

ESSAYS IN INTERNATIONAL FINANCE

No. 47, June 1965

THE ROLE AND THE RULE OF GOLD:
AN ARGUMENT

JACQUES RUEFF AND FRED HIRSCH



INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS

PRINCETON UNIVERSITY

Princeton, New Jersey

This is the forty-seventh in the series ESSAYS IN INTERNATIONAL FINANCE published from time to time by the International Finance Section of the Department of Economics in Princeton University.

Strictly speaking, this number is not an essay. Rather, it takes the form of a dialogue, reproducing a discussion held by Jacques Rueff and Fred Hirsch in Paris on Sunday, February 7, 1965. This was arranged for publication in THE ECONOMIST, where substantial excerpts from the discussion were published in the issue of February 13, 1965. In view of the importance of the subject and the views expressed, it was thought that publication of the argument in its entirety would be welcomed by our readers.

Jacques Rueff, former Inspecteur Général des Finances and Vice-Governor of the Bank of France, is now member of the French Academy and Chancellor of the Institute of France. He has served numerous times as an economic adviser to the French Government, most recently as Chairman of the official Committee on the Financial Situation which submitted its report in 1959. His published works include a major two-volume study on L'ORDRE SOCIAL.

Fred Hirsch is an Assistant Editor of THE ECONOMIST, and his views on international monetary questions are often expressed in the pages of that weekly. He has also written numerous signed articles in other financial journals. Like Professor Rueff, he was among the 32 economists in the international study group whose discussions were reported in INTERNATIONAL MONETARY ARRANGEMENTS: THE PROBLEM OF CHOICE (International Finance Section, August 1964).

The Section sponsors the essays in this series but takes no further responsibility for the opinions expressed in them. The writers are free to develop their topics as they will. Their ideas may or may not be shared by the editorial committee of the Section or the members of the Department.

FRITZ MACHLUP, *Director*
International Finance Section

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PREFACE

AT his press conference on February 4, 1965, General de Gaulle proclaimed not only a new turn in France's international financial policy, but delivered his famous paean to the role of gold. It was included in the following statement:

. . . France recommends that the system be changed; . . . We consider that international exchanges must be established, as was the case before the great world-wide disasters, on an unquestionable monetary basis which does not bear the mark of any individual country.

What basis? Actually, it is difficult to envision in this regard any other criterion, any other standard than gold. Yes, gold, which does not change in nature, which can be made either into bars, ingots or coins, which has no nationality, which is considered, in all places and at all times, the immutable and fiduciary value par excellence. Furthermore, despite all that it was possible to imagine, say, write or do in the midst of major events, it is a fact that even today no currency has any value except by direct or indirect relation to gold, real or supposed. Doubtless, no one would think of dictating to any country how to manage its domestic affairs. But the supreme law, the golden rule—and indeed it is pertinent to say it—that must be enforced and honored again in international economic relations, is the duty to balance, from one monetary area to another, by effective inflows and outflows of gold, the balance of payments resulting from their exchanges.

Three days later Fred Hirsch talked to Jacques Rueff in Paris.

Fritz Machlup, Director

THE ROLE AND THE RULE OF GOLD:

AN ARGUMENT

F.H. M. Rueff, you are a man, to say the least, of distinctive ideas; and most people, ourselves included, have hitherto dismissed your ideas on a return to the gold standard as irrelevant nostalgia. Yet now, as one commentator has put it, we see you as scriptwriter to General de Gaulle. How do you get your ideas across?

J.R. Well, first I must protest against this notion. I am not in any degree scriptwriter to General de Gaulle. You see, General de Gaulle does not need a scriptwriter. Still more: I have no responsibility at all in the wording of his last message and I do not know anybody who has any responsibility; he has done it absolutely alone. It is true that I have had many opportunities since the financial reform of 1958 to express my view, and my concern about the gold-exchange standard is a very old one. Early in 1959 I made clear to him that we had more or less stabilized the franc in terms of the dollar and that we were strongly interested in the stability and the solvency of the dollar itself. And therefore, that we had not only the right, but the duty, to see that there was no danger in the money standard which was the base of our own money. My only influence has been to express my view in the most candid way, through my writings and through my talk with various friends.

F.H. Do you see yourself, in exerting this general influence, as in any rivalry with the official advisors in the Bank of France and the Ministry of Finance?

