9

Commentary

ANDREW CROCKETT

In my reading of the papers and comments on China's exchange rate policy, some points are agreed on, some are not agreed on, and some are not adequately recognized.

Starting with the points that are agreed on, I do not see any real dispute now that the Chinese exchange rate will have to appreciate over time and become more flexible. Any Chinese commentator would agree on that.

Second, on the points that are not agreed on—and Steven Dunaway made this point (in his comment on chapter 8)—there is huge variation between the different estimates of the degree of undervaluation of the renminbi. In assessing the equilibrium exchange rate at a given point in time, much depends on the structure of the economy and the incentives to save and invest. These factors change over time. So there is no real agreement on the degree of undervaluation of the renminbi.

The next point that is not really agreed on is, given the need for a higher exchange rate and greater flexibility, how does one get from here to there—in large jumps, small jumps, more rapidly, or more slowly? And how does one do all of the things required to make a flexible exchange rate system stable and sustainable?

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Turning last to the points I find insufficiently recognized in the literature and the political debate, perhaps the most important is what Simon Johnson (see comment on chapter 4) referred to as the general equilibrium nature of the issue. The current account imbalances are not simply a US-China problem, and they are not simply a question of relative exchange rates. Relative exchange rates are part of the story, but a country like China has many imbalances it needs to correct. It is undergoing perhaps the most significant economic reform process of any country, both in size and complexity. It is facing issues of employment generation, income distribution, pollution control, and many others.

Dealing with these issues will require not only macroeconomic and regulatory policies but also targeted fiscal policies that will affect the balance of payments and the equilibrium exchange rate. So when we talk about the need for China to adjust the exchange rate, we need to look at all of the adjustments that need to take place in other areas as well. We need to recognize the fact that the balance of payments is the difference between saving and investment, and we should be looking at the factors that underlie saving and investment decisions. We know that China's saving rate is enormously high. Why? Some people say that is hard to determine, but there are ways in which expenditure, particularly consumption expenditure, can be encouraged. It is hard to believe that consumption rates as low as China's—some estimate household expenditure to be under 40 percent of GDP—are in keeping with the experience of other countries or the needs and aspirations of the Chinese population itself. Why is consumption so low?

It is often pointed out that the social safety net in China is such that it encourages very high levels of private saving. It would seem clearly in the interest of the Chinese people for China to create a social safety net that meets their aspirations and needs. Such a social safety net would have an impact on household expenditure. It would thereby influence the saving-investment balance and, with or without accommodating exchange rate moves, would have an impact on the balance of payments. So it is very important to look at these factors in a more general equilibrium framework than has characterized the debate so far.

It is also important to recognize that exchange rate manipulation is not as easy to define as it seems. Exchange rates are influenced by many factors besides the state of the balance of payments and the intervention policy of the authorities. I was at a meeting in mid-2007 at the Bank for International Settlements and the subject of imbalances and exchange rate management came up. Of course, China and the United States were talked about as examples of evident imbalances. Then the Swiss governor pointed out that Switzerland had a current account surplus in the high teens, and its exchange rate was depreciating with no intervention. New Zealand's governor said they had the opposite problem: They had a deficit almost as big, their exchange rate was appreciating, and they were also not intervening.

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Is there a case in saying that either of these countries is manipulating the exchange rate? Clearly not. They have hands-off policies with regard to the exchange rate, but they do have sets of policies that generate very high current account surpluses or deficits, as the case may be. So one has to look at "inadvertent generation of unsustainable exchange rate patterns" as a result of other sets of policies or the behavior of the private sector.

I have just put out as a question whether one can define manipulation, or potentially unsustainable exchange rate policies, as being derived only from policies that are directly aimed at the exchange rate or also from policies that have some other legitimate purpose but nevertheless affect the exchange rate.

