
Book Review

A Triffinite in Rueff's clothing

by Alice Roth

Quest for World Monetary Order: The Gold-Dollar System and Its Aftermath by Milton Gilbert

A Twentieth Century Fund Study
John Wiley & Sons/Wiley Interscience: New York, 1980.
255 pages, \$19.95.

Quest for World Order purports to be an insider's view of the breakdown of the Bretton Woods monetary system and a theoretical analysis of how a gold revaluation might have saved it. Milton Gilbert, an American, served as senior economic adviser at the Basel-based Bank for International Settlements (BIS) between 1960 and 1975, after having been director of statistics and director of economics for the OECD in Paris from 1950 to 1960.

According to Gilbert, he repeatedly warned top American policy makers during the 1960s that they would have to accept a sharp revaluation of the official gold price in order to salvage the dollar's pre-eminent position in the world monetary system. Gilbert took his arguments to Robert Roosa, undersecretary of the treasury for monetary affairs under Kennedy; William McChesney Martin, Jr., Federal Reserve chairman under several presidents; and Henry Fowler, treasury secretary under Johnson. In each case, he ran into a stone wall which he attributes vaguely to "political difficulties." "You know, they [American officialdom] came to treat me not only as wrong, but as a kind of a half-traitor, lined up with Rueff and de Gaulle," Gilbert declared at a farewell dinner in his honor at the BIS in 1975.

Thus, Gilbert and his editors portray him (and by implication the BIS) as a kind of thorn in the side of the American liberal financial establishment—a "modern-day Cassandra," in the words of the book jacket. Yet Gilbert's book shows a deep-rooted intellectual inconsistency. His solution to the 1960s dollar crisis is at least formally identical with that of Jacques Rueff, economic adviser to French President Charles de Gaulle, but he rejects a Rueffian solution for the dollar in the 1970s and 1980s. His argument: since the fatal decoupling of gold

and the dollar on Aug. 15, 1971 and the subsequent outbreak of global inflation, it is no longer possible to put Humpty Dumpty back together again.

Gilbert also denies the possibility that gold's role can be revived through the European Monetary System (EMS), founded in July 1978. Yet Rueff himself stated in an interview shortly before his death that he thought the EMS was well on the way to realizing his original vision of a gold-based world monetary system.

Gilbert contends that the dollar can only be kept alive in the 1980s through a policy of high interest rates, wage restraint, and stringent foreign-exchange controls, including controls on capital outflows, and import restraints. Rueff would have pilloried such controls as a revival of the policies of Hjalmar Schacht, who headed the German central bank during the 1920s and 1930s, and was condemned in Rueff's own writings as having paved the way for Nazism.

Gilbert's prescriptions for the 1980s are interesting in light of recent proposals by British and European financial circles to substantially increase the powers of the BIS as part of a larger "fallback" scenario circulated by Belgian economist Robert Triffin and others associated with the Siena Group as early as 1977. The scenario calls for a major financial shakeout, in which much of the \$350 billion debt owed by the less-developed countries is called into question, and the credibility of both the U.S. dollar and the IMF is utterly shattered. Under these circumstances, the U.S. government would supposedly have no choice but to erect a system of exchange controls and sever the links between American banks and their offshore Eurodollar branches.

The world would tend to evolve toward a new system of rival, autarchic currency and trading blocs, with the BIS the only remaining source of international cohesion. Established in 1928 to supervise German reparations payments, the BIS has had plenty of experience along these lines, having presided over the currency chaos of the 1930s.

Gilbert's book, a Twentieth Century Fund study, was published in 1980 to help shape the election-year debate on international economic policy. (Although Gilbert died in September 1979 with the manuscript unfinished, the published version was quickly whipped into shape by Peter Oppenheimer, an Oxford University economist, and Michael Dealtry, a BIS staff member.) The book is dedicated to Twentieth Century Fund director Murray J. Rossant, who has been lobbying on behalf of the U.S. Federal Reserve's plan for International Banking Facilities, on the grounds that they would encourage the repatriation of Eurodollars to the United States and their redeployment into urban real-estate investment and related areas. The IBF plan fits in with Gilbert's proposal for exchange controls, since it would permit the big money-center banks to walk away from their foreign

branches in the event of a Euromarket blowout while retaining political control over remaining dollar flows from their base in "Fortress America."

