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THE POLITICS OF INTERNATIONAL MONEY AND WORLD LANGUAGE

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A Nationalistic Suggestion for Monetary Reform?

More than a year ago I participated with two colleagues in writing an article in *The Economist* which set forth a minority view on "The Dollar and World Liquidity." Its point was that the dollar-exchange standard would be a good international monetary system if it were understood: that a return to gold as advocated by the French, the adoption of a new international currency proposed by Triffin, or of a new international asset to supplement gold and dollars, under consideration by the Group of Ten, would each be contrived, artificial, and less efficient than the dollar standard, with liquidity supported by an international capital market centered on New York and its Eurodollar and Eurodollar-bond extensions. The dollar system could not work so long as European monetary authorities did not understand the international financial intermediation it performed, and converted dollars into gold. In the clutch, we thought, if these authorities did not see the intellectual force of the argument, they could be driven to an understanding of the system by the willingness of the United States to sell all its gold, and its unwillingness to buy it back in future. (We differ as to the wisdom of pushing along this line.)

Despite an explicit claim that it was international rather than nationalistic, our position has been widely criticized as the latter. *The Economist* itself appended a reservation in which it termed "the new nationalism" the "view that America can, even at this late stage of the day, perform all its old international financing functions without . . . international support. . . ." Triffin has applauded some parts of the analysis and criticized its statistical underpinnings in an essay in this series last fall, but is reported in seminars to have contrasted his international solution with our national one. The left-wing *Monthly Review* is generous enough to regard us as having "long records as liberals reaching back to New Deal days" but at the same time states that we advocate forcing an "American" solution on the European rivals of the United States capitalist class, and characterizes the article as expressing "the American imperialist view in its most nationalistic and aggressive form."

The purpose of this essay is to elucidate the political aspects of the economic solution proposed for the international monetary system, and to make clear the incongruity between economic objectives and political side-effects. It will call attention to certain measures and procedures

which, it is hoped, reduce the political unattractiveness of the economic scheme we put forward. Finally, it suggests an analogy between money and language in the international sphere which may be illuminating. The basic question that will be left unanswered is whether economic efficiency is less important in these matters than political appearances, which many other observers would probably call political reality. It is possible that it is, but economists are accustomed to having doubts. At the least, I would insist that there is a trade-off between economic inefficiency and political appearances which must be explicitly evaluated to see whether the cost in one is worth the benefit in the other.

The Prestige of Reserve Currencies

At the bottom of much of the European case against the dollar standard is prestige. In the United States there is genuine confusion, arising from the definition of balance-of-payments deficit by the Department of Commerce, which regards all assets other than gold acquired by the United States as illiquid and all demand liabilities as about to be immediately presented for payment. There is some confusion in Europe, as when Jacques Rueff suggests that the dollar-exchange standard permits the United States to consume beyond its capacity to produce. This he suggested at a time when the American balance of payments on current account reached close to record surpluses—still short, however, of the full amount of United States aid and foreign lending. There is also some irrationality in the way that central banks hold gold and forego earnings on assets denominated in foreign exchange based on an implicit decision-rule that the central bank gets none of the benefits from foreign earnings and all the blame in the event that the foreign currency is devalued. A sensible system would allow the central bank to weigh its expectation of devaluation against the earnings foregone by holding gold, perhaps by using earnings to set up reserves against future devaluation losses. But it is fair to say that much of the French case against the dollar-exchange standard is based on prestige, and much of the French case rubs off on other Europeans.

Prestige is expensive. It is expensive in earnings foregone on foreign-exchange reserves (corrected for a proper evaluation of the risk of loss through devaluation) and it is expensive in transactions costs.

The dollar is the world unit of account—the standard in which foreign-exchange reserves, agricultural prices in the Common Market, contributions to the United Nations budget, and a host of other international monetary items are measured. It is true that the *Banque de France* recently abandoned the practice of announcing its gains and losses of foreign reserves in dollars, and now states them only in francs,

thus shifting to the press the trivial burden of calculating the dollar equivalents. The dollar is also the world's standard of deferred payment. After the imposition of the Interest Equalization Tax the dollar-bond market flourished in Europe at the expense of two European ways of borrowing money at long term: the unit-of-account bond, denominated in the Common Market units of account, equivalent to the dollar in value, but with fixed parities among all the European currencies; and the parallel issue, which appeared simultaneously in several European capital markets. When Europeans were borrowing in New York, there was some thought in economic circles that they were going short of the dollar in the expectation that in the long run the dollar would be devalued. This theory, however, ran into a fact that required a contrary interpretation: many of the European dollar bonds issued in New York and all those issued in Europe were bought by Europeans or foreigners with European accounts. In effect, the dollar has continued as the world's standard of value.