I turn next to practical issues of what can be done about the Chinese exchange rate against the background of what I have said so far. First, it is clearly in China's own interest to act to reduce excess saving in the domestic economy. This can be done in different ways. I would encourage consumer expenditure. This is very much in the interest of the Chinese population and very much in conformity with the Chinese government's own professed desire to encourage harmonious development.

Next, what can we say about the speed of adjustment? The Chinese authorities tend to say, "We are moving in the right direction even if we are moving gradually." I think there is a potential flaw in such incrementalism. It is a bit like going up an escalator that is going down. If you are not moving up the escalator faster than it is going down, you are not making progress. This is relevant in two aspects in China: First, interest rate adjustments, if they take place too gradually, can fall behind acceleration of the rate of inflation. Insofar as that is happening, it is not using the interest rate mechanism as a means of controlling demand in the desired direction. Real interest rates are actually declining.

Second, with exchange rates, the Chinese will say—and it is true—that they have already moved the renminbi by 9 percent. But if 9 percent is against depreciating currency, it is rather obvious that the net real effect of appreciation is much less. And most estimates find the adjustment in China's real effective exchange rate since it moved to greater exchange rate flexibility has not been very different from zero. So I would encourage the Chinese to think in terms of a benchmark for interest rate and exchange rate adjustments that ensures genuine economic adjustment in these variables.

In other words, is the exchange rate moving in real effective terms in the desired direction? I thought the basket approach that China adopted would have been a means of making sure that happened. But of course we know that if there is a basket, the weight of the US dollar must be pretty close to one in that basket, and therefore it is not nearly as effective as it should be. I do not see why the Chinese should not, as suggested in one of the papers for this conference, move to a true basket that reflects all competitive currencies and not just the US dollar.

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Let me say a little more about how domestic steps to increase consumption can be implemented. In my new capacity working for a large international bank looking at opportunities in China, I have become very aware of how undeveloped consumer finance is in China. There is quite a lot of scope for making financial instruments available to Chinese households that would help increase the rate of spending and lower saving.

Also—as China moves toward greater flexibility in its exchange rate—the financial sector has to evolve faster. We know that the financial sector is repressed in many ways. For that reason, it would be a mistake to immediately liberalize interest rates and exchange rates without taking the necessary steps to strengthen the financial system.

Of course, this can become a recipe for paralysis if you say that one cannot be moved without moving the other. Such reasoning should obviously be avoided. But a mistake can also be made in the other direction if liberalization takes place without the necessary preparation. So another aspect of reform acceleration is to make sure that the financial system is strengthened.

I believe, however, that the banking system in China is stronger than is appreciated by people outside China. I serve on the advisory council of the China Banking Regulatory Commission, and I do feel that enormous strides have been made in supervision, and as a consequence the banking system is not nearly as bad as is sometimes believed outside China. But the financial system does not yet have a panoply of risk management tools in the capital markets that is needed to establish a stable environment for the financial system as a whole.

Regarding my last point on the question of what should be done with the exchange rate, I think that it is well nigh impossible to expect the Chinese to make a substantial sudden move. Morris Goldstein and Nicholas Lardy (chapter 1) make a very persuasive case for a substantial initial "down payment."

The Chinese, as we all know, have the saying of crossing the river by feeling the stones, and I think incrementalism is so deeply ingrained. The leadership believes they have done pretty well by moving gradually. The likelihood of deviating from that approach is small. But that does not mean that they cannot move faster, significantly faster, than they have. It would be desirable to increase the rapidity of appreciation from where they are now and to do it, as I said earlier, not on the basis of a comparison with the US dollar but with the real effective exchange rate. This and the increased encouragement to raise spending in the domestic economy would create a situation in which the Chinese authorities would be willing to move faster, the recent rapid expansion in the current account surplus would taper off, and the protectionist pressures from outside China would be reduced.

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FAN GANG

Listening the whole day to all the fascinating papers, comments, and debates, I cannot help thinking how difficult it is for a developing country like China to grow in today's world. It is facing new challenges every day, and it seems it is not doing anything right. But we need to think of China from the perspective of a developing country that is so far behind a developed country.

