in a new forum, the Group of Ten, in which the major financial countries could talk about matters of particular concern to themselves. Analytically, the GAB could be looked upon as a means of solving, at least temporarily, the Confidence Problem, at a time when the officials placed their hopes in the ability of the system to make basic adjustments in the U.S. balance of payments.

By 1963, however, a split had developed on the issue of the liquidity problem versus the adjustment problem, two problems with which the GAB were not designed to cope. Because adjustment at this time meant correction of the U.S. balance of payments, the Americans began to stress the importance of the liquidity problem, while the Continental countries stressed the adjustment problem. The U.S. was saying, "Prevent a liquidity shortage," and the Europeans, "Correct the U.S. deficit." This was *real politique* at its best, since more liquidity meant more inflation and more adjustment in Europe, while more adjustment would imply tougher balance of payments measures in the U.S. and less world inflation. Each continent wanted to thrust more of the burden on the other.

After four years of arguing about it, the authorities settled on the SDR plan last September. This could not prevent the breakdown that took place last year when the facade of harmonious co-operation was stripped off the Spirit of Rio. What is even more remarkable, the SDR plan was not even designed to preserve the system. It was designed to look after long-run needs. No events in recent monetary history have been more dreaded—or more expected—than the devaluation of sterling and the breakdown of the gold arrangements prevailing since 1954.

The authorities had ample warning and enough research help to combat a hundred crises. What broke down was the will to preserve the system.

There had been many good suggestions made at the Hearings of the Joint Economic Committee over the past decade by dozens of economists. Perhaps I might summarize here my own offerings. At the November 15, 1953 Hearing of the Joint Economic Committee, I suggested widening the gold margins to, say, ±7.5 per cent on either side of parity (e.g., selling gold at $37.50, and buying it at $32.50), and argued in a letter to Senator Douglas a week later that the IMF might be able to permit this change within the framework of the existing Articles of Agreement. The purpose was to allow gold speculators to make losses as well as gains, to make gold different from dollars, and to allow more exchange rate adjustment in the system. I repeated this proposal in my July 28, 1965, testimony, and further suggested an expansion of the gold pool and a new policy by which countries using the dollar as the intervention currency should centralize their gold holdings in the U.S. or in the pool. In my September 9, 1966, testimony, I suggested further that, as an interim solution, the U.S. monetary policy should take account of world needs for liquidity, while Europeans would ensure that the U.S. is left with enough gold to accomplish this undertaking without breaking down the system that then existed. In retrospect, any or all of these proposals would have been sufficient to preserve the present system.

The international monetary officials are not to be blamed just for watching the system collapse, for indecision in the face of crisis, and for reacting to events rather than anticipating and guiding them. They are also to be faulted for building into the system the need for a fundamental deceit. This is objectionable, but not just on grounds of piety; the world has conditioned itself to the contrast between private virtues and public vices. It is objectionable also because it is self-destructive and self-defeating.

The deceit is, of course, the adoption of the ethnic that devaluation should be preceded by a lie stating that devaluation will not occur. Its purpose is to ease the forward and spot positions against a currency, and shift exchange losses away from domestic monetary authorities onto the private market or foreign governments.

The problem is not just that monetary officials are placed in a position where they have to involve themselves in a two-tier sinship cultivated as an instrument for the management of uncertainty in the exchange markets. It is almost a kind of status symbol to be important enough to have to lie about events like devaluation and invasions. This kind of prevarication was even built up by Per Jacobbsen into a kind of personal heroism.

The problem is that a credibility gap quickly makes itself felt. Like anything that becomes systematized, it suffers diminishing returns; the length of the lag between denial of devaluation and actual devaluation might even become stable enough to use for forecasting purposes! Of course the authorities can proceed