

File- Monetary Policy Issues-Exchange Rate
Intervention – Part A

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FROM: J E FLITTON
DATE: 21 January 1987

MR RICHARDSON

cc: Mr Kelly
Ms Goodman
Mr Pike
Mr Heath
Mr Westaway EA2
Mr C Bailey - Bank
Mr S Collins - Bank
Mr M Wright - Bank

INTERVENTION IN 1986-87

I know you wish to monitor closely contributions from various sources to funding in 1986-87. Changes to the reserves through market and off market intervention (the published underlying change) are a key part of the arithmetic.

2. Between 1 April and 31 December 1986 the underlying change in the spot reserves was -\$329 million. This total is the sum of the published monthly underlying changes from April to December less the value of transactions done at the end of March for value April plus the value of transactions at the end of December for value January. Daily changes to this total are given on the evening market report. So far in January (up to 16th), the net change in the spot reserves is +\$62 million (ie and therefore -\$267 in the financial year to date). The middle column of table (a) of the evening report gives the total of market and off market transactions in the month to date (I shall ensure you are told if there are any forward transactions in the daily total). It shows the progress to the total of \$500 million that the Chancellor would like to add to the reserves in the last three calendar months of the 1986-87 financial year.

3. If it would help, we could show a running total on the evening report.

4. I agreed to let you know the net change to the forward book at the end of each month.


J E FLITTON

104/87

FROM: J W GRICE
DATE: 3 FEBRUARY 1987

M C W KELLY

cc: Mr Cassell
Mr Peretz
Mr Carr
Ms Goodman

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TARGET ZONES AND INDICATORS

You may like to see the papers from a CEPR conference on exchange rates and macroeconomic policy cooperation, which I attended a few days ago with Huw Evans and Susie Symes.

2. I have been absolved from reporting the proceedings because Mr Evans produced the attached note for the Chancellor which gives an accurate account. In particular, he notes that a lot of work still has to be done on the design of a viable target zone scheme for the exchange rate. To my mind, the difficulties in this area are immense. Any scheme has to (i) incorporate a sensible framework for managing exchange rates; but (ii) also include the mechanisms for controlling nominal incomes and inflation, worldwide and country by country. The system proposed, for example, in the Williamson paper recognises these objectives but comes out as complex and almost certainly unworkable.

3. On the other hand, if we are going to move away from floating exchange rates to a managed system, then some alternative international mechanism will be required. Clearly, this is not an issue which is likely to go away.

JWG

J W GRICE

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From : H P Evans
Date : 20 January 1987

CHANCELLOR

cc Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Odling-Smee
Mr Culpin
Mr Grice ✓
Mr Matthews
Ms S Symes

TARGET ZONES AND INDICATORS

CEPR held a seminar on Friday, on "Exchange Rates and Macro-Economic Policy Co-ordination". Papers by Bergsten and Williamson were discussed and there was a little subsequent press coverage. I attach a note by Ms S Symes on the main ideas in the papers, and an Observer piece by William Keegan.

2. I was struck by the softness of the target zone approach being advocated : a combination of both wide bands and soft buffers (Bergsten was noticeably less keen on the softness of the buffers). It looked a lot softer than the fixed exchange rate scheme on which Mr Courtney commented last summer (papers attached, top copy only). There was some feeling at the seminar that there was considerably more work to be done before an operational target zone scheme could be seriously considered.

3. Bergsten wanted to see the existing indicators scheme as a series of targets, and hence marking an important step on the road to target zones. In particular, he regarded the Baker-Miyazawa pact as a practical step in this direction. He quoted the dollar/yen rate which the US and Japan agreed at the end of October 1986 as "compatible with fundamentals" : this was the 150-162 range "revealed" in William Keegan's article on Sunday. Bergsten, in his comments on the Baker-Miyazawa pact, passed too lightly over the essential difference between that agreement and a system in which agreement on exchange rates is buttressed by commitment to action in certain circumstances.

4. Bergsten also asserted that a target zone approach would be best started off by agreement between Japan and the US. This seems to be to me highly doubtful, taking into account :

(i) the obvious shortcomings of the Baker-Miyazawa pact;

(ii) the interests of the rest of the world (it is not at all obvious, as Bergsten claims, that misalignments affect the US and Japan more than Europe);

(iii) on procedure and methodology, it may not be wholly unfair to characterise the US approach to these type of agreements as largely non-analytical and the Japanese approach as obscure and vague.