From that perspective, all the problems in China that we have been talking about are not really unfamiliar to us. Historically, developing countries—those catching up—have faced the same problems. Of course, if a country grows to reach a per capita income level of $2,000 to $3,000 and continues to grow, it will have to appreciate its currency. Rising productivity is the major reason for such growth.

I agree with Morris Goldstein and Nicholas Lardy that the hidden productivity theory is one of explanations for a number of things taking place in China, including lower inflation and high profitability of Chinese corporations. Actually, my institute is finalizing research on growth accounting using 2005 revised data, which show that the total factor productivity growth in the past 20 years was an average of 4 percent, 4.4 percent in the 1990s, and 3.5 percent between 2000 and 2005.

This really is the explanation, and from this point of view, the country should revalue its currency. The only questions are how fast it should revalue and how it should deal with the issues around this revaluation.

With improvement in productivity and competitiveness, China is also experiencing import substitution. This explains why China's imports are stagnating, while exports are growing. We have not talked much about it today. It is really a serious issue for China.

Another issue we have not touched on today is that nobody wants to sell what China wants to buy—I mean high-technology and military products. We all know why this is: There is a high-tech embargo in today's trade relationship. And we all know that for developing countries, the purchase of weapons and computers is the major part of balancing trade. When there is import substitution of not only materials but also machinery, and at the same time there is a high-tech embargo, then for Chinese companies and China as a nation, the question really is what to buy—except for Boeing aircraft, as some papers already pointed out.

Then there is trade friction, which is also normal. But as many papers have pointed out, what is unprecedented is the size of the problem, the size of the surplus, the size of the $1.5 trillion foreign exchange reserves, and overliquidity in the economy.

But we also need to think about several other unprecedented developments in China: first, the size of the population and the labor force. What

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is unprecedented is that 1.3 billion people now come into the labor market, consumer market, and the global resources market. From this point of view, we need to think hard about how difficult it is for such a big economy, a big labor force, to reach full employment. The difficulty is unprecedented in some sense. After 28 years of high growth, 35 percent of the labor force is still in agriculture, underemployed, and needs jobs.

Second, the pattern of China's growth is unprecedented. China has grown with globalization and foreign direct investment. But Japan, Korea, and some Latin American countries did not grow as much with as much foreign investment. All the multinationals are now in China, but all aim to export to the international market: 60 percent of China's exports is from multinationals, either joint ventures or foreign investment companies. That is the fundamental reason for this lasting trade surplus. Although growing for 26 years, China's per capita income is $2,000. But 20 years ago, it was only $200. The purchasing power of consumers was then very limited. So this growth pattern with foreign direct investment is really a new phenomenon. India is also big and attracting foreign direct investment and will face such problems in the future—trade frictions, trade surplus, and currency issues. These problems will come up for all economies with a growth pattern similar to China's.

Last, but not least, what is unprecedented is that this is the first time a large country like China has developed and grown under a global monetary system of the dollar standard, not the gold standard. This means that being the currency anchor, or a reserve-currency country, the United States may be able to run higher trade deficits for a longer time. In such a global currency system, disequilibrium in nonreserve-currency countries is equilibrium in a reserve-currency country. China has had a big trade surplus for only a couple of years. But the United States has run deficits (against various economies since 1970) for quite a long time.

So, taken together, it is a problem of the global monetary system and is unprecedented. Of course, the United States does not have a currency policy, but the relaxed monetary policy and fiscal deficits may lead to dollar devaluation, which will become a problem of currency revaluation for other countries, particularly developing countries. So from that point of view, it is not only an issue for China but also for developing countries around the world. As more developing countries come up, we will see more such issues in the future.

