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Professor Triffin and the Problem of International Monetary Reform 22 pages

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PROFESSOR TRIFFIN AND THE PROBLEM OF INTERNATIONAL MONETARY REFORM 1/

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In his latest book, Gold and the Dollar Crisis (New Haven 1960, Yale University Press, 195 pages, $4.75), Professor Robert Triffin modifies and expands his criticism of the existing international monetary system and his proposal to replace it by a modernized version of Lord Keynes' plan for an International Clearing Union.

I.

In Professor Triffin's opinion, "the basic absurdity of the gold exchange standard is that it makes the international monetary system highly dependent on individual countries' decisions about the continued use of one or a few national currencies as monetary reserves. . . . The gold exchange standard may, but does not necessarily, help in relieving a shortage of world monetary reserves. It does so only to the extent that the key currency countries are willing to let their net reserve position decline through increases in their short-term monetary liabilities unmatched by corresponding increases in their own gross reserves. If they allow this to happen, however, and to continue indefinitely, they tend to bring about a collapse of the system itself through the gradual weakening of foreigners' confidence in the key currencies" (p. 67).

The key currency countries, and in particular the United States, will not permit such developments to occur. The only alternative, however, is "a substantial slowdown of the contributions to world liquidity derived in the last nine years from the persistent weakening of our net reserve position. The solution of the dollar problem will thus involve a reopening or aggravation of the world liquidity problem" (p. 69).

1/ A German translation of this paper is to be published in the Zeitschrift für Nationalökonomie (Vienna, Austria).

Professor Triffin believes that "the logical solution of this dilemma would lie in the 'internationalization' of the foreign exchange component of monetary reserves" (p. 87), and more concretely, "in the substitution of IMF balances for such national currencies in all member countries' monetary reserves" (pp. 100-101). These balances "should be made equivalent in all respects to gold itself and as widely usable and acceptable in world payments" (p. 102).

To correct the inflationary bias of the original Keynes plan, Professor Triffin proposes to limit both the lending capacity of the Fund and the commitment of each member country to accept Fund "bancor" balances in settlement of its surpluses. For the problem of an annual increase in the supply of bancor through Fund lending "a reasonably conservative solution would be to retain a 3 per cent figure as definitely non-inflationary, and to require qualified votes (two-thirds, three fourths, and ultimately four fifths of the total voting power, or even unanimously) to authorize lending in excess of 3, 4 or 5 per cent a year" (pp. 103-104). As to the commitments of the member countries, all members would be required "to hold in the form of Fund deposits a certain proportion of their gross monetary reserves. All would agree to accept such deposits in settlement of their international claims without limit, but would have the right to convert at any time into gold, if they so wish, deposits accrued to their Fund account in excess of this minimum requirement" (p. 106). Their original contribution would primarily consist of their net creditor position in the Fund, which "would automatically be transformed into IMF deposits"; the difference between their creditor position and their new minimum quota would be covered by surrendering "foreign exchange holdings, i.e., primarily dollar and sterling balances," and for the key currency countries, gold (p. 107).

The initial Fund holdings would amount to $11.2 billion; this amount would include $4.9 billion of gold (i.e., the Fund's present gold holdings plus the new contributions, of which $2,550 million would come from the United States) and $6.3 billion in foreign exchange, of which about half would be in dollars (p. 110). So that the Fund could use its foreign exchange balances "for the conduct of its own operations" (presumably mainly for lending to less developed countries), the Fund would be empowered to withdraw its dollar balances at a rate of between $150 and $750 million annually (pp. 110-111).

Eventually, the remaining foreign exchange reserves of member countries "should also be converted into international Fund deposits, and all member countries should undertake to hold henceforth all of their reserves exclusively in gold and Fund deposits, except possible for small working balances in actively traded currencies" (p. 111). The Fund would then hold about $16 billion in foreign exchange ($9 billion in dollars), and its gold reserve would be "a little less than 25 per cent of total liabilities" (p. 112). Professor Triffin believes that this ratio would not be too low; but to "safeguard the Fund's liquidity both against unforeseen conversions of extra deposits into gold and, in the long run, against the increasing gap between the probable level of the world gold stocks and the desirable expansion of over-all monetary reserves," the Fund could issue "medium-term gold certificates, payable either in gold or in excess Fund deposits and carrying a higher rate of interest than liquid Fund deposits" or could raise the minimum deposit requirements (p. 114).

