

countries.<sup>27</sup> Such a degree of coordination would be very difficult to achieve. A somewhat less ambitious goal than policy coordination would be policy consistency. The difference is more than one of semantics. Sound macroeconomic policies that are consistent over time within a particular country provide critical policy credibility (considered particularly relevant in terms of inflation expectations). Those that are broadly consistent internationally could provide fewer opportunities for currency speculation and/or misalignments. Ideally, the internationally consistent policies would be the same as those put forward by analysts in favour of policy coordination, i.e., policies ultimately leading to internal and external balance, but there would be no formal agreements and no means other than peer pressure and moral suasion to ensure consistency.

Discussions of policy coordination are often accompanied by suggestions that international institutional reform is essential. The IMF has received considerable attention concerning its possible role as a central coordinator of macroeconomic policies, especially as they relate to the stability of the international monetary system in general and exchange rates in particular.<sup>28</sup> Presumably, the IMF would monitor member countries' macroeconomic policies, identify potential imbalances that could lead to exchange rate instability, and prescribe policy corrections.

Yet, if, as noted above, the need is for policy consistency as opposed to policy coordination, it is not clear what new role the IMF would or should have. One could easily argue that it is in each country's own interest to formulate and manage macroeconomic policies that are consistent over time, and that there is no need for an international institution to monitor such developments. As for international consistency, with no formal agreements, there is no obvious reason to believe that an institution such as the IMF would be any better than national authorities at steering countries following inconsistent policies back into line.

Even if policy consistency is found to be insufficient in terms of currency stability, and it is settled that nothing less than policy coordination is required, the

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<sup>27</sup> See OECD, "The Desynchronisation of OECD Business Cycles", in *Economic Outlook*, No. 55, OECD, Paris, June 1994, p. 39. The OECD found that the most significant factor regarding the desynchronisation of business cycles has been the increased relative importance of country- or region-specific economic shocks as opposed to global shocks.

<sup>28</sup> See Bretton Woods Commission, *op. cit.*, pp. 6-7; J. Williamson and C.R. Henning, *op. cit.*, and C.F. Bergsten, "Managing the World Economy of the Future", in *Managing the World Economy Fifty Years After Bretton Woods*, Institute for International Economics, Washington DC, September 1994, pp. 341-74.