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Comment on Yung Chul Park and Kee Hong Bea

Heiner Flassbeck

Professor Parks' chapter raises a number of new issues challenging the conventional wisdom of an old debate, the optimum currency area (OCA) or common currency area (CCA) theory. Financial integration has indeed, up to now, not been considered as one of the classical criteria for OCA's or CCA's. Although favouring a regional currency arrangement in Asia, Professor Park asks whether the development of the financial markets and the dominance of foreign companies in financial relations, i.e. the globalisation of the Asian financial markets, is not driving the region into the wrong direction. In other words, will financial globalisation render regional cooperation in the end much more difficult?

Park presents striking evidence showing that foreigners run important parts of the financial business in Asia thereby intensifying the links with the western world instead of strengthening the collaboration in the region itself. However, Professor Park only briefly mentions the crucial question of causality: Are agents from the western world driving Asia's finance because they are dominant or competitive *per se*, or are they dominant because Asia has never tried to expand its regional ties and to stimulate an inward orientation by a political decision to cooperate and to financially integrate?

At a certain point Park seems to suggest that any decision in this direction would be useless as the dominance of western suppliers of financial services would *a priori* prevent closer collaboration in Asia. This, obviously, means stressing the old "owners problem" which, in

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most cases in economics, does not lead anywhere. Would rather efficient western financial companies not be able and willing to assist national governments in Asia in an attempt to create a regional currency arrangement?

Moreover, Professor Park stresses that there are only a few of these companies (two rating agencies, five investment banks etc.) on a global scale, reinforcing his argument about monopolistic power of western firms. This argument too, in my opinion, is not very convincing. There are a lot of small numbers on this economic planet beyond financial services which would not lead us to argue in favour of dismantling the regional concentration of the small number of suppliers of certain goods. Roughly, there are only ten producers of globally sold cars, three of sophisticated computer chips, two of machinery for printing etc. His argument, seen from the trade perspective, amounts to asking: Does the dominance of western suppliers of cars, railways and airplanes prevent Asian policymakers from cooperating in terms of transnational traffic routes? Additionally, every good German "Mittelständler" (medium-sized company) tries to be the global leader in his specific niche on the world market. The United States have very few companies being world leader in manufacturing and engineering, I do not mind if they have some world leaders in financial consulting.

There is another small number which will become more and more important in the globalised economy: three currencies. It may well be that a number of decades from now we end up with three currencies instead of the 50 to 100 which are still around. I think, Professor Park, in trying to make the case for regional cooperation in Asia would have been more convincing if he would have asked why countries are desperately searching a solution to their currency problem instead of putting the emphasis on a new criterion in the OCA/CCA debate. The whole debate about semi-fixed exchange rates or soft pegs, in my opinion, is flawed as the OCA/CCA theory is based on the assumption that there is always a viable alternative to pegging the rate, namely to float the rate. But if, in reality, this alternative is not attractive at all for developing countries, the OCA theory is useless and soft pegs are unavoidable as long as the world as a whole is not an optimum currency area.

Exchange rate volatility, gyrations and misalignments seem to have far more serious consequences for developing countries with small and open economies, and with a relatively large stock of

external debt denominated in reserve currencies, than for big closed economies like the US, EU and Japan. However, the mainstream economic thinking blames the soft pegs in Asia and elsewhere to have provoked the shocks leading to frequent crisis. Their advise, in case that a common currency area with centralised institutions is not available, is to choose between free floating on the one hand and locking into a reserve currency through a currency board, dollarisation, or a hard peg, on the other hand. But these "corner solutions" may mean to be stuck between the famous rock and a hard place.

The political reason underpinning the widespread fascination about the corners is easy to understand: they seem to offer unilateral monetary solutions in the multilateral framework of a globalised economy. They seem to allow for a world of total market integration without any kind of "cooperation and coordination" at the level of governments and to exclude discretion of governments concerning the external price level. In addition, whereas global solutions in the trade area are about the retreat of governments, global or multilateral solutions in the field of money and currencies are about government interventions.

