

The Case for a Common Currency in Asia*

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Thank you for giving me the chance to come back to Korea and to see this country once again, as I have done on previous occasions. Today I will present the case for a common currency in Asia. I will start with some general and background factors in the world economy. The tri-polar currency jungle is a criticism of the existing international monetary system. I will move on to macroeconomic policies in the Asian economies, and then address whether or not an Asian currency or currency area is feasible in the future of Asia. Afterward, I look forward to hearing your questions and comments.

Background factors

Globalization comes about whenever it is made possible by the international power configuration. Globalization and universal trade is the natural state of mankind. But governments block it with alliances, wars and other things which impede free trade. The current wave of globalization really began anew in about 1990, with the end of the Cold War. It has been going on ever since. One of the consequences is that there has been a change in the governance of the world economy. The role of the US as a superpower has shifted down and there has been a gradual tendency to build countervailing forces that contest that governance.

Such trends always have good and bad features. Globalization is, on balance, as most economists believe, a good thing. This does not mean that everyone benefits from it. With any change, there are always losers, though most are gainers. In some cases, the losers are concentrated in particular places and the gainers in others. For countries, that creates international differences.

There are some facts about globalization. When a big country moves into the world economy, the classical economists always think that it benefits the world. The world gets new and different goods at lower prices than before. The individual country's terms of trade with other countries improves as a result of that move. That is certainly a correct model.

But if we break it down a little bit, we see that some countries produce the same products as the new expanding country. Those countries suffer worsening terms of trade because of the new entrant and the rest of the world sees additional benefits. So even though the rest of the world gains from the growing country, a few particular countries may lose from it. The rest of the world will then gain even more from that factor.

That is happening today. That has happened universally throughout history. In the 1950s, 1960s and 1970s Japan was soaring ahead as an economy. You saw the exports

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of Japan soaring and the exports of Britain going way down. To a large extent, Japan took over the role of Britain. China is doing the same thing today. In 1992 I was here in Seoul for some conference. A member of our audience here today told me at that time that China had just wiped out Korea's entire toy market in Japan.

This always happens. This happens in a particular way in certain countries and certain industries. Even today, there's a great cry—which has almost become a political issue in the US—about so-called “outsourcing”. This is an issue about the rising competitiveness of India in software production and of China in manufacturing. Their rise has led to the use of the word “outsourcing”. I am sure this is also an issue in Korea, or it is going to become an issue in Korea if it is not yet.

The basic ideas of classical economics are still valid. You have to recognize that it creates dissention when the losers are concentrated in one place.

I do not need to say too much about the information technology (IT) revolution. It is all well known. The great flowering—almost doubling—of the growth rate in the US during the last five years of the previous century created tremendous capital and stock market values. The bubble burst. It all came down again. Be that as it may, the whole IT revolution is inexorable and it remains a part of the world economy today. It is like the electricity revolution and the printing press, combined. It will be with us all through the century.

Even during the global slowdown that just occurred, productivity was increasing and costs were being lowered in every sector of economic life, whether it be in firms, households, governments or institutions. Even in countries where unemployment has gone up, the productivity growth has been important. That is an issue countries have to take into account when their economies are, in some respects, slowing in terms of the traditional numbers. Maybe our productivity indices do not show this pernicious inexorable lifting of productivity in the household sector, in every sector? You see the effects of this in academic life, in services, everywhere. This is especially true in those countries that have reached a level of education that can utilize it.

This productivity growth has been the workhorse and locomotive of the US economy for some 50 years. This is very important; whenever the US economy falters, the world takes faltering steps. Global slowdowns are associated with US slowdowns. That started, particularly, in a different way in the 1980s. There was a supply side revolution in the US. Under the Reagan Administration, top marginal tax rates in the US were cut at the federal level from 70% to 28%. Then there was some recidivism from a supply side revolution under President Bush I. He raised the top tax rate to 33%. Under Clinton and Gore, those rates went up to a little more than 40%. Now under President Bush II, they have come down to 35%. Over that period of 20 years, the US created about 42 million new jobs. It was a great expansion. The last 10 years of it were a 10-year-long expansion, unprecedented for the US economy. Then the slowdown came.

We must now ask ourselves whether the world economy can continue to rely on US demand. The US share of global GDP is between a quarter and a third. This prediction is very important. We all want to look ahead. Can we see the future?

We came out of a nine month recession in 1990. If you had gazed into a crystal ball at that time and seen the future, you would have predicted the unprecedented 10 year expansion that was coming along. If we look ahead now from 2004, can we see another seven or eight years of expansion? I do not know. We do not have that sort of crystal ball.

The significance of the euro

The euro has been a big gain for Europe. No country in Europe would want to go back. Every individual in Europe got a better currency than they had before. Every firm got a continental capital market instead of a local capital market. There was a huge cut in transaction costs. There are now lower interest rates. For some countries they were over 12%, but now they are all under 5%, or even 4%. The significance of that has affected the way in which people think about currency areas. It has had a demonstrative effect in Asia, as well as in Latin America and Africa.

The euro has become a potential reserve asset. If you look at official central bank foreign exchange reserves, they are now somewhere between USD 2.5 and 3.0 trillion. But 80% of those reserves are in US dollars. Most of these countries with so many dollars would like to have more euros and fewer dollars. But the euro's rate has shot up. This factor is going to keep the euro on the high side, even if the European economy is sluggish. The euro may go down, but it is not going to go down by very much. As soon as it gets down to about USD 1.10 or 1.05, you will see Asian central banks start to buy euros as part of a diversification program.

The euro also created a change in the power configuration of the world economy. There are now 12 countries—including three G7 countries—in Europe that have combined together under one currency. They have created a potential rival or alternative to the dollar. That makes for a change in the way in which the international monetary system will be run and conducted.

The tripolar system

We have what I call three islands of stability in the world: the dollar area, the euro area and the yen area. They represent islands of stability. In the dollar area there is no inflation. There is no inflation in Europe. There is also no inflation in Japan. These are islands of stability. But with no inflation and more or less the same price experience, why are there such dysfunctional fluctuations between these exchange rates?

One hundred years ago, the world had an international gold standard. You had stable prices, but also had stable exchange rates. These days, we have stable prices. There is no doubt that the big areas have been able to achieve inflation stability. But there have been huge swings in exchange rates. What is the function of those changes in exchange

rates? What is the function of a system where the euro began its career equal to USD 1.18 and then fell within a year and a half to USD 0.82. A couple of years later it soared to USD 1.30, then it came down to USD 1.20, and now it is just above that rate.

What's the function of that, between areas that have price stability? There is no function. It is a dysfunctional system. It is very upsetting to those countries. It is very hard for the countries that suffer this. It is inconvenient. Changing exchange rates with no price change upsets big areas. It has a tremendous effect upon financial variables. Stock markets have to adjust to these exchange rates because they are denominated in those local currencies. It changes the real value of tax systems. It shifts industries back and forth between international and domestic industries.

