A European view on the dollar and the so-called international liquidity problem

by

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I. Some traditional fallacies

The subject of international financial relationships is very widely covered by economists and also very much in the limelight. In spite of these two characteristics, it is our opinion that many of the views held in America and many of the proposals for reform rest on shaky foundations.

a) There is no similarity between national central banks and any world or regional institution

A central bank, in capitalist developed countries, is a much stronger institution than a private bank, and is run for the common good of the country. The first of these characteristics is transposed to a level higher than the country only where there is a currency bloc; the second is not transposable anywhere, failing powerful regional or universal political institutions.

b) International liquidities are not additive

At the national level, it is possible, using some statistical precautions, to add up the various types of liquidities such as coins, notes, bank deposits, etc... (What one does with the total depends of course of the extent to which one believes in the meaning of the quantity of money.) At the international level, the liquidities are extremely dissimilar in nature: gold is accepted everywhere (except for the moment from the South Africans), dollars are taken by nearly everybody in settlement of a debt, sterling tends to be something to be got rid of, rubles or many of the assets of the I.M.F. are of no use at all in most cases, and no one knows how to count drawing rights or lines of credit unlikely to be used. Thus adding up international liquidities, particularly for
all countries, has no meaning, contrary to what happens when one totalises national products, investments or exports.

c) *A shortage of international liquidities is meaningless*

This statement is derived partly from the preceding point, and partly from the fact that developed countries wanting some currency can nearly always obtain it, provided that they are willing to submit to the creditor's economic and/or political conditions (see Section III below). The danger of world deflation due to lack of international liquidities would materialise only if some important countries, rather than submit to these conditions, preferred to restrict their imports or to interfere otherwise with international trade by some other means. This view is held by a large number of authors, including Machlup (10) (11) (12) and Triffin (15).

We confess we do not feel impressed by this line of reasoning. It rests on the assumption that central bankers can greatly influence the economic policies of Western countries, which is not true in most cases. In 1968, the achievement of full employment and high rates of economic expansion simply cannot be sacrificed on the altar of the golden calf.

II. *A re-arrangement of the balance of payments*

For the purpose of this article, the balance of payments identity can be written as

\[
\text{current balance} + \text{private capital flows (short and long term)} + \text{private transfers} = \text{international credit (short and long term)} + \text{gold} + \text{public transfers}.
\]

The left-hand side of the identity is, of course, the problem to be solved by Western policy makers, and the right-hand side sums up the possible solutions. We shall leave public transfers out of the reasoning, because they are now of little importance between the main actors on the international payments scene — but not without recalling the important role American public gifts played between 1941 (beginning of Lend-Lease) and 1952 (end of the Marshall Plan).

Instead of starting, as writers on international financial matters usually do, with the negotiations leading to Bretton Woods, and following later events, year by year, through the dollar gap and the dollar glut, we shall first consider how international credit is obtained, and only after that, the role of gold. *International credit* will be examined first, in Section III, as a straight bilateral affair, then, in Sections IV and V, with the slight complicating factors of the *key currency* (there is only one pretender left to that once prestigious denomination) and
of the international institutions (seen as they are, and not as their founders had hoped them to be). Gold will be taken last, in Section VI, because at present it is only used in the last resort, and also because the problem of its price is, in our view, more dramatic than really important.

III. Creditors and debtors — The conditions game

In most financial circumstances, the status of the creditor is higher than that of the debtor. When recourse is had to international credit in order to finance a balance of payments deficit, the onus of the adjustment is in fact borne by the debtor. This does not rest on particularly good theoretical economic foundations. The debtor may be indulging in faster inflation than the creditor, or the latter may be neglecting the international obligation of maintaining full employment, but in most circumstances it is difficult to find an obvious culprit for the disequilibrium. One should think that both parties would help in solving the problem: this was indeed Keynes' proposal at the time of his international clearing union, but it lost the day, because America was then the main creditor country, and her negotiators expected her to remain so for ever. So the power remained firmly with the creditor country which can, and frequently does, impose on the debtor four types of conditions:

a) Commercial conditions, similar to those found in private lending: interest, guarantees, timing of reimbursement.

b) External economic policy conditions, i.e. undertaking by the debtor to use some external instruments (e.g. exchange control) rather than others (e.g. customs duties or the exchange rate). The reasons for the priority to be given to some instruments are often good, but sometimes they simply reflect the particular theology of the creditor's policy-makers (1).