C. FRED BERGSTEN

I want to make three or four points by way of takeaways from the day's discussion. In doing so, I very much agree with what Fan Gang was just saying about the uniqueness of China, not just in today's world economy but also in the history of the world economy. China is the first global eco-

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nomic superpower that is at the same time still a poor country, not yet by any means a full market economy, and certainly not a political democracy. Therefore, its integration into the world system poses a very unique set of problems that have to be addressed in unique ways.

At the same time, we cannot accept what Stephen Roach said about China being just one little piece of the global payments imbalance, one of 39 countries, as he put it, that is running counterpart surpluses to the US deficit. Many others today have repeated the forecast that China's global current account surplus in 2007 will approach $400 billion. That means it will represent more than half the global current account deficit of the United States. That means there is no possible correction of the US deficit without a substantial correction of the Chinese surplus. They go hand in hand as mirror images, and the only issue is how it happens, through what techniques, who takes the initiatives, and the like.

Point one is that China obviously has to be a central part of the global adjustment. Simon Johnson reminded us to put all of this in a multilateral context. That is right. We all agree here that the dollar is still substantially overvalued and that it is part of the mirror image of China's undervaluation. Both exchange rates will have to move as part of the correction.

Second is the point emphasized by Michael Mussa, and perhaps surprisingly, not as much by others, that China—this very large player in the global economy—is violating some of the crucial international rules of the game: prominently, for this purpose, the International Monetary Fund (IMF) rules about competitive undervaluation and large protracted one-way intervention in the currency markets. Our friends from the Congress did not really mention it too much, but one issue frequently cited in the Congress is not just the size of the Chinese surplus and its alleged impact on the US economy but also the fact that China is participating in an unfair manner in the global economic system. It is already the world's most competitive economy, for a variety of reasons, but it compounds that with official policy that clearly violates the international rules of the game and therefore conveys a concept of unfairness in addition to sizable disequilibrium.

Our Japanese friends will recall all too well that it was the combination of large imbalances and a perception of unfairness that really roiled the political debate and the backlash against Japan in the United States. The backlash is even stronger, if possible, against China now than it was against Japan in the 1980s.

I would reiterate the factual point I made at the outset and put to Madame Wu Xiaoling, who did not really respond directly, that China announced over two years ago that it was moving to a more market-oriented exchange rate system. But today its monthly intervention to prevent appreciation of the renminbi is about double what it was when it made that announcement. So, on that metric, China's exchange rate policy is about one-half as market-oriented as it was two years ago. That is not moving in the right direction, let alone beginning to resolve the prob-

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lem. That violation of international rules creates a sense of unfairness, which I think clearly is a big part of the issue.

Just to state the obvious, neither I nor anybody at this Institute believes that revaluing the exchange rate is the only answer to the problem. It is certainly not a panacea as people have said all day. It has got to be part of a broader rebalancing strategy, as Nicholas Lardy has laid out for well over a year, but it is an essential part of the issue. Without it, the problem cannot be resolved.

My third point is to hopefully clear up some facts. Questions have been raised in this conference, as elsewhere, as to whether even a large appreciation of the renminbi would have much impact on reducing the global imbalances. Morris Goldstein and Lardy cite some estimates in their paper (chapter 1). I mentioned them briefly before. The conclusion is that if the renminbi rose by 30 percent—the real effective rate that they have proposed—and half to all of the other Asian currencies were brought along with it, as Takatoshi Ito's paper (chapter 7) suggested would be the case, then between $100 billion and $200 billion per year would be taken off the US global current account deficit.

That needs to be measured against the targets we have at the Institute of cutting the US deficit about in half, from $800 billion to $400 billion, so we get something like one-quarter to one-half of the needed adjustment from that set of contributions to the overall process. Obviously, these numbers are rough. I would not submit them in a PhD dissertation, but they are the best estimates that we can make and that others have made, and I think they do suggest that we are talking about big numbers and big contributions. None of this is trivial in the context of the overall issue that we discussed.

