

THE DOLLAR AND THE INTERNATIONAL DIMENSION OF THE MONETARY POLICY¹

BARRY EICHENGREEN²

eichengr@econ.berkeley.edu

I am going to focus on the international dimension of monetary policy. I am going to ask and try to answer the question of whether Central Banks should tailor their policies to the impact of those policies on economic conditions abroad and in the rest of the world, and if so, how.

I will focus on a case that is on everybody's mind at the moment, namely, the Federal Reserve. And in order to try to structure my own thinking and perhaps your thinking on these issues I'm going to make use of historical evidence, look at a particular historical episode or a series of episodes where international considerations figured importantly in decision making on the part of the Fed, and ask how things worked out in that earlier episode.

This, of course, is a much discussed topic and not one that I have to spend a lot of time, I think, motivating. Traditionally, the Federal Reserve System, as the Central Bank had a relatively large, relatively closed economy, has been reluctant to acknowledge its international responsibilities. The global financial crisis starting in 2007, 2008 changed many things. Among the things it changed was the Fed's awareness of those

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- 1 Transcription of Barry Eichengreen's conference at *30as Jornadas Anuales de Economía* organized by Banco Central del Uruguay, 3-4 August 2015, Montevideo.
 - 2 Barry Eichengreen is the George C. Pardee and Helen N. Pardee Professor of Economics and Professor of Political Science at the University of California, Berkeley, where he has taught since 1987, and Pitt Professor of American History and Institutions, University of Cambridge, 2014-15. He is a Research Associate of the National Bureau of Economic Research (Cambridge, Massachusetts) and Research Fellow of the Centre for Economic Policy Research (London, England). In 1997-98 he was Senior Policy Advisor at the International Monetary Fund. He is a fellow of the American Academy of Arts and Sciences (class of 1997). His topics of interest are exchange rates and capital flows, gold standard and the Great Depression, European economy, Asian integration and development focusing mainly on exchange rates and financial market, the impact of China on international economy and the financial system and the IMF, its past, present and future. He holds a PhD in Economics (1979) and a MA in History (1978) both from Yale University.

international responsibilities. Among the things that the Fed did, starting in 2008, was extend the series of very large dollar swap lines to foreign Central Banks around the world, to the European Central Bank, to the Bank of England, to the Swiss National Bank, to the Bank of Canada, but also, really for the first time, a quarter of 30 billion dollar swap lines to a set of emerging countries' Central Banks, the Bank of Mexico, to the Brazilian Central Bank, to the Central Bank... the Monetary Authority of Singapore, and the Central Bank of Korea.

One might ask and I will return to the question, why Brazil, why Singapore and not Uruguay, to pick a country not entirely at random? But the point being that these were very large swap lines, by historical standards, by my account, at the height of the crisis more than 580 billion dollars of dollar swaps between the Fed and for Central Banks, so that was a first occasion on which the inter dimension of Federal Reserve policy has hit the headlines. A second obvious occasion which I do not list here, but I'll come back to, was the trend to quantitative easing in 2010 and following, when there were complaints about the impact of QE spillovers on financial markets in the developing world and elsewhere. Then, there was the famous occasion starting in May of 2013 when then Fed Chair Bernanke uttered the "t" word "taper", and financial markets here and elsewhere responded unfavorably and now there's criticism of the Fed for ignoring or downplaying the impact of its impending normalization of interest rates on emerging markets once more.

The question is: How seriously should we take these complaints? What (if anything) should the Fed do in terms of internalizing the external repercussions of its policies? As I said, this has hit the headlines in two ways: one; there is a lot of concern in the United States and a lot of talk about how the Fed should react to that concern in terms of the impact of international factors, volatility, and Europe's slowdown and China's slowdown in emerging markets more broadly, on the domestic US economy, and if so, to what extent should the Fed modify its strategy with that global slowdown and increasingly strong dollar in mind?

Conversely, there is the impact of US policy on the international economy. The conventional but important observation here is that the global monetary and financial system runs on dollar credit, making foreign borrowing by emerging markets' banks and non-banks heavily.

Corporate borrowers at the present time are very sensitive to the price of dollar credit. Growth in emerging markets has slowed, so the single number that most impresses and alarms me at the moment is the Investment Bank estimate for the first quarter of 2015 that growth in emerging markets -excluding China, where growth is still running at 7%, 6% or 5%, depending on which number you believe and prefer-, excluding China, growth in the emerging world has essentially stopped. It's running on the order of 0.1%. So given that many Central Banks in emerging markets would like to loosen a bit to support their economies, but they have the problem that their currencies have already weakened against the dollar, making it more difficult and expensive for corporates and others with dollar denominated debts, to service them if they allow their currencies to weaken, given that the Fed is on a course to tighten, Central Banks in emerging markets are constrained by this external debt profile, and again then the question becomes: Should the Fed worry about this problem? Should it do more? Should it be taking the plight of emerging markets more seriously into account?

