

De Chambrun seeks gold-reserve system

The following slightly abridged contribution to the debate over international gold remonetization was drafted by the Comte de Chambrun, who was State Secretary for Foreign Trade under President de Gaulle in 1966-67, Vice-President of the National Assembly's Foreign Affairs Commission in 1968-71, and is now active in business and financial circles. During this year's French presidential race, he made a tour of the United States along with Gaullist leader Michel Debré. Emphasis is in the original.

This is a first draft paper for the purpose of explaining, on one hand, the principle of the gold standard theory, and on the other hand, the political advantage that the Arab producing states could obtain if they decided to make a world proposal based on that theory. One could summarize the situation of the oil producing states of the Arab peninsula in the following manner:

They are accused of being hoarders, of putting in peril the world economy, of risking to precipitate the world into general conflict, and as for themselves, they are faced with the knowledge that unless they find some global re-investment solution, they face the risk of holding in their hands, over the next few years, a great deal of accumulated assets having only paper value.

Nevertheless, I am struck by the fact that today they are probably the only political force in the world able to straighten out the disorders that world economy has faced since 1950, disorders for which they are not responsible.

First, I would like to describe very briefly what the gold standard theory is as expressed by Mr. Jacques Rueff, world authority on the subject since 1922, Chancellor of the Institute of France, and whose predictions, even though condemned by most American economists, have unfortunately proven themselves to be true over the last decade.

What does the gold standard mean? It simply means that all major currencies are instantly convertible into gold at a set reference value. To the bearer of a bank note, his note is worth x quantity of gold.

What does it imply? Central banks must keep a reserve of gold sufficient within reason to meet any demand from creditors. This also means that monies

convertible into gold have a fixed exchange ratio between themselves referring to their counterpart value in gold.

What broke the gold standard? The financial necessities of World War I obliged the participating states involved in the conflict to run into deficit in order to finance the military needs. The United States, who was the main industrial supplier of the Allies because of the power of its industry, had themselves extended large credits mainly to France and England, breaking away themselves in the form of credit from the gold standard. Due to these particular factors of excess dollars being supplied to the allied nations and coming back to the United States in the form of industrial orders, inflation had struck the United States, prices had gone up 50 percent, and even though at the time everybody that it would be possible for the Occidental nations to bring things back to normal, in 1922, a major phenomenon intervened and the fact was that all the prices had gone up except the price of gold. This meant that there wasn't enough gold available in all the central banks to allow the Occidental nations to re-establish the metallic convertibility.

The temptation to draw the world out of this embarrassment appeared in the form of a document called "Document No. 9" at the International Monetary Conference recommending to member states to save the use of gold by the use of drawing rights upon one another. This meant that in fact the member states could not only create money as before against gold or credits labled in their own money, but also, and this is an important factor, against any type of credits in foreign monies provided that these foreign monies were themselves convertible into gold. For reasons which have no importance in this demonstration and with the exception of the English point up until 1931, only one money could offer itself the luxury and that was the dollar. At that time, nobody among the experts that had invented this medicine foresaw that they had introduced a shock in a school of butterflyfish. The shock was the dollar in regard to all the Occidental monies.

The principal consequence of this system was that whenever the United States had to buy outside merchandise or wanted to make loans or make any type of substantial expenditure—military, for instance—they did not have to put forth any gold. They could pay in dollars, but these dollars in Paris, London or Berlin were of no particular use, so the same day they were sent back on the American money market. This boomerang system gave to the United States this unique privilege denounced for so long by General de Gaulle and *financed their foreign deficit in their own money.*

One could argue that this was not the cause of having a deficit in their balance of payments . . . in theory, but in fact, it is only human, and when one has the right or the facility to run up a deficit, he uses it and this is what

happened to the United States. Their balance of payments was in profound and permanent deficit, and the creditor states which had bought enormous quantities of dollars started to print national money against these dollars which had been sent back to American banks under the label of dollar balances.

