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The French position on the international monetary system at Bretton Woods and after

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1. Introduction

The United States had not entered the second World War in 1941 that the US government provoked, as it were, the launch of international reflections on the post-war monetary system. The trigger was the Lend Lease Act (formally titled "An Act to promote the Defence of the United States") voted by the House of Representatives on February 9th, 1941, by the Senate on March 9th and promulgated by President Roosevelt on 11 March 1941.

Lend Lease marked an end to the United States' isolationist policy which dominated American foreign relations since 1931. The Lend Lease was the financial vehicle for massive military aid, eventually amounting to a total $ 50 billion, to 35 Allied Nations (Britain and Empire, Soviet Union, France, China…) in kind (food, oil, medical items, weaponry, tanks, warships, warplanes…) which was virtually free. Indeed, it was only after long discussions, that the US government finally agreed not to demand a repayment by its recipients after the War, neither in money nor in kind. Like the Marshall Plan in 1947, it served American economic interests by opening considerable military markets for American goods. But there was a price to the Lend Lease, and it was political: a willingness to cooperate in the process of creating a new liberalised international economic order. Consequently, in the process which started in 1941, the

* I would like to acknowledge the invaluable help given by my two brothers, Armand and Bertrand de Largentaye who completed and edited this paper and would like to thank Armin Haas for his comments.

United States was bound to hold a dominant position in the balance of power with the other allied nations.

Not surprisingly, the two prominent protagonists of these negotiations were Harry D. White (Assistant to the Secretary of the US Treasury, Henry Morgenthau) and John Maynard Keynes (Honorary Adviser to the British Treasury), the latter representing Britain and the Commonwealth, the ally which, after the defeat of France in June 1940, was left alone battling for democracy against Nazi Germany. In November 1940, British Prime Minister Winston Churchill had written to the newly re-elected U.S. president asking him for financial support. During the electoral campaign – which occurred while the battle of Britain was raging – Roosevelt had promised to keep the United States out of the war.

In December 1940, on return from a rest-and-recovery cruise in the Caribbean, Roosevelt replied in a press conference, famously recalled as the "garden hose" press conference, that he could not refuse a neighbour his garden hose if it was to put out the fire in his home; furthermore, the best way to keep the U.S. out of the war was to enable Britain remain in it! However, as a condition for ratifying the Lend Lease, Congress insisted on market access to the British Empire.

In negotiating the post-war international monetary system, both White and Keynes believed that the monetary disruptions and "beggar my neighbour policies" of the interwar years which had led to an overall contraction of world trade could only be avoided by organising international cooperation on a large scale.

Let us first recall briefly the economic circumstances which led to the collapse of the international monetary system on which the world had relied until 1931.

The United States had been devastated by the Great Depression which reached its nadir in the years 1929 to 1932, especially in export industries and agriculture. National income had fallen by 52% during those three years and by March 1933, there were 14 million people unemployed. The economy picked up after the "New Deal" programme was carried out in 1933 but contracted again in 1937-38 after Congress sought to cut the budget deficit.

In the United Kingdom, following a short boom immediately after World War I, British industry suffered a slump in 1921-22 from which it never fully recovered – partly due to the restoration in 1925 of the pound's pre-1914 exchange rate and to its return to the gold standard. Unem-

ployment exceeded two million between 1930 and 1935. Unlike the United States which had a large domestic market, British industry was very dependent on its exports, not only to the British Empire. Hence, it was important for the British government to be able to adjust the sterling exchange rate and to keep its monetary sovereignty in this matter.

In the 1930s, French economic policy heeded financial orthodoxy, which focused on price stability and balanced budgets, giving scant regard to economic concerns like production and employment. The world economic crisis reached France in 1931, when Britain finally gave up gold parity and devalued the pound (21 September). The French exchange rate thus lost competitive advantage. As a remedy, mainstream French economic thinkers only imagined domestic deflation. Accordingly, advised by Jacques Rueff (1896-1978), an orthodox *Inspecteur des finances* (senior French official attached to the French Treasury), the Prime Minister Pierre Laval (1883-1945) took a series of deflationary measures by decree in 1935, in particular a 10% reduction of public expenditure and of civil servants' wages.

In France, the ruling class in general had little knowledge of Keynes's ideas nor of the Roosevelt administration's New Deal experience. However, in May 1936, the Popular Front (headed by Socialist Léon Blum, 1872-1950) won the elections and boosted the economy through social measures which were part of its political platform. Léon Blum was advised by Georges Boris (1888-1960), a socialist journalist and political thinker, one of the few who had analysed the New Deal, and published an enthusiastic book, *La Révolution Roosevelt*, in 1934.

However, the devaluation of the French franc, critical to revamp the French economy, was delayed until October 1st 1936, in order to guarantee U.S. and British support. It was only on September 25 1936, that France, the United Kingdom and the United States signed the *Tripartite Agreement* to minimise disturbances to international transactions caused by the 35% devaluation of the franc the following week. No doubt this precedent inspired the protagonists of the post-war international monetary negotiations.

The General Theory was only discovered in the French Treasury in the spring of 1937, over a year after its publication, by a young French *Inspecteur des finances*, Jean de Largentaye (1903-1970). The discovery came too late to help the Popular Front Government, which resigned in June 1937. But it inspired the economic programme of the short-lived

second Popular Front government in March 1938, which tried unsuccessfully to gain conservative support for a coalition government of National Unity to confront Hitler in the wake of the Anschluss (10 March 1938).

That short period, which gave young Pierre Mendes France (1907-1982) his first government experience as Under-Secretary for the Treasury, was an outstanding phase of intellectual innovation in the French Treasury under the influence of Keynes's writings. In particular, the French administration analysed how the German Nazi government, despite a very small amount of gold in its monetary reserves, had been able to finance Germany's economic recovery and re-armament. The analysis unearthed the operation of unorthodox monetary finance.

In June 1940, hardly seven weeks after the invasion of France by Nazi forces, French parliament accepted to surrender its powers to the new authoritarian French State, led by Pierre Laval and Marshal Philippe Pétain who sought an immediate truce. Opposed to such an armistice, Churchill encouraged the formation of de Gaulle's rebel *France Libre* ("Free France") movement to continue the war with exiled French forces in London. On June 18, the day after the armistice was announced, General de Gaulle (1890-1970), launched the "Free France" resistance movement in a BBC broadcast in London. Most of the French troops in England after the Dunkirk disaster, however, decided to return to France. Roosevelt, for his part, did not recognize de Gaulle and continued diplomatic relations with the legitimate French government, withdrawn at Vichy, 410 km (250 miles) south of Paris in the zone left unoccupied by German troops.

