

had known that what took place at Bonn was not the first act of the 1985 drama but the last act of a play that started in 1980, quite a lot happened.

The most significant outcome of Bonn — a “first” in summitry — was a declaration by each country of its own economic strategy and objectives. These were strikingly similar: reducing structural rigidities and maintaining prudent fiscal and monetary policies (Japan, in addition, stressed her determination to reduce import barriers).

But the remarkable degree of policy convergence — on the importance of the role of markets and the reduced role of the state — had a deeper implication. Policy convergence — getting one’s own house in order — was the recipe for coping with global interdependence which had dominated summitry and other fora since the onset of the 1980s. Policy convergence implies “hands off” both domestically and internationally. Bonn was the apogee of this view.

Act Two was staged at the Plaza Hotel in New York on September 22: the cast — the G-5 finance ministers and bank governors.

There has been a good deal of debate about the true significance of the G-5 meeting, not because the G-5 met since they have done so regularly for many years, but because of the degree of publicity attached to the meeting and its timing — on the eve of a major trade policy speech by President Reagan and just before the annual meetings of the World Bank and International Monetary Fund.

The main focus of the Plaza meeting was exchange rates. The G-5 announcement noted that “exchange rates should play a role in adjusting external imbalances...[and] in order to do this...should better reflect fundamental economic conditions”. They signalled the need for “some further orderly appreciation of the main non-dollar currencies against the dollar” and their willingness to “co-operate more closely to encourage this”.

In exchange markets, words often speak louder than actions. As we know, there has been a significant realignment among the three world currencies since September 22 —, especially an appreciation of the yen against the dollar, some of it due to intervention but a good deal due also to a perceived change in policy stance on the part of the US.

What was this change? In its reassertion of world leadership in international economic matters the US was also, it seems to many observers, rejecting the “hands off” or policy convergence view of international economic co-operation which was the heart of the Bonn Summit. By stressing the link between misaligned exchange rates and protectionist pressures or, alternatively, the interrelationship between the international trading system and the international monetary system, the G-5 underlined a fundamental aspect of interdependence which had not been explicitly acknowledged either at Bonn or any previous summits since 1980. What was missing from the Plaza *communiqué*, however, was a recipe for macro-economic co-ordination. If we distinguish between policy compatibility and policy convergence, the former involving, as Henry Wallich has suggested, a significant modification of national policies in recognition of international economic interdependence, the G-5 *communiqué* revealed little trace. *On verra.*