The corner solution idea is inconsistent, even in theory, if it is applied to a single country in a world of many different solutions including the two corners. If flexible exchange rates would work in a transparent manner and would bring about smooth adjustment, as expected by their advocates, the whole globalised world would have to go for this solution to make it work efficiently. With some countries adopting the idea and others not, the relations between countries would be easily distorted as it would be extremely difficult to equilibrate the competitive positions of countries with and without flexible exchange rates at hand. As the price level as a whole cannot be as flexible as the price level of tradable goods in countries with flexible rates, the countries with fixed rates can be easily pushed out of their markets by means of a depreciation of the currencies of the flex-rate advocates.[1] Argentina and Brazil are a sad proof of this

[1] In a recent article Dilip K. Das from the Asian Development Bank argues that fixed rates "are difficult to sustain in a world of increasing capital mobility" as they may come under speculative attack. But, at the same time, he admits that a country with "significant policy autonomy" under flexible rates may "have trouble gaining credibility in international financial markets" (p. 19). Obviously, the same effects may apply in both systems. A fixed rate may not be credible and policy with flexible

point. The spiralling depreciation of many countries in Latin America after the collapse of the Argentine currency board is proving the inconsistency of the "free float" corner even more impressively.

Developing countries fear free floating as they expect excessive and unmanageable volatility. That is why many developing countries and transition economies have used a nominal anchor in order to bring down inflation and to avoid being a punching ball for international speculation. But the soft pegs like free floating often resulted in erratic capital flows and overshooting of exchange rates. In general, while many countries dis-inflated successfully, orderly exits from such regimes proved to be a main stumbling block. For an individual developing country with low and stable inflation, an intermediate regime targeting real effective exchange rate supported by strict controls on inflows and outflows may provide a temporary alternative. But most developing countries are already committed to close integration into the global financial system and, under pressure from the G-7 and international institutions, opened their markets more or less irreversibly.

Since global arrangements for a stable soft peg system are not forthcoming, regional mechanisms provide the only realistic solution. The EU experience since the collapse of the Bretton Woods system holds useful lessons in this respect. While it is a successful example of anchoring and a soft peg, culminating in the hard peg of monetary union, it is crucially different from unilateral dollarisation and currency boards. There have been mutual responsibilities by a reserve currency and collective mechanisms and institutions designed for this purpose, including implicit or explicit lender-of-last-resort facilities and orderly exit strategies. However, even these arrangements have not been without problems in a world of free capital movements. They required monetary convergence preventing inflation differentials. They also required a certain degree of real convergence, i.e. of overall growth and macroeconomic performance.

Moreover, even if convergence is guaranteed, regional mechanisms are not easy to replicate among developing countries

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rates may not be credible. Speculation may test a commitment to defend a rate or lead to overshooting and thereby harm the economic policy objectives of governments. These kind of arguments lead to nowhere if the interaction of prices, wages, interest rates and exchange rates are not explicitly analysed. Dilip K. Das, "Asian Crisis: Distilling Critical Lessons", UNCTAD Discussion Papers No. 152, December, 2000.

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alone. While intra-regional trade within developing country groupings such as ASEAN or Mercosur is growing rapidly, the trade of such regions with the rest of the world, notably with industrial countries, is much more important than that of the EU. Thus, the scope for them to collectively float vis-à-vis the rest of the world is more limited than for the EU. While appropriate regional arrangements among developing countries may increase the stability of the regional pattern of exchange rates, they do not eliminate the question of what regime to adopt vis-à-vis reserve currencies, but raise it at the regional level.

A better arrangement would be to involve major reserve currency countries in such regional arrangements, as in the EU which included emerging markets (Portugal, Greece, Spain and Ireland) alongside Germany, with mutual responsibilities and appropriate institutions. This could be realised in East Asia at this very moment only if Japan decided to play a dominant role. The United States are not interested in monetary union or regional monetary arrangements with others, and it would be difficult to extend the EU arrangements to Africa and the Middle East. Hence, a global system of a small number of regional monetary arrangements built around major reserve currencies, together with close cooperation among them as global stability is still far away.

The European Case

Seen from a European perspective, Professor Parks "benefits" of a common currency, focusing on capital mobility in face of little wage and price flexibility, have not been very prominent for the European decision to unify in terms of monetary policy. He stresses easy access to cheap capital as a substitute for real adjustment of wages. In my opinion it is just the other way around: the adjustment of nominal wages and prices to external (oil price hikes) and internal shocks (loss of competitiveness vis-à-vis other members of the system) is much more ambitious and strict under a well-designed system of fixed rates and the need to refinance current account deficits much more limited than under floating.[2]

[2] See H. Flassbeck, "The Exchange Rate: Economic Policy Tool or Market Price?", UNCTAD Discussion Paper No. 157, November, 2001.

