

## GOLD EXCHANGE STANDARD IN ITS 40<sup>TH</sup> YEAR OF ABOLITION: JACQUES RUEFF RE-VISITED

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**ABSTRACT** While the post-war international monetary system that evolved under the leadership of the U.S. dollar has secured credit abundance – and hence contributed to global growth – the system has also revealed its deficiencies already by 1950’s. In contrary to the 1930’s when the world’s main problem was chronic deflation; two decades later, the problem has become chronic inflation and fiscal deficits. Since then many blamed the indiscipline of the Keynesian school of thought and the inability of the U.S. dollar to become a global “public good” by being a stable international currency. In this Policy Brief, I overview the many aspects of the post-war international monetary system through the lens of the post-war French economist, Jacques Rueff, and question the applicability of his long-proposed gold standard in today’s highly integrated and speculative money markets.

### Introduction

On August 15<sup>th</sup> 1971, the U.S. President Richard Nixon abolished the direct convertibility of the U.S. dollar to gold, which ended the gold exchange standard of the Bretton Woods system. Since then, the U.S. dollar, without any real back up, became the global fiat money, dropping gold’s long-run legacy as the world’s reserve currency. Though the debate about the role of the U.S. dollar within the

international monetary system began back in the 1960’s, the unilateral abolishment of the convertibility of the U.S. dollar to gold in 1971 intensified opposing arguments towards the current monetary system. Many thought that the system that established the U.S. dollar as the world’s reserve currency did not provide a global “public good” that secured a stable world currency and this fact, they argued, led to boom and bust cycles in the global economy.



In about every 18 months, the global economy experiences some sort of a monetary convulsion. Such experiences, during the last 10 years, were felt in different parts of the world that included Latin America and most of Asia. One of the core ideas was that the Fed created credit was responsible for the boom and bust cycles in the global economy that led to financial bubbles in different parts of the world.

Today, we are living in a world where capital controls have been dismantled in most countries; a move that deeply affected national equity and bond markets through rapid flows of foreign money. Referred to as “Casino Capitalism”, today’s world money markets are being operated by traders who move billions of dollars worth of monetary assets around the globe without much structured overseeing by governments. This system also brings along currency speculations, giving way to massive destructions. As the dollar based monetary system is volatile and vulnerable to substantial shifts in exchange rates, a lot of international firms choose to hedge. This can be considered as a part of the cost they must incur for operating in a global economy without a stable exchange rate.

In this Policy Brief, I investigate the post-war Bretton Woods monetary system through historical, political, economical, philosophical, and structural perspectives, and analyze the positive and negative aspects of a potential alternative – i.e. the gold standard. In the first section of the brief, I recount a short history of the post-war international monetary system, explaining how dollar based growth around the globe evolved in a way that led

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to inflation, global imbalances, and fiscal deficits. In the second section, I put forward the ideas of some of the most influential post-war thinkers such as Keynes and Hayek who widely influenced the monetary system. In this section, I also bring out the ideas of Jacques Rueff – the protagonist of the brief – explaining how he constituted a middle way between Keynes and Hayek but was generally disregarded during the post-war economic structuring period. In the third section, I analyze the alternatives to Dollar – namely Euro and Yuan – where I reveal the incapability of these currencies to be the world’s reserve currency. After analyzing Dollar, Euro, and Yuan, in the fourth section, I question the applicability of a return to the gold standard in today’s highly integrated global economy in reference to Jacques Rueff who had put forward this idea more than 50 years ago. I then conclude in the fifth section by arguing that the gold standard, in today’s global economy, could only be applicable through the strengthening of multilateral global governance.

### **The History of the Post-War International Monetary System**

Even by the early 1950’s, the postwar world had begun to fulfill Roosevelt’s dreams of Pax-Americana. American statesmen – imposing liberal Wilsonian values – had reconstituted a global political economy, in which Europe and Japan had once again become the centers of commerce and finance. Many developing nations in Asia and Latin America had also started to benefit from the abundance of capital and liberal trade regime within this

system. The newly created system required the U.S. to continuously incur fiscal deficits so that global growth could be secured. The postwar U.S. governments were pressed to fulfill the simultaneous demands for more arms and welfare, and for more public and private investment and consumption, which were all covered by fiscal deficits and easy money.

