the subtle revision of thinking about world monetary policy in the transition phase.

With hardly anybody noticing it, the gold exchange standard in its old form was dead, and the dollar exchange standard had taken its place. All this occurred perhaps years before the formal breakdown of the old system. It was during 1966–67 that the Federal Reserve System completed a full cycle of tight money and easy money consistent with the requirements of the world economy.

I have now told you why I think the system evolved as it did into a dollar-exchange standard, a system in which the U.S. took on a new role and began to adapt its policies to the role of world banker, not just as a key currency center, not just the provider of a reserve money and the intervention currency, but as a world banker in the more comprehensive sense of guiding the monetary policy of the world.

V. The French Attack

It is in this light, I submit, that we have to see the devaluation of the pound, the abandonment of the private gold market, and the situation we now face. More particularly, it is in this light that we have to see the awkward and apparently intransigent policies of the French government.

France was responsible, in part, for the weakness of sterling and the run on gold in February and March of this year. It is my view that these policies were the consequence, not of French ignorance of the way the system had begun to work; it was rather that the French authorities understood it before anyone else! They anticipated what was going to happen, didn't like what they saw, and attempted to change it.

Every economic system evolves to create a dominant money asset. Concede me the point if you will, although I could easily develop the theoretical case for it if I had more time. Then it is clear that for the French to resist the evolution to a dollar standard, they have to find an alternative. A common European currency was not yet in existence, so gold was the only contender, and so it was to gold that the French government had to turn. If the wings of the dollar were to be clipped, it was necessary to build up gold. That was the intention of M. Giscard d'Estaing when he was Minister of Finance, and his policy was backed by de Gaulle and further implemented by d'Estaing's successors.

Now we could go on to develop a plot here. To weaken the dollar it would at first be convenient to weaken sterling, for the dollar would be hurt by a substantial devaluation of sterling. This is consistent with the open advocacy of sterling devaluation by France in the months preceding November, 1967. But I don't want to go too far and attribute entirely malicious motives to the French. There were other reasons besides. I take the French refusal to come to British aid in 1966 and 1967, at a time when the other members of the Group of Ten were helping sterling, at its face value. The French were right. Further assistance to Britain was not only not in the Continent's interest, it was not even in British interest. The British merely piled up more debts and had to devalue anyway. The French were right on this point, and the other members of the Group of Ten were wrong. This much, I believe, should be frankly conceded.

The British devaluation, if it should have been contemplated at all, was insufficient. From the point of view of the trade balance it was more than adequate; but it did not make the necessary allowance for the confidence factor when a reserve currency devalues. Because it was insufficient to restore confidence, it weakened sterling as a reserve currency without restoring equilibrium in the British balance of payments. The British devaluation was (a) more than adequate from the standpoint of improving the flow of the U.K. balance of trade: (b) grossly inadequate from the standpoint of restoring confidence in sterling; but (c) just right from the standpoint of a straddling action that would be consistent with preserving the strength of the dollar.

But the French did achieve their aim of weakening sterling as a reserve currency.

The next step was to weaken the dollar by strengthening gold.

In the gold crisis of March, 1968, there was considerable speculation that the U.S. might close off supplies to the London market, and might even raise the price of gold. (This would involve the clause in the Fund dealing with a uniform reduction in the par value of all currencies. For the U.S. to consent requires an Act of Congress, but it is not out of the question that Congress could act quickly if it were pressed to do so.)