There are some signs that the Fed is growing more conscious of these problems. Here I have a quote from a speech by Janet Yellen given toward the beginning of this year:

“Because the economy and financial system are becoming increasingly globalized, fulfilling the Fed’s objectives requires us to achieve a deep understanding of how evolving developments and financial markets and economies around the world affect the U.S. economy, and also how U.S. policy actions affect economic and financial development overseas...”

This seems uncontroversial: how evolving developments in financial markets and economies around the world affected the US economy and also how US policy actions affect economic and financial developments overseas. The question being how that realization should affect Central Bank policy specifically, and how it should affect Federal Reserve policy specifically in practice.

This question is not new. As I said before, I am going to look at some earlier historical evidence, in this case, from the first two decades of the Federal Reserve System. The Fed was founded in 1913 and opened its doors for business in 1914, and that was a period when the US, for better or

for worse, figured importantly in the development of the global economy, the Fed having been established partly in order to provide a set of levers through which the US could manage its international economic relations more effectively. The Federal Reserve took international considerations importantly into account in this period, so I think looking back at how things turned out, can indeed shed important light on what the Fed should and should not do.

I think it is important to distinguish several different senses in which international considerations could have influenced Federal Reserve policy in this earlier period. I like³ to distinguish four separate senses in which international considerations could be important:

First, the Fed could have organized its policy around an international target or external economic indicator. It could have adopted an exchange rate target as in fact did between 1914 and 1933 by, in that case, pegging the dollar price of gold and maintaining a minimum statutory ratio of gold reserves to monetary liability, something that as I write here will have to be established.

Second: the Fed could have adjusted its policy so as to influence economic and financial conditions abroad, because those economic and financial conditions abroad could dip back to the US economy in important ways. The Federal Reserve could have been concerned with that the IMF refers today as spillover and spillback effects when making policy.

Third: the Fed could have adjusted its policies with problems in other countries in mind, because it cared about the problems of those other countries, independent of any spillback effects on the United States.

Fourth and finally, the Fed could have adjusted its policies with international considerations in mind, because it was aware of its responsibility for the operation of the larger global monetary and financial system, and it cared about the stability of that larger system as a whole.

3 “Doctrinal determinants, domestic and international, of Federal Reserve policy 1914-1933”, Working Paper N° 195, Globalization and Monetary Policy Institute, Federal Reserve Bank of Dallas, October 2014.

So you will have noted I am sure that these are the same four senses in which international factors could also figure importantly in current discussions of Fed policy. Some people argue that the Fed should pay more attention to how events in the rest of the world are affecting the prospects for US economic growth, the spillover and spillback effects. Janet Yellen flagged those concerns in that speech I cited earlier. There are still others who say that the Fed should worry about the impact on other countries for its own sake, so people like Mr. Mantega, the former Brazilian Finance Minister, Raghuram Rajan, Governor of the Reserve Bank of India, have made these arguments, and still others. This is kind of the bank for international settlements view, if you will; it points to the Fed's responsibility for this ability of the global monetary and financial system more broadly.

So my question for the next few minutes will be: What can history, what specifically can colorful history of the Federal Reserve system's first two decades tell us about these questions?

Those two decades, from 1914 to 1934, are informative, because international considerations mattered importantly on six separate occasions:

1. the 1919-1920 recession
2. the 1924-25 Federal Reserve interest rate cuts
3. the 1927 decision to reduce interest rates with international considerations in mind
4. May-July 1931 emergency loans made by the Federal Reserve to European Central Banks (which have increased in parallels with what the Fed did in the final months of 2008)
5. October 1931 interest rate hike
6. August 1932 abandonment of expansionary open market operations

This is a fairly long list, you can see from it that this was a period when the Fed paid extensive attention to international considerations; at the end of the day, the results were unhappy. This is not a period when the Federal Reserve is widely praised, it is not widely praised for its monetary management in the 1920s and during the Great Depression, so therein lies a cautionary tale as I will emphasize at the end.

