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# A decade of debate on international macroeconomic policy

This volume is a collection of papers presented and discussed at the International Seminar on Macroeconomics during its first decade, the decade of the 1980's. The contributors are Europeans, Americans and Japanese; the subject matter is macroeconomic policy.

That focus gives most of the papers an empirical character. Even when the theoretical models used are not readily quantifiable, the emphasis is on their power to clarify concrete policy issues.

The 1980's were marked, more than anything else, by the growing internationalization of economic activity. Markets became both more global and more volatile. Increasing interdependence made national economies more vulnerable to international disturbances and reduced the ability of national governments to control domestic developments. In the global competition of ideas, it became increasingly common to judge national institutional structures by comparing them with their counterparts in other countries and to measure the performance of national economics comparatively.

As a cross-national forum for scientific debate, the International Seminar on Macroeconomics has functioned at the crossroads of the major controversies of the decade. It was formed as the first annual international conference on issues of economic policy to bring together academic economists of the highest quality from Europe, the United States, and Japan, and its achievement of commissioning comparative papers providing an empirical analysis of two or more countries is unique. This volume is a record of the issues, the controversies, the comparative analyses, and the debate. The flavor and perspectives of the times are preserved in the contemporary comments and criticisms of the discussants that are presented here with each contribution.

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The International Seminar on Macroeconomics was launched in 1978 to promote dialogue and scientific exchange on policy issues between Europe and the United States.

Four years after the first oil shock, the United States was still searching for a definition of its role in the post Bretton Woods world. Some American

policy makers and economists, mindful of the loss of fixed exchange rates, hoped to recover stability and growth through concerted efforts to convince Germany and Japan to be the 'locomotives' of the new order. Others, lured by the vaunted merits of floating exchange rates, argued that autonomous national policy was optimal, and that market pressures were a more effective means of disciplining national governments than conscious efforts at coordination.

The governments of Europe were, for their part, seeking to compensate for what they perceived to be the volatility and unpredictability of trans-Atlantic relationships by pursuing the construction – economic and political – of the Common Market. France and Germany were on the verge of leading the implementation of a new and strengthened European Monetary System, which was to prove over the ensuing decade to have a determining influence on the policies of its members. At the same time, all of these governments were being obliged to acknowledge that there would not be a rapid return to the rates of expansion of the 1960's – when unemployment was much lower in Europe than in the United States – and were beginning to grapple with the rigidities of 'Eurosclerosis'.

Parallel to the need for dialogue on the substance of policy was a need for scientific exchange between the students of policy. Unaccustomed to the realities of a more interdependent world, American economists too often tended to assume that other nations would be replicas in behavior and structure of the American model. Their analyses sometimes suffered from the absence of an understanding of diversities and assymetries which only first-hand research experience outside of America could provide. European economists, on the other hand, had struggled to recover from the human and intellectual destruction wrought by fascism and World War II. Some of the economic faculties of the Continent were still – though there were many notable exceptions – on the periphery of the dynamic developments in the discipline in the decades following the War. The need there was for exposure to and debate with some of the new methods and concepts.

It was against this background, in conversations in Paris, that Martin Feldstein suggested to Georges de Ménéil that an international seminar be organized to promote scientific dialogue about macroeconomic policy issues between Europeans and Americans. The National Bureau of Economic Research – soon to be represented by Robert J. Gordon – was to sponsor and select American participants, and the Maison des Sciences de l'Homme to sponsor and select European participants for an annual meeting.<sup>1</sup>

<sup>1</sup> An Advisory Committee was formed to assist de Ménéil and Gordon, consisting initially of Giorgio Basevi, William Branson, John Flemming, Heinz König, and Jean Waelbroeck. They were subsequently joined by Jacob Frenkel, Koichi Hamada, Jacques Mairesse, and (for three years) Masaru Yoshitomi.

The nature and style of the International Seminar on Macroeconomics was shaped by a number of important early decisions. The first was the decision to opt for collaborative sponsorship and direction. The reality then was that funding for such initiatives was more readily available in the United States than in Europe, and the course of least resistance would have been to depend exclusively on American sponsorship and financing. The partnership which in fact evolved between the National Bureau of Economic Research and the Maison des Sciences de l'Homme gave European participants the sense that they had an institutional as well as a personal stake in the long-run success of the effort. Their commitment was further reinforced by the choice the organizers made in the programming to emphasize European contributions, reflecting their judgment that this was where the need for communication was the greatest. The pattern which rapidly emerged was that each Seminar had roughly twice as many European papers as American papers, but that the two discussants of each contribution were selected from opposite sides of the Atlantic.

From the start, the Maison conceived of its role as that of an umbrella organization permitting and channeling the contributions of a series of different national European entities. The first few meetings were held at the Maison des Sciences de l'Homme in Paris. But as other institutions proffered support and offered sponsorship,<sup>2</sup> subsequent meetings came to alternate between Paris and other European locations – Oxford University, Universität Mannheim, the conference center of the Banca d'Italia in Perugia, the Ragny conference center of the Banque de France, les Facultés Universitaires Notre Dame de la Paix (Namur, Belgium), and subsequently to the years covered by this volume at the headquarters of the Banque de France and the Centro de Estudios Monetarios y Financieros, Banco de España. In 1989, the European Economic Association – which had not existed when the Seminar was launched, but whose new mission encompassed some of the stated objectives of the Seminar – agreed to join what then became a three-way partnership of sponsors: the NBER, the MSH, and the EEA.

The European–American emphasis which has characterized the Seminar has not been an exclusive one, and, indeed, the organizers have from the beginning elicited Japanese participation. Thanks to the generous financial support of the Foundation for Advanced Information and Research and the Institute of Fiscal and Monetary Policy, Japanese Ministry of Finance, the

<sup>2</sup> Financial support of the seminar for the ten conferences covered by this volume (1979–1988) was provided by, in addition to the National Bureau of Economic Research and la Maison des Sciences de l'Homme, the following organizations: Banque de France, Banca d'Italia, Commission of the European Economic Community, Deutsche Forschungs Gemeinschaft, École des Hautes Études en Sciences Sociales, Foundation for Advanced Information and Research (Japan), Institute of Fiscal and Monetary Policy (Japanese Ministry of Finance), National Bank of Belgium, Rock Foundation, Thyssen Foundation, and Universität Mannheim.

first Asian meeting of the Seminar was held at the Ministry of Finance, in Tokyo, in 1988.

The Seminar was fortunate to find early, in the *European Economic Review*, a respected outlet for publication. The *Review* was notably supportive of the organizers' goal of promoting scientific exchange on the highest level. The relationship of the Seminar to the *Review* was renewed and strengthened in 1988 when the *Review* became the official publication of the European Economic Association.

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The papers in this volume were selected from the first ten annual issues of the *European Economic Review* to be dedicated to the International Seminar. The editors and the Advisory Committee chose what they felt was both an excellent and a representative selection. Contributions fell naturally into three broad areas: (1) comparative analyses of the relationship between structure and national macroeconomic performance; (2) the evolving nature of the external constraint, and alternative strategies for managing it; and (3) the consequences of internal and external debt.

The volume is divided into three parts corresponding to these three broad topic areas. We have written an introduction to each part that helps to place each contribution in the perspective of the time when it was written. Each contribution is presented as originally published in the *European Economic Review*, as are the contemporary comments of the conference discussants.