Floor Discussion of the Cooper Paper

Success or failure of G-7 coordination?

Richard Cooper's statement that in the 1980s policymakers of the G-7 countries had failed to agree on macroeconomic coordination led to strong reactions from participants who either endorsed or disputed Cooper's view.

Emile van Lennep, Secretary General of the OECD from 1969-1984, was among those who disagreed with Cooper. According to van Lennep, the policies pursued by the industrialised countries had shown exactly the opposite: "a remarkable consensus".

"I can assure you that from 1981 onwards there was consensus – not disagreement – concerning the objectives of industrialised countries. The first objective was to bring down inflation, the second to move away from short-term demand management to medium-term improvement of the flexibility of the economies to make them more responsive to outside disturbances. That entirely different kind of approach was reached by consensus, and I myself was present when at a Ministerial Meeting in mid-1984 such agreement was reached. In my view there was not failure in coordination but success in coordination. From the mid-1980s onwards we agreed on the basic elements of economic policy, which still prevail. There was general agreement on the priority of bringing down inflation as a condition for sustained economic growth. The extremely high rate of inflation at that time was brought down at the cost of some economic growth and at the cost of other economic goals such as maintaining maximum imports from the developing countries. But I do think that in the longer run, the developing countries have benefitted from that approach, from that consensus."

Another view from inside was given by Mario Sarcinelli, who had been "part of this G-7 carrousel".

"Many of the discussions I had with my colleagues were to a large extent frustrating because the only message which was continuously repeated – and I am referring to the period between 1982 to 1990 – was: 'Keep your own house in order and everything will be alright', with the minor variant, 'You should concentrate on eliminating structural impediments'. From time to time there was an effort to coordinate, but there was almost no real discussion of how to do so with respect to short-term demand policies. The recollection of what had happened in Bonn in 1978 was still fresh in the memory, and our German colleagues reminded us time and again what the consequences had been for Germany. In my view, the best contribution made by the G-7 was troubleshooting, crisis management."

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John Williamson also believed that G-7 had failed to improve its policy coordination in the 1980s. "We had the Reagan Administration pursuing a quite irresponsible fiscal policy, creating problems which are still there to this day. We had Margaret Thatcher who overvalued the pound to the point where something like a quarter of the manufacturing industry was wiped out in the recession. We had Mitterrand, who, as Dick Cooper has illustrated, spent five years essentially eliminating the problems he had created when he became president. The question, however, is not whether one could have expected the representatives of these three governments to sit down and jointly agree, in a *discretional* manner, on better policies, but whether one could have established better *rules* that might have headed off some of the problems."

Ricardo Ffrench-Davis also felt that G-7 coordination had not been optimal during the 1980s and early 1990s. Although he agreed that bringing down the rate of inflation was of crucial importance, he thought the policy had failed on two accounts: the resumption of growth, and the provision of better price signals for the allocation of resources.

"Since we are discussing G-7 coordination and LDCs, it is interesting to note the signals received by LDCs. I think that the signals for LDCs were even more misleading than those for developed economies. The interest rates faced by LDCs were more unstable than those prevailing in the US domestic market, in the German domestic market, or in the Japanese domestic market. International prices were also very unstable; the average rate of inflation was lower but prices changed a lot and this had a great impact on countries that were exporting. In Latin America, for example, exports were 20 per cent of GDP – if we exclude Brazil, we even have a figure of something like 25 per cent – as opposed to economies like the U.S., that exported on average in the 1980s only 8 per cent of GDP, or Japan, which exported 12 to 13 per cent of GDP. Interest rates, exchange rates and relative prices were providing very confusing and misleading signals for the allocation of resources in countries that were implementing structural reform programmes, at a time when it was even more necessary to get accurate signals. In that sense I would say that G-7 macroeconomic coordination has performed rather badly during the 1980s and early 1990s."

Percy Mistry added that he was "uncomfortable" with the fact that it seemed almost normal to discuss a system of cooperation and coordination in which 80 per cent of the world's population, and 70 per cent of its surface area were literally dismissed "as a footnote".

