

Reflections on the State of International Monetary Policy*

I. The Temptations of the Monopoly Right to Produce Base Money

More than 600 years ago Abbé Gil li Muisil of Tournai lamented most forcefully about the disarray in monetary affairs. One should hardly wonder. The French King lowered the content of the coinage within ten years seventy times. Rampant inflation ensued and the exchange rates between different sorts of money exhibited confusing changes. The prevailing monetary arrangements in France and other European countries were not designed to foster a productive use of resources or encourage trade producing rising standards of living. The rulers succumbed to the temptations inherent in monetary arrangements. They offer an effective instrument for the extractions of resources investible in holding or enlarging power.

The laments of the good Abbé sound remarkable relevant for our times. But the evolution of history and the development of economic and political organization substantially modified the focus of our troubles. The disappearance of French Kings need not detain us here. But the range of unified currency areas, with a fixed rate between different regions of the area and distinct sorts of money issued within the area, has significantly expanded. The historical emergence of unified currency areas yielded substantial economic advantages. Within these areas adjustments in the balance of payments between various regions operate via relative changes in regional money supplies and regional price levels. The very success of their adjustment mechanism is revealed by the fact that the media

* An earlier version of this paper was presented in German on the occasion of the International Management Symposium in St. Gallen, May 15, 1979. Many discussions with Allan H. Meltzer and Pieter Korteweg have also influenced my thinking in this matter.

never find it worthwhile to advertise with scary headlines a balance of payment crisis of the Ohio valley, New England, or the Columbia River basin.

The improvement in monetary organization and the efficient development of the payment systems within national currency areas did not exorcise a perennial problem. This problem obstructs the emergence of currency areas covering several sovereign nations. Monetary arrangements continue to confront the operators of the political institutions with grave temptations. These temptations essentially involve the exploitation of the monetary system in order to control or influence the use of resources for political purposes. Such exploitation is facilitated by the fact that the central political organization monopolized the right to produce and issue base money. This monopoly right of the political organization is liable to suffer misuse whenever it is not constrained by a set of simple, generally understood semi-constitutional rules governing the use of this monopoly right.

II. Institutionalizations of an International System Controlling the National Monopoly Right

The international gold standard should be understood in this context as a serious attempt to constrain the monopoly right to issue base money with a set of more or less generally acknowledged rules of conduct pertaining to the behavior of the monetary authorities. The system of fixed exchange rates offered a substitute for a unified currency area covering a group of nations. The gold standard thus determined a comparatively predictable framework controlling monetary evolution. It encouraged under the circumstances the productive division of labor on an international plan which contributed to raise the welfare of all participating countries. The system functioned to the extent that monetary authorities adjusted the national money stock according to the requirements imposed by the balance of payment. But the gold standard is not a stable arrangement. It naturally evolves into an "exchange standard" based on a "hegemonial currency". The evolution was already visible before the first world war. The pound sterling developed over the decades into a hegemonial currency which anchored the operation of a gold exchange standard.

The restoration of an international standard after the first world

war created a fix-rate system but failed to heed the rules of conduct associated with it. The increasing independence of Central Bank behavior separated the movements of monetary base and money stock in the various countries. The divergent conduct was reinforced by the variety of responses to the Great Depression. The rupture of the system observed from 1932 to 1936 was quite unavoidable under the circumstances.

The benefits of a unified currency area encompassing many nations continued to offer many attractions. The reconstruction of international monetary arrangements seemed a worthwhile endeavor in the view of articulate spokesmen. These efforts found expression in the agreement negotiated at Bretton Woods. A new system of fixed exchange rates was erected under the supervision of an international agency. This system was defined by many rules and procedures but failed completely on the relevant rules of conduct assuring the survival and effective functioning of a fixed rate system. There was no prevision or understanding guiding the control over monetary growth in response to the evolution of the balance of payments.

The Bretton Woods System evolved moreover according to a natural pattern into a "hegemonial" system with the US dollar as hegemonial currency. This development implied that the US essentially abdicated the right to set exchange rates to other nations and implicitly accepted the responsibility for determining the pace of monetary evolution in the international system. But this recognition of an international responsibility never penetrated the traditional procedures and responses of the Federal Reserve bureaucracy. It never even admitted any responsibility for the domestic monetary evolution.