How can firms make plans under this situation? How were firms able to make plans at the time of the so-called "Asian crisis" when the Indonesian rupiah was going from 2'500 to the dollar to 15'000, to 4'000, to 8'000 and to 10'000, up and down like that? Even the Korean won was jumping up and down in a big way. What kind of business can managers look forward to when they see such instability?

The cause of the "Asian crisis" is not generally understood. People at the IMF did not predict the crisis. After the event, nobody has explained it. Of course some people said it was due to "cronyism" or "capitalist cronyism" in Asia. That is nonsense. There's cronyism all over the world and there will always be cronyism in some way or another.

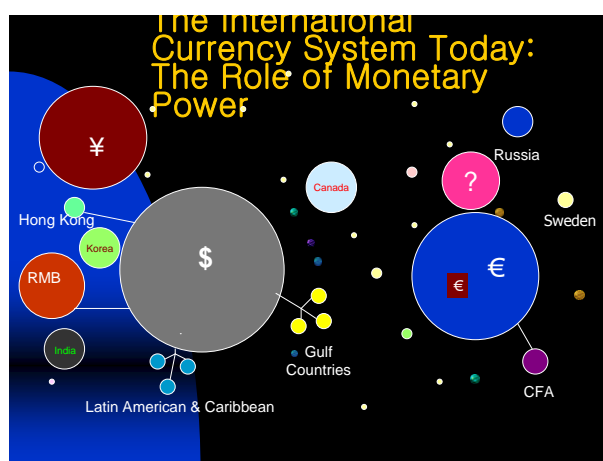
The basic cause of the crisis was the big swing in the dollar/yen exchange rate. At the time of the Plaza Accord in September 1985, the dollar was JPY 239. Ten years later, after the period of the Plaza Accord and "Japan bashing", as it was then called, the yen tripled in value against the US dollar. The dollar went down to JPY 78, a low point reached in April 1995. What major currency in the world could triple the value of its currency against the mainstream of the world economy, which the dollar still represented, during a time when the dollar inflation rate was on average—certainly a little higher than Japan—just about 3% or 4%? This tripling in value ruined the Japanese banking system. This created the non-performing loans.

That did not immediately cause the "Asian crisis". The secondary factor that caused the "Asian crisis" was the follow-up. After the yen's initial fluctuation, there was a swing in the other direction. The dollar soared after April 1995 from JPY 78 to JPY 148 by June 1998. All Asian countries that were fixed to the dollar had to appreciate against the yen. This choked off Japanese foreign investment in those countries.

This detonated all the factors that lead to the great trauma of the "IMF Crisis", as it is called with some justice. Nobody would want to say this was the IMF's finest hour. It was certainly a period when the IMF acted terribly in a country like Indonesia. Malaysia was lucky to escape. After being pushed toward floating its exchange rate, the ringgit shot up from USD 2.5 to almost USD 5. Then the government figuratively threw out the IMF and stabilised the currency at USD 3.8. The ringgit is still at that rate today. For good or bad reasons, Malaysia came out of the crisis earlier than other countries.

Figure 1 below shows the way in which we look at the currency power system in the world today. The size of the circles represent monetary power in the world economy. Monetary power is, for all practical purposes, proportionate to GDP. That is the old equation of exchange. The dollar area, that is, the GDP of the US, is about USD 11 trillion, maybe a little more or a little less. The GDP of the euro area is about USD 9 trillion, and that of the yen area about USD 5 trillion. These are the three big zones, the islands of stability. There is no inflation in those areas, but there are huge gyrations of exchange rates, for the dollar/yen, the dollar/euro and the yen/euro.

Figure 1. The international currency system today: The role of monetary power



The fourth biggest area is the pound sterling, with a GDP of about USD 1.7 or 1.8 trillion, depending on current exchange rates. Then you have the renminbi Mainland Chinese area of about USD 1.4 trillion. If you go down after those five areas you find Canada, then Russia or Korea, and then you get into the lower categories. Those are the power positions in the world economy.

It is vital to understand those power relationships in terms of monetary mass when looking at currency areas. These relationships show how currency areas are going to form and the impact they will have; they show the relative weights of any proposed currency area. In monetary relations between bigger and smaller countries, the big country tends to dominate.

Small currency areas can fix to big currency areas, but not vice versa. Mexico could stabilise its economy by fixing its peso to the US's dollar. The Mexican economy is about 5% the size of the US economy. It could gain stability from that up to a point, as long as the US dollar is stable. But if the US were to fix to the peso, the US would not gain any stability from it. Indeed, that act might grant stability or instability to the Mexican economy.

In the standoff between China and the US, many ask whether China should appreciate its exchange rate against the US dollar. Several economists and others say China should very substantially appreciate its exchange rate, or even let it float and let it go up

naturally. The fact is that the US could force China to get off the peg if it wanted to. The US could appreciate the renminbi to whatever it wants because the ratio between the monetary masses of the two areas is about 10:1 or 9:1. That is an important desideratum.

Macroeconomic policies in the Asian economies

People often ask whether we should have fixed or fluctuating exchange rates. Four years ago the editor of the *National Post*, a Canadian national daily, called me to ask whether I would have a debate about fixed and flexible exchange rates with Milton Friedman. I said, "I would love to." The editor called up Professor Friedman, who also said, "Fine." So we had an e-mail debate. Professor Friedman was in California. I was travelling around the world submitting my arguments from hotel computer terminals. We had about eight rounds, which came out in eight issues of the *National Post*.

At the beginning of the debate I suspected that Professor Friedman did not want to compare unstable countries with flexible exchange rates and unstable countries with fixed rates. He assumed that each country wants to achieve monetary stability. If monetary stability were the goal, we would then talk about whether a fixed exchange rate system or a flexible system would be better. To put it another way, he wanted to talk about the rules that a central bank should follow to achieve monetary stability.

Countries could fix the rate of monetary expansion and then let the exchange rate go to where it wants, which is what Professor Friedman used to think. He does not believe that any more. He has now shifted over toward inflation targeting. He feels now that the central bank should try to stabilise the inflation rate and let the exchange rate go to where it wants.

Some countries, though, have no option. The US cannot fix its exchange rate. It's too big to fix its exchange rate against a smaller country. The US cannot fix its exchange rate, so it uses inflation targeting. Then the exchange rate goes to where it wants. That is the only option for the US, the best choice for that country.

A choice between exchange rate regimes is an oxymoron. How can you compare a fixed exchange rate, which is a monetary rule that gives a country the inflation rate of the anchor currency, and a floating exchange rate, which targets a given inflation rate? If Mexico fixes to the US dollar, it will get the long-run inflation rate of the US, in the same way that Panama has. This year is the 100th anniversary of the existence of the Republic of Panama. Panama has had a fixed exchange rate between the balboa and the dollar since the country was born in 1904. Panama has followed the ups and downs of the US inflation rate. This is the best inflation record in Latin America, since they use the paper currency of the US and the balboa is only a coin currency.