Things would change after the allied landings in North Africa (8 November 1942) which was under Vichy jurisdiction. Germany invaded the unoccupied French zone in retaliation, causing the destruction by scuttling of the French fleet in Toulon, but in Africa, Nazi troops were at a loss after Rommel's definite defeat at El Alamein.

In January 1943 the Casablanca conference between Churchill and Roosevelt would try to reconcile the two French protagonists, General Henri Giraud (1879-1949) representing Vichy, and General Charles de Gaulle. The latter would have no difficulty in subsequently marginalizing the former – of less political stature – allowing the *French Committee of National Liberation* (the Free France structured political government) to move its headquarters from London to liberated French territory in Algiers in June 1943 and achieve de facto American recognition. The *Commis-*

sariat aux Finances (the Free French equivalent of Secretary of the Treasury) monitored progress in the British and American treasury drafts of the post-war international monetary system, made confidentially available to the Algiers teams. In November 1943, de Gaulle appointed the young political figure Pierre Mendes-France *Commissaire aux Finances.*

Meanwhile, in September and October 1943, a group headed by White met in Washington D.C. with a British delegation headed by Keynes to prepare a proposal on monetary plans, taking the 1943 American draft of the Stabilization Fund, the British published version of the *Clearing Union* as well as the Canadian Plan as starting points. The outcome of the meetings was *The Joint Statement,* agreed in April 1944, which was submitted to the representatives of the United Nations.

On May 25, 1944, Cordell Hull, American Secretary of State, dispatched invitations to 44 governments to send representatives to a conference at Bretton Woods, New Hampshire, beginning on July 1, 1944, "for the purpose of formulating definite proposals for an International Monetary Fund and possibly a Bank for Reconstruction and Development." The Administration was eager to exploit the success of this major international summit at the Democratic Convention scheduled on July 20th where Franklin D. Roosevelt was to announce his candidacy for a fourth presidential mandate. A preliminary conference was held at Atlantic City in June 1944 to introduce Governors of Central Banks and Treasury representatives to each other and to let the delegates proceed to a first informal analysis of the American monetary plan.

To conclude this introduction, we will quote J.Keith Horsefield (1969):

> "The International Monetary Fund came into being as a result of a supreme act of faith – the decision to surrender to an untried and imperfectly visualized international body the supervision of one of the most cherished attributes of national sovereignty, the right to change the rate of exchange."

This essay will be divided into three parts focusing on the French position:

- The Bretton Woods Conference (July 1-22, 1944)
- The International Monetary System until its collapse (1946-71)
- The International Monetary System since its collapse (1972-2018)

2. *The Bretton Woods Conference (July 1-22, 1944)*

2.1 Organisation

Forty-four countries sent their representatives to Bretton Woods, at the foot of the White Mountains in New Hampshire State, in response to President Roosevelt's invitation.

They stayed at the Mount Washington Hotel, which was closed since 1942, and which had been completely renovated in a record time in order to accommodate for three weeks the 730 persons participating in the *United Nations Monetary and Financial Conference.* Keynes called this setting the "monkey-house" or the "madhouse" (Conway 2014).

The American delegation, with more than 50 delegates and experts (including Henry Morgenthau, Permanent President of the Conference) was the largest one, followed by the British one. China, the Soviet Union, Brazil, Canada and Holland also had sizable delegations. The French had a small one with only four delegates.

Delegates and experts started working immediately, on July 1st 1944 and continued for three weeks non-stop. "We have all of us worked every minute of our waking hours" wrote Keynes.

The Conference ended on July 22nd, 1944, three days after the closing date which the American organisers had officially announced, as they expected that a public statement on the results of this major international summit would be made at the Democrat Convention scheduled on July 20th where Franklin D. Roosevelt was going to present his candidacy for a fourth presidential mandate.

Work was dispatched between three Commissions. The first one was in charge of the Fund (White was the Chairman), the second one, of the Bank (Keynes was the Chairman) and the third one, of "Other Means of International Cooperation". The latter was in charge, among other matters, of the liquidation of the Bank for International Settlements which in the end survived.

In his inaugural speech, Morgenthau invited delegates to accept the principles of the *Joint Statement* as a starting point for their discussions on the Fund. As these principles were the same as those of the American White Plan, they were a priori adopted by the Conference without discussion. The Commission was only in charge of discussing the details of their implementation.

The first Commission which counted four Committees reporting to it, was by far the most active one, busy from the first to the last day of the Conference. It was in charge of fixing the size of members' quotas – which turned out to be a matter of tough bargaining. The objective criteria (economic indicators such as domestic income, gold and dollar balances, imports etc.) which had been fixed in June 1943 by the US Treasury, gradually gave way to political influences of certain countries. The point was to obtain the largest quota possible so as to be able to benefit from maximum drawing rights.

At the last session of the Conference, the Delegations' Presidents were invited to sign the Final Act to "certify the Conference's agreement on resolutions, statements and recommendations included in this Act." The Final Act, embodying the articles of the Agreement of the Fund and of the Bank, together with a number of resolutions, was approved by the representatives of all 44 United and Associated Nations on July 22, 1944. Reservations made by several delegates, in particular by the French ones who questioned the size of France's quota, were retained in the minutes of the first Commission.

Countries accepting membership of the Fund and of the Bank were required to ratify the US Bretton Woods Agreements Act by 27 December 1945. They had to pay one ten thousandth of their quota to the US government (e.g. $ 45 000 for France who had a quota of 450 million dollars).

The US Bretton Woods Agreements Act was voted by Congress on July 20,1945 and was approved by President Roosevelt on July 31 1945. The United Kingdom, France, China, Canada, Belgium, Brazil, Greece, India, the Netherlands and 17 other countries ratified the Act before the end of the year 1945.

The USSR which played an active role in the Conference did not ratify the Act, probably for reasons related to the cutting-off of Lend-Lease Aid at the end of the war in August 1945 and because of the appearance subsequently of what Churchill described as the "iron curtain".

The first meeting of the Board of Governors of the Fund and of the Bank was held on March 9th 1946, in Savannah (Georgia). It was attended by delegations from the 27 countries that had ratified the Act, plus observers and experts. Keynes, the British Governor of both the Fund and the Bank, opened the meeting by a famous speech which, with hindsight, proved to be premonitory. He compared the Savannah Conference with

the christening of twin babies (the Fund and the Bank), blessed by two good fairies, the first one gifting the infants with an international state of mind, the second one with "energy and a fearless spirit". However, the twins risked to be cursed by a "malicious" fairy who would have been overlooked or forgotten to be asked to the party.

Six weeks later, on April 21st 1946, Keynes died of a heart attack in his Tilton farm in England.