But it is as a medium of exchange that the efficiency of the dollar standard is the clearest. As foreign-exchange markets now stand, most transfers between currencies other than sterling or dollars go through sterling or dollars, and mostly through dollars. Gold is not used for making payments, but must be sold for currency for payments. It can be freely sold only in the London gold market and in the United States. While there are small markets for direct dealings between, say, French francs and D-marks, most large transactions go through dollars or sterling. Working balances have to be held in dollars (and in sterling for the sterling area). The question is how large these working balances should be relative to the transactions costs of transferring reserves into and out of other assets.[1]

Part of the recent movement into gold—inch by inch on the part of most of the European central banks, in substantial strides of $300 million a month by the French for some months after May 1965—has perhaps been dictated by fear of dollar devaluation. But not much. It is hard to see how there can be much realistic belief that the dollar will be voluntarily devalued. If it were to be, it would get no exchange-rate benefit, since other currencies would be devalued simultaneously to restore exchange rates throughout the international monetary system and produce only a change in the price of gold. Since the United States op-

[1] The extent of transactions costs for gold depends in part on where it is held, whether it is left abroad under earmark for later sale without the incurrence of shipping charges or brought home. It is of some interest that, after leaving in New York for many years the gold that might have to be sold for dollars, the French in the early 1960's started shipping it home. It can be argued that the advent of the ICBM made Paris as safe as New York in the event of world war, a consideration which had favored New York from about 1933 on.

poses a change in the gold price, devaluation has a very low expected value.

Much of the movement to gold is an attempt to discipline the United States by inducing it, for example, to tighten interest rates. But since last year, when this had been accomplished, there is no exchanging gold again for dollars. The application of pressure to change macroeconomic policies produces a once-and-for-all reduction in the volume of liquidity in the system, as United States gold plus European dollars becomes European gold. But it also reduces the efficiency of the international monetary system and increases future transactions costs.

The final reason for holding gold instead of dollars is the prestige supposedly associated with it. The question here is why the United States should hold only gold in its reserves, when other countries hold gold and dollars in varying proportions. This is a useful question, but there is an answer. International currencies are not all of equal value as units of account, standards of deferred payment, and media of exchange. They stand in relationship to one another not as full equals, but in a hierarchical arrangement of ascending utility as international money. This is John H. Williams' concept of "key currencies," which he opposed to the Bretton Woods' concept (underlying the International Monetary Fund) that a country drawing exchange from the Fund would be as likely to draw one currency as another. It is Robert V. Roosa's concept of a vehicle currency. When he was Under Secretary of the Treasury, Mr. Roosa promised in a speech that when the United States again had a surplus in its international accounts it would buy foreign currencies rather than gold. This action would multilateralize the exchange standard, and there are strong political reasons for doing so. In economic terms, however, it must be recognized that acquisitions by the United States of large amounts of sterling, French francs, D-marks, and lire, for example, would have a different economic impact than foreign dealings in dollars. That these countries do not buy and sell their currencies against gold at fixed prices is one aspect of this difference, but an unimportant one. More significant is that these currencies have behind them less price stability, smaller capital markets, and more limited capacities to supply incremental exports at relatively constant prices (though these differences are smaller than they used to be).

Considerations of prestige partly govern United States policies with regard to international monetary reform. My reason for wanting to keep the dollar-exchange standard is efficiency, but I suspect that many Americans take the same position for reasons of prestige. The Italian suggestion that sterling and dollar liabilities should be internationalized at the IMF is unacceptable because of the added transactions introduced

into the system, but will not be accepted for possibly very different reasons. The same is true of the Triffin plan for a new international currency.

United States policies immediately after the war were not dictated by prestige, however. Leadership at Bretton Woods, the Lend-lease settlement, the Marshall Plan, Point IV, the General Agreement on Tariffs and Trade, and so on, had their origins in the necessity to solve problems. Then, as now, this country was accused of throwing its weight around but, without the exercise of leadership, there is a good chance of accomplishing nothing, or even of weakening the international system through log-rolling. An example of the latter is the voting of the second tranche of UNNRA in August 1945 when the United States, with one vote in 17, had to agree to take over the Canadian share from the first tranche, shifting Austria and Italy from military relief to UNNRA to reduce the British share of the cost of aiding those countries, and providing relief to Byelorussia and the Ukraine, despite the fact that the USSR was a benefactor in UNNRA relief and not a recipient. It was this experience that induced the Department of State to insist that Marshall Plan assistance be organized so that the recipient countries entered into agreement with the United States both as a group and separately. It is this same difficulty that results in the frustration of the less developed countries at such a conference as the United Nations Conference on Trade and Development in Geneva in March 1964, where a large majority of the participating countries proposed schemes to be underwritten at the cost of a few. There is a continuous clash between multilateral policies that may make good politics but often end up in impossible economics, and unilateral policies that are politically less attractive but economically more feasible (if in some instances less than generous). This, however, is not a question of prestige but of feasibility.

