EDITOR'S NOTE

Poverty reduction requires adopting the right institutions, including monetary institutions. This issue of the *Cato Journal* examines the impact of alternative monetary arrangements on economic development. The articles were first presented at the Cato Institute's 23rd Annual Monetary Conference—**Monetary Institutions and Economic Development**—cosponsored with *The Economist*, November 3, 2005. I thank the authors for updating their articles to reflect ongoing changes in the international financial architecture, especially China's currency reform.

The various financial crises that plagued the global economy in the last two decades of the 20th century taught us important lessons. But as Kenneth Rogoff asks in his article, "Will emerging markets escape the next big systemic financial crisis?"

The growing global imbalances are not sustainable and will require adjustments, which will be smoother if markets lead the way rather than reverting to destructive protectionism. The United States, in particular, needs to address its own twin deficits by increasing saving and cutting the fiscal deficit before telling other countries what to do, argues Nouriel Roubini. And Samuel Brittan adds, "It is ironic that Western statesmen play down the genuine grounds for criticizing Chinese leaders, such as their still appalling human rights record . . . , and instead lecture the Chinese on the need to revalue the renminbi."

In considering how global imbalances and financial crises will be resolved in the post-Greenspan era, it is essential to recognize the close link between monetary credibility and sustainable development, as both Roger W. Ferguson Jr. and Mickey Levy do. Although inflation was held in check during the Greenspan era, William Niskanen shows that mistakes were made. In particular, the Fed provided too much liquidity in response to financial crises and then overshot in removing that liquidity. If the U.S. dollar is to maintain its status as a reserve currency, argues Reuven Brenner, "It is time to move toward a stable anchor for the dollar by reforming the international monetary system."

The failure of debt-based development is evident from the history of Argentina, as Eugenio Andrea Bruno points out. Clearly, Rodrigo de Rato's emphasis on "building better institutions" to promote development is sound advice—but what role should the International Monetary Fund play in the future? With the growth of private capital markets and the move away from pegged exchange rates, the Fund must continually reinvent itself.

The question of financial liberalization and China's future development is treated in detail in several articles. Jonathan Anderson reveals often overlooked features of China's banking reform. Morris Goldstein carefully examines the controversies over revaluing the renminbi. Raghuram Rajan, Deepak Lal, Yasheng Huang, and John Makin all consider the huge buildup of foreign exchange reserves at the People's Bank of China, due to the distorted exchange rate and financial repression, and offer policy advice to improve the efficiency of the financial system and promote development.

Sound monetary institutions and a competitive private banking system are important components of the institutional infrastructure for a market system. This issue of the *CJ* will add to our knowledge of those important engines of development.

—J. A. Dorn