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The International Monetary Tangle: Myths and Realities by Guillaume Guindey

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The International Monetary Tangle: Myths and Realities. By Guillaume Guindey. White Plains, New York: M. E. Sharpe, Inc., 1977. Pp. 121, $10.00.

An analysis of the post-World War II international monetary order — initiated by the Bretton Woods Conference in 1943, disturbed by the dollar's devaluation in 1971, and partially restored by a system of floating currencies — is a task requiring total comprehension of the economics of international exchange rates, credit flows, and the gold standard. In *The International Monetary Tangle: Myths and Realities,* Guillaume Guindey demonstrates that it is possible to explain this perplexing system within a relatively few number of pages. While the book presents its own intellectual tangle, it is within the nature of international monetary economics to be a complex subject to grasp. Guindey presupposes that the reader has a rudimentary understanding of the Bretton Woods system and sufficient insight into international economics. His intent is not to explain the functions of the system nor to predict the future of the next international monetary order. Rather, he propounds the reasons which caused havoc within the system from 1943 to 1971 and advances a number of lessons to be gained from this experience.

In the first part of the book, Guindey remains objective, outlining historically the development of Bretton Woods and its subsequent disintegration. However, the discussion is tinged with bitterness towards the U.S. and its role in the system's collapse. This underlying temperament explodes, almost to the surprise of the author himself, in the chapter entitled "The Ambiguities of the American Position." American monetary "egocentrism," in his view, is one of the primary causes for the Bretton Woods failure.

Part One is an historical overview of international monetary cooperation separated into three distinct periods: 1943-1958 with the Bretton Woods Conference and the creation of the International Monetary Fund (IMF); 1958-1971 as the period of disintegration and collapse, and; 1971 to the present with the initiation of floating exchange rates. A brief summary of the objectives of Bretton Woods identifies the essentials of a successful monetary order such as the avoidance of quotas and other trade barriers, surveillance of exchange rates short of control, and most importantly, "a system of mutual support to aid countries in balance of payments difficulties." (P. 6). The IMF was established as the embodiment of these objectives and functioned to coordinate international monetary policies without violating the sovereignty of each member nation. However, problems were apparent from its conception. The reconstruction of a devastated Western Europe required immediate attention and the U.S. accepted the role of financial advisor, thus, reserving a special place in the system for the dollar. This event was followed by the fixing of the gold price below market parity which protected the price at which the dollar could be converted into gold.

European monetary cooperation was revived after Bretton Woods to encourage European integration. The Bank for International Settlements (BIS), the European Payments Union (EPU), and the Organization for European Economic Cooperation (OEEC) focused on needs of the European financial community in relation to the remainder of the world. Unfortunately, competition with the IMF and the U.S. abandonment of active support after the completion of the Marshall Plan deemed these organizations ineffectual and subsequently, no viable alternatives were proposed.

The major financial centers of the international community united in the 1960's to resolve the mounting problems facing international monetary transactions. Known as the Group of Ten (later to become the Group of Eleven),[1] this "club" wrestled with issues such as the shortage of international liquidity. A "gold pool" was created in which "banks proposing to buy [gold], instead of competing with each other, would divide among themselves, according to a rule of thumb, whatever amount the state of the market permitted to be bought without destabilizing the price." (P. 32). By 1962, it was apparent that the short-term indebtedness of the U.S. had brought about the notorious "Eurodollar" due to the increased demand for dollars on the European market. The Group searched for an alternative reserve which could universally be used in financial transactions. Consequently, in 1968, the Fund created the Special Drawing Rights (SDRs) for accomplishing the purpose of establishing an internationally controvertible reserve currency.

The devaluation of the American dollar by the Smithsonian Agreement in 1971 marked the end of Bretton Woods and the initiation of floating currencies. The value of the dollar fluctuated sharply between 1971 and February 1975 causing the European currencies to react in a similar manner. With the exception of

1. The Group of Ten included Belgium, Britain, Canada, the Federal Republic of Germany, France, Italy, Japan, the Netherlands, Sweden and the United States. Switzerland subsequently joined to make it the Group of Eleven.

Great Britian and Italy, the EEC countries instituted a grouping of currencies, referred to as the "snake," by which each nation's currency would be maintained within fixed margins when fluctuating against each other but would move as a group in relation to the dollar.