A fixed exchange rate is a monetary rule. The IMF should never tell a country that has a fixed exchange rate to give up its fixed exchange rate for a floating exchange rate. That would be giving up a monetary rule. If the flexible exchange rate is open-ended you could enter into hyperinflation or hyperdeflation.

The relevant choice is between a fixed exchange rate, which is a monetary rule, and another monetary rule, which is inflation targeting. The IMF does not instruct countries, though, about that variation. It has never done that. I have been very critical of the IMF for that.

Choice of monetary targets

Countries have a choice between monetary targeting, inflation targeting and exchange rate targeting. The US tried monetary targeting when Paul Volcker became the chairman of the US Federal Reserve Board in 1979. Over two and a half years he tried to fix the monetary aggregates. This proved to be a disaster. The US inflation rate went up to 13% in 1980, the highest peace time inflation rate the US has ever had. In 1979 the inflation rate was 9% or 10%. It jumped up to 13% in 1980, and went down to 11% in 1981.

After trying to fix the rate of monetary expansion and get away from using the interest rate, they quickly reversed that process and jacked up interest rates. Interest rates went up to over 20% to stop the inflation. In short, monetary targeting does not work. For a country that is suffering from monetary targeting and hyperinflation, you can easily tell it to cut down the rate of monetary expansion. You certainly have to pay attention to the money supply. But inflation targeting is better. A third alternative is exchange rate targeting.

To which basket of goods should a country stabilise?

Suppose you live in Korea. Is it good to stabilise to a Korean basket of goods? Is that the best goal of monetary policy? Korea's output as a fraction of world output is 1%. By fixing to the Korean basket of goods you only fix to stabilise 1% of the world basket. But if you had a world currency, you would be fixing to a world basket of goods and everybody would be using the same inflation rate.

If a country like China, which accounts for about 3% of world output, were to do inflation targeting, it would only be fixing to 3% of world output. But if it fixes to the US dollar, it fixes to 3% plus 28% of world output, for about 31%. If you add the other countries which are fixed to the US dollar, it would represent about a third of the world economy. Is it better for China to have the renminbi stable in terms of 3% of world output, which is the local basket, or 33% of world output? Is it better for Korea to stabilise to about 1% or 1.5% of world output or to 33% of world output? You can make arguments both ways. In some countries, wage rates and other things are indexed to the inflation rate, and this becomes quite important.

If you only stabilise to a narrow basket of goods, you will get big fluctuations in terms of the big basket. If you stabilise to the big basket, you will get imperfections and some fluctuations in the local basket. In the long-run for most countries, it is better to have the currency stable in terms of the big basket. That is the argument why small countries should peg their exchange rates, if an anchor is available.

Can the dollar be trusted?

If you do stabilise to the US dollar, you have to ask yourself whether or not it is a stable anchor. The US economy has been the motor for the world economy. There is a dollar cycle. The dollar cycle started in the 1970s. Before that, almost all the world was on fixed exchange rates. In the late 1970s the dollar went down against the European currencies and to a certain extent against the yen. It went strongly up in the first part of the 1980s. After the US had gotten rid of inflation in the first part of the 1980s, the US dollar went down in the second part of the 1980s. This suited the need to keep the US economic boom going. The dollar went very strongly up during the IT expansion in the last part of the 1990s, which involved the “Asian crisis”. When the global recession came, the dollar went down very substantially. That is the dollar cycle.

Any country that fixed to the dollar has to be aware that these cycles exist. China fixed to the US dollar in 1994. The initial devaluation in 1994 was too high. There was inflation. Prices rose through 1994 and 1995 by about 40%. Then prices started to stabilise. In 1997 and 1998 the dollar was appreciating against the other currencies in the world economy. Every single country that had its currency fixed to the US dollar suffered a little bit of deflation, including China, Hong Kong, the Gulf currencies and Panama. You were able to see a little bit of deflation in those countries since the dollar’s monetary policy was tight. That was to keep prices down.

You must also consider the balance of payments and indebtedness, and central banks’ large holding of dollars. This may impart some instability to the US.

Conclusions about the dollar

When has the dollar been unstable? It was unstable during the US Civil War (1861-1865). It was unstable again during World War I (1914-1918). Prices doubled from about 1914 to 1920. The dollar was unstable in the 1930s and it was unstable during World War II (about 1939-1945). It was a little bit unstable in the late 1970s. Apart from that, the dollar has been more or less stable.

This is not at all a perfect or even a very good record of stability, because of the wars and other things. But it’s better than any other country in the world over that long period of time, including Germany and the other countries. Germany has had two currency conversions/reforms in its lifetime, in the 1920s and in 1948. Japan has had one major currency reform in 1949.

The dollar probably can be trusted over the foreseeable future. There is some risk of higher inflation because of the current account deficit and the possibility of central bank dumping. But it might be better for some countries to have slight inflation with the dollar than to stagnate alone, if those are the only two options.

The future of Asia

The rise of Asia is the most important fact in modern monetary history. It includes the great period of the growth of Japan from 1950 to 1990. Then, the Asian Tigers came along, including, of course, Korea, leading that pack. Now we have the rise of China and the issue about whether global-centric or Asia-centric integration is the right thing to do.

Figure 2 below shows some approximate GDP numbers from 2000, measured in billions of dollars. At the top is Japan with a GDP of USD 4'000 billion, or USD 4 trillion, in 2000. If we expect Japan to grow at just 1.8%, we would predict a GDP of USD 6 trillion in 2020 in current dollars. China with a GDP of USD 1 trillion in 2000, would have a GDP of USD 4 trillion in 2020. Korea would grow at the same rate, up to about USD 2 trillion. By 2020, therefore, the total GDP of these five Asian countries could amount to USD 13.2 trillion. By this time the US will have a GDP of between USD 15 and 20 trillion.

*Figure 2. Projections of East Asia's future—
GDP forecasts in billions of US dollars*

	2000	2010	2020
Japan (1.8%)	4,000	5,000	6,000
China (7.2%)	1,000	2,000	4,000
Korea (7.2%)	500	1,000	2,000
Taiwan (7.2%)	200	400	800
Hong Kong (7.2%)	120	240	480
Total	5,820	8,640	13,280
US 1.8% Growth	10,000	12,200	15,000
US 3.6% Growth	10,000	14,500	20,000

*In Billions of Dollars

Is a common currency or currency area feasible in Asia?

Should we have a single currency, a parallel currency or a parallel area? The differences are very important. An official in China was once asked about an Asian currency: “Do you think there will be an Asian currency?” He said, “Maybe not in 50 years.” He was thinking of a single currency. I agree with him. A single currency in Asia is not possible. It is not feasible for Asia to think in terms of a single currency in the same way in which Europe has thought in terms of a single currency.

Europe did a mind boggling thing in 1999 by entering the European Monetary Union. Then, within three years, it scraped all its national currencies over the course of only two months. Germany and Italy, of course, had only become united in the 19th century. But France had been a united country for a thousand years. It had a currency for a thousand years, and yet it gave up its national currency, the beloved franc. What caused this?

