not widely adopted in Asia, for example, where de jure or de facto pegging remained the reality and a large volume of foreign exchange reserves was accumulated in the 2000s, contrary to the presumption that reserves would become superfluous with the breakdown of the Bretton Woods system of fixed exchange rates.

Moreover, large current-account surpluses and deficits ('imbalances') persisted over much of the last decade without prompting macroeconomic and exchange-rate responses. Imbalances persisted in countries with very different exchange rate arrangements, including countries that did not maintain dollar pegs, such as Japan and Germany.

Questions also remained about the ability of inflation targeting cum floating exchange rates to cope with the volatility of international capital flows. While stability-oriented monetary policies at the national level could help to limit the magnitude of sudden inflows and reversals, and while strong regulatory and supervisory frameworks could help limit their consequences, it was unclear whether such measures would be sufficient to protect emerging economies from macroeconomic and financial instability.

Nor did the IT-floating framework eliminate the special role of the dollar as the key international currency. The dollar remains the world's most important reserve currency and a leading invoicing currency for international trade. It is also the currency that underpins the global banking system as the funding currency for global banks. This raises important questions about access to dollar liquidity by non-US banking systems in times of stress.[14]

Reconsidering the Conventional Wisdom

In light of the financial crisis and subsequent developments, several reasons have emerged for revisiting the conventional wisdom:

- *Convergence towards the inflation targeting cum flexible exchange-rate framework remains incomplete.* While a large part of the world economy has adopted this model, some fast-growing emerging markets have not. The coexistence of floaters and fixers therefore remains a characteristic of the world economy. It can even be said that the incidence of pegging has risen over time with the export drive of East Asia and, toward the end of the most recent decade, the rise of the relative price of oil.

- *The period in which the IT regime was tested was exceptionally benign.* China's entry into global trade and other emerging markets acted as a strong disinflationary force, making for price stability globally. Commodity prices remained subdued until the late 2000s, and there were few inflation spillovers. Since then the situation has changed. In a new context where commodity prices respond strongly to aggregate demand, a major question is whether central banks take into account spillovers through global commodity prices when making monetary policy decisions.

- *Capital market spillovers between advanced and emerging economies have grown*. While Obstfeld's (2009) characterization of the world economy as comprising a single financial system may not apply to all countries, it is certainly correct for North America, Europe, East Asia, and a number of emerging market countries. Private gross capital flows to and from both the US and Europe grew massively in the course of recent decades. To be sure, this was in large part for reasons independent of monetary policy, including financial liberalization, the unique role of the

[14] For an extensive discussion of these issues see Farhi, Gourinchas, and Rey (2011).