Book reviews – Comptes rendus – Buchbesprechungen

Christopher S. CHIVVIS, ***The Monetary Conservative. Jacques Rueff and Twentieth-century Free Market Thought***, Northern Illinois University Press, Chicago, 2010, xiv+234 p. – ISBN 978-0-87580-417-0 – 24,58 €.

Jacques Rueff (1896-1978) was one of the most prominent and articulate French economists of the 20th century. He is especially famous for his criticism of the dominant position of the United States dollar in the international monetary system, the so-called "exorbitant privilege", and his advocacy of a return to gold. The author of this biography, Christopher Chivvis, is a political scientist at the Rand Corporation and teaches International History at the John Hopkins University. For his research, the Rueff family has given him access to Rueff's personal papers.

For Rueff, inflation was the great scourge of modern society and the central problem of economic policy. He wrote that, "Inflation is the work of the devil, because it respects appearances without destroying anything but the realities" (p.5). Rueff was so fascinated with the phenomenon of inflation that he spent his holiday in 1924 travelling to Austria and Hungary to "witness its effects". Inflation became the central preoccupation of his life's work. The hyperinflation that had destabilised Central Europe in the interwar period, and the inflation and currency depreciation that had threatened France and its partners in that period, greatly influenced Rueff's understanding of the problems of European political economy. In the 1960s, Rueff looked back on the period since World War I as the "Age of Inflation".

Rueff had a very clear vision of the "foundational role" of monetary institutions in modern market societies. Stable money was essential for a market economy to function, but needed a strong institutional anchor, in the gold standard. That vision sprang not only from a lifetime devoted to the theory and practice of economic policy (during which he witnessed the collapse of liberal capitalism in the Great Depression, the successful reconstruction of Western European democracy in the aftermath of World War II, and the inflation of the 1970s), but also from a deep interest in philosophy.

Chivvis therefore focuses not only on Rueff's work as an economist, but also on his work in philosophy. Chivvis observes that there have been no English language studies of Rueff's broader philosophical work, and important parts of Rueff's work were never translated into English. In particular, his magnum opus, *L'Ordre Social*, which was written during World War II when Rueff was ostracised from policy circles on account of his Jewish ancestry, has received scant attention. For Chivvis, "The real Rueff was at once more profound, more reasonable, and more interesting than the extant literature would suggest. In large part this is because of his combination of free market beliefs with an appreciation of the role of the state in modern economic systems – a central feature of his thought that was itself linked with his French background and worldview" (p.4). The purpose of Chivvis's book is then to offer the

English-speaking reader an introduction to Rueff's perspective on political economy and the historical forces that shaped that perspective. His work is thus not a biography in the traditional sense but an intellectual biography whose focus is on Rueff's thought, and which draws only modestly on the details of his private life.

Chivvis clearly characterises the crucial difference between Keynes and Rueff on the functioning of a modern economy, "In crude terms, one of Keynes's core insights was that long-term social changes, accelerated by the Great War, had made price adjustment inherently sticky – that is, sluggish, especially when it came to downward pressure on wages – and thus rendered market mechanisms ineffective, a fact that necessitated government intervention. On the most basic level, Keynes took price stickiness to be an unavoidable consequence of the rise of mass democracy and the horror of the Great War. He thought European economic policy would have to adjust to the new social realities of the 1920s. By contrast, Rueff insisted throughout his life that price stickiness was not fated or exogenous but, rather, the result of conscious policy choices and the willingness of European elites to abandon market mechanisms and monetary stability" (p.11). One might be tempted to agree with Keynes here, certainly for the European economies. However, Chivvis argues that non-inflationary economic growth might also have been possible. He observes that, "Rueff, after all, always had the example of Germany to point to. His ordoliberal friends had managed to create a system there that combined social spending with monetary stability. Why could the same not have happened in France? Rueff's critique of the postwar consensus was, in this regard, much stronger than it may have seemed on the surface" (p.148). The German example clearly illustrates the importance of sound monetary institutions for the functioning of the market economy and a successful economic performance. However, while a few ordoliberals favoured the gold standard, Germany was characterised by a different type of monetary institution, an independent central bank. Germany, for a combination of reasons, did not favour a return to the gold standard in the post-war period.

Rueff is certainly most famous for his analysis of the Bretton Woods system and his advocacy of a return to the gold standard. Chivvis pays ample attention to these issues. He underlines that, "Rueff's perspective bore the indelible mark of his experience during the 1920s and early 1930s. As he watched inflation in France and other European countries continue, along with the US balance of payments deficits and an accumulation of US dollars as reserve currencies, the memory of the collapse of the British pound in 1931 was in the forefront of Rueff's mind. He feared the dollar could succumb to a similar crisis – a crisis that would in turn encourage a resort to the nationalist economic policies of the Depression and a fragmentation of the Western liberal bloc already challenged by the Soviet Union" (p.160). Rueff considered that some mechanism was necessary to constrain the world's great powers. For this, he looked to the gold standard.