The 1919-1920 recession in the United States was a serious recession. It took place before the period when the Federal Reserve itself began to produce estimates of GDP. Economic historians have produced them and the estimates differ a little bit from one another, as you can see from official series, historical series that the Commerce Department produces, and the revision, called “revised Kendrick” here, has been produced by my Berkeley colleague Christina Romer. Whichever series you prefer, this was a serious downturn, the third deepest recession in the United States in the 20th century after only the post 1929 downturn and the 1937-1938 double dip recession.

C.D. Romer, World War I and the postwar depression

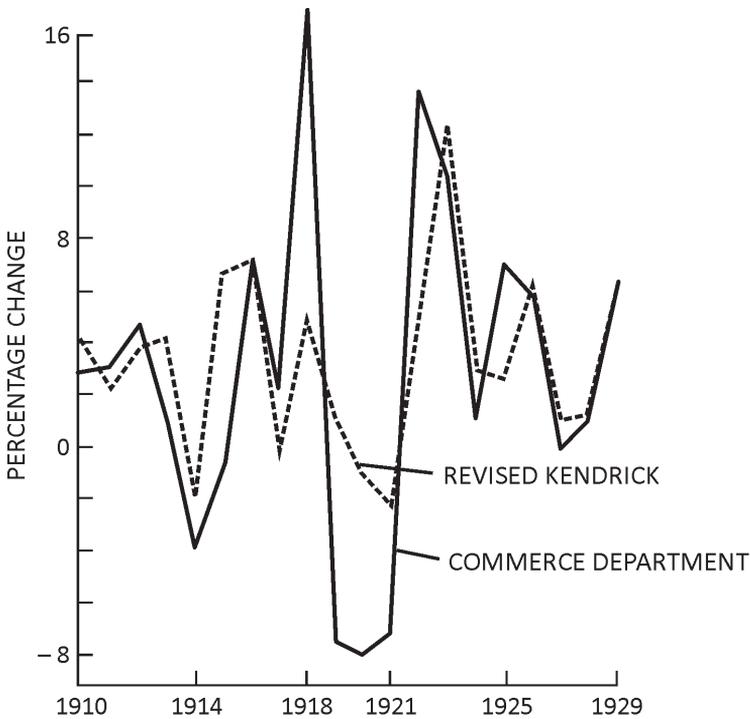
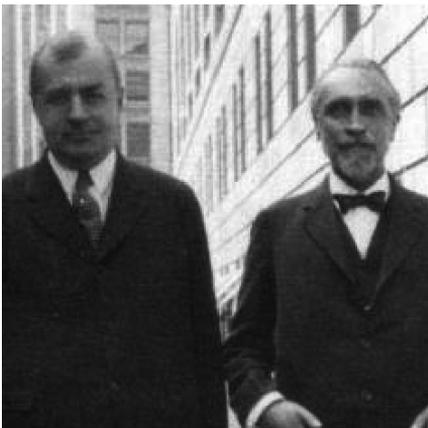


Fig. 1. Percentage change in real GNP, 1910-1929. (Source: Table 6.)

What was going on here? This was the first recession on the new Central Bank's watch. It was in a sense the first monetary policy-induced recession in the United States. It was produced by a decision on the part of the Federal Reserve to raise interest rates sharply, starting in late 1919. What was the Fed doing? What was the Fed concerned about? It was concerned about its external monetary obligations. The Federal Reserve Act required the Fed to peg the domestic currency price of gold; it required it to maintain a certain minimum 40% ratio of gold reserves to monetary liabilities. That had not been a problem during World War One, when there was plenty of capital flight from Europe to the United States, but it became a problem almost immediately after the War when a lot of that flight capital was quickly repatriated, so the gold reserves of the system as a whole began to fall rapidly and dangerously toward this 40% permitted minimum.

Interestingly, not only the system as a whole began to fall even faster than that. So with leadership from the Fed, the Central Bank raised interest rates. Repeatedly preserving the US gold standard was viewed as important, maintaining the minimum gold cover ratio was seen as an important signal of that commitment, so the Fed raised interest rates sharply. That created financial problems for commodity producers, for US banks; there was a spike in bank failures in the US in 1920. It did succeed in stabilizing the gold cover ratio which bottomed at 42%, and then began to rise again thereafter, but at the cost of provoking a significant recession which I think should have served as a cautionary tale.

There were then these two other episodes in 1924 and 1925 and in 1927.



Benjamin Strong, whose picture I showed you on the left, was concerned to help his friend and colleague Montagu Norman of the Bank of England, whose picture I showed you at the top here on the right, to get the Bank of England to go back with the gold standard to the prewar rate of exchange. So Strong's view was that the US was now an export economy, stable

exchange rates were important for the promotion of international trade, the reconstruction of international trade after World War I and the two key currencies in this new system were: number 1, the dollar, already on the gold standard, but number 2: the pound sterling. Britain had trouble pushing this exchange rate up back up to prewar levels against gold and the dollar, and Strong sought to help it do so by cutting interest rates in the US, which encouraged capital to flow, where interest rates were low in the United States while they were higher in London, and gold flowed from New York to London as well, so that was the motivation of cutting interest rates in 1924-25.