So, in comparison to the gold standard, the gold exchange standard created a diabolical situation where the United States had no immediate disagreeable consequences of this position as debtors because the very day they supplied dollars to someone, they recuperated them under a different label. This allowed them the next day to buy again something else with money that they owed. This has been called the privilege of deficit without tears. For American businessmen, it was indeed a golden age.

For the creditor, there are three inconveniences. First of all, world economy being tied together in one form or another, the permanent increase of the American deficit one day has to turn against the creditor. At the limit, the debtor becomes incapable of paying his debts. Secondly, the countries that held these dollar balances created as a counterpart in their own country, national money which generated inflation. Finally, even though in theory it was the gold-exchange standard, there were accumulated paper holdings on a country whose reserves in gold and foreign exchange didn't increase in proportion. There is no need to be a great prophet to predict that this should inevitably lead to a dramatic end. This is what happened in October 1929. Unfortunately, human memory is short and since 1959, everybody started acting as if everything was forgotten.

Time and time again since 1960, American Secretaries of the Treasury have openly said that the American deficit and its balance of payments would be stopped and time and time again, the gold standard experts, Mr. Rueff particularly, have specified that with this system, it would not do so, and that on the contrary the deficit would increase, which it has constantly done.

During this period, *theoretically*, all the creditor countries could ask to be reimbursed for their dollar balance with gold. Then the United States started to apply pressure so that the creditor countries would not do so. Furthermore, they offered interest, sometimes at a very high rate, to induce the creditor countries not to require the exchange in gold. They are doing something similar toward the oil producing countries at the moment. But, finally on Aug. 15, 1971, the President of the United States had to announce to the world the end of the dollar convertibility into gold. This marks the date of the beginning of the monetary crisis.

The second important date was the 13th of March, 1973, when the European States and Japan stopped the machine in the sense that they decided that day against the terms of the Treaty of Bretton Woods and that they would not intervene to sustain the dollar by massive

buyings on the international market. These two dates are very important. They will prove to be important dates in the history of humanity since in the meantime, a new factor had appeared which seemed insignificant in the beginning and was originally provoked by the Soviet Union in 1952. At the time, we were in a Cold War and the U.S.S.R. feared that its dollar holdings would be blocked or seized, and they gave instructions to the two banks that represented them in the Occident to sell these dollars on the European market. The Eurodollar was born—a money without attachment of any kind discovered a hole in the wall, and became a suppletive money and has today more than the total monetary circulation in the European countries. Under the principle announced by the English economist Hartley Whithers, that “loans make deposits,” all the private banks have become, through the Eurodollar, monetary institutes. If one looks at it this way, there is no final discounter of the money. This is a tremendous danger to the world economy.

What is the remedy to that situation?

1) One remedy would be to say that national banks do not open credits in any other money other than the money of their own country.

2) To revalue the gold reserves to a price more compatible to provoke the gradual reabsorption of these liquidities which are flowing from one financial place to the other.

3) The third would be to create a Marshall Plan in reverse, which would be in the form of non-American states disposing of dollar balances in the form of a long-term loan at low interest. The loan amount should be at least equal to the added value resulting from the setting of the price of gold, in order to allow the Americans to re-establish the convertibility of the dollar into gold. Then, providing that rule number 1 be kept and convertibility maintained against any outstanding credit balance, the economic system would return to normal.

It seems evident to me that the Arab nations are today in a position to take the lead in such a move. Needless to say it is the preoccupation of their leaders to maintain the purchase value of their surplus monetary balance. If the world goes into the economic chaos threatening today, the credit balance of the Arab states will become worthless. Furthermore, they will be accused, wrongly, of course, of having created world depression.

From a political point of view, I think that it is indispensable that they soon make a major proposal, which would be in their own interest, obviously. If brought to success, it could present them as the savior of the Occidental economy. Psychologically the moment is right. Everybody is talking of the recirculation of Arab dollars, but nobody is giving a satisfactory solution. I think that it is along the lines expressed in this note that we have the elements that could upturn the situation.