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The Political Economy of International Monetary System
——The Role and Position of Gold as "World-Money"——

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In order to understand the origin and background of the financial upheaval in the international arena in the 1970s and 80s—abnormally wide swing in the exchange rate of currencies, unusual swell of financial assets in worldwide scale and swelling bubbles of financial speculation and its burst—, it is necessary for us not to ascribe them to the abrupt emergence of oil-crisis or the policy failure of Reganomics but to pursue its cause to the collapse of Bretton-Woods Arrangements—the suspension of the convertibility of US dollar into gold and the subsequent abandonment of fixed exchange-rate—. The unusual upsurge of international liquidity after 1971 testifies to this.

The subject matter of this article is two-fold; (1) to reexamine the historical meaning of the break-down of Bretton Woods system from the present view-point and to derive lessons from the historical experience in order to shed light on the troubles implicit in the present "paper-dollar" standard and (2) to ascertain the minimum prerequisite to be fullfilled for the reconstruction of workable international monetary order. We analyse international monetary system from a politico-economic viewpoint by keeping an interaction between international currency and world politics in view.

First of all, we trace the decision-making process for the international monetary policy in the US Government to the days of Camp David Meeting on 14～15 August 1971. Here comes to the fore the confrontation of two policy courses inside the US monetary authorities i. e. a unilateral and hegemonic international monetary policy named afterward as "benign neglect" policy on the one hand and that of international collaboration on the other. The former overwhelmed the latter during the period (Chap. I).

Secondly, we proceed to inquire the nature of so-called IMF system in theory and practice. Problems to be asked are as follows: (1) Does a generally accepted definition of Bretton Woods system as the gold-exchange standard comprise all-round specific characteristics of postwar international monetary system? (2) How should one determine the degree of departure of this system from the gold standard or gold exchange standard? We define this system as a contradictory compound of two extraneous principles i. e. the internally inconvertible managed currncy system along with the internationally managed dollar-standard on the one hand and convertibility of internally inconvertible dollar into gold according to the old principle of gold standard on the other (Chap. II).

Thirdly, we analyse the inherent fundamental contradictions of postwar international monetary order as it is called the "gold-dollar system". Here R. Triffin's theory of "liqudity dilemma" of gold exchange standard and M. Gibert's thesis of "fundamental disequilibrium of the system" are surveyed and criticized. The role and position of gold in postwar international monetary system is the central theme of this politico-economic considerations. Here we trace the rise and development of the "demonetization of gold" in the US Government and criticize it. (Chap. III).

Lastly, we survey the development in the area of international finance after the suspension of the convertibility of dollar into gold, i. e. what R. Gilpin called the "non-system-era". In this period the US Government consistently pursued a "benign neglect" policy till the "Plasa Agreement" in September 1985, concentrating its policy efforts on the national goal of economic growth and the full employment internally and on the liberalization of business activities among multi-national corporations on the world-wide scale externally. On the other hand, it continued to neglect the implications of its poilcy on other countries. This unilateal and nationalistic policy course has not only caused grave strains and troubles on world economy but the US itself has not been able to keep away from the sphere of influence brought about by this policy. Then the US later returned to the policy of the international collaboration. (Chap. IV).

The following conclusions can be reached from the above-mentioned considerations.

1. Throughout the postwar period till the present the transformations in international monetary order have not arisen positively or negatively— "the decision of non-decision" (S. Strange) —except by US initiatives. In the world of interdependence among the nations the nationalistic monetary policy of a hegemonic power has not only brought about serious damages to the sound and stable working of the world economy but has also given the hegemonic power itself costly boomerang effects. Therefore the policy was in no small measure inappropriate. The return of the US to the policy of international collaboration is nothing but the recognition of this lesson.

2. The structural power of the US in international monetary order can not be fully understood from a restricted viewpoint confined to the sphere of international finance. Only a politico-economic perspective including the military and politics would make such an understanding possible. To shoulder the burden of the cost sustaining the system of western security is to guarantee the political power, which supports the international monetary power.

3. In spite of arguments such as the decline of hegemonic states or a period of interregnum without a hegemonic international currency, the superiority of the US dollar and the structural power of the US in the international monetary system— though slightly declined in relative terms— still remains at least as far as the position of international currency is concerned. This superiority of the US dollar rests on the fact that the dollar is predominantly held in official transactions as a reserve currency and an intervention currency. This fact is derived from the following circumstances: in international trade, especially in international financial transactions the dollar is used overwhelmingly— except to some degree in intra-european trades —in private transactions as an invoice currency and a vehicle currency. This is almost a spontaneous result of the decision made by the individual economic agents in the market processes, and therefore cannot be changed or abolished through a legal definition. Policy management by the responsible key currency country is a prerequisite for the stability of the international monetary system. The

hegemony of the US cannot be accomplished through unilateral and nationalistic actions and has to be demonstrated through leadership within international collaborations. Other countries should demand responsible leadership from the US and collaborate with it in an approach diffrent from that of 1960s.

4. The origin of the so-called "demonetization of gold" taken by the US government has to be traced to its fundamental thought on money or its philosophy of money. Here the following two theoretical problems are to be considered. (1) Are monetary phenomena those of market process or of the process of power? (2) Is money a symbol of confidence or the instrument of economic policy? The two problems are not separate and independent of each other but interconnected. Money would be a useful and powerful instrument of policy—a process of powers—so far as it receives a full credibility from the individual participant in the market process. American Keynesians, with the philosophy of money underlying the "demonetization of gold" policy of the US government received the idea of money exclusively as an instrument of policy from Keynes's monetary theory, although Keynes himself used it in the sense of realism on the level of real policy. Such a narrowly defined understanding of money, which might be termed instrumentalism or manipulationism, has been demonstrated to be disastrous.

Nowadays since the end of the cold war and the disappearance of the military threat from the USSR there comes an era of reconstruction of the international political order. This opens up a new chance for the restructuring of the international monetary system. At present the world economy is faced with several facets of structural imbalance. Especially the continuing large trade imbalance between the US and Japan makes a reform of the international monetary system difficult. However, when one remembers the early days of the Bretton Woods Arrangemets one shonld find that there existed then a much larger disparity between the US and other countries than now. Therefore it is not too early to begin examining ways to reform the system, by summarizing past experiences and deriving lessons from them. With the prospect of openning a new era for international collaboration, the role and position of gold in the system should be newly determined. Till then gold will not be demonetized but instead continue to drift without an appropriate and definite position. (1991. 12. 14)