ARTICOLI DI RICERCA

LINGUA INGLESE

Prof.ssa Loredana Sferrazza **Prof. Angelo Baccarella**

FACOLTÀ DI ECONOMIA

Corso di recupero (materie scoglio) rivolti a studenti fuori corso iscritti ad ordinamenti ante riforma (V.O.) e agli ordinamenti D.M. 509/1999 (17 ottobre - 3 dicembre 2011)

---

1) **Beefed-Up Burgernomics** (PAGE 2)

from: **The Economist**, 30th July 2011
http://www.economist.com/node/21524811

2) **The euro zone is in intensive care** (PAGE 4)

from: **The Economist**, 17th September 2011
http://www.economist.com/node/21529044

3) **Fear and loathing in the eurozone** (PAGE 6)

from: **The Financial Times**, 27th September 2011
http://www.ft.com/cms/s/0/ca44b0bc-e61a-11e0-960c-00144feabdc0.html#ixzz1ZQ5cKTaK

4) **International Tourism: Cultures and Behavior** (PAGE 9)

Globalization, tourism and culture 1 pp. 3 - 6
1.3 Globalization and the tourism industry pp. 8 - 15
1.5 Benefits and limitations of globalization in tourism pp. 23 - 24
1.6 Challenges of globalization in tourism pp. 24 - 25

Yvette Reisinger PhD

5) **2. Lessons from history** (PAGE 15)

from: **Global Currencies for tomorrow: A European perspective** pp. 6 -11
Ignazio Angeloni, Agnès Bénassy-Quéré, Benjamin Carton,
Zsolt Darvas, Christophe Destais, Jean Pisani-Ferry, André Sapir, and Shahin Vallée
ec.europa.eu/economy_finance/publications

BEEFED-UP BURGERNOMICS

A gourmet version of the Big Mac index suggests that the yuan is not that undervalued

Jul 30th 2011 | from the print edition
http://www.economist.com/node/21524811

THE Big Mac index celebrates its 25th birthday this year. Invented by *The Economist* in 1986 as a lighthearted guide to whether currencies are at their “correct” level, it was never intended as a precise gauge of currency misalignment, merely a tool to make exchange-rate theory more digestible. Yet the Big Mac index has become a global standard, included in several economic textbooks and the subject of at least 20 academic studies. American politicians have even cited the index in their demands for a big appreciation of the Chinese yuan. With so many people taking the hamburger standard so seriously, it may be time to beef it up.

Burgernomics is based on the theory of purchasing-power parity (PPP), the notion that in the long run exchange rates should move towards the rate that would equalise the prices of an identical basket of goods and services (in this case, a burger) in any two countries. The average price of a Big Mac in America is $4.07; in China it is only $2.27 at market exchange rates, 44% cheaper. In other words, the raw Big Mac index suggests that the yuan is undervalued by 44% against the dollar. In contrast, the currencies of Switzerland and Norway appear to be overvalued by around 100%. The euro (based on a weighted average of prices in member countries) is overvalued by 21% against the dollar; sterling is slightly undervalued; the Japanese yen seems to be spot-on. For the first time, we have included India in our survey. McDonald’s does not sell Big Macs there, so we have taken the price of a Maharaja Mac, made with chicken instead of beef. Meat accounts for less than 10% of a burger’s total cost, so this is unlikely to distort results hugely. It indicates that the rupee is 53% undervalued.

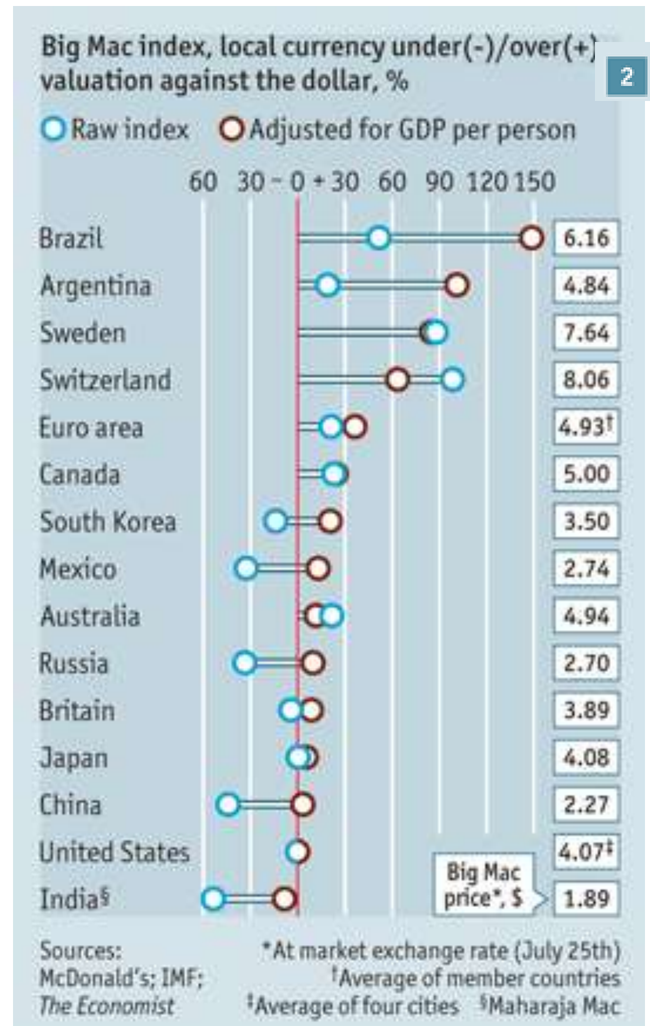
Ketchup growth

Some find burgernomics hard to swallow. Burgers cannot easily be traded across borders, and prices are distorted by big differences in the cost of non-traded local inputs such as rent and workers’ wages. The Big Mac index suggests that most emerging-market currencies are significantly undervalued, for instance (Brazil and Argentina are the big exceptions). But you would expect average prices to be cheaper in poor countries than in rich ones because labour costs are lower. This is the basis of the so-called “Balassa-Samuelson effect”. Rich countries have much higher productivity and hence higher wages in the traded-goods sector than poor countries do. Because firms compete for workers, this also pushes up wages in non-tradable goods and services, where rich countries’ productivity advantage is smaller. So average prices are cheaper in poor countries. Chart 1shows a strong positive relationship between the dollar price of a Big Mac and GDP per person.

China’s average income is only one-tenth of that in America so economic theory would suggest that its exchange rate should be below its long-run PPP (ie, the rate that would leave a burger costing the same in the two countries). PPP signals where exchange rates should be heading in the long run, as China gets richer, but it says little about today’s equilibrium rate. However, the relationship between prices and GDP per

person can perhaps be used to estimate the current fair value of a currency. The top chart shows the "line of best fit" between Big Mac prices and GDP per person for 48 countries. The difference between the price predicted by the red line for each country, given its income per head, and its actual price offers a better guide to currency under- and overvaluation than the PPP-based "raw" index.

This alternative recipe, with its adjustment for GDP per person, indicates that the Brazilian real is still badly overcooked, at more than 100% too dear (see chart 2). The euro is 36% overvalued against the dollar, and our beefed-up index also throws useful light on the uncompetitiveness of some economies within the euro area. Comparing burger prices in member countries, the adjusted Big Mac index shows that the "exchange rates" of Italy, Spain, Greece and Portugal are all significantly overvalued relative to that of Germany. As for China, the yuan is close to its fair value against the greenback on the adjusted measure, although both are undervalued against many other currencies.



