

AN AGREED INTERNATIONAL MONETARY STANDARD

BY ROBERT TRIFFIN

"Men and nations behave wisely . . . after all other alternatives have been exhausted."

If we could trust this quotation, a sensible agreement on international monetary reform should be just "around the corner," for the mounting crisis of the international monetary system amply demonstrates that the only alternative to such an agreement is an impending collapse of the system itself.

The pessimists among us can unfortunately argue that such an agreement has no precedent in world history. Indeed, none of the international monetary standards which we have known in the past has ever been the product of an international agreement. The silver standard, the bimetallic standard, the gold standard, the floating-exchange standard, and the gold-exchange standard of yesteryears, as well as the bizarre arm-twisting dollar-exchange standard of today have all resulted from historical accidents, unforeseen, unplanned, and most often opposed and resisted by our so-called financial and political "leaders." Will they succeed tomorrow in their belated enthusiasm for the demonetization of gold and its replacement by a truly international fiduciary standard: the so-called IMF Special Drawing Rights (SDR's) or "paper gold" dear to Secretary Fowler? I hope so, but nobody can be certain yet that the transition will be an orderly one, and that our "leaders" will be able to spare us a most dangerous intermission of financial and economic disorder, compounded by political bickering that would widen even further the fissures now threatening the Atlantic partnership.

To make sure that we all understand the problem, I shall devote a few minutes to unravel the gibberish in which economists cloak, and often hide. The fundamental issue is that of national monetary power. Its roots lie in the substitution of *national paper money*—i.e. currency notes and bank deposits circulating only within each country's borders—for the *internationally acceptable and circulating commodity monies*—gold and silver—characteristic of the pre-nineteenth century world.

This substitution of man-made money for commodity money is part and parcel of a far broader and irreversible historical, evolutionary trend: the effort of man to assert his control over his physical environment instead of being controlled by it, in the monetary field as well as in all aspects of human life. I have no doubt that this trend will continue and that is why I remain basically optimistic about the long-run prospects of Secretary Fowler's "paper-gold."

This control of man over money, however, could only be organized at first within the framework of each nation-state. Each of the several scores of countries into which the present world is divided issues its own national currency, but can impose its use and acceptability only within each country's own borders. Whenever a country's residents spend more abroad than foreigners spend in that country, its monetary authorities must find some means of settlement acceptable in payment by the foreign creditors. They could, of course, accumulate for that purpose adequate stocks of each and everyone of the hundred odd foreign currencies that might conceivably be needed for that purpose at some future time, but this would be an extremely wasteful and risky process. It is impossible to determine in advance which, and how much, of these currencies will be needed in fact, and any one of them can be unilaterally devalued by its own monetary authorities, or by market forces, at any point of time. The pound sterling, for instance, has lost about 40% of its dollar value since 1949, the French franc 75%, the Brazilian cruzeiro more than 99%. Central banks have thus always sought to accumulate reserves instead in an internationally acceptable asset, devoid of such exchange risks, and against which any foreign currency could be procured if and when needed.

International monetary conferences failed, time after time, to elicit international agreement as to the choice of such a reserve asset, but one of the two traditional commodity-moneys (gold) finally displaced the other (silver) in the