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Under What Circumstances, Past and Present, Have International Rescues of Countries in Financial Distress Been Successful?

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Summary

Recent events in Asia and other parts of the globe have prompted calls from many quarters for international rescue of the monetary or fiscal authorities of distressed countries. We contrast the experience before 1973 of rescues of monetary authorities of advanced countries temporarily short of liquidity with recent experience of bailouts. International rescues in the past involved relatively small amounts of money, sufficient to stave off devaluation or abandonment of a fixed exchange rate, while remedial policies were put in place. Recent bailouts involve handing over relatively large amounts to both foreign lenders and domestic investors after devaluation of a pegged exchange rate to avoid their incurring wealth losses. We document past rescues, whether successful or unsuccessful, by monetary regimes different today from past experience.

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