Of course, Gilbert was never a Rueff adherent in any real sense. The book references de Gaulle's famous February 1965 speech, in which he called for a return to the gold standard and announced that France was prepared to join international negotiations to reform the system and establish the necessary international credit facilities for the transition period. This implied a major increase in the gold price which would have bolstered the dollar by upgrading the value of America's still-massive gold reserves and putting a temporary halt to the loss of these reserves due to speculation on a price hike. Gold revaluation would have given the U.S. some breathing room in which to gear up its lagging industrial base and put its balance of payments in order by increasing exports. As Gilbert admits, "France advocated a policy that gave the U.S. an escape route."

But Gilbert attacks de Gaulle and Rueff for going public with the gold issue and making it "political," claiming that this made it impossible for U.S. officials to respond positively. This is sheer nonsense, as Gilbert must have known. De Gaulle had no choice but to address the matter politically. The source of America's monetary problems, as well as its foreign-policy predicament, was its "special relationship" with Britain, manifested in U.S. toleration of an overvalued pound sterling and the maintenance of a secondary reserve-currency status for the bankrupt British currency.

Virtually every run on the dollar in the 1960s began with speculation against the pound sterling, and it was British opposition that deterred the United States from reaching for the obvious solutions.

The most telling point against Gilbert, however, is his adamant denial that anything can be done *now* to restore gold backing to the dollar:

Gold has no well-defined monetary role at present. For it to regain such a role, monetary authorities would have, as a minimum, to buy and sell gold to one another. It would be a major innovation for the authorities to attempt this without first repegging their currencies to gold, or at least without reasonable assurance that the world price of gold would remain stable over a prolonged period. No such assurance is conceivable with an economic climate of continuing rapid inflation in many countries, and with a gold market dominated by speculation and price volatility. The United States, of course, has had no intention anyhow of reverting to a fixed gold parity for the dollar; but even had it wished to do so, the idea of such a "return to gold" could, in the circumstances of recent years, be no more than a fantasy. . . .

This, of course, is untrue: the idea was welcomed by Ronald Reagan in statements on the campaign trail, and incorporated in diluted form into the Republican Party platform. The American President could, with the close cooperation of the European Monetary System, break the speculative cycle against the dollar much more quickly than most people realize. Some sophisticated poker-playing would be required, about which we need not go into detail here. But the general nature of the solution is evident.

The issuance of low-interest, gold-backed bonds by the U.S. Treasury, Eximbank, or similar government body would allow the United States to refinance the volatile Eurodollar overhang and place it on a sound basis, by channeling funds into high-technology exports to the developing sector. Once the U.S. balance-of-payments position was bolstered through such an export policy, it would be a relatively easy matter to defend a fixed dollar-gold parity.

Not only does Gilbert refuse to recognize the existing solutions to the dollar crisis, he never fully identifies the origins of the mess. He shares the "dollar shortage" thesis advanced by Triffin in 1960 in his book *Gold and the Dollar Crisis: The Future of Convertibility*.

According to Triffin, the dual dollar-gold reserve system forced the United States to run a balance of payments deficit in order to meet other countries' demands for increased reserves to finance expanding world trade. A shortage of monetary gold prevented gold from playing this role.

While Triffin proposed that the dollar be replaced by a supranational currency under the control of the International Monetary Fund, Gilbert claimed that the shortage could be resolved by simply marking up the value of existing gold reserves against all currencies. This solution was no longer possible after 1971, he argues, because America's "easy-money" policies created a glut of dollars on world markets far beyond the world's requirements for new liquidity.

But the problem has never been simply "too much" or "too little" liquidity. Europe had a genuine need for credit after the war, but it should not have been met simply by printing up more dollars. The export of dollars should have been matched by a steady expansion in the export of tangible wealth, especially high-technology capital goods.

Instead, American policy discouraged investments in basic industry, exports stagnated, and a false philosophy of a services-based "post-industrial society" was allowed to take hold. The dollar's weakness rests ultimately on this failure to improve productivity in the tangible goods producing sectors. Gilbert's cure—exchange controls—would ensure an even faster demise of the dollar by isolating U.S. industry from world markets.