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from the editor

RECENT economic crises have stimulated interest in reforming the international financial architecture. This effort includes such measures as building transparency and developing financial standards and codes of good practice, involving the private sector in crisis resolution, liberalizing the capital account, and adapting the international financial institutions—including the IMF—to the realities of the new global environment. A conference held by the IMF at the end of May addressed the key issues of reform and attracted a wide range of participants from government, the academic world, and the private financial sector. In view of the importance of this event, we are publishing in this issue of *Finance & Development* articles derived from four of the papers presented at the conference.

In the first article, Benoît Coeuré and Jean Pisani-Ferry discuss the damaging effects of large swings in exchange rates and recommend a dual approach based on coordination of responses to major systemic shocks and close monitoring of foreign exchange markets. The challenges and constraints of dealing with swings in international capital flows are discussed by Michael Mussa, Alexander Swoboda, Jeromin Zettelmeyer, and Olivier Jeanne. Although capital controls are often considered a way to protect emerging markets from volatile capital movements, Guillermo A. Calvo and Carmen M. Reinhart see dollarization as being in some ways a more viable alternative to controls. In the fourth article, Barry Eichengreen discusses ways to “bail in” the private sector—that is, to force investors to share some of the financial burden when crisis strikes.

How should the international financial system be adapted to the challenges of increasingly integrated markets? Hans Tietmeyer, who as president of the Deutsche Bundesbank for the past six years has been a leading participant in the recent evolution of the monetary system, discusses the rationale for and purposes of the new Financial Stability Forum, which first met in April 1999.

Recent foreign exchange crises have brought the topic of an international lender of last resort to the fore. Curzio Giannini of the Bank of Italy discusses this concept and considers whether the IMF is in a position to play such a role. Other articles in this issue discuss different aspects of the current economic scene. Alejandro López-Mejía considers how economies can best enjoy the benefits of capital flows, while minimizing the risks. A fair and equitable distribution of income is especially important during the early years of transition for the formerly centrally planned economies. Grzegorz W. Kolodko, a former finance minister of Poland, analyzes this issue with special reference to the reform experience of his own country. Anne-Marie Gulde delves into the reasons for the successful introduction of a currency board in Bulgaria. And the effectiveness of stabilization schemes in smoothing commodity price fluctuations is addressed by Paul Cashin, Hong Liang, and C. John McDermott.

The Asian financial crisis brought with it a number of important lessons relating to the development of a new financial architecture. These are reviewed by Timothy Lane, who finds that this knowledge can be used both to forestall future crises and to minimize damage from those that do occur. The impact of the Asian crisis on two small economies—Cambodia and the Lao People’s Democratic Republic—is studied by Ngozi Okonjo-Iweala, Victoria Kwakwa, Andrea Beckwith, and Zafar Ahmed. Harry G. Broadman discusses ways in which the process of reforming state-owned enterprises in China may be improved. In the final article of this issue, Dale F. Gray and Mark R. Stone study the relationship between corporate balance sheets and a country’s macroeconomy, an issue that has received attention from policymakers in Indonesia, Korea, and other crisis-affected countries.

Ian S. McDonald
Editor-in-Chief