including some Western countries, might be attracted and become definitely attached.

"Some serious thought, in my opinion, ought to be given to these wider, not only financial but political aspects, before such a situation is allowed to materialize."

The fact is, however, that for practical purposes, the world has moved, since the March communique,[8] onto a dollar standard.[9]

Although the objections to a dollar standard are primarily of a political nature, there is also a purely economic objection. The U.S. would, unlike other countries, have no balance of payments constraint. It would be in the same position as any country that ignored its foreign exchange rate, except for the fact that other countries would accumulate dollar balances as reserves. Whereas other countries would have to allocate their monetary policies to preserve balance of payments equilibrium, the U.S. could direct its monetary instruments solely to the achievement of domestic stability. This is consistent, of course, with the fact that in an n-country world, there are only n–1 exchange rates, and only n–1 countries need to pursue independent balance of payments policies, leaving monetary policy in one country free to pursue domestic objectives. At the 1964 Christmas meetings of the American Economic Association, I argued this point as follows:

"Remember that only n–1 countries in an n-country world need adapt to balance of payments disequilibrium. If there is a dominant country in the world economy, that country can and should govern its policies according to the needs of internal stability, and smaller countries can and should adjust to it. There is no more socially useful service a very large country like the U.S. can perform for the entire world than to perserve price stability and full employment for itself, and the instruments needed to attain these goals need not and should not be unnecessarily hamstrung by balance of payments considerations."

While I still believe this to be true, I now feel that it does not leave other countries with satisfactory protection in case the U.S. does pursue an excessively inflationary policy, as it did in 1965–66 and more recently. Kindleberger's suggestion, that Europeans be represented on the U.S. Open Market Committee, makes economic sense, but it may be unrealistic from the standpoint of European and American politics. For these reasons, I believe a dollar standard would not be acceptable in the long run, although it may be necessary as a transitional system. The U.S. may still have to use its monetary policy primarily for the sake of domestic objectives,[10] (erring, when in doubt, on the side of international objectives) ; but it has some international responsibility for helping the other countries to find a satisfactory alternative to the political disadvantages of such a system, and to the economic disadvantages when the U.S. is not able to maintain stability.

The U.S. can, of course, stand pat on the current arrangements, and leave it up to other countries to see its wisdom; this means going along with the two-tier system and accepting a dollar that is, in fact, no longer convertible into gold. But other countries are not likely to accept it in the long run. I think one could expect this to result, eventually, in a coalition against the dollar and the emergence of a Continental currency based on gold or some new asset of their own. (Giscard d'Estaing has suggested a European currency called the Euron.) A two-bloc, or perhaps three-bloc, system would be a likely outcome, with a very large group of countries based on the dollar, another based on a gold-centered European currency, and perhaps another group based around sterling.[11]

This solution is not one that can be ruled out hastily; it may, indeed, turn out to be the most practical one, failing the ability of authorities to agree on a wider international system. But the means by which it would be brought about if the U.S. attempted to impose a dollar standard could invoke bitterness and frustration against the U.S. without any compensating advantages. In true Roman fashion, of course, the U.S. might in fact be able to splinter any coalition

---

[8] Switzerland does not have a par value because it is not a member of the IMF, but the Swiss franc is defined in terms of gold (0.20322 grams per franc). From a formal, legal point of view, therefore, the Swiss franc alone among the world's currencies was devalued by the March communique, since Switzerland maintained her dollar-franc exchange rate. The subject is a sensitive one in Switzerland.

[9] I have developed this point at greater length in "The Collapse of the Gold Exchange Standard," (Address before the Annual Meetings of the American Farm Economics Association at Montana State University, Bozeman, Montana, August 18, 1968, mimeo).

[10] For the mathematics of the dollar standard and the gold exchange standard, see my *International Economics* (Macmillan, 1968), Chapter 13 and Appendix.

[11] I analyzed this system in my *International Monetary System: Conflict and Reform* (Private Planning Association of Canada, Montreal, 1965), discussing a three- or four-bloc system (the fourth was based on the ruble).