The single currency idea was proposed in the Delors Report. Jacques Delors, president of the European Commission between 1985 and 1995, was commissioned to make a plan for the European currency, but not to think about politics; not to think about the feasibility. He and his co-authors thought a single currency in Europe would be more irrevocable than a parallel currency, a currency into which other currencies were convertible. There would have been very little chance for the euro to come into being had it not been for a political event in 1990: the unification of Germany and the single currency within Germany.

After the east and west marks were joined together, countries like France, Italy and Britain thought this meant that a unified Germany would, once again, continue with its tendency to dominate European affairs and build upon its strong economy, the third strongest in the world. Is it going to dominate Eastern Europe? In 20 or 30 years are we going to go back to having political turmoil and war on the continent?

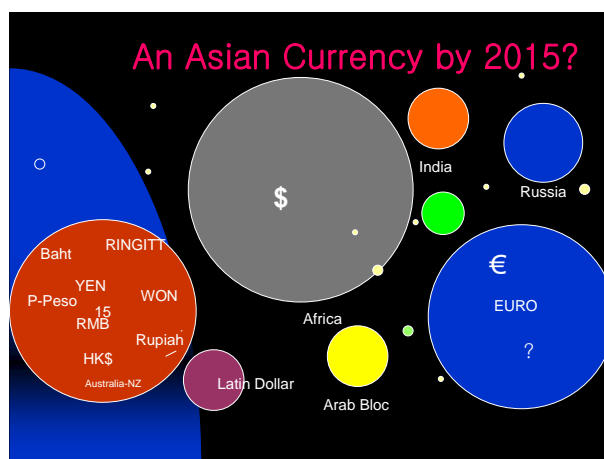
Helmut Kohl went around Europe in 1990 and asked the European countries for their support, if not permission, to achieve German unification. The deal was made that Germany would accept a unified currency and even a move toward political union. That was the deal that was struck. The deal with the then Soviet government cost USD 11 billion in aid. That was how that deal came about. This was a very unprecedented deal.

Asia is not anywhere near a position where such deals could be done. China will not give up its currency. Japan will not give up its currency. Probably Korea would not, as well. If everyone said yes, and if there were such a major political event that forced everyone to do it, then they could. But chances are it will not happen. You could have an Asian currency, an “Asian dollar” if you like, into which other currencies could be converted. But you would need some strong currency to back it. You need someone backing it. That is where the delicacy comes in.

You have to start with a currency area; that is, a zone of fixed exchange rates. If you do not have that, i.e., if you have a multiple currency monetary union without fixed exchange rates, it's not really a monetary union.

Currency areas are related to power centers. You have two big power centers in Asia, Japan and China. Then you have smaller power centers, like Indonesia or even Korea. If Japan and China are not going to be in it, then it is not going to really be an Asian currency area. If one of those two were in it, but not the other, it would divide Asia in another particular kind of way, and perhaps create a permanent divide. You have to put everything into the same unit. Politics are very closely tied to that.

Figure 3. Will there be an Asian currency by 2015?



Other possibilities besides an Asian currency include an APEC or a wider currency area. If you have an Asian currency, one model would be to take all the Asian countries, do what Europe did, and create a basket of them. You could call that basket by some name, like an Asian currency unit, the same way in which the Europeans created the European currency unit. But the European currency unit was a little different. It became dominated by the deutschemark, the biggest currency area there. For all practical purposes, the exchange rate mechanism (ERM) evolved into a deutschemark area. That was the backbone of the European currency. The deutschemark was the biggest and most productive economy.

In Asia you could make such a basket, but what are you going to do with it? If the basket has nothing to do with monetary policy it will be as vacuous and useless as the special drawing rights (SDRs) of the IMF. SDRs are a good unit of account, but they have never evolved into a monetary unit.

Advantages of an Asian currency

There are advantages to an Asian currency. There would be gains from a fixed exchange rate zone. Trade and investment would improve. There would be some protection. The US may reject or eject countries from the dollar area. If the US ejected China from the dollar area, it would be good for China to find an alternative anchor arrangement. This would avoid unstable exchange rates between Asian countries, and possibly another Asian crisis. It would eliminate the possible issue of exchange rate conflict.

If China had a big appreciation today, as some people recommend, if the dollar were to go down by 5%, the Chinese currency would become a weak currency. There would be speculation against it. Exchange controls would have to be raised. Eventually there would be a devaluation and it would go back down again. Whatever government appreciated the currency and then had to depreciate it again would probably be disgraced.

Problems

Currency areas are power centers. Japan and China are both power centers. It would be difficult to decide where to situate the headquarters for any Asian currency. In Europe it was always an issue whether to put the European Central Bank in Frankfurt, in Germany, or in Lyons, in France. It ended up going to Frankfurt. There had to be an agreement on a common policy.

As for security in Asia, a currency area could mean the elimination of the possibility of war between Asian countries. But a currency area would always break if war came.

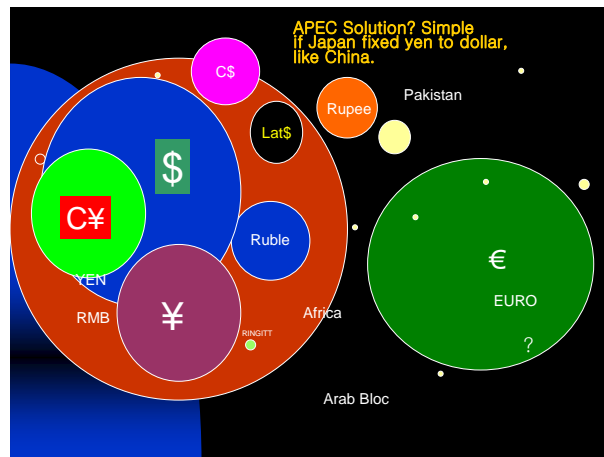
The solution I proposed at the APEC meeting in Shanghai in 2001 was an APEC currency area. At first sight, this sounds bigger and harder to achieve than simply an Asian currency area. However, in a way it is easier to get an APEC currency area than an Asian currency area.

An APEC currency area would involve using the US dollar as an anchor. That gets away from the difficulty of having to use either the Chinese renminbi or the Japanese yen as an anchor. The renminbi does not work as an anchor, at least at the present time, because it is inconvertible. It will probably stay that way until at least after the 2008 Olympics. Japan's currency, the yen, is so far not really suitable as an anchor because of its fluctuations against the dollar, because of difficulties with its system and because it's not central in Asian trade, although it's central to the top northern part of Asia. There is also a reluctance in countries like China and Korea to tie its currency to the yen. The dollar, though, could be utilized to this effect. It is the best anchor. This is the most feasible way to do it.