The main arguments for a soft peg European style have different roots. First of all, multilaterally secured soft pegs representing the transitional stage to the corner of a unified currency, as implemented in Europe in the last 30 years, have to be treated quite differently from the unilaterally introduced soft pegs in Asia and South America. In the former case monetary policy is dedicated to the domestic goal of reducing the inflation rate to the level compatible with the convergence needed to reach low inflation and a stable external value of money. The temporarily fixed exchange rate underpins this target by putting pressure on the domestic price setting through the import price channel. One-way-bets, however, on the interest rate of the converging high-inflation economy should be excluded by orderly depreciation restoring competitiveness and normalising the returns on financial assets time and again.

Paradoxically, Europe never adhered to the corner solution thesis although it has reached now the corner of fully fixed exchange rates. But the countries involved did not jump from one corner to the other. Europe took a long and winding adjustment path to finally reach the corner. Nevertheless, the search for a solution for the region as a whole incorporated many advantages. All the countries sacrificed part of their economic policy power, attributing the leading role to Germany as the anchor of the system. But, at the same time, the group as a whole gained autonomy vis-à-vis the power of markets and the influence of multilateral international organisations like the IMF. The German central bank *de facto* acted as lender of last resort for the system, although this role has never been explicitly assigned to her.

But there have been storms and shocks in Europe nevertheless. An anchoring country in which the overall inflation performance is quite similar to the one in the anchor country, is in an easy position from the beginning. Austria in its relation to Germany is a good example. The general inflationary performance in normal times is one thing, but the real test for a successfully anchoring country comes when the anchor reacts to different kinds of shocks.

The most famous and most clear-cut example of an unsustainable peg was the attempt of Italy and the United Kingdom to fix their currencies vis-à-vis the D-Mark already in 1988, i.e. at a very early stage on the way to the monetary union which at that time appeared at the horizon. After the stock market crash in autumn 1987 the central banks in the United States and in Europe had trimmed their

interest rates to historical lows despite the fact that the effects of the crash on the real economy were rather limited. Thus, the monetary stimulation at a rather late stage of the recovery gave new momentum to the world economy and world investment. The growth performances of the countries under consideration after the shock were more or less identical. All the countries reached growth rates of 4 percent or more with the United Kingdom being the best performer at the end of the 1980s and Germany outpacing the others at the beginning of the 1990s following the unification boom.

The inflation performance was quite different, however. Whereas the traditional low-inflation countries including the United States remained below an inflation rate of 4 percent, Italy and the UK moved up to 8 percent or more. Even more pronounced were the differences in the growth rates of unit labour costs. Germany, Austria and France experienced a very slow and moderate reaction of wages to falling unemployment and rising growth, the rise in labour costs remained subdued and below the rise in prices. In Italy and the UK, however, growth rates of unit labour costs jumped from 4 to close to 10 percent, outpacing the others and price inflation. Thus, compared with the anchor country the two newcomers in the European Monetary System (EMS), Italy and the UK, lost ground in the direct external competition with Germany, Austria and France. With fixed nominal exchange rates, the real exchange rate (in terms of unit labour costs) of Italy vis-à-vis Germany appreciated from 1987 to 1991 by 23 percent, and the real exchange rate of the UK by 28 percent. The loss of competitive power in these two countries was reflected in a huge swing in the current account from surplus to deficit whereas the surpluses in the stable countries mushroomed.

If the UK and Italy wanted to avoid a deflationary spiral a depreciation of their currencies and the decision to quit the EMS was the only way out. It is easy to understand why the decision of France not to give in to the pressure coming from the "markets" in 1992 was justified. France as well as Austria were able to preserve their competitive position in the aftermath of the positive demand shock. France had been under pressure from the markets because the overall economic situation at that time was rather gloomy compared to Germany or Austria so that a depreciation would have been an easy way out of the recession. But the decision of the French government – with the assistance of most other members of the EMS – to stick to the "unwritten" rules of the game, namely to use depreciation only in

case of an external disequilibrium, proved to be right. The other way around, the pressure of the markets in the case of France, was fully unjustified whereas in the case of the UK and Italy it was justified.

This case of a currency crisis in Europe highlights the role which controls and interventions in the market for short-term capital can play and, at the same time, which role they cannot play. To stop capital from fleeing the British pound and the French franc in 1992 would have been justified as a massive and uncontrolled flight was by no means justified in either case. A thorough analysis of the authorities in both countries would have shown what the evidence proves, namely there was a limited need to adjust the pound and no need at all to adjust the franc. There was no reason for panic or any fear of a total collapse of the EMS and controls could have helped to avoid a big and unjustified unrest on the market. But with or without controls the British and the Italian problem had to be solved.