J.R. Well, they are all friends of mine. I have served many years both in the Treasury and on the board of the Bank of France; I do not think there is any question of rivalry. There may be a different tendency. Well, there is no doubt that there has been some difference of inspiration. But the trend is changing quite a lot.

F.H. The official trend?

J.R. The general trend in the world. If we look at the wind from the east, it is teaching some principles on the role of the price mecha-

nism and of profits which are very valuable for us. And if we look at what has happened in Germany in the realm of the *Soziale Marktwirtschaft*, we see a policy which is basically established on market forces, corrected with social inspiration which tries to make it acceptable even politically for the people. We have more or less the same trend in France. I am sometimes considered a survival of the past. . . . I many times feel bold enough to consider myself a precursor of the near future.

F.H. That's interestingly put. But may I ask you this? You have a very respected intellectual position in France; you are a member of the Académie Française. But within your own discipline, among economists, you are relatively isolated, especially in your international ideas. Do you feel at all worried about this?

J.R. You said I am a member of the French Academy. I have the great privilege of being the successor of a poet, Jean Cocteau. And he said somewhere that to be influential you have to be dead. *Il faut être un homme vivant, mais un auteur posthume*. Well, of course, as long as you are alive there are always some objections; but I remember the teaching of my predecessor and I hope that my posthumous influence may be effective.

And I am not so sure that I am isolated; because, for instance, in my second committee in 1960 on the obstacles to economic expansion, I had with me about 60 rapporteurs who were all the young people in the administration, and we felt extraordinarily united. And don't forget that my report has been unanimously approved even by the representatives of the three noncommunist trade unions. Of course, there has been a lot of divergence about my views; but may I say that in the end they have always been adopted—which doesn't suggest any isolation!

F.H. I meant on the international-gold-standard side. Could you perhaps tell us now your particular objections to the gold-exchange standard and why in particular you think that it should be replaced, not as people like Triffin and we ourselves believe, by an increase in international credit, but rather by a return to gold itself?

J.R. I wrote in 1961 that the West was risking a credit collapse and that the gold-exchange standard was a great danger for western civilization. If I did so, it is because I am convinced—and I am very emphatic on this point—that the gold-exchange standard

attains to such a degree of absurdity that no human brain having the power to reason can defend it. What is the essence of the regime, and what is its difference from the gold standard? It is that when a country with a key currency has a deficit in its balance of payments—that is to say, the United States, for example—it pays the creditor country dollars, which end up with its central bank. But the dollars are of no use in Bonn, or in Tokyo, or in Paris. The very same day, they are re-lent to the New York money market, so that they return to the place of origin. Thus the debtor country does not lose what the creditor country has gained. So the key-currency country never feels the effect of a deficit in its balance of payments. And the main consequence is that there is no reason whatever for the deficit to disappear, because it does not appear.

Let me be more positive: if I had an agreement with my tailor that whatever money I pay him he returns to me the very same day as a loan, I would have no objection at all to ordering more suits from him.

F.H. But isn't this to some extent in the nature of all credit? After all, I deposit money in a bank and the bank will lend the money to somebody else—possibly even somebody connected with me. Isn't your objection to this international use of credit really an objection to the internationalization of what is in the nature of all credit?

J.R. I don't think I agree with this presentation. Of course, you could say that what the gold-exchange standard does not do, that is, contract global demand in the debtor country, could be done by deliberate credit policy.

F.H. Yes.

J.R. Theoretically it seems possible. But let us first realize that, if any country in the world had been in a position to do that, it would be the United States. They have in government employ more economists, and I think more readers of *The Economist*, than any other country in the world. And they have had for five years an enormous deficit in their balance of payments. If they have not done by credit policy what the gold standard would have done by automatically restricting purchasing power, it is proof that it is not possible. And why is it not possible? I cannot imagine any parliamentary country with a democratic regime in which you could do such a difficult thing.

F.H. Except under stress.

J.R. Not except under stress—but when the natural restrictive effects are undone more or less automatically and are not felt by anybody.

F.H. Many of us largely agree with your criticisms of the gold-exchange standard, which interestingly are much the same kind of criticisms as are made from the other wing by Triffin. But what I cannot understand in your proposed solution to return to gold is this. Suppose, for example, that the United States had taken your advice in 1961 and had then trebled the price of gold, to \$100 an ounce. Would it not now, with so much larger a gold reserve in relation to its liabilities, feel able, in fact, to continue its balance-of-payments deficit for much *longer*?