c) Internal economic policy conditions, i.e. undertaking by the debtor to « put his house in order » through the use of some unpopular internal instruments (e.g. taxes, or regulations on instalment buying, or limitation of wages and dividends). This type of condition was fairly unfrequent before the second world war, but became more frequent when economic policy tended towards greater sophistication.

d) Policy conditions of a non-economic nature (e.g. stop a war which is unpopular with the creditor, or support him in the United Nations).
The tactics of the creditor are to impose as many conditions as possible, bearing in mind the intensity of the debtor's need, and his chances of finding another source of finance. The United States, as a creditor, were very generous on commercial conditions, considered themselves as the guardians of international rules (mainly those of the IMF and the GATT) on external policy conditions, were liberal with advice — but not particularly pressing in fact — on internal policy conditions (with the exception of pressure on the British since 1965), and on occasions particularly blunt in the use of non-economic conditions. When in 1949, the Dutch Government attempted in Indonesia, what it called a police operation, suspension of Marshall aid gifts and loans was immediately and publicly threatened. For what happened at the time of the Franco-British expedition to Suez in 1956, we refer to Anthony Eden's memoirs (5):

a) First week of November 1956 — page 556:
   « A more formidable threat than Marshal Bulganin's confronted us... The position was made immediately critical by speculation against sterling, largely in the American market or on American account. »

b) Last days of November — page 572:
   « (We) were under heavy pressure at the U.N. to name at once a date for the withdrawal of our forces. In this the U.S. Govern-
   » ment took a leading part. The Secretary of the Treasury,
   » Mr. Humphrey, telephoned to Mr. Butler and made it clear the
   » U.S. would not extend help or support to Britain until after a
   » definite statement on withdrawal had been made. »

c) Beginning of December — page 575:
   « We now found the U.S. Government more helpful on two
   » matters, the support of sterling and the supply of oil. »

The United States also put non-economic conditions on loans to France at the time of the Algerian war, but here it is less clear whether they were as immediately successful as in the other instances quoted.

When France in the 1960's became the main creditor country, it also tried to use its newly acquired financial power, in order to put an end to the Vietnam war. As America was not to be influenced, France refused to participate, through loans, in the support the group of Ten was giving to the dollar.

Of course, smaller countries do not try to put non-economic conditions to their loans, but are quite willing, if they feel secure in a group, to insist on economic policy measures — either through
external or internal instruments — being taken by the debtors. This happened several times in the days of the European Payments Union (1950-1955).

The tactics of the debtor country are:
— to find the softest possible bilateral creditors;
— to negotiate loans from international institutions (see Section V below), thus avoiding non-economic conditions;
— to make half promises on conditions other than commercial;
— to gain time in the fulfilment of promises;
— to sell gold, when it feels its freedom of action threatened on an essential point (see Section VI below).

Such tactics have been followed by most European countries at some time or other since 1945, and by the United States more recently.

Lastly, speculators should be mentioned here, not because they intervene in the conditions game, but as they often make matters more difficult for the debtor, thus helping the creditor.

IV. **Key currencies: an attempt at bossiness**

So far, countries have been treated here as financial equals. In fact, as everyone knows, some are more equal than others: theirs are the key currencies.

In order for a currency to bear this denomination, it must satisfy three conditions:

— it must be of general use, e.g. for settlements between other countries (this condition excludes very worthy currencies, such as the Swiss franc). According to Kindleberger (7): «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.»

— it must belong to a country possessing strong short and long term capital markets (this status is not enjoyed by the European Economic Community countries). Again quoting Kindleberger (7): «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.»
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— it must inspire confidence in the stability of its rate of exchange for the next 5 to 10 years (this leaves out the Pound and the dollar).

Thus, in 1968, there is no real key currency left, but the United States behave as if theirs still was one.

The Pound held key currency status for a very long time, even after confidence in it began to diminish. This was due to a mixture of conservatism, non-economic ties (history, the Commonwealth concept), privileged access to the London capital market and tariff preferences. Nevertheless, the Pound lost the confidence of most continental Europeans when it was devalued in 1931, causing great losses (The Belgian Central Bank lost a sum amounting to more than its capital).

Very similar considerations can now be applied to the dollar, which is still a key currency for countries like Canada, Japan or Mexico, but which is contested (who is not?) in Europe. The rate of exchange of the Pound was held to be the first line of defence of the dollar, and it went last November. The London market price of gold was the second line, and that was breached in March. There remains for the time being, a third line, that is the link between gold and that part of the dollar balances which is held by a dozen Central Banks. After that, the exchange rate of the dollar against some European currencies may be exposed to the full fury of speculators who have much more to win than to lose.