Super-size jubilee

In trade-weighted terms our calculations suggest that the yuan is a modest 7% undervalued, hardly grounds for a trade war. That is less than previous estimates of a 20-25% undervaluation, based on models that calculate the appreciation in the yuan needed to reduce China's current-account surplus to a manageable level of, say, 3% of GDP. Even this surplus-based method now points to a smaller yuan undervaluation than it used to because China's surplus has shrunk. Several private-sector economists forecast that it could drop below 4% of GDP this year, down from nearly 11% in 2007. As its productivity rises over time China must continue to allow its real exchange rate to rise (either through currency appreciation or through inflation), but our new burger barometer suggests that the yuan is not hugely undervalued today.

A quarter of a century after its first grilling, burgernomics is still far from perfect, but if adjusted for GDP per person it becomes tastier. All the more reason to keep putting our money where our mouth is.

from the print edition | Finance and economics

FURTHER READING

The Big Mac index **Currency comparisons, to go**

Jul 28th 2011, 14:35 by The Economist online (http://www.economist.com/blogs/dailychart/2011/07/big-mac-index)

A beefed-up version of the Big Mac index suggests that the Chinese yuan is now close to its fair value against the dollar

THE Economist's Big Mac index is a fun guide to whether currencies are at their "correct" level. It is based on the theory of purchasing-power parity (PPP), the notion that in the long run exchange rates should move towards the rate that would equalise the prices of a basket of goods and services around the world. At market exchange rates, a burger is 44% cheaper in China than in America. In other words, the raw Big Mac index suggests that the yuan is 44% undervalued against the dollar. But we have long warned that cheap burgers in China do not prove that the yuan is massively undervalued. Average prices should be lower in poor countries than in rich ones because labour costs are lower. The chart above shows a strong positive relationship between the dollar price of a Big Mac and GDP per person.

PPP signals where exchange rates should move in the long run. To estimate the current fair value of a currency we use the "line of best fit" between Big Mac prices and GDP per person. The difference between the price predicted for each country, given its average income, and its actual price offers a better guide to currency under- and overvaluation than the "raw" index. The beefed-up index suggests that the Brazilian real is the most overvalued currency in the world; the euro is also significantly overvalued. But the yuan now appears to be close to its fair value against the dollar—something for American politicians to chew over.

The Economist

The euro zone is in intensive care

The euro-zone crisis Fighting for its life

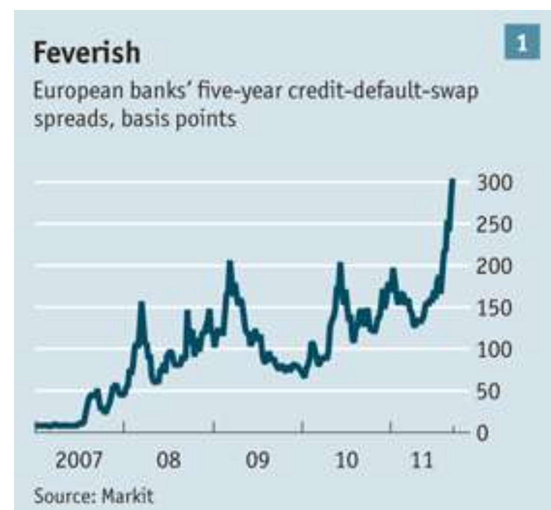
Sep 17th 2011 | *Athens, Frankfurt and London* | from the print edition

http://www.economist.com/node/21529044

WHAT'S the French for "this sucker could go down"? Echoes of 2008, when the global financial system wobbled and George Bush gave his pithy view of the American economy, now resound on the other side of the Atlantic. Credit-default-swap spreads for European banks, a measure of how costly it is to buy insurance against their default, are at record highs (see chart 1).

The rates that banks charge each other for loans in the interbank market are rising, too, as they did then. Rumours swirl and panic flares: shares in BNP Paribas, a well-run French bank, dropped by 12% on the morning of September 13th following reports that no one would lend it dollars. BNP's denials saw the shares bounce back later in the day. Shares in Société Générale, another French bank, whipsawed too. The French banks' reliance on short-term dollar funding, which American money-market funds are increasingly leery of providing, is one reason why Moody's, a ratings agency, downgraded Société Générale on September 14th, though exposure to sovereign default is also a key factor.

Meanwhile large banks in Germany, Switzerland and Britain have more cash than they can put to good use as corporate customers shift their deposits from weaker countries or smaller banks. The beneficiaries are loth to tie the cash up in long-term loans because they fear that the flows could reverse at any moment. "It's hot money," says one bank chairman.



Thus the role of the Frankfurt-based European Central Bank (ECB) grows larger. The northern banks deposit their excess cash there rather than lend in the interbank market. The banks on the periphery increasingly depend on the ECB for liquidity. More than a fifth of Greek bank funding is now provided through Frankfurt; Italian lenders have upped their ECB borrowing sharply over the summer.

Banks are finding it hard to issue longer-term debt, too. The market for unsecured bonds has been closed for weeks, leaving banks with no option but to sell covered bonds at usurious interest rates that will challenge their profitability.

One way of bolstering the banking system would be to inject more capital into it. Goldman Sachs, an investment bank, reckons that Europe's 38 biggest banks might need between €30 billion and €92 billion ($41 billion-$126 billion) in extra capital to cope with haircuts to Greek, Irish and Portuguese government bonds and losses on Italian and Spanish government debt. An analysis by the IMF suggests that banks would see a hit of close to €200 billion if the default probabilities implicit in today's market prices were realised, although European governments and banks dispute the fund's calculations.

Raising capital in current markets will not be easy. Bank valuations are low; several banks might need to raise several times more than their current market value. Those shareholders that do not participate will have their holdings deeply diluted. That suggests governments might have to underwrite some of the rights issues.

Here the parallels with the credit crisis three years ago become ominously inexact. In 2008 governments did what was needed to protect their banks: guarantees were issued, equity injected. In the euro-zone crisis the threat of sovereign default renders some governments impotent, while those which could act have chosen not to do so decisively.

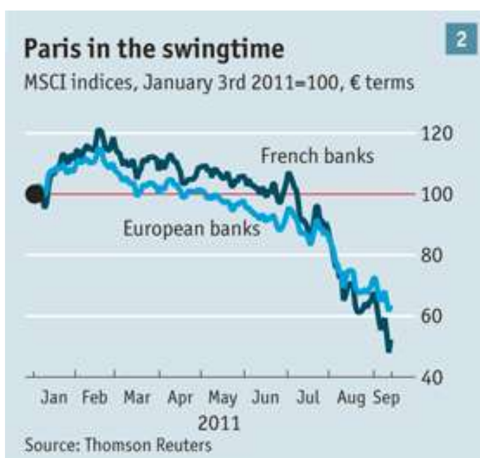
The government at the heart of concerns again this week is that of Greece. Panicked officials are racing to plug a gaping hole in the budget and accelerate reforms in the face of speculation that international lenders will withhold the next €8 billion tranche of the country's bail-out. If the funds are not released within two weeks, the government risks being unable to pay wages and pensions. A hastily announced property tax should raise about €2 billion, which may just keep the budget deficit below 9% of GDP this year.

The troika monitoring the Greek plan (the European Commission, the ECB and the IMF) also wants to see a realistic budget draft for 2012. That means making drastic spending cuts as revenues are being squeezed by the deepening recession. The Greek economy is likely to contract by at least 5.3% this year. The government has already decided to increase the number of public-sector workers parked on 60% of their salaries pending dismissal or retirement. About 40,000 workers are now likely to be made redundant by year-end. Greece's debt managers are also finalising a €135 billion package of debt swaps and rollovers for private-sector investors which would allow the country to delay the repayment of about one-third of its bills for up to 30 years.

