

Official reaction to the agreement was enthusiastic. They were heralded at the time as a "milestone in international monetary cooperation," "the most important step since Bretton Woods," and other wildly enthusiastic examples of over-salesmanship. This was to be expected since the agreement was the outcome of official policy. The general reaction of economists was much less exuberant, and a few economists, including myself, and perhaps Sir Roy Harrod, regarded them as positively harmful. One argument was that they would distract attention from the more fundamental problems facing the world system and that, while their long-run potential was substantial, the major hurdle was to get beyond the immediate short-run. Solution of the short-run problem would involve substantial changes in the structure of the system and the long-run creation of a new international money should be integrated into or evolve out of this short-run reconstruction of the system.

The official answer to this was that the public should not expect the SDR's to perform a function they were not intended to perform; and that the planting of a seed today would generate greater confidence in the stability of the system; the SDR's could, indeed, be used as a substitute for gold and thus reduce the speculative demand for it.

The IMF Rio meetings (September, 1967) reflected the optimism of the U.S. Treasury and the euphoria generated by belief in the gigantic new step that the birth of the infant SDR's was expected to involve. It was, indeed, a remarkable event with the leaders of the financial world assembled and engaging in mutual criticism and self-criticism of one another's economic policies. It was a development no one could have conceived of 30 years ago, and even 10 years ago the attitude would have been far different.

Nevertheless, despite the excitement of a great new experiment, there was a cloud overhanging the meeting. The plight of sterling was a great unspoken issue. It was common knowledge that the Bank of England had accumulated massive short term debts and assumed substantial commitments in the forward market, although not many could form an accurate assessment of their size. The questions facing British authorities (and the other central banks) were (a) *can* Britain hold the sterling rate (b) *should* Britain hold the sterling rate (c) *will* Britain hold the sterling rate and (d) what, if any, international steps can or should other members of the Group of Ten or the Fund take to assist Britain, either by consolidating her debts through a long term loan, or by placing them in an international account.

These questions were all resolved in the third week in November. By Tuesday night the British had apparently decided upon devaluation and dutifully notified a restricted group of the international community. Internal activity immediately began on the exchange markets, leading to rumors of a leak, and by Friday Britain had lost vast sums (perhaps over \$1 billion) forcing the market to close before normal closing hours. The rate change was announced over the weekend, a devaluation of 14.3 per cent (from \$2.80 to \$2.40). In the wake of sterling devaluation most of the sterling area countries followed, although this was much smaller than it was in 1949.

Australia, significantly enough, did not devalue. She was looked upon as a key country from the standpoint of preventing a proliferation of devaluation. A phone call from the U.S. President to the Australian Prime Minister made clear her importance; in particular the U.S. was afraid that the Australians might be the straw that broke the camel's back. For example, it might prompt devaluation of the Japanese yen, which in turn would influence rate decisions by Canada, France and other countries. But if Australia was the marginal country, as appeared to be the case, she is paying a price for it in the form of current weakness in her international accounts.

Just another devaluation? Hardly. It coincided with the British decision to dismantle military positions east of Suez, so historians, with their fondness for dates, might well pick November 18 as the most convenient date to set for the fall of the British Empire, as they picked the Treaty of Adrianople (378) for the fall of the Roman Empire.

Seriously though, the British devaluation showed that coordinated action by a major currency, in a world in which at least one of the powers (France) is trying to rock the boat, is impossible. Britain had scrupulously abided by the rules of international commitments in her handling of the devaluation, but I very much doubt that the British would act so virtuously in a subsequent devaluation. Nor would France, Germany or the United States. Virtue is too expensive! The next rate change may well be a unilateral move.