The test of the Bretton Woods system was postponed beyond 1958 after the last vestiges of substantial controls over international payments were abolished. The system suffered from the beginning of the test period a series of exchange crises and finally failed the test within thirteen years. The participants in the hegemonial currency area experienced an increasing tension between the prevailing exchange rates, the desired domestic policies and the general course imposed by the hegemonial currency. The US monetary authorities seemed oblivious of the basic problem confronting their policy-making. They chose an attitude of "benign neglect" pertaining to the really relevant aspects or attended to bureaucratic trivia and

propagated the need for "cooperation and coordination" between the national bureaucracies. But the agenda of "cooperation and coordination" usually concentrated on credit facilities and carefully disregarded the essential monetary requirements for an international fixed rate system. The breakdown of the Bretton Woods system was hardly surprising to monetary analysts. But the post mortem diagnosis of the bureaucracies still fails to recognize the fundamental flaw of the postwar monetary system which eventually ruptured the whole structure. The two leading US 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. Such cooperation and coordination could have vanquished in their views the waves of speculation.¹ The Bureaux never recognized that "speculation" did not emerge as an autonomous force of evildoers but reflected the pressures cumulatively built into the system by the failure of the US government to accept the monetary responsibility of a hegemonial currency. The pressures were moreover reinforced by the divergencies among many countries of the system between their exchange rates and monetary policies. The world wide system of floating exchange rates was under the circumstances not the result of a deliberate or conscious effort applied by policymakers. Their rhetorical and even some real (but irrelevant) efforts have been invested over many years to buttress the Bretton Woods system. The Smithsonian agreement seemed to offer according to some observers including US policymakers a measure of hope for a return to an "orderly world". But the reversal of US monetary policy in the spring of the year 1972 revealed once more the basic unwillingness of US monetary policy to accept any responsibility as a hegemonial currency or its lack of comprehension concerning crucial properties of monetary processes.

The collapse of 1973 was the inevitable outcome of an essentially irresponsible policy pattern deeply entrenched in the Federal Reserve bureaucracy. The events evolving since 1976 reinforce the impression of the earlier experience. The Carter Administration reversed the trend in monetary and fiscal policies once again in a more inflationary direction. There emerged a large monetary ac-

¹ The reader may usefully consult the Symposium on "The International Monetary System", in the *Journal of Monetary Economics*, April 1978.

celeration initiated by the monetary authorities under the perceived pressures from the White House. The rate of inflation more than doubled from the second half of 1976 to the winter of 1978-79. The dollar fell rapidly and confronted other countries with a cruel dilemma between the benefits of a stable currency area and the social cost of new inflation on the one side and a stable price-level combined with the burdens of real adjustments imposed by rapid changes of exchange rates on the other side.

The debacle of the dollar awakened ultimately some sense of responsibility in the Carter Administration. "Cooperation and coordination" was revived by means of a massive network of international credit facilities and market interventions. More importantly, the Federal Reserve Authorities actually reversed their course and lowered over the period from October 1978 until the end of March 1979 the growth rate of the monetary base by 50% relative to the previous six months. The old game continued however. The Federal Reserve reversed once more its course in early April and more than doubled the growth rate of the monetary base over the subsequent six months.

The Congressional Committee on Currency and Banking recommended unanimously in early March that the Federal Reserve Authorities publicly commit themselves to a course gradually lowering the growth rate of the monetary base over five years to a non-inflationary level. This recommendation advanced by the Congressional Committee would be the single most important move assuring the gradual restoration of an international fixed rate system with a responsible administrator of the hegemonial currency. But deep uncertainties remain. There is little evidence from past behavior assuring any reliable prospects of responsible international (or domestic) monetary policymaking in the USA. This uncertainty motivated the apparent momentum for a European Monetary System. The development of this system was at least partly influenced by the failure of US policymaking and the obvious advantages offered by an extended currency area with predictable price-relations between distinct currencies. We have thus been offered the European Monetary System as a substitute for a worldwide system responsibly managed by US policymakers. It appears at this stage singularly important to assess the relevance and prospects of this new monetary arrangement produced with such determined and politically inspired motivation by European statesmen.

III. The Brave New World of the European Monetary System

Our assessment is necessarily preceded by a short characterization of the arrangements. Four institutions constitute the whole structure: the European currency unit (ECU), a regime of pegged parities supplemented by a network of interventions on exchange markets, the European monetary fund (EMF) and monetary or financial support mechanism designed to buttress the whole arrangements.