The scrambling might be enough to allow Greece to escape immediate default; but it will also make a more brutal restructuring in the future much harder. And such a future restructuring seems inevitable. On September 12th Philipp Rösler, the leader of Germany's Free Democratic Party, the junior partner to Angela Merkel's Christian Democratic Union, said it was time to address the taboo subject of a possible Greek bankruptcy. Some go further still: the prospect of a Greek departure from the euro is now widely discussed.

Stark choices

Mrs Merkel is having none of it. On September 14th, after a conference call with George Papandreou, the Greek prime minister, she and Nicolas Sarzoky, the French president, reaffirmed Greece's place in the euro zone. For now euro-zone leaders seem determined to plough ahead, shepherding the second Greek bail-out package through national parliaments along with measures to increase the scope and firepower of the European Financial Stability Facility (EFSF), Europe's bail-out fund.



The problem is that although a beefed-up EFSF will be able to cope with the smaller peripherals, it is unable to support the refinancing needs of an economy as big as Italy. At an auction of Italian five-year bonds on September 13th its borrowing costs jumped to 5.6%, up from 4.9% at a similar auction in July.

The pressure on European banks will keep increasing unless something else is done. Rumours that China will ride to the rescue of struggling countries are fanciful. Again, the real last resort is the ECB, which could relieve the pressures on the system by being prepared to buy without limit the bonds of solvent euro-zone countries. But the ECB is itself riven by disagreement.

On September 9th Jürgen Stark, the central bank's chief economist and a former Bundesbanker, announced his resignation "for personal reasons". Mr Stark opposed the ECB's buying of Greek government bonds last year. When the bank began supporting Italian and Spanish government bonds, too, it was apparently more than he could take. Axel Weber, the head of the Bundesbank until May 1st, ruled himself out of the running to replace Jean-Claude Trichet, the ECB president, earlier this year because of similar qualms.

The German government moved swiftly to fill the hole left by Mr Stark. Jörg Asmussen, chief secretary at the finance ministry, will move to the ECB, assuming the formalities go without a hitch. Both Mr Asmussen and Jens Weidmann, Mr Weber's successor at the Bundesbank, appear more flexible personalities than their predecessors. But persuading them, and the German public, to sign up to what amounts to a policy of massive quantitative easing (creating money to buy bonds) will be extremely difficult. In 2008 free-market Americans swallowed their misgivings to rescue Wall Street. Inflation-phobic Germans now face a similar choice.

from the print edition | Briefing

Fear and loathing in the eurozone

September 27, 2011 10:02 pm

FINANCIAL TIMES

http://www.ft.com/cms/s/0/ca44b0bc-e61a-11e0-960c-00144feabdc0.html#ixzz1ZQ5cKTaK

By Martin Wolf

The annual meetings of the World Bank and International Monetary Fund over the weekend brought together frightened and angry people. The financial crisis that broke upon the world in August 2007 has entered a new and, in crucial respects, more dangerous phase. A positive feedback loop between banks and weak sovereigns is emerging, with a potentially calamitous effect on the eurozone and the global economy: the eurozone is no island. What makes this process particularly frightening is that weaker sovereigns are unable to cope on their own, while the eurozone has nobody in charge. The eurozone may lack the capacity to address the crisis.

The underlying danger is laid out in the latest global financial stability report from the IMF. This is surveillance at its best: clear, compelling, courageous. So what is the message? It is contained in two sentences: "Nearly half of the €6,500bn stock of government debt issued by euro area governments is showing signs of heightened credit risk"; and, "As a result, banks that have substantial amounts of more risky and volatile sovereign debt have faced considerable strains in markets." (See charts.)

In their seminal book, This Time is Different, Kenneth Rogoff of Harvard and Carmen Reinhart, of the Peterson Institute for International Economics, explained that big financial crises have often led to sovereign debt crises. This is the stage the world has reached, no longer in small peripheral member countries of the eurozone, but in Spain and Italy. The emergence of doubt about the ability of sovereigns to manage their debt undermines the perceived soundness of the banks, both directly, because the latter hold much of the debt of the former, and indirectly, via the dwindling value of the sovereign insurance.

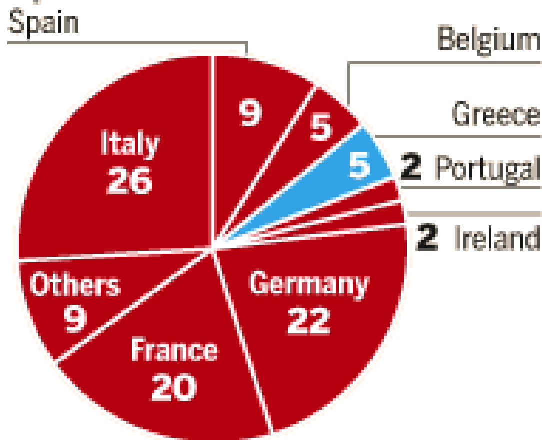
The IMF's report lays out the processes: "Spillovers from high-spread euro area sovereigns have affected local banking systems but have also spread to institutions in other countries. In addition to these direct exposures, banks have taken on sovereign risk indirectly by lending to banks that hold risky sovereigns. Banks are also affected by sovereign risks on the liabilities side of their balance sheets as implicit government guarantees have been eroded, the value of government bonds used as collateral has fallen, margin calls have risen, and banks' ratings downgrades have followed cuts to sovereign ratings." As funding comes under pressure, credit shrinks and the private sector becomes more cautious, weakening economies and undermining both fiscal and financial solvency.

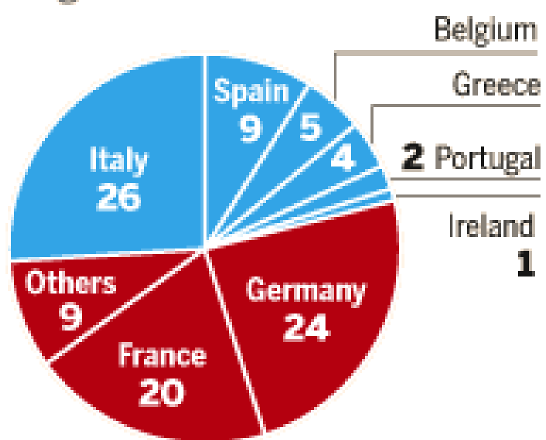
At worst, the world stands on the brink of a big crisis. For this reason, the likes of Tim Geithner, US Treasury secretary, and Christine Lagarde, the IMF's new managing director, have put eurozone officials under fierce pressure to act: the days of too little, almost too late, are over; failure to act promptly would just be too late, they argue.