Finally, what about Andrew Crockett's question on how to get this to happen? The answer, of course, is that we hold this conference and, as the Party Congress now comes to an end, the Chinese will adopt the Goldstein-Lardy three-step process and everything will be sweetness and light. However, assuming that will not quite happen, a systemic defense question comes up. Assume with me for the moment that this is important not only for maintaining the stability of the world economy and financial flows but also for avoiding a major backlash that could jeopardize the openness of the global trading system over time. So it is a systemic defense question.

Suppose that the multilateral institutions that we all agree should be the first responder, and the appropriate answer to the problem, fail. Then do we simply throw up our hands and say there is nothing to do, or do we take unilateral action?

The same question comes up in terms of nuclear proliferation. If you cannot get the UN Security Council to act on Iran, for example, do you, if you are Israel or the United States, take unilateral action to defend your own interests—but at the same time the interests of the system, whether

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it is global security in that case or in the case we talk about today, the world economy?

The conceptual question that underlies the congressional issue, in the face of revealed failure by the IMF and the US administration, is whether Congress should attempt to take additional action to put pressure on the outcome. There are all sorts of questions as to whether its action would be effective, but again, since everything else is failing, maybe it should be tried. I argued before, and would reiterate, that I do not think any of the bills in Congress now can fairly be labeled as protectionist. They might be ineffectual, but I do not think it would be fair to charge any of them with being protectionist.

I would go beyond what Gary Hufbauer said (chapter 6). He noted the traditional division between the World Trade Organization (WTO) for trade and the IMF for finance including exchange rates. But here we have a classic case where the need to integrate the financial and trade mechanisms must be addressed. That is true between treasuries and trade ministries within governments, and it is now true at the multilateral level.

Certainly, the WTO will and should go to the IMF for a finding as to whether the renminbi is undervalued if somebody brings a trade case to the WTO. Suppose the IMF finds, as it already has, that the renminbi is undervalued. Will the WTO then be able to handle the issue? This requires cooperation between the Fund and the WTO, but it seems to me that is perfectly appropriate in this case, and the next systemic test would then be whether the WTO could work it out. As long as Congress essentially votes to activate that process and pushes the US government to go to the multilateral institutions to try to generate that kind of process, it seems to me it is very hard to call it protectionist. We do not know how the WTO process will turn out, but I think that is the right way to go at this stage, and it is certainly better than doing nothing.

If the WTO then were also to punt, and if the problem is still not resolved, Congress would come back and have second thoughts. But the same issue would then arise as to what would be the appropriate role of an individual country, particularly the country that still purports to be the systemic leader and defender of openness of the global economic system.

LAWRENCE H. SUMMERS

Let me make four observations that are helpful in thinking about the Chinese exchange rate problem. First, the Chinese exchange rate has not caused the primary economic problems of American workers. They are caused by issues that shape productivity growth and income distribution in the United States. They are caused by inevitable features of a world trading system where substantially more low-wage labor is involved in international trade. They are caused by low saving rates in the United

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States, which contribute to the current account deficit, but at any of a number of levels. The current account deficit is not the primary source of economic insecurity or slow growth in wages of American workers. China's exchange rate is not the primary source of the US current account deficit. All approaches that seek to blame Chinese exchange rate policy for the concerns of US middle class workers are founded on economic judgments that the vast majority of those who have seriously studied the question would not agree with, and to pretend otherwise is to be misleading.

My second observation, which you will recognize, has a rather different flavor, but I think it is important to keep these things straight. China's international economic policies, principally its exchange rate regime; the way it has driven its currency though its intervention policy; and the ways in which the need to maintain given levels of exchange rates, particularly in the face of a falling dollar, have all led to endogenous adjustments in China's levels of saving and investment. This combination of Chinese economic policies centered on the exchange rate and an export-led growth strategy has been as large a contributor to potential economic instability and difficulties in the global economic and financial system as we have seen in many years. They are an appropriate cause for concern because of what they mean for global economic imbalances and for global financial conditions and because of what they represent in prospect, given the trends that we have seen toward rising trade surpluses and increasing rates of reserve accumulation. They are properly a matter of multilateral concern.