J.R. Well, this point must be taken in detail. You have first named my friend Triffin. I must say that we are in full agreement on the diagnosis. We differ on the remedy, but the diagnosis is the same. You have spoken of trebling the price of gold in 1961. I consider the price of gold as only a side issue. It is not at all the aim; it is not at all a remedy; rather it is only a small condition of which I shall speak later. The aim is to restore a system which is not contrary to the most elementary common sense; in other words, to ensure that the debtor country loses what the creditor country gains. And let us be more positive on this point. It needs no economic theory to identify the main reason for the deficit of the U.S. balance of payments: it is that despite all the past deficits there has never been any scarcity of money in the New York money market. Why? Because the money which is paid out is immediately returned to the New York money market and is always available there for further investment, at home or abroad. We sometimes complain of the excessive invasion of foreign interests in Europe. Personally, I am not afraid of that. The cause is not at all a desire of the United States to conquer Europe. The cause is that the creditor countries themselves have created the situation which makes it possible and automatic for the United States to invest abroad, because there is always so much excess liquidity on the New York money market. It has to find an outlet.

F.H. You are referring here to the flow of Eurodollars back to New York?

J.R. I am referring to the simple mechanism of the gold-exchange standard which involves that, when a central bank receives dollars, it returns them the very same day by wire, say, through the purchase of Treasury bills on the New York market.

F.H. But may one try to pin you down on this? I accept that in principle an increase in the gold price may not be your *aim*; but, nevertheless, if it is part of the *means*, we do have to consider what the result would be.

J.R. I have until now always avoided speaking about the price of gold explicitly, because I did not want to create difficulty for the central banks or to engender speculation in gold. But now the question is in the open and there is no reason to keep the same discretion. The price of gold is to me incidental: what I want to restore is the rule of the gold standard. That means that from the date of the reform the central banks shall return to the old rule, of creating money only against gold or bills in national currency. In other words they shall not build up, except for daily settlement, any assets in dollars. Well, from that moment on, I am entirely convinced, the deficit of the balance of payments of the United States will disappear in less than three months. This is a very audacious prediction. But I have never seen a country with a real system of international payments in which the deficit stayed more than three months after it has reestablished the balance of purchasing power; I mean, after it has suppressed the inflationary excesses. So, what I really have in mind is to restore such a system.

But then there appears the side issue—and purely a side issue—which is the liquidation of the past. We have accumulated such large currency balances that we can only come back to the free play of a transfer mechanism, a real transfer mechanism as in the gold standard, if we are no longer under the menace of these balances and of the insolvency they may bring. Therefore, they must either be funded or reimbursed. The funding would be very difficult to obtain and would do great harm.

F.H. It would be very deflationary; and you say you are not a deflationist!

J.R. Most certainly not. I will come back to that. Well, for the reimbursement you have two solutions, you have an option. One is the Triffin plan to put the balances into IMF deposits, the other

one is the increase of the price of gold. All the other plans are in between; and these are the two families of remedy.

F.H. Yes.

J.R. Well the Triffin plan is a plan. I do not like it, because I think it will give a monetary authority or a fiscal authority the power to decide the amount of credit that ought to be created. I myself have acted for a monetary authority during many months: I know that these authorities are not able, they have not the power—the human possibility, at least in our regime—to follow the policy which they ought to. I repeat, if it were possible, the Federal Reserve Board—probably intellectually the loftiest organization in the field of money—would have done it; but they have done just the reverse; you see that they have always compensated the outflow of gold by creation of new credit. I do not mean to say that they have done it intentionally.

F.H. Why not? They do after all follow a conscious managed credit policy and not an automatic one. Surely they do not claim, and they do not want, and ought not to want, blindly to follow an automatic policy?

J.R. I am not sure that you are right. Let me tell you that my friends in Washington told me in 1962 that I was wrong in thinking that the deficit of the balance of payments in the United States would survive as long as the gold-exchange standard survived. They told me they had a timetable according to which the deficit would be reduced by one-half at the end of 1962, and disappear at the end of 1963. But it did not; it could not, because the very essence of the gold-exchange standard is to maintain the deficit. As long as the debtor country does not itself feel the effect of the deficit automatically, the deficit goes on. So I do not hesitate to forecast the future. I am absolutely *convinced* that the deficit of the balance of payments of the United States will not disappear as long as we maintain the gold-exchange standard. And in 1962 I backed this forecast with a rash bet with one of my Washington friends: a bet of one dollar a year.