Under the Bretton Woods monetary system, the key element of this new regime was the U.S. dollar. The gold standard was already abolished during the interwar years, and the new Bretton Woods system had brought along the gold-exchange standard under which the U.S. dollar was established as world's the reserve currency – replacing the previous Sterling in line with the Britain's declining role in world politics. Accordingly, the dollar was fixed to gold at a rate of 35 USD per ounce, and all other world currencies were tied to the U.S. dollar. The experiences of the Great Depression that erupted in 1929 were key during the structuring of the Bretton Woods system. During the 1930's, the main challenge that the global economy faced was deflation and the scarcity of capital. Within this perspective, what worried the Americans about the Gold Standard system was that not only a great amount of the world's gold reserves were stocked in the Soviet Russia and South Africa, but also that the amount of gold was not large enough to secure a world economy that could operate under a liberal trade regime. Moreover, as the principles of Keynesian school of thought would confirm, a U.S. economy that operates under fiscal deficits would also trigger inflation – which in turn would diminish the U.S. gold reserves as would be required under the

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discipline of the gold standard. On the other hand, under the gold exchange standard, the U.S. – as the issuer of the world's reserve currency – could instead finance its deficits by spreading inflation to the rest of the world.

While in the 1930's the main problem of the world economy was chronic deflation; two decades later, it became chronic inflation. During most of the 1950's, the Eisenhower Administration struggled with the inflationary tendencies generated by huge jumps in the U.S. military outlays initiated by the Korean War. Additionally, neo-Keynesian fiscal doctrines, popularized to rationalize a tax cut in 1964 could be summoned to justify federal deficits under almost any circumstances. Inflation and the worsening balance of payments were the natural consequences.

Although the flood of expatriate dollars was welcomed in the late 1940's and 1950's – when Europe's growth and prosperity depended heavily on American credit – by the 1960's, the Bretton Woods system and the international role of the dollar started to become an issue between the U.S. and the other actors of the global economy, which first and foremost included the Europeans. French President, Charles de Gaulle, in a press conference in 1965, criticized the international role of the dollar, saying that the U.S. and the U.S dollar had an "exorbitant privilege" that no other country previously had. General de Gaulle argued that because the Bretton Woods made the dollar the indispensable reserve currency, Americans could print their money at will and the rest of the world would have to go on accepting it due to international settlements. Having regarded the situation

as economically unfair and politically abusive under the Bretton Woods system, the U.S. was able to “export inflation” to Europe without any consideration. For de Gaulle, the only solution to prevent such an outcome was going back to the gold standard. Dollars, he said, were an unacceptable foundation for the international economy because they had no real value. By contrast, gold had a “nature that did not change” and “was held eternally and universally, as the unalterable fiduciary value per excellence” (Chivvis, 2006, p. 713).

There is little doubt that the French theorist and economist, Jacques Rueff was the one who influenced General de Gaulle in 1965 to organize such a conference, where he related the global power of the U.S. to the role of the dollar and called for a return to the gold standard. I will talk more about the theories of Rueff in the following sections, yet it is necessary, for now, to mention that his campaign to return to gold began in 1961 and focused largely on the problems of the dollar and the US deficits. Rueff feared that US deficits would destroy the international economy and thereby the unity of the democratic and non-communist West. At the same time, Rueff claimed, the indiscriminate growth of dollar reserves abroad posed a threat to the world credit system. As the amount of dollars abroad increased, the capacity of the USA to redeem those dollars for gold would diminish. A collapse of the dollar seemed likely if speculators began to lose their confidence in the dollar since dollar had no real value to back it up. This could result in a mega deflation around the

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globe. Similarly, the 2008 global economic crisis can also be attributed to such a loss of confidence among the investors.

Despite Rueff’s, and in general France’s, efforts to make radical changes within the global economy and the international monetary system, the adjustment did not reflect his suggestions. By mid-1968, the U.S. administration was having great difficulty maintaining the exchange rate of the dollar – given the high military spending for the Vietnam War and high civilian spending for Johnson’s Great Society Program. In addition, American producers were complaining that the dollar was overvalued – which limited U.S. competitiveness. Under Bretton Woods, the dollar was convertible to gold at a fixed parity and therefore was impossible to devalue.