The motivation for cutting them again in 1926-27 was to help the Bank of England stay on the gold standard. So no sooner did Britain go back to the gold standard at the old exchange rate than it became necessary for British employers to try to push down wages in order to render domestic costs compatible with high exchange rates. That precipitated a coal miners' strike in 1926, a decline in British exports, balance of payment problems for Britain and the Bank of England.



Strong convened a secret meeting of central bankers (see left): they were Strong, Norman, joined by the Head of the German Reichsbank Hjalmar Schacht and the Deputy Governor of the Bank of France Charles Rist. The governor didn't speak English but the deputy governor

did, so they met together in New York and in 1927 they tried to hash out what to do, and what to do ended up being a strong currency country (again) the United States cutting interest rates a second time.

So what was the result of that? That did help the Bank of England with its balance of payments problems, it did cause lower interest rates in the US' adopted system, wide over the objections of some of the other reserve banks, other than New York, so that was the first time in the history of the Federal Reserve system when the board of governors in Washington DC forced other reserve banks to adjust their discount rates against the wishes of their own boards.

The other effect of that was that low interest rates encouraged borrowing, encouraged leverage, encouraged banks to borrow from the Federal Reserve system in order to loan to brokers and dealers and stock market speculators, so I wouldn't go as far as to argue that it was the Fed's internationally motivated interest rate cuts that were entirely responsible for the Wall Street bubble and the crash and the Great Depression that followed, but I think from the point of view of the development of these financial excesses on Wall Street in the late 1920s, Federal Reserve policy did help to pour more fuel on the fire.

There was then another interesting and revealing episode. In the summer of 1931 we have the onset of the Great Depression in the United States. In 1929 we have it spread to Europe and then a series of banking and currency crisis in Europe in the summer of 1931. They start in Vienna, they spread to Budapest, they spread to Berlin, they show signs of spreading to London, and the Federal Reserve is aware that what was happening in Europe might not stay in Europe and that it could play a role in helping to resolve these European financial problems. As it did in 2008, it extended a series of emergency loans first to Austria, then to Hungary, then to Germany and finally a relatively large loan by the standards of the time to the Bank of England.

Actually, these loans were relatively small by 2008 standards. You'll recall that I mentioned earlier that the Fed had some 580 billion dollars of swaps outstanding in 2008. If you scale up the credits that it provided to European Central Banks in the summer of 1931, US nominal GDP is about 200 times now what it was in 1931. These loans come to something on the order of 30 billion dollars, not 583 billion dollars.

So there were voices within the system saying that this was not enough, it would not be enough, to contain the European financial crisis, as it was not. But there were also important voices within the Federal Reserve system, the Treasury Secretary at the time Andrew Mellon was still in accordance with the original Federal Reserve Act and ex officio member of the board, and Mellon was a famous liquidationist, he believed that bad banks should be allowed to fail, that corporations with heavy debts should be forced to go bankrupt, that European governments should be forced to take their medicine, and voices like Mellon's were important in opposing

larger loans, so this halfhearted support for European Central Banks turned out to be too little too late. The crisis in Europe culminated in the Bank of England being forced to suspend gold convertibility, the pound being forced off the gold standard, and the crisis spilling back to the United States.

So that is what you see here, when the pound sterling is forced off the gold standard, everybody asks, not without logic: if one of the two key currency countries could be forced off the gold standard, why not the other one? And people began to sell dollars and look for safer havens. There weren't very many of them. Countries like France and Switzerland at that point. But the sales of dollars again caused the Fed's gold cover ratio to fall toward the critical 40% minimum and the Federal Reserve jacked up interest rates fairly dramatically in October of 1931, so this is really a remarkable episode.

The Great Depression has hit the United States with full force, unemployment in the US is rising toward 20%, and what is the Central Bank doing under these circumstances? It is raising interest rates. This is a classic example of what is prioritizing international considerations over domestic ones, and the result was another banking crisis and a wave of bank failures in the final months of 1931, and yet a third then at the beginning of 1933.

