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I will comment on four macroeconomic subjects, each of them touching upon various aspects of macrocoordination and cooperation. First I will briefly discuss the G20 process of macrocoordination. Second, I will say a few words on fiscal versus monetary policy and cooperation. Third, I will look at macropolicy in the eurozone. Finally, I will conclude with a few comments on European policies to assist the struggling peripheral countries.

As I already mentioned in my earlier discussion, countries tend to act in their own self-interest, so macroeconomic policy coordination, as usually emphasized and encouraged by the IMF, is inherently difficult to achieve. When the G20 reached an agreement on a global stimulus, it was a relatively easy goal to achieve: every participant had something to gain because it was in the interest of all countries. Moreover, there was no agreement on the specific details of the stimulus packages so countries had sufficient leeway to design them in a way that best suited their needs. The United States is a special case because participating in such global agreements is in a way impossible, in another way easy, but meaningless for it. The US President simply can't commit to any specific policy because of the need to obtain Congressional approval and because of the independence of the Fed. Therefore, when the US delegation arrives at these meetings, they simply tend to restate the administration's existing policy. In the current context, the United States will certainly seek to reduce its fiscal deficit over time to attenuate global imbalances. Such commitment disregards the IMF's view according to which one country's adjustment should be accompanied by expansionary

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policies elsewhere to help the adjusting country's export sector. While few would dispute this advice, I have hardly ever heard such talk in American policy circles. The US policy process simply doesn't look too deeply into what other countries are doing, partly because international trade is relatively unimportant for the large American economy.

In my view, the stimulus package that the Obama administration finally agreed on was limited not because of considerations of global imbalances but because of the politics of deficit spending. There was very little information on what shape foreign fiscal policy will take and what it would imply for US GDP and balance of payments. Moreover, economic advisers in the United States have very little clue about the size of the domestic multiplier. When I asked my friends in the National Bureau, I got estimates ranging between 0 and 2. Such uncertainty makes coordination with our trading partners all the more difficult.

Turning to my second theme, most of the talk these days about stabilization policy is about fiscal policy. Until very recently, however, it hasn't been the case. In the two decades leading up to 2008, macrostabilization in the United States meant monetary policy. Fiscal policy had been discredited because of its well-known lags. It takes time to recognize a business cycle downturn, it takes further time to design an appropriate fiscal response, and it takes yet more time to implement it. Monetary policy, by contrast, has been aided by the Taylor rule (which ties interest rates to inflation and the GDP gap)—a pretty accurate description of what the Fed was doing during this era. The Taylor rule, however, makes no reference to the fiscal stance.

Thirdly, macropolicy in the eurozone basically amounts to monetary policy as conducted by the ECB. What it means, essentially, is an agreement on a single interest rate that is judged to suit best the whole currency area, best defined as achieving price stability. In principle, an easier monetary policy in the United States could help achieve price stability in the eurozone by weakening the dollar versus the euro. Yet I've never heard Jean-Claude Trichet saying that he has coordinated monetary policy with the Fed. It seems to me that the ECB takes other countries' interest rates as given. As for fiscal policy, we now know that the creation of the euro led to growing fiscal deficits in the eurozone. Before the launch of the euro, high deficits had led to higher interest rates and declining currencies, useful market signals that the deficits were too large. This market feedback, however, has been eliminated with the euro. Interest-rate spreads, which should normally be read as warning signals, have stayed very low (about 30 basis points above German rates) for too long. Now that the spreads have massively increased, there is a movement toward imposing tough fiscal rules on each country, leaving only automatic stabilizers to deal with business cycle fluctuations. Germany just passed a constitutional amendment in this regard, and Spain may follow suit. If this movement is completed, there will be little room left for discretionary policies and the need for coordination will hardly surface.

Finally, on multilateral cooperation to assist Greece and other economies in the European periphery, I find Greece to be in an impossible situation. Greece has to default; every market participant knows that. To reach a sustainable position, Greece needs to reduce its debt dramatically, probably by around 50 percent, significantly above the 20 percent haircut imposed on private creditors. The bailouts and the ECB's intervention in the bond markets serve one purpose only: postponing the inevitable. Why postpone? If Greece defaults, it will hurt German and French banks. Postponing it will buy them time to rebuild their capital and perhaps sell the toxic bonds on their balance sheets to the ECB. A bigger concern is contagion to Portugal, then to Italy and Spain, which collectively would add up to a financial disaster. The situation in these countries will become clearer in the coming years. We will learn if Spanish banks have become healthy again and whether Italy can veer itself back to a cyclically adjusted balanced budget path. In a nutshell, postponing a Greek default will provide European policymakers with more information whether the other peripheral economies can survive such an incident. If they can't demonstrate that they are healthy during this period, a default will mean sharply rising interest rates and insolvency soon after. There will be no way for Germany and the EFSF to deal with that and these countries will have to default and leave the euro. That would surely mark the end of the euro in its current form.