The ECU provides the central focus of the EMS. It appears as the numeraire for the exchange rate system, as a reference point for indicators of divergent trends on the exchange markets, as a means of settlement between participating Central Banks and as a numeraire (unit of account) for all intervention and credit transactions. The ECU consists of a basket with fixed composition of currencies from participating countries. This constitution implies that in the case of n countries the EMS can arbitrarily fix simultaneously $(n-r)$ exchange rates and $(r-1)$ components of the ECU, where r is necessarily less than n . It also implies that the value of the ECU expressed in the various national currencies changes in response to devaluations or revaluations of constituent currency.

As a reference point for the exchange rate system the ECU is used to define the central values of all exchange rates. Out of n currencies $(n-1)$ can be independently assigned an exchange rate with respect to the ECU and the n 'th currency's exchange rate follows unavoidably. The system of rates determined in ECU's implies thus a grid of central bilateral exchange rates between participating countries. Adjustments in the central ECU rates are possible but only after an agreement within the EMS and the European Commission. It is worth noticing however, that the EMS arrangements provide no criteria offering any guidance to judge the relevance or magnitude of adjustment.

The grid of pegged exchange rates is supplemented by a network of intervention points located symmetrically around the central rates. Whenever some particular currency appreciates relative to others and reaches the appropriate intervention point the Central Bank of the strong currency is obliged to sell its currency and the Central Bank of the weak currencies must buy its own currency and sell the strong currency. They either unload strong currency from their reserves or acquire the required funds via specially provided short term credit

facilities. This obligation to intervene would actually produce the necessary redistribution of the money stock between the strong and the weak currency.

The obligation to intervene on exchange markets whenever exchange rates threaten to deviate by more than 2,25% from the central rates is supplemented by an "early warning signal". This signal is designed to function as an indicator of divergent pressures operating on various exchange rates. A threshold margin was computed for this purpose which is narrower than the band defining the intervention points. It is noteworthy that in contrast to the intervention points the thresholds for each currency are not symmetrically located. A weak currency hitting the relevant threshold and signaling a warning of weakness is not necessarily matched, according to the computational procedures applied, by an opposite warning signal of "undue strength" to a strong currency. The triggering of warning signals imposes however no obligation of any kind on the Central Banks in the EMS.

The European Monetary Fund will be constituted within two years after the EMS initiated its operation. The fund involves a partial pooling of international reserves. Participating Central Banks transfer 20% of their gold and dollar reserves to the fund in exchange for a claim in ECU on the fund. These ECU claims will be used to settle obligations among the participating Central Banks. The fund appears to create an initial stock of 25 billion ECU. In a later phase the stock of ECU issued may rise to 50 billion in exchange for corresponding deposits in national currency made by the participating Central Banks.

The EMS provides finally a system of credit facilities. These facilities are developed in three layers. We note first the shortest run funding assuring the Central Banks of weak currencies the necessary funds in strong currency to finance the required intervention operation. The intervention system is supplemented by a system of short term credit facilities and arrangement to cover longer-term financial support.

IV. An Assessment of the EMS

The complex arrangements of the EMS require some careful examination. Such arrangements frequently obscure the relevant aspects. The non-transparency of the arrangements is hardly ac-

cidental. It is an essential by-product of the political process shaping their structure. The political thrust applied to the formation of the EMS justifies however an explicit evaluation. The frequent excuse that something is essentially politically motivated often carries the subtle suggestion that we need not bother under the circumstances about the relevant consequences. But politically motivated actions and arrangements produce consequences usually disregarded and such consequences may actually endanger the very purpose motivating the political thrust.

We begin our assessment with the ECU and note immediately that this item in the new arrangement is unnecessary and completely superfluous. It adds complexity without any relevant function. It is certainly not required to formulate a grid of central exchange rates with intervention points. The provision of an early warning indicator is a bureaucratic nicety offering jobs for computers and statisticians and could just as well be exercised without the ECU. It will hardly take hold as a means of payments in transactions between individuals or replace the dollar as an international currency. It will remain, like the Special Drawing Rights, an artificial instrument confined to transactions among Central Banks. And for that purpose it need not be invented. It does not raise the efficiency of the payment system. It requires on the contrary additional investments of resources to operate the structure. All transactions between Central Banks could probably be handled at a higher level of efficiency within the prevailing arrangements without the ECU. Lastly, the value of the ECU in terms of participating currencies can hardly be expected to be stable. Adjustments of bilateral exchange rates, modifications in the composition of the ECU-basket or entries and departures of countries into or from the EMS all affect the value of the ECU. The very complexity of the arrangement offers political opportunities to exploit the various mechanisms to extract economic advantages.