My third broad observation is that there are dozens of well-documented instances of exchange rates in international economic history that were managed and kept stable for too long, to the detriment of the financial authorities involved, the countries involved, and the global economy. The losses suffered by the British Treasury and the fixed exchange rates that collapsed with tremendous consequences during the Asian financial crisis are just two of many examples. I am aware of no convincingly documented case in which an exchange rate that had been maintained as fixed or relatively fixed was adjusted in response to market pressures in a way that was judged ex post to have been erroneous.

My prediction is that having put forth Summers law that there are no such examples—this will be the only time I put it forth—I will be confronted afterwards with any number of you here—and I can see John Williamson, who unlike me knows what happened in Colombia in 1988, is constructing examples—with four examples to which I will not be able to answer and so I will have to fall back on the vast preponderance of errors, which have taken the form of maintaining fixed exchange rates.

It is useful to think about the international mechanisms we have for addressing these issues and to recognize that there is an enormous human tendency for such potentially wrenching adjustments to be delayed for too long. So arguments that an error—which has been made by national

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economies and the international system on dozens of occasions before—is being made again seem to me to have more presumption in their favor than arguments that are in the other direction.

I would never have thought of uttering a sentence like this, but I think it is possible that Michael Mussa (chapter 8) may have understated the case against the International Monetary Fund (IMF) in recent years. If one is to take seriously the notion that there is a global, multilateral agency tasked with the preservation of international financial stability, with special emphasis on aspects of policy that have international ramifications, the job the Fund has done over the last four years is indefensible, and the culture of the Fund, with respect to these things, needs to be radically altered.

One aspect that struck me, which may well have been in Mussa's paper, was that the IMF—here we are in the 21st century—largely ducked the exchange rate issue in its November 2006 report, explaining that its conclusions were based on data available as of May 14, when the IMF surveillance mission was completed. This is a fundamental indication of nonseriousness in the 21st century. I am not a big believer in litmus tests, but I am struck that in the substantial discussion that surrounded the appointment of a new IMF managing director, to my knowledge, no one raised the question of whether the new managing director would be committed to a more robust approach to these issues than his predecessor had been. His nationality was a matter of great and enduring importance, but no one in the broad government community thought that his view on multilateral surveillance of China was an important qualification. It would not have been inconsistent with the extant political understandings for the US Treasury to have said that it recognized the potential desirability of respecting international understanding and choosing a European, but it wished that a European who was committed to taking this issue seriously be chosen.

This is not a trivial problem, and it is easy to suggest that the Fund does need to maintain relations with everybody. It is true that China, in believing that the Fund has no business messing with its policies, is following in the tradition of all great nations previously, all of whom have been of the view that the Fund had no business messing with their policies. But at a minimum, given the level of seriousness that has surrounded the Fund's discussion of these issues and the desire to seek mealy-mouthed muddled formulations where China is concerned, the IMF in the wake of recent difficulties could think of nothing more creative or interesting than to reinforce the importance of fiscal consolidation. Has there ever been an event that did not leave the IMF to conclude reinforcing the case for fiscal consolidation? If an economy booms, the IMF reinforces the importance of fiscal consolidation. If it contracts, it reinforces the importance of fiscal consolidation. This seems to be a very poor show.

An important role of an international institution should be to respond to that reality—that exchange rate adjustments are systematically delayed

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rather than advanced—and I would argue that a reasonable case can be made that the IMF over the last 25 years has contributed to, rather than reduced, that problem. What did it do to quiet efforts to persuade Mexico of the need to adjust its exchange rate in 1994, for the IMF to hold it up as a poster child of skilled macroeconomic management in the summer of 1994?

Every government that has maintained an inappropriate exchange rate has been able to point to its involvement with the IMF international surveillance process. I have always been skeptical of Alan Greenspan's view that regulating something creates moral hazard, because people rely on the regulation, and you therefore undermine other kinds of market discipline. I think the surveillance process has run some of those risks.