Eurozone government bond market

% of total Eurozone government debt

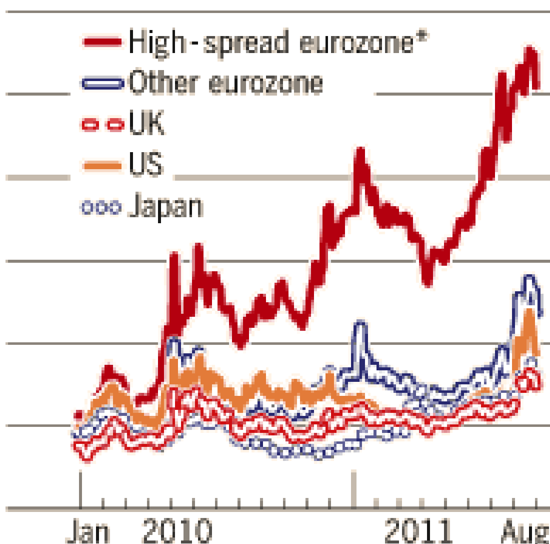
Key Sovereign CDS spread over German Bunds: >200 basis points; <200 basis points





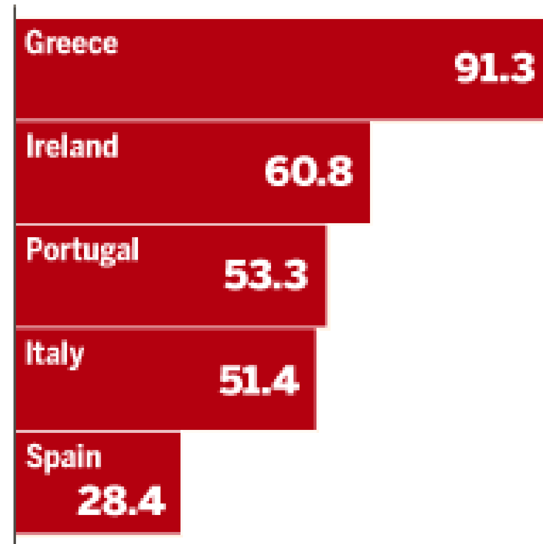
Banks' CDS spreads

Five-year spreads (basis points)



Foreign exposure

General government debt held abroad as a % of GDP, 2011



* High-spread eurozone countries = Belgium, Greece, Ireland, Italy, Portugal, Spain

Source: IMF

So what are the outsiders demanding? The answer is twofold: a recapitalisation of weak banking institutions, on a credible scale, and sufficient liquidity to prevent the panic from ending up in the collapse of banks and vulnerable sovereigns. Different estimates of the sums required are circulating. The Americans, mindful of their experience in 2008 and 2009, recommend "shock and awe". Given the funding needs of banks and sovereigns, this translates into well more than €1,000bn, and, quite plausibly, several times that number. It is enough to make a cautious German's head spin.

How might this be done? My colleague, Peter Spiegel, provided an excellent primer in "Europe thinks the unthinkable" on September 26. First, in the course of October, the eurozone should (with luck) have ratified the modified European financial stability fund, worth €440bn. The EFSF would then be able to inject capital into banks and purchase bonds of distressed governments on the open market. But this fund is far too small. The eurozone needs a much bigger bazooka. Apparently, five different plans are under discussion. These involve leveraging up the EFSF's money, by issuing guarantees rather than loans, or borrowing from the European Central Bank, or by borrowing in the markets. But if action needs to be immediate, as it does, the only entity able to supply the needed funds is the central bank.

Would this work? My answer to this question has seven parts. First, if agreement were reached on action on the necessary scale, it should halt the panic. Second, it may be impossible to obtain such consent, particularly if funding relied heavily on the ECB, at least in the short run. Mario Draghi, the incoming Italian president of the bank, would find himself in the invidious position of being compelled to save his own country in the teeth of complaints from the German public over the debauching of their central bank.

Third, once banks and sovereigns become heavily dependent on official finance, they may find it quite hard to return to the market. Fourth, such actions cannot solve the deeper difficulty that currently uncompetitive countries will need a sizeable inflow of external funds for a very long time, little of which is likely to come from the now fearful private sector.

Fifth, it is likely that after such a rescue, the imprudent will just go back to their bad old ways, making further rescues necessary. Sixth, internal transfers can be halted only if there is adjustment inside the eurozone, including by the surplus countries, of which there is little sign. Thus the eurozone risks turning into an illegitimate transfer union. Finally, there is a danger that an ambitious programme would degrade the standing of the soundest eurozone sovereigns, though a collapse might do almost as much damage to their ratings.

No good choices remain. The risks involved in the proposed actions are big. But the alternative of financial collapses and sovereign debt crises that ricochet across the globe is vastly worse. The need for such a rescue may be viewed as the price of having entered hastily into an indissoluble monetary marriage, tolerating the emergence of huge imbalances, failing to discipline the banks and then dealing with the emerging crisis so incompetently.

The eurozone has still to decide what it will be when it grows up. But first it needs to reach that stage. The costs of a meltdown would be too grave to contemplate. The members simply have to prevent that. They have no sane alternative.

Copyright The Financial Times Limited 2011.

FURTHER READING

17 Member States of the European Union use the euro as their currency

- Belgium
- Germany
- Estonia
- Ireland
- Greece
- Spain
- France
- Italy
- Cyprus
- Luxembourg
- Malta
- The Netherlands
- Austria
- Portugal
- Slovenia
- Slovakia
- Finland

Non-participants

Bulgaria, Czech Republic, Denmark, Latvia, Lithuania, Hungary, Poland, Romania, Sweden and the United Kingdom are EU Member States but do not currently use the single European currency.

ELSEVIER

AMSTERDAM • BOSTON • HEIDELBERG • LONDON • NEW YORK • OXFORD
PARIS • SAN DIEGO • SAN FRANCISCO • SINGAPORE • SYDNEY • TOKYO

Butterworth-Heinemann is an imprint of Elsevier

International Tourism: Cultures and Behavior

Yvette Reisinger PhD

Butterworth-Heinemann is an imprint of Elsevier
Linacre House, Jordan Hill, Oxford OX2 8DP, UK
30 Corporate Drive, Suite 400, Burlington, MA 01803, USA

Copyright © 2009, Elsevier Ltd. All rights reserved

GLOBALIZATION, TOURISM AND CULTURE 1 pp. 3 - 6

INTRODUCTION

Today, there is a trend in the tourism sector towards globalization. Many tourism organizations are global organizations operating across national borders. But what is globalization, and how does it affect tourism and consumer behavior in tourism? (…)

1.1 THE CONCEPT AND ROOTS OF GLOBALIZATION

Globalization is a complex and multidimensional process. There are five key related definitions of globalization that significantly highlight different elements. According to Scholte (2000), globalization should be defined in terms of internationalization, liberalization, universalization, Westernization or modernization, and deterritorialization. The explanation of the above terms is provided in Table 1.1.

Table 1.1 Definitions of Globalization

Globalization as internationalization
A process of developing cross-border relations between countries and international exchange and interdependence between people in different countries; describes a growing flow of trade, capital, and goods beyond the border of a national economy to a stronger, globalized economy.

Globalization as liberalization
A process of removing government-imposed trade barriers, capital controls, and restrictions on the flow of goods between countries in order to create an open, borderless world economy or so called ''free-trade'' economy.

Globalization as universalization
A worldwide process of spreading objects and experiences to people at all corners of the earth (e.g., spreading computing, television, etc.).

Globalization as Westernization or modernization
A process of Americanizing the economy; a dynamic process that spreads the social structures of modernity, such as capitalism, rationalism, and industrialism around the world, destroying preexisting cultures and local self-identity.

Globalization as deterritorialization
A process of spreading supraterritoriality; reconfiguring geography so that territorial places, distances, and borders do not exist; linking distant places in such a way that what is happening locally is determined by events occurring many miles away.

Source: http://www.infed.org/biblio/globalization.htm

Globalization has powerful economic, cultural, social, environmental, political, and technological dimensions, and as such should be viewed from different perspectives. However, most definitions refer to globalization in economic terms as the process that merges national economies into an interdependent global economic system. This process includes forming regional economic trading blocs, growing local internationalization through developing economic ties, deepening multinationalization by multinational firms, introducing global norms and standards, developing global markets and strategies, and growing firms with no specific national operational base. The phenomenon of globalization has increased interconnectedness between societies in various areas of life (Saee, 2004). Various dimensions of globalization are explained in Table 1.2.