The most important policy lesson to be learned from this event in Europe concerns the short-term macroeconomic steering of the system. A better "early warning system" inside the EMS could have prevented the systemic crisis. If the authorities of the EMS, as well as the national authorities of all the countries involved, would have realised at a much earlier stage that the situation of the lira and the pound was becoming unsustainable, they could have reacted much earlier and could have depreciated the currencies of the two high-inflation countries in 1989 or 1990 already, thereby avoiding the worst troubles of the crisis and avoiding that a country like France became victim of the contagion effects of a general speculation against currencies with fixed exchange rates.

Another fundamental objection has been raised against a simple regional arrangement with a hegemonial currency as anchor. External and internal stability of the price level is just a tool to better accomplish the relevant targets of economic policy, namely more employment and higher growth rates in real income. An anchoring country gives away the tools to achieve these targets too. Thus, its overall economic policy success depends on the anchor country's success. The anchor country's policy, however, may be perfect under the circumstances prevailing in this country, but it does not imply that it is a perfect policy for the whole group formed by the anchor country and its surrounding satellites.

This was one of the main problems in Europe in the last two decades. Germany's monetary policy may have been an adequate

policy for Germany. But the German central bank, the Deutsche Bundesbank, was forced by law just to take into account the economic environment in Germany to underpin its decisions – although the D-mark was part of an exchange rate system, the EMS. Germany adopted an economic policy approach which was directed mainly towards gaining additional market shares in the world market by reducing the domestic cost level and the tax burden. For Europe as a whole or the countries now forming the European Monetary Union (EMU) this policy approach, obviously, was not adequate. Europe's openness is only a third of the German one (10 percent) and to move the overall European economy by stimulating exports means to wag the dog by the tail. Hence, the full fledged change to a consistent monetary system for Europe as a whole was unavoidable in the last analysis. With the EMU created in 1999 the European Union has made this final step. As a consequence, this step was not just the result of the attempt of the French government not to be dominated politically by Germany into infinity, as many have argued. From an economic point of view, it was a fully justified step too, given the fact that Germany's monetary policy for systemic reasons could not concur with the European needs.

For very small, extremely open economies, forming just satellites of the anchor country, the anchor approach can be adopted for a very long time if, by and large, the anchor country's economic policy follows reasonable principles and takes the existence of the satellites with benign neglect. But for any larger group and for countries of equal size or economic power, the anchor approach can only be a transitional stage on the way to a monetary union. A consistent monetary policy is only possible for the group as a whole and thus can only be perceived by a united central bank. The transitional phase, however, can last very long. From the first steps to the last it took Europe 30 years.

The Global Solution

The idea of a globalised market is to preserve on a multilateral basis a level playing field to all parties involved. Multilateral trade rules shall apply to every party in the same manner. Deviations from these rules are object of multilateral negotiations. The monetary system cannot be excluded from the definition of the level playing field. Hence, the

main idea behind the foundation of the International Monetary Fund in the 1940s was a sound one and is still valid today. An international institution is needed to avoid competitive depreciations in a world where countries have to struggle with unilateral solutions to the currency problem.

Whenever a worldwide crisis began to brew, upward or downward fluctuations in the real exchange rate – that is, changes in the competitive positions of entire national economies or untenable constellations of interest rates – played a pivotal role. In principle, only a new global monetary system can remedy this situation. It must guarantee that the relative competitiveness of national economies remains unchanged, and that enterprises can operate in healthy competition on a level playing field. Strong fluctuations of exchange rates which go beyond the balancing of inflation differentials cause similar distortions in the allocation of resources and investment decisions as unexpected fluctuations of the internal value of a currency or tariffs and quotas on trade. In a new world monetary order exchange rates must be firm enough to permit rational economic decision-making; but, at the same time, they need to be flexible enough to maintain the competitiveness of all nations. This can only be achieved by intense cooperation between the leading industrialised nations and the developing world.

Among countries or groups of countries which have jointly sworn off inflation as an instrument of economic policy, there is no need for exchange rate fluctuations. This is currently true, for example, of the United States, Japan, and Europe. The inflation rates and the growth rates in per-unit labour costs have been very low on both sides of the Atlantic and Japan for some years now. Nevertheless, huge changes in the real exchange rates between the big blocs occurred. The temporary weakness of the euro and the unjustified strength of the yen against the dollar and the quick reversal of these movements can only be viewed as a fundamental mis-evaluation on the part of the market. Such a misalignment does not only distort trade between the big blocs, but, at the same time, trade within the developing world and trade of developing countries with the "G-3". The Asian crisis in part has to be attributed to such a huge misalignment. Thus, the ideas brought forward to stabilise the real value of the G-3 currencies cannot be left aside in the interest of developing as well as industrialised countries. A global approach to tackle the problem, like it had been the case in the system of Bretton Woods, obviously offers

the superior solution.