5. One comment on the papers, relevant to present circumstances of sizeable shifts in exchange rates, was that any new system of international economic co-operation would be hard to set up while imbalances were large and exchange rates unsteady - yet only when there are large imbalances (and their consequences are being seen in the markets) is there sufficient impetus for change.

HPE

H P EVANS

EXCHANGE RATES AND MACROECONOMIC POLICY COORDINATION

Bergsten and Williamson argue that unmanaged floating has led to substantial and severe misalignments; has failed to support an open trading system; and has allowed the major economies, particularly the US and Japan, to ignore the international consequences of their domestic policies. There is a need for a more stable system that would encourage sustainable and compatible outcomes and respond flexibly to the inevitable occasional disequilibria, whilst retaining the benefits of flexible exchange rates and substantial national discretion over both monetary and fiscal policy.

2. Two main approaches to improved international policy cooperation are explored: first, and more promising, a target zone system for exchange rates, applying at minimum to the G3; and second, the indicators approach agreed at the Tokyo Summit. The indicators approach is not seen as a clearly articulated alternative to target zones: while forecasts of key indicators can be used to check for ex ante consistency of policy intentions, these indicators can take on target status if they are used to encourage or ensure ex post implementation. Target zones for exchange rates are more likely to be effective as the approach does not try to tackle multiple policies and outcomes from the outset, but focuses on those most relevant for international adjustment. Indicators could be an important complement, in the search for a system of policy coordination, and should concentrate on the exchange rate and nominal income growth.

THE TARGET ZONE PROPOSAL

3. Participating countries would publish target zones of plus or minus 10 per cent around a central level for their effective (nominal) exchange rates. 'Soft buffers' would allow the zones to be breached. The width of the proposed band allows room for disagreement on the central rate, for example because of differing interpretations, or different estimates, of internal and external balance, and provides scope for the authorities to use temporary variations in monetary policy to pursue anticyclical objectives.

4. The target, or central, effective exchange rate would be the real effective exchange rate estimated to "combine internal and external balance" (what Williamson

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used to refer to as the "fundamental real exchange rate"). That is, the real effective exchange rate expected to secure "basic balance" - a current account outcome equal to the "underlying capital flow over the cycle" - in the medium term while maintaining activity in each country at the highest level consistent with the control of inflation. The nominal exchange rate targets corresponding to the agreed real targets should be regularly updated to accommodate fully differential inflation between countries. Real targets would be revised in response to real changes, such as changes in underlying capital flows, superior productivity performance in the tradeables sector, or oil price changes.

5. In general, participants would be expected to maintain the rate within the zone, using monetary policy (interest rates) reinforced or replaced by jawboning or intervention on occasion. If soft buffers were in place, the rate could move outside the zone while the authorities decided whether to adjust the zone. Soft buffers would also be useful if a country could not, for political reasons, undertake appropriate fiscal policy to maintain its anti-inflation policy through offsetting the monetary policy change required to keep the exchange rate within the zone. Provided the zones were published, the continued existence of the zone in such circumstances would be an indication to the market of the authorities commitment ultimately to return the rate to within the zone. Publication would provide a focal point for expectations and stabilizing speculation.

6. If the zones are indeed specified in terms of effective rather than bilateral rates, then any country reaching the limits of its target zone would be expected to act without the need for rules on how the burden of adjustment should be shared. This would preclude the US leaving all policy adjustments to other countries. But it might be possible to buttress the target zone system by a rule for distributing the burden of adjustment so as to help stabilize the world conjuncture. The main proposal advocated by Bergsten and Williamson, though many other advocates of target zones would disagree with it, is as follows.

EXTENDED TARGET ZONE PROPOSAL: NOMINAL INCOME TARGETING

7. Each participant would agree a target rate or range for their growth in nominal income. This need not be fixed, but could be based on the underlying rate of growth

of productive potential, a term related to the deflationary gap (the excess of the unemployment rate above the NAIRU), and the intended rate of inflation. If aggregate nominal income was tending to rise in excess of the target rate then participants could agree to jointly raise interest rates. Average interest rates would therefore be used to target aggregate nominal income, interest rate differentials to target exchange rates, and domestic fiscal policy assigned to domestic nominal income. In discussion there was scepticism about the ability of fiscal policy to provide sufficient control over nominal income if (as Bergsten and Williamson propose, but which is not at all essential to the concept of target zones) monetary policy is directed at maintaining a particular real exchange rate.

