

**Not Out of the (Bretton) Woods Yet:
Exchange Rate Disequilibria, Trade and Suggested Reforms**

There are essentially three successive questions concerning the relationships between exchange rate disequilibria and international trade.

- Are exchange rates excessively volatile?
- If exchange rates are excessively volatile, is there any discernible impact on international trade?
- If exchange rates are excessively volatile and there is a distinct negative impact on international trade, what could or should be done about it?

As a means of exemplifying the urgency surrounding the debate on the effects of exchange rate swings on the international economy, consider the following two quotations from proceedings of conferences convened to review the Bretton Woods institutions.

... several participants argued that the present arrangement of floating exchange rates among major industrial countries needs to be reformed to mitigate exchange rate misalignments and instability. Reforms such as exchange rate target zones were proposed to promote fuller international policy coordination.¹

A glaring weakness in current monetary arrangements ... has been the marked volatility of exchange rates. ... Now, however, limits on excessive volatility and persistent disequilibrium must ... be considered. ... In the near future, the international monetary system must be protected against possible internal breakdowns to reduce the risks to the system as a whole.²

It is worthy of note that the first quotation is drawn from a conference held in 1984, while the second is from a conference held by the same institution in 1994.

¹ J.H. Bergstrand, "Summary", in *The International Monetary System: Forty Years After Bretton Woods*, Proceedings of a Conference Sponsored by the Federal Reserve Bank of Boston, May 1984, p. 1.

² R.E. Cononi and R. Hellerstein, "50 Years After Bretton Woods: What is the Future of the International Monetary System? An Overview" in *New England Economic Review*, Federal Reserve Bank of Boston, Boston MA, July/August 1994, pp. 66-71.