

II. THE PROBLEM OF FINANCIAL LEADERSHIP

When something goes seriously wrong in the field of private endeavor, the responsible people are usually fired. This is not so in government because ultimate responsibility rests with politicians, and their interests are usually tied up with protecting the reputation of the officials they choose. This is true of most departments in government; but nowhere is it more true than in the Treasury offices and Central Banks, with the possible exception of the foreign offices. In matters of money and foreign affairs, the competence of officials has to be shielded. To protect these sensitive areas from the prying eyes of public criticism, a mystique, based on secrecy and intrigue, is usually formed out of tacitly recognized self-interest or bureaucratic regulation. The major instrument of the mystique is the two-tier information system founded on esprit de corps and synthetically developed gaps between inside- and outside-knowledge. The British developed this system masterfully in the days of the Empire, and it was only the complete bungling of foreign affairs in Europe since 1914 that exposed international politics to public scrutiny and disdain, and weakened the lese majeste aura shielding foreign offices from honest reporting of the mistakes perpetrated inside them.

International economic policy over the past fifty years has been hardly more rational than international diplomacy, but it has been much slower in receiving the criticism it deserves. This is partly because of the technical character of international financial arrangements, the complexity and confidentiality of the subject matter, and the slower or more distant connection between action and public recognition of the consequences of that action. It is also due to the greater ease with which the citadel can be protected against outside criticism: an occupational hazard of critics on the outside is the time-intensive process of acquiring the relevant information, the need for access to quasi-privileged sources, and the tendency toward intellectual corruption that results once outsiders are flattered by being drawn into the select circles of the citadel and made a party to the decisions reached. As often as not, those who know can't talk, while those who do fulfill their responsibility to their profession can be penalized all too easily by deprivation of further information. This, in my opinion, accounts for the low level of public understanding of the great issues involved in the subject of international financial reform.

The best illustration of this syndrome is probably provided by the memories and biographies of central bankers that have been published in recent years. For twenty years, Montagu Norman could play a game with Benjamin Strong and Continental bankers, hiding behind the authority of his Vandyke and the cultivated mystique with which he terrorized the public, a pathological eccentricity he inveigled the public into confusing with genius. Time, habit, and native intelligence cemented his mastery over the intricacies of high finance and established his intellectual supremacy over financial details and personalities, while developing policies that were dead wrong on fundamentals. It is only in retrospect that we can see how important his own personality was in whittling away the enormous reputation which the Bank of England had when he inherited the Governorship.

It is really questionable whether the quality of thinking in the international financial sphere has improved much since Norman's heyday. There is no question, of course, that recent economic performance has been better. The past twenty years has been a period of stability, judged in comparison with the miserable performance of the preceding two decades. Nevertheless, the tools at the command of present experts are so great that standards have to be elevated to a far higher tolerance threshold of incompetence. The mounting disorder of the 1960's has been higher recently than at any time since convertibility (as the Tension Index shows), and it raises the issue: How much entropy can the system tolerate? And, more important, how much stress, tension, and disorder can the monetary authorities stand without becoming convinced that basic adjustments in the world currency system are needed?

Ten years ago, officials were warned of the twin horns of the Triffin dilemma. When the lesson had finally sunk in, they decided, at the Vienna meetings of the IMF in 1961, to supplement the Fund's resources with resources drawn from the countries signing the General Agreement to Borrow (GAB). This fund of convertible currencies (\$6 billion) was necessary to offset the inconvertible currencies the IMF had accumulated from many of the less developed countries, and to enable the U.S. to draw useful currencies at a time when it had become clear that the U.S. was shifting from the status of creditor to debtor country in the IMF. Perhaps more important, in the long run, the GAB resulted