The solution that the U.S. Administration found for these challenges was the “New Economic Policy” that was introduced by the President Nixon on August 15, 1971.

The centerpiece of the Policy was abolishing the convertibility of dollar to gold indefinitely, along with controls on domestic wages and prices. With this new policy, Nixon complemented the chronic inflationary tendencies with frequent depreciations of the dollar. When wage and price controls were lifted in 1973, American inflation

exploded, spreading to the rest of the world.

Having said that, by 1973, the global inflation could no longer be blamed exclusively on the Americans. In 1968, a powerful wave of strikes had erupted in



France and later spread to the rest of Europe. To calm down the protestors who were asking for more generous social rights, a welfare state and wage increases, several European states, notably France (but not Germany) increased government spending and hence adopted an inflationary course parallel to that of the United States.

While the main source of American inflation was military spending, particularly because the Vietnam War was dragging on, in Europe, too much social spending was adding on to the global inflation that was already generated by the Americans. The eruption of the First Oil Crisis in 1973 and the quadrupling of the petroleum prices had further worsened the situation, causing the United States to experience the worst recession since the 1930's. Lacking the American dollar's privilege to inflate their way out of the oil crisis, the damages of the First Oil Shock were felt more in vulnerable Western Europe, which in turn led to excessive government debts.

The Carter Administration that took the office in 1977 continued implementing Nixon's expansionist formula. Through their neo-Keynesian recipe, they offered the Europeans to join them in expanding their economies so that the rest of the world could be taken out of recession. However, the Second Oil Shock of 1979 forced the Americans themselves to abandon the expansionist formula. The appointment of strong-minded Paul Volcker as the Chairman of Federal Reserve in 1979 brought a complete change in American monetary politics. Volcker who believed that there had to be an abrupt monetary check to prevent dollar's fall – managed to end the stagflation crises of the 1970's.

However, when Reagan was elected as the U.S. president in 1981 – under whom the United States faced huge increases in military spending – the monetary rigor could only continue along with deteriorating fiscal deficits. As Volcker continued his tight monetary policy in this period, the United States – given the low domestic savings rate – had to look for alternatives to finance the increases in its military spending. The only remaining alternative for the U.S. Treasury was to borrow most of the world's free capital. High interest rates in the U.S. both attracted investors, and kept the floating dollar valuable. Since then, there have been sharp deteriorations in American trade and the U.S. current account deficit, also known as the "twin deficits."

### **The Theories of Jacques Rueff: Under the Shade of Keynes and Hayek**

For the purposes of our discussion, the visions of two theorists who had significant impacts in shaping the postwar economic structures are particularly important. These theorists are namely John Maynard Keynes (1883-1946) and Friedrich Von Hayek (1899-1992). Therefore, I will first begin with brief introductions of the theories of Keynes and Hayek. Then I will move to Jacques Rueff (1896-1978) – the protagonist of the brief – and will try to portray the post-war system through his eyes.

#### **▪ John Maynard Keynes**

According to Keynes, probably the most influential twentieth century economist, national economies of 1920s had stabilized at a low point because people wanted to save more than entrepreneurs



wanted to invest. Under existing productivity levels during the interwar years, wage levels – held up by the unions – were too high. High wages were obstructing entrepreneurial projects, which in turn led to low investment, and hence high unemployment. Meanwhile, interest rates, already low, could fall no further because savers would refuse to risk their capital. Keynes thought that this was a vicious cycle that could only be broken by the government. Governments had to boost demand and investment, preferably through spending on public goods. As David Calleo puts it, the market equilibrium required an enlightened government intervention to work properly.

Believing in the self-destructive instability of capitalism, Keynes argued that national economies had to be manipulated as a solution. The eruption of the Cold War also helped Keynes receive the necessary support for his ideas. Under the threat of a common enemy – the Soviet Union – the transatlantic allies had to cover the syndromes of the interwar years' capitalism, which were deflation, low consumption, and unemployment. Fiscal deficits and easy money were needed in order to secure growth and prosperity. Keynes, in other words, was suggesting an alternative for the post-war system that would combine national interventionist economies that would secure full employment with a liberal international order.

