of by deteriorating the current account. It may be decided to focus both monetary and fiscal policy on the domestic inflation, meanwhile allowing unwanted foreign exchange reserves to pile up. Then an interest rate target holds out no advantage over a money supply target. But in the opposite case, a recession accompanied by a payments deficit, it will be important to end the outflow of reserves quickly so that expansionary domestic policy can go forward. An interest rate target then again has the advantage.

A rough estimate of the frequency of policy conflicts of the two types can be obtained with the help of the data employed earlier. A conflict may be considered to be present when a balance of payments surplus coincides with a price increase that is above average for the period, and when a payments deficit coincides with a price increase below average. In the absence of unemployment data for most countries, variations in the rate of price increase probably are not a bad indicator of cyclical conditions. Other interpretations of what constitutes a policy conflict could of course be chosen even while focusing only on price and balance of payments data. Changes in the rate of price movements, possibly foreshadowing cyclical turns, might be more indicative of what policy makers are concerned about than the actual rate of price increase. Changes in the magnitude of a payments imbalance, also possibly foreshadowing a reversal, may be more important than the presence simply of a surplus or deficit. Payments imbalances, moreover, may mean different things to policy makers depending on whether they occur on current or capital account, whereas in the data here employed they are measured simply by a change in international reserves. Small surpluses may be preferred to precise balance. Finally, the need to rely on annual data undoubtedly limits their significance. The results are nevertheless not without interest.

Out of a total of 509 observations, 231 or 45.4% represented conflict of objectives, as here defined. Among less developed countries, the proportion was 42.3%, among developed, 50%. Details appear in Table 2. The difference between developed and less developed countries is significant at the 10% level, tested against the hypothesis that price movements and balance of payments conditions are randomly associated.

The case of "no conflict" is related, although not unambiguously, to endogenous instability, provoked by destabilizing domestic