Brunner on the State of International Monetary Policy

The purpose of this brief note is twofold:

1) to correct Karl Brunner's characterization of my views on the Bretton Woods system and 2) to raise some questions about his interpretation of post-World War II international monetary developments.[1]

The first point can be made briefly. Professor Brunner appears to attribute to me views that have been expressed by Charles Coombs.[2] I think that it is correct to say that neither Coombs nor I appreciates being taken for the other. In fact, this could be the only matter on which we agree.

In any event, Professor Brunner states that "The two leading United States officials deeply involved throughout the 1960's in international monetary affairs still feel in their recently published accounts that more bureaucratic 'cooperation and coordination' would eventually have removed the balance of payments and exchange problems" of the Bretton Woods system.[3] Letting Coombs defend himself, I would like to state that my analysis of what brought the system to an end was the failure of the balance-of-payments adjustment process. Specifically, the politics and the asymmetrical economics of the Bretton Woods system impeded exchange-rate alterations that were needed to prevent the U.S. current-account surplus from disappearing and becoming negative.[4] I have never believed that the balance-of-payments disequilibrium that developed after 1965 could have been papered over by "cooperation and coordination" in the field of credit. Nor did I ever attribute the tensions in exchange markets to "speculative conspira-

---

[1] KARL BRUNNER, "Reflections on the State of International Monetary Policy," in this *Review*, vol. XXXII (December 1979).

[2] CHARLES A. COOMBS, *The Arena of International Finance*, John A. Wiley & Sons, New York, 1976.

[3] BRUNNER, *op. cit.*, p. 364.

[4] ROBERT SOLOMON, *The International Monetary System, 1945-1976: An Insider's View*, Harper & Row, 1977, pp. 212-213.

cies." [5] Professor Brunner seems to have let his preconceptions about the Federal Reserve "bureaucracy" prevail over recorded fact. He could have avoided this error easily enough by rereading the reviews of the books by Coombs and me that were published in the journal he edits.[6] Coombs and I, while undeniably part of what Professor Brunner chooses to refer to as the "Federal Reserve bureaucracy," held sharply differing views. The "Federal Reserve bureaucracy" was not monolithic.

Professor Brunner's characterization of the Bretton Woods system, and of an ideal monetary system, leaves me puzzled. On the one hand, he describes the Bretton Woods arrangements as a "new system of fixed exchange rates," which, if taken literally, is historically inaccurate. On the other hand, he describes with approval the evolution to a "hegemonial" system which implied "that the United States essentially abdicated the right to set exchange rates to other nations and implicitly accepted the responsibility for the monetary evolution in the international system."

This second interpretation of Bretton Woods appears more accurate. Professor Brunner's forceful criticism of the Federal Reserve is that it did not admit and accept responsibility for the monetary evolution of the system, but he does not tell us what principles should have guided the Fed in its leadership role. Nor does he tell us what principles should have guided other countries in setting and changing exchange rates. The Federal Reserve is castigated for having practiced "benign neglect" from 1958 on and for engaging in "bureaucratic trivia." This is all quite colorful but it is no substitute for analysis.

If the old system was worth saving, as Professor Brunner seems to believe, what policies on the part of both the "hegemonial authority" and the "junior partners" should have been pursued?

Apparently the failure of the United States was that it did not control "monetary growth in response to the evolution of the balance of payments." [7] This implies that the evolution of the United States balance of payments was exclusively the result of developments, and of monetary developments in particular, in the United States. These are, to say the least, arguable propositions. They reflect Professor Brunner's apparent belief that "only money matters" (although later parts of his paper distinguish between real and monetary developments). They also reflect a myopia that confines attention to the policies of the United

[5] BRUNNER, *op. cit.*, p. 370.
[6] "Coombs-Solomon Symposium," *Journal of Monetary Economics*, vol. 4 (April 1978).
[7] BRUNNER, *op. cit.*, p. 363.

States without even inquiring whether the policies, positive or negative, of other countries had anything to do with the evolution of the U.S. balance of payments and the breakdown of the Bretton Woods system.

I like to think that I have dealt with these issues in the book to which Professor Brunner refers but which he shows no evidence of having read.

Washington

ROBERT SOLOMON