: The Boundaries of Markets and Modern Capitalism.* By Alex Preda. Chicago and London: University of Chicago Press, 2009. Pp. viii, 318. \$25.00, paper.

Given the length and depth of the global financial crisis that started in 2007, why haven't angry mobs punished the miscreants and more laws been passed to prevent a