The *Bretton Woods Agreements Act* is divided into twenty articles which can be aggregated into four categories.

The first one, *Purposes* (Article I) sets out that the function of the Fund is:

> "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

No doubt, membership of the Fund attracted many countries because it guaranteed the means to forestall domestic deflations caused by difficulties in financing balance of payments deficits. The number of members rose from 44 in 1944, to 107 in 1965 and to 189 in 2019.

The second one, *Obligations* (Articles III to VIII), requires members to pay to the Fund a subscription equal to their quota, partly in gold and partly in their own currency. When adhering, members establish with the assent of the Fund an initial par value for their currency. Currencies of members should be convertible. Members agree not to change the par value except to correct a fundamental disequilibrium and agree not to change it without the assent of the Fund except for minor adjustments totalling 10 per cent of the initial par value. The rates for exchange transactions in their territories are to be maintained within specified margins of this par value. Members agree not to introduce restrictions on payments for current international transactions, not to make discriminatory currency arrangements nor to resort to multiple currency practices except with the prior approval of the Fund.

The third one, *Benefits* (Article V) offers members the possibility to draw from the Fund, for a limited period, and when the circumstances

justify it, a certain amount of the resources with which the Fund has been endowed.

The last one, *Administration*, (Articles XII-XIII) defines the Fund's governance rules. The Board of Governors is the highest decision-making body. It holds annual meetings. In its day-to-day affairs, the Fund is managed by a Board of Executive Directors in permanent session. The Fund's decisions are taken by a weighted system of voting which mainly reflects the relative size of members' quotas.

2.2 Proposals

We will only recall the broad-lines of the two main proposals, the White Plan and the Keynes Plan, since they are generally well known and are not the core subject of this paper.

The origins of the White Plan can actually be dated back to the beginning of 1940 when the governments of the American Republics asked the U.S. Treasury to assist them in designing a plan for the establishment of an Inter-American Bank. In addition to the normal commercial and investment banking functions, this Bank was meant to play a role in stabilising the currencies of American Republics and "facilitate the transfer of international payments" (i.e. to operate as a clearing house). The U.S. government signed the Convention establishing this bank on May 1940 but Congress did not ratify the Convention and the idea of an Inter-American Bank was abandoned until 1960.

Harry D. White, Director the Division of Monetary Research of the Treasury, was a member of the group of experts working on the Convention. Early in 1941, he contemplated the possibility of a comprehensive international agreement in the monetary field, devising first an organisation to stabilise exchange rates and secondly, the means of providing the long-term capital that would be needed after the war. On August 30, 1941, White became Assistant to the Secretary of the U.S. Treasury (Henry Morgenthau) and remained in this position until January 1945 when he was promoted Assistant-Secretary. By the autumn of 1941, his ideas took shape. After the Pearl Harbour attack on December 7th, 1941, Morgenthau asked White at a very short notice to prepare a plan for "an inter-allied stabilisation fund". White answered immediately and put forward a "*Suggested program for Inter-allied Monetary and Bank action"*. He

proposed two organisations, an Inter-Allied Stabilisation Fund in charge of monetary stabilisation, and an Inter-Allied Bank in charge of supplying allied countries with necessary capital. Morgenthau however, thought it was unwise to propose such a sweeping international scheme without consulting the larger European allied countries. In July 1942, he sent Keynes a draft of the White plan.

Meanwhile, as early as September 1941, i.e. before the Pearl Harbour attack, Keynes had drawn the first draft of his *Plan for an International Clearing Union*. This was a response to the imminent exhaustion of British monetary reserves and to the conditionality of the Lend-Lease Act, suggesting a multilateral substitute to Britain's imperial trade preferences. His plan was designed to ensure full employment in Britain despite the pending loss of the British Empire.

The Keynes Plan had a second purpose which was unrelated to the previous one. In November 1940, The British government was contemplating launching a campaign to counter the "new German order" proposals put forward by Dr. Walther Funk[1], the German Minister for Economic Affairs (1938-43) and President of the Reichsbank (1939-45), hoping that Keynes would help them in doing so. But surprisingly, Keynes wrote on 20 November 1940 "If Funk's plan is taken at its face value, it is excellent and just what we ourselves ought to be thinking of doing". A few days later, he wrote "German propaganda purports to offer her neighbours a stable currency system, adapted to the commerce of countries which have no gold, and above all a system of economic order and organisation."

The fourth version of the Keynes plan, dated February 1942 and dubbed *Proposals for an International Currency (or Clearing) Union*, rested on three pillars. The first pillar was the Clearing Union, the main function of which was to keep banking accounts for central banks in exactly the same way as central banks in each country keep accounts for commercial banks, in other words, a "central bank for central banks" at an international level. When debit balances arose, they would take the form of overdrafts, as opposed to loans, but the Union was to charge a rate of interest on both credit and debit balances. Central bank accounts

[1] *Walther Funk* (1890-1960) was a German economist and Nazi official who served as Reich Minister for Economic Affairs from 1938 to 1945. He was tried and convicted as a major war criminal by the International Military Tribunal at Nuremberg.

were to be denominated in an international currency, the *bancor*, the second pillar of the Keynes scheme. This new fiat currency was to be defined in terms of gold and its value could be altered. The third pillar was the principle according to which part of the burden of balance of payments adjustments would be placed on creditor countries.

In the two subsequent years, from 1942 to 1944, White and Keynes met several times but White made few concessions to Keynes's proposals. In June 1943, the White plan was submitted to the experts of the United and Associated Nations (U.A.N.), i.e. the allied nations who were going to send delegates at the international monetary conference, on the basis of an enquiry monitored by the U.S. Treasury. The U.A.N. experts did not straightforwardly attack the White plan, but neither were they in favour of it. They only answered the questions which dealt with the secondary issues rather than with the principles and stakes of the plan which were the real subjects of debate. None of the French experts adhered to the White plan.

The *Joint Statement*, which resulted from White and Keynes's exchanges, recommended the architecture and main measures of the White plan, amended according to the requests that Keynes had made and that had been accepted. The *Joint Statement*'s preamble mentioned that the document had been approved by U.A.N. experts which was not really true. It was transmitted to Congress on 21 April 1944 and published soon after by the U.S. Treasury.

As we have seen (p. 124), Morgenthau imposed the principles of this statement to the 44 delegates who met at the Bretton Woods Conference in July 1944, leaving little scope to participants for amendments other than on small issues, most of these focusing on the size of quotas.

Other proposals were put forward in 1943 but none of them were considered at the Bretton Woods Conference.