Fund transactions would include not only clearing operations and advances at the initiative of the borrowing country, but also "open market operations, or investments, . . . at the initiative of the Fund itself" (P. 115). However, "these operations would be . . . always of course in agreement with the monetary authorities of the countries concerned. Such agreement would be necessary in any case to attach to these investments the same guarantees against exchange and inconvertibility risks as those which protect the Fund's own deposit liabilities" (p. 117).

Regional sub-unions would perform functions similar to those proposed on a world-wide basis for the reorganized International Monetary Fund. The most important one would be the European Clearing Union, which "based on a close alliance between sterling and other European currencies would tend to develop gradually into a powerful monetary center, susceptible to assume an international role comparable to that of London before 1914" (p. 127). A sub-sub-union would be established for the members of the European Community, as a potential step toward currency unity; the first measure of monetary coordination "would be to authorize the use of the European unit of account in all international, and even national, capital transactions throughout the Community's territory" (p. 142).

II.

Professor Triffin, like most economists, calls the present international monetary system a gold exchange standard, but this name is not quite correct. It is actually a reserve currency standard. Of the two reserve currencies, the pound sterling is not freely convertible into gold at a fixed rate, and the gold convertibility of the dollar rests on a decision of the U.S. Secretary of the Treasury, which can be changed any day. Sterling and dollars are used as reserves not primarily because the holders believe that they can exchange them at will into gold but rather because they believe, first, that they can use these currencies themselves in settlement of many if not all international transactions, and second, that they can exchange them at will and at stable rates into any other currency they may need in such settlements.

This mistake in nomenclature involves a mistake in substance. By focusing on the relation between reserve currencies and gold, Professor Triffin gives an incorrect picture of both the basic virtues and the basic defects of the present system. This will become apparent through a discussion of his three main attacks on the efficiency of that system.

First, Professor Triffin contends that the "use of national currencies as international reserves" is "totally irrational" (p. 90). On the contrary, this use is totally rational, and much more so than the proposed use of an international token. It is rational for a country to accumulate reserves of those currencies which it is most likely to need in settlement of international payments deficits, i.e., obviously those of the main trading and financing countries of the world. Because most world trading and world lending is done in sterling or dollars, it is indeed more surprising that some countries decide to keep part or all of their reserves in gold than that others decide to keep them entirely in sterling and dollars. The custom of keeping reserves in gold is mainly a relic of the days when gold was used as an international (and in many countries as a national) means of payments rather than, as today, exclusively for international reserves. It remains rational only as long as the main trading countries (and especially the United States) are willing to accept gold in exchange for their national currencies. In contrast, the use of sterling and dollars as reserves remains rational as long as the United Kingdom and the United States are the leading commercial and financial countries of the world.

It is true that bancor or some other token issued by an international organization could, by agreement among the leading countries, be given the same legal acceptability as gold. However, the acceptability of gold is based on a tradition dating back to the beginning of our civilization; the acceptability of bancor would stand and fall with the willingness of the leading countries to abide by their agreement. Recent experience does not permit much optimism as to such willingness: many countries seem to break international financial commitments whenever it suits their purposes. In recent months we have seen one leading commercial and financial country, a model of international rectitude (and indeed the home of the International Court of Justice) change the par value of its currency without bothering to consult with the International Monetary Fund in advance, as required by Article IV, Section 5 (b) of the Fund Agreement. Several other countries that had solemnly accepted the obligations of currency convertibility have instituted exchange restrictions without bothering to request Fund approval, contrary to Article VIII, Section 2 (a). These actions were taken not to meet emergencies, which might leave no room for legal niceties, but merely because the authorities believed, on rather doubtful grounds, that the illegal actions were more convenient than legal conduct would have been. Under these conditions, central banks might be inclined to be sceptical of promises to accept bancor as if it were equivalent to gold.

