Concluding Comments

Economic development is hard. That clearly is the message of the centuries of large-scale divergence across economies. Catch-up growth is possible and has been accomplished at times. Price stability seems to be an important factor—certainly the evidence of convergence across US states and Japanese prefectures (and within the European Union) is fairly persuasive that trade, investment and technology transfer can turn the trick in a stable price environment. Episodes of convergence internationally appear to be correlated to the existence of exchange rate regimes that strengthen price signals.

We draw no policy conclusions here. Overall, history suggests that exchange rate regimes are particular to their historical setting, with important roles played by the political, security, and social context, over and above purely economic policy considerations. It is an open question of what is the feasible set of international exchange rate regimes for the current age. Perhaps the experience of the past three decades will allow nations and economic agents active in international markets to perform more effectively in the future. Certainly, there has been some diminution of commodity price volatility over the course of the past three decades. And it is possible that the use of techniques like inflation-targeting will help financial markets anticipate more accurately and reduce exchange-rate driven instability.

The point remains that there has been considerably more real price volatility under the current exchange rate regime than under the system which it replaced. A link can be drawn between that instability and the developmental failures that have contributed to the observed pattern of divergence that has characterized the most recent episode of globalization. And there is a policy conclusion from this: less emphasis should be put on the measurable characteristics of individual countries, certainly in a prescriptive sense when it comes to reforms.

Until proven otherwise, small and medium-sized economies must base their participation in the global economy on the presumption that exchange rates will tend to be persistently far from "equilibrium" valuations and that large-scale adjustments