



# Currency Wars and Unconventional Policy

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# Style

VS.

# Substance

# Substance

- Growth – January IMF WEO Forecast

	2013	2014
Advanced Economies	1.4	2.2
Emerging Market and Developing Economies	5.5	5.9

- Inflation (consumer prices)

	2013	2014
Advanced Economies	1.6	1.8
Emerging Market and Developing Economies	6.1	5.5

# Grim Updates

- Eurostat – today
  - In fourth quarter 2012, eurozone economy shrank 0.6% vs. 0.4% expectations
  - Biggest drop since 2009:I.
- Reports from Japan
  - GDP fell 0.4% in 2012:IV
  - Third straight quarter of decline

# Style

- The G7 opines:
  - “We... reaffirm our longstanding commitment to market-determined exchange rates and to consult closely in regard to actions in foreign exchange markets...”
  - Fiscal and monetary policy limited to meeting “our respective domestic objectives” and “not target exchange rates.”
- Heading into the G20: worried statements about looming currency wars

# Is there anything to this?

- Concerns:
  - Competitive Devaluation and Beggar-thy-Neighbor.
    - Arguments about what really happened in the 1930s (Barry Eichengreen).
    - Just make sure that other countries can respond. Can be problematic with numerical targets.
  - Are we worried about inflation or deflation?
    - Reciprocal interventions would just expand global money supply. Not bad if deflation is the worry.
    - Sweet spot should lie between deflation and raging inflation. Hard to stick the landing.
    - The answer may differ between countries.



# The Global Macro Environment

- Slow growth
- Structural change meeting political obstacles
- Conventional measures pushed to extremes
  - Fiscal expansion (with rumors of austerity)
  - Monetary policy hits zero lower bound, quantitative easing
- Heightened sensitivity
- Upshot: Policy measures are available, but approach with diplomacy and caution