The "*key-currency*" proposal consisted of stabilising the ratio between sterling and the dollar after having taken into account war debts as well as a large loan granted to Great Britain. It was designed by John H. Williams, Vice-President of the Federal Reserve Bank of New York and attracted considerable support particularly in banking, business and academic circles. The main criticism of these opponents to the White and Keynes plans, was that they dealt with the symptoms rather than with the causes of exchange instability.

In May 1943, two French economists (Hervé Alphand and André Istel) put forward an alternative to the Keynes and White plans. Their proposal was based on bilateral payments agreements which included obligations inspired by those of the 1936 Tripartite Agreement (see p. 121) and by those presented in the report by Paul van Zeeland[2] (1938). These bilateral agreements could be gradually extended to third countries and be conducive to more general agreements. Actually, many countries (Great-Britain, France, Belgium, the Netherlands, Sweden, Switzerland…) concluded bilateral agreements in 1943 on these bases.

In July 1943, a Canadian plan was published. It resembled the Stabilization Fund plan but included some provisions of the Keynes *Clearing Union* plan, in particular larger drawing rights for countries with insufficient monetary reserves. In the end, the Canadian plan was not considered separately because the amendments that had been accepted were incorporated in the Stabilization Fund proposal.

In September 1943, Friedrich von Hayek published an article in the *Economic Journal* recommending an *international commodity standard*. He suggested replacing the gold standard – i.e., using gold to underwrite the value of international reserve currencies – by a standard based on a basket of commodities such as iron, coal, wheat and sugar. Hayek relied on the findings of two American economists – Professor Frank D. Graham (1890-1949, Princeton University; Graham, F. 1940) and Benjamin Graham (1897-1976, Columbia University; Graham 1937 and 1944) – which he considered as the fathers of his proposal. In spite of its backing by prominent economists, it was not officially discussed in 1944.

2.3 The French Position

As pointed out earlier (p. 4), the last two months of 1942 marked a turning point of the war in France. Until then, the Vichy regime (July 1940 – August 1944) headed by Philippe Pétain (Laval, Flandin, Darlan and Laval for a second time were Prime Ministers from 1940-42) provided for France's official representatives in negotiations with the Allies other than

[2] *Paul Guillaume van Zeeland* (1893-1973) was Prime Minister and Minister of Foreign Affairs of Belgium from 1935 to 1937 and Minister of Foreign Affairs from 1949 to 1951. In 1940, he was special assistant to Cordell Hull, Secretary of State of Franklin D. Roosevelt.

Britain. The U.S. had an Embassy in the remote spa town of Vichy where Pétain and his government resided. Meantime, the resistance movement, launched by General de Gaulle on June 18, 1940, was getting organised in different countries with headquarters in London, under the name of *Comité de la France Libre*.

On November 8th 1942, allied forces, placed under the command of General Eisenhower, disembarked in North Africa (Algeria and Morocco). In retaliation, the German forces invaded the Southern part of France which hitherto had been free from German occupation.

A few months later, at the beginning of 1943, the *Comité National de Libération de la France*, the previous *Comité de la France Libre* which was to become the French Republic's Provisional Government after 20 August 1944 moved to Algiers, capital of Algeria, which was part of France's territory.

In 1943, the confused context in Algiers explains why France's position was weak – or rather non-inexistent – when, reflecting on the future international monetary organisation, the U.S. looked for contacts with European allies. It was no doubt difficult for U.S. officials to identify who was the legitimate negotiator representing France. Furthermore, Roosevelt had little consideration for General de Gaulle.

In December 1942, the *Comité National de Libération de la France* settled its small administration in Algiers. André Diethelm, Couve de Murville and Pierre Mendès France were successively appointed Commissioners of Finance, the latter holding this position from November 9th 1943 until September 4th 1944 when he became Minister of the Economy in General de Gaulle's Government.

During 1943 and until June 1944, while White and Keynes were trying to find compromises for their respective plans, the research unit of the Free France *Commissariat des Finances* in Algiers worked actively on the future international monetary order. A group of *Inspecteurs des Finances* (i.e. senior French officials attached to the French Treasury) including Jean de Largentaye, all committed to Free France, prepared notes for the *Commissaire*. In a note dated 15 November 1943, Largentaye, who had become the leading expert on international monetary matters, pointed out the advantages of an international commodity reserve currency (operating on the lines of B. Graham and Hayek's proposals) over the White and Keynes plans.

The French delegation which arrived at Bretton Woods in July 1944 was headed by Pierre Mendès France and included three other members, Jean de Largentaye, Robert Mossé (Professor of Economics at Grenoble University) and André Istel (investment banker), all four unambiguously committed to de Gaulle's Free France.

In his report dated August 1945 on the Bretton Woods Conference addressed to René Pleven, the French Minister of Finance, Largentaye clearly recommended France's membership of the Fund.

His main argument was that France's currency was weak compared to the U.S. dollar, the Canadian dollar, sterling and even to the Belgian and Dutch currencies. He expected the franc to remain weak as long as the monetary "drastic stabilisation" was underway, a time estimated to last five years. During this period, France would need to draw strong currencies (i.e. dollar and sterling), as it needed to pay its imports and current account deficits. Drawing rights amounting to 25% of the member's quota per year, starting from 1946 and lasting until 1949, were a serious incentive for French membership.

His second argument was that the cost of this membership, equal to France's quota (22.5 billion francs), was affordable. France owned a large amount of gold, equal to 56,25 billion francs (250% of its quota). The part paid in francs, i.e. 75% of its quota, was valued in nominal terms, so that, as no other country would ask to be paid in francs, it wasn't a problem.

France's main reservation was the size of its quota which was considered too small compared to the ones of countries such as the U.S.S.R. or China who were allocated larger quotas. The quota issue was an important one insofar as, according to the voting system, votes were proportional to quotas. France had 4.8% of total votes, a percentage which was "far from corresponding to the normal economic role of France in the world" according to Largentaye's report. It was six times smaller than the U.S. one and three times smaller than the British one.

However, France obtained a seat on the Board of Executive Directors, a distinction which compensated for its modest quota and which ensured France, as well as the four other nominated countries (U.S., U.K., Soviet Union and China) a large influence in the Fund.

Although membership in the Bank was less interesting because France didn't really need the Bank's credits (its IMF drawing rights and national banks' credits were sufficient), France became a member of both institu-

tions as testimony of its solidarity vis a vis the United Nations. The ratification decision was probably taken by General de Gaulle's Government alone, in December 1945, without a vote by Parliament which wasn't in place at the time.

France became a member of the Fund on 27 December 1945 and established the initial par value of the French franc on 18 December 1946 (1F = 0.8397 $).