According to Young (16) « the United States is actually an economic giant and the dollar the strongest currency in the world ». We think that the first half of this statement is true, and that the second half is mere chauvinism. Many Americans do not seem to realize the extent of the dislike some Europeans — whether individuals, businessmen, private bankers of Central bankers — have, in September 1968, of holding too many dollars. It may be a matter of taxation, of exchange risk, of the absence of gold guarantees, but it is a fact.

In spite of this situation, or because of it, many voices are heard in America expressing the need for the capitalist world to adopt a dollar standard. Many balance of payments problems would be solved if most other countries joined a dollar bloc, keeping their reserves in dollars, of which there are plenty outside the United States at present, as shown in Tables I and II, prepared by the French Bureau d’Informations et Prévisions économiques (3).
TABLE I
American Balance of Payments Deficit
(All figures in Billions of Dollars)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Paid in gold</th>
<th>Paid in dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952-1957</td>
<td>5,8</td>
<td>—</td>
<td>5,8</td>
</tr>
<tr>
<td>1958-1962</td>
<td>15,0</td>
<td>6,8</td>
<td>8,2</td>
</tr>
<tr>
<td>1963-1967</td>
<td>13,8</td>
<td>4,0</td>
<td>9,8</td>
</tr>
<tr>
<td>Total 1952-1967</td>
<td>34,6</td>
<td>10,8</td>
<td>23,8</td>
</tr>
</tbody>
</table>

Source: « Federal Reserve Board ».

TABLE II
American gold reserves and short term foreign liabilities
(in Billions of dollars)

<table>
<thead>
<tr>
<th>End of year</th>
<th>Gold reserves</th>
<th>Short term foreign liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>1952</td>
<td>22,8</td>
<td>10,0</td>
</tr>
<tr>
<td>1957</td>
<td>22,8</td>
<td>15,8</td>
</tr>
<tr>
<td>1960</td>
<td>17,8</td>
<td>21,0</td>
</tr>
<tr>
<td>1962</td>
<td>16,0</td>
<td>24,0</td>
</tr>
<tr>
<td>1967</td>
<td>12,0</td>
<td>33,8</td>
</tr>
</tbody>
</table>

Source: « Federal Reserve Board ».

We will not enter here into a discussion of the advantages (mainly for private American interests) and the drawback (mainly for the freedom of action of American policy makers) of a wider use of the dollar, seen from the American angle. As Aliber (1) says: « From the U.S. point of view, the ideal arrangement is a world-wide dollar bloc in which every other country holds all of its reserves in dollars and assumes all of the burden of adjustment to imbalance ». But for European countries to be members of a dollar bloc means that most of their
economic policy issues would be settled in Washington. They would be spared some of the anxieties of balance of payments equilibrium, but they would have little say either in their rate of inflation or in their level of employment; and they would lose much of their ability to control their rate of economic growth (this is at present the relationship of Luxemburg in respect to Belgium). What are now delicate choices between better price stability and less unemployment would be left to the decision of the American electorate, Congress and Administration. There is much more in all this that the establishment of Kindleberger’s: «Atlantic Open Market Committee» (7), or Ruff’s (13): «While at the outset the reserve currency would be centrally managed, the other members countries soon would become even more closely associated with its management; until in time a formalized international system with joint responsibility for credit creation might emerge».

The same would apply to political issues. If the United States, for what are to them very good reasons, decide to wage a war which the Europeans do not like — and thus to become more inflationary — the latter will either have to get out of the dollar bloc, with severe shocks to their economies, or to finance America, for an unlimited time and for unlimited amounts; some of them would be bound to think of taxation without representation.

Being in the dollar bloc also means being subjected to American pressures when dollars belonging to countries not formally at war with the United States (e.g. China or Cuba) are submitted to a number of restrictions.

To make matters worse, American proponents of a dollar bloc do not offer their junior partners — as the British did in the bad old days of the Ottawa agreements — easier access to their home markets for other countries’ exports. Instead of the carrot of special inducements, they wield the sticks of new obstacles to imports and fewer troops in Europe. When some Europeans show their reluctance to holding more and more of the Key currency, they are accused of «rocking the boat we are all in». Rocking a boat and leaving it are not synonymous.