F.H. Gold-guaranteed, I trust?

J.R. Not gold-guaranteed.

F.H. You say, and many people will instinctively agree, that you don't believe that any human management could be so all-knowing as

to manage credit correctly in exactly the right way. But the objection many people have to your preference for the gold standard as such is that this would leave the volume of credit not, as now, in the imperfect hands of the best central-banking authorities we have, but rather in the completely arbitrary hands of the gold-mining companies of South Africa, the trading policy of the communist party of the Soviet Union, or whatever technical discoveries happen to be made that might increase or decrease the world's credit base by quite wild amounts, in a way that not even the stupidest monetary authority would do.

J.R. But it was not I, it was first Adam Smith and then Keynes, in his last letter, who have spoken of the "hidden hand," which results from the price mechanism. Credit management is not stupid, as such. But it very often is stupid when it is done in the wrong direction, so as, for instance, to compensate for the internal consequences of the gold movement. I fully accept the conscious use of the discount rate and of open-market policy—provided it takes account of the market situation that should be created by the gold movements and does not systematically reverse it.

F.H. Are you in favor of the pre-1931 gold standard where all parities were constantly stable?

J.R. I am not in favor of floating exchange rates. I am not in favor of daily changes of parity. But when you have had very exceptional situations you may need exceptional policies to clean up the past. Let us take a positive example. It is what President Franklin D. Roosevelt did in raising the price of gold in 1934—and I would like my friends in Washington to keep that in mind.

It is often said that what we want to avoid is the return of the trouble and the mischief of the gold standard in the twenties. But if you take the balance sheets of the central banks you will see that the mischief was not the mischief of the gold standard but the mischief of the gold-exchange standard. The evolution of the balance sheets of the central banks is exactly the same, exactly parallel in the years '27 and '28 and '29 to what it is now, and it is the collapse of this system in 1931 that was responsible for the depth of the depression.

F.H. But one of the countries which saw the biggest constriction imposed by the gold standard was of course Britain—which held

no foreign exchange in its reverse. And, as we have always seen it, Britain at this time suffered precisely *because* of the harsh and inflexible disciplines of the gold standard, which you now want to restore.

J.R. Let me tell you that you touch a point on which I have quite personal recollections. In 1930, I was financial attaché in the French embassy in London, and as such I was responsible for the deposits of the French Treasury. I had in my hands 10 per cent of the deposits of the London banks. They were the direct result of eight years of the gold-exchange standard, because we had kept the pounds sterling in London, as my colleagues in New York had kept the dollars which had been pouring into the French Treasury from 1927 onwards. Then, in 1931, the failure of the Austrian Creditanstalt caused successive waves of repatriations; and it was this collapse of the gold-exchange standard that, without any possible doubt, transformed the depression of 1929 into the great depression of 1931.

F.H. While you are on this historical episode, what would your comments be on the very widespread view that it was to a substantial extent French pressure on London at that time, through the withdrawal of sterling balances, that was in part responsible for the general collapse later on?

J.R. Let me tell you that, unhappily for the world, the French pressure did not exist, or was so mild that it had no effect. There is a very interesting document from this period, a letter from Sir Austen Chamberlain, who was then Foreign Secretary in London, to M. Poincaré, who was Prime Minister and Finance Minister in France; it must be of 1928. Sir Austen said "we know that you are entitled to ask gold for your sterling but in the frame of the close friendship between Britain and France we ask you, so as to avoid trouble for the City of London, not to do that." And we were, I must say, feeble enough to obey this demand and not to ask for gold. The fact that I had in London such important sterling deposits shows that we did not at all use this right to ask for gold. The adjustment, which would have been small if taken in due time, was not made, and we had the enormous boom period of '27, '28, and '29. This explains the depth of the collapse and of the depression, because the adjustment was so long delayed; we were too gentle in responding to official appeals not to convert our sterling balances into gold.