From the monetary perspective, this required abundance of capital and fiscal deficits. While the triumphant Americans were insisting on a global economy based on free trade and easily convertible currencies after the war, Keynes, on the other hand, struggled to create a monetary regime with enough leeway for the national demand management that he prescribed. He imagined a world central

bank under technocratic direction – the “Clearing Union” that was his high goal for the Bretton Woods Conference in 1944 (Calleo, 2001, p. 75). In this regard, the post war system included the International Monetary Fund (IMF), but the IMF fell far short of Keynes' hopes. Instead of a “clearing” international currency, the U.S. dollars would be the world's reserve currency.

#### ▪ Friedrich Von Hayek

The Keynesian system had brought growth and social consensus in post-war Europe up until the 1960's. However, the new prosperity that emerged under the Keynesian spending led to a new problem. In the decade before World War II deflation was the biggest problem. However two decades after the war, the problem was rather becoming chronic inflation. Hayek held the Keynesian system responsible for this emerging problem.

Criticizing the post-war international economic structure in the democratic West built on the ideas of Keynes, Hayek argued that combining communitarian democracy with communitarian welfare inevitably meant spiraling government debt. Hayek believed that financing the rapidly mounting deficits after the end of World War II inevitably meant monetizing them. This had led to an accelerating inflation that threatened private capital, destroying liberty and economic efficiency.

For Hayek, the principal function of the states was to enforce egalitarian rules to govern the market economy. While Keynes had emphasized the destabilizing tendencies of the market economy, Hayek referred to the dangers of unlimited state power. Unlike Keynes, Hayek believed that



the states had the responsibility for stable money supply. The state had to supply the money under a disciplined approach. The dollar system that had emerged under the United States was causing global imbalances throughout the world due to the lack of discipline within the system. Americans – under the populism of democracy – were inflating the global economy. For him, it was this laxity within the system that was causing recessions and crises in the global economy. Central banks and the market economy had to be governed under established rules.

By the end of his life, Hayek was being referred to as the sage of “neoconservatism” in America and “Thatcherism” in Britain. Though not as popular after the end of World War II, Hayek’s liberal theories represented an escape from the disruptive characteristics of the post-war welfare system in Western Europe – which the states had difficulties financing starting from late-1970’s. His teachings were also embodied in the European Union’s drive to achieve monetary union around the strict fiscal and monetary regime imposed by the Maastricht criteria and the subsequent Stability and Growth Pact.

#### ▪ Jacques Rueff

Whether it is the declining stance of France as a world power, or French President Charles de Gaulle’s anti-system character, the ideas Jacques Rueff – the French theorist and economist – were mainly overlooked during the formation of the post-war international economic structure. Rueff represented a school of thought that fit somewhere in between

Keynes’ and Hayek’s – with a closer stance to Hayek.

Although Rueff, being a high-level servant of the state, did not share the strong liberal views of Hayek, he also believed in the connection between a free market and liberal democracy – as well as the thesis on democracy’s inflationary proclivity. Rueff was especially insistent on the link between stable money supply and liberal political order. Within this perspective, he was anti-Keynesian and believed that governments were taking the first steps towards totalitarianism and the destruction of liberty, “thus threatening the foundation of the Western civilization and culture” (Chivvis, 2006, p. 704).

In Rueff’s view, therefore, the only legitimate aim of monetary policy could be price stability. Like many in the conservative liberal group, Rueff’s formative experiences were during the interwar period. He believed that returning to Gold Standard, which had collapsed during the interwar period was the only solution for price stability and discipline. Believing that discretionary monetary policy would never be able to meet the money demand, Rueff offered gold standard’s automatic adjustment of supply and demand for money.

Other than his exceptional support for the gold standard, what distinguished him from Hayek was that Rueff thought free market was in fact compatible with social spending. Unlike Hayek who argued that the state had to distance itself from pursuing “distributive justice” or caring for the helpless, Rueff argued that free market was by itself, not sufficient for society. He believed that the state would

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naturally have to become more generous in aiding the less fortunate and provide basic services. However, there also had to be a limit to this aid, and this limit had to be based on the state's capacity to raise revenue. For Rueff, the free market was an artificial creation of human ingenuity, not something that had arisen spontaneously from nature. He thought that the liberal economy was a particular, advanced stage of human development that rested on a complex set of historically evolved legal institutions, which themselves required the full support of the state (Chivvis, 2006, p. 706). A stable monetary system was vital to support the free market under these institutions, which meant discipline under the gold standard.