Looking to the future

John Langmore saw hope for the 1990s, because his impression was that there is now some scepticism concerning the 1980s ideologies, "which were

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preoccupied with inflation, kept a tight monetary policy and led to high interest rates, which was of course very damaging to developing countries as well as to the level of activity in industrialised countries." He argued that since inflation is now much lower and unemployment much higher, it is likely that electoral pressure in industrialised countries will emerge to give greater attention to the stimulation of growth and employment. "This may also lead to a better balance in the use of monetary and fiscal policies in the G-7 countries, or in Western countries generally," Langmore said with a tone of optimism.

Helen Junz, referring to John Williamson's earlier remark about the use of balance of payments targets as a way of helping prevent the export of jobs from industrial to developing countries, was pessimistic about the ability of industrialised countries to combat unemployment.

"Regarding the job export question we are basically talking about the inability of industrialised countries, particularly the European countries, to create jobs. OECD studies tell us that over the past 15 years very few new jobs have been created. This has very little to do with the fact that jobs have been exported but everything to do with the fact that the structural adjustment one has talked about for so many years has just not taken place because it has been impossible to confront vested interests."

Philippe Moutot, agreeing with Cooper's emphasis on trade liberalisation, warned that free trade would be threatened by the lack of monetary cooperation. "Lack of monetary cooperation means instability in terms of exchange rates. And when exchange rates are unstable, politicians are more difficult to convince that trade should be further liberalised. That is something that has to be taken into account."

Following up on the goal of stable exchange rates, Peter Kenen asked Cooper – who has advocated the introduction of a single currency and a single central bank for the industrialised countries in the first decades of the next century – which method he would recommend in order to achieve this ideal. "Do we get there – and that is analogous to the debate now going on in Europe – by the gradual tightening of exchange rate management and the movement to total monetary union, or should we float until the day exchange rates are fixed?"

Cooper's reply

Cooper did not think Emile van Lennep's point about G-7 consensus on policy objectives contradicted the argument he had put forward in his paper.

"My comment on G-7 coordination was not directed at objectives, because at the general level there is usually consensus on objectives: we are all in favour of full employment, sustained growth and low inflation. The question

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is what happens when you try to operationalise those objectives. My shorthand version of the early 1980s is that, from a cosmic point of view, it was a very badly managed period."

According to Cooper, in the early 1980s both academics and officials had "radically misjudged" the consequences of the anti-inflationary policies that were adopted. "There was disarray, both in the academic and the official world, about how the world actually worked. My own view is that there was a serious failure of coordination of policy in the early 1980s."

Turning to the present, Cooper reacted to the question of whether one should worry about large surpluses and deficits, particularly the Japanese surplus and the American deficit?

"Now we have a functioning world capital market I think we can be – I mean we in the industrialised countries – much more relaxed about large imbalances in current account positions, provided – and that is a critical premise – they reflect genuine and public preferences and not fiscal policies that are screwed up. The problem at the moment is that Japan has a much too tight fiscal policy – which contributes to the large Japanese current account surplus – and that the U.S. still has a much too easy fiscal policy."

Talking about the near future, Cooper said he would be quite positive about a substantial SDR allocation. "The SDR has unhappily become a kind of stepchild of the international system. The international community is on record as wanting to make the SDR the centrepiece of the international monetary system. It is still very far from that, at least in the short-run. But I think we have to keep SDRs alive, and keeping them alive means making allocations from time to time – once in a decade or so is not too often."

Cooper heartily endorsed Helen Junz' critical point about the export of jobs. "We have had technical changes for two centuries – destroying jobs continuously in the process. What people forget is that these changes also raise incomes and increase jobs. Foreign trade destroys particular jobs just as technical change destroys particular jobs. But destroying particular jobs is not the same as eliminating jobs, because in a well-run economy new jobs get created as well."

Responding to Peter Kenen's question about how to get stable exchange rates, Cooper said that he preferred floating until the time had arrived for fixing, rather than opting for a gradual approach. "I think that the Maastricht Treaty in its current design, if taken seriously, ensures a deflationary Europe for the rest of the 1990s. I don't think that is in Europe's interest and I don't think it is in the interest of the rest of the world."

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