Table 1.2 Dimensions of Globalization

Economic dimension From the economic point of view, globalization is the process whereby the world economies are becoming increasingly integrated and interdependent, market-oriented approaches to development are spreading, the notion of state provision of privatization and deregulation are being withdrawn, trade and investment are being liberalized, and increased penetration of transnational corporations in life is being encouraged.	*Cultural dimension* From the cultural point of view, globalization is the process of increasing homogeneity of lifestyles and aspirations via media, TV, films, tourism, etc., combined with the rapid spread of different views and greater opportunities for marginalized voices to be heard.
Technological dimension From the technological point of view, globalization is the process of rapid innovation and increasing inter-connectivity, particularly for information and communication services, and biotechnologies. This is the process in which knowledge is the most important factor determining the standard of living, more than capital or labor. Today's most technologically advanced economies are truly knowledge based (World Bank, 1998).	*Social dimension* From the sociological point of view, globalization is the process of incorporating people into a single world society. The world is becoming a ''global village.''
Political dimension From the political point of view, globalization is the new process of shifting the power from national governments in directing and influencing their economies, to global institutions, such as the World Bank, the European Union, the European Central Bank, theWorld Trade Organization, theWorld Health Organization, and the World Tourism Organization. In order to survive, national governments that can no longer manage their national economies must increasingly manage national politics by adapting them to the pressures of transnational market forces.	*Environmental dimension* From the environmental point of view, globalization is the process of increasing inter- linkages between ecosystems, accelerating biological invasions, simplifying and homogenizing natural systems, and intensifying pressure on global commons.

Source: Saee, J. (2004). Managing organizations in a global economy: An intercultural perspective. Australia: Thomson.

The concept of globalization has often been used in the past. For decades people referred to the process of globalization in terms of decentralizing production to different countries, and internalizing capital and labor markets, export, and imports. The concepts of modernization, capitalism, and economic interdependence have also often been used to understand the precursors of globalization. However, today, the form of globalization has changed. While in past decades globalization has been described as flows of goods and population, now globalization is described by the movements Today, globalization is about an intensification of worldwide economic, socio-cultural, political and environmental relations. These relations link distant places in such a way that local events are determined by international events, or in other words, what is happening locally is determined by what is happening globally (Saee, 2004).

(…)

1.3 GLOBALIZATION AND THE TOURISM INDUSTRY pp. 8-15

Tourism is one of the world's largest multinational economic activities (Friedman, 1995); it ranks among the top five export industries for 83% of countries (Fayed & Fletcher, 2002). Tourism involves the greatest flows of goods, services, and people on the surface of the earth, and it is, therefore, the most visible expression of globalization. Although the role and share of tourism in international trade is constantly increasing in importance, trade in tourism services has been concentrated mainly in the developed countries, such as North America and the European Union. The share of developing countries in total world tourism is comparatively low, although rising significantly.

1.3.1 The influence of globalization on tourism

Globalization has opened new opportunities for developments in tourism. Globalization has facilitated growth in tourism through developments in electronic technology, communication, and transportation. It has affected worldwide suppliers and computerized information and reservation systems, which have become more flexible and cost-effective; decreased costs of air travel; and offered easier access to destinations (Peric, 2005).

The rapid spread of information technology has improved the efficiency of the industry's operations as well as the quality of services provided to consumers. It has also generated increased demand for new travel services, such as computerized hotel and car bookings, online reservation services, teleconferencing, video brochures, smart cards, and electronic funds transfer. The increasing use of the Internet in destination marketing, direct sales, and bookings has given rise to electronic tourism markets.

The development of sophisticated websites has allowed for the direct dissemination of travel information to potential clients. The Internet has made travel products globally accessible at much lower costs. As a result, customer demand has become more technology- and Internet-driven. In fact, the Internet has become the most sought-after amenity in hotel rooms, airports, travel information and entertainment centers, and educational institutions. The impact of technology and the Internet has dramatically affected all operations of the travel industry and significantly reduced the need for travel intermediaries.

1.3.2 Forms and examples of globalization in tourism

Globalization in tourism has taken many forms. The examples of globalization in the airline sector have included the liberalization of air transport that allowed for market access for private carriers, the formation of international alliances, privatization, restructuring of government-owned airlines, investment in foreign carriers, airline consolidations at the national level, joint ventures between airline companies or between airlines and equipment manufacturers, and outsourcing. (…)

Examples of globalization in the accommodation sector have included hotel cooperation and chain creation, joint ventures, franchising, management contracts, and consortia of independent hotels. (…)

Examples of globalization in the retail sector include partnerships, integration, and franchising. Tour operators and travel agencies entered into partnerships and/or integrated with hotels, charter airlines, retail distributors, and cruise companies. (…)

Large firms have exerted their influence on the operations of local firms by, for example, obliging local authorities to comply with certain laws and imposing conditions on local suppliers. Some tour operators have exerted a strong influence on the ways hotels operate and the prices they charge. For example, one adventure tour operator from the United Kingdom, strongly committed to protecting the environment of the destinations it features, ensures that local suppliers comply with environmental protection rules and use environmentally friendly equipment, products, and materials (Peric, 2005).

1.3.3 A new type of tourist

Globalization and the new political and economic world also brought changes to the tourist profile and preferences for products and services. In the eighteenth and nineteenth centuries, scientific and technological advances led to mass production and the development of mass markets with similar attitudes and tastes. The consumer demanded mass-produced goods and services at a low price. This led the producers to mass produce products and services that had a universal appeal, such as fairly standardized mass-market package holidays. They offered good value products, though quality was sacrificed for price. This process has often been described as ''McDonaldization'' (Ritzer, 1993).

New consumers have shown a completely different behavior pattern. They have become more globally oriented. As a result of developments in communication and information technology, and increased social and economic exchanges, they have been exposed to different cultures and developed new ideas and viewpoints. They have multiple demands, often borrowed from other cultures. They have become more dependent on information technology, self-service, and personal reservation tools. The new self-sufficient consumer has become more individualistic and requires more customized and highly developed products; greater choice, quality, and variety; and good value for money. Consumers have also begun to demand easier access to information technology, lower-cost transportation, and greater flexibility in travel (Akpinar, 2003).

Moreover, after September 11, 2001, the fear of the unexpected, such as wars, political conflicts, terrorism, or incurable diseases, has increased consumers' desire for safety, social stability, and order.

Consumers have begun to re-evaluate their consumption behaviors, use of time, and attitudes toward leisure. They have chosen a new balance between career and family, and work and play. They have developed a new ''wait and see'' attitude, facilitated by ''last-minute-purchase'' web sites, resulting in late bookings. Also, the emergence of ''search for experiences'' as a travel motivator, as well as increased environmental awareness, has led travelers to modify their behavior and to look for alternative forms of travel. These changes in consumer behavior have generated demand for new experiences. Consumers have begun to demand authentic and genuine experiences. A new type of tourist called the ''experiential'' tourist has emerged. This type of tourist is interested in novelty, ''strangeness,'' authenticity, and all that is different and that creates unique experiences. As a result, the industry has striven to organize tours to various localities that have something unique and specific and that set them apart from other destinations with their scenic beauty, festivals, or art works.

The new tourist has also developed new, intrinsic travel motivations and cultural needs, such as seeking new identity, self-actualization, and self-development, rather than physical recreation and rest. As a result, the suppliers must pay more attention to what the new tourist thinks and feels.

Such a shift in consumption preferences has begun to produce a new tourist who demands new products, variety, flexibility, and personalization. New tourists have also begun to develop new values and worldviews that stress the importance of family and ecology. It is hoped that in such a world, traveling will come to be more about developing social relations, preserving natural resources, becoming educated, and maximizing the quality of experience than about the quantity of products purchased. In fact, more and more tourists are seeking the fulfilment of intrinsic needs and finding self-expression in culture, ethics, and morality; understanding the importance of intellectual, emotional, and spiritual well-being; and becoming more concerned about the planet, its resources, and its inhabitants all coexisting in peace.