This disjointed effort to stabilize the international monetary system was an attempt to build confidence throughout the international community. In January 1976, the Jamacian Conference was held during which the IMF pledged increased assistance to members, the SDRs were given new reserve value, and the role of gold as a reserve was de-emphasized through the campaigning of the United States.

While the preceding academic discussion is essential to an understanding of the international monetary order, Guindey's evaluation of the lessons of Bretton Woods in Part Two should be read closely as it provides an analysis of the inherent problems of any international monetary order, in essence, the author's advice for future founders of another international monetary system. Guindey insists that the collapse of Bretton Woods was a product of a disunited international community whose sporadic attempts to cooperate and solve the many monetary problems could not overcome the instabilities caused by the volatile gold standard, the growing Eurodollar, and ultimately, the international economic policies of the United States.

Speculation has intensified in a search to delegate the blame for the failure of Bretton Woods. Guindey contends that the primary cause of the monetary disorder was U.S. insistance on keeping the gold price well below the market price so that the dollar would retain its competitive edge. Furthermore, he charges the U.S. with the encouragement of this disruption by refusing to pay its debts in anything but dollars, thereby increasing Eurodollar reserves and aggravating the disparity between the true market price of gold, the established price, and the inflated value of the dollar.

Another myth has evolved in reference to the IMF, its exchange rate policy, and the collapse of Bretton Woods. It is claimed that the Fund's policies were too rigid, discouraging changes in exchange rates. However, Guindey reminds critics that the IMF could only encourage changes in currency rates. Had the Fund ever dared to directly propose or force a change, members would object to the interference as an invasion of their national sovereignty. "The clearest lesson from the past in these matters is that changes in exchange rates not accompanied by a policy capable of eliminating the causes of disequilibrium in the balance of payments run a strong risk of proving powerless to reestablish any durable equilibrium." (Pp. 74-5). It was thus the IMF member-nations' responsibility to recognize and change their policies, not that of the Fund's.

In the final chapters, Guindey outlines many solutions to the past international monetary crisis which apparently were attainable during the era of Bretton Woods but never utilized. A system of controlled floating currency could have been an alternative to the Bretton Woods system had the latter failed to function properly. The other international monetary organizations such as the BIS, the OECD, and the Group of Eleven could also have coordinated their domestic policies to regulate credit flows and reserve movements. The question remains as to why these solutions were never adopted. The principal responsibility is relegated to the United States whose distaste of foreign dependency prevented the use of deficit aid from the IMF and credit from other countries, especially Western Germany and Japan.

Guindey accuses the Americans of monetary "egocentrism" in his description of U.S. international economic practices during the Bretton Woods era. The U.S. was a self-sufficient entity which claimed it could manage its own fiscal and monetary affairs without external pressure. Furthermore, it was unconcerned with balance of payments fluctuations and the accumulation of Eurodollars. Independence restricted U.S. reliance on foreign reserves, financial obligations, and participation in international monetary organizations other than the IMF which it often pressured to achieve its own designs. After this emphatic attack, Guindey admits that

> [W]e have carried to an extreme — perhaps almost to the extent of caricature — this description of the 'egocentric' attitude . . . . It seems, nevertheless, to be one of the causes of the current confusion in international monetary affairs, of the instability of exchange rates, and of the disorder in the gold market. American policy during the last few years has been a factor in the disintegration of Western Europe (Pp. 114-15).

The author concludes with a formula for a future international monetary order. He is convinced that the best system for determining exchange rates should be based on the Bretton Woods objectives with a provision permitting a "temporary recourse" to controlled floating if necessary. The IMF should continue to play a leading role with the great financial centers faithfully communicating with each other to support the system. Finally, the U.S. should begin to incur debts in currencies other than the dollar and change its "egocentric" policies as to allow a new symmetry between the dollar and other currencies.

Guindey provides the substance with which to comprehend the post-war international monetary system and to foresee the problems of the future. His assertion of U.S. responsibility for the Bretton Woods collapse during the midst of the economic crisis reminds all that opinion formed through hindsight is always relatively accurate. Perhaps a greater allowance should have been made for human nature and the immediately perceived economic exigencies at that time. Nonetheless, *The International Monetary Tangle: Myths and Realities* is a worthwhile book to tackle for those who welcome concentrated efforts to understand a subject central to the cohesive operations of the international community.

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