V. International institutions: the lost Paradise

During the Second World War, American and British statesmen gave much thought to a new world order through international institutions. The United Nations, the Bretton Wood twins, the stillborn Havana Charter were all parts of an attempt to find world solutions to world problems.
In our field of international finance, the Statutes of the International Monetary Fund — biased as they were in favor of creditor countries — represented an enormous advance in the will of mankind to dominate events. It is thus quite natural to look to the I.M.F. for a solution to the problem of the creation of a currency acceptable at least to the developed capitalist countries.

Now there are two ways in which an international institution can be run. Either its managers, though not overlooking the interest of the country to which they belong, direct their main efforts towards the working of the institution — or they consider themselves and are regarded by their compatriots as permanent negotiators following whatever their country’s general policy may be at the time.

The latter attitude was foreseen by Keynes, in the speech he delivered at the christening of the I.M.F. According to Harrod (6) he said: « I hope that there is no malicious fairy, no Carabosse, whom » some one has overlooked and forgotten to ask to the party. For » if so the curses which that bad fairy will pronounce will, I feel sure, » run as follows: — « You two brats shall grow up politicians; your » every thought and act shall have an arrière-pensée; everything you » determine shall not be for its own sake or on its own merits but » because of something else. »

« If this should happen, then the best that could befall — and » that is how it might turn out — would be for the children to fall into » an eternal slumber, never to waken or be heard of again in the » courts and markets of mankind. »
(The quotation has been slightly shortened by us.)

It seems to us that Carabosse won the day, in spite of brave efforts by the founders of the I.M.F. Can one imagine, for instance, the American representative on the Board of Directors agreeing to an I.M.F. credit to the Netherlands at the time of the « police action » in Indonesia, or to Great Britain at the time of Suez? Or can one visualise a high level policy discussion in Washington nowadays in which someone would say « The French are right, and the I.M.F. should not lend us anything more until we have solved our balance of payments problem by internal economic policy measures »?

In other terms, there has never been, in major matters, a clear dividing line between U.S. political interests and the instructions given to the U.S. representative at the I.M.F. Nor is such a dividing line conceivable, at least in 1968, in the case of any other important country on an important subject. This does not mean, of course, that all decisions taken at the I.M.F. are influenced only by political conside-
rations, or that the interests of small countries are not furthered by international institutions. But it does mean for instance that, in the present American predicament, the insistence on Special Drawing Rights is much more a question of finding credit in the near future without political or unpopular economic policy conditions than a question of optimising the stock of international liquidities — whatever that may mean. Similarly increases in I.M.F. quotas in 1960 and in 1966 — but not, let us say in 1952 — were timed to suit the interests of some world powers only.

It is not surprising, in these circumstances, that the Six countries of the common market should try to protect themselves, by the extension of their veto powers. As Birnbaum (2) rightly says : « The » veto provision would « permanently » establish a formal EEC » right not to cooperate : it supplies a new legal basis on which » Continental Europe can dominate in the Fund. Real reform of » the international monetary system should have made it more diffi- » cult, rather than easier, for countries in chronic surplus not to » cooperate. » This admittedly negative attitude could also help the Six to devise some day the creation of a Common currency — although at present their monetary Committee (4) seems satisfied with mere preliminary consultations on the general working of the « international monetary system ».

Possibly the day will come when decisions will be taken for the good of the world as a whole, and against the wishes of a very major country. But why should this momentous event take place first in international finance, rather than in the still more important field of mutual security, or within the technically simpler realm of agricultural commodity agreements ?

Until such time, one can only paraphrase the chairman of General Motors : « What is good for my country is good for the world ».

VI. The price of gold : an over-dramatised side issue

Some influential people, particularly in continental Europe, will not agree with these two statements :

— gold no longer has any role to play in internal monetary affairs anywhere ;
— gold has no magic value in international financial relationships.

This being admitted, gold still is, and will remain for quite a long time, the main insurance for a debtor country, that it will be able
to settle without submitting itself to any of the conditions attached to borrowing.

To this source of demand for gold one must add, to a fast increasing extent, the requirements of industry, speculation and hoarding. The price of gold was fixed arbitrarily in terms of dollars in 1934 and confirmed at Bretton Woods ten years later. Even if 35 dollars per ounce was the most suitable figure for the adjustment of supply to demand a third of a century ago, this does not mean that it has remained so. Thus, apart from the issues discussed so far — and which were about international loans — there is a problem of the price of gold, which should normally be revised upwards every now and then, preferably after a careful study of the supply and demand curves; this quite independently of any exchange rate or foreign lending problem which might be pending at the time.