8. Bergsten and Williamson deal with three common objections. The first is the difficulties of the authorities in taking a view on desirable current account outcomes: Bergsten and Williamson argue that since the current account outcome is one component of the savings/investment balance, a view of the desirable current account balance is at least implicit in any medium-term view of desirable macroeconomic outcomes. The second relates to fine tuning: Bergsten and Williamson note that the proposed system does not imply continuous adjustment but that fiscal policy should be broadly consistent with agreed levels of competitiveness and nominal income growth.

INDICATORS

9. Bergsten and Williamson see indicators as a means to greater international policy coordination and as a step on the road to target zones. The role of the IMF is described as "to check for ex ante consistency and ex post implementation". Indicators might, however, play a number of roles: as a basis for comparison of major countries policies with a view to ensuring consistency; as a trigger for consultations; as creating a presumption that policies should be changed; as triggering direct, prespecified policy changes; or as triggering a penalty. If indicators are seen only as the basis for ex ante consultation, this may help to prevent misalignments occurring but may not deal with them once they have occurred.

10. Indicators in their present state are not likely to be very useful. The list endorsed by the summit leaders was both long and overdetermined. When one indicator

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flashes a warning that (say) monetary policy is too tight, it will normally be possible to find others that indicate the opposite. The authors make a strong case - particularly in the context of indicators as targets - for the need to structure the indicators, so that some can over-ride others, and suggest the following subdivision: policy targets, policy instruments, intermediate targets, and long stops. They suggest that the G5 are unlikely to succeed in developing the indicators exercise as a means of ensuring consistent and sustainable outcomes unless they can agree on the fundamental principles of economic management: (i) robust feedback rules in preference to either pure discretion aimed at policy optimization or an automatic pilot, and (ii) assignment rules for the key policy instruments. Bergsten and Williamson's conclusion is that indicators should be used to create a presumption of the need for action, and that monitoring should concentrate on two intermediate variables, the exchange rate and the growth of nominal income. Looked at in this light, indicators (as targets) and target zones can be regarded as complements rather than alternatives.

S SYMES

Dollar threat to currency pledges

WILLIAM KEEGAN ■ Economics Editor

THE RECENT European Monetary System realignment, and the US/Japanese target zone for the dollar/yen rate, are both expected to be severely tested in currency markets this week.

Fred Bergsten, director of the Institute for International Economics in Washington, on Friday revealed that the official target zone for the dollar/yen rate was 162 yen to 150 yen.

After heavy intervention by the Bank of Japan last week, the rate closed at 153.1.

Bergsten's revelations of the precise details of the US/Japanese accord on exchange rates came at a London seminar on exchange rates and macro-economic policy co-ordination organised by the high-powered Centre for Economic Policy Research.

This suggests that Gerhard Stoltenberg, the West German Finance Minister, was speaking prematurely last week when he said the recent rise in the yen illustrated the 'limited value' of

political accords such as the October US/Japanese agreement.

Nevertheless, with the US administration continuing to show a relaxed attitude to the fall in the dollar, the yen/dollar agreement is likely to be under strain.

If the dollar goes on falling, it will add to the strains within the EMS by strengthening the Deutschemerk even further. A number of official sources believe there will have to be another EMS alignment by the spring.

The pound closed slightly higher last week on average, rising from \$1.4775 to \$1.519 against the dollar and falling from DM2.8325 to DM2.795 against the West German currency.

● The Budget is expected to be in mid-March again this year, and students of Election timing should note, that in recent years people have not actually felt the benefits of March tax cuts in their pay packets or bank accounts until the first pay-day after May 17.



