



# **Stable vs. Floating Exchange Rate**

*-- on the 60<sup>th</sup> Anniversary of the Bretton Woods System*

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**June 14, 2004**



# 1. The Consensus when the IMF was Found

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- Stable exchange rate would benefit the world as a whole
- Institutionalization of a multilateral commitment
- An achievement with a great pitfall



## 2. Has the World been better off since the Break Down of the BW?

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- Compare real GDP growth rate and inflation of G-7 before and after the collapse of the BW in 1971.
- Findings:
  - GDP growth: lower since 1971
  - Inflation: higher since 1971

Table 1. Real GDP Growth and Inflation of G-7 before and after the Collapse of the Bretton Woods System

Real GDP Growth Rate							
	US	Japan	Italy	France	Germany	UK	Canada
<b>1952-71</b>	<b>4.2</b>	<b>10.1</b>	<b>7.1</b>	<b>5.8</b>	<b>7.3</b>	<b>3.6</b>	<b>5.6</b>
<b>1972-02</b>	<b>2.4</b>	<b>2.2</b>	<b>3.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.4</b>	<b>3.2</b>
Inflation Rate (CPI)							
<b>1952-71</b>	<b>2.3</b>	<b>4.4</b>	<b>4.3</b>	<b>2.1</b>	<b>3.2</b>	<b>3.7</b>	<b>2.1</b>
<b>1972-02</b>	<b>5.0</b>	<b>3.6</b>	<b>5.7</b>	<b>3.2</b>	<b>8.8</b>	<b>7.4</b>	<b>5.2</b>

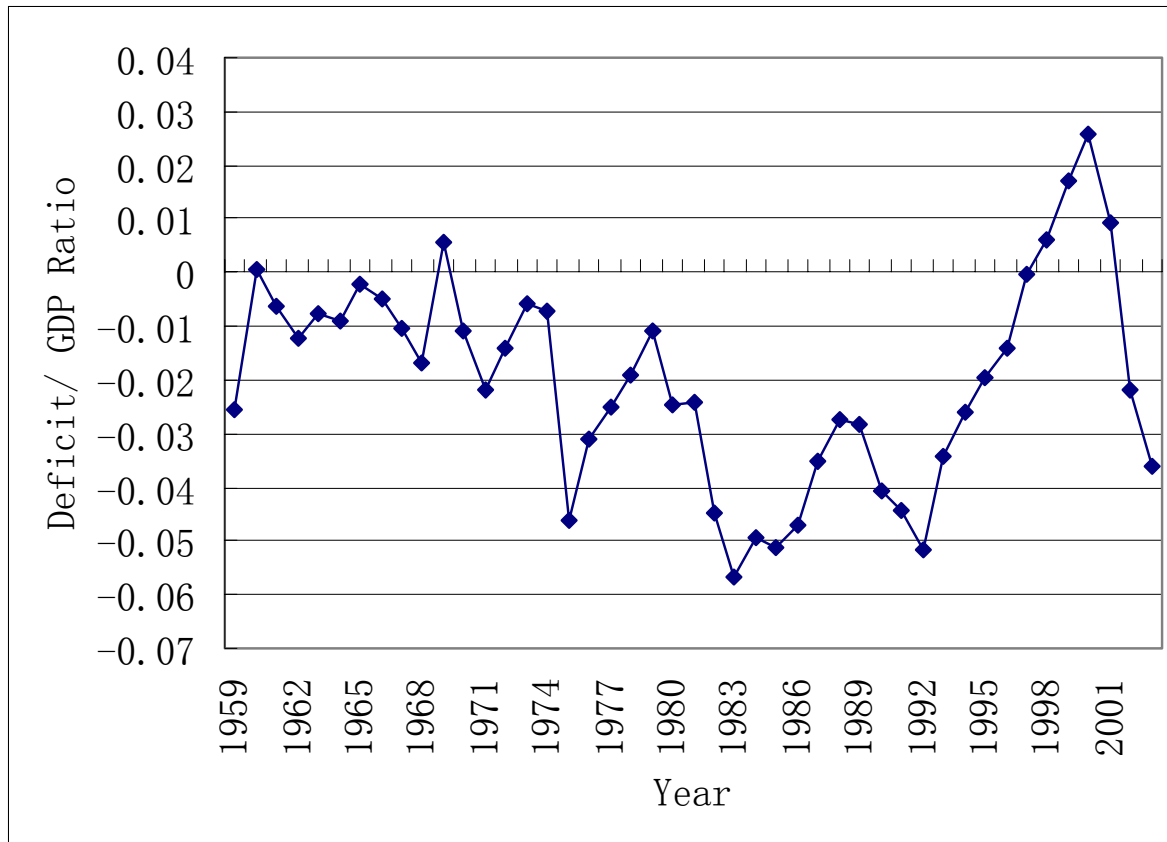


## 3. The Responsibility of US

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- Right and responsibility: an imbalance
  - Mainly focus on domestic development
  - External imbalance is a secondary concern
- Fiscal deficit becomes less disciplined
- The cost of the USD depreciation has been shared by the rest of the world
- Need new commitment or discipline

# Figure 1. Fiscal Deficit/GDP The US: 1959-2003





## 4. Stability vs. Floating: A Dilemma

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- Stable exchange rate in current situation: import inflation or deflation
- Floating exchange rate: unpredictable business environment
- A cautionary note: avoid extremism



## 5. The Role of Regional Currency Cooperation

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- The emergence of the Euro is an alternative
- Asian monetary cooperation has started
- Toward a global currency arrangement might be a solution





## 6. The Mission of the IMF

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- IMF's puzzle: working against its mandate
- Forerunner's vision: Bancor
- An ever-lasting echo: SDR, Euro and ...



## 7. The Reform of the IMF

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- Improve governance structure
  - Democratize voting structure
  - Diversify and increase senior management positions
- Change operational strategy
  - Re-focus on stability of major currencies
  - Increase the allocation of SDR
- Call for insight, vision and courage



*Thank you*

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June 14, 2004