Such changes in consumer behavior have also brought changes to destination marketing and called for the development of more targeted and customized products. A number of new lifestyle segments, such as single-parent households; ''empty nesters'' (couples whose children have left home); double-income couples without kids (DINKS); baby boomers; and generations X, Y, and M, have became prevalent in tourism and signaled the need for a more differentiated approach to targeting. The identification of the specific needs of the individual customer have called for product diversification, customization, and exploitation of niche marketing.

(…)

1.3.4 A new type of tourism

Changing values of the new consumer have created a demand for new products and provided a driving force for the development of new types of tourism. Traditional mass tourism, although still prevalent, is evolving into a ''new tourism,'' often called responsible, soft, alternative, green, or sustainable tourism. The new types of tourism that hold a great potential for the future tourism market are cultural tourism; health, wellness and spa; nature-based; educational; wildlife; geo-; genealogic; gastronomic or food and wine; photographic; volunteer; virtual; experiential; space; ethical or moral; community; and para tourism. These new types of tourism require tourism product customization, which has begun to play an important role in the industry and tourism marketing. The industry is facing the challenge of catering to the individual tourist's needs, and it is therefore transforming itself from being focused on the mass market to becoming diversified and focused on individual tourists' needs. Table 1.4 shows the global values and future demand for new tourism products.

Table 1.4 Global Values and New Tourism Products

Values	General Features	Relevance to Tourist Behavior
Community	Public service	Demand for products that create a sense of community and connect with the community (social events, social tourism)
Culture	Culture more important than money and material possessions	Demand for cultural products (art, music, film, museums, galleries, concerts, cultural tourism, ethnic tourism)
Ecology	Importance of saving, conserving, and protecting natural resources	Demand for products that protect fragile environment and nature (eco-friendly products, ecotourism, geotourism, nature-based tourism, wildlife tourism)

(cont.)

Table 1.4 Global Values and New Tourism Products (cont.)

Education	Education is the best investment	Demands for products that encourage learning experiences (books, guides, videos, educational tourism, cultural tourism, wildlife tourism, interpretation services, special interest tourism, food and wine tourism)
Family	Importance of family relations, support and love	Demand for products that bond family together (games, sport and fishing products, family vacations, group activities, genealogy tourism, community tourism)
Friendship	Importance of friendship, friends are forever	Demand for products that allow people to spend time with friends and show appreciation (games, card, gifts, wine, tea, jewelry, visiting friends and relatives, community tourism, volunteer tourism)
Harmony	Social harmony	Demand for products and services that create social harmony (social events, social tourism, ethical tourism, moral tourism)
Humanitarianism	Caring for others, empathy, human rights	Demand for products that compete with commercial market leaders (products for elders, disabled, unemployed, fund-raising events, donations, voluntary tourism, tourism for those with special needs, subsidized vacations, non-profit tourism)
Love	Importance of feelings, ethics and morality	Demand for products that generate and teach feelings (poetry, music, art, romantic cruises, nostalgic tourism, nature-based tourism)
Safety and security	Importance of safety, security, social stability, and order	Demand for risk-free products and products that reduce risk (comfortable and safe clothing, transportation, sport and kitchen equipment; translating, guiding and interpreting services; insurance)
Spirituality	Importance of inner values, inner peace, satisfaction	Demand for spiritual and religious products that allow people to understand their inner self and the purpose of life (stones, crystals; tarot cards; bibles; religious books; spiritual retreats; pilgrimages; health, wellness, spa tourism; religious tourism; experiential tourism; trips to sacred sites)
Source: Reisinger, Y. (2006). Shopping in tourism. In D. Buhalis & D. Costa (Eds.), Tourism business frontiers: Consumers, products and industry. Burlington, MA: Elsevier.		

1.5 BENEFITS AND LIMITATIONS OF GLOBALIZATION IN TOURISM pp. 23-25

Globalization has brought great benefits to tourism. For example, globalization has increased trade, capital, and human flows; generated growth; and created thousands of jobs in developed and emerging economies. Globalization has boosted the development and progress of the tourism industry by encouraging investments in new tourism infrastructure, particularly in underdeveloped regions, and improving their positioning in the international market. Globalization has raised incomes of consumers, as well as the quality of their material life in terms of increased product choice (Saee, 2004). Tourism has benefited from globalization by following global principles of socio-economic, ecological, and culturally sustainable development, thus contributing to the betterment of the world as a place in which to live and work.

However, globalization has also polarized the world. Developing countries have little influence on global institutions and their activities. Globalization largely benefits advanced societies and creates new forms of colonial control. World trade is responsible for uncontrolled environmental problems. Globalization continually invades the biosystem.

Developing nations that believe they have a right to their natural resources build factories that pollute the air and water. Globalization in tourism also means standardization of a tourism product and the loss of national, regional, and local character. Globalization helps to create homogenous tourist resorts, food and beverage establishments, theme parks, and events, thereby erasing local standards. It offers impersonal service standards, superficial communication, and poor content. Globalization causes the loss of competitive advantage; it renders a tourism product standardized and unrecognizable, and can even make it disappear. For this reason tourism destinations have to differentiate themselves from others clearly and follow strict local cultural standards, balanced with the global service standards that customers have come to expect.

Supporters of globalization assume that benefits associated with globalization far outweigh the perceived drawbacks. Generally, globalization has been beneficial to nearly all countries around the world, resulting in increased real living standards, as measured by per capita GDP. No nation can afford to ignore it since it can be beneficial to nations involved in international trade (Saee, 2004).

1.6 CHALLENGES OF GLOBALIZATION IN TOURISM

Globalization presents the world and the tourism industry with a new set of challenges. The most important is that businesses operating in foreign host countries with different cultural, political, economic, technological, and legal practices must adapt to the local environments. Practices and strategies that are perfectly acceptable in one country can be taboo in another country. Complexities of globalization call for understanding and accommodating different worldviews, variations in employers' business practices, and differences in national cultures of employees and consumers. Global tourism managers and marketers must develop high levels of intercultural communication and competencies and make appropriate adjustments to their business practices to suit a particular international environment. Global tourism managers must effectively deal with communication difficulties, control legal and political decisions. They must accommodate the structure and composition of the workforce and its requirements to culturally different business practices. They must develop International human resources policies; provide cross-cultural raining in the accommodation, transportation, and catering sectors; and develop awareness of the different cultural norms, for example, in work and leisure patterns, health, safety and occupational standards, as well as hiring, dismissal, discrimination, and workers' rights.

Employees' worldviews and attitudes toward work will vary, as will consumers' needs and preferences. To accommodate their employees and customers, global managers and marketers must therefore learn about cultural differences in religions, customs, work ethics, languages, and behavioral codes and standards. For example, when McDonald's entered India, its menu had to accommodate the cultural tastes of locals.

Globalization has also created new challenges for destination marketing. Cultural differentiation, market disaggregation, and segmentation – not cultural convergence and market aggregation – are important future targeting tools that will determine destination competitiveness. Global tourism marketers must become aware of the cultural needs of particular markets and use the knowledge of these needs to develop destination marketing plans for international tourists. Marketers must distinguish between global, international, and sub-national cultures, and differentiate their approach to destination marketing accordingly. Destinations must create unique cultural identities that differentiate themselves from other destinations in the global marketplace.

