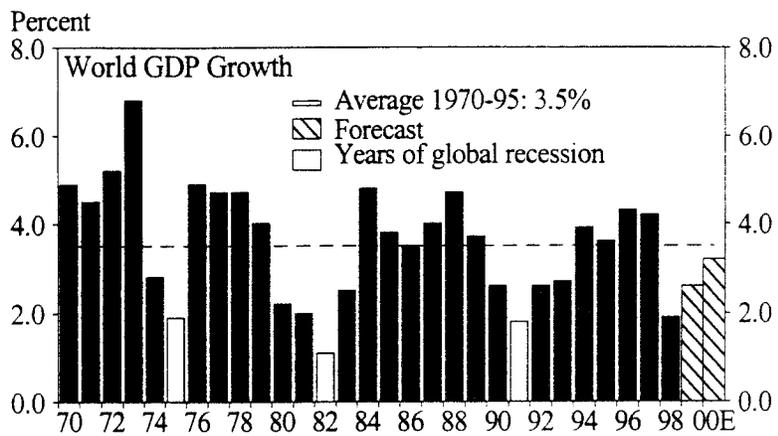


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## The Legacy of Global Growth

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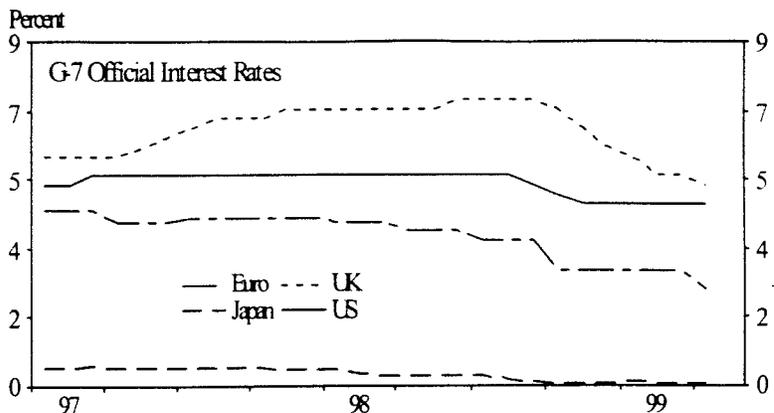
Source: IMF, Morgan Stanley Dean Witter

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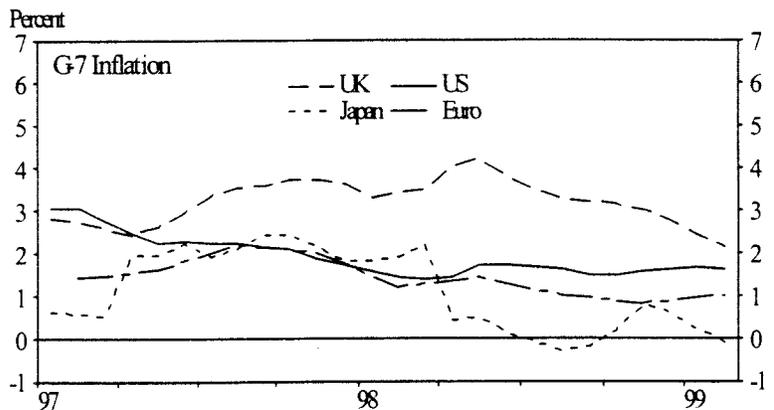
## Global Tax Cut

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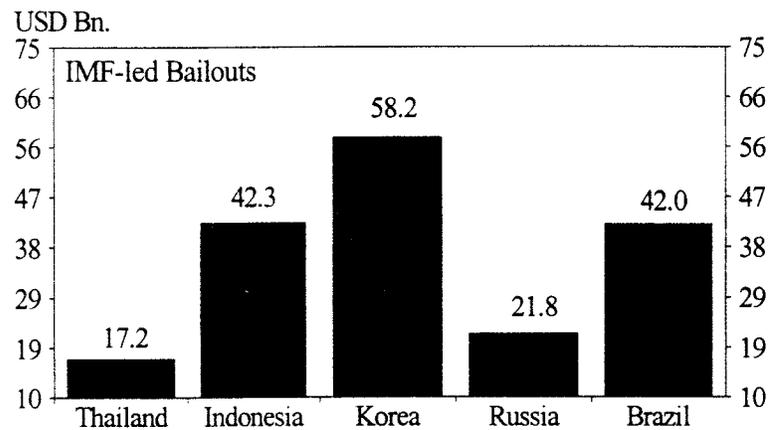
The functional equivalent of a large global tax cut reflects three overarching forces-- the first being recent and prospective reductions in G-7 interest rates.



Second is the dividend of lower inflation, which boosts the purchasing power of consumers and businesses.



Third, are the IMF-led liquidity injections into the crisis economies, which collectively total \$181.5 billion, or 0.5% of world GDP.



Source: IMF, Morgan Stanley Dean Witter

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## Crisis and Contagion

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### Legacy of Financial Crises: 1975 to 1997

	<u>Currency Crisis</u>	<u>Banking Crisis</u>	<u>Currency &amp; Banking Crisis</u>
<b>Cumulative</b>			
<b>Output Loss (%)</b>	4.3	11.6	14.4
Industrial Countries	3.1	10.2	17.6
Emerging Markets	4.8	12.1	13.6
<b>Recovery</b>			
<b>Time (Years)</b>	1.6	3.1	3.2
Industrial Countries	1.9	4.1	5.8
Emerging Markets	1.5	2.8	2.6

Source: IMF

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## Long Live the Old Financial Architecture

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- *Likely Changes*

- **Financing infrastructure enhancements:** transparency, standards, compliance incentives
- **Coping with volatility:** expanded FX reserves, pre-arranged credit lines, debt restructurings, new equity-like instruments, contagion contingency fund
- **Curbs on private creditors:** taxing capital inflows, encouraging longer-term financing, heightened oversight of highly-leveraged borrowers

- *Unlikely Reforms*

- New International Authority
- IMF with expanded lender-of-last-resort capabilities
- Global credit insurance schemes
- Currency target-zones

- *Message from G-7*

- Reluctant to coordinate, except in crises
- No endorsement of radical change in architecture
- Best international policy is collection of best domestic policies
- Exchange rate regimes shift from fixed to floating