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CHAIRMAN JIM SAXTON

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NEW STUDY IDENTIFIES SOURCES OF CURRENCY CRISES

– IMF Can Encourage Policies To Minimize Crises –

WASHINGTON, D.C. – The role of pegged exchange rates in generating many international currency crises is documented in a new study released today by Joint Economic Committee Chairman Jim Saxton. The study, *Features and Policy Implications of Recent Currency Crises,* describes what characteristics major currency crises during the last ten years have shared, and what the implications are for preventing future crises.

"A common feature of the recent major currency crises has been pegged exchange rates," Saxton said. "A pegged exchange rate is one that is neither solidly fixed nor freely floating.

"Solidly fixed exchange rates have worked well in cases such as Panama, which has used the U.S. dollar as official currency for almost 100 years. Freely floating exchange rates have worked well for the United States and a number of other countries. However, pegged rates have proved to be an invitation to currency speculators to make money at the expense of taxpayers in countries that have pegged rates.

"Although the United States itself has not suffered a currency crisis in recent years, currency crises in other countries can affect the American economy by reducing the ability of other countries to buy American goods and by shaking confidence in international financial markets," Saxton continued. "Thus the exchange rate policies of other nations can have important implications for U.S. policymakers."

In recent years, economists and policy makers have become aware of the problems posed by pegged exchange rates. However, the International Monetary Fund (IMF), which has a strong influence over the exchange rate policies many countries choose, has been slow to discourage pegged rates. Turkey's pegged rate, which collapsed in February, is a recent case of an IMF-approved pegged rate that brought severe economic problems in its wake.

Saxton concluded, "The United States should not, either directly or through international financial institutions, support currency arrangements that we know are likely to fail. The IMF's lack of attention to the institutional weaknesses of pegged exchange rates has cost taxpayers dearly. Fortunately, there does seem to be a new awareness of the inherent weaknesses of pegged exchange rates, and this recognition should work to serve taxpayers better in the future."

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