The strength of the dollar as a world exchange standard lies in the international capital market operated in dollars. If the United States must cut itself off from the provision of capital to the world by reason of its worries about its balance of payments, the role of the dollar as a vehicle currency is seriously and perhaps fatally damaged. The capital market is a means of providing both real assets to the countries of the world with an adequate credit standing, and liquidity to firms and countries with real assets and credit standing but inadequate liquidity. The provision of real assets requires transfer of goods and services. The provision of liquidity calls for lending long and borrowing short. This is not American imperialistic taking-over of European and other capitalism, as the *Monthly Review* and some less ideological critics of United States direct investment abroad think. I suspect that there has been some excessive American foreign investment which will prove, in time, not

to be profitable. But in other instances, the American bond investors and American firms have provided capital, technology, and liquidity to borrowers and asset-holders abroad. For a bank to acquire an asset and a liability simultaneously is not, as a rule, imperialist penetration.

Internationalizing the Dollar

The foregoing may sound very nationalistic. But there are several international aspects of it which have been dealt with fleetingly and which are worth emphasizing. Firstly, in *The Economist* article it was indicated that the dollar-exchange standard needs to be underpinned by international arrangements like the Basle agreement of March 1961, which would provide discounting in a crisis. I should prefer to see a true international central bank, but doubt that there is sufficient consensus to make possible agreement on the appropriate kind of institution. To convert the International Monetary Fund into a central bank, as is possible, requires abandonment of a fundamental feature of Bretton Woods and of the proposals for an international reserve unit: the provision of liquidity in advance of need by owned reserves. The great merit of the Basle agreement, and the crucial feature of an international central bank, is the availability of unlimited amounts of assistance through rediscounting in a period of crisis. Who does what for whom and who gets paid for it are settled after the event, not in advance, when the outline of possible events can be perceived only dimly. There has to be a broad understanding that the helped does not let the helpers suffer by reason of the help. When the crisis is over, the accumulated obligations can be transferred to the IMF or funded in long-term debts. An international central bank could make its own arrangements for repayment of rediscounts, and this would be a desirable improvement over the *ad hoc* arrangements now necessary. But the kind of international central bank that could be agreed upon at this stage of thinking about the international monetary system would almost undoubtedly have owned reserves, and only limited lines of credit. The volume of owned reserves is not a vital aspect of the system. Lines of credit must be unlimited, and hence conditional, since the character and scope of need for them are impossible to foresee accurately.

Second, the Basle arrangements mean mutual surveillance of swaps, lines of credit, borrowings, and so on. European insistence on knowing what the facts are is fully justified, and United States and British resistance to such surveillance is not consistent with the provision of emergency discounting facilities.

Third, in a system of international monetary arrangements of the sort I favor—a dollar-exchange system buttressed by informal Basle-type arrangements—the monetary policy of the major countries, say,

the Group of Ten—should be determined internationally. Just as the Federal Reserve Act of 1913 took monetary policy from the New York banks and transferred it to a national body, in which New York, along with Washington, had a powerful voice, it is important now that rates of interest in the international capital market be determined internationally, on the basis of conditions in Europe and Japan, as well as in the United States. Instead of the Federal Open-Market Committee, which makes monetary policy for the United States, we need an Atlantic Open-Market Committee.

New York and Washington will still have a powerful voice in the determination of rates of interest and amounts of money. There is an asymmetry between the New York money and capital market and its Eurodollar extensions and the separate European capital markets, which are joined to each other not distinctly but through New York and the Eurodollar network. When one of the peripheral central banks—say, the Bank of Italy—changes its discount rate, it alters the spread between it and the others, but when the New York rate is changed, it alters the level of the total. The analogy with the Federal Reserve Banks of Minneapolis and New York is broadly accurate. Minneapolis can change the spread but not the level; New York can change the level but not the spread. In capital markets, as in foreign-exchange markets, subsidiary markets within the total can be ordered hierarchically. There is no way to escape the fact that the United States has major responsibility for the level of rates in the international money market. But it should and must consult those countries affected by the international market, and let policy be guided by some weighted impact of the views of all.

