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A Rube-Goldberg International Monetary Mechanism - The Dilemmas of the Dollar, The Economics and Politics of the United States International Monetary Policy by C. Fred Bergsten

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A Rube-Goldberg International Monetary Mechanism — The Dilemmas of the Dollar, The Economics and Politics of the United States International Monetary Policy, C. Fred Bergsten, New York, New York University Press, A Council on Foreign Relations Book, 1975. Pp. xv, 584.

In the spring of 1968, when C. Fred Bergsten was working on the first draft of this book I gave a lecture at North Carolina State University at Raleigh entitled "Our Rube Goldberg International Monetary Mechanism." One young man came up after the lecture to ask "Who is Rube Goldberg?" Knowledge in this field has doubtless deteriorated today. For the benefit of those born after 1950, Rube Goldberg was a cartoonist who imagined mechanical devices of great complexity to achieve simple tasks, for example, an alarm clock which when it reached a certain time would release a mouse from a cage to eat through a piece of cheese preventing a trigger on a spring from firing a gun. With the cheese consumed the gun would destroy a string, holding down a gas balloon, which on rising would . . . etc. The metaphor came back to me as I read the last chapters of Bergsten's book, the completion of which was delayed by his service in the government.

It is not the diagnosis of the problem that I object to. The early chapters of the book are admirable in analysis if somewhat turgid in their use of social-science jargon and unduly given to words like "viable," "systemic," "meaningful," "options," "ongoing" and the like. Bergsten describes the gold standard as it was operated at the peak of British economic preeminence. He analyzes effectively the several roles of the dollar as intervention, vehicle and reserve currency in the post-World War II period until the late 1960s, and sketches the difficulties in the interval between the wars when the system was not maintained by anyone.

Moreover, his description of the breakdown of the postwar dollar standard is difficult to fault. He perhaps argues more that it was unpleasant for the United States than would Susan Strange, whose Volume II on International Monetary Relations written for the British equivalent of the Council on Foreign Relations appeared also last year in Andrew Shonfield's *International Economic Relations of the Western World, 1959-1971* (London, Oxford University Press, 1975), and who takes the view that the United States benefits outweighed costs by a great deal and that it was the other countries in the system that suffered from it. United States income declined from 40 percent to 25 percent of the world total. Countries like Germany (with or without its EEC partners) and Japan, and belatedly the oil producers, achieved a position in the world economy enabling them to rival and in some instances to overtake the United States in reserve holdings, foreign trade, income per capita, rates of growth, and found, on that account, a subsidiary role in the world monetary system unacceptable. The dollar became overvalued — but no one has said exactly when or how, nor does Bergsten. It was time for a New Deal, and Bergsten tries to sketch its lineaments.

First he disposes of alternative courses, eliminating the dollar from the system on the one hand, and moving all the way to a pure dollar standard — here ambiguously called "crowning the dollar" — on the other. As every reader of policy memoranda will realize, Option A at one extreme and Option C at the other are nonviable, and the task is to find a middle road. This occupies most of the book. Bergsten wants adjustment via exchange rates — he doesn't much care whether wider bands around fixed parities, frequently changed parities, or flexible rates — but with international rules and surveillance. He wants international liquidity provided by the issuance of Special Drawing Rights (SDRs), again agreed internationally, with some provision, difficult to work out on paper before actual negotiations, on converting into SDRs the so-called "dollar overhang," dollars held by foreigners which are in excess to central-bank and perhaps foreign private felt needs. Central-bank swap arrangements would be retained to take care of crises, although this aspect of the system is mentioned rather than developed at length. He is tolerant of central banks that prefer to keep gold among their assets. It is in trying to wrap up flexible exchange rates, SDRs, dollars, other national currencies, gold, the overhang, and so on that the ingenuity of Rube Goldberg comes to mind. Sometimes exchange rates should change, sometimes not. This fact calls for "presumptive indicators" and "international guidelines" against which international surveillance holds sway. The SDR takes over the reserve-currency role of the dollar, but not the intervention or vehicle-currency roles, and even the reserve-currency role not all the way, as room is left for dollars and gold. The SDR has to be improved by eliminating the provisions for reconstituting initial allocations every five years, and limits of three times initial allocations, but equal complexity is provided by the suggestions for correcting the dollar overhang, with a special issue of SDRs those who want to convert dollars, which is kept open against the possibility that dollars later are transferred from a willing to a previously unwilling holder. To prevent Gresham-law instability among SDRs, national currencies and gold, central banks have to announce the proportions in which they choose to keep their reserves, and stick to them.

But what if this particular mouse does not like cheese, or Rube forgets to set the alarm clock? It is easy to recognize that the United States and all other countries are becoming more mercantilistic, that the United States no longer wants or is acceptable in the role of running the international monetary system as a dollar system. But this does not sanction building a system by starting with proposition A, finding objection to it B, which is met by qualification C, leading to exceptions D, E, F. This is to repeat the silliness in trying to square the circle of making the SDR as good as gold, but no better than the dollar, when gold was better than the dollar, by provisions for reconstituting, in case no one would hold them, and limits to excuse any one country from having to hold too much.

More fundamental than the wasted ingenuity, I suspect, is the fallacy which runs through the work that because something is necessary it is possible. Reform is necessary, Bergsten says frequently (*vide* pp. 494, 557). Therefore it must be possible. Compromises must be found. But contemplate a position, say between Israel and Syria, where one country says it wants to exist, the other that it must be destroyed. Compromise is not always possible.

In the instant case of an international monetary system, we have a public good. Public goods are typically provided, when at all, by government. Generally, international government does not exist. Generally public goods are underproduced because of the free-rider principle, also embodied in the slogan "Let George do it," or "Pass the buck." The United States was able and willing to provide the international public good of managing the dollar as international money. It is no longer willing or able to do so. But that does not mean that it is or will be easy to get international agreement on rules to provide the public good. The more likely outcome is no international money, *i.e.*, flexible exchange rates which give rise, on occasion, to disputes like the present one over the yen, with the United States thinking the yen ought to be revalued, the Japanese taking a different view, and no possible means of reconciliation. A tug of war is possible but unlikely, given still vivid memories of competitive exchange depreciation. We limp along on the international limping standard.

Bergsten of course knows this. While this book was in preparation and in press, he, more than most economists it is fair to say, has predicted impasses, trade wars, confrontations with developing countries, international economic turmoil, *sturm und drang.* He writes a lot, and says a lot of things, not all of which turn out in the passage of time to continue to bear the ring of truth. But this book in hard cover suffers particularly from a short half-life. The SDR is on the shelf. Issues of presumptive indicators and overhangs have given way to recycling, debt rescheduling, the need for stability as seen at Rambouillet and Jamaica, not to mention the New International Economic Order which would like to see a little exchange-rate order provided as a backdrop for the many demands of the developing countries. The dilemmas of the dollar continue in abundance, but they are not limited to those set out by Bergsten, nor is their resolution along his lines inevitable or even likely.

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