The French government appointed Pierre Mendès France as France's first Governor and first Executive Director to the Fund. Soon after the Savannah Conference, Mendès France passed on his mandate to Largentaye who sat at the first Executive Board meeting of the Fund held in Washington D.C. in May 1946 and kept this position for eighteen years, until 1964.

Seventy-five years after the Bretton Woods Conference, it appears quite clearly that the United States, the main creditor of the allied countries, used its dominant financial position to shape the post-war international monetary system to serve its interests and with the cooperation of the British government.

3. France and the International Monetary System (1946-71)

We will examine the influence of the Fund on the French economy, first during the post-war reconstruction period lasting roughly until 1958 – the year when the franc was made convertible for current account operations, and secondly during the period when the foundations of the European Economic Community were laid, until 1971, the year when one of the key-elements of the gold-exchange standard established by the Bretton Woods agreement collapsed. Lastly, we will look into the debate that took place in France in the middle 1960s, focused on an alleged shortage of international liquidities which led to proposals to reform the international monetary system.

3.1 Reconstruction period (1946-58)

The years following the war were particularly harsh for France. In addition to heavy war destructions, the population suffered from poverty. National income fell under 50% of its 1929 value in real terms. Public

debt increased fourfold in terms of its level in 1939. Food and energy were rationed and housing was dramatically insufficient. As prices (and wages) were fixed by the administration, many transactions took place through the black market. The 1945 and 1947 winters were exceptionally cold.

In January 1945, when hostilities had almost ceased, President de Gaulle chose to follow Pleven's (Minister of Finance) recommendations in favour of measures involving relatively moderate State intervention. Pleven meant to encourage production, with the risk of aggravating inflation and social injustice. In contrast, Mendès France (Minister of the Economy) advocated a rigorous austerity plan – which the Government accepted on 17 November 1944 – aiming at controlling inflation through a blocking of bank accounts, a taxing or confiscation of war profits and an exchange of bank notes so as to recover control over monetary circulation. As a result, Mendès France resigned immediately but, on de Gaulle's request, he postponed his departure to April 2, 1945.

The Communist party (led by Maurice Thorez) won 28% of the votes in the November 1946 elections which made it the strongest political force in France. Social unrest became insurrectional in 1947 when strikes in the Renault car plants spread to coal mines, railways, banks, docks and to the entire public sector (including schools). Strikers claimed higher wages to compensate for inflation (prices had risen by 60%). Communist ministers were expelled from the Government. Let us recall that at that time, the cold war dominated relations between the the United States and the U.S.S.R.

In order to fight the strong inflationary forces of its economy, France asked the IMF's Board to devalue the franc by 44% on 18 January 1948 , specifying that cross rates would be maintained. The Board considered this last measure unacceptable. Notwithstanding the Fund's objection, the French government led by Robert Schuman announced the devaluation a week after ($1.00 = 214 Francs). As an immediate consequence, France became ineligible to use the Fund's resources (under Article IV, Section 6). France's decision was the most serious exchange problem to come before the Board. However, France took measures toward a single par value as opposed to multiple currency and discriminatory exchange arrangements, which the IMF would not accept and was allowed shortly after to draw again from the Fund. A second devaluation (22.3%) took place in 1949.

The *European Payments Union* (EPU) signed in 1950 to allocate Marshall Aid and facilitate payments between its members – the *Organisation for European Economic Cooperation* was created for that purpose – reduced the need for these members to draw from the Fund so that their involvement within the latter – and France's in particular – gradually diminished thereafter. The EPU came to an end in 1958.

In June 1958, General de Gaulle, (Prime minister after the 13 May crisis in Algeria) confirmed the "disguised" 20% devaluation which occurred in August 1957. In December 1958, he changed the franc unit (1 new franc = 100 francs), devalued the franc by 17.5 % and made it convertible for current account operations at the same time as 15 other European currencies.

Despite unstable Governments and involvement in hostilities abroad (e.g. Madagascar in 1947, Indochina in 1946-54, Algeria in 1954-62), France's economic performance in terms of employment and growth of its production was outstanding during the 13 post-war years. Real wages grew faster than productivity and thus fuelled consumption. Investment increased steadily, especially in the public sector (energy, housing, infrastructure). The relatively small openness of the economy protected domestic production from external competition. Planning and a centralised wage bargaining system, Social Security and a large nationalised sector (banks, energy, transport, telecommunications…) allowed the State to exert a major influence on the economy. Insofar as France could alter its exchange rate and borrow strong currencies when it needed to (with the exception of the 1948 devaluation), the IMF was not a barrier for an autonomous management of the economy.

3.2 Building the Common Market (1959-72)

On March 25th, 1957, France and five other European countries (Belgium, Italy, Luxemburg, the Netherlands, West Germany), signed the Treaty of Rome, establishing the European Economic Community. The progressive dismantling of customs duties between member-countries started in 1958 when the Treaty came into force.

In 1958, De Gaulle, then Prime Minister, drafted a new Constitution which was approved by a 79% majority in a referendum which took

place on September 28th, 1958. He was elected President of the *French Republic and of the French Community* on 21 December 1958.

President de Gaulle gave utmost priority to France's economic independence. As chief of Free France during the war, he had been humiliated by the Americans' attitude when they tried controlling French monetary policy once the German forces had left French territory in the second half of 1944. As a symbolic act, he had the Bank of France's gold reserves which had been stored during the war at the Federal Reserve Bank in New York shipped back to France in warships.

On 27 December 1958, he launched a stabilisation plan for fighting inflation and restoring public finances and monetary reserves (the *Pinay-Rueff* plan) at the same time as the franc (the new Franc) was devalued. The plan started breeding positive results in the summer of 1959.

So as to materialise its independence, President de Gaulle was eager for France to pay back its debts due to its recent drawings from the IMF but also to the 1941 Lend Lease Act (which expired with the end of World War – meaning that U.S. exports had to be repaid) and to the Blum-Byrnes loan (1946). This was effective in 1963.

As dollar reserves were increasing in Europe in the 1960s, and were thought to cause inflation, protests began to rise. In a famous press conference held on 4 February 1964 – a brilliant lesson on international monetary relations – President de Gaulle pointed out that the situation had changed compared to the immediate post-war one, when the U.S. owned practically all of the world's gold reserves. Currencies of Western European countries were now convertible for current account operations. The six EEC member-countries owned gold reserves which were equal to those of the U.S. and which would have been even larger had these countries decided to convert their dollar balances into gold, which France actually did (the only European country daring to do so). Furthermore, de Gaulle highlighted the fact that when European countries accepted dollars as a means of payment for American deficits, they accepted to grant the U.S. a loan for free. Indeed, this was due to the American "exorbitant privilege" of being able to issue a national currency which was accepted as an international reserve currency.

