Looking Back with Morris Goldstein: Part I

Morris Goldstein, who is retiring from the Peterson Institute, reflects on how he fell into international economics and became enmeshed in the new world of floating exchange rates in the 1970s.

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Steve Weisman: Probably no one in the world of economics has been more astute on the vulnerabilities of the global financial system than Morris Goldstein, our colleague at the Peterson Institute for International Economics, who is retiring after a 20-year run. This is Steve Weisman conducting a kind of exit interview with Morris to look back on his career. Morris, your interest has long been in financial crises and the vulnerability of the financial system. First, I want to ask you what attracted you to that issue?

Morris Goldstein: I got into economics in general by default in a sense. I was terrible at everything else. At first I remember in junior high school I started off, I had some interest in music. I played the drums, much to everyone in the family's annoyance.

Steve Weisman: And the neighbors.

Morris Goldstein: And the neighbors. And because of my uncanny sense of rhythm I was sequentially demoted from the snare drum to the tenor drum to the bass drum to the cymbals to the wood block. I can tell you, once you hit the wood block, that's the end of the road in the percussion. I then transferred to the baritone horn, which was a small tuba. I was equally undistinguished at the baritone horn, so I got off of that.

In college I did a little bit of languages. Spanish -- I was just terrible at that. My friend, Mohsin Khan used to say after watching my efforts to learn some Spanish with a tutor when I was working at the International Monetary Fund, that my tutor had the closest thing to lifetime employment that existed outside Japan.

I was adequate at mathematics, certainly not anything unusual, but when I took economics in college I found that I understood it sort of instantly, I liked it, I thought it was relevant. And so I just went into that essentially by default.

For a little while I thought I might want to be an economic historian and I spent a year at the London School of Economics on leave as an undergraduate from Rutgers College. But I quickly found out that if you want to be an economic historian, you need to spend all your time in the library reading many, many books on the iron industry and the 19th century. After a couple of weeks of that, I just couldn't take it. So then I went into international economics.

I got a job at the IMF. I first started off as a labor economist there because they had some need for someone doing incomes policy at the time. But then I moved into national economics and interest in the monetary and financial system and then into crises. So it wasn't something that when I was eight years old I said, "I want to be somebody who works on financial regulatory reform." I sort of got there, and once I got there I knew that was where I was most comfortable.

Steve Weisman: What was the first crisis you dealt with?

Morris Goldstein: You know, in the Fund there are always crises. I mean, that is what the place does. I think the first country I went to in trouble was Yugoslavia. And then I just went on a series of others. But the collapse of fixed exchange rates in the late '60s, early '70s, I learned something from that about exchange rate systems, a topic that I continued to write on really all my professional life. The collapse of the Bretton Woods system was probably the first big major crisis that I worked on.

Steve Weisman: Did it feel like this was a historic turning point?

Morris Goldstein: I was so junior at the time, I was just kind of trying to sort it out in my mind. But I was struck by how long people stuck with the existing system, how difficult it was to change policymakers' minds about why they needed to move to a more flexible exchange rate system, the Triffin dilemma, even though at the time there were a lot of international economists laying that all out in what was then I think the first forming of the Bellagio Group -- something that I later joined here in the '90s again, when it was reformed. So that was a kind of interesting crisis and I think was important in influencing my thinking about what you could do with exchange rate systems.

Steve Weisman: Exchange rates and currency manipulation are issues that you're most passionate about, especially in the failure of the IMF to regulate exchange rate manipulation, especially with China, but other countries. Have you seen this as a problem that's grown or is it something that's just been a low level fever all along?

Morris Goldstein: Oh no, I think it's gotten worse and worse unfortunately. One of the reasons why I was so concerned about Chinese currency manipulation is it was so big and it was so obvious that I thought if the Fund didn't take action to try and rein it in, it would spread to many, many other countries. And that's what we've seen unfortunately happen.

Countries say, "Well, if they can get away with it, I can get away with it too." You now have countries that are just completely open about it. They say, "We're sort of doing it, we'd rather not be doing it" -- for example Brazil, the Brazilian Finance Minister -- but everybody's doing it and we have to protect ourselves.

So that's the problem. You can't really run the existing national monetary system when countries can manipulate exchange rates for unfair competitive advantage and do it over a long period of time.

Steve Weisman: Explain why it is bad that countries manipulate their exchange rate -- to gain advantage in trade? What happens if everybody does it?

Morris Goldstein: It's like protectionism. It is a form of protectionism. When you push the currency way down, basically it's just like an import tax and an export subsidy. And if countries do that, it completely distorts the pattern of trade and it spreads. So you really can't put up with that and expect this system to operate the correct way.

So the Fund needed to step into that. The problem is there are no instruments, no penalties. What people have been unwilling to recognize is that you need to be able to apply trade sanctions when countries were doing it in a large scale over a prolonged period.

Steve Weisman: But that in turn raises concerns about whether the countries applying the sanctions are themselves accused of being protectionist.

Morris Goldstein: That's why I've always disagreed with those people who said, "Well what difference does it make, why do we need to label certain country's as manipulators?" You need to do that so that it's clear that they've taken a protectionist measure. Then if other countries seek to protect themselves against that, they're not being protectionist, it's the country that took the initial action. And if you don't do that, it just multiplies and spreads, and that's what we're seeing and it has important effects.

My colleague here at Peterson, Joe Gagnon, has done a lot of work on this recently and has found that it has had very serious output in employment effects on the countries that are the victims of it, including the United States.

Steve Weisman: Some people even make fun of the Peterson Institute for being obsessed with this issue, saying, "Well we know what your hobby horse is."

Morris Goldstein: Well, we have many hobby horses here. It's not our only one. And I myself have a number that I like to ride and I like to switch off from one to the other. Another one is bank capital.

Steve Weisman: Let me interrupt stop there. In the second part of this interview we'll go to this other issue.