Multilateral versus Independent Diplomacy

The international politics of monetary arrangements are analogous to those of peace keeping. No expert on this topic, I must keep my discussion brief and suggestive. The need for bilateral as well as multilateral engagements in the Marshall Plan and in foreign aid is one example. The balance between the Assembly and the Security Council of the United Nations is another. There is a subtle line to be drawn between United States intervention in Korea and Lebanon, which met with fairly general approval in the West, and those in the Dominican Republic and in Vietnam, which have not. The United States operated alone, but with the approval of the less developed countries, in blowing the whistle on the British and French attack on Suez in 1956. The United Nations peace-keeping operations in the Gaza strip and the Congo were financed by United States loans, with Soviet and French abstention. The Soviet Union was perhaps a little in advance of the

United States in moving to halt the war between Pakistan and India. China, the Soviet Union, and the United States are all working to prevent the spread of the war in Vietnam, deeply as they disagree on the resolution appropriate to that country.

In all these matters, the line between nationalism and internationalism is hard to draw, and perhaps not worth trying to draw. A pure internationalism that relied solely on the United Nations would cause the overburdened organization to explode in frustration. Pure nationalism, such as the ideologues suggest the United States should pursue in Vietnam, is hard to square with the picture as a whole. National leadership is inescapable, in my judgment, but can operate efficiently only in an international setting. And, where the international forms cannot be preserved in their purity, this does not mean nationalist dominance so much as a muddier form of internationalism, *ad hoc* or even in an old-fashioned balance-of-power guise.

English (or American) and the Dollar

However, the analogy which interests me most is that between the use of the dollar in international economics and the use of the English language in international intercourse more generally. Analogies are tempting, and dangerous because frequently misleading. But the dollar "talks," and English is the "coin" of international communication. The French like neither fact, which is understandable. But to seek to use newly-created international money or a newly-created international language would be patently inefficient.

Languages are ordered hierarchically. Like sterling, French used to dominate. Like the dollar, English does now. Frenchmen must learn English; it is not vital for Anglo-Saxons to learn French.

The analogy with the language quarrel in Belgium is exact. The Flemish must learn French, but the Walloons, despite their constitutional edict of equality between the languages and the legislative edict which requires civil servants to do so, do not learn or use Dutch. The Flemish are offended and begin to insist on Flemish, exactly as France has insisted that its representatives at international conferences, even when they know English perfectly, must speak only French and insist on all speeches in English being translated into French. The transactions costs of translation, including the misunderstanding in communication and the waste of time, are even more evident than the transactions costs of converting gold to dollars and dollars to gold, when it is dollars—not gold—that are necessary to transactions.

Etiemble's passionate attack on the intrusion of English into French, *Parlez-Vous Franglez?*, is at the same time amusing, hysterical and pathetic.

To gain its ends entirely, the dollar kills our language. . . . No one is ignorant of the fact that scarcely had they delivered France from nazism, the Americans set about eliminating French as a working language at the United Nations.

I am not a "nationalist."

. . . The fact is that if France and Germany demanded tomorrow the conversion of its balances at the Federal Reserve Bank the United States would go bankrupt. Acknowledge that it is comforting. Doubtless one would have to be an idiot, a stalinist or an anarchist to wish the collapse of the dollar: we would suffer from it. In any case, only an idiot would not profit from the improvement in our finances and refuse to signify to Wall Street that the time is past for compliance and servility. . . . Since Walter Lippman makes public that the American Treasury in weeks which were difficult for it obtained the support of foreign banks of issue "including especially that of France," then thanks to the numerous African states which it has freed from the yoke of colonialism, our country disposes in the United Nations and in Unesco, of many friends and loyal adherents, since this year in the course of a general debate at the United Nations, 25 speeches were given in French against 35 in English or American, 15 in Spanish, 5 in Russian and one in Chinese, we are in a position to demand of the Yankees that they do not sabotage French any more in international organizations.[2]

It is easy to imagine what is implied in a "sabotage" of French as a working language at the United Nations. Someone—presumably an Anglo-Saxon—at a working-committee meeting, observing that all the Francophones had a good command of English, suggested that the translation into French from English and possibly from French into English be dispensed with in the interest of efficiency. The transactions (translation) costs of simultaneous but especially of consecutive translation are high in efficiency, owing to loss of time or accuracy and of intimacy in two-way communication.

It is highly desirable for Americans and British to know enough French, German, Italian, Spanish, and perhaps Russian to be able to receive in those languages, or some of them, even if they transmit only in English. But world efficiency is achieved when all countries learn the same second language, just as when the different nationalities in India use English as a *lingua franca*. There is much to be said for the national unity which comes from one's own language, and this sometimes works, as Hebrew in Israel, and sometimes not, as Gaelic in Eire and Hindi

[2] René Etiemble, *Parlez-Vous Franglez?* (Paris: Gallimard, 1964), pp. 239-40, 293-95. (The translation is mine.)