It is exactly the position in which we are now. We are moving without any doubt to a result of the same kind as in 1931, because it is so clear that the dollar is approaching the end of its acceptability for payment abroad, and we shall have the same collapse. But in delaying it through various devices—by the increase of the quotas of the International Monetary Fund, the Roosa bonds, the central-banking swap credits, the Basle agreement, the agreement of the Group of Ten, and all the rest—we are doing exactly the same thing, namely, delaying the correction of the U.S. balance-of-payments deficit. If we acted as genuine friends of our friends, we should do exactly the reverse.

F.H. But would you not say, M. Rueff, that the very developments that you cite—first the Basle agreement, then the growing agreement among even some Continental central banks on the need to replace dollar and sterling liquidity by an expansion of the International Monetary Fund—that this very movement is itself an indication that a return to the crude gold base as such is not necessary and that the threat of another 1931 is, or ought to be, now an entirely artificial threat? It is artificial to the extent that there is a certain movement towards the creation of some kind of international credit management, which many people, starting from Keynes, have seen as the only logical development of credit management on a national scale.

J.R. Well, your question has two sides. I would be in full agreement with you if I could believe that this process of avoiding the facts could go on long enough; in other words, that we could maintain indefinitely, for instance, what we did in 1928-1929, not asking for gold in London. But do you not see clearly that the dollar is very near the limit of its payment abroad? Look at the figures. The dollar stock in the United States is diminishing by a billion dollars every year and the claim on gold increasing two billion dollars every year. Of course you can gain some gold by lowering or abolishing the requirement of gold reserve for the internal currency. I have no objection to that, it is purely arbitrary. But the situation, if it continues—and it will continue, that is the basis of my reasoning—is bound to come to a point where there will be no foreign exchange left and no gold left to pay abroad. I know this situation very well. In 1958, when I had to look at the French situation, we had no foreign exchange at all left in the Equalization Fund and we were informed by the United States—and they were quite right, they acted as

very good friends when they told us: "We will not give you any more money as long as you do not improve your situation." I was and am very grateful for this. I knew at the time that we were quite unable to pay anything abroad and the only option was either to establish quotas on every import (which we did) and to forbid foreign travel (which we did), or to improve the underlying situation (which we did a little later). Well, don't you see that the situation in the United States is exactly the same? They are now discussing, in Washington, a tax of a hundred dollars on the people who want to go abroad.

To conclude on this point, I would say that I would agree with you if I were not convinced that we are in the position of a man who falls from the fifth floor. As long as he is falling, all is well, but he is sure, absolutely sure, to arrive on the bottom, and at this moment the situation will not be comfortable. And that's what I want to avoid, our hitting the floor.

But that leads to the second point. You consider that any reform along my lines would mean a great deflation.

F.H. I would say I am very worried that it would lead to a great deflation. But one's concern is not only that. One's real concern is that it would lead to a completely arbitrary influence over international economic policy—that your system would always be arbitrary and would be in danger of being deflationary.

J.R. Well, let me refer again to what President Franklin D. Roosevelt did in 1934. President Roosevelt did not destroy the gold standard, he restored it. Of course, it was a special kind of gold standard only for central banks, but I am very satisfied with that; but he definitely restored the gold standard through an increase in the price of gold. Well, what would happen if we tried to do the same thing today? We know that prices in the United States have doubled since 1934. So, suppose we roughly double the price of gold; the amount of the gold stock of the United States, which is now approximately 15 billion, would then be 30 billion dollars. Meanwhile the claims on this gold from the central banks would not change: they are, generally speaking, not claims with a gold clause, they are claims in dollars. I must insist that the central banks have no right whatever to claim fixed quantities of gold, you cannot presume a gold clause where it is not expressed.

F.H. Some central banks do presume it, *de facto*.

J.R. I have much to say about that. I have been a Judge for ten years in the European Court. If you make a loan without a gold clause, you are supposed to know what you are doing. Therefore, with these 30 billion dollars the United States could repay the \$13 billion of claims of the central banks, and the United States would be left with 17 billion dollars of gold, which is a little more than it has now. Therefore, there would be no change whatever in the position with respect to credit in the United States. With respect to the creditor central banks, their dollar claims would have been repaid and replaced by an amount of gold of the same value. So here too there would be no change, and let me tell you that, if there were no journalists in the world, nobody would even notice the change.

But I must insist on one point. I consider it a crime to speak of a change in the price of gold without speaking of the reimbursement of the dollar claims, because the change of the price of gold has no other justification, it is only the means to liquidate a situation which is the result of our past errors.

