To analyze these issues, in this chapter we provide a global perspective on the evolution of monetary policy and exchange rate regimes. We examine the problems that arise out of the incompatibility of national regimes with similar domestic objectives. We then discuss the challenges that arise in reconciling domestic monetary policies with global macroeconomic stability.

In Chapter 4, we describe how central banks are being pulled into new roles by the post-crisis environment and by the unavailability of alternative, potentially more suitable instruments. While some aspects of these roles are not new, they nonetheless move central banks into risky territory insofar as central bank actions can inflict collateral damage on domestic financial systems and have the potential of raising new domestic and international tensions. We highlight two sets of issues: (a) the consequences of high levels of public and private debt in the advanced economies and the attendant pressures towards financial repression; and (b) the perceived dangers of currency misalignments and overvaluation, and the attendant pressures towards currency intervention and capital controls.

In Chapter 5, we draw on the analysis in previous chapters to recommend changes in the dominant framework guiding central banking practice. In the framework we propose, central banks should go beyond their traditional emphasis on low inflation to adopt an explicit goal of financial stability. Macroprudential tools should be used alongside monetary policy in pursuit of that objective. Mechanisms should also be developed to encourage large-country central banks to internalize the spillover effects of their policies. Specifically, we call for the creation of an *International Monetary Policy Committee* composed of representatives of major central banks that will report regularly to world leaders on the aggregate consequences of individual central bank policies.

While this report suggests more responsibilities for central banks, we also recognize the environment is one where there is substantial pressure on central banks to acknowledge the importance of still other issues, such as the high costs of public debt management and the level of the exchange rate. While these pressures, if internalized, can make central bank objectives hopelessly diffuse, they are not reasons to postpone rethinking the overall policy framework. To the contrary, a framework that is seen as deficient will become an easier political target.

For all these reasons, we believe it is time to rethink the existing paradigm. The rest of the report lays out what this rethinking should entail.