A symptom of the "irrationality" of the reserve currency standard for Professor Triffin is his belief that it has led to a "form of 'unrequited' lending by the rest of the world to the main creditor country. This added to the difficulties which the United States already confronted in developing a sufficient level of <u>net</u> capital exports to finance its large surpluses on current account" (p. 68).

To deplore the "unrequited lending" of capital-poor countries to the reserve currency country, which forces that country in turn to increase its capital exports, sounds like deploring the "unrequited lending" of capital-poor industries to their banks, which forces these banks in turn to expand their credits. It is the essence of banks to receive funds they do not need themselves and to make these funds available to those of their depositors who need them. This type of "lending" does not deprive the capital-poor countries of funds which they otherwise could use more productively: insofar as they need reserves -- and they keep liquid dollar balances only to that extent -- they cannot use these funds in their own economy, no matter whether the reserves consist of gold, of bancor, or of any other form of money. Under the reserve currency standard the interest paid by the reserve country slightly lightens the burden which the holding of reserves imposes upon capital-poor countries. In this respect the reserve currency standard is better, for capital-poor countries, than the gold standard, and neither better nor worse than the bancor standard.

There is more merit in Professor Triffin's second objection that "sudden shifts from one currency into another or into gold may endanger the position of the key currencies actually used as foreign exchange reserves by central banks" (p. 122). They _may_ do so indeed, if central banks as well as private holders lose confidence in those currencies. Professor Triffin does not point out the basic difference between actions of foreign private and foreign official holders of key currencies: foreign private holdings have little if anything to do with the reserve function of these currencies, and are kept only for the convenience of having balances in those currencies which the holder is most likely to need and to use. The substitution of bancor for dollar and sterling in monetary reserves would not alter the desire of U.S. exporters to be paid in dollars, and of U.K. exporters to be paid in sterling, so that prospective importers and other international debtors would continue to keep balances in these currencies.

The possibility of sudden shifts in private holdings from one currency into another will thus remain, unless not only official but also private holders are forbidden to own liquid dollar and sterling assets. And if the reserves of the country losing capital are not large enough to stand the shift, that country will have to borrow the necessary foreign exchange, then as now, from the International Monetary Fund or from foreign central banks. Professor Triffin's plan may make such borrowing easier, or more automatic; but if larger or more automatic international borrowing facilities are necessary, they can be established without changing the basis of the international payments system.

Professor Triffin's third objection touches on a more decisive issue. It is quite true that the present system does not provide for any automatic increase in international means of payments, other than through the admittedly insufficient increase in the supply of monetary gold. The questions remain, nevertheless, whether it is desirable to provide for automatic increases, and whether the present system cannot supply needed increases without automatism.

Professor Triffin recognizes that his proposal to increase world reserves automatically by 3 per cent annually is arbitrary. It so happens that an average increase of that magnitude has indeed occurred in recent years, but there is no theoretical or empirical reason for believing that the same proportion would prove to be correct in the future. Domestic needs for increases in money supply have varied greatly from time to time and from country to country. Inflationary pressure has often continued when increases were less than 3 per cent a year, yet much larger increases have often been necessary. The possibility of changing the percentage from time to time would not help much, for it would be difficult to gather clear evidence of inflationary or deflationary pressure in time to avoid serious consequences. Domestically, inflationary or deflationary pressures soon reveal themselves through general changes in prices and in the balance of international payments. Internationally, the economies of different countries are not closely enough interwoven to make price changes uniform, and the surpluses and deficits in international payments cancel out by definition. The adequacy of any given increase in international means of payments would therefore always be a subject of controversy, and there would be always enough countries interested in additional international credit creation to veto any attempt at reducing the rate of annual Fund lending. Professor Triffin's proposal is therefore subject to the same danger of inflationary bias for which he criticizes the original Keynes plan.

