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Edited by **Martin Feldstein**

Exchange Rate Regimes

Sebastian Edwards / Domingo F. Cavallo / Arminio Fraga / Jacob A. Frenkel

Financial Policies

Frederic S. Mishkin / Andrew Crockett / Michael P. Dooley / Montek S. Ahluwalia

Industrial Country Policies

Jeffrey A. Frankel and Nouriel Roubini / Mervyn King / Robert Rubin / George Soros

IMF Stabilization Programs

Anne O. Krueger / Stanley Fischer / Jeffrey D. Sachs

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Creditor Relations

William R. Cline / Guillermo Ortiz / Roberto G. Mendoza / Ammar Siamwalla

Economic and Financial Crises in Emerging Market Economies



**A National Bureau
of Economic Research
Conference Report**



Economic and Financial Crises in Emerging Market Economies

Edited by **Martin Feldstein**

The University of Chicago Press

Chicago and London

MARTIN FELDSTEIN is the George F. Baker Professor of Economics, Harvard University, and president of the National Bureau of Economic Research.

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Since this volume is a record of conference proceedings, it has been exempted from the rules governing critical review of manuscripts by the Board of Directors of the National Bureau (resolution adopted 8 June 1948, as revised 21 November 1949 and 20 April 1968).

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Preface

The financial and currency crises that began in Thailand in 1997 and spread around the world are a warning and a challenge to officials, to private market participants, and to economic researchers. The National Bureau of Economic Research (NBER) responded to this challenge by organizing a major project aimed at understanding how the risk of such crises might be reduced and how the crises that do occur could be managed in a way that does less damage in both the short run and the more distant future.

Our project consisted of three related parts. We held a series of separate day-long meetings that dealt with the experience in each of the crisis countries. These meetings brought together officials and private economists from the crisis countries, economists from the U.S. government and Federal Reserve, officials from the International Monetary Fund (IMF) and World Bank, private bankers, and NBER economists. Brief summaries of the discussions at each meeting are posted on the NBER web site at [<http://www.nber.org/crisis>].

The second part of the project was two in-depth research projects dealing with the two separate parts of our study. Sebastian Edwards and Jeffrey A. Frankel organized a project on reducing the risk of economic crises. Michael P. Dooley and Jeffrey A. Frankel organized a parallel project on managing the crises that do occur. The two groups of researchers met separately and occasionally together at meetings of the NBER International Finance and Macroeconomics program. The final stage of each project was a conference at which the research papers were discussed with a broader group of economists. The papers summarizing the research in these two projects are published in two NBER volumes by the pairs of organizers. A large number of additional technical studies appear as NBER working papers and can be found at [<http://www.nber.org/crisis/#papers>].

Finally, the third part of the project brought together a remarkable group of very senior officials, business leaders, and academic economists who were involved in the crises in the United States and in the crisis countries to discuss their personal perspectives on these events. Each participant prepared a personal statement on some aspect of the crises. Six major non-technical papers, each written by a distinguished economist who is a specialist dealing with these issues, served as a background for the discussions. This volume brings together the background papers, the prepared remarks of those who played important roles, and a summary of the discussion at the meeting, prepared by John McHale. The meeting itself was held at the Woodstock Inn in Woodstock, Vermont, on 20–21 October 2000.

When the crises began, there were many calls for fundamental changes in the international economic architecture. The discussion at the conference left me with the strong feeling that what is needed is not a new architecture but a return to some of the basic principles of economic virtue.

Financial support for the entire project came from the Ford Foundation, the Mellon Foundation, the Starr Foundation, and the Center for International Political Economy. I am grateful to them for making this work possible.

I am grateful also to the authors of the background papers for the extensive research and writing that went into preparing these very useful documents and to the officials, executives, and academics who took time from their very busy schedules to share their insights and experience in the economic crises. I also want to thank several members of the NBER staff for their assistance in the planning and execution of the project, the conference, and this volume, in particular Kirsten Foss Davis and Amy Tretheway of the NBER conference department, Helena Fitz-Patrick, Gerardine Johnson, and Norma MacKenzie. I am grateful to John McHale for preparing the summaries of the fast-moving discussions.

After the conference, financial and currency crises continued to happen around the world. I can only hope that the analyses and ideas presented in this volume will help to reduce the frequency and severity of such crises in the future.

Martin Feldstein