The European Monetary Fund is similarly redundant. It provides no function which a network of credit facilities directly arranged between the Central Banks could offer at least as well. It poses per se no danger of inflation. An examination of its political economy should make us somewhat cautious however. Once the EMF issues demand liabilities in ECU against deposits of national currency produced by participating Central Banks a new game is launched. The inflationary potential would loom even more should the EMF

develop into a bank offering loans in ECU against the borrowers promise to repay, irrespective of the nature of the collateral.

The massive network of financial support operating in several layers was designed to create confidence in the system's ability to cope effectively with the shifting pressures on the exchange markets. The credit facilities associated with the obligation imposed on monetary authorities to intervene in the exchange markets operate per se in a stabilizing direction. Their operation redistributes the system's money stock between the strong and the weak currencies in the desired manner. The money stock in weak currencies declines and increases in the strong currency area. This is precisely what the rules of conduct governing a viable fixed rate system require. But there remain serious questions about the operation of the system. Purchases and sales of international reserve against one's own currency, i.e. open market operations transacted on exchange markets, are not the only means among the participants of the EMS to modify the monetary base. Base money is created (and destroyed) to a large extent by advances or loans to banks and credits in various forms to government or the "sheltered political sector". The movement of the monetary base in each participating country would have to be linked rigidly to the volume of required intervention on exchange markets in order to prevent a series of exchange crises disrupting the system. Independent adjustment in the so-called domestic credit source component of the monetary base would be strictly prohibited. This prohibition eliminates all and every move on the part of the Central Bank to accommodate the Treasury's borrowing requirement. It also prohibits accommodation to pressures by any particular sector of society. But the massive system of credit facilities actually produces incentives which subtly erode the implicit prohibition on independent changes in the domestic source component of the monetary base. Operators of the political process and managers of political institutions learn that domestic accommodation also produces, at least for a time, external benefit within the planned system. The relative monetary expansion produced by internal accommodation triggers the international borrowing mechanism. This mechanism assures the expanding and inflating nation a transfer of real resources at the cost of the strong currency area. The EMS system thus introduces substantial temptations for nations experiencing persistent and comparatively large political pressures inducing excessive monetary expansion. Membership in the EMS for such nations offers

opportunities to extract real wealth from the strong currency nations. Irresponsible monetary policies thus produce political advantages. One wonders under the circumstances about the longer-range viability of the system.

Let us put our assessment together. We observe a complicated structure with constituent elements either irrelevant or crucially incomplete. The introduction of the ECU and the formation of the European Monetary Fund involve pretentious forms without any relevant substance. The credit facilities encourage on the other hand large variations in the degree of domestic accommodation between the participating Central Banks. But the survival probability of the EMS declines with the increasing variability of domestic accommodation between the system's Central Banks. This crucial condition affecting the operation of the EMS is hardly mentioned in the political documents. There is no evidence that it was discussed and there is certainly no appropriate provision in the blue-print of the construction. The EMS thus constitutes a remarkable repetition of the traditional bureaucratic approach to international monetary problems. This approach dominated the Bretton Woods system, and in particular all attempts to cope with the increasing tensions in the prevailing arrangement during the 1960's. It also conditioned the Smithsonian plan to rescue the system. The bureaucratic approach, so clearly expressed by Coombs and Solomon in their reflections on the Bretton Woods system, typically attributes tensions in exchange markets to "speculative conspiracies". "Cooperation and coordination" between bureaux of Treasuries and Central Banks accomplished via frequent conferences, an increasing flow of mutual visits and a varied density of telephone calls, are in this view sufficient to master the problem. "Cooperation and coordination" ultimately results in credit arrangements between Central Banks sufficiently large to ruin the "conspiratorial bears" threatening the stability of the exchange rates. "Cooperation and coordination" also involves occasionally some bureaucratic meddling in exchange markets in the form of special taxes or controls imposed on specific classes of international transactions. This bureaucratic approach never includes among the "cooperation and coordination" the one and only feature assuring the viability of a fix-rate system. The need for a rule of conduct linking the behavior of the monetary base with Central Bank intervention in exchange markets is systematically disregarded. The bureaucratic approach may be likened to a ritualistic song and dance

analogous to fertility rites of a primitive tribe. There remains however one major difference. The primitive medicine-men in charge of the ritual still recognized that the song and dance was not a sufficient condition of success. Success still required planting of the seed. Our latter day medicine-men apparently view the ritualistic song and dance around the totem pole of bureaucratic positions as a sufficient condition.