Moreover, Professor Triffin's preoccupation with gold has made him overlook the possibilities of an adequate increase in international means of payment inherent in the reserve currency system. Apart from increases in the supply of monetary gold, means of payment are created not only by accumulations of foreign exchange that correspond to a decrease in the net reserve position of reserve currency countries, but also by credit transactions that increase the gross reserves of all participating countries without decreasing their net reserves. Like the creation of credit money in the domestic economy, this process occurs whenever commercial or central banks of different countries extend to each other mutual credits or invest in foreign Government securities, bankers' acceptances, or commercial paper. The International Monetary Fund can participate in the process by using its authority under the existing Articles of Agreement

(Article VII, Section 2,i) to borrow currencies from member countries for the purpose of relending them to other members. In this way, any necessary increase in international means of payment can be accomplished without any need for fundamental changes in the international payment system.

III.

Professor Triffin correctly observes that the present system of international payments can work satisfactorily only under two conditions: first, that the monetary authorities of the reserve currency countries follow policies safeguarding the convertibility of their currencies at stable rates; and second, that the monetary authorities of other leading countries retain confidence in the success of these policies of the reserve currency countries. By concentrating on the relation between the gold and the foreign exchange component of reserves, however, Professor Triffin fails to draw the correct conclusions from these observations.

The reserve currency countries share the need to follow stabilizing policies with the rest of the world. In addition, however, the reserve currency countries must also avoid policies that appear to be destabilizing, whether or not they are so in fact. Moreover, if the monetary authorities fail in their task, they cannot use the crutches of currency depreciation or exchange restriction available to other countries, without destroying the reserve character of their currencies. In these respects, the freedom of choice of reserve currency countries is indeed more closely circumscribed than that of other countries.

This limitation is not as serious as it seems. If convertibility at stable exchange rates is indeed necessary for the maximum sustainable growth of world trade and finance, the leading commercial and financial countries of the world have a particularly great stake in the maintenance of such convertibility. Because these countries are, not by coincidence, also the reserve currency countries, they would in any case have to be more concerned than other countries about following stabilizing policies and avoiding depreciation and exchange restrictions, regardless of the reserve character of their currencies.

It is true that the reserve currency standard, like any standard based on credit, stands and falls with the confidence of the rest of the world in the reserve currencies. If this confidence is easily shaken, if the monetary authorities of other leading countries are willing to shift their reserves into gold at the slightest provocation -- whenever the reserve currency countries show a cyclical deficit in their international payments, whenever they adopt expansionary monetary or fiscal policies to overcome cyclical recession or lack of secular growth, or whenever interest-rate differentials or market rumors lead to movements of volatile private capital -- in other words, if the monetary authorities of the rest of the world are unwilling to do their part in maintaining the reserve currency standard, then this standard can indeed not be maintained.

The reserve currency standard needs international cooperation among central banks to assure the maintenance of confidence, not just to improve its effectiveness but to make possible its survival. Lack of such cooperation on the part of all countries concerned was the cause of the crisis of 1931, and lack of such cooperation would assuredly lead to similar crises in the future.

The need for continued confidence, however, is the basis of all international monetary standards and not just of the reserve currency standard. The bancor standard would become untenable if it lacked the confidence of the monetary authorities of the leading countries: no international agreement could prevent them from abandoning a shaky bancor just as they would abandon a shaky dollar or pound sterling. Indeed, a pure gold standard would collapse if confidence in the convertibility of gold at stable rates into the main currencies of the world were shaken (as at would be under the proposals made last year, perhaps not quite seriously, by the London Economist and by Professor Machlup).

Cooperation need not necessarily take the form of organized international or regional institutions. Confidence is a delicate plant, and perhaps it can be best preserved if the cooperation of central banks remains voluntary and flexible. Any rigid organization might give the monetary authorities of the reserve currency countries a false sense of security and blunt their efforts to maintain the stability of their monetary system; or it might circumscribe the freedom of choice of its members so narrowly as to hinder rather than promote appropriate policies. The loose organization of the present IMF is already regarded as so bothersome that violations of the most fundamental provisions of its Articles of Agreement are routine occurrences. Attempts at institutionalizing cooperation of central banks might invite similar behavior.

