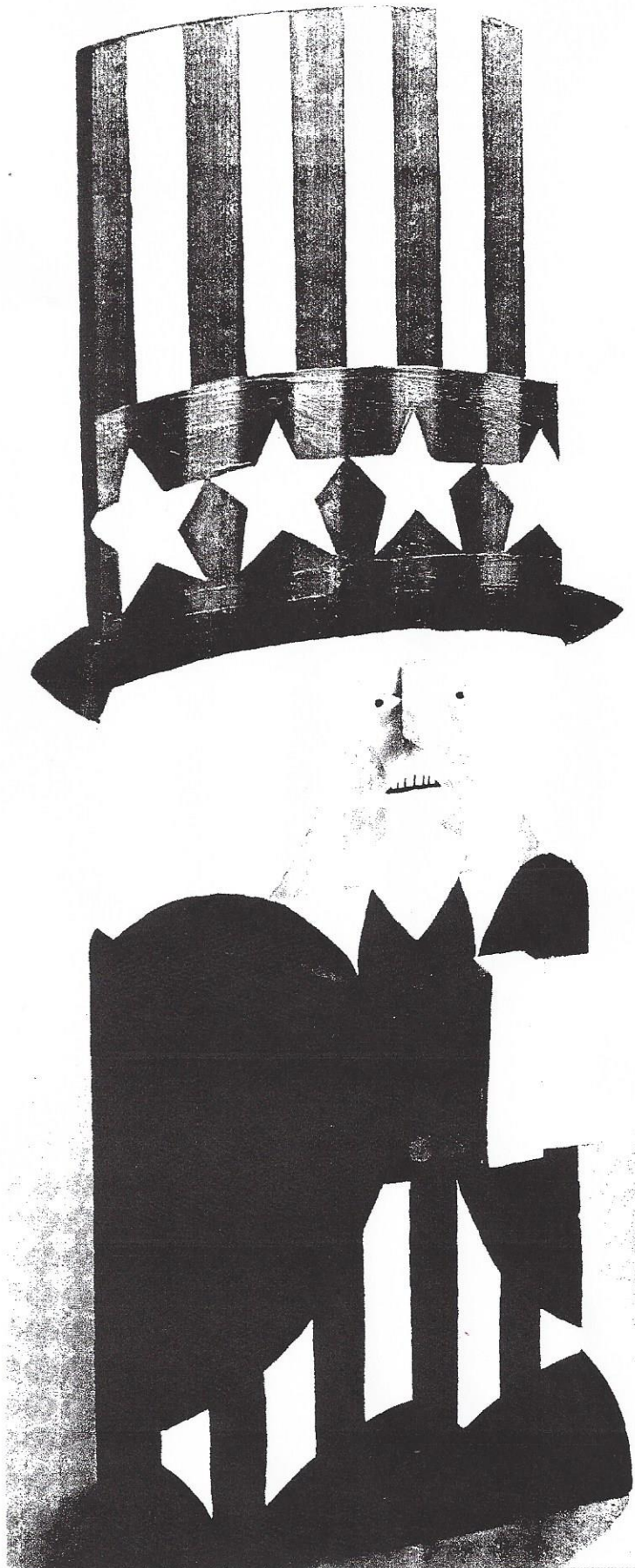


RAMPARTS  
MAGAZINE  
MAY 1968  
San Francisco, Calif.

# The Sieve of Gold



Construction by Dugald Sterner, Photograph by Vano Weifs Fagliano

Eccles: Just list some of our national problems—the very large and continuing budget deficit, the inflationary pressures, the balance-of-payments deficit, the lack of confidence abroad in our dollar, the riots in our cities, the unrest on our campuses, the split among all classes of our populace and within our political parties. I believe that all of these can be traced to a common cause.

Forbes: *Which is?*

Eccles: Which is the war in Vietnam.

—Interview with Marriner Eccles, former chairman of the Federal Reserve Board, in *Forbes Magazine*.

MILLIONS OF AMERICANS heard President Johnson say in his startling television speech on March 31 that he would not substantially escalate the Vietnam War, but few heard the peremptory voice of gold speaking in the background. In the past, the military compulsion of the Tet defeat would have sent many thousands of fresh troops to Vietnam to meet the new challenge. But that was before the U.S. gold crisis. One expert noted: "The European financiers are forcing peace on us. For the first time in American history, our European creditors have forced the resignation of an American President." (Wall Street Journal, April 4, 1968.) To understand the pressures behind the President's decision, one must understand that the Vietnam War has left Uncle Sam holding a sieve of gold.

