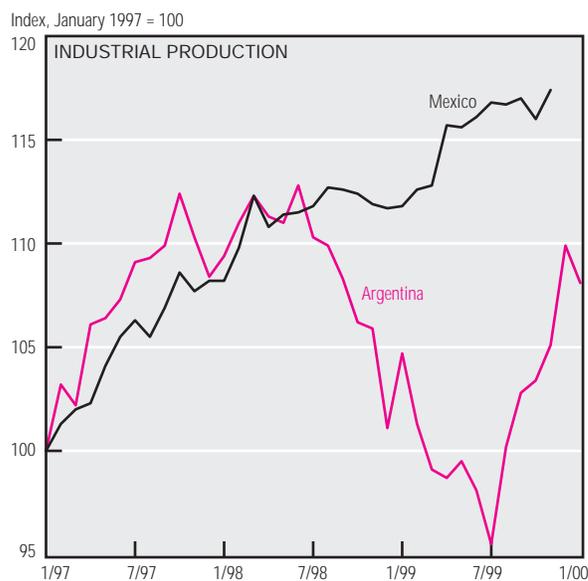
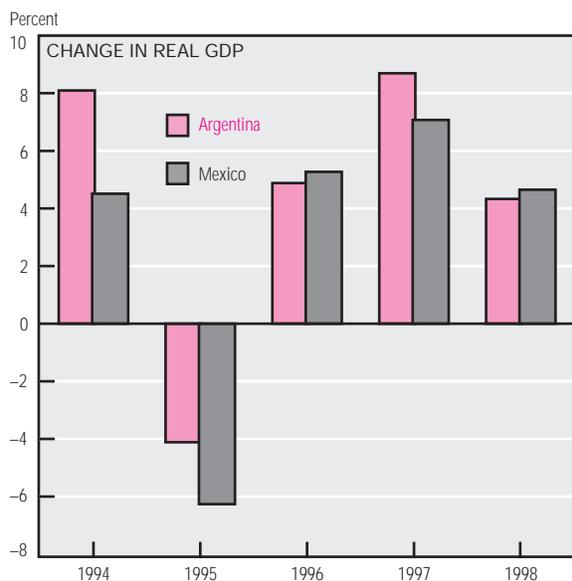
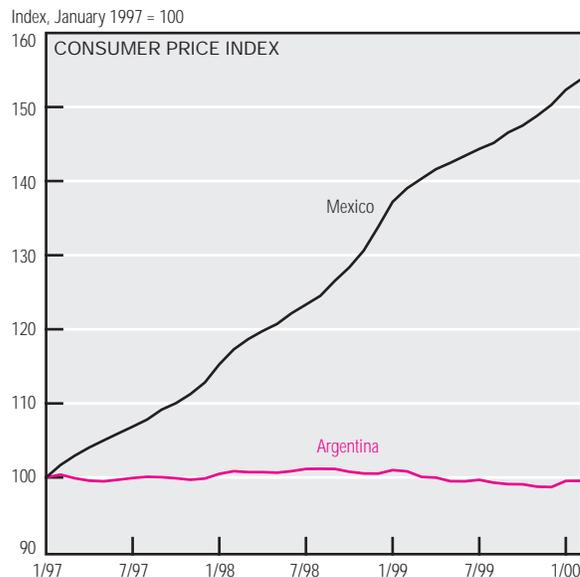
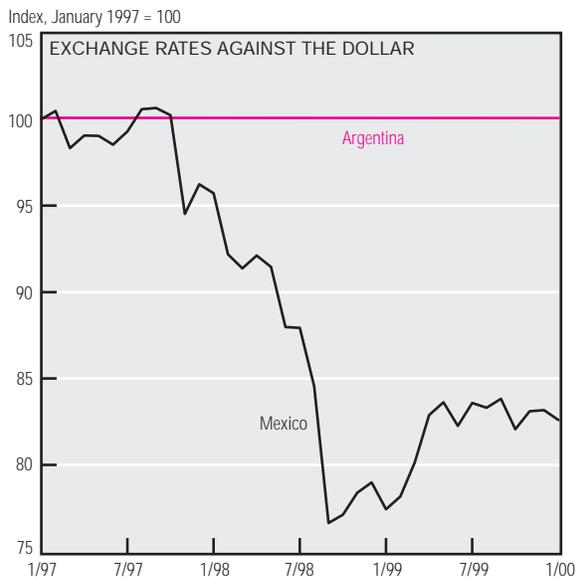


To Fix or to Float? Argentina and Mexico



SOURCES: National Institute of Statistics and the Census (Argentina); National Institute of Statistics, Geography, and Information (Mexico); Bank of Mexico; and International Monetary Fund, *International Financial Statistics*.

Argentina and Mexico provide an ongoing test of the relative merits of fixed and floating exchange rates. In the early 1990s, after years of hyperinflation, Argentina pegged its peso to the dollar and instituted a monetary arrangement—a currency board—that eliminated its ability to conduct a monetary policy independent of that adopted in the U.S. Inflation in Argentina fell quickly; in recent years, there has been virtually none.

In 1995, following years of

unsustainable exchange-rate regimes and disruptive devaluations, Mexico opted for a floating exchange rate. Its peso-dollar exchange rate experienced downward pressures following the Asian financial crisis, but has since stabilized as Mexican monetary policy has gained increased credibility. While Mexico's inflation rate has moderated somewhat, it nevertheless remains high relative to that in the U.S. and Argentina.

Argentina's currency peg limited its ability to adjust quickly to eco-

nomical disturbances in Asia (1997), Russia (1998), and Brazil (1999). Because Argentina's key exchange rate remains rigid, changes in domestic prices and wages must serve to resolve threats to its competitive position. But if these prices adjust slowly—as is often the case—the process can result in production declines and unemployment. Mexico and Argentina have experienced similar GDP growth in recent years, but Argentina's industrial production has been considerably more volatile.