

Preface

The initiative of the Forum on Debt and Development to revive policy debate on the functioning of the world monetary system and the financing of development is most interesting and timely. In the face of dangerous instability of global financial flows it is high time for policymakers to seriously rethink the role they should play in a market-based international monetary and financial system. National as well as international monetary authorities seem to be lagging behind rapid developments in capital markets and to have little control over dramatic swings in these markets. It has become clear that booms and busts in credit expansion and the serious volatility and instability of exchange rates witnessed over the past decades created harmful uncertainty and misleading signals to private investors and policymakers in many parts of the world. Efforts to stimulate discussion about ways to improve world economic stability therefore deserve a warm welcome.

At the end of the Second World War, Europe and the United States of America showed the willingness and ability to cooperate internationally and create an international monetary system which aimed at the material well-being of people all over the world. Nowadays, this international spirit is much less present. National interests and the striving for national sovereignty seem to dominate the minds of policymakers notwithstanding the growing economic and financial integration of the world economy. Of course, Europe is trying to complete its economic and monetary integration, the United States is putting much energy in building a common market in North and South America, and Japan is playing a crucial role in the economic integration of Asia. But the emergence of these regional trade and currency blocs has not contributed to better global decision-making. And the regular meetings of the seven major industrial powers of the world in their G-7 Summits would only partially meet the need for a forum for global macro-economic policy coordination. Unfortunately, the International Monetary Fund so far has not been allowed to effectively function as the 'natural' forum for such coordination. A more representative world economic council working in the context of IMF, World Bank and OECD – but smaller than the present Interim Committee of the IMF – could put the debate on policy coordination in a better and more equitable global context.

The major industrial nations play a key part in the development of the world economy and provide the main markets for developing countries' exports. Therefore adjustment of imbalances in the major economies and a better policy coordination among them seem essential for improving the

world economic climate.

Economic thinking and policymaking inevitably reflect the vogue of the day. The prominence of monetarism during the 1980s was partly a reaction to unsound Keynesian policies of the preceding period. As a result, fiscal policy was almost abandoned as an instrument and replaced by monetary standards. It is my hope that in the 1990s the fiscal policy instrument will become fashionable again and regain its appropriate stabilising role in national and international economic policymaking. A proper mix of fiscal and monetary policies is now even more needed than before since national sovereignty in monetary matters has become largely illusory as a result of the convertibility of currencies and the free movements of capital.

The new challenges facing the world community, like the support to be given to the transformation of the former communist countries into social market economies, the need for allocating ample financial resources to safeguard the global environment, and the globalisation of financial markets should inspire scholars and officials to engage in creative debate about adequate solutions. The analyses, proposals and discussions presented in this book invite the reader to think about ways in which a more stable and equitable international monetary and financial world could be brought about.

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