F.H. But, what guarantee would you have that, after this increase in the price of gold and without any conscious international credit arrangements, you would not get precisely the same gold-exchange standard evolving again? I know all about the Genoa Conference and its resolutions in 1922; but after 1934, I believe, there was no specific intention of recreating the gold-exchange standard, it just happened.

J.R. You are quite right.

F.H. And surely this will always just happen, because gold is in practice a poor, barren asset, bearing no interest; and central banks can and do find better ways of holding their reserves.

J.R. Well you are to remember that they are nonprofit organizations.

F.H. May I come now to practicalities? Whatever you or anyone else may want, it is very clear that the United States has elevated to a position of high political policy the maintenance of the gold price at \$35 an ounce. Now in this situation, in your opinion, what degree of pressure ought to be exerted by countries or central banks that think otherwise? Do you think, for example, in relation to what you were saying about 1931, that France and other European countries ought now to be tougher about converting dollar balances into gold?

J.R. I am a great believer in human reason, and I consider that when a thing is clear to me it can be made clear to other people, if they are in good faith and provided the question is discussed. But for five years the question has not been discussed. The Group of Ten were confined to a very narrow field for their studies of the problem. They were forbidden to discuss a change in the price of gold, and therefore the main solution is closed to them. And then they commit a serious mistake by agreeing to call lack of "liquidity" what is really lack of "dollars." You know the story of the monk who wanted to eat meat on Friday; he said to the rabbit, "I baptize you a carp." Well, we have called lack of liquidity what is really lack of dollars, and we have really lost three years in discussing questions which are not real.

F.H. But given this, what degree of pressure?

J.R. Well, the pressure must be for an invitation to discuss the question openly and frankly with us. If it appears that there is no hope whatever of getting people to agree to a common solution that seems reasonable, it may happen, and it probably will, that each country will defend its own interest. But I refuse to accept this hypothesis. Before deciding whether pressure is required, we have first to see whether it is not a matter for intellectual discussion.

F.H. But surely this intellectual discussion is happening in the Ossola Committee and the Paris Club?

J.R. No. For as long as you call a problem of liquidity what is really the problem of the gold-exchange standard, there is no discussion of the real problem. I have nowhere seen a recommendation for the reimbursement of the dollar balance. As long as you do not approach this point you have no discussion, and I am convinced that when the problem has been clearly and fully stated it will be possible to arrive at an agreement. The question is whether it will be done before or after the crisis.

F.H. Might I move now, M. Rueff, to one remark of the General's last week with which I am sure you would be in agreement. This was where he stated that a national currency has a value only in relation to gold. Now many of us would almost put it the other way round, and say that gold has a value, a real value, only in relation to a national currency.

- J.R. Let me tell you that I have not at all any religious belief in gold. Gold is not at all an aim, it is only a means for a certain policy.
- F.H. In effect what you are saying is that you prefer the anonymous, and we would say arbitrary, discipline of gold to the conscious discipline of men—of credit-controllers, international credit-controllers.
- J.R. I accept anonymous, I do not accept arbitrary; because it is not at all arbitrary, since it is based on the real facts and objective needs.
- F.H. But surely arbitrary in this sense: I believe that last year gold production was less than one and a half billion dollars. Suppose that for technical reasons, because of some new discovery in Siberia or some quite local technical development in South Africa, the production of gold in the world in 1966 is not \$1½ billion but \$6 billion. Now is not that an arbitrary influence on the amount of international means of payment available?
- J.R. Yes, I agree on one point. If you have a lack of continuity, I would have no objection to a change, in these exceptional circumstances which you envisage, in the price of gold.
- F.H. The price of gold should then change in relation to its supply?
- J.R. Yes, but simultaneously in all convertible currencies.
- F.H. But this change would itself require a conscious decision of credit management, in no way different from what you are saying is so difficult.
- J.R. Not at all, not at all. It would be a rare, quite exceptional move.
- F.H. But if, in line with your ideas, gold were to be the only means of international settlement, are you not worried that there might be insufficient means of international payment, given the fact that in the last two years, as both you and Professor Triffin have so clearly shown, gold has constituted only quite a small fraction of the increase in international liquidity?
- J.R. Yes, but this fraction is as small as the degree of stability in the world. Do not forget that in all countries which are not key-currency countries, we now have stabilization plans, incomes policies, and other efforts to counter the inflationary effects of the excessive increase in liquidity.