I do not think any of us have figured out the right answer, and it is untenable to imagine the IMF seeking to destabilize fixed exchange rates by warning that they are basically untenable and are going to need to be adjusted at some point.

I do not have all the answers, and certainly, there are plenty of cases—Stanley Fischer knows of all of them and certainly more than I do—when the IMF was doing just the right thing in private but faced very serious questions as to what it was able to do in public.

But if you take as a given that it is wrong to blame China for the problem of America's workers, but it is right to be deeply concerned about China's surpluses, the logic points you very strongly toward the right processes of working through these issues—multilateral and international, rather than bilateral and US-led, particularly bilateral and US-led by those like Congress, whose record on protection can be questioned, or those like the Bush administration, whose questions on issues like fiscal probity can also be challenged.

My fourth observation is that it would be in China's interest to pursue more aggressive exchange rate adjustment than it has to date. However, one does need to exercise caution, as a policymaker who was very proud to be part of a period when his economy had grown at 3½ percent, about lecturing policymakers in countries that have maintained 10 or 11 percent growth for decades about what their appropriate policies should be. Similar caution also applies to those who study these issues from external perspectives and comment on what is in the interest of other countries.

That said, the combination of asset price effects, problems in the financial system, and distorted patterns of economic activity, summarized in the Goldstein-Lardy paper (chapter 1), does lead me to believe that questions of protectionism apart, China would likely be better off with an exchange rate that adjusted more rapidly.

But it is important to recognize—and I think this nuance in the dialogue is very hard to manage—that two styles of argument can be made externally, and they are both problematic. One argument is that it is in your interest to adjust, and we are just going to explain to you why it is in your interest to adjust. This argument is a little problematic for policymakers in

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countries that are growing at 3 percent who are reading briefing papers that were handed to them three days before the meeting and speaking with policymakers who have been managing the Chinese economy at 11 percent growth for 20 years.

The other argument is that it is your international obligation to do this for the sake of the system, and the world requires that this be done, whether it is in your interest or not. This argument encounters the hypocrisy problem: Few policymakers have the moral standing that comes from being able to say, "My country responded to international imperatives."

So it is very important to be mindful of this difficulty. That said, I think the preponderance of evidence, as I read it, suggests that the issue goes in the direction I suggest, but one should be cautious.

A poll of Nobel Prize winners, weighted by their actual knowledge of what is going on in China on the exchange rate question, Robert Mundell and Joseph Stiglitz's skepticism about the desirability of revaluation, multiplied by the amount of time they spend in China, would actually bulk pretty large compared with the diverse set of views that exist among others, most of whom have very little familiarity with Chinese exchange rate details.

So, it is important to recognize that the narrow question of what is in China's interest is somewhat more vexed than is often suggested in these discussions.

Which way from here? I have already suggested that the IMF's approach ought to change. I detect very little interest in the United States in multilateralizing the approach to China, which is likely to make any approach substantially more effective and which is more resonant of the actual problems—except for reasons that are not entirely admirable. It is not entirely clear why congressional legislation does not take the form of the sense of the Congress that there needs to be much more aggressive engagement through the IMF and that the sense of the Congress's support for the IMF needs to be such and such.

Even if one accepts the argument that global and US Treasury efforts have been inadequate, the proposals in Congress have more protectionist energy behind them and therefore undermine their effectiveness relative to what would be ideal.

It has always struck me as a bit of an irony in the current political debate that in the traditional security realm of foreign policy, America needs to become much more multilateralist than it has been, but that there is great reluctance to carry the same principle into the economic area, which is something that I would like to see in the future.

To sum up, it is the beginning of wisdom to distinguish the global problem, which is real, from blaming China for America's problems, which is largely unreal. If that crucial distinction is made, much of the rest—a more appropriate multilateralist policy and the like—is likely to follow.

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