These events in 1931 create understandable political criticism of the Central Bank for not doing enough to support the US economy and the financial system in particular. In 1932 there was a presidential election in the United States, and the congressional criticism of the Fed grew more intense - central bankers are not always immune from feeling political criticism - and some of the political criticism in 1932 translated into a variety of bills that began to move through the US Congress that would have compelled the Fed to do various things, to coin silver, to buy more securities, to do more to support the economy.

The Federal Reserve board heard the message, the Reserve banks heard the message, and began to engage in expansionary open market operations, starting in April of 1932, expansionary open market operations that did have some evident positive effect on the economy. The deflation in the United States stopped for the time being, the rate of unemployment

began to rise more slowly, so, that is progress of a sort, that continued through the Spring and Summer of 1932, until the Congress recesses for the Summer, Congresspeople went on vacation, they went back to their home districts for the Fall in order to campaign for reelection, and the Fed has the insulation that now needs in order to abandon this program of expansionary open market operations.

Why did they do so? Because, just as the monetary approach to the balance of payments would tell us, if a Central Bank with a pegged exchange rate begins to engage in expansionary open market operations, it also begins to lose gold reserves through the accompanying capital outflows. That is what happened, that is what the Fed was concerned about, and that is why the Fed then abandoned, in my view⁴, its expansionary open market operations when it had the political cover in order to do so at the end of the year.

So how do I evaluate this experience overall? I take a number of lessons from this short historical review.

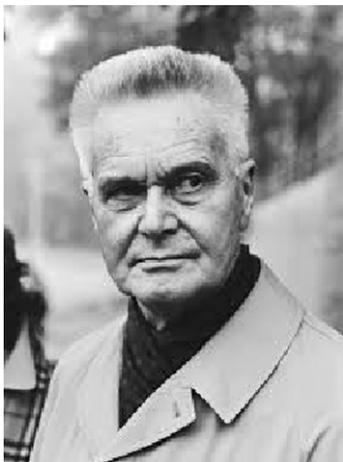
Number 1: I would argue that the Federal Reserve was correct not to ignore conditions in the rest of the world; what happened, as I said before, in the United Kingdom or Germany did not stay in the United Kingdom or Germany as highlighted by the events of 1931, but the Fed could have dealt much more wisely with the international aspects of its policy.

With benefit of hindsight, I think we see clearly that attempting to reconstruct an international gold standard along prewar lines, when social, political and economic circumstances were now radically different than they had been before World War I, was not wise (it is tempting to draw a parallel with the euro...).

But once a state decision was taken, The Fed either should have supported that system wholeheartedly or else acknowledged that the experiment was a failure and abandoned it. Doing what in fact did, provide halfhearted support to its partners in the gold standard, at the end of the day solved nothing (it is tempting to draw a parallel with the euro...).

4 In his book: "The gold standard and the Great Depression 1919-1939".

Number 2: At the same time, if you think as I did too, that the Fed has to worry about global financial stability as well as domestic price and financial stability, then it needs to develop multiple instruments in order to target multiple objectives.



Jan Tinbergen (left), was famous for the idea that if you have two targets, you need two instruments and then you ought to assign the target to the instrument with the most powerful impact on a particular target toward that target. The non-technical way of translating the Tinbergen principle, of course, is that you can only hit two birds with one bullet, with one stone, by dint of (very) good luck. In that way, a more sensible approach for the Federal Reserve System in 1924 and 1927 rather than cutting interest rates to help the Bank of England and other foreign banks with their economic problems would have been to extend loans, to extend swap lines, larger swap lines. The Fed in fact extended some small ones and worked with the investment bank JP Morgan to get it to extend loans directly to the British government.

A better approach for the Fed would have been to assign interest rate policy to the domestic economy and extend larger loans and credits to foreign Central Banks to the extent that their problems were a relevant concern as well.

Finally, I think this 1930s experience that I described you also sheds light on the recent controversy over so-called currency wars. That controversy has a long history as well, it really originates in Ragnar Nurkse's classic book *International Currency Experience* in which he argued that the reflationary policies followed by Central Banks following the collapse of the 1920 era of gold standard operated mainly by pushing down the exchange rates of the countries in question, and that may have had positive direct effects in terms of preventing further falls in prices and output, insofar as those currency depreciations, substituted external demand in the form of net exports for deficient demand at home. But the policy was

famously “beggar thy neighbor”, one country’s additional external demand was another country’s loss of external demand. Insofar as all countries did the same thing in the 1930s no country was able to depreciate its exchange rate on a sustained basis. The net effect was only to create volatility, and certainly that depressed the volume of international trade and worsened the ongoing fall in spending, so the currency wars of the 1930s, in Nurkse’s conclusion, were negative.