But if the globalised world is not able to cope with the global challenge the cooperation of regions with close trade ties is clearly better than any national corner solution or cutting all trade ties. Asia, for example, despite strong trade relations with the United States, has some potential to follow Europe on the road to monetary union and thereby to create a tripolar global monetary system in the long run. The trade ties in Asia are rather close. If Japan is included the intra-Asian exports before the crisis amounted to nearly 50 percent of overall trade. In Europe intra-trade has a share in overall trade of 65 percent. The trade links with the rest of the world are well balanced, with Europe and the United States being with equal shares the most important trading partners although the overall share of trade with the US is very high in several countries in relation to GDP. But even without Japan and China the intra-Asian exports are as high as a third of overall trade. Intra-trade of the NAFTA countries is much less.

The transforming Eastern European countries are trying to get access to the European Monetary Union as soon as possible. Some of them will be successful in a rather short period of time. The others will form an anchoring system around the EMU and head for full access later. South America is in a much more difficult situation. Some countries have already adopted the US dollar as currency, others have currency boards or informal pegs vis-à-vis the dollar. A Pan-American solution with the USA as anchor seems to be improbable as long as the experiments with different regimes are on their way. But the preconditions to go for a genuine South American approach are not optimal with trade ties not being as close as in Asia and Europe. But there are a few alternatives to monetary cooperation and some may prove to be untenable in due course. Thus, there is hardly an alternative to regional cooperation even under unfavourable circumstances.

Regional cooperation up to a regional monetary union can be an answer to the challenges coming up with globalisation and liberalisation. But even regional monetary systems do not prevent crisis and turmoil on the capital market once and for all. Given the unresolvable conflicts in a world of different nation states in any monetary system that has been tried out after World War II, the Bretton Woods system just as much as the European Monetary System of the 1980s and early 1990s, recurring crisis-like phenomena that forced governments and central banks to intervene have been

unavoidable. But destabilising capital movements are less likely to occur, because the markets have been given clear guidelines, and because untenable interest constellations and massive real under- or over-evaluation should be avoided. If there are such guidelines, this system can minimise though not fully avoid surveillance and intervention into the capital account.

Conclusion

Some writers, including implicitly Professor Park ("currency and term mismatches that triggered the crisis", Section 7), are creating *a priori* dilemmas for developing countries by assuming something like the "original sin" of Eichengreen and Hausmann. They argue that maturity mismatches and/or currency mismatches constrain the development of poorer countries as these countries are lacking a deep and stable financial market. Hence, these countries would be unable to integrate financially and need, in one way or the other, capital inflows which are reducing the choice for a currency regime to the corners. This could be a crucial point. ... The Eichengreen-Hausmann thesis hints to an underlying theoretical problem the exchange rate discussion is burdened with. The original sin thesis makes sense if open economies are forced to borrow abroad to meet development and investment needs.

Developing countries may have experienced current account deficits and thus net capital inflows. As current account balances on the macro level are just the aggregation of the accounts on the micro level the same rules of sustainability apply as in the case of deficits of households and companies. But, and this is the crucial difference, a "country" or a region, even a poor region, in general consisting of the same economic entities as any other country *a priori* does not "need" foreign capital.[3] It is only true in a certain theoretical (neoclassical)

[3] This fact, which is, according to the above reasoning, the normal outcome has, after the publication of a paper by Horioka and Feldstein (1983), been the basis of many misleading speculations concerning international capital mobility. Feldstein/Horioka argued that the high slope coefficient is evidence for a rather small mobility of capital or restrictions for capital mobility even in the group of industrial countries as otherwise capital should be free to move and "... to seek out the most productive investment opportunities worldwide" (Obstfeld/Rogoff, 1996, p. 162). This is a fundamental misunderstanding. It is just the other way around:

model that countries can suffer from a lack of savings. In different (Keynesian) theoretical models it is a strange idea to believe that poor countries with little savings of private households simply can "draw" on the "existing" savings of industrialised regions to finance their investment without reducing domestic savings – out of profits – at the same time.

