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Exchange Rate Regimes: Choices and Consequences. By Atish R. Ghosh, Anne-Marie Gulde, and Holger C. Wolf. Cambridge, MA, and London: The MIT Press, 2002. Pp. 232. $32.95.

This book, written by two IMF economists and an academic for an audience of peers and policymakers, has two major strong points. First, it offers an effective guide to the modern literature on exchange-rate regimes and their potential—although not unambiguous and highly conditional—consequences on macroeconomic performance. Second, by adopting a "unabashedly empirical" approach, it tests theory against the experience of 147 IMF member countries in 1970–1999. A comprehensive bibliography and a CD ROM including the whole data base used by the authors are just additional valuable assets of the volume.

Atish Ghosh, Anne-Marie Gulde, and Holger Wolf start with a concise historical prologue. This chapter however serves only to emphasize that the collapse of Bretton Woods marked a watershed. A century-long era during which countries' choices were "circumscribed by prevailing norms of the international monetary system" (p. 23) was then brought to an end, giving way to a "brave new world" in which governments became virtually unconstrained in their policy choices. However—and this is the book's only serious flaw—no analysis whatsoever of the determinants of such choices is offered. In fact, the sizeable literature on optimal regime choice is barely mentioned in an endnote, and recent studies on the political economy of exchange rate policy (for a review, see J. Frieden, E. Stein, "The Political Economy of Exchange Rate Policy in Latin America: An Analytical Overview." *Inter-American Development Bank,* Research Network Working Paper no. R-420, 2000) are simply ignored.

On empirical grounds, identification problems—that is, how to decide whether a country is actually running a pegged, an intermediate (such as a target zone or a managed float) or a full floating regime—are addressed by using a "de jure" classification that focuses on the central banks' announced commitment. Moreover, the authors check the robustness of this forward-looking approach against a mixed "de jure-and-de facto" classification that takes into account the observed time path of the nominal exchange rate. This method allows them to exclude ambiguous cases such as "soft" pegs and "hard" floats, thus considerably improving the reliability of their results (pp. 46–51).

The authors provide empirical generalizations that compellingly demonstrate a strong link between pegged regimes and better inflation performance in the long run, confirming the existence of both a "monetary discipline effect" and a "credibility bonus." As expected, the link was found to be more relevant for developing and emerging countries where alternative disciplinary devices, such as central bank independence or higher capital mobility, were weaker. Robustness tests controlling for country-specific fixed effects and for a possible bias stemming from endogenous regime choice (i.e., due to the fact that low-inflation countries are more likely to adopt pegs) confirm these findings (pp. 81–89). On the contrary, the evidence of a long-run nexus between exchange rate and growth performance is much more ambiguous. In fact, the authors find a growth bonus statistically associated with pegs, but, after controlling for a number of possible determinants, conclude that country-specific fixed effects and an endogeneity bias account for most of it (pp. 93–99).

Switching to a short-run analysis in the final part, Ghosh, Gulde, and Wolf suggest that the so-called Syndrome of Exchange Rate-Based Stabilizations, according to which peg-based stabilizations are more prone to fail, to lead to banking and currency crises, or to entail extremely high costs in terms of negative economic growth, should not be generalized. Durable disinflations, they argue, depend in the end on the extent of fiscal adjustment and monetary discipline achieved (p. 119), and the experience of Argentina in the 1990s demonstrates that a peg is no "magic bullet" without robust fiscal and structural reforms (pp. 135–47).

Although the volume has no explicit normative purposes, the authors convey a clear message in favor of pegged regimes combined with some degree of flexibility. To support this view, they show that, in the long run, floats do not necessarily entail greater volatility of the real exchange rate—indeed, they may help developing countries to reduce it by offsetting inflation differentials (pp. 54–60). They also insist that governments should learn carefully to design transition strategies in order to voluntarily exit unsustainable pegs, thus avoiding the "fear of exit" syndrome that so often in the past decade delayed exit until speculative attacks forced spectacular collapses. Elaborating on the drawbacks of Argentina's currency board experiment in the 1990s, they actually suggest that a "floating currency board" might be used to get the right mix of credibility and flexibility (pp. 162–63). This policy suggestion adds further interest to a book that makes a valuable contribution to the current debate on the future international exchange rate system.

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