# Floor Discussion of the Williamson Paper

## A Blueprint for G-7 policy coordination

The four proposals for reform of the international monetary system put forward by John Williamson excited lively debate. His first proposal on policy coordination among the main industrial countries, in particular, raised many comments.

Gerald Helleiner agreed that macroeconomic coordination among the major industrial powers was critically important, but felt these discussions should also consider spill-over effects on the broader global community.

"Coordination is a necessary condition," Delphin Rwegasira pointed out, "but by no means a sufficient condition to ensure that all the segments of the world economy are taken into account. How can we ensure that within this policy coordination the needs of the least developed countries are explicitly addressed?" Would it be sufficient to ask the IMF to do this job when it participates in G-7 discussions, he wondered. Or would it be better to broaden this group by including other countries (industrial and developing countries) as well? Hasn't the G-7 taken over the IMF's coordinating role and, in a sense, hijacked elements of international policy coordination? Shouldn't the IMF be strengthened to become the credible forum for this kind of discussion?

Stephany Griffith-Jones put in the thought that policy coordination among the G-7 would be good for developing countries, even if it wasn't targetted to benefit them, by the mere fact that it would lead to more growth of world product. Some participants suggested that the interests of the global community could be better fulfilled by merging Williamson's blueprint on G-7 policy coordination with the application to all countries of his proposed set of international rules for sound domestic policies.

"Both should be presented as one proposal and applying to all member countries of the IMF," said Henrik Fugmann. Williamson, however, thought the two elements of policymaking should be kept separate. First, he said, there is a need for mutual consistency of targetting among the major countries, which doesn't apply to smaller countries since they "adjust to a parametric world (G-7 is 60% of world product)." Second, it would be impossible to get policymakers of major countries to submit to serious criticism by representatives of minor countries.

Jack Boorman stated that it is not so much the coordination mechanism which is the problem now, but the lack of will. How do you get the G-7 to



*From: Fragile Finance: Rethinking the International Monetary System*
*FONDAD, The Hague, January 1992, www.fondad.org*

take into the fullest account possible the concerns of the rest of the world in their own deliberations? he asked, adding that it is not a shortfall of economic wisdom, but really a shortfall of will on their part. Leo Verwoerd expressed his concern about the G-7 coordination process resulting in world directorates instead of a system of shared responsibility.

Tom de Vries missed the necessary elements of "politics and realism" in Williamson's blueprint. It presented the G-7 members as "faceless" countries without a history or particularities, such as the United States' special position of privilege, he felt. "It has been stated that the burden of adjustment falls entirely on the deficit countries," he said. "But if one looks at the biggest deficit country of all, the United States, one sees it has been able to ignore this deficit endlessly because of its geopolitical situation and the size of its economy." De Vries felt that in a world of global capital markets it is of great importance that major countries have stable and predictable economic policies. "The very fact that the major country, the United States, does not have it creates tremendous uncertainty," he pointed out.

Age Bakker stressed that the interests of developing countries and the smaller industrial countries run parallel. According to him, they are both prone to the waves of the world economic environment and have an interest in the maintenance of a stable system, a system which "would exert discipline on the larger industrial countries."

Amir Jamal suggested that it might be a good thing to encourage clusters of countries to do their own internal coordination and then feed these into the global coordination effort.

Williamson agreed with this, seeing possibilities for pushing regionalisation further as a way of getting developing countries to negotiate on a stronger basis. He said the proviso would be the same as for the (negligent) industrial countries: don't put up walls against the rest of the world. He felt the best way of getting LDC representation into a G-7 level of policy coordination in the next decade would be to ask: What is the eighth largest country in terms of democracy and economy? What is the eighth largest economy of a functioning democracy which happens to be a low-income country? He was quite confident about the eventual success of such an approach, referring to the case of Russia. "Some time ago," he pointed out, "many people thought that it was inconceivable that in the next quarter of a century there would ever be a Russian invited in the G-7. Nonetheless, it happened shortly afterwards. The fact that last year Gorbachov, and this year, Yeltsin were invited makes it clear that the G-7 is not that closed."