- F.H. So, in other words, you do see the return to gold as one of the means of imposing a much greater discipline over credit expansion, domestic credit expansion, than we have had in recent years?
- J.R. I think that internal credit expansion has not been the main fault of the system. The main fault has been the result of the gold-exchange standard, and if we restore a real system of payments internationally I think that would leave *more* freedom for internal policy.
- F.H. But, if I may say so M. Rueff, this is where I, and I think other people, get very mixed up about the real aims of your scheme. On the one side you can say, and there many conservative banking authorities will tend to agree, that a return of the gold standard would impose greater domestic discipline and prevent the inflationary pressures that, as they see it, we have been having recently. But one can also put it quite differently—and I am quite unclear which of these two positions you are taking—one can also say quite differently that in practice, as in 1934, a big increase in the price of gold would give more freedom to domestic credit management simply because of the great increase in external financial strength, in particular of the United States. And that it would in this way, at least in its first consequences, remove a discipline that we have had already. And I think, if many people reject the sovereign rule of gold, it is just because it is so arbitrary in the sense reflected here, in these two possibly quite different effects. It could be intensely deflationary; and, equally, it could be highly inflationary.
- J.R. I think there is a misunderstanding in the meaning of discipline. I think what you imply by discipline is a kind of conscious action which will be generated by movement of gold as an alarm clock. That is not what I have in mind. If I want the gold standard, it is not because it will impose on central banks a certain policy. It is because it will exert its own influence by the transfer of purchasing power which is the result of the transfer of gold.
- F.H. That seems an extraordinarily mechanistic view. But, coming now to more immediate things: if you had to select a date for your guess as to when an increase in the price of gold, which you see as inevitable, will come, what would be your guess ?

- J.R. Well, let me remind you that the Oracle of Delphi never gave a date for its forecast. What I am sure of is that, if we remain in the same regime, we shall some day arrive at the end of the means of external payments by the United States. This will mean that, whether they want or not, whatever the agreement in the IMF and the Gatt, they will have to establish an embargo on gold, establish quotas on import, impose restrictions such as the one they are now studying on foreign travel, and cut the links between nations. I know the situation so well because many times in my career I have seen the same situation in France.
- F.H. But, the United States is today the only country that officially gives other countries the facility to exchange its currency into gold at an official rate. Now, what do you think would happen to the price of gold if the Federal Reserve, together perhaps with a number of other like-minded central banks, were to say it would refuse to *buy* gold at \$35—or at any price whatsoever? What would then happen, do you believe, to the price of gold?
- J.R. The price of gold would fall to a very low level and nothing would make it possible to maintain it. Unless, of course, there were great speculation which convinced people that gold was still a refuge. But one cannot forecast. I fully agree with you, the price of gold is not in itself something given by God, it's the result of a policy.
- F.H. Do you believe that General de Gaulle realizes this?
- J.R. He has shown that he is fully informed of the mysteries of the gold standard and the gold-exchange standard. For myself, I feel that the proposition that the IMF, or the Committee of Ten, or anybody of this kind should receive the free disposition of an important part of the gold reserves of a country is not realistic at all. Would your country agree to transfer—either to Basle, or to any body, or to the European community—the disposal of its gold reserve?
- F.H. Disposal of its gold reserves, no. I would just say that in my experience countries give up just as much power to the international institutions as they have to; but under pressure it is surprising what may be done. The point I was trying to make, though, is simply that, as is perhaps not generally enough realized, the United States does today have this quite singular and quite unique function of maintaining dollar-gold convertibility. If

in practice the United States ceased to do this, such as by saying it would not buy gold at any price, I think we might come to the point where somebody else would have to pick up the job, and perhaps only an international organization could.

J.R. I am not interested in the price of gold. If you want to replace gold by something better, platinum or any other metal, as I told you, I have no religious belief in gold; it is only an instrument, it has been in the past less bad than the others, that is all we can say.

F.H. But you do not think that the present tendency of countries to want to hold gold as distinct from dollars—I am thinking in particular of France here—might be rather different if the countries thought that there was a possibility that the price of gold might fall as well as rise, and that it was not gold as such, in General de Gaulle's terms, that had an intrinsic value that would last for ever more! In so far as this attitude is not quite correct, which you admit now, is not the faith in gold as an instrument of reserve also slightly dubious?

