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**Comments on Mervyn King's Speech:  
Division of labour between the IMF and the OECD?**

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In his speech in December 2006 in Australia, Mr. Mervyn King, the Bank of England governor called for radical overhaul of the IMF<sup>1</sup>. One of Mr. King's specific recommendations was that duplication should be avoided among international organisations.

I agree with many of his views but would add that utmost care would be required in rationalizing the surveillance activities of the IMF and the OECD so that it should not result in weakening of surveillance on the interaction between macro economic and structural policies. Coherent review of key economic players' actions or non-actions in these two policy areas is clearly needed in today's international setting.

To make this point clear, I would like to point out that large rises in unit labour cost in several member countries of euro area that are persistent even after their participation in the area have not only weakened their international competitiveness and worsened external current accounts, but the divergence of their unit labour cost performance from sustained declines in Germany clearly points to the emergence of an underlining threat to the viability of the euro system with adverse consequences for global macro economic stability. Many euro area countries competing with Germany can no longer use exchange rate adjustment to narrow relative cost disadvantages vis-à-vis Germany. Accelerated labour market reform is the only way to prevent a buildup of macroeconomic tensions within euro area with possible undesirable secondary effects on the US, Japan and the rest of the world.

In my view, surveillance of macro policies should go hand in hand with structural policy surveillance in to order to prevent anomaly whose underlying cause is the malfunction of structural policies combined with rigidity in macroeconomic policy management. The two types of surveillance should not be separated as Mr. King argues. The OECD should not discontinue macro economic analysis and forecasting which is essential for

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<sup>1</sup> Mervyn King, "Through the Looking Glass: Reform of the International Institutions", Inaugural International Distinguished Lecture to the Melbourne Centre for Financial Studies, Australia on 21 December 2006,  
<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2006/speech296.pdf>

examining the interrelationship between macro and structural economic forces and making recommendations on a coherent set of macro and structural policies over the medium term.