V. The Central Issues

But what is really the issue so unfortunately obscured by the traditional bureaucratic approach? The general goal is certainly most welcome. The effort expressed by the EMS appeals to our substantial interests in achieving a stable price-level and predictable exchange rates. These two goals are not values per se, they form important characteristics of an economic organization promising a more efficient use of our resources and thus a higher level of welfare than the alternative experienced in the past ten years.

Price-level and exchange rate are determined by the interaction of underlying nominal and real conditions governing an economic process. The nominal conditions are defined by the behavior of monetary growth and the real conditions are circumscribed by prevailing technologies, tastes, organizational constraints imposed by the government and fiscal policy. Elementary economic analysis establishes that it is generally improbable (not impossible) for any particular economic area to experience simultaneously stability of the internal price-level and of its exchange rates. The nature of the problem is clearly visible within a large economic area exemplified by the United States. Even with a stable price-level the implicit system of fixed exchange rates between the regions imposes relative changes in *regional* price level in response to shifting real conditions. The same applies to the relation between nations. In other words, the interaction between nominal and real conditions produces in general relative changes in price-level and exchange rate. Different relative changes in the productivity of labor producing traded and non-traded goods in different countries yield in the context of a stable price-level changes in exchange rates.

The simultaneous and symmetric role of nominal and real conditions is generally understood and well recognized. But we need also to emphasize the asymmetric operation (in the average) of the two sets of conditions. The variability of real conditions is in general

substantially smaller than the variability of the nominal conditions. Still, the operation of changing real condition becomes visible in the modifications of the real exchange rate observed over time. Any political decision to form a viable fix-rate currency area thus needs explicit provisions which determine one or the other of the two arrangements: either (a) monetary policy assures a stable price level and specifies over the years intermittent adjustments of the exchange rate in order to reflect the cumulative effect of real conditions, or (b) monetary policy fixes the nominal exchange rate and produces over time the difference in the domestic inflation rate relative to foreign price movements which offsets the gradual shift in the real exchange rate.

Whatever the choice may be, the implementation of a viable international monetary system still requires some attention. Two alternative procedures may be distinguished. One involves a more or less implicit recognition of a hegemonial currency by a group of nations. This recognition need not result from official negotiations and hardly emerges from "bureaucratic coordinations". The arrangement usually evolves from a joint interest of participating countries and would be encouraged by a pattern of reliably predictable policy regimes in the hegemonial currency nation. The hegemonial pattern assigns substantially asymmetric responsibilities among the participants. The hegemonial authority has no power over exchange rates but determines in contrast the average change in price-level and the long-run monetary growth. The other participants in the hegemonial arrangements abdicate on their part any independent determination of price-level and monetary growth. They must accept the monetary consequences of the hegemonial monetary authority. They still have a choice however between intermittent modifications of the exchange rate or appropriate divergencies in their respective monetary growth relative to the hegemonial area in order to adjust for the cumulative effect of shifting real exchange rates.

The alternative would be expressed by an "orchestrated construction" resulting from simultaneous negotiations among all potential participants. These negotiations could proceed in two distinct forms:

- i.) the negotiations determine a grid of exchange rates and specify moreover rules for control over relative monetary growth rates required to maintain the established fix-rate system;

- or ii.) negotiations circumscribe an average movement of the price-level and specify rules for the appropriate adjustment of monetary growth and intermittent shifts of exchange rates in order to absorb gradual movements of the real exchange rate.