There is now a currency area between the US, China, Hong Kong and Malaysia. As shown in Figure 4, below, all it would take is for the yen to be fixed. The yen is fluctuating now between JPY 100 and 110 to the dollar. But if it were fixed to the dollar, you would have Japan, China and the US in the same currency area. It would be easy, then, to persuade some other countries, like Indonesia, Singapore, Taiwan and Korea, to fix, too.

This is not only fixing within Asia, but also fixing to the US dollar. The Asian countries could then talk from within that APEC currency area and simply form a contingency plan in case the dollar became unstable. They would then be ready to decouple from the dollar if need be. Using the dollar as an anchor for convergence is extremely important.

Figure 4. An APEC Solution? Simple, if Japan were to fix the yen to the dollar, as China has done.



There is a small anecdote that touches upon this. I made a plan for a European currency in 1969. It was called “A Plan For a European Currency”. It was widely circulated in Brussels. In 1970 they invited me to go to Brussels and talk about making a European currency. I spent a couple of weeks with them and made a series of different alternative plans and possibilities.

One man, Raymond Barre, who later became prime minister of France, asked, “Tell me, Professor Mundell, if one of these plans for a European currency were adopted, how long do you think it would take to implement it, assuming that political agreement was achieved on it?” I answered, “Well, it’s more difficult than you think, even if you had the political agreement. It would take at least three weeks.”

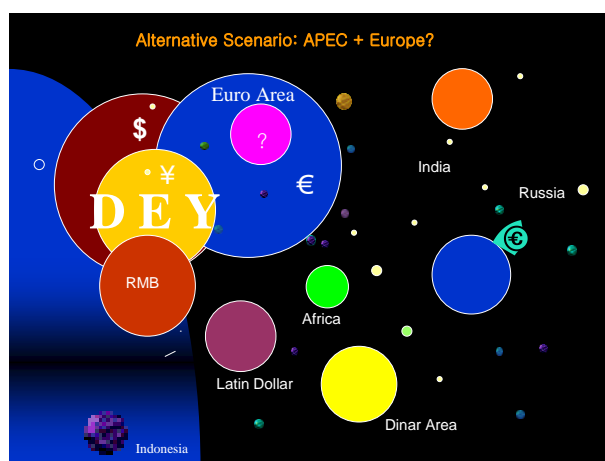
It actually took a bit longer than that: not three weeks or three months, not three years, but three decades. Then you finally had a currency. How could I have been so wrong? Was I, in fact, wrong?

The fact is that in 1969 and 1970, all the European countries were already convergent. The conditions for a currency area already existed. They were all fixed to the dollar. They had the same interest rates. They had the same inflation rates. People knew back then that under a fixed exchange rate system, if you wanted to protect it you had to have fiscal stability. No country that had large public debts would even think about running large public deficits.

The convergence conditions that European countries laboured under for so long, all through the 1990s, with anxiety to balance their budgets and meet these conditions, were met through the anchor to the dollar. That is the lesson that can be learned for the Asian experience. You need an external anchor. It has to be a big anchor. The bigger the anchor, the better. It’s too bad the dollar isn’t even bigger. It would be better if the dollar were 50% of the world economy in terms of the anchor, but it’s only 28% or so, depending on the exchange rates you chose to measure. This was the European approach.

The APEC solution, therefore, would be a good way to start. But if you got an APEC solution, such as that shown above, including Russia, it would constitute 55% to 60% of world output. Why wouldn't Europe want to join that too? Why wouldn't you add a combination of these areas? You could add the euro, dollar and yen areas all together, as shown below in Figure 5. You could then use those big areas all together, with China and Britain added too, depending on their choice. You have the possibility of moving toward a global system.

Figure 5. An alternative scenario: APEC + Europe

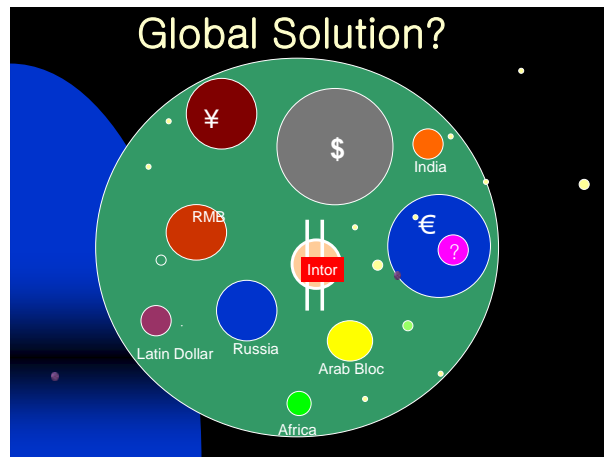


We need a better international monetary system. Even having an Asian currency is not the end. It only solves some problems for Asia. It does not solve the global problems. The euro solved a lot of problems for Europe. It was a great advance for Europe. But it did not solve the problems of the international monetary system. You still have the dollar, the euro, the yen, the pound and the renminbi in the world. There is a need for a viable international monetary system, and it must be based on fixed exchange rates and a universal unit of account. There needs to be an international anchor for national currencies.

If a country wants to have fixed exchange rates with a big area, it can chose the dollar area, the euro area or the yen area. Why should a country have to fix to another currency? Why shouldn't there be a facility for the world economy so that smaller countries that don't want to be aligned to one of the blocks would be able to have their own anchor?

That's why the global solution is my first choice. All the other choices, including the euro at that time, are second best. While I made a plan in 1969 for a European currency, I made the case for a world currency in 1968 in my testimony to the Joint Economic Committee of the US. Nobody was picking it up or buying it, though, at that time.

Figure 6. A global solution?



The global solution, as shown above in Figure 6, would see these areas, however they form, inter-convertible into a global currency, as under the Bretton Woods system. I call this the intor. It would be based and backed by the dollar/euro/yen, or DEY area. The DEY would be the anchor for the intor currency. You could also include Britain and China, for a bigger 5-country anchor. There would be one monetary policy for the DEY area. This would effectively determine the global inflation rate of the intor currencies. The intor would be based on the DEY, but could possibly also include gold.

Thank you very much.

Questions & Answers

Question #1: When you compare Europe's experience to Asia's, one of the things that stands out, as you correctly pointed out, is that the European countries actually had very similar economic standards, economic power and states of progress and development. Economic policies were also similar. In effect, they were very ready to be unified in one currency. They also had the advantage of Germany, which was serving as the anchor currency. The other currencies were very much pegged to it.

When you talk about Asia, we have so many different stages of development. You cannot have a unified economic policy applied to economies at different stages of development, and without uniform economic policies, the unification of currencies does not make any sense.

The solution you mentioned, the APEC solution, is in effect what is happening today, but perhaps it's not as rigid as you recommend. Effectively, most countries in this area are pegged to the US dollar. Why is the current system so different from what you are proposing?

Answer #1: How important are the differences between countries? Can countries that are very different have the same monetary system? If you look historically, you have to

answer, “Yes.” That has very often been the case. In fact, every important empire in history had a unified monetary system within the empire, even though there were individual countries which were very different. Britain had an empire, and the pound sterling was used throughout, including in the American colonies. The old Persian Empire and the Roman Empire each had one currency for very different countries.