Exchange Rates and Macroeconomic Policy Coordination

Chairman: Professor Richard Portes, CEPR and Birkbeck College

Speakers: Dr C Fred Bergsten and Dr John Williamson,
Institute for International Economics

16 January 1987

List of Participants

Dr George Alogoskoufis, Birkbeck College and CEPR
Professor Michael Artis, Manchester University and CEPR
Dr Charles Bean, London School of Economics and CEPR
Professor Michael Beenstock, City University Business School and CEPR
Professor David Begg, Birkbeck College and CEPR
Mr Steven Bell, Morgan Grenfell
Dr Christopher Bliss, Oxford University and CEPR
Mr Samuel Brittan, Financial Times
Mr Simon Broadbent, Foreign and Commonwealth Office
Mr Richard N Brown, Bank of England
Dr Brendan Brown, County Bank
Mr Clive Crook, The Economist
Professor David Currie, Queen Mary College and CEPR
Dr John Driffill, Southampton University and CEPR
Mr Huw Evans, HM Treasury
Mr Guy Fitzmaurice, Euromoney Corporate Finance
Mr Joe Grice, HM Treasury
Mr Anthony Harris, Financial Times
Ms Sarah Hogg, The Independent and CEPR
Mr David Holland, Group of Thirty
Professor Andrew Hughes Hallett, Newcastle University and CEPR
Mr William Hutton, Newsnight, BBC Television
Mr Christopher Johnson, Lloyds Bank
Mr William Keegan, The Observer
Professor David Kendrick, University of Texas
Mr Pen Kent, Bank of England
Professor James Meade, Cambridge University
Professor Patrick Minford, Liverpool University and CEPR
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Centre for **Economic Policy Research**

WORKSHOP ON EXCHANGE RATES AND MACROECONOMIC
POLICY COORDINATION

Exchange Rate Management:
The Role of the Target Zones

John Williamson

16 January 1987

London

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Exchange Rate Management: The Role of Target Zones*

John Williamson
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The essence of the regime of unmanaged floating that prevailed among the major currencies from March 1973 until the Plaza Agreement was that the exchange rate was treated as a residual in the process of macroeconomic policy determination. Admittedly there were occasions--such as October 1976 in the case of the pound sterling and October 1978 in the cases of both the US dollar and the Swiss franc--when particular countries became so concerned with a misalignment of their currency that they were forced to abandon "benign (or malign) neglect", but such incidents were episodic. Views about a proper or desirable level of the exchange rate played no systematic role in policy formulation.

Section I explains why I judge the performance of unmanaged floating to have been unsatisfactory. Section II lists the real social benefits that exchange-rate flexibility can afford, which should be preserved by any reformed system. Section III describes the target zone proposal and explains why it would preserve the real benefits of flexibility while overcoming the weaknesses of unmanaged floating. Section IV sketches a possible set of comprehensive principles for policy coordination of which target zones would be one natural element.

* A paper to be presented to the American Economic Association, December 1986. The author acknowledges helpful comments on a previous draft from C. Fred Bergsten, Shafiqul Islam, Stephen N. Marris and Marc Noland. Copyright: Institute for International Economics. All rights reserved.

I. The Failures of Floating

Unmanaged floating has proved unsatisfactory in two key respects. First, it transpired that failure to factor exchange rate implications into the process of policy choice led to recurring, and at times massive, currency misalignments.^{1/} Misalignments can arise as a rational market response to international differences in real interest rates: in my judgment this explains, for example, much of the initial overvaluation of the dollar in 1981-83, although even here the rise of the dollar during 1982 appears paradoxical. They can also arise as a result of bandwagon effects leading to bubbles in the foreign exchange market: I can, for example, find no other explanation for the continued rise of the dollar from mid-1984 to February 1985, since this was a period when the dollar was already far above any estimate of a sustainable level and interest-rate differentials were narrowing (on every plausible basis of measurement).

The second major failure of unmanaged floating is the lack of pressure that it places on countries to coordinate their economic policies. When exchange rates were first allowed to float, most economists regarded the additional independence this afforded economic policy, notably monetary policy, as an advantage. But in retrospect it is far from clear that policy coordination was the irrelevance that this view assumed it to be. The poor performance of the world economy since 1973, including especially the extent of cyclical synchronization and the severity of the debt crisis, is in my judgment partly attributable to the virtual absence of policy coordination.

Admittedly the costs of failing to coordinate policies are still conjectural rather than firmly established. In contrast, the costs of

misalignments are glaringly apparent: massive payments imbalances, consequential international investment flows that bear no relationship to the real scarcity of capital, distortions to the optimal time pattern of consumption, unnecessary adjustment costs as resources are shifted back and forth between the tradable and nontradable sectors, the destruction of productive capacity, possible ratchet effects on inflation, and protectionist pressures (Williamson 1985, pp. 38-45, Bergsten 1986). Indeed, Baldwin and Krugman (1986) argue persuasively that the costs of misalignments have probably been significantly underestimated in the past because of the failure to take account of hysteresis. That is, once a company has abandoned an export market or established itself in an import market, a reversion of the real exchange rate to its initial level will not suffice to restore trade flows to their previous patterns, because of the significant overhead costs frequently involved in entering or re-entering a market. Adjusting trade flows back after a severe misalignment will therefore tend to be more difficult and costly than traditional econometric estimates suggest.

