



Economic Diplomacy

By Richard W. Rahn

Published 3/26/2008 12:07:30 AM

One Currency for Bosnia: Creating the Central Bank of Bosnia and Herzegovina

By Warren Coats,

Jameson Books, 349 pages, \$42.50

When you go to a foreign country and change some of your money into the local currency, what are your concerns? First you want to know what the exchange rate is, and second you want to be able to recognize the various bills (Most have pictures of long dead leaders on the currency, as does the U.S., and/or some symbols of the country or, in the case of the U.K. and commonwealth countries, the picture of the living Queen who is ruler in name only.) Most people do not give much thought as to why a particular currency has whatever value it has, and why merchants and others are willing to accept it.

Yet when a new country is formed, such as Bosnia and Herzegovina, some group of individuals has to devise the monetary and banks payments systems for the country's economy to function. Warren Coats is one of those people; in fact, Coats probably has participated (as an IMF team leader) in setting up more new monetary regimes than anyone else on the planet.

Warren Coats is a brilliant monetary economist who did his Ph.D. at the University of Chicago under Milton Friedman, and is also an economic diplomat who has used his skills to bring conflicting parties and interests together to create solid monetary systems. Most recently, Coats has been a principal advisor to both the new Iraq and new Afghanistan central banks, and has spent considerable -- and physically risky -- time in their dangerous capitals. We are used to seeing teams of aid and construction workers entering a war-torn country at the end or near the end of the main fighting. They bring the necessary medical and food relief, and the immediate rebuilding of key bridges, roads, etc. But there are also a few people with briefcases who are charged with re-establishing the banking and payments systems, and creating the new currency. Without a banking and currency system, a country must resort to only using the physical currency of some other country (such as the U.S. dollar) or operate a simple barter economy.

The fact is, not all economists are professorial types who spend their time debating hypotheticals or advising money managers. Some economists go out into the real world of very poor places and try to establish the systems and institutions to make life better for the people -- which is what Warren Coats has been doing for the past several decades.

Coats's new book, with the off-putting title of *One Currency for Bosnia*, is the history of the creation of the new Bosnian currency, but fortunately for the reader it is much more. The book is in reality several short books in one. Most readers will probably not want to read all of the 300 plus pages, except real economic or Balkan history buffs with an interest in monetary systems and an interest in current economic and development policy issues. However, for those readers who have an interest in only one or more of these issues, the book is a gem.

FORTUNATELY, COATS HAS MADE it easy for the reader to pick and choose. The core of the book is a bit of an adventure story, with excitement and tension, about how a small team of economic experts braves physical hardships to bring different ethnic groups -- who have just been at war with each other -- to agree on the type of banking and monetary system and its management to enable the new country to function. Even issues, such as the design and name of the currency, can be contentious. Coats's detailed first-hand account of these negotiations will be a treasure trove for future historians, although some readers may find parts of it a bit tedious.

What gives the book real and lasting value for those not overly interested in Bosnian monetary history is the entire series of very well and concisely written sidebars dealing with such topics as "currency boards," "seigniorage," "what is the IMF," and appendices dealing with alternative monetary regimes and the nature of money. People who have an occasional interest in economic and monetary policy will find this a very handy and understandable reference book, and far more user friendly than the typical textbook on the subject.

Many people, including me, enjoy those shows on the History and Discovery Channels that show how things are made. If they are ever interested in making a show about how money and monetary systems are made -- by which I mean creating value, rather than just the physical printing or minting -- Coats's book might well be the ideal basis for the screen play, since he and his team were able to create a successful new currency in a place that had been known for hate and violence.

Richard W. Rahn is the chairman of the Institute for Global Economic Growth.

http://www.spectator.org/dsp_article.asp?art_id=12950