Also, since tomorrow's global consumers are today's children, the challenge will be to develop their interests in the local communities and pride in their identities. Today's children are familiar with the Internet and influenced by a variety of global advertising. They are accustomed to desiring global products such as McDonald's or Disney from an early age. Whether these children will follow traditional versus global values when they become older will depend on their intellectual, ethical, and practical reasons for protecting local cultures from globalization (Usunier cited in Swarbrook, 2007). The challenge will be to develop their interest in the local environment and pride in own cultural identity.

FURTHER READING

Akpinar, S. (2003). Globalisation and tourism. Journal of Travel and Tourism Research, 1(1–2), 22–39.

Fayed, H., & Fletcher, J. (2002). Globalization of economic activity: Issues for tourism. Tourism Economics, 8(2), 207–230.

Peric, V. (2005). Tourism and globalization. Proceedings of the 6th International Conference of the Faculty of Management Koper, Congress Centre Bernardin, Slovenia, November 24–26.

Ritzer, G. (1993). The McDonaldization of society, Forge Press, Thousand Oaks, CA.

Saee, J. (2004). Managing organizations in a global economy: An intercultural perspective, Thomson South-Western, Mason, OH.

Scholte, J. (2000). Globalization. A critical introduction, Palgrave, London.

Swarbrooke, J., & Hornber, S. (2007). Consumer behavior in tourism, Butterworth-Heinemann/Elsevier, Burlington, MA.

ec.europa.eu/economy_finance/publications
KC-AI-11-444-EN-N
ISBN 978-92-79-19224-1
doi: 10.2765/15175
© European Union, 2011

pp. 6-11

2. Lessons from history

Since the middle of the 19th century, the IMS (International Monetary System) has gone through four phases: the gold standard that prevailed until the start of World War I (WWI); the interwar period; the Bretton Woods system created at the end of WWII that ended in 1971; and the current dollar-based system that started in 1973 with the advent of generalised floating. We briefly review these four phases until the late 1990s and examine their performance in terms of internal and external balances.

2.1 The gold standard period (1870-1914)

The gold standard originated in 1819, when the UK officially adopted gold as the basis for its currency. Other countries in Europe, but also Japan and the United States, adopted the gold standard later in the century. Given the pre-eminence of the United Kingdom in world trade and finance, London was the centre of the IMS built on the gold standard.

Under the gold standard, the main objective of the central bank was to preserve the official parity between its currency and gold. Maintenance of a fixed price of gold by all participants in the system in turn ensured fixed exchange rates between their currencies. The maintenance of gold convertibility at the official parity required sufficient gold reserves. External balance did not, therefore, consist of attaining a current account target but rather in maintaining the balance of payments (BOP) in equilibrium - or at least in limiting sharp fluctuations in the balance of payments - so as to avoid large gold reserve movements.

The gold standard contained both an automatic adjustment mechanism (known as the ‘price-specie-flow mechanism’) and an agreement between central banks to buy or sell domestic assets depending on whether their country’s BOP was in surplus or in deficit (known as the gold standard ‘rules of the game’) that contributed to the simultaneous attainment of external equilibrium in all participating countries.

The gold standard was very much the product of the 19th century economic order. It was run by a small group of central bankers in a handful of countries (mainly the UK, France and the US), who gave precedence to the achievement of external balance at the expense of internal balance. Full employment was nowhere an explicit objective of policymakers and, though price stability was generally attained, it was not a natural outcome of the system because changes in the supply of gold, exogenous and unpredictable, inevitably affected the relative prices of gold vis-a-vis other commodities. Such disregard for internal balance on the part of the gold standard is what later prompted Keynes to refer to gold as ‘barbarous’.

2.2 The interwar period (1918-1939)

Governments largely freed themselves of the gold standard's constraints during WWI in order to print the money necessary to finance the war effort. As a result, money supplies and price levels were significantly higher in 1918 than at the start of the war.

The interwar period comprises three regimes: general floating from 1919 to 1925; the gold exchange standard from 1926 to 1931; and managed floating from 1932 to 1939.

The US returned to gold in 1919, but other countries, including the UK, continued to let their currencies float freely for several years after the war. After 1925, when the UK returned to the gold standard by pegging the pound to gold at its pre-war parity, the international monetary system evolved into a gold exchange standard, a variant of the pre-war system. The new fixed exchange-rate system added a new category of international reserves to gold, currencies fully backed by gold, mainly the pound and the dollar, in the hope of avoiding the problem of gold shortage that had at times plagued the gold standard.

The gold exchange standard was an attempt to restore the beneficial features of the classical gold standard in terms of external objectives, while also seeking to fulfil internal objectives, which had become much more prominent in the new socio-political environment that prevailed after WWI in many countries. However the system suffered from a number of flaws that led to its eventual demise. The main ones were the failure of cooperation between the main countries - the coordination mechanisms were either absent or highly dysfunctional - and the unwillingness of the countries with large balance-of-payment surpluses to follow the 'rules of the game', with the consequence that deflationary pressure was exerted on the rest of the world. The use of two reserve currencies and the absence of leadership by a hegemonic power may have also played a role. In the end, the system sought to achieve political goals (in dealing with German reparations) and both internal and external equilibria, but succeeded in achieving neither.

The collapse of the gold exchange system after the UK left gold in 1931 - with the US following suit a couple of years later - ushered in a period of managed floating exchange rates and beggar-thy-neighbour devaluations. In 1933, the London World Economic Conference attempted to implement international coordination of macroeconomic policies with a view to ending the Great Depression, but it failed miserably and international economic disintegration continued unabated.

2.3 The Bretton Woods period (1945-1971)

The Bretton Woods system was set up to avoid the flaws of the classical gold standard and of the interwar period, and to promote full employment and price stability while permitting countries to reach external balance without trade restrictions.

The system agreed upon at the Bretton Woods conference of July 1944 was a gold exchange standard, but with the dollar as the main reserve currency, a mechanism for international macroeconomic policy coordination, and with at the centre the International Monetary Fund (IMF). The value of the dollar was fixed to gold at $35 per ounce of gold, and all other currencies maintained fixed exchange rates against the dollar. Fixed exchange rates were considered necessary to achieve both monetary discipline and external equilibrium as under the gold standard, but also to avoid competitive devaluations and protectionism as in the 1930s. However, the architects of the system recognised that countries would not be ready to sacrifice the objective of full employment to maintain external equilibrium and free trade, and therefore that external adjustment may be needed at times. Ensuring the necessary adjustment was the responsibility of the IMF, which could lend to countries in need and authorise changes in their exchange rate against the dollar if it found that their balance of payments was in 'fundamental disequilibrium'. Hence, Bretton Woods was an adjustable peg system combining the favourable features of the fixed exchange-rate system, monetary and exchange rate stability, with those of flexible rates, monetary and fiscal independence.

The Bretton Woods system went through two sub-periods: before the restoration of currency convertibility in Europe and elsewhere (1946-1958), and after (1959-1971).

In 1946, almost every country, except the US, maintained exchange controls and controls on trade, with no major currency, except the dollar, convertible. In addition, the US held about two thirds of the world's monetary gold. The result was twofold. First, the dollar became the world's key currency, a universal medium of exchange, unit of account and store of value. Second, there was initially a huge shortage of dollars, especially in Europe where production and export capacity had been destroyed by the war and financial markets had limited capacity to finance the rebuilding of Europe, which limited the ability of European countries to finance imports. The key developments in solving the dollar shortage problem were

the Marshall Plan and the European Payments Union (EPU). The Marshall Plan involved huge transfers of resources from the US to Europe. The EPU was a system of clearing accounts, using the dollar as unit of account, among European countries that allowed them to reduce their need for dollars for transaction purposes, to move from bilateral to multilateral trade arrangements and to restore the convertibility of their currencies by the end of 1958.