I am very much in agreement with the idea that Rueff's concept of "exorbitant privilege" pointed to one of the most important – if not the most important – defects in the world economy. Rueff's critique of Bretton Woods identified a major structural weakness in the world economy. The dollar's special role contributed to a number of fundamental global imbalances. As observed by Chivvis, "As Rueff predicted, the dollar standard has encouraged earnings on exports to the United States to be recycled back into the US economy from around the world, notably from China. That re-investment could not but have contributed to low interest rates and an artificial stimulation of demand in US markets, which, when they collapsed, contributed to a global financial crisis not altogether different from the crisis that Rueff warned against in the 1960s, and that he lived through the 1930s" (p.12). In my opinion, Chivvis could have given even more attention to this issue. Also, Chivvis does not really go into the issue of the continuance of the dollar dominance after the breakdown of Bretton Woods and the new system of floating exchange rates. Moreover, several times, as in the Great Recession, the increase in liquidity did not really lead to strong inflation (Rueff's main preoccupation) but to "irrational exuberance" on the financial markets, followed by a crash.

In general, in my opinion, Chivvis is rather too supportive of Rueff. An example is his defence of Rueff's return to gold, "Likewise, the failure of Rueff's campaign for a return to the gold standard was not at all the result of the superior rationality of a dollarized global economy. True, there were problems of a technical nature with Rueff's proposal, including the fact that the future supply of gold would probably not have increased at a sufficient rate to meet the needs of the global economy" (p.186, not exactly a minor point). He further quotes De Gaulle in support, "As de Gaulle pointed out, however, gold has held an eternal value throughout human history" (p. 187). However, looking at the gold price during the last decades, this "eternal value" has fluctuated significantly.

I was also surprised at the way Chivvis refutes the role of the gold standard in the Great Depression: "Moreover, the argument that the gold standard was the cause of the depression – which is now the orthodox view of many academic economic historians – is weak from the French perspective. For the French, as Rueff's story makes clear, it was the abandonment of gold by other countries that led to the disintegration of the international economy, the collapse of world trade, and the hyper-agitation of speculative capital, all of which were central problems for France, a country that largely imported the Depression from abroad" (p.68). However, this observation does not in any way refute the idea that the gold standard might have been a major cause of the Great Depression. Moreover, as observed by Douglas Irwin (Vox, 20 September 2010), the French share of world gold reserves rose from 7% in 1926 to 27% in 1932. According to his calculations, France's policies accounted for about half of the 30% deflation experienced in 1930 and 1931. It is rather a pity that Chivvis does not discuss these issues.

On the whole, this is a very well written book. An important merit is that it places Rueff's work in a broader philosophical and historical context. It is a pity that the book is weaker on the economics dimension and that the author is rather defensive of Rueff.

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Dimitri GRYGOWSKI, ***Les États-Unis et l'unification monétaire de l'Europe***, Peter Lang, Bruxelles, 2009, 474 p. – ISBN 978-90-5201-489-0 – 50,50 €.

Les États-Unis et l'unification monétaire de l'Europe is an important book on how the US dealt with European monetary unification in most of the second half of the twentieth century. The author has used an impressive range of secondary material, and, most importantly, primary sources. Dimitri Grygowski has analysed many archival documents, from the State Department, the National Security Council and the various presidential archives (Johnson, Nixon, Carter and Reagan), and made good use of the Freedom of Information Act (FOIA). The book is organised in a chronological fashion, covering four main periods (the 1960s and early 1970s; the mid- to late 1970s; the EMS; and finally the road to the euro), the whole book being divided into nine more specific chapters.

The result is a convincing analysis of the influence of the US on European monetary cooperation, the functioning of the US administration, and also the evolution of the international monetary system. It uncovers divergences of views within the US administration as well as its position, far from being monolithic, on the European story. It reflects well the two central motivations of European monetary unification, internal (protecting the *acquis communautaire*) and most obviously given the book's topic, external (reacting to international events, in particular US actions).

A first obvious important dimension of the book is that it places European integration in wider international developments. European integration seems sometimes confined to an internal European story, deprived of external influences. In the case of monetary affairs as in others however, monetary relations do not stop at Europe's borders. Washington-Bonn is for instance a central axis of the European monetary story. European monetary developments were (are) affected by international ones – and vice-versa. Focusing on the US influence on European monetary unification leads Grygoswki to analyse European monetary developments in a changing world monetary system (and from the early 1970s onwards, non-system): the breakdown of the Bretton Woods system, or the numerous disagreements between EEC members on the strategy to adopt are obvious cases in point. The discussion about the creation of the Special Drawing Rights (SDR), in 1967, also interestingly constituted the first encounter between European monetary union and the resistance to an American position, as Grygowski convincingly argues (p.47 and pp.67-69).

Yet this should not lead to conclude that the US necessarily played a major role in all European monetary developments. A second significant aspect of the book indeed concerns the actual role of the US in European monetary affairs. On closer inspection, the role of the US is in fact of unequal importance: 1978 witnessed for instance "l'apathie de l'Amérique", caught between a desire to influence (if not control the perimeter of) the negotiations over the new European monetary scheme, and a declared stance in favour of European integration (p.232).

A final important quality of the book is the long-term perspective it offers. It could conversely be seen as an inconvenient, in that the author could have delved into more details for each chapter. Yet clearly the advantages outweigh the drawbacks. All too often, historical works are confined to very narrow topics and very specific time-periods. Here the analysis covers thirty years, from 1968 until 1998. And the analysis of specific events, though certainly not as detailed as it would have been in a book more narrowly focused, is very rich and precise. Crucially therefore, Grygowski's book offers a sufficiently long time-span to make an informed judgement about how the US attitude has changed over three decades.

Les États-Unis et l'unification monétaire de l'Europe is therefore a welcome addition to the literature, shedding new light on an important aspect of postwar European history – and very helpful to understand today's situation.

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