Following the May 1968 student riots and workers' strikes, wages rose substantially and fed a two-point increase of inflation. The franc was attacked but President de Gaulle refused to devalue. After de Gaulle resigned on 28 April 1969 (as a result of a referendum which he had lost),

Pompidou was elected President and devalued the franc by 11.1% in August 1969 (1F = 0.185 €).

After the Euro-dollars swelled in the 1960s, a debate on international liquidity gained momentum in the IMF and in Europe.

On July 28, 1969, partly in response to a so-called insufficiency of international liquidities, the IMF created a new "facility" dubbed "Special drawing rights", the value of which was fixed in terms of gold.

3.3 The debate in France on the international monetary system

In 1944, the United States had achieved international monetary dominance. Britain, the leading monetary power in the 19th century, had lost its eminence during the First World War. Its attempt to return to the prewar gold parity in 1925 proved disastrous, as earlier discussed, and, in 1944, outstanding sterling balances fragilized the pound sterling's international status. Such was not the case with the U.S. dollar. The allies were indebted to the U.S., making the dollar a scarce international currency.

By the 1950s however, the situation changed. By devaluing promptly in the post-war years, European countries had stimulated their reconstruction while making their goods and assets attractive to American purchasers. Furthermore, U.S. multinational companies were acquiring valuable real foreign assets (real estate, vineyards…) and opening new plants, subsidiaries and bank accounts in France. As a result, dollars began to accumulate in France's monetary reserves. Dollars created without regard to gold reserves tended to undermine the convertibility of the dollar.

Jacques Rueff, the staunch orthodox advocate of the gold standard, was against the gold *exchange* standard (i.e. a dollar standard whereby the dollar is convertible into gold) and encouraged de Gaulle to demand gold for dollars accumulating in the Banque de France, a move that no doubt undermined the gold exchange standard and precipitated the demise of the Bretton Woods system. Anticipating the crisis, discussions were held in the Fund to complement gold with an inconvertible international currency. Robert Triffin, a Belgian professor at Yale University[3],

[3] *Robert Triffin* (1911-1993), economist, successively a Belgian, an American (1942) and again a Belgian (1977). He obtained his PhD in 1938 from Harvard University and taught there from 1939 to 1942. He held positions at the U.S. Federal Reserve System (1942-46), at the IMF (1946-48) and at the O.E.E.C (1948-51). After 1951,

defended the creation and distribution of Special Drawing Rights, a fiat currency the value of which would reflect a basket of leading currencies in international trade.

In Paris in 1966, the French Economic and Social Council debated a proposal to allow for the creation of additional international liquidity (Conseil économique et social 1967). The proposal, tabled by Albin Chalandon, a young *Inspecteur des finances* born in 1920, close to the banking industry, promoted Triffin's ideas. The proposal was opposed by Jacques Rueff and Jean de Largentaye. Rueff, who was against any fiat standard, considered that, in the face of the widening gap between monetary reserves and gold stocks, the price of gold should simply be increased. Thus, Rueff was not opposed to increasing the volume of international reserves, provided they were backed by gold.

On the other hand, Jean de Largentaye questioned the need for any creation of international liquidity. Bretton Woods was designed to facilitate balanced current accounts with internationally coordinated management of national currencies. The task of encouraging international trade should fall on appropriately coordinated domestic monetary policies, international liquidity representing no tool for trade stimulation. By confusing the role of international and domestic liquidity, in Largentaye's view, Chalandon and Triffin were promoting the confiscatory powers of the U.S. The international monetary dominance of the U.S. and the U.K. enabled them, especially the United States, to expropriate France and other countries from their real assets, through discretionary monetary creation.

Triffin's international fiat currency allowed the endangered international dollars and pounds to be replaced by an accepted alternative fiat monetary instrument, without resolving the problem of U.S. and U.K. foreign balances except to their benefit. Nonetheless the French Council voted largely in favour of the Chalandon proposal.

Aside from the gold standard and the idea of an international fiat currency, a third option, a commodity standard, was also discussed in the

he was professor of Economics at Yale University. He is known for his criticism of the Bretton Woods system, of the gold -exchange standard and for having predicted the end of dollar convertibility into gold, which indeed occurred in 1971. His most famous book, *Gold and the dollar crisis, the future of convertibility*, was published in 1960. When he came back to reside in Belgium in the late 1970s, he became a strong supporter of European integration, helped to develop the European monetary system and supported the concept of a European Central Bank.

1960s, most notably at the opening conference for the UNCTAD in 1964 (Hart/Kaldor/Tinbergen 1964), based on N. Kaldor's presentation *An International Currency: the Bancor* (a paper co-signed with A. G. Hart and J. Tinbergen). Kaldor's *bancor* was a "tabular" standard, in other words a standard representing a set of commodities. Pierre Mendès France, who was close both to Nicholas Kaldor and to Jean de Largentaye, publicly advocated an international commodity standard in the French press in 1968.

The commodity standard operates like the gold standard with the advantage that the production of the commodities in the monetary basket is elastic and will respond to increased demand by increased production. By contrast, gold production is inelastic so that when demand for gold standard money increases, the price of gold (instead of production) tends to increase, which reflects in the decline of the price of other goods. Thus, the gold standard is intrinsically deflationary.

4. France and the International Monetary System (1971-2018)

This last and longest period, covering nearly fifty years, starts with two major international shocks, the collapse of the dollar-exchange standard in 1971 and the first petrol shock two years later. In reaction to these shocks, France chose to deepen its European integration and to participate in the new European monetary zone. Because the Euro-zone's structure was flawed and because of the destabilising impact of globalised and deregulated finance, the European and international monetary systems needed to be reformed.

4.1 Collapse of the Bretton Woods system and aftermath (1971-85)

On August 15th, 1971, President Nixon declared "I have directed Secretary Connally to suspend temporarily the convertibility of the dollar into gold or other reserve assets…" Hence, the main *raison d'être* of the post-war international monetary system, i.e. stabilising exchange rates, disappeared.

A few months later, in December 1971, the Group of Ten (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States – G10) met at the Smithsonian

Institution, Washington D.C. with the purpose of pegging their currencies to the dollar. According to the "Smithsonian agreement", currencies were allowed to fluctuate by 2.25% against the dollar. The U.S. pledged to peg the dollar at $38/ounce (instead of $35/ounce, in other words, the USD devalued by 7.9%) with 2.25% trading bands. Other countries agreed to appreciate their currencies versus the dollar (Franc: +8.6%). The G-10 also planned to use the new special drawing rights for official international payments.