It has been suggested that central management of the international monetary system is just as superior to voluntary cooperation of central banks as in the United States the central management of the Federal Reserve System has been superior to the cooperation of correspondent banks under the National Banking Act of 1863.

This analogy is misleading. Cooperation of commercial banks cannot be a perfect substitute for central banking because commercial banks are run for profits and central banks for the public welfare. There is thus an inherent divergence and at least potential conflict between the purposes of commercial and central banking, but there is no such divergence or conflict between the purposes of national and international central banking. It is true that central banks act primarily on the basis of their national rather than of some international interest; but at least for the leading countries, national welfare is so clearly dependent upon an orderly international monetary system that a serious conflict seems unlikely in the long run. Short-run conflict between international and national interest -- for example, action to promote domestic stabilization may, under certain cyclical constellations, temporarily hamper international stabilization, and vice versa -- require for their solution nothing more than patience and understanding on the part of the central banks and the public in general.

Nevertheless, it is quite true that, if the reserve currency standard is to be preserved, all major central banks must be willing to forego once and for all the chance of keeping all their reserves in the form of gold. There is simply not enough monetary gold around; and even if there were, the prospective future increases in the supply of monetary gold would not be large enough to finance a reasonable increase in world economic activities. However, this same willingness would be required in order to establish a bancor system or any other system not based on 100 per cent gold reserves.

IV.

The reserve currency standard is, at present, going through a period of serious trials. Professor Triffin is wrong, however, in attributing these trials to the inherent weakness of the standard rather than to the essence of a free market economy. Consequently, he overrates the possible contribution of his plan to the solution of the most troublesome problems.

In a market economy, every country is continuously subjected to inflationary and deflationary forces, which balance out only by a particularly lucky coincidence or as a result of almost super-human wisdom on the part of the monetary and fiscal authorities. As a rule, one or the other force will prevail at any given moment, and monetary and fiscal policies will only be able to avoid extreme imbalance by reversing disequilibrating movements whenever they threaten to get out of hand. Moreover, these movements will not be perfectly coordinated from country to country, and they will therefore continually produce surpluses and deficits in the international payments of the individual countries.

The reserve currency countries, being the largest commercial and financial countries of the world, will also tend to have the largest variations in their balances of international payments. Their corrective actions will likewise affect world trade and finance more strongly than those of smaller nations. The special responsibilities of reserve currency countries make them particularly sensitive to the threat of inflation; it might be feared, therefore, that their policies would tend to be overly deflationary. The continual rise in prices and wages both in the United States and in the United Kingdom, however, does not indicate that fears of such a bias in the actual policies of these countries would be justified.

The policies of the leading countries would influence the world economy in any event, regardless of the international monetary system. The steady surplus in Germany's international payments troubles the rest of the world not because of the existence of the reserve currency standard but because a steady surplus of the world's third-largest commercial nation is bound to absorb an excessive amount of international reserves, whether these reserves consist of gold, dollars, pounds sterling, or bancor. Unless the reorganized International Monetary Fund were willing to increase immediately the issue of bancor as soon as one country absorbs too much, the German surplus would have a deflationary effect on the rest of the world under Professor Triffin's plan exactly as it does today. And if the Fund were willing to offset any such accumulation, there would soon be too much bancor and the excess would have the same effects on world inflation and especially on world confidence in bancor, as an excess of dollars and sterling would have under the present standard.

The main disturbing elements in international trade and finance are national imbalances, and these elements are likely to persist, regardless of the prevailing standard of international payments.

For example, the <u>only</u> immediate effect of the establishment of the bancor standard would be the transfer of all foreign liabilities and the corresponding domestic assets (including deposit account) from the Federal Reserve Bank of New York and the Bank of England to the International Monetary Fund. The transfer of assets and liabilities from one institution to another in itself does not solve any problem unless the transferring institution had been insolvent while the recipient institution is not. The only ways in which shortcomings of the present system could possibly be remedied by the transfer would be: if the transfer affected the policies of the depositors (e.g., by increasing their confidence in the solvency of the institution); if it affected the policies of the institution in relation to its assets; or if it affected the policies of the institution in relation to its liabilities.