J.R. I do not think there is any idea of speculation in the mind of General de Gaulle. I think he has the conviction that the problem for the West is to replace an instrument of disorder with an instrument tending to restore order, and this is what he has in mind. I think there are very few people who consider it realistic under present conditions that gold should be abandoned.

F.H. Let us hope there will be more after Thursday last. Might I move, now, to a more technical point? What is your view of what is here called the CRU, the Composite Reserve Unit?

J.R. It is difficult for me to express a view, because I do not know much about the details of this scheme. It has been proposed, I know, by my friend, the French Finance Minister, and I think it is up to him to defend his own child. It seems to me that it is a scheme of the family either of the European Payments Union or even the IMF. Generally speaking, I think that anything can be done in this field, provided it is built on the basis of money-gold convertibility. The CRU system can be good or it can be bad. Let me remind you of the story of the European Payments Union. At the beginning it was very bad, because it was almost entirely credit, that means purely arbitrary creation of means of foreign payment. At the end, it was nearly entirely good, as it was made increasingly "harder."

- F.H. M. Rueff, in 1958 you presided over a committee which laid the basis for French financial recovery, by what was called then *assainissement*, which included besides many disinflationary measures also devaluation and an exposure of the economy to competition. Now, some people in Britain think that we might be able to do with some *assainissement* ourselves just now. If Mr. Wilson were to appoint you to head a similar committee for our problems, what recommendations might a Rueff report for Britain make?
- J.R. May I first state emphatically that I am not a candidate for such an assignment. And secondly, that I would first ask to be informed on the situation, which I am not today. I can only say that from the outside I do not have the feeling—it is only an impression—that there is a great financial problem in the United Kingdom. I always live under the impression that Britain is the country that has the highest financial tradition and the best equipment in the field of credit. The London market is a model, and for thirty years I have been fighting for the introduction of its practice in France. Though I must say that M. Giscard d'Estaing has made progress in this field. He has taken steps which are certainly in the right direction, but there remains much to do. Certainly you have the problem of the sterling balances held by foreigners, and that is a difficult one.
- F.H. May I just ask you a question in connection with successful domestic policies? France's two great periods of economic success in the last generation were after the stabilization cum devaluation of the franc in 1926-28 and after 1958. Both of these stabilizations were at a decidedly undervalued exchange rate, and I believe you had some personal influence both times. Do you believe that, in any program for Britain, this might have any lessons for us?
- J.R. There is one point I must make clear for the sake of history. I was associated with the Poincaré stabilization only to a very small degree. I was a young *inspecteur des finances* and I was called as one of his assistant secretaries to study only one question—which was the exchange rate.
- F.H. The most important question.
- J.R. I said—and that has now been published—that the key consideration was to find the level at which you would not have to reduce money wages. Contrast your experience in 1925. The main principle is that you must create a situation in which in

no case you have to get a reduction in domestic money wages. Above that, if you can have a margin I think it is useful. But it is a great mistake to have this margin without using it to do very quickly what remains to be done.

In 1958, and there I know much more of the situation, the only merit of the plan was that it was global, comprehensive. That does not mean that I was satisfied with what was done later, because what was lacking in the development of this policy was a decided improvement of our credit system, which is still obsolete, and the diminution of the rigidities in the French economy. And I think if I had any responsibility in London, I would make a thorough investigation of the source of rigidities in the British economy, that means all the matters dealt with in my second report—distribution, the structure of the various markets, rents, farm prices, and all the protected sectors of the economy. It is incredible to see what rigidities history has left in old countries like yours and mine. However, if you make an attempt at reform, you ought to meet all these points simultaneously.

But let me conclude. All that has been said about the price of gold in the United States and all that has been said in every country about what is called devaluation, I have heard so many times. We have had in France great experience in this field. A devaluation or change in the price of gold is always opposed by all the people. They say it is morally impossible, it is practically impossible, it would be inefficient. And I have seen it in France five or six times in my own career, and several times also in Britain. Now we see that, once done, it was easily accepted, and that in every case it was, at least in the short run, successful—provided it was part of a general policy of economic and financial restoration. The only trouble is that we have not always used the resulting period of rest to do what we meant to do. In your case I have no specific advice to offer; the consideration of the world monetary problem which is bound to be undertaken in the near future may provide an occasion to look at the special problem of sterling and maybe also of the sterling area.

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