Unfortunately, any revaluation of the price of gold in terms of all currencies is also a devaluation of the dollar with respect to gold. And this issue is particularly emotion-rousing, since in the United States (and in many other countries unused to frequent devaluations) the gold equivalent of the currency is placed, by the public, on the same pedestal as the national anthem, the national flag and the head of the State.

As stated in « Economic policy in our Time » (8):

« From the beginning of the war onwards, and in the early post-war years, the United States gold reserves continued to rise. Foreign countries treated dollar holdings as the equivalent of gold holdings; the dollar became the leading international currency. During the period of dollar shortage, the devaluation of the dollar would have been an obvious nonsense. Revaluation would not have been selective enough, in correcting the structural disequilibria between the various exchange-rates. It seemed more appropriate to bridge the dollar gap by providing aid to Western Europe, and to agitate for other world currencies to devalue by varying amounts as against the dollar. This is what happened in September 1949.

» Since 1958, the position has changed; the United States has had a large overall balance of payments deficit, and her gold reserves have been falling rapidly. But there has been strong and almost universal opposition in the United States to the idea of devaluation:

» Some of the arguments are similar to those of the European « classical » Conservatives. This fixity of the exchange-rate between
the dollar and gold is a matter of national prestige: to change it would be to admit to a national defeat.

» Secondly, the United States has had, as one of its major policy objectives in international affairs, the building of a stable economic and monetary system in the Western world. This system should be based on fixed exchange-rates and convertibility.

» Thirdly, since the dollar had become a reserve currency, the devaluation of the dollar would be a severe blow to all the States which held their reserves in dollars. Their confidence in the leadership of the United States would be drastically weakened.

» Finally, a dollar devaluation would be, as it were, a free gift to the two main world gold producers, the Union of South Africa, and the Soviet Union. Obviously the American Government was unlikely to be enthusiastic for a policy of this kind.

» These were the constraints which deterred the American Government from devaluing. »

There is a chance that the price of gold would have been put up already by the I.M.F. if it had been produced mainly by some small neutral powers or, better still, underdeveloped countries. As things stand, the pressure for higher prices comes from existing gold producers (guess why), from France, from speculators and from hoarders.

a) In the French case, there is much more than a yearning for the pre-1914 belle époque or a desire of the President to humiliate the United States in revenge for not being invited to Yalta. Any French government in the 1960's is bound to use the political power conferred by a balance of payments surplus and possibly to reap the internal political benefit of windfall profits by the numerous French hoarders.

b) The speculators are at present a force to be reckoned with, whether they are bearish on a currency or bullish on gold. The way they are depicted in the British and American press appears from the following quotation from the normally cool and collected London Times (14):

« The rush was on because speculators — some avaricious, some panicky, some merely prudent — had become convinced that the U.S. and its partners could not much longer maintain the $ 35 price.

» .........
» If the U.S. could no longer sell gold to all takers at $35 an ounce and the price were allowed to rise to meet the demand, the speculators stood to make a handsome profit, just as they had in the devaluation of the pound sterling last November.

» Having tasted blood then, many scented another kill — and, in their wild buying, ripped and clawed at the remaining gold stocks in the Gold Pool.

» Who were the speculators? The identity of most was veiled in the secrecy of Swiss bankers’ files, but they were situated throughout the world. Perhaps as much as 40% of Swiss bank purchases were destined for safekeeping in the coffers of Middle Eastern sheiks and oil potentates. Latin American businessmen, affluent overseas Chinese, Asian generals — all claimed a piece of the action. The central banks of many smaller nations with precarious national reserve margins, including some Communist Eastern European countries, had undoubtedly joined in to protect themselves. More in sorrow than in greed, European corporations moved into the buying to hedge their foreign-currency holdings. So did some wealthy Americans with numbered Swiss accounts, although it is illegal for U.S. citizens to own gold bullion.»

To a citizen of a country where operating on gold is legal (as nearly everywhere in Western Europe, not to mention Canada), this is very strong language indeed. Why should speculation, even on margins be ethical in securities, copper or silver, and immoral in gold? Anyhow, abuse is not the best way to fight people who, when united, can command 5 to 10 billion dollars.

c) The hoarders are a quite different crowd, in three respects at least
— they are small men, buying generally at the retail price;
— their numbers are vast in France and in India, and growing elsewhere, mainly as a result of the free publicity given to gold by the lengthy discussions on its price;
— the elasticity of their demand is positive in respect to the price. (This is not sure for any individual, but holds for the collectivity of hoarders, the ranks of which can still be swelled to a considerable extent.)

