THE ROLE OF INDUSTRIAL COUNTRY POLICIES IN EMERGING MARKET CRISES

Jeffrey Frankel and Nouriel Roubini

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ABSTRACT

This paper considers policies of the industrialized countries, as they pertain to crises in emerging markets. These fall into three areas: (1) their own macroeconomic policies, which determine the global financial environment; (2) their role in responding to crises when they occur, particularly through rescue packages, which have three components -- reforms in debtor countries, public funds from creditor countries, and private sector involvement; and (3) efforts to reform the international financial architecture, with the aim of lessening the frequency and severity of future crises. A recurrent theme is the tension between mitigating crises that occur, and the moral hazard that such efforts create in the longer term. In addition to reviewing these three areas of policy, we consider the institutions through which the more powerful countries exercise their influence. We conclude with a discussion of the debate over the sins of the International Monetary Fund, and proposals for reform.

Jeffrey Frankel
Harvard University
Kennedy School of Government
79 JFK Street
Cambridge MA 02140

Jeffrey_Frankel@Harvard.edu

Nouriel Roubini
Department of Economics, KMC 7-83
Stern School of Business, New York University
44 West 4th Street
New York, NY 10012

nroubini@stern.nyu.edu

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