Without being too flippant, if exchange rate movements posed such a danger in 1984, how was it that over the next ten years the G-7 economies grew in real terms by an average of 2.8% annually, G-7 export volumes were up about 45%, G-7 import volumes rose about 58%, and the stock of G-7 outward foreign direct investment nearly tripled to $US1.59 trillion?[3] These data might suggest that the exchange rate worries expressed in 1984 were overstated. Is the same true in 1994? Or, does the increased international integration of business and financial markets instead strengthen the case for a renewal of exchange rate arrangements in order to provide more stable foreign exchange markets?

What Has Changed Since Bretton Woods and How Does the Present System Measure Up?

Within the broader goal of fostering greater international economic well-being, one of the original roles of the IMF was to promote an orderly exchange rate system, in part by ensuring that no member country undertook competitive devaluations.[4] One of the most important changes to have taken place since the Bretton Woods institutions were created was the movement in the early 1970s from an "adjustable peg" to a more flexible "managed float" exchange rate system.[5] Following the collapse of the system of pegged exchange rates in the early 1970s, the IMF Articles of Agreement were changed subtly to reflect a new Fund role. Despite the addition

[3] See IMF, *International Financial Statistics Yearbook*, IMF, Washington DC, various issues; and OECD, *International Investment Statistics Yearbook*, OECD, Paris, 1994. Foreign direct investment stocks are compared between 1984 and 1992, except for France, which is compared between 1987 and 1991 due to lack of data.

[4] For a discussion of the role of the IMF and how it has changed over time, see N.S. Fieleke, "The International Monetary Fund 50 Years After Bretton Woods", in *New England Economic Review*, Federal Reserve Bank of Boston, Boston MA, September/October 1994, pp. 17-30.

[5] The adjustable peg system was one in which exchange rates were supposed to be changed only periodically in order to correct balance of payments disequilibria. The managed float system, which is still followed, allows monetary authorities to intervene in foreign exchange markets to smooth out short-term fluctuation without attempting to affect the long-term trends in exchange rates. The economic effects of different exchange rate regimes are unclear. Mills and Wood studied the U.K.'s exchange regimes since 1913, and determined that different regimes had no impact on the variability of several macroeconomic variables. See T.C. Mills and G.E. Wood, "Does the Exchange Rate Regime Affect the Economy?", in *Review*, Federal Reserve Bank of St. Louis, St. Louis MO, July/August 1993, pp. 3-20.