In fact, the world as a whole in the 19th century had a more-or-less unified monetary system under bimetallism and then the gold standard after the 1870s. This was a virtually worldwide system, and countries were as diverse as they could be.

What is it about diversity that makes it difficult to have a common money? Why should Korea have a common money all through Korea if parts of Korea are underdeveloped and other parts are developed? The countryside is very different from the cities. Should you have a separate currency for each part? What is the function of money?

The US is filled with all sorts of pockets of unemployment, from the Appalachian Hills to the inner city. Some are poor and some are rich, but they use the same money. Canada is a very diverse country, from the multicultural cities to the Arctic rural communities, but it has the same currency.

The functions of a currency are to be a unit of account and a measure of value; to measure the relationship between scarce items. Europe is in some ways more homogeneous than Asia. But you still had countries in the euro area, like Greece and Portugal, whose per capita income was one third that of the leading areas, like Germany. The EU area now has 25 countries, some of which are very poor. Bulgaria, Romania and Croatia, soon to be added, are even poorer; Turkey, too. We don't know if any problems will come about by being too diverse.

The problem is not in the common use of money. The problem is a different kind of integration. When you develop a common money inside a country, that's a functional integration at one level. But if you decide that all people are going to be attributed the same rights, perhaps because you have areas with lower per capita incomes than other areas, you will have a problem when unifying the pension systems. If you strive for egalitarianism and to equalize income, integration will not work. That sort of integration is not really useful. That is different from a common use of money.

Let's suppose you're not going to have any kind of pension integration or equalization payments. You certainly could not have such a plan in Asia. You could not have equalization payments from the rich to the poor to equalize per capita incomes. Countries would never integrate that way.

Should you have diverse monetary systems? Do diverse monetary systems help? No, they do not. It sounds almost absurd or preposterous to think about the DEY area unifying together. You could argue they're diverse areas. But there is less difference between those three areas—in per capita income—than there is within the euro area. I do not think diversity is an important issue with money. It's an issue when unifying tax systems and equalization payments, but not with money. There's no reason why rich

and poor people can't use the same monetary system. Poor people will not get any benefit or loss from using the same bills and coins.

Question #2: APEC consists of 24 countries from all around the Pacific Rim. Is it possible that a group as big as APEC would be able to have a common currency? Here in Asia, the Chiang Mai agreement is already an example of a smaller, successful agreement. It consists of the ten ASEAN countries, plus three Northeast Asian countries. Wouldn't a better currency area be based around the Chiang Mai countries? Any sort of APEC currency would be in the long distant future, I believe.

Answer #2: I would chose APEC not because they all border on the Pacific Basin, but mainly because it includes two thirds of the DEY area. There has been some agreement to move toward some kind of APEC free trade area. But that's not too important.

Frankly, it does not matter what happens to Chile, or Korea or Canada. Importantly, in APEC you have the US, Japan and China, and maybe Russia, too. It does not take too much reorganization or political structure to do this. All it would take is for Japan to fix the yen against the dollar. Remember that the yen was fixed to the dollar during the great heyday of Japanese economic growth from the 1950s to the 1970s. Some countries in Asia would probably be against it, some for it. Some would opt out.

The dollar's there, China's already there, and now the important thing is to get Japan in. It does not even matter what happens to my country, Canada, or to Korea. Whether Canada stays out or not is not a big issue for anybody. Whether Australia stays out or not is not a big issue. The big issue for all the other countries is China, Japan and the US, and maybe Russia.

All countries would benefit from this. No country is going to go into this agreement if they were not to benefit. I've spoken to Japanese people about this. They ask, "What about the US? Would we have to talk to the US about this?"

Of course. There has to be convergence with the US on this issue. If the US was really opposed to this and decided to break it up, an APEC currency area would not work. But this would not be in the US's interest. The US's interest, just like that of all other APEC countries, is to have a fixed exchange rate system.

Question #3: The main purpose of economic integration is to synchronise the economies of the countries involved. It might be too early to evaluate the effect of the single European currency. In fact, it's possible that any effects of synchronization are not significant because of the differences in growth rate in the different countries, for example Germany and Spain. How do you explain this? Are you satisfied with a single currency?

Answer #3: Can you have a one-size-fits-all monetary policy? Is it a good idea in Europe? People were asking that about Europe. Ireland was growing at 10%. Germany

was growing at 2%. Spain was at 4% or 5%. How could you have the same monetary policy for these areas? Does not Ireland need a much higher interest rate with that growth rate? Won't that cause inflation?

This is a misconception of economics. Economics does not work that way. Canada is even more diverse than the US, but it has the same monetary policy all over. What happens in the US if California begins to grow more rapidly than the rest of the country, say, double or triple its rate of growth? Does that mean interest rates are going to be higher in California than they are in New York? No. You have a unified capital market. Rates are going to be the same across the board.

The differences will be in the rate of growth of money. In California you will have a rapid rate of growth of money. Growth in California, or Ireland, will increase the demand for money and create a balance of payments surplus. Money will flock to California. If the euro area grows at a certain average pace, let's say about 2%, and Ireland grows at 10%, and Germany at 1.5%, it simply means that Ireland will get its 10% growth rate of money, and interest rates will be exactly the same on equivalent instruments.

There's no need for a different monetary policy for different areas, unless you still plan to use monetary policies to "inflate" areas that have unemployment. That's the kind of trap people got into before. No one believes anymore that you can do that.

Question #4: The Mainland Chinese government is not cooperating with other countries in terms of its monetary policy. For example, it is reluctant to give in to international pressure to let its exchange rate appreciate or to raise its interest rates. Based on this, do you suspect China would be cooperative with other countries in creating an Asian currency? What should China do in terms of developing its own financial system and institutions?

Answer #4: This sounds like the argument being made in the US and being made by both US presidential candidates. They both claim to think that China is "manipulating" its exchange rate somehow. Well, China has had a more or less fixed exchange rate since 1994, and an absolutely fixed exchange rate since 1997. There's no "manipulation" going on.

During the heyday of the international monetary system from 1945 to 1970, all countries had, and were supposed to have, a fixed exchange rate. If any country did not have a fixed exchange rate, they were looked upon as being some sort of pariah. Canada was the only major country with a flexible exchange rate in the 1950s. It was looked upon as doing the wrong thing. Even Canada itself claimed it was going to fix the exchange rate as soon as it could find the right rate at which to fix. All through the 1950s, Canada was criticized for not having a fixed exchange rate. People complained that Canada was not following the Bretton Woods agreement. Canada was an anathema in the system.

This illustrates the trends in fashion. Fashions come and fashions go, like the length of women's dresses. There are fashions for exchange rates, too, and they come and go. There was a fashion for fixed exchange rates from 1945 to 1970. There is a fashion for flexible exchange rates now.