The transfer would thus make sense if the leading central banks had lost confidence in the dollar and sterling but had confidence in bancor. The assets of the institution would not have been increased by the transfer; on the contrary, the depositors would have been deprived of those very large assets of the Federal Reserve and the Bank of England which would not have been transferred to the Fund. Consequently, this change in confidence could be expected to occur only if the announced policies of the Fund would seem wiser to the depositors than those followed by the Federal Reserve and the Bank of England.

The change in policies could reflect either a greater or a smaller willingness to create new deposits by means of lending. Although a more expansionary policy would be in the interest of the world economy if the policies of the United States and the United Kingdom had been too contractionary it seems doubtful that announcement of such a policy would be the best method of increasing the confidence of the depositors. Announcement of a less liberal policy might indeed increase confidence; however, Professor Triffin's main objection to the present system is its tendency to fail to increase international means of payment as fast as necessary, and an even more conservative policy of the Fund would certainly not be consistent with his purposes.

The change in policy could also affect the investments of the institution, which at present consist almost exclusively of gold and securities of the U.S. and U.K. governments. The gold holdings of the Fund would be very much smaller in relation to deposits (according to Professor Triffin's calculation, less than 25 per cent) than those of either the United States (ratio of gold to foreign official dollar holdings still about 170 per cent) or even of the United Kingdom (ratio of gold to official sterling holdings of foreign countries still more than 30 per cent). The decisive change in investment policy would thus not concern gold but rather those assets invested at present in dollar and sterling securities.

Professor Triffin is silent on this point in his present book. However, his reference to the ideas of the Hon. Maxwell Stamp (p. 118-119) as well as remarks in other writings make it clear that Professor Triffin expects the Fund to reinvest much of the present dollar and sterling investments in credits to less developed nations. Such investment would certainly please those nations, at least until they realized that the United States would reduce its direct contribution to foreign aid by the equivalent of its indirect contribution through the Fund; but it would hardly increase the confidence of the Fund's main depositors.

There is only one point in which the Fund might seem to promise greater safety to its depositors than do the present reserve currency countries. Professor Triffin mentions (in the sentence on page 117, quoted above, which refers obliquely to Article IV, Section 8, of the Fund Agreement) that Fund deposits would benefit from the gold value guarantee that covers all Fund assets and liabilities, but he wisely refrains from elaborating this point.

Experience with gold value guarantees has not been encouraging: even in the United States, where the inviolability of contractual rights is considered an essential part of the Constitution, the Supreme Court has ruled that the power of the Congress over monetary matters includes the right to disregard gold clauses. Moreover, the Congress has specifically declared (Public Resolution of June 5, 1933) that such clauses are against public policy. The experience of all other nations (including the United Kingdom and, needless to say, Austria) has been similar. For this reason, it is unlikely that central banks will put much faith in gold or gold value clauses.

It is true that creditors, including central banks, look for any means to protect their rights, whenever the international climate shows signs of tension. In such a situation they may prefer a gold value clause to no guarantee; some of the credits granted by European central banks to the Bank of England on occasion of the recent capital movements out of sterling were reportedly in the form of gold "swaps", which would have the same effect as a gold clause. If, however, central banks believe that their foreign exchange holdings need such safeguards against devaluation losses for credits extended in times of crisis, there are simpler ways to give such guarantees than by overturning our system of international payments. For instance, the proposal to have the Fund borrow and lend scarce currencies (under Article VII, Section 2, i) would give the same protection to emergency credits as the Triffin plan.

V.

To sum up, there is nothing in the proposed new organization to suggest that it would work better and would gain the confidence of the monetary authorities of the world to a greater extent than the present system. As Professor Triffin appears to realize, if the proposed system is to avoid periodic crises, it would have to be based not so much on the economic interest of the monetary authorities but rather on the legal provision that would prevent those authorities from withdrawing their deposits when they lose confidence. There is no reason why the leading countries of the world should undertake such an engagement; why they should deliver themselves bound hand and foot to the mercies of the Fund management; and why they should be expected to honor their engagement at the critical moment.