Pointing out that the price of gold had been fixed since the 1930's and the price of other goods had risen substantially since then, he proposed an increase in the price of gold, which would also be beneficial to the USA with its substantial gold reserves. Rueff recognized that the gold standard needed constant adjustment of the parities and therefore he did not think that the gold standard was indestructible. However, his vision did not demand a radical departure from the Bretton Woods principles or the institutional arrangements other than the gold-exchange standard. For him, the supra-national institutions were needed utmost to back up the order that would be enhanced by the gold standard. In other words, Rueff hoped for the continuation of the Bretton Woods system with the critical exception that the gold standard replaces the gold exchange standard – to which the U.S. dollars were fixed as the reserve currency.

Just like Hayek, Rueff feared the populism of the democracy. He surely recognized

that any country could voluntarily limit its money supply without the discipline of the gold standard. However, he believed that this would never be possible under the democratic system where governments were obliged to satisfy the demands of the electorate.

On the opposite side, a French philosopher, Raymond Aron dismissed the argument for gold as a thing of the past, "like sailing ships and oil lamps" (Chivvis, 2006, p. 710). His idea was that the expanding world economy required more liquidity, and if the United States was to correct its balance of payments, the global economy could face with a credit crunch that would be similar to the Great Depression of 1929. While economists such as the Belgian Robert Triffin saw these deficits as necessary; Rueff regarded them as dangerous. Rueff's lifespan was not long enough to see the 2008 global economic crisis when his thesis was confirmed. The core of the crisis was not the scarcity of the capital, but rather the abundance of unregulated capital.

Before analyzing the applicability of the gold standard in today's conditions, let us expand the discussion to two other currencies, Euro and Yuan, which also have global aspirations in the international monetary system.

### **The Problems of Alternative Reserve Currencies: Euro and Yuan**

By the early 1980's, the U.S. trade account deficits had turned into current account deficits. Despite surviving both the Reagan Administration and the Cold War, the U.S. current account deficits set new records in the 1990's – despite the few years of improvement at the end of the Cold War. Under normal circumstances, it would be



quite exceptional for a country to hold such large deficits for such a long period of time. Yet, the role of the U.S. dollar and the large size of its economy made the United States as an exceptional country. In other words, the U.S. used its huge economic size and hegemonic monetary power to induce the rest of the world to finance its deficits.

During the Cold War, American deficits were one of the main pillars that secured the functioning of the global economy. Following Europe's recovery, American deficits were used to finance the growth of Asia – thanks to the U.S. purchasing power that enabled the country to become the main market for the Asian goods. Since then, America's bilateral trade deficits have been primarily with Asian countries that first started with Japan, then included the "Asian Tigers" and finally continued with China. Within this perspective, today we see a disconcerting interdependence between China's growth and the American indebtedness.

Another striking characteristic of this system was that the special position that the U.S. held in the global economy due to its ability to export the U.S. dollars, caused the formation of a huge pool of unregulated capital. Though this capital might be considered beneficial due to its contributions to global growth, its unregulated nature under the hands of private investors, gave way to manipulations and speculations throughout the world. This was, in a way, the United States' abandoning of its commitment to provide a stable international currency, or a "public good," as the logics of the Bretton Woods agreement would require.

**The emergence of the Euro was a reaction to the United States' inability and laxity to fulfill its commitment to supply a stable international currency that would contribute to the world's liberal trade regimes.**

The role of the U.S. dollar within the international monetary system has been debated since then. The emergence of the Euro was a reaction to the United States' inability and laxity to fulfill its commitment to supply a stable international currency that would contribute to the world's liberal trade regimes. Frustrated Europeans, vulnerable to the dollar and even more vulnerable to volatile exchange rates among themselves, began planning a monetary union with a single currency. On January 1<sup>st</sup>, 2001, 12 EU members gave up their own currencies and adopted the Euro.