II. The Social Functions of Exchange Flexibility

The failure of unmanaged floating should not blind one to the fact that fixed exchange rates were abandoned for good reasons. The exchange rate debate has for too long been stilted by excessive emphasis on the textbook cases of fixed and floating rates to the neglect of intermediate regimes, which are motivated by recognition of the weaknesses in both extremes.

A first important function of exchange rate flexibility is that of reconciling differential inflation. Obviously a decision to accommodate inflation through depreciation implies that the exchange

is not going to be used as a "nominal anchor".^{2/} There are other and better policies to control inflation: whether anti-inflation policy proves more or less effective than in other countries, appreciation or depreciation is needed respectively to prevent success being undermined by imported inflation or to prevent overvaluation.

A second function is that of facilitating payments adjustment when this proves necessary, by changing the incentives to export and import. It is well known that an exchange rate change is rarely sufficient to accomplish adjustment, but, except where disequilibrium is due purely to excess or deficient demand, an attempted adjustment that does not include a change in the exchange rate will involve unnecessarily high unemployment or inflation.

A third function of exchange rate flexibility is that of liberating monetary policy to pursue interest rate targets at variance with those in the rest of the world. If one country is suffering a deeper recession than its partners, it may legitimately wish to ease monetary policy relative to other countries, and that will be feasible only if its currency can depreciate so as to create an expectation of a subsequent rebound that will compensate investors for the temporarily low interest rates. Conversely, a country with abnormally severe inflation may legitimately seek to raise interest rates temporarily, which will require an appreciation. A wide band within which exchange rates are allowed to move around parity provides scope for such temporary variations in monetary policy to pursue anticyclical objectives.

The final legitimate function of exchange rate flexibility is that of absorbing a part of speculative pressures. Instead of requiring that every change in speculative sentiment lead to a change

in international reserves and/or interest rates, one can allow changes in the exchange rate to take the strain. Provided these changes do not lead to the prolonged and substantial movements away from equilibrium that constitute misalignments, they do little harm.

III. The Target Zone Proposal

The target zone proposal envisages a limited number of the major countries negotiating a set of mutually consistent targets for their effective exchange rates. The minimum number of countries needed for a meaningful system would be the three biggest: the United States, Germany, and Japan. Current proposals for policy coordination involve rather more countries: the Group of Five includes the two other countries with currencies in the SDR, namely France and the United Kingdom, while the Group of Seven adds also Canada and Italy.

The aim would be to set exchange rate targets at "fundamental equilibrium exchange rates", i.e., at the real values that on average in the medium term are expected to reconcile internal and external balance. This will require agreed interpretations of internal balance (the lowest unemployment rate consistent with the control of inflation) and external balance (a current account balance that is both sustainable and appropriate in the light of thrift and productivity). Both concepts involve an element of subjective judgment and will therefore permit obfuscation by recalcitrant governments, but both provide sufficiently well-defined criteria to form a basis for the sort of technocratic argument that can ultimately lead to international agreement given a modicum of political goodwill. Targets for internal and external balance would then have to be translated into exchange rate targets via some econometric model, which is an essentially technical exercise.

The nominal exchange-rate targets corresponding to the agreed real targets should be regularly updated in the light of new data on differential inflation between countries. The real targets should be revised to accommodate both secular trends such as superior productivity growth in the tradable sector (Balassa 1964) and real shocks or new information.

The participating countries would be expected to conduct their macroeconomic policies with a view to limiting deviations of their exchange rates from the agreed targets, and particularly with a view to preventing exchange rates going outside a broad zone of perhaps ± 10 percent around the target. The principal instrument to be used for that purpose would be monetary (interest-rate) policy. Provided that the market knew that the authorities were prepared to alter interest rates with a view to managing the exchange rate, there is good reason to believe that jawboning and intervention can also be useful supplementary instruments. If the necessary changes in monetary policy threatened internal balance, it would be necessary to make a compensatory adjustment in fiscal policy.

