FOREWORD

When we began planning this conference over a year ago, the world had just emerged from a serious liquidity scare and the Asian-Russian crisis was threatening to spill over into Latin America. Moreover, repeated episodes of turmoil throughout the 1990s—in Europe in 1992-93, in Mexico and the Tequila countries in 1994-95, and in the Asian countries and beyond starting in 1997—had provoked much soul-searching in academic and policymaking circles. A growing chorus was raising questions about the benefits of unfettered capital movements and fully flexible exchange, for instance—questions that would have been almost heretical not too long before. Policymakers were also proposing scores of institutional changes; some were actually being implemented!

For me personally, however, the most compelling reasons to seek ways to improve the design and operation of the world financial system were the huge social and economic costs created by currency crises and the economic downturns that followed. Although all of the Asian countries hit by the crisis have now returned to growth, these countries' economies contracted by 7 percent to 14 percent in 1998. In terms of shortfall from trend growth, the cost of lost output was at least twice as large. Such declines have serious long-term consequences. According to a new World Bank study, *Global Economic Prospects and the Developing Countries 2000*, the Asian crisis led to a significant rise in poverty and sharp declines in middle-class living standards in the countries most affected. Real public spending on health and education fell, with poor households experiencing the largest declines in access to these services. The impact of this decreased investment in human capital will have consequences for individuals and whole societies for years to come. Because these external shocks occurred very shortly after these countries had liberalized their capital markets, they have engendered a growing distrust of globalization in many parts of the world. We owe it to the people of the developing countries, as well as to ourselves, to consider how institutional or policy changes could moderate such setbacks in the future. For all these reasons, June 1999 seemed a good time to pause and consider the implications of recent events, institutional changes, and new research for the evolution of the international monetary system.

Representing frontline countries and frontline institutions, many of the conference participants had struggled firsthand with the dilemmas posed by the recent crises. Thus, they brought unique perspectives on the issues and offered thoughtful observations and useful ideas that could improve the workings of the international monetary system. It is my hope that publication of their views will stimulate further discussion, research and, to refer to Harold James's opening address, more than partial implementation.

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