He said he had not heard any serious criticism of the substance of his blueprint and reminded participants of its basic objectives: stability of the system, and a proper policy mix of fiscal and monetary policies. He welcomed Ariel Buira's argument about the need for reinstating fiscal policy as a short-



*From: Fragile Finance: Rethinking the International Monetary System*
*FONDAD, The Hague, January 1992, www.fondad.org*

run tool, encouraging surplus countries to take part in the adjustment process. "More restrictive fiscal policies around the world are what the doctors should be ordering now, but there's no doctor who's ordering it in a way the patient takes much notice of, and that's what one is trying to address."

Williamson liked Mitsuhiro Fukao's suggestion that one way of keeping discipline among the powerful countries was through international financial regulations. An international body, he thought, could determine the level of reserves which banks (and other financial institutions) have to hold against loans. "This seems to me the right type of pressure to use," he stated. "It's something that's well worth pursuing."

However, he rejected Fukao's suggestion that policy coordination had led to the asset price bubble in Japan. Perhaps the 'easy money' policies had contributed to it, he said, but that could not be convincingly attributed to policy coordination. In this context, he would be in favour of making asset market control a part of economic management. "I am all in favour of target zones for stockmarkets too," he said, "which have to be wider than for exchange rates because we know even less about what the fundamental values are."

While agreeing that there was need for some mechanism to represent the interests of the world at large, he did not see an instant solution to this problem. "Maybe having the IMF there isn't adequate to do that task," he said. "But I don't think you can do it by tripling the size of the G-7. I certainly don't think you can do it by introducing China into the G-7. Above everything else the G-7 are the leading industrial democracies, and the word 'democracy' is absolutely central. I leave it as an unsolved problem."

### An International Debt Restructuring Agency

Williamson's proposal that an International Debt Restructuring Agency be established got a rather cool reception.

Boorman felt such an agency would have been helpful in the early stages of the debt crisis when it might have sped up the recovery process, but now he doubted whether it would contribute to a more responsible and realistic relationship between lenders and borrowers. He would prefer an attempt at imposing "discipline in the market", he stated, discipline on the part of the macroeconomic policymakers to keep the global environment sensible, and discipline for the individual creditors to lend responsibly. According to him, bad macroeconomic policies in the 1970s, creating a shift from negative to positive real interest rates in the United States, was the single most important exogenous shock that caused the debt crisis.

Boorman was afraid that the Agency proposed by Williamson would give


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the wrong incentives. "Banks should be allowed to fail," he said, "there should be as little bailing out as possible. That's where our discussion really does need to go."

Griffith-Jones added that introducing such an agency now could have a disincentive effect. "If I were a private investor or private bank and I saw that this facility existed, I would automatically not put my money in any low-income country because you have this criterion which says that if you are a low-income country we will help you to restructure your debt."

However, she supported Williamson's idea of establishing international criteria for debt relief. "The criteria mentioned by John Williamson could be very useful in things like the Paris Club," she said, "where the conditions that very poor countries in Africa are getting are still worse than those for Poland. Having rules and criteria of the kind John is sorting out, is terribly useful." Like Helleiner and De Vries, she saw the proposed Agency being applicable mainly to official creditors (the Paris Club) rather than private creditors.

John Williamson explained that indeed debt was a war that was over. Nonetheless, he argued, there were still some quite important bits to be cleaned up from the last war, and maybe the proposed Agency could help, possibly by including Paris Club debt as well. However, the basic thrust of his proposal would remain, "preparing to avoid the next war".

## International guidelines

Williamson's proposal that a set of international rules be agreed, limiting the freedom of countries to act against their own long-run interests, was widely supported.

Helleiner interpreted the proposal as "reinventing the IMF". In this respect, he thought it would be appropriate to make all IMF advice on sound macroeconomic policies public, "since there are few other levers that can be deployed". He said it would be particularly appropriate in the case "where the functioning of the entire globe rests upon the performance or malfeasance of major industrial powers".

Boorman, however, had some problems with the publicity aspect. On the one hand, he feared that the confidential relationship which the IMF now has with many of its member states might be called into question as it would become a kind of public credit rating agency. On the other hand, he doubted whether the players involved in the capital markets would pay any attention to what was published. Boorman also signalled asymmetry in the operation of the IMF: countries who don't borrow from the IMF are free to listen and to take its confidential advice, but countries who do borrow face different kinds of constraints.