Regarded from a positive perspective, a common currency eliminates transaction and hedging costs. Not only does it make the prices more transparent and hence increases the competition, but it also increases cross-border investment among different European countries. More than 10 years after its establishment, Euro has, in fact, succeeded in these aspects, becoming the currency of Europe. However, it is doubtful whether it has reached such a success level in the international arena. First of all, it is hard to say that the European Union, which had introduced the Euro as the world's alternative reserve currency, has a political union that is equivalent to that of the United States. European bond market is not united as every Eurozone country is issuing its own Euro bonds, which causes diversification in interest rates. This also leads to misperceptions in determining the value of the Euro. As there is no single Euro bond market, the European financial markets are not as deep, sophisticated and liberal when compared to American markets. In other words, trying to impose



a homogenous monetary union in such a diverse area can be expected to be more damaging than the extra cost of exchanging currencies or the costs that come from shifting the exchange rates. Europe's inability to respond to the Greek crisis in a timely manner also revealed the political differences between Eurozone countries. Such experiences increase the suspicions of investors regarding the future of the Euro, further decreasing their confidence to the currency.

Not only does Europe have less sophisticated financial markets, but also the Eurozone growth rates are very limited. Under the circumstances of a highly globalized world, Western Europe's high costs and sticky regulations threaten to make its home-based enterprises and labor uncompetitive. It is for this reason that a lot of European production shifted away from Europe and moved to Asia. Compared to the booming United States of the 1990s, Europe seems slow in deploying its resources to the industries and services that are needed to sustain the high living standards.

Additionally, Europe's increasing isolation from world politics has also limited the upwelling of Euro as a global currency. Europe seems to be stuck in a mood that can be described as indifference to what is going on outside its borders. According to the IMF statistics, the share of Euro as the world's reserve currency was less than 30% in 2010. That is roughly equal to the amount of Europe's share within the world economy – confirming that Euro's legacy is only applicable inside Europe, but

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not outside. It seems, instead of a world economy where one radical imbalance (the American deficit) sustains another (the Asian surplus), Europeans favored a regime where all countries and regions stay in external equilibrium because they guard their own external balances.

On the other hand, some analysts have put forward the idea that rising U.S. indebtedness combined with China's rising economic and financial prowess would lead to the decline of the Dollar and the rise of the Yuan as the dominant reserve currency. Many have, therefore, drawn parallels between today's situation and

the Dollar replacing Sterling during the inter-war and post-WWII period. Despite parallels in this regard, Yuan also has fundamental limitations. As Papaïouanna and Portes (2008) argues, several conditions – such as the size of the economy, low inflation, exchange rate stability, deep and efficient financial markets, political stability, and geopolitical strength – underpin the currency's international use.

In terms of economic size, China is expected to overtake the U.S. by 2025. Chinese Yuan also seems a suitable match in terms of exchange rate stability and inflation. Yet, China has controls on the capital markets and its exchange rate is quasi-pegged. It is not clear how stable its exchange rate would be once the controls and peg are removed. Its banking system is not market based as the Chinese financial system is under the control of the government. What China lags most in is not having deep and efficient capital markets and a full convertibility of its



currency. Not only is the Yuan not convertible, but also the Chinese bond market is relatively small and illiquid with a limited access for foreigners, which makes investors reluctant to invest in Yuan assets. Last but not least, while China enjoys political stability, it still continues to be unsatisfactory with regards to the rule of law. Additionally, political conditions hold a lot of importance when becoming an international currency is concerned. Countries that do not have close political relations with Beijing will be less likely to acquire Yuan assets – and that includes Japan and India.

### **Gold Standard: Outdated or Ignored?**

Having talked about the vulnerabilities of the U.S. dollar based system, and the deficiencies of the Euro and Yuan to challenge it as alternative reserve currencies, let us carry the discussion to the gold standard – an idea that has not been popular among the post-war economists, but for Rueff:

During the last three months – with the worries that there would be a fall in the U.S. dollar – we experienced huge increases in gold prices. Though many believed that this fall was speculative, in my belief, gold continues to be seen as a standard of soundness, or the commodity to flee to in the times of emergency, as the last store of value that can be counted on. In contrast to the post-war U.S. dollar based global economy that was heavily depended on the manipulation of the monetary system, gold represents discipline and security. In fact, under the gold standard, there is no place for global imbalances, business cycles, inflation, or currency crises.

