Monetary Planners as the Masters of Denial

by Murray N. Rothbard

[*The International Monetary System* • By Robert Solomon • Harper and Row, 1977 • 381 pages; and *The Origins of International Economic Disorder* • By Fred Block • University of California Press, 1977 • 282 pages]

At the end of World War II an all-powerful United States succeeded in imposing on the Western world its major economic war aim: the Bretton Woods international monetary system, establishing fixed exchange rates and the dollar as the base of world currencies. That system was thought to be engraved in stone; yet by the end of the 1960s Bretton Woods lay in ruins.

But this was only one part of the monetary history of this century. Since World War I the leading nations have been stumbling and bumbling in their approach to international monetary affairs. The world has been pulled in and out of fixed exchange rates, various degrees of fluctuating exchange rates, international collaboration, harsh "beggar thy neighbor" monetary and economic warfare, various forms of partial reliance on gold, and different kinds of pound, dollar, and "paper-gold" standards.

During this same period, the world has suffered from myriad monetary crises; runs on gold, the pound, and the dollar; and jerry-built agreements that are supposedly eternal but that collapse in a few months. (The Smithsonian Agreement of December 1971, which President Nixon hailed as "the greatest monetary agreement of all time," collapsed within a year and a half.)

One would think that being on the inside of many decades of careening one step ahead of monetary chaos might induce a sober, even cynical, spirit — that it might lead the insider to call for keeping one's metaphorical air-raid shelter well stocked and at the ready. But such is not the case with Robert Solomon, a Harvard PhD, for many years a leading insider as the Federal Reserve Board's chief international economist, and now enjoying R&R at the Brookings Institution.

On the contrary, Dr. Solomon's view from the top is almost incredibly benign. Not only is there no sense that any real crises ever took place, but Solomon's book is an outstanding example of what has been called the "Whig theory of history," readily summed up as the thesis that "whatever was, was right." And so, regardless of what flop of a plan was adopted by the United States or the Western world, even if it lasted only a few months, it was *right for that time span.* Considering the somber record of international money in this period, "Whig theory of history" is a kindly label; "Pollyanna in the nursery" might be more appropriate.

Solomon's naïve approach is facilitated by the fact that, although an able monetary technician, he shows no sign whatever of economic understanding, of apprehending the causes of the economic situations he and we found ourselves in.

One example will suffice: After World War II, the countries of Europe and Asia discovered that they could not find dollars to buy in foreign exchange markets. Hence, establishment economists came up with the idea of a mysterious "dollar shortage," a shortage somehow embedded in the structure of world economies and destined to be quasi permanent.

A few years after the dollar-shortage theory was discovered and solemnly intoned, lo and behold! the world began to experience a dollar glut; the world was increasingly awash in dollars. The turning point, in fact, can be pinpointed: 1950. Some of our more perceptive economists have since taken to ridiculing the prophets of the permanent dollar shortage.

Not so Dr. Solomon, the quintessence of establishment man. No, for Solomon, such a view is unkind; instead, displaying no insight whatever into the causes either of the advent of the shortage or of its reversal, Solomon maintains that the theorists of the dollar shortage were correct for the 1940s and became incorrect only after the shortage disappeared. To Solomon the causes of these changes rested vaguely in production and postwar reconstruction — important phenomena, no doubt, but irrelevant to whether the dollar is short or in plentiful supply.

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The *pons asinorum* of economics is to realize that aggregate concepts like "production," "spending," "unemployment," or "shortage" are meaningless except in reference to the question, *At what price?*

The dollar was "short" before 1950 because foreign countries fixed their exchange rates too high and the dollar too low. Making the dollar artificially cheap meant that it could not be found in the foreign-exchange markets. As soon as the leading European countries devalued their currencies in 1949 and made them realistically cheaper in terms of the dollar, the so-called structural and permanent "shortage" disappeared, as if by magic. None of this elementary economic lesson has penetrated Dr. Solomon's sphere of knowledge.

But, politically, after all, it didn't make much difference, for the conclusions of the establishment were the same whether the dollar was plagued by shortage or glut. The inference drawn from the "shortage" was that foreign countries could not possibly acquire their own dollars, so the United States *had to* supply them with countless billions of dollar in foreign aid.

