Taken together, these puzzling behaviours of exchange rates—and by implication the capital flows that play a large role in generating them—impart a considerable amount of noise into the international price system. In fact, given the magnitude of the effects, the noise would seem to be more than sufficient to compromise the quality of the "signal" that prices provide concerning efficient international organization of production.[20]

To consider the significance of these *de facto* features of the system of a floating exchange rate regime, it is useful to imagine first a world in which there is a rock-steady international numeraire and exchange rates adjusted only to offset differential rates of inflation in the various countries. In this world, a country which succeeded in doubling its real per capita GDP in terms of its own currency would also experience a doubling of its international purchasing power. Moreover, its growth in real per capita GDP would appear the same, *regardless of the vantage point from which one measured this growth—that is, whether from the perspective of an American, a Japanese or a European.*

In these terms, the picture of developments over the past several decades is one of remarkable instability.

For example, in terms of its own currency, Chile's per capita GDP was 55 percent of its 2001 level in 1970 and snaked up more or less steadily in real terms to its 2001 level. In constant US dollars, the picture is completely different. From this perspective, Chile's per capita GDP in 2001 was no higher than in 1970 and in the intervening years, it varied by as much as 60 percent higher and more than 40 percent lower. And in terms of constant yen and constant euros, the pictures are also dramatically different. Similar stories can be told for other countries.

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[20] In this regard, it might be noted that the price margins affected by trade liberalization in computable general equilibrium models, which are used to estimate the efficiency gains from trade liberalization, tend to be small compared to the magnitude of real exchange rate shifts.