Shortly after, in 1972, the six members of the EEC (and three countries which were about to join – Denmark, Ireland and the U.K.) created the European "snake" to narrow fluctuations between their currencies which remained pegged to the dollar (Basel Agreement). When, in 1973, the dollar floated freely, breaking the Smithsonian agreement, the snake proved unsustainable. By 1977, the European "snake" had become a Deutsche Mark zone since only the Belgian and Luxembourg franc, the Dutch guilder and the Danish krone joined the Deutsche Mark.

Valéry Giscard d'Estaing, elected President of France in 1974, was determined to pursue European integration and to cooperate with Chancellor Schmidt (1974-82) in setting up the European Monetary System (EMS) which followed the snake in 1979 as a system for stabilising exchange rates between European currencies. The IMF's main object – stabilising exchange rates – having failed, the two largest founding members of the EEC endeavoured to re-create a similar system within a European perimeter. Because of its relative strength, and because of the anti-inflationary policies of the Bundesbank, the Deutsche Mark was ready to play the role of the key currency. The other currencies were forced to align themselves with the German currency.

In 1981, the dollar exchange rate rose dramatically after a ten-year period of erratic fluctuations[4], causing a major international shock. The rise was due to a change in American monetary policy, decided in 1979 by Paul Volcker, President of the Federal Reserve Bank, so as to fight inflation. The policy aimed at raising nominal interest rates well above the inflation rate in order to restore positive real interest rates which attracted foreign capital.

[4] The dollar exchange rate vis-à-vis the franc fell by 20% during the 1970s, then suddenly rose by 133% between 1980 and 1985 when it reached 10.5 franc.

The same year, in 1981, Giscard lost the presidential election and François Mitterrand was elected. Although a Socialist, allied to the Communists, his European commitment was not in doubt. This was obvious in March 1983, when, turning his back to his left-wing political platform, Mitterrand decided to commit himself to a policy of wage stringency in order to maintain the franc within the European Monetary System. This was indeed a crucial turning point for his economic policy.

4.2 Building the Euro-zone (1986-2002)

Following the Schmidt – Giscard tandem, Mitterrand-Kohl established a strong partnership when Kohl succeeded Schmidt in 1982.

The object was first to implement the "Single Market Act" which Jacques Delors, President of the Commission had signed in 1986 and which committed the 12 Member-States to implementing the four freedoms stated in the Treaty of Rome (free movement of goods, labour, services and capital). Approximately 250 directives or regulations had to be adopted by European institutions and then transposed into national legislations in order to bring the single market into being.

This project included in particular a schedule for deregulating finance and services, comparable to Mrs. Thatcher and President Reagan's deregulation measures taken in the 1980s.

After the fall of the Berlin Wall (1989), Kohl needed France's approval for the re-unification of West and East Germany which normally should have called for an expansionary budget at a European level, not simply at the German level. Yet, in the early 1990s, France adopted deflationary policies, with high real interest rates and cuts in public expenditure so as to keep the franc pegged to the DM.

President Mitterrand, on his side, influenced by Jacques Delors, his former Minister of Finance (1981-84), wanted to do away with European national currencies in favour of a single European currency, the Euro, which would have been able to challenge the dollar. However, Germany was reluctant to agree to the single currency because it was unwilling to sacrifice the stability of the DM, its monetary policy and more generally its "ordo-liberal" principles, "the concept prevailing in Germany, centred on free-markets, free and undistorted competition, no public bail-outs, an independent central bank, and balanced public budgets (Bibow 2017)".

France, on its side, ceded ground so that only a fraction of the initial European integration project was kept, namely the monetary union, while the two other parts (budgetary and social) were left aside.

The Maastricht treaty which included the Economic and Monetary Union (EMU) project was signed in 1992 and approved by referendum in France on 20 September 1992 by a tiny 51% majority.

In the following years, EMU transposed German ordo-liberal rules into other future Euro-zone countries who lost their autonomy to monitor national economic policies and gave up entirely their national monetary policy. They were left to pursue policies aiming only at price stability, balanced budgets and debt reduction, retrograding employment and social targets to the rank of secondary objectives. This could be seen as a backtracking with respect to Bretton Woods, a system which gave its members the possibility of adjusting their exchange rate, if necessary, in order to pursue more important domestic policies.

On January 1st 2002, eleven countries, including France, replaced their national currencies by the euro. Nineteen currencies have now joined the Euro-zone.

4.3 The Euro-zone faces the 2008 financial crisis and the 2010 Greek crisis (2003-18)

The discrepancy between the huge growth of the financial sector and the growth of the rest of the economy (i.e. the real economy) is a major feature of the world economy in the 21st century. In 2005, the non-financial sector represented 2% of total bank transactions and the financial sector was 50 times greater than the non-financial one[5].

Three factors explain this evolution dubbed “financialization”: first worldwide deregulation which started in the 1980s, after the collapse of the Bretton Woods system in 1971, second the expansion of multinational companies and third financial techniques which are increasingly sophisticated as a result of the digitization revolution (du Tertre/de Largentaye 2017).

Such an evolution is dangerous. It led to the 2007 subprime crisis in the U.S. which quickly spread to Europe and to other parts of the world.

[5] According to IMF, World Bank and Bank for International Settlement statistics (Jospin L. 2009).

Economic decisions, especially those involving investment, depend more and more on international finance which is unpredictable; the ensuing uncertainty which affects investment destabilises activity.

In the Eurozone, public European authorities reacted by requiring a strict respect of the Maastricht criteria, a policy at odds with President Obama's stimulus package signed in February 2009.

In France, for example, European authorities handled the 2008 crisis in a way which aggravated deflationary pressures on economic activity, ending up in greater unemployment, stagnation of production and an increase in public debt. Economic policies implemented under the mandates of Presidents Sarkozy and Hollande (respectively 2007-12 and 2012-17) were inspired by supply-side analyses – highlighting the so-called lack of competitiveness of French firms which led the government to grant them large bonuses, neglecting aggregate demand stimulus.

Poor economic results proved these policies to be a fiasco, feeding popular support for far-right and far-left parties.

Moreover, private and public debts are increasing in most Euro-zone countries including France (but with the exception of Germany), in particular because the private sector fails to deleverage so that indebtedness swells in a cumulative way. This growing indebtedness creates a "time-bomb" and puts a burden on the future of the economy.

As for the 2010 Greek crisis, originally due to a large public debt (120% GDP in 2010) – under-estimated at the time of the creation of the Euro-zone –, the European authorities handled it in a much more ruthless way. The troika[6]'s austerity programme brought down public expenditure drastically: the minimum wage was lowered by 22%, pensions by 30%, hundreds of thousands of government officials were laid off and many citizens lost their health care facilities. The austerity programme was an utter failure: unemployment peaked at nearly 28% in 2012, GDP fell by 25% over five years and the debt ratio rose as the fall in GDP was greater than the reduction of government expenditure.