If you want to read some of the most vicious attacks on the idea of flexible exchange rates, read the IMF reports in 1950 and 1962. It would be a good idea for students to go back and read those reports. Then go and read the reports made by the managing director of the fund today, a man who I like very much and of whom I think a great deal. He came out last year and said that China should make its exchange rate flexible, and that it should do it now. That's a ridiculous thing for the managing director of the IMF to say.

China, as a commitment, should keep its current account in balance. It has now a current account balance, though it has a big bilateral trade surplus with the US. China has a smaller deficit with other Asian countries.

The way in which we count these deficits and surpluses is very poor. We don't count value added. If Korea ships some of its knocked-down car components to China to screw the automobiles together in China, then Korea's surplus with the US goes down and China's exports to the US goes up. But the only part for which China is responsible in terms of value added is the assembly work, which is worth less than the actual design and building of the high-tech parts. Bilateral accounts are often incorrect. More relevant is the global balance.

Question #5: I liked your proposal for an APEC or an APEC + approach to a stable international monetary system. I wonder, though, whether history has already proven that this will not work. The pre-Nixon Bretton Woods system of fixed exchange rates was a version of your APEC +. But that system failed.

These days we are, in a sense, in the early phases of an APEC approach to an international currency. Korea, Japan and some other areas are on a *de facto* fixed peg to the US dollar. China, Hong Kong and Malaysia are on a *de jure* fixed peg to the US dollar. These countries are trying to anchor to the US dollar.

But the US has been trying, to use your expression, to "eject" these countries from this system, while these Asian countries are trying to converge on this system. The issue at stake is whether the US government is willing to give up its monetary policy sovereignty. I do not think it will do that. So what makes you think this approach will work this time?

Answer #5: I agree with you that the APEC + system sounds like the Bretton Woods arrangements. I am somewhat of an admirer of the Bretton Woods arrangements in many respects. You ask a very relevant question. The Bretton Woods system broke down. Why wouldn't another system break down?

What was wrong with the Bretton Woods system? Why did the Bretton Woods system break down? It is of great importance to diagnose why it broke down. The mythology is that it broke down because it was a fixed exchange rate system and that fixed exchange rates didn't work. A whole bunch of people who never studied the subject, and who do not know the arguments on either side, say it broke down because of the fixed exchange rate system. Milton Friedman has been party to this misunderstanding, too.

Saying a fixed exchange rate system does not work is like saying a monetary system does not work, or that a fixed exchange rate system between Panama and the US would not work, or between California and New York. The US has an internal fixed exchange rate system. The adjustment mechanism under fixed exchange rates is exactly the same as the adjustment mechanism between a country tied to another country through a currency board system. It's exactly the same as Hong Kong using the dollar. You cannot say it does not work. Of course it works.

The Bretton Woods system did not break down because of the fixed exchange rate system. The Bretton Woods system broke down because of the gold relationship. The world economy's major currencies were fixed in terms of the US dollar which was fixed in terms of gold. The US commitment was to buy and sell gold freely at USD 35 per ounce. In 1944 it seemed easy for the US to keep that commitment. The dollar price of gold had been raised to USD 35 per ounce in 1934. It was fixed at that price all through the war and up until 1971.

The US had 70% of the world's gold stock in 1948, some 700 million ounces. With war time inflation, the recovery of Europe and demand for gold with its dollars and reserves, the US eventually lost 400 million ounces of gold. By 1960, its gold stock went down from 700 to 300 million ounces. At that point the other countries realized if they kept asking for gold from the US, the US would take the dollar off gold. So, except for France, they stopped asking for gold. The run on gold petered out, even though Charles de Gaulle wanted to go back to a global gold standard.

After the inflation of World War II, post-war inflation, the inflation of the Korean War and then a little bit of inflation during the Vietnam War, the price level had more than doubled. But the price of gold had stayed constant. There was an excess demand for gold. Eventually in 1968 they disbanded the gold pool and established the two-tiers system. They kept the official price at USD 35 per ounce, but let the market price go above that. It did go above that. The US kept that system for a while, but at some point gold became undervalued.

The provision in the Bretton Woods charter allowed for a universal change in the par value of all currencies; a reduction in the content of all currencies. If they had done that, if they had raised the price of gold in terms of all currencies, then you could have run the Bretton Woods system continually.

I'm not saying there was nothing wrong with the system with its gold provision. I'm also not saying that raising the price of gold would have solved all the problems of the

system. But the Bretton Woods system did not break down because of fixed exchange rates. The fixed exchange rate mechanism was working very well.

All the European countries had fixed exchange rates. They also knew that with fixed exchange rates they had to balance their budgets. You had a very good monetary system working. Not perfectly, but it did work very well.

If fixed exchange rates didn't work, you could not have run the European monetary system. Under the European monetary union as it worked from 1999 to 2002, before the euro came into being as a paper currency, you had a perfectly working monetary system with national currencies and fixed exchange rates. That is a model for the world economy. You had no change, no speculation of capital movements and none of the other worrying issues you have today, such as the ravages and big changes in exchange rates.

Question #6: I do not think your advocacy for a gold standard or even for an Asian common currency are realistic. In a realistic world, the current system will go on for some time to come. Under that situation, one immediate question is, "What will China do?"

You know Chinese policy makers and the Chinese economy very well. Do you think the Chinese will change their exchange rate system to a basket peg system, or will they raise interest rates in the near future? Recently, the new Chinese leader said they would move toward a basket-linked system. But he didn't name a date. In your view, what will the Chinese do in the near future?

Answer #6: China will slowly reform its foreign exchange system by moving in the direction of convertibility. It made big steps this year by letting exporters keep a much larger proportion of their proceeds. There's a lot of movement in that direction. That privatization is a very good idea, as is moving as quickly as possible toward a much more flexible system.

I do not think China is anywhere near convertibility. But I do think they should keep moving in that direction and keep liberalizing. They need to allow exporters to make capital investments and buy firms abroad, for example. They are making steps in that direction.

As for the exchange rate, they are not going to change at all. It would be a mistake to change. It is in their favour that they have kept the same exchange rate policy over the past ten years. This builds credibility. That policy has worked very well. It has delivered better price stability than that found in any of the G7 countries over the past six years. Even though China has not been doing inflation targeting, China has achieved close to price stability over the past six years, more so than any G7 country. Fixing to the exchange rate has been good.

As the dollar appreciated in the late 1990s, China suffered some deflation. That's inevitable. It is a cost of the fixed exchange rate. As the dollar has now depreciated, China is currently suffering some inflation. That inflation is also inevitable, as they are keeping to their exchange rate.

The Chinese inflation rate last year was about 1%. This year it will be about 3%, or maybe 3.5%. Next year it might be 3% or 4%. So what? That's not bad. If the dollar recovers, that inflation rate will come down.

If you are in a currency area, you are measuring inflation by a local basket of goods. If you fix the exchange rate to a big basket of goods, your local basket is going to fluctuate a little. But it will fluctuate a great deal less than during previous periods of Chinese history before 1978. Look at China's experience before that date. It had wild periods of 18% or 20% inflation. The golden period of Chinese monetary policy has been over the past seven or eight years.