Later, when they had plenty of dollars, the conclusion was that the United States had to pump more dollars abroad in order to "enhance their liquidity" (read "promote inflation"). Whatever the contingency, then, establishment economics and politics decree that the US government should pump more dollars into the economy and that some dollars should go abroad to fuel a boom there. In short, the recipe is for continuing worldwide inflation.

While the title of the Solomon book specifies 1945 as the taking-off point of his discussion, the bulk of it is devoted to the period after 1960. Admittedly, it is a lively presentation, chock-full of facts; and while the book is hopeless for economic interpretation or analysis, it is a useful compendium of what happened.

Don't look, however, for *real* inside dopester material or any sort of keen critique of plans, suggestions, or personnel. *That* sort of material can be expected only of *ex-insiders,* preferably embittered ones. Solomon's personal inside material is limited to the "how prescient I was to submit that report" variety.

The author's politicoeconomic views are, as to be expected, *echt* establishment. Viewing every event and proposal since 1945 as marching onward and upward into the light, Solomon is quite simply delighted with the current jumbled mess of an international monetary order: a cooperatively "managed" (others would call it a "dirty") float of exchange rates, with that annoying commodity, gold, being supposedly phased out, and with Special Drawing Rights (SDR) — a harbinger of a future world-reserve bank issuing a new world paper currency.

If the US establishment were ever able to bludgeon West Germany, Switzerland, France, and other "hard money" countries into it, that sort of world reserve bank is what we would have, enabling us to have continuing "controlled" worldwide inflation with no international economic conflict.

There are enough facts in Solomon's book, however, for alternative explanations and viewpoints to peep through. Thus, the "phasing out" of gold has been proclaimed by US authorities (the main opponents of gold) for many years, but gold is coming back stronger than ever — witness its recent price rise to more than $160 an ounce (after its enemies, for the umpteenth time, maintained it would never go above $130), and witness the fact that after January 1978 central banks will, for the first time in decades, be able to buy gold on the market without restriction.

Also, one can piece together from Solomon's work at least the outlines of the most fascinating international politicoeconomic struggle of the post-World War II period: the attempt of Charles de Gaulle to combat US-dollar imperialism by stressing and returning to gold. De Gaulle's attempt was defeated early by the inflationary effects of the economic concessions to the French "revolution" of 1968. But gold, as a commodity dug out of the ground and therefore not totally subject to political control and unlimited creation (as is paper currency), is and will be the major weapon by which the West European anti-inflationary countries can try to counteract the continuing inflationary thrust of American state capitalism.

The leading American official on international money matters is the undersecretary of the treasury for monetary affairs. During the post-World War II period the major holders of this post were Paul Volcker (now powerful head of the Federal Reserve Bank of New York) and his successor, Jack Bennett. It is not surprising that Solomon either doesn't know or doesn't care that both men were heavily in the Rockefeller ambit, Volcker at one time serving as personal representative of David Rockefeller on international monetary matters, and Bennett having worked almost two decades for Exxon. Both men were the major militant opponents of gold and advocates of fiat paper in this era. Perhaps this was not a coincidence.

While the Solomon book is at least chock-full of facts, Fred Block's work has no redeeming feature. Block seems to know far less about economics than does Solomon; indeed, especially on monetary matters, Block seems to have a genius for error. He understands not at all the intimate connection between the supply of money and inflation of prices — the cornerstone of monetary economics. Block's naïve faith that socialism or collectivism will cure inflation simply lacks any theoretical or empirical backing whatsoever.

One would think that a socialist would at least be alive to international economic power struggles, but the major disappointment of the Block book is that it is even less helpful than Solomon's, which at least provides some of the facts. There is not a word in Block's discussion about de Gaulle's gold policy and the gold-vs.-dollar struggle, not a word about Volcker, Bennett, and the Rockefeller connection.

Even when Block discusses the origins of the Marshall Plan and mentions the key role of William L. Clayton as undersecretary of state, he says not a word about the critical fact that Clayton's own cotton brokerage firm of Anderson, Clayton & Co. benefited from a multimillion-dollar cotton contract under the Marshall Plan.

We are still looking for good sense and understanding on the development of the current international monetary mess. That analysis would have to combine the insights of economic theory and of power politics, a knowledge of the influence of the quantity of money on prices and on exchange rates, and a sensitivity to the use of money to advance the power and wealth of privileged interests. In short, a rare blend of the best of' "right-wing" and "left-wing" analyses.