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Remarks by M. Camdessus
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When Mr. Haraf invited me to join you today, I was delighted to see that this second part of your conference was to be devoted to international monetary policy. Delighted, because the time has surely come to reflect on the present international monetary arrangements and to give serious consideration to how they need to evolve. Listening to speakers at the Fund's Annual Meeting in Berlin a few weeks ago, I had the sense of a rising ferment among officials to do just that. I thus welcome this initiative of the Institute.

In the same breath, though, I should tell you that in my remarks today I do not intend to offer any kind of grandiose reform scheme. Too often in my view, the discussion of important questions concerning the functioning of the international monetary system has come to be associated with--and perhaps sidetracked by--the presentation of utopian ideas. My point of departure is a different one. It is that international monetary reform is proceeding; that a great deal has already been accomplished; and that the crucial issue is not the need for major negotiations to recast the present arrangements, but the need to continue to build on the pragmatic process of policy coordination that is now under way. It is by broadening and deepening this process that we will best strengthen the international adjustment mechanism, while at the same time putting in place the basic principles of a sounder international monetary system.

What I should like to do today is expand on this thesis, by briefly examining our experience with policy coordination in recent years and then considering what lessons we might usefully draw for the future.

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First, the experience of the past six years. The various milestones are familiar. But let me recall a few of them, seen from the vantage points that I have had, first, at the French Treasury; then as Governor of the Bank of France; and, since early last year, as Managing Director of the Fund.

-- To begin with, the Versailles Summit of June 1982. This planted the seed for the current phase of international economic coordination by initiating a basic re-examination of the laissez-faire approach to exchange markets.

-- It was followed by the Jurgensen report, which, after a careful examination of the evidence, foreshadowed a renewed role for concerted intervention as one instrument of international monetary cooperation.

-- Next came the Plaza Accord of September 1985, which emphasized the need to achieve exchange rate relationships that better reflected underlying fundamentals. It was this accord, of course, that activated the process of concerted intervention. It also--in early 1986--gave rise to concerted interest rate action. I call your attention to that; central banks are discreet in their endeavors, but their cooperation is a significant element of the present collaborative management of the system.

-- A fourth milestone was the Tokyo Economic Declaration of May 1986. This moved the process forward by calling for a significant strengthening of multilateral surveillance through the use of economic indicators.

-- The Louvre Accord, in early 1987, carried matters further. In particular, it outlined policy commitments by both surplus and deficit countries to reduce their external imbalances while encouraging steady, low-inflation growth. Given these undertakings and the substantial realignment of exchange rates that had taken place since the Plaza Accord, the participating countries also declared their intention to cooperate to foster stability of exchange rates.

-- These policy intentions were subsequently reaffirmed and the coordination process reinforced by the Venice and Toronto Economic Declarations in mid-1987 and mid-1988. The former called for two new departures: a commitment by each country to develop medium-term objectives and projections for its economy; and the use of performance indicators to review and assess current economic trends and to determine whether there were significant deviations from an intended course that required consideration of remedial action. The Toronto Declaration, for its part, was significant in its unequivocal affirmation of the need for governments "to consider fully the international dimensions of their deliberations."

In each of these milestones, the forward movement is clear. What, though, has emerged in the process? One, a forum for periodic discussions and a political mechanism for decision making have been established. Two, procedures to guide policymakers have been developed and are steadily being refined. Three, an orderly realignment of exchange rates has been achieved, followed by greater exchange market stability; a concrete cooperative policy strategy has been put in place; and a beginning has been made in reducing imbalances among the major countries while preserving the momentum of growth.

Over time, we have also witnessed an important broadening in objectives--from an earlier, somewhat narrow focus on removing cross-

country policy inconsistencies that could give rise to large movements in exchange rates to one concerned, additionally, with the consequences of policies for key global aggregates such as output, employment, trade and inflation. A significant step, indeed, toward ensuring a more balanced responsibility for global adjustment. A step, moreover, that has gone hand in hand with the adoption of a strategy that is fully endorsed by the world financial community. Look again at the most recent communiqués of the G-7 and the Fund's Interim Committee. You will see that the recommendations they set out for reducing disequilibria while preserving growth and financial market stability are sound indeed. And I perceive no sign anywhere of doubts about the need for prompt and full implementation of those recommendations.

A solid beginning has thus been made in moving toward not only a more stable system, but also a more symmetric system. Crises, of course, can still occur--as we saw only too vividly a year ago. But crises can also be managed, as we have seen since then. The challenge now is to continue to move the coordination process forward, to see that it does not stall. Which brings me to the second part of my remarks: the points we need to bear in mind--the lessons we can draw on--as we seek to move ahead.

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There are several such points that come to my mind. The first, and perhaps most elementary, is the critical importance of preserving what has been achieved--in particular, an uncommon level of communication and dialogue among the seven major countries.