And those are exactly the arguments that people have been making in the last four years about currency wars today. In the current environment, the only way for Central Banks to stave off deflation is by using both conventional and unconventional monetary policies to depreciate the exchange rate, because interest rates have already been pushed towards zero, and in a growing number of cases below, there is no scope for monetary policy, conventional or unconventional, to push the prices of risk assets up further and otherwise to operate through portfolio balance channels.

The only way that monetary policy can be effective in targeting deflationary pressures is through the expectations channel, by signaling that Central Banks are serious about doing something about deflation and that they will continue doing it for as long as it takes, and the main way of sending that signal in the current environment has been by pushing down the exchange rate. That is what a number of Central Banks have been trying to do. But not every Central Bank can push its currency down on the foreign exchange market at the same time. The net result of that is that they only neutralize one another’s signals. Their uncoordinated actions only heighten exchange rate volatility and further depressed international transactions.

David Woo⁵, has famously made these arguments about the counterproductivity of aggressive monetary policy to fight deflation repeatedly in recent years. I would object to that view as a misreading of 1930s history and a misreading of the recent situation as well. Neither Nurkse himself nor the many other economists and textbook writers who challenged these arguments subsequently articulated a model of monetary

5 Head of Global Rates and Currencies Research at Bank of America Merrill Lynch, Research Division.

policy in the 1930s, they simply asserted that the main way of work was by pushing the exchange rate down and they asserted that other channels of transmission must have been weak or inoperative on the grounds that output employment and trade all recovered very weakly in the 1930s. The recovery of output and employment was lethargic presumably because the positive effects of policy were neutralized by competitive devaluations. Nurkse's observation, was that world trade was still more than 10% below 1929 levels at the end of the 1930s, presumably reflecting the negative sum effect of foreign exchange market volatility and uncertainty.

I'd like to think that the main reason monetary policy did not work more powerfully in the 1930s was not that it did not work but that it was not pursued more aggressively. The fact of the matter is that Central Banks in the 1930s remained tentative, they were reluctant to utilize their new found monetary freedom, they were uncomfortable with making monetary policy in the absence of an exchange rate anchor, which had been the longstanding traditional way of making monetary policy during peacetime. As a result, what they feared in the depths of the Great Depression and throughout the 1930s was interruption of inflation, even in an environment where deflation remained the real and present danger. So in this deflationary environment they failed to make open-ended commitments to raise prices, they failed to effectively vanquish expectations of deflation, they failed to supplement the new monetary regime with supportive fiscal action. For all those reasons they were unable to convince investors that they were committed to stabilizing the level of prices and pushing them back up to pre-depression levels, because they hesitated to expand domestic credit more aggressively, they ended up relying on net exports as a way of supporting domestic demand, and because they failed to talk to one another, they failed to coordinate their monetary and exchange rate policies more effectively, the resulting half hazard exchange for exchange is only hiking volatility and uncertainty.

I think there is reason to be more optimistic today. Central Banks like the Bank of Japan and the European Central Bank are now making open ended commitments to using monetary policy aggressively to fight off deflation and return inflation to their respective 2% targets. They are committed to doing whatever it takes, to sticking with their security purchase programs until they produce their desired result, and they are adopting at

least modest fiscal steps. The Eurozone is moving toward greater fiscal ease, the Japanese government has deferred its second increase in the value added tax as a way of reinforcing that message.

So my bottom line is that, with sufficiently aggressive monetary action and supportive fiscal steps, policy can still produce results even in the current environment. We should be happy that our policymakers are trying to do more rather than less, and we should be worried at the same time that without that aggressive action and those additional steps, the “Cassandras” of currency wars could still be right.

Let me conclude. My argument is, even a Central Bank with good reason to worry about economic and financial conditions in the rest of the world will achieve nothing if it fails to tend first and foremost to the health and stability of its own economy. This was true of the Fed in the 1920s and 1930s, and I think it is true of the Fed again today, something that we should bear in mind when we hear calls for the Federal Reserve to abandon policies tailored to the needs of domestic stability in order to address problems in the rest of the world.

Better would be for the US’ Central Bank to develop a second set of instruments expressly tailored to the second set of objectives, so in the same way that you hear arguments today that Central Banks should, if they have a responsibility for domestic financial stability, as well as price stability, they should develop a parallel set of instruments, macro-prudential policies to address domestic financial stability, so they can continue to use conventional monetary policy to pursue their price stability goal. I would make the same argument about international stability considerations, that the Fed should extend and develop and make permanent that system of swap lines and credits that it developed in 2008 if it is, as it should be, concerned with international financial stability goals.