With the restoration of current-account convertibility in Europe, the Bretton Woods system moved into full operation, but instead of functioning as an adjustable peg system it evolved into a quasi fixed exchange-rate system. The reason for this evolution was that monetary authorities were reluctant to accept the risks associated with discrete changes in parities, in particular the pressure of speculative capital flows that increased gradually over time as capital controls were relaxed. In the late 1960s, however, balance-of-payments crises became increasingly frequent and several countries had to change their dollar parities to move closer to internal and external balance.

Because of its special role in the system, the external balance problem of the US was different from that of other countries. As the issuer of the reserve currency, the US was not responsible for pegging dollar exchange rates. Its duty was to keep the value of the dollar fixed at its gold parity and to guarantee that foreign central banks could convert their dollar reserves into gold at this parity, which in principle imposed a constraint on US monetary policy.

Triffin (1960), however, pointed out that foreign central banks were willing to accumulate dollars and therefore to allow persistent US balance-of-payments deficits. The reason was that, barring new gold discoveries, the only way for central banks to maintain adequate international reserves and domestic price levels was to accumulate dollar assets, which also have the advantage over gold that they pay interest. This meant that, in practice, the external constraint on US monetary policy was less than for other countries. Triffin understood that this situation posed a fundamental problem for the Bretton Woods system and formulated what would later become known as Triffin's dilemma. On the one hand central banks welcomed persistent US deficits so as to avoid deflation, on the other hand such deficits created a confidence problem as central banks realised that their growing holdings of dollars might eventually exceed US gold reserves. Knowing that the US authorities might be unable to redeem these dollars at the agreed parity, central bankers could become reluctant to continue to accumulate dollars, which would call into question the whole system.

The creation of the SDR (Special Drawing Rights) by the IMF in 1969 was meant to be a solution to Triffin’s dilemma by introducing a fiat reserve asset which was not linked to one country. However, it was too little, too late to save the Bretton Woods system. By that time, US macroeconomic policy had become inappropriate for a key currency, as a result of the expansionary effect exercised by the simultaneous financing of the Vietnam War and the increase in spending on social programmes by the Johnson administration (the so-called ‘Great Society’). While the Federal Reserve failed to foresee the build-up of inflationary potential, rising US inflation after 1965 triggered a speculative attack on the world’s monetary gold stock in 1968, which led to the creation of a two-tier gold market, one private and the other official. The official price of gold remained at $35 an ounce for a while, but it had lost economic significance. The Bretton Woods system collapsed three years later, in 1971, when the US ended the link between the dollar and gold. After two turbulent years on foreign-exchange markets marked by exchange- rate realignments and speculation, fixed exchange rates among the dollar, the yen and the currencies of most European and other industrial countries were replaced by floating rates.

2.4 Post-Bretton Woods (1971-late 1990s)

Here we only consider the period until the late 1990s. ...

For a while, the system of floating exchange rates put in place during the mid-1970s seemed well suited to achieving policymakers’ goals of full employment, stable prices and sustainable current-account positions. Gradually, however, this hope dissipated notably because macroeconomic policies by the key players were often not consistent with international monetary stability, and foreign-exchange markets have a tendency to overshoot before adjusting to equilibrium.

Major problems emerged first in the early 1980s, when the monetary policy conducted by Federal Reserve Chairman Volcker led to a sharp appreciation of the dollar against the Japanese yen and the German mark, which was accompanied by a serious recession and a large current-account deficit for the US economy. This led to the Plaza Accord of September 1985 by the then G5 nations (France, West Germany, Japan, the United States and the United Kingdom). The G5 agreed to devalue the US dollar in relation to the Japanese

yen and German mark by intervening in currency markets. The depreciation of the US dollar led to the Louvre Accord of February 1987 when the G6 (France, West Germany, Japan, Canada, the United States and the United Kingdom) agreed to stabilise the international currency markets and halt the appreciation of the yen and the mark caused by the Plaza Accord.

Although the Plaza and the Louvre Accords are generally credited for having (temporarily) ended volatility and misalignment in the US dollar, the period between the two agreements is often regarded, not only in Japan but also in China, as the beginning of Japan's lost decade. During this period, the yen appreciated sharply against the dollar, causing a recession and importing disinflation into Japan. Japanese policymakers reacted by expanding both fiscal and monetary policies. These policy actions reversed the economic situation but contributed to creating an asset price bubble in the late 1980s, with sharp rises in stock, real estate and other asset prices.

Hence, although viewed as successful by US advocates of exchange-rate management, with some even calling for the establishment of target zones defended by interest-rate policies and intervention (Bergsten, 1988), the Plaza episode is generally regarded with suspicion by others, including nearly all Asian economists (see McKinnon and Ohno, 1997, Hamada and Okada, 2009).

2.5 Two key lessons from history

Our survey of the history of the international monetary system leads to two key conclusions that are important for thinking about the present and future system.

First, there has been a clear shift of emphasis on the part of domestic policymakers from external to internal stability, which seems difficult to reverse given the evolution of political systems and the preferences of national electorates. The Bretton Woods system was a brave attempt to correct the excesses of the past and to seek a balance between external stability, which prevailed during the gold standard period, and internal stability, which dominated the minds of domestic policymakers during the ill-fated interwar period.
Unfortunately, the perception of a balance achieved during the Bretton Woods era was shortlived, mainly because of flaws in the design of the system which gave an 'exorbitant privilege' to the dominant country, the United States, and its currency, the US dollar. Once a serious conflict between internal and external stability emerged, the US government chose in favour of the former and the system collapsed, paving the way for the non-system that has existed since 1971, which has largely ignored external stability, apart from exceptional circumstances in the 1980s.

The second conclusion concerns the role of currencies as foreign-exchange reserves. During the gold standard, gold was the dominant reserve asset but countries had an incentive to keep some of their reserves in interest-bearing assets denominated in foreign currencies that were convertible to gold. In theory many currencies fitted the need since they were all convertible to gold. In practice, however, the most popular currency was the British pound because of the size and liquidity of pound-denominated assets issued by the London market.

After the establishment of the US Federal Reserve System in 1913 and the increased attractiveness of dollar-denominated assets issued by the New York market, the dollar started to also play an important role as a reserve currency. However, contrary to the view that there can be only one international currency at any point in time, several economic historians have shown that the pound and the dollar coexisted as reserve currencies until well after the US economy overtook the British economy, and even after the establishment of the dollar-based Bretton Woods system. Schenk (2009) shows that it took ten years after WWII before the share of dollar reserves exceeded that of pound sterling reserves, with the latter still accounting for 30 percent of international foreign-exchange reserves until the late 1960s. Her explanation of the prolongation of sterling's reserve position until the late 1970s attributes an important role not only to holders of sterling reserves but also to the United States, which was keen to ensure the stability of the international monetary system and the global economic system in general during the Cold War and to share it with a close military ally.

FURTHER READING

Bergsten, F. (1988), America in the World Economy: A Strategy for the 1990s, Peterson Institute Press: All Books, Peterson Institute for International Economics, number 80.

Hamada, K. and Y. Okada (2009), "Monetary and international factors behind Japan's lost decade", *Journal of the Japanese and International Economies*, 23, issue 2, p. 200-219.

McKinnon, R. and K. Ohno (1997), Dollar and Yen. Resolving Economic Conflict between the United States and Japan, MIT Press, Cambridge Mass.

Schenk, C. (2009), "The Retirement of Sterling as a Reserve Currency after 1945: Lessons for the US Dollar?", Unpublished paper.