In the latter world currency mismatches are not a central issue. Maturity mismatches are of importance only if domestic saving (as non-consumption) determines domestic investment. If it is the other way round, if the level of investment determines the level of saving, the maturity mismatch can be neglected as an economic policy problem too. This is a crucial question and probably the most important one. If the economic world is dominated by the autonomous decision of private agents to choose between spending or saving (consumption today or consumption tomorrow), the maturity mismatch as well as the currency mismatch and, as a consequence, the corner solutions have their merits. One of the arguments the IMF brought forward in transition and in developing countries to defend the anchor approach and/or high interest rates was indeed the "lack of capital" in these countries. According to this orthodox view, an inflow of capital from outside or the mobilisation of domestic savings by high interest rates only could fill the "savings gap" and thus allow for a sufficient amount of investment in fixed capital. But if this is not the relevant theoretical model the whole approach falls apart.

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the more similar in their structure and the more open the countries under consideration are, the smaller will be the net movements of capital (the balances) between them. Such a finding has no direct implications for gross movements. These can be extremely important and their movement may lead, without the "contradiction" seen by Obstfeld/Rogoff, to "... the remarkable closeness of the interest rates that comparable assets offer despite being located in different industrial countries" (Obstfeld/Rogoff, 1996, p. 162). The "country" is usually no category of importance in the markets nor in economics if we are not dealing with interferences into the market by national governments.

[4] At a very early stage of economics as a science, however, this problem was addressed and a preliminary solution was found: The only way to finance additional investment and growth of the overall economy is the artificial creation of additional money. Additional money, so many early writers, including Schumpeter (1912) and von Hayek (1933), would allow increasing investment without negative repercussions from the capital market. This idea found its expression in the phrase of "forced saving" which had occupied many economists in the 1930s.

Saving out of real income, i.e. saving as the deliberate decision not to consume, is pivotal in theoretical models with given (exogenous) real income. If real income is endogenous, i.e. if we are dealing with economic models bound to explain why and how real income is generated or not, the causal nexus of saving and investment is just the other way around. If saving does not create investment but investment creates saving, then the original sin is pointless. In a non-neoclassical, a Keynesian, or better a Schumpeterian, view, the existence of neoclassical savings does not foster the process of development. In this world just the opposite is true. "The decision not to have dinner today ..." (J.M. Keynes) does not stimulate but discourage the creation of capital as demand and profits will fall.[4] In Schumpeter's words, what is needed in these cases is not capital in the sense of realised and unconsumed income but just money to prefinance a process in which capital is created by investment and financed, in the last analysis, by saving which is the result of an unforeseen growth in real income.[5] This is the main reason, in my opinion, for the disastrous results of the IMF's attempt to stimulate the creation of capital in the transforming economies by a policy of austerity including high real interest rates. It is exactly the opposite of the reasonable in a Schumpeterian world.[6]

Hence, I fundamentally disagree with Professor Park's conclusion that "A macroeconomic policy framework focusing on free floating and inflation targeting has not been tested for its effectiveness in sustaining financial stability with robust growth in emerging market

[5] The importance of money had been clearly recognised at the beginning of this century by J.A. Schumpeter in his "Theory of Economic Development" of 1911 (cf. Schumpeter, 1964). Hayek (1933) joined his view that only abundant money will allow high growth rates and a quick development of nations. For Schumpeter it is explicitly a potentially inflationary policy which spurs economic development. Monetary policy has to "prefinance" the process of development without knowing with certainty that the additional money will be used for real growth. This explains why catching-up processes are usually endangered by inflationary acceleration. The whole process is potentially inflationary without becoming inflationary in the least analysis. While a lot of studies deal with the microeconomics of Schumpeter's theory, the even more important macroeconomics are neglected.

[6] As money saving in the economy as a whole is necessarily zero, the notion of "saving" which is needed to "finance" investment is not useful at all. Investment is highly correlated with the dynamics of the overall economy. The overall economy, however, is stimulated and not depressed by a fall in the savings rate of private households.

economies." Obviously, neither floating nor inflation targeting are new ideas. If it would be so simple to find a solution, the test would have been made successfully a lot of times somewhere in the world in the last three decades. But, as far as I see, there is not one developing or developed country with free floating which, additionally, is surrounded by other free floaters without producing enormous friction. The few examples of (more or less dirty) successful floating all happened in the niches left by some sort of fix-rate system (like the UK or Switzerland in relation to the European monetary systems) or in countries attached to one big trading partner like Canada to the United States.

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