A country participating in the target zone system need not accept an absolute obligation to keep its exchange rate within the target zone. There are in my view two good reasons for endowing target zones with "soft buffers", which would give a country the right to argue before its peers that it not be required to prevent a breach of the zone. One such circumstance arises where some major shock (such as an oil price change) occurs: rather than forcing the authorities to decide immediately whether to adjust the zone (as might be appropriate if the shock is permanent) or to adjust their policies to push the rate back into the zone, it may be preferable to allow a period for

assessment of the magnitude and probable permanence of the shock. This could avoid the danger of countries committing themselves to defense of a disequilibrium rate as used to happen under Bretton Woods.

The second circumstance arises where political cowardice prevents a government taking the fiscal action needed to complement the monetary measures that would be necessary to keep the exchange rate in its target zone. For example, when the dollar first became seriously overvalued in late 1981, the first-best policy would have been monetary relaxation accompanied by fiscal contraction; but had that combination been precluded by political hang-ups, it is arguable that it would have been advisable to maintain monetary discipline in the interests of ensuring success in the battle against inflation even at the cost of the dollar rising temporarily above its target zone.^{3/} Maintaining the zone under those conditions would nevertheless have warned the market of an official judgment that the rate was overvalued and that policy would in due course have sought a correction, which might at least have avoided the speculative bubble of 1984-85.

A target zone system with these characteristics would in my view provide a viable alternative to both fixed and floating exchange rates, able to limit misalignments and provide a spur to policy coordination (since it would require agreement on target zones, which would in turn need a degree of mutual understanding on policy objectives). It would nevertheless permit exchange rate flexibility to fulfill all four of its genuine social functions: of reconciling differential inflation (by virtue of the provision for automatic adjustment of the nominal target to maintain the target zone constant in real terms); of facilitating payments adjustment (by changing the

real zone in response to permanent real shocks); of permitting a degree of independence for anticyclical monetary policy (by virtue of the wide band); and of absorbing speculative shocks (through the wide band and soft buffers).

IV. Policy Coordination

Earlier this year the IMF Interim Committee and subsequently the Tokyo Summit expressed interest in using "indicators" to achieve a more comprehensive framework for policy coordination than that embodied in the target zone proposal. Since I have in part defended that proposal on the basis of the pressure it would create to improve policy coordination, it is natural to complete this paper by laying out my current views on the desirable content of a comprehensive set of rules for coordinated policies.

Incidentally, I do not perceive the choice facing the international community as being one of target zones versus indicators. The set of rules suggested below embody target zones. Conversely, when I attempted to ask how a presumptive set of rules for policy coordination might be fashioned out of the Tokyo indicators, I ended up with an extended target zone system (Williamson 1986).

The rules developed in Edison, Miller and Williamson (1987) make use of two intermediate targets, the growth of nominal income and the (real effective) exchange rate. Expressing the internal balance objective in terms of nominal income growth has its disadvantages, notably the lag before nominal income can be observed, but nevertheless appears preferable to alternative specifications such as the Keynesian choice of growth or output (with its danger of accelerating inflation), the monetarist choice of a monetary aggregate (an idea that at one time looked promising but in fact led to fiasco),

the New McKinnon choice of the price level (McKinnon 1986), which suffers both from the lag problem and from its disregard of the state of the real economy. A target for nominal income growth need not, however, take the naive form of a constant growth rate. A sensible formula, which seemed to perform acceptably in our simulations, is to choose a target growth rate of nominal income equal to the sum of the estimated rate of growth of productive potential, plus some fraction of the inherited rate of inflation (to implement a gradualist disinflation strategy), plus a positive function of the deflationary gap.

The exchange rate is a natural intermediate target since the real exchange rate is the dominant medium-run determinant of current account balances apart from income levels, which will presumably bear a reasonably constant relation to capacity in the medium run. (The lag of current balances behind exchange rates is far too long, however, to make it sensible to treat the current balance itself as an intermediate target.)

The assignment rules that we suggest to achieve these intermediate targets are the following:

- (1) The average level of world real interest rates should be revised up (down) if aggregate growth of nominal income is threatening to exceed (fall short of) the sum of the target growth of nominal income for the participating countries.
- (2) Differences in interest rates among countries should be revised when necessary to limit the deviations of currencies from their target levels.
- (3) National fiscal policies should be revised with a view to achieving national target rates of growth of nominal income.