Exchange Rate Choices: General Discussion

In the general discussion, **Barry Eichengreen** noted that while Cooper made a compelling description of the dilemmas created by a weak currency, the case has still to be made that a country needs to import a strong currency rather than produce it at home. **Robert Keohane** wondered whether Cooper was implying that countries should give up their aspirations to an independent monetary policy, while **Sebastian Edwards** expressed skepticism about blanket solutions for all emerging economies and noted that Mexico's recent record with a floating exchange rate is far from dismal. He also remarked that no country in Latin America is taking the political steps necessary to move decisively in the direction of dollarization, despite the positive economic implications that such a move could have. Cooper reiterated his claim that if countries want to have an independent monetary policy, they should not have freedom of capital movements, no matter what their exchange rate regime. He also added that he did not say that flexible exchange rates do not work for any developing countries, but that there is no empirical evidence on the relative performance of fixed versus flexible regimes that compellingly favors a specific regime. **Daniel Ahearn** was sympathetic with Cooper's view that speculation is not stabilizing, and noted that international financial markets are becoming increasingly short-term in focus, thus frustrating emerging countries' need for long-term investment institutions. **Charles Leiberman** thought that Cooper's proposal for moving toward a single currency was a second-best solution. Cooper replied that policymakers always have to make choices among second-best alternatives, and he pointed out that flexible exchange rates are also a second-best solution whose attraction arises from nominal wages being downwardly rigid. He noted that while Germany in the 1980s had serious regional problems, no one was advocating a north deutsche mark and a south deutsche mark, because it is generally thought that a common currency has a significant value when adequate adjustment mechanisms are present.