The irony here and the worry is that the Federal Reserve has made permanent its currency swaps to advanced countries’ Central Banks, so the Bank of Canada swap, the Bank of England swap, the ECB swap, the Swiss National Bank swap, the BoJ swap, have all been made permanent, not so the four swaps to emerging markets Central Banks.

Why that dissymmetry? I do not know, but I suspect that the swaps to emerging markets' Central Banks would be viewed even less favorably by the US Congress, and it is politics that have been driving this decision.

Why in 2008 only those four Central Banks and not more broadly? Because I think those four Central Banks were viewed as systemically important and good friends of the United States, and few enough in number, that the Congress' hackles would not be raised, but again that raises I think an important question about: this is the direction that Federal Reserve policy should take going forward, shouldn't it be broadened and shouldn't it be multilateralized? It is not the International Monetary Fund the appropriate body to coordinate a global network of this kind of swap lines and credits and if so, isn't the US Congress part of the problem, if it is not prepared at this point to push forward with the 2010 agreement on governance reform of the IMF?

MARIO BERGARA (MODERATOR)

Quisiera tratar de interpretar buena parte de lo que Barry planteaba, un poco desde una perspectiva de un país pequeño y abierto como el Uruguay, y creo que ahí buena parte del razonamiento y del análisis que Eichengreen hace, sobre todo en el período del patrón oro, está justamente asociado a esa rigidez y a la inflexibilidad que da el atarse a tipos de cambio fijos o más o menos fijos, y creo que tanto Uruguay como otros países latinoamericanos es bastante experto en crisis, porque hemos tenido ya unas cuantas, prácticamente todas las crisis asociadas a eventos también de tipos de cambio y sobre todo el hecho de que siempre fue imposible sostener compromisos cambiarios cuando los eventos internacionales o regionales o domésticos así lo impedían.

Por lo tanto, creo que una lección que sí hemos comprendido y que de alguna manera es quizás un diferencial en este período de movimientos globales es que los países emergentes pequeños, por lo menos en América Latina, han operado con flexibilidad cambiaria, sin compromisos explícitos sobre temas de tipo de cambio y que eso ha permitido que los shocks de alguna manera se fueran incorporando, que sus impactos se fueran procesando de manera cotidiana y gradual.

Yo no soy muy optimista en cuanto a que la Fed tome demasiadas consideraciones internacionales para la toma de decisiones tanto con respecto al tapering como con respecto a la suba de las tasas de interés, pero también creo que el mejor favor que le puede hacer la Fed al mundo es que la economía de Estados Unidos se recupere y que en todo caso ese proceso se dé de forma gradual para que justamente los países con flexibilidad cambiaria puedan ir acomodando cotidianamente su situación a un proceso de normalización. Creo que esto es importante definirlo porque si alguien pensó que el dólar por el suelo, que las tasas de interés cero iban a durar para toda la vida, obviamente estaba haciendo una apuesta equivocada. Las condiciones financieras internacionales van camino a la normalización y eso es lo mejor que nos puede pasar y también van camino, de manera gradual, y eso también es lo mejor que nos puede pasar. Creo que la gradualidad está más determinada por el hecho de que la economía de los Estados Unidos no muestra saltos de recuperación relevante, sino que justamente ese proceso de recuperación ha sido gradual.

Pero es una buena noticia para nosotros que vayamos camino a la normalización de las condiciones financieras y que eso se dé de manera gradual. Y el último punto es una nota de comprensión de lo que podía pasar a la salida del patrón oro, y por qué a la Fed aun cuando había ganado autonomía le costó entender que tenía autonomía y que podía usarla de otra manera.

Nosotros estamos desde hace ya unos cuantos años en marcos de flexibilidad cambiaria y todavía hay muchos razonamientos que arrastran la lógica de la administración del tipo de cambio. Hay una cuestión cultural de que no es tan fácil desembarazarse de patrones de tipo de cambio administrados, como podía ser el patrón oro en su momento, y también hay un tema de caudal de conocimiento e información. Salir de un día para el otro de un régimen de administración de tipo de cambio a flexibilidad cambiaria no necesariamente implica que al día siguiente vamos a tener los modelos de interacción de las variables claros en nuestras cabezas y mucho menos los órdenes de magnitud; o sea, hay mucho trabajo para desarrollar en materia conceptual y cuantitativa para que realmente un Banco Central esté en condiciones de tomar decisiones con cierta confianza.