The soundness of the gold standard is both an advantage and a disadvantage. It is an advantage because all monetary politics are operated under market principles. However, it is also disadvantageous since there is no room for monetary policy. Under this system, there is, in fact, no need for central banks, meaning that governments would have no control over the supply of money and have not ability to manipulate monetary politics when necessary. However, without the manipulation of the monetary system and hence fiscal deficits, the post-war Keynesian economy would not be able to build the welfare states and secure the social consensus. The main problem with the gold standard was that nations were becoming obsessed with keeping their gold, rather than improving the business climate, and therefore contributing to global growth. This, in today's conditions, would mean protectionism and neo-mercantilism. Additionally, world's gold reserves are limited, and gold prices need readjustment once in a while so that the system does not curb global growth.

In this regard, in line with Rueff's views, gold standard also has its limitations. The solution that Rueff has proposed is the operation of the gold standard under the control of the international institutions. In other words, this requires the continuation of the Bretton Woods system, with the exception of reforming its two basic characteristics that were structural and operational. While the first is the replacement of gold with the U.S. dollar as the world's reserve currency, the second requires the diminishing of U.S. influence on international institutions such as the International Monetary Fund or the World Bank – giving way to multilateral governance. Under this system, world's gold reserves would be collected under the IMF, enhancing the creation of additional

liquidity within the Fund. This, in a way, would be the formation of a world monetary system that could bring discipline to gold as a world currency while limiting its mercantilist character through a strengthening of global governance.

Throughout 1966, French officials argued for reforms very similar to those Rueff had put forward. At IMF and G-10 meetings, they complained about the lack of increase in gold prices. They further pointed out that “it was unfair that multilateral surveillance, to which all European countries were liable had never been applied to the USA, in spite of the long standing U.S. deficits” (Chivvis, 2006, p. 718). The common ground between the USA and France was finally found at a 1967 meeting at Rio, where they agreed on the creation of additional liquidity within the IMF. However, rather than gold, the new asset would be called the Special Drawing Rights (SDR), which was a modest victory for Rueff’s France. This new instrument was in fact a drawing right, and not a currency. Rueff has referred the SDR as “nothingness dressed up as a currency.” This defeat of Rueff’s ideas has been considered as the reflection of the relative weakness of French power within the global governance.

## Conclusion

Emerging countries have more and more been demanding better roles in global governance. Politically, this requires a world where the balance of power is distributed equally among different parts of the world, replacing the hegemony of the American system. Though there is a trend towards multilateralism, there is also no regional political union that would be able to challenge the current monetary system.

What Rueff admired about the gold standard was its ability to bring discipline within the international monetary system that could put an end to chronic global inflation, global imbalances, and fiscal deficits. However, on the flip side of the system there is deflation, the rise of mercantilism and the need for periodical price adjustments. A gold standard system that operates under the control of multilateral institutions could end such potential negative outcomes. However, this would require a very high level of multilateralism that would minimize the impacts of politics and populism in world’s monetary decisions – and would rather serve for common interests and perspectives. Within this perspective, while the American global hegemony may show numerous signs of flagging, a balanced and cooperative plural system as a replacement still seems far away.

**Note:** Some of the ideas expressed in this Policy Brief were first mentioned in David Calleo’s “Rethinking Europe’s Future.”

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Global Political Trends Center (GPoT) is a nonprofit, nonpartisan research institution established under the auspices of Istanbul Kültür University in 2008.

Our mission is to conduct high quality, independent and innovative research and education, acting as a link between policy-making institutions, academia, civil society and the media.

The Center aims to achieve this by routinely bringing together opinion leaders, government officials and other policy-makers, analysts and members of the media from Turkey, the region and elsewhere. Our activities range from conducting projects and research that analyze the contemporary social, political and economic trends in regional and international politics and producing policy recommendations, contributing to public debate through roundtable discussions and international conferences to publishing policy briefs and monographs, among others.

In accordance with its mission, GPoT Center has been active in virtually all fronts concerning not only Turkish foreign policy but the current regional and international agenda, including Turkey's European Union accession process, the Cyprus issue, NATO, the Turkish-Armenian reconciliation process, issues in the Middle East and North Africa, national and regional democratization, as well as the Arab-Israeli Conflict.

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