In spite of all these objections, the Triffin plan has been more favorably received than any other recent proposal to reform our international monetary system. The reason for this success is its political appeal to many important pressure groups in international economic life.

The plan appeals to nationalists outside the reserve currency countries because it seems to promise the end of the dominance of the United States (and the United Kingdom) over international finance. And it appeals to isolationists inside the reserve currency countries because it seems to promise the end of the influence of international considerations on the domestic monetary policy of these countries.

To the less developed countries it seems to promise annual aid of $1-1/2 billion (the $850 million which the Fund is supposed to withdraw annually from the United States and the United Kingdom, plus the great bulk of the $750 million or so by which the Fund is supposed to increase its deposits annually through credit operations) -- without requiring them to justify the need for assistance to a critical U.S. Government and Congress.

The plan appeals to adherents of central planning as it would substitute central management for market forces. It also appeals to inflationists who believe that the safeguards envisaged by Professor Triffin will not suffice to prevent the new organization from following "easy money" policies. In particular, it appeals to inflationists within the United States and the United Kingdom who believe that the plan would enable the present reserve currency countries to engage in policies leading to large deficits in their international payments.

Many conservative economists and politicians who would be inclined to oppose any radical innovation are worse than useless in a defense of the reserve currency standard. They either call for a return to the "classical" gold standard, or want a system of freely fluctuating exchange rates. Both groups join in much of the criticism of the present system uttered by the advocates of the Triffin plan even though they draw opposite conclusions from that criticism.

Faced with this phalanx of powerful opponents, the defenders of the reserve currency standard are sadly disorganized. The classical gold standard had its well-defined "rules of the game"; no serious attempt has been made to formulate similar rules for the currency reserve standard -- perhaps because many economists have failed to realize that this standard is more than a variant of the gold standard and is different from the interwar gold exchange standard.

Yet two obvious basic rules are, first, the need for reserve currency countries to avoid policies undermining confidence in their currencies, and second, the need for the central banks of non-reserve countries not only to avoid large shifts of official funds between reserve currencies and gold but also to act as buffers if private holders of reserve currencies engage in such shifts.

There is, however, no authoritative analysis of what actions of reserve currency countries may be needed to support confidence and what actions may undermine it. Interest rate policies, cyclical and seasonal stabilizing policies, developmental policies, central bank intervention in the money and exchange markets -- all these factors obviously play important roles in influencing international confidence, but their roles have never been subjected to exhaustive theoretical or even pragmatic discussion.

Similarly, there is no critical review of what actions of central banks of non-reserve countries may be needed to sustain the reserve currency standard and what actions may endanger it. There has indeed been cooperation among central banks, especially on the occasion of the sterling crisis following the revaluation of the German mark and the Netherlands guilder; and there have been practical discussions among the leading financial countries on the possibility of improving the framework of cooperation. These discussions, valuable as they are, cannot take the place of comprehensive theoretical analysis.

Even more fundamentally, a theory of the reserve currency standard itself is lacking. Since the war there has been no work comparable, say, to Professor Machlup's analysis of the interwar gold exchange standard. It might be easier to defend a system if its essence were less of a mystery.

Nevertheless, some hope remains that the attacks on the reserve currency standard may fail. All practical and at least some theoretical economists know that the acceptability of money, domestically and even more internationally, is a slow process: it needed two world wars and the great depression for the dollar to supplement (and in part displace) the previous traditional means of international payments, gold and sterling. No doubt the day will come when changes in the international economy will make some new form of international payments more appropriate. At present, we cannot foresee either the character or the timing of those changes. It would make little sense to abolish existing facilities and to devise new institutions to serve needs of which we know nothing.

Furthermore, the very attacks on the standard may stimulate the theoretical and practical work needed for its defense. Professor Triffin, whatever the merits of his theoretical statements and practical proposals, has started the first serious discussion of the basic problems of the reserve currency standard. For this, if for no other reason, he has earned not only the gratitude of his colleagues, regardless of their attitude toward his views, but also the right to be counted among the foremost economic thinkers of our time. Even if many of his answers prove wrong, he has asked many right questions on the international monetary system of the free world.