Taking account of all these factors, we shall venture some predictions on the price of gold on the free market: instability in the short term, a tendency to rise by bounds in the medium term, and demonetisation in the very long term, the hoarders being able
to disgorge, if they want to, by selling to industrial users. All this is not very different from the silver story.

However, we do not believe that what happens to gold is the main issue, and we feel much more worried — professionally of course — by the credit arrangements.

VII. Calling other members of the academic Community to the rescue of economists

Use is made of economists by governments when studying international financial problems, and sometimes when negotiations are in progress. To some extent, they are mobilised because of their intellectual qualities. But they are also employed in order to cover political manoeuvring with a cloak of academic respectability. Triffin was considered at first as heretical by American officialdom, but nowadays his advocacy of anti-depression additional international liquidities furthers — no doubt against his personal wishes — the financing of the Vietnam war without awkward conditions on the part of the creditors. On the opposite side, Rueff’s views on the beneficial effects of the pre-1914 gold standard probably do not cut much ice with modern sophisticated inspecteurs des finances, but are convenient to them and to their Quai d’Orsay colleagues who are fond of gold because France now holds a lot of it and can (or could, until June 1968) increase the vulnerability of the dollar. Rueff is also particularly good at showing that the gold gods are particularly severe on countries ridden by inflation. No doubt American economists can be found to prove to the whole of the Western world that economic decisions made in Washington (D.C.) are wiser than any which other countries would arrive at. And the I.M.F. does not lack defensors of its impartial present and future activities.

In our mind, the economic fraternity can help in the solution of such problems as:

— the nature, causes, frequency and size of balance of payments disequilibria;

— the laws of supply and demand for gold (a subject on which surprisingly little has been written);

— what can be a sensible relationship for the sharing of the defence burden between allies, taking account of their average incomes per head (a question on the borderline between economics and political science, which was briefly touched on by NATO in the early 1950’s, and abandoned after the Lisbon conference in 1952).
On the other hand, we do not believe that any array of economic talent can help in solving the major issues under negotiations:
— who will get access to further means of payments (classical, or SDR’s);
— how many of these will be created;
— what will be the conditions
because these are not questions to which professional economists can answer.

The problem in 1968 is mainly that of a political equilibrium between the leader of the Western coalition (the United States) and its junior partners (the British, French and other Europeans, plus the Canadians and the Japanese). This kind of relationship existed throughout the Middle Ages, when the local King requested support from his vassals, and the latter had to weigh the price of this support against the danger of attack by the foreign King. So far, France has broken the feudal bondage, but the others have not; each of them has to decide how many dollars it will hold (as swaps, Roosa bonds, direct loans to the U.S., SDR’s, outright or disguised gifts) and for how long — in return for not becoming another Czechoslovakia. Some particular Belgian problems were discussed by us recently (9).

As Aliber (1) says:

« In military affairs, the smaller European nations — the Dutch, the Belgians, the Italians — and even some of the larger ones have minimal effective sovereignty; the situation would not appear to differ greatly if their military spending were increased by 50 per cent. In monetary affairs, in contrast, their effective sovereignty is much larger; they have been able to limit increases in the IMF quotas, to constrain the design of the new arrangements, and to force the United States to take numerous petty measures to minimize drain on its gold stock. The differences may be inevitable in the technologies or they may reflect different biases in the two institutional systems. »

To which specialists can one turn to provide the answer? Maybe the historian can systematise on the breaking point of coalitions in peace time.

Maybe the political scientist will also find something to say. This has been well perceived by Birnbaum (2):

« The concept of *international monetary power* relates to who holds *international monetary assets, and to who controls their form and issuance. These are two distinct, but closely related, considerations. The first relates to the power of a country to purchase more goods
and services from other countries than it sells to them during a specified period. It therefore concerns international purchasing power — a country's ability to finance international payments deficits. Accordingly, this aspect of a country's international monetary power relates to its stock of international monetary assets, and includes its quick claims to such assets.

"The second consideration involved in a country's international monetary power relates to its ability to influence and control the form and issuance of international money. No country, however important, can influence the international money supply to the same degree that it controls its own national money. To some extent all countries influence what shall be regarded as international money by what they actually accept from other countries in financial settlement. They also wield international monetary power in international forums, such as the International Monetary Fund."

Possibly the last word should be given to the Rand Corporation and the theory of games?

A POST-SCRIPT

Since this article was written:
— peace talks on Vietnam have progressed;
— the dollar has become stronger;
— the French opposition to new means of international finance has somewhat mellowed.

American power in international financial affairs has thus increased. This does not affect, however, most of the views expressed above.
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