Both realizations of an orchestrated approach encounter however serious difficulties. The nature of the difficulties depends on the procedure selected. The first procedure, centered on the determination of a fix-rate system, offers no determinate course for monetary policy and the price-level. It simply obliges any participating nation to accept a monetary path geared to the average of the remaining participants. But this average remains essentially indeterminate. Any level of the average rate of inflation over the currency area is consistent with the "orchestrated construction". The monetary arrangements are not sufficiently anchored in this respect. Explicit negotiations and a bureaucratic approach to provide an anchor in the form of stipulated average price movements or monetary evolutions seem hardly workable. A workable solution involves in this case an implicit acceptance of a hegemonial system with appropriate adjustments to the policy of the hegemonial authority. Any attempt at negotiated assignments of monetary growth or price-level movements would unavoidably necessitate eventual changes in exchange rates in the absence of the required detailed knowledge about the structure of international processes. An approach via setting exchange rates maintained over time thus requires a hegemonial arrangement. A non-hegemonial procedure most likely produces under the circumstances a pattern of increasing tension and failures.

An implementation of the "orchestrated construction" based on agreements pertaining to price movements tends to founder on the requirement for intermittent adjustments of exchange rates in accordance with shifting real exchange rates. This is essentially the same problem encountered within the Bretton Woods system. All modifications of exchange rates pose a joint political issue. This issue remains difficult to adjudicate with the information actually available. Exchange rate policies are a source of perennial friction and political manipulation under the circumstances. The asymmetric assignment of responsibilities determined by a hegemonial system offers some clear advantages in this respect.

VI. The Prospects

But what are the prospects for all such arrangements? Whatever the procedure of implementation ultimately developed may be, the participating countries must accept severe constraints on the admissible course of their respective monetary policy. The behavior of Central Banks and Treasuries under the Bretton Woods system and most particularly over the past eight years offers little hope for the realization of the essential condition of a functioning system of stable exchange rates. The crucial condition for a functioning fix-rate system seems always obscured by a maze of bureaucratic and procedural trivia or meddlesome constraints. The disregard of the relevant conditions eroded and finally destroyed the Bretton Woods system. And we also observe beyond 1971 an increase in the diversity of monetary policies between the various nations. Some detailed computations covering the patterns observed for the 1970's establish that the survival of a fixed rate system would require some radical changes in monetary policy, most particularly for Italy, the United Kingdom and France.²

Should we really believe that all participants in the current endeavor of an EMS are seriously ready to abandon their old patterns of policies and procedures? I find this quite unlikely. The likelihood of a successful arrangement is moreover lowered by some problems associated with the alternative implementation procedures. In the case of a "non-hegemonial organization" noted in previous paragraphs the never settled issue of the Bretton Woods system of how to determine by mutual consent a "fundamental disequilibrium" justifying adjustments in exchange rates would again arise with all its disruptive consequences. The alternative case suffers on the other hand under the political difficulties experienced by France and other countries to recognize the D-Mark as the relevant hegemonial currency. The EMS appears in this context as an escape into another round of "politically motivated" bureaucratic rigmarole in order to avoid the simple and workable, but "politically unpalatable" solution. The "hegemonial approach" offers technically substantial

² The reader may consult on this point the position paper prepared by Professor Pieter Korteweg for the meeting of the Shadow European Economic Policy Committee, May 1978. The statements of this Committee may be obtained from the Center for Research in Government Policy and Business at the University of Rochester upon request.

advantages. It establishes a clearly recognized division of responsibilities. The hegemonial partner sets the overall course of policy and determines the average rate of inflation. The junior partners set exchange rates and are responsible for any balance of payments and exchange rate problems.

The current structure of the EMS seems to advocate the ECU in order to avoid the touchy hegemonial issue and arranges the responsibility for settling exchange rates into a general procedure. But nobody is made responsible for maintaining monetary policies consistent with the system of fixed exchange rates. The product of the bureaucratic structure offers moreover little incentives to abandon the old patterns which prevented any viable system of fixed exchange rates. The most likely outcome of the EMS will be a new series of speculative waves and an erratic monetary growth in the stronger currency areas with intermittent pressures on the stronger currency areas to accommodate the comparatively weaker area. The system will remain essentially unstable, with nations leaving or returning with a sequence of more or less weighty exchange crises. This need not be so. It will happen however if the bureaucratic approach encouraged by the political process continues to disregard the one and only condition assuring a viable fix-rate system. A miracle may still occur and the various governments could recognize that the day for independent price behavior and monetary policy is past. But no amount of bureaucratic "cooperation and coordination" will substitute for this recognition or the corresponding political decision.

Rochester

KARL BRUNNER