Second, we have to recognize that time is needed, that change is likely to be incremental and evolutionary, that it is likely to be all the better for emerging pragmatically from developing patterns of cooperation. The experience of the European Monetary System bears ample testimony to this. It was only after the EMS had gone through the full range of possible situations--strong and weak dollar, weak and strong deutsche mark, expansionary and adjustment policies in France--and emerged intact, that it became one of the cornerstones of the European economy. The point is not that we should aim to proceed slowly. Still less that necessary action should be postponed. The point is that for any system to be genuinely strong and reliable, its cooperative underpinnings must withstand the test of time.

Third, the process of cooperation has to be well defined and--and this is crucial--it has to be perceived as ongoing. Markets can be patient if there are no doubts on this latter score. That is, if there are no doubts that adjustment is proceeding. It is not necessary to correct major disequilibria overnight. But if the process should be perceived to slacken, or if a slowdown in the momentum of adjustment should fail to trigger adequate corrective action, tensions can quickly develop, posing dangers for the stability of the system.

Fourth, we need--in an increasingly interdependent world--to continue steadily to broaden the scope of international economic collaboration. Lately, we have, I think, seen more recognition of this. Thus the major industrial countries, in their policy coordination discussions, have come to take the interests of the rest of the world more systematically into account and have come to look to the Fund to articulate those interests. Special emphasis has likewise come to be given to the contribution that the newly-industrialized economies can make to global adjustment. And the implications of genuinely growth-oriented adjustment in the developing world for the process of adjustment in the industrial world have come increasingly to be appreciated.

Indeed, what is more and more seen to be needed is an agreed strategy for durable growth in the Fund's membership as a whole. Helping the international community to define the main strands of such a strategy is a key task of the Fund's twice-yearly world economic outlook exercise. This brings me to my fifth point, which is that this exercise can, I believe, become an increasingly useful analytical instrument in helping to steer international monetary management. Its focus is well-suited to exploring how developments and policies in one country or a group of countries spillover onto others. It affords a forum for the Fund's membership as a whole to voice its views on such matters. It provides an input for the joint policy discussions of the major industrial countries. And it provides a multilateral perspective for the Fund's bilateral consultations with the major countries. It should be possible to continue to develop this exercise and, in so doing, to strengthen the process of genuinely multilateral surveillance.

The sixth lesson is that, in addition to broadening the scope of collaboration, we need to continue to refine the instruments and procedures of coordination. It would, of course, serve no purpose to seek to be more precise than the present grasp of economics would permit, nor than the institutional and political constraints on policy would allow. But the more that understandings could be reached on key indicators and on ways of quickly analyzing deviations from an intended course, the better placed we would be to do two things: first, to identify the need for corrective action, including, where appropriate, the need for macroeconomic policy action to be buttressed by structural reforms; and, second, to bring more leverage to bear on political leaders to follow policies that further the economic prosperity of the world as a whole, including the prosperity of their own nations.

The final point that I would underscore is that some of the potential obstacles to moving further to a more managed system might be more malleable if there were a more commonly accepted body of knowledge for analyzing conditions and for formulating an approach to achieving common objectives. As things stand, gaps remain in our understanding of how economies interact, differences of view persist on the effectiveness of particular policy instruments, and there of course continue to be distinct limitations to our ability to foretell the future.

A basic task, it thus seems to me, is to press on with current efforts to develop a framework of analysis that commands a broad basis of acceptance at the technical level and, at the same time, is straightforward and compelling enough to carry conviction at the political level. This would be a framework that would facilitate a number of tasks: analyzing how economies interact; enabling the international community to come to a common judgment on the sustainability and desirability of major trends; and determining policy paths that could better mesh individual national interests with those of the system. In all this, there is much room for continued intellectual endeavor. For now, a good degree of modesty is in order, as well as a readiness to learn.

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In closing, let me say just two things. First, I have focused on continuing to build on the process of policy coordination. This, I see as the agenda for action in the near term. There are also, of course, other issues--for example concerning the supply and management of international liquidity, diversification of reserve currencies, the role of the SDR ... These, I see as constituting the agenda for research and hard reflection.

Second, there are likely to be practical limits to how far and how fast the move to a more managed system can proceed. No one here, I am sure, will have any illusions about the obstacles. Governments do not readily reduce their room for maneuver in domestic policy--even in the interests of the system as a whole. Nor do they come easily to assume additional responsibilities for global adjustment. At issue, in one sense, is the matter of encouraging governments to give less priority to short-term concerns and to take a somewhat longer view of where their interests lie. Indeed, experience suggests that the policy measures that peer pressure in general tries to obtain are ones that a country looking to its medium-term interests would in all likelihood often choose to adopt. In the absence of a spontaneous lengthening of policy perspectives, however, the process of strengthening policy coordination will surely be a difficult and incremental one. But, equally surely, it poses a crucial challenge--one that we must make every effort to rise to.