Henrik Fugmann agreed with the purpose of what he called "guidelines for


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prudent policies". But he was strongly opposed to any criteria with respect to exchange rate matters and excessive demand. "It is impossible to get agreement on those points," he said. Fugmann strongly advocated a limiting of guidelines to objective criteria like debt to GDP and deficit to GDP.

Age Bakker stated that it would not be so difficult to agree on principles of good internal policies such as avoiding excessive deficits and maintaining price stability. The problem he saw, however, was that these rules on sound internal policies would not be adhered to "because countries see their interests differently". He drew attention to the European situation where policymakers were trying to formalise these rules.

"We have put them in the Maastricht Treaty," he observed. "You may argue about the numbers (limiting the budget deficit to 3 per cent of GDP and the national debt to 60 per cent of GDP), but they provide a yardstick for discussion and have teeth, because countries who would not live up to these rules will not be allowed to join the Economic Monetary Union."

De Vries liked Williamson's rules very much, and was optimistic about their possible success. He compared the application of such rules to joining the weightwatchers club. "You will do what is good for you in the long run," he said. "You will not indulge in the short run, and if your intentions flag then your peers come along and say, 'you have to stick to your intentions'". Since the weightwatchers seem to have some success with their technique, he argued, it might also work well in the field of international policy coordination.

Leo Verwoerd thought it was a good idea for the heavyweights to join such a club, "as a demonstration for the others, a kind of benchmark". He warned, however, against optimism about Europe's Maastricht Treaty being a possible model for the world at large. It was hard to get agreement, he said, and in the end the signing of the Treaty was only possible because of the political cement, the common political goal of these countries. So it would not be likely that it could be transplanted to the rest of the world.

## Resumption of SDR allocations

A mixed reaction greeted Williamson's proposal for a resumption of SDR allocations to allow developing countries to increase their reserves without making a reverse transfer of real resources to industrial countries.

Age Bakker foresaw reluctance on the part of the industrial countries to such a proposal, because these allocations would oblige them to accept SDRs as well. If you look at the past, he pointed out, you see that developing countries have not retained these SDRs. Currently, their SDR holdings are nearly nil, which means that they have been accumulated in the industrial countries where they changed the composition of reserves. So, Bakker concluded, a resumption of SDR allocations would for industrial countries imply "accepting them for double the amount".

Boorman underlined this doubt. "You can provide these resources to developing countries, but how do you get them to hold them?" he asked. Under the Fund's Articles, he pointed out, one would have to allocate SDRs to all members on a quota basis, "which means you don't get the right level of reserves to each individual country". Moreover, he saw inherent problems in Williamson's suggestion that revealed desires for reserves over the previous five years be used as an indication of the proper level of SDRs needed. If this period had been one of reserve stringency, he argued, then it would not yield the correct figures. Because of all these difficulties, Boorman wondered whether it wouldn't be just as easy (or difficult) to increase developing countries' access to SDRs through a general quota increase. "The basic question is: are you using the most efficient mechanism to achieve the aim that you are looking for?" he stressed.

Fugmann did not object to the idea of using SDRs as a confidence-building mechanism, "as long as allocations are made at a moderate scale". But, he added, any proposal to have SDRs allocated by a different system than embodied in the Articles would create a problem. He saw a basic choice between keeping the SDR as a reserve asset or changing it into a means of transferring real resources. "That is the choice you have to make," he argued, "you can't have both."

Helleiner didn't see SDRs as the most useful way of answering the liquidity needs of developing countries. He would prefer to expand the capacity to provide (low interest) compensatory financing on a much more general scale, he stated. Williamson agreed that this idea might be a starter now. "There were always good intellectual arguments for that," he said, "and the fact that an attempt was made to extend the compensatory financing facility into contingency financing suggests that it might again be a promising line to think of."


*From: Fragile Finance: Rethinking the International Monetary System*
*FONDAD, The Hague, January 1992, www.fondad.org*