PREGUNTAS Y RESPUESTAS

Pregunta 1: Me pareció muy interesante el hablar de dos instrumentos para más objetivos de parte de la Reserva Federal. Cuando se habló de las *swap lines* para los grandes bancos internacionales, desde nuestro punto de vista el equivalente ya puesto en práctica, viene a través de los organismos multilaterales que ya han implementado hace varios años líneas de crédito contingentes a las economías emergentes, y Uruguay tiene muy buenas líneas de crédito contingentes con cuatro organismos internacionales, y es lo que hace las veces de segundo instrumento pensando en que se complejice la situación de acceso a los mercados financieros internacionales para el país.

Pregunta 2: Me interesó muchísimo el paralelismo que plantea desde la historia la experiencia de la Fed en los años 20. Hay otro punto en común que viene desde el entorno internacional entre esas dos épocas y es que en ambas épocas hay un proceso de cambio en el poder global. En aquel momento Estados Unidos estaba empezando a consolidarse como la primera economía del mundo y si se quiere, es como el comienzo de un período que lo ve hoy, en términos por lo menos de lo que es el manejo financiero a nivel global, en su apogeo. Sin embargo, al día de hoy en términos de participación del PIB, participación en comercio, se da el fenómeno de crecimiento muy fuerte de la economía china, y la aparición de otras monedas entre las cuales está el euro. Entonces, ¿qué rol deberían tener estas otras monedas en esta red financiera global y qué lecciones nos da la historia de cómo deberíamos coordinar este tipo de iniciativas, un poco en el sentido de los instrumentos que se mencionaba en la intervención anterior?

Respuestas: Thank you for good comments and reactions. Let me start by agreeing with Mario (Bergara) that the exchange rate remains an important shock absorber for economies in general, and in my view, economies like Uruguay in particular. Helene Rey at the London Business School argues there is a dilemma rather than a trilemma. She asserts that in a world of high capital mobility, exchange rate flexibility buys you nothing in response to shocks, and I think evidence remains fairly strong that under certain conditions, where a foreign currency debt is well managed and

limited in amount, where there is a credible anchor for monetary policy, that when economic conditions diverge across countries, exchange rates ought to move to reflect the fact that different monetary conditions are appropriate in different economies. I continue to think that it is appropriate and probably broadly helpful that emerging market currencies are declining against the US dollar at the moment, because US growth may be accelerating, and growth in emerging markets has been slowing, and that makes this currency adjustment in my view entirely appropriate.

What should the Fed be doing differently or better? The other thing I would add is that the Fed has to do a very careful and systematic job of communicating its intentions under circumstances like these. So the lesson of the tapering in 2013 in my view is that communication is important, and it can also be done badly. The problem in 2013 was nobody anticipated that the Fed was going to begin to taper its securities purchases soon, so when Mr. Bernanke used that word, the markets were surprised and wrong-footed, and reacted badly. I think the Fed subsequently has done a much better job at trying not to create certainty in the market, but trying to communicate how different considerations are informing its intentions, in a way that permits markets and policy makers in other countries to better prepare for the normalization of US interest rate that will be coming presumably someday.

Regarding the contention credit lines, I am very much a believer that if you cannot rely on insurance from the Fed or the International Monetary Fund, you have to self-insure, and you want to self-insure at relatively low cost instead of high cost. If you can figure out a reliable contention credit line that really will be there, that your certainty is going to be there when you need it.

Finally, this interesting question about whether we could conceivably be moving toward a less dollar-based or dollar centric global monetary and financial system in which other currencies like the euro or the Chinese renminbi will play a larger role. The Chinese would certainly like that, and that is why they are also extending swap lines and establishing clearing banks, and doing a variety of other things to encourage greater international use of their currency.

That is another reason why the euro was created in the first place, back in 1999, because French policymakers, among others, wanted to create a European unit that should play a role comparable to the dollar on the global stage. What we have learned since then is that wishes and realities are two different things, and that it will take the Europeans and the Chinese longer than they anticipate before their currencies gain wider international acceptance. But my view remains that once that happens the world will become a safer monetary and financial place, that it will be better for the world to have diversified sources of capital and not have to rely on the United States and the Federal Reserve to provide that credit in emergencies.

The US economy, if we presume -as I do- that it will overtime account for a progressively smaller share of global GDP, because of the continued emergence of emerging markets, the US is not going to be able to provide safe and liquid assets on the scale required by an expanding global economy all by itself forever. There will have to be other supplementary sources of international liquidity, and the big candidates are Euroland and China. So I think there is a logic why we should move in the direction of such a system in the long run, and my worry is that it may take a long time to get from here to there, and if serious liquidity problems develop in the interim, it is not clear that we globally have the capacity to handle them.