You could argue that if you greatly appreciated the renminbi, you'd stop that inflation. There's no doubt about that. But that would be devastating. If you had a 20% or 30% appreciation, you would have an immediate drop in farm prices in the internal part of the country. There would be a great slowdown in all kinds of economic activity. There would be a cut in farm investment and growth would slow to about 5%, not enough to keep up with unemployment.

Wage rates in China are USD 0.50 an hour, or maybe USD 0.60 or 0.70 in some more expensive cities. It is better for those wage rates to gradually rise—in both renminbi and in dollars—than to have the exchange rate go up. This wage rise would involve slight adjustments to the distribution of wealth. But it is better for workers participate in the growth in productivity that has been taking place all over China. It is better they see the results of productivity growth in higher wages, exactly the same way Ireland did with its 8% or 10% growth rate over the past few years. The Irish are participating in a great boom of this period, as are landowners as rents rise. Ireland is becoming a much more expensive country. That's all right. That's the way it should be. The same is happening in China. The results of productivity growth are being seen in higher wages.

Real exchange rates need to appreciate through price increases, as long as it's not too great a shock, not through the exchange rate. Compare any two countries that have experienced the phenomena where real exchange rates had to increase because of an expansion in productivity in the traded goods sectors. This means the real exchange rate has to go up.

There are two countries that have had different experiences of this, starting in about the 1980s. Japan had a flexible exchange rate. The yen tripled in value against the dollar between 1985 and 1995. That was the way in which Japan adjusted. It overshot the equilibrium, wrecked the banking system and created stagnation for the rest of the 1990s. Nobody needs to feel sorry for Japan, though: it's GDP per capita is still higher than that of the US. At the low point, with the appreciation of the yen, when the dollar went down to JPY 78, it made the value of Japanese GDP some USD 6 trillion, when it

would have been only USD 4 trillion under a fixed exchange rate system. Then the exchange rate came down. It is better not to do this. This creates instability.

The other country is Hong Kong. Hong Kong had tremendous expansion in the productivity in its tradeable goods industries. It's real exchange rate had to increase. In 1983 Hong Kong re-established the currency board system. They had had a currency board system earlier, linked to the pound, but set up a new currency board system in 1983 with a rate of HKD 7.8 to the US dollar. They have since kept this system.

People thought that Hong Kong would get the US inflation rate. But you didn't get the US inflation rate based on the Hong Kong basket of goods at a time when these productivity changes were increasing. You didn't get the European inflation rate in Ireland either when land prices and wages were increasing there.

At the beginning, there may have been some under-valuation of the Hong Kong dollar. That would not account for the fact that Hong Kong had rates around 8% or 9%, when the US inflation rate had got down to 3% or 4% in the late 1980s. Hong Kong inflation rates were systematically higher than those in the US all through to the 1990s. That was the way in which Hong Kong was riding the big boom.

That was a much better way of managing the economy than what Japan did, with its fluctuating exchange rates and the great bubble in the Japanese real estate market. The Nikkei average was at 45'000. It dropped to 8'000. That was caused by the stupidity of that exchange rate system in the Japanese economy. It was compounded with a completely incorrect policy mix of huge fiscal spending. That created the biggest public debt in the world economy. It was ruinous for the Japanese economy.

Question #7: My question is related to Korea. As you know, any common currency or gold standard takes political will from many countries. There are many things which one country can do, though. If the Korean government decided to do so, for example, it could impose dollarization. What would you recommend the Korean government do at this point, in terms of choosing an appropriate exchange rate system?

Answer #7: I would not recommend dollarization in Korea. Politically, I would not recommend that at all. No major country has ever dollarized. Ecuador has dollarized. Panama was dollarized from the very beginning, but only in its paper currency. The coin is still the balboa. That has been stable and good.

If Korea were to dollarize, it would send the wrong political signals to Asia. Would it benefit Korea in its security policy? Would it help with the integration of the Korean Peninsula? I don't think so. I think it would be completely irrelevant.

Dollarization would mean taking the won, converting it into dollars, using that as the currency and scrapping the central bank. That's what dollarization means. It would be a different thing to fix the exchange rate to the dollar, to keep some policy options open and to keep the national sovereignty implications of the won. Politically, I don't think

dollarization would even get off to first base. It would be an immediate strike out. I don't see why anyone in Korea would want to dollarize. After all, if you have dollarization, you would have the monetary policy of the US.

Actually, this would probably be an okay direction. In the long run, it could be a good monetary policy. The US economy is enormously important to the Korea. But, even more importantly, China is the biggest market now. Japan is also a big market. These two areas are extremely important. So I don't see any reason for dollarization.

The only area in Asia for which I would recommend dollarization is Hong Kong. I have suggested this at APEC meetings, to very little applause. It would be good for Hong Kong and good for China. China could use it as a financial center. It would be very good for a small area like this to dollarize. You already have USD 150 billion in reserves. The money supply of Hong Kong is only about USD 12 billion. You could take 15% of their money supply, convert it to dollars, it would be all gone, and they would have exactly the same monetary policy as they have now. That would be a slam dunk. I would do it. But the political implications would not resonate well with the Mainland Chinese government. They wouldn't understand it. But I think it would be good for China.

What should Korea do? There are changes that can and should be made in the system. Things are in a state of motion in Asia right now. There is some movement toward an Asian currency area. China is not going to think about a single currency or monetary area in Asia. You have to get over that hurdle. The Chinese government has to realize we are not talking about a single currency area but about a fixed exchange rate zone. If Japan were to fix to the dollar, there would be all kinds of things that one could talk about in respect to that. This would be a good policy.

It would not be a bad policy for Korea to fix its exchange rate. By and large, it would have been better if Korea had fixed its exchange rate over the past 20 years. Korea would have had a better monetary policy. If it had allowed for a large quantity of reserves, like the level of reserves it has now, it would have been all right. Korea is now a creditor country, not a debtor country. There would have been no "Asian crisis" for Korea. Korea would have weathered the Asian crisis as successfully as Taiwan did with a different system, or as Singapore did with its different system. Every country was a little affected, but it would have been better for Korea had it fixed its exchange rate.

A fixed exchange rate against the dollar would have been a kind of insurance. It would also make it easier for Japan to fix. But, again, the US opinion on this is a large worry. Dollarization would be looked upon as being a super pro-US policy. It is strange that something so similar to dollarization—that is establishing a fixed exchange rate to the dollar—would be seen otherwise.

The US is bound to change. When Premier Wen Jiabao of China went to Europe, he spoke about the exchange rate issue. He said, "We may have to leave the dollar area." Romano Prodi then invited China to join the euro area: "We'd love to have you in the euro area." The Europeans understand some of these things more than the US. For the

past 15 years, the US has not really understood the international monetary system, partly because the secretaries of the Treasury change frequently. They just don't have the background to deal with it.