

Trade Winds

Flexing muscles

Cries for a return to a fixed-rate foreign exchange system have been amplified by wild gyrations in exchange values the last couple years.

Support to keep the current floating rate system seemed to be scant — until now, that is.

"In today's world, to even attempt that idea (fixed-exchange rates) again is foolishness," says Leo Melamed, special counsel to the Chicago Mercantile Exchange (CME), which has the most active currency futures contracts in the world.

Apparently at least 50 economists, business executives and former government officials agree with Melamed, and that's why the American Coalition for Flexible Exchange Rates (ACFX) was formed.

The group, coordinated under Melamed's direction by the CME's Washington office, includes noted economist Milton Friedman, Chicago Board of Trade President Tom Donovan, Chase Manhattan Bank Senior Vice President Robert Slighton and former Secretary of the Treasury William E. Simon.

Using this deep pool of fame and knowledge, the ACFX hopes to promote continued use of flexible exchange rates by publishing articles in journals and newspapers and appearing on conference panels.



Leo Melamed brings together like-minded thinkers on exchange rates.

Melamed says he initiated the idea for the group early this year because he kept hearing from colleagues how important it was to keep the floating exchange rate system, yet there was no organized support. He contends, as do other members, that if it weren't for flexible exchange rates, the world's economic fabric "would have come apart" during the upheavals of the last decade.

"Foreign exchange values are not a cause of instability; they are a symptom of instability," he says.

The problem is not the exchange

system but factors within the economy itself, such as the U.S. budget deficit, Melamed says. Changing the exchange system instead of taking care of the underlying economic ills is to "throw away the thermometer that says you are sick instead of attending to the illness."

He realizes that, to some people, creating the ACFX seems like a "self-serving exercise" because the CME trades futures and options contracts on half a dozen major currencies.

"That's rather a silly and surface argument," he responds.

He notes that most ACFX members "have nothing to do" with the CME, yet "feel precisely as we do because the issue is far from being a parochial one. It is an international one. It is an economic issue. So it's far beyond what's good and not good for the Chicago Mercantile Exchange."

Anyway, he adds, the CME prefers stable exchange rates.

"The Merc does not need a high degree of volatility to stay in business," he says.

"Our (ACFX) concern is that we don't blindly attempt solutions to the volatility that the world has been experiencing in foreign exchange by adopting solutions that cannot work and that would be a disservice to this country as well as the international system," he says.

Ginger Szala