Economic performance (in terms of production and employment) of the Euro-zone since it was created, remains far below its potential and contrasts with the dynamism of other regions in the world, including the U.S. which recovered satisfactorily after the 2008 financial crisis.

[6] The troïka was the team formed by the European Central Bank, the European Commission and the International Monetary Fund.

These examples clearly illustrate the flaw in the way the Euro-zone monitors its members' difficulties. Keynes's principle stated in his 1942 *International Clearing Union* plan according to which the burden of correcting balance of payments disequilibrium was to be shared by creditor countries as well as by deficit ones, should be applied to the Euro-zone.

In his speech at the Sorbonne on 17 September 2017, President Macron suggested another reform, i.e. creating a European budget which would finance public investment programmes carried out in depressed areas of the Euro-zone on the lines of economists such as Bibow (2015) and Aglietta (2017). President Macron's suggestion did not arise much enthusiasm from his German alter ego.

5. *Perspectives*

Let us begin by recapitulating some salient facts and ideas that emerge from this article.

From a French perspective, the history of the international monetary system since Bretton Woods presents three milestones.

First, French access to the International Monetary Fund (IMF). France became a member of the IMF on 27 December 1945, with a small quota of 4.8%. The French franc was set at its par value on 18 December 1946. IMF rules did not hinder France's domestic economic policies which focused on reconstruction from 1945 to 1958 involving heavy state intervention and inflation. In 1958, France declared its external convertibility and achieved top international status.

Second, de Gaulle's resistance to U.S. monetary imperialism. In the 1960s, President de Gaulle was eager to restore France's independence. U.S. dollars were being issued out of the control of the Federal Reserve by American banks operating offshore (the so-called Euro-dollar system). With visionary insight, President de Gaulle stigmatised the U.S. for expropriating the real assets of many countries thanks to the "exorbitant privilege" of its universally accepted currency. He began to exchange dollars stocked at the *Banque de France* for gold, as permitted in the Bretton Woods agreement. He thus precipitated the end of the gold-exchange standard, which materialised when President Nixon announced the suspension of dollar convertibility into gold in his broadcast statement of 15 August 1971. The whole system of fixed parities with the dollar then

fell apart, the case for at least 80 national currencies issued by countries that were members of the IMF. The failure of the international monetary system, reflecting the effective bankruptcy of the U.S. – unable to honour its debt (i.e. dollar balances) to foreign creditors – was never properly analysed nor politically denounced as it would have been, had de Gaulle still been alive.

In addition to the subsequent fluctuations of currency parities, which in itself were a cause of high financial instability, the two petrol shocks (1973, 1979) pushed cost-inflation to unprecedented peaks. Finally, shortly after Paul Volcker was appointed Chair of the Federal Reserve Bank in 1979, real interest rates were propelled to record levels so as to drastically reduce inflation, causing a dollar "shock" (i.e. a substantial increase of the dollar's value compared to other currencies') and triggering a major deflation world-wide and in Europe in particular.

Third, the march to the European Union's single currency. In 1983, eager to protect the franc from dollar fluctuations, President Mitterrand chose to subdue its domestic economic policies to a European monetary mechanism centred on the Deutschmark as a pivot currency. Gradually, during the 17-year period from 1983 until 2000, France gave up its autonomous monetary policy in favour of ordo-liberal Bundesbank principles and its currency in favour of the Euro, creating a situation similar to the one under the gold standard in the 1930s when deflationary policies were implemented so as to achieve currency stability and equilibrium in both the domestic sphere and in the foreign one.

After the collapse of the Bretton Woods system in 1971 and the liberal wave of deregulation in the 1980s, international finance expanded disproportionately to the international trade. The American 2007 subprime crisis morphed into the "Great Financial Crisis" after spreading to Europe and other parts of the world. Neither the International Monetary Fund, nor the Bank for International Settlements were able to prevent the uncontrolled expansion of international finance so that the international monetary system appeared to be contributing to growing uncertainty and financial instability in the world economy.

Despite the obvious need for reform, the dollar continued to be used as the international reference both in the financial and in the real sectors. However, as China is becoming the biggest economy in the world, Chinese authorities are bound to question the role of the dollar as the key international currency.

In an essay published in 2009 (Zhou 2009), Zhou Xiaochuan, until recently Governor of the People's Bank (Central Bank) of China, clearly pointed out the flaw of the current system where a credit-based national currency (the dollar) is accepted as the major international monetary reserve. He underscored the dilemma ("Triffin dilemma") of a country, currently the U.S, issuing a reserve currency, the dollar. It cannot at the same time achieve domestic monetary goals and carry out its international responsibilities ensuing from the use of its national currency as the world's main reserve currency.

Zhou suggested an alternative, based on a greater role given to Special Drawing Rights (SDRs) – a basket of currencies created by the IMF in 1969 – as a "super-sovereign reserve currency" which could fulfil the same role as Keynes's international currency unit so-called *bancor*, one of the key elements of his 1942 *Proposals for an International Currency (or Clearing) Union* (see p. 128). In Zhou's view, the SDRs, currently restricted to transactions between governments and international institutions, could become a widely accepted means of payment for international trade and financial transactions. He even wrote that "the allocation of the SDR can be shifted from a purely calculation-based system to a system backed by real assets, such as a reserve pool, to further boost market confidence in its value." (Zhou 2009)

Zhou's ideas on the role of SDRS as a "super-sovereign reserve currency" clearly derived from Robert Triffin's proposals recalling Keynes's Clearing Union. Since the mid-1960s, Triffin's ideas have benefited from political support in France (see p. 138).

World commercial and financial transactions have been operating under the dollar-standard for nearly half a century. Some would say that we are living under a non-system where the IMF operates not under any set of internationally agreed rules but rather as a branch of the American Treasury. But under this non-system, the world has drastically changed.

Emerging markets (China in particular) are challenging the leaders of the 20th century, especially the U.S. Expanding financial markets have come to dominate the world economy, causing instability (financial crises related to large national debts can occur at any time), increasing inequality (within and between countries), money-laundering, misallocated resources, in particular regarding the environment and the need to decarbonate the planet. These pending threats form many swords of Damocles

and explain the growing awareness of the unfairness of the U.S.'s "exorbitant privilege" stemming from the role of the dollar.

The time is ripe for international monetary reform though it will take a major global upheaval for the U.S. to renounce its "exorbitant privilege" and accept a system responding to the planet's requirements of the 21st century.

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