At the outset of 1965, as President Johnson began his new term of office, the United States was clearly the world's greatest military power and Vietnam was certainly among the weakest. Yet so expensive has even so mismatched a war become that, looking back, it can be seen that only by imposing full wartime controls—increasing taxes, establishing a rigorous system of wage and price and balance-of-payments controls, and above all by sharply deflating the civilian sector of the economy—could the collapse of America's world financial power have been prevented. The gold crisis this year finally signaled this collapse.

It may seem strange that the huge power of America should be thwarted by a crisis over the depletion of gold, a primitive human fetish. But however irrational the financial power of gold may appear, it is less irrational than the power of paper. Paper currency depends upon faith in the stability of its value, and hence faith in the economic strength and wisdom of the country that issues it. Gold, of course, requires no such faith. The movement out of paper into gold is a protective measure on the part of people who are experiencing a loss of faith in the purchasing power of the paper.

Until 1968 Europe had, in an important respect, borne the major cost of supporting world confidence that America's overseas military expenditures would not impair the value of America's currency. Europe did this by holding onto the dollars thrown off by these expenditures rather than cashing them in for U.S. gold. The Europeans had protested since

1964 against absorbing these dollars, and finally, with the gold crisis, they drew the line against continuing thus to finance U.S. military policy. America was left to pay the costs itself, but they were beyond its means. And at that point it became clear that the U.S. could not continue its current rate of overseas military spending—much less increase it—without bringing on a complete collapse of confidence in its currency.

#### [HISTORY OF A PROFLIGATE]

THE BREAKING POINT of America's financial power has long been near and would soon have been reached even if there had not been a war in Vietnam. The tension between our military and economic power abroad and our living standards at home was too great to have been sustained indefinitely.

This tension was withstood through 17 years of deficits only because the U.S. entered the postwar years riding on a tremendous cushion of gold. This cushion was one of the major factors permitting the spectacular expansion and consolidation of worldwide American interests after the Second World War. Throughout the crucial years for the development of U.S. Cold War policies, we had a hoard of gold so huge that balance-of-payments deficits were of no concern to us at all.

The rapid growth in American gold holdings began in January 1934. At that time the U.S. gold stock stood at \$7.4 billion, an amount equal to 35 per cent of world monetary gold reserves. By 1938 the gold stock had increased to \$12.7 billion, or 55 per cent of world reserves. This inflow was not the result of "normal" economic conditions, however, nor was it the result of any trade surplus. Rather, it resulted from the fact that European individuals and corporations, recognizing the threat posed by Hitler, transferred their funds into U.S. securities, a transfer which was accompanied by an outflow of gold from European central banks to the United States. Most of the additions to the U.S. gold stock during this period came from Britain, France and the Netherlands.

So extraordinary was this inflow that at the time the U.S. government acted to "sterilize" it so as to avoid its inflationary potential. This sterilization was done by adding the new gold to the Treasury's own account rather than to that of the Federal Reserve System, so that it would not tend to swell the

by Michael Hudson

reserves of the banking system. By this action, Europe's gold was financially segregated from that gold earned earlier by the U.S. in its "normal" international transactions—though it all belonged to the U.S. regardless of accounting procedures.

This gold inflow continued through 1939-40 as Europe became more and more dependent on America for its supply of armaments following Hitler's invasions of Czechoslovakia and Austria. And though America did grant its allies lend-lease credits after its entry into the war in 1941, Europe continued to lose gold.

By year-end 1945, the U.S. government possessed 59 per cent of world monetary gold reserves: \$20.1 billion in gold (including U.S. Treasury and Federal Reserve accounts and disregarding gold shipped to America by other governments merely for safekeeping). In the dissipation of this gold during the Cold War years, the U.S. was not so much living off its savings as squandering the inheritance left by the demise of prewar European power.

[GOLD POLICY IN THE POSTWAR ERA: 1945-63]

**P**EACE RETURNED. But the specter of Europe's post-World War I hyper-inflation and economic crises afforded the United States a warning of the political instability which might repeat itself should an impoverished Europe be left to reconstruct its devastated economy with only its own meager resources. Clearly, the United States was the only nation at that time capable of filling Europe's reconstruction needs. But just as clearly, under the gold standard—according to which balance-of-payments deficits were settled in gold bullion—the massive infusion of American goods needed for reconstruction would have the effect of utterly depleting Europe's monetary reserves, thus also creating a massive inflation. This would have had obvious political repercussions in view of the strength of Europe's Communist parties, especially in France, Italy and Greece.

It was to avoid such a monetary crisis and still supply Europe with adequate reconstruction resources that the United States took the lead in 1944 in forming the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), or World Bank.

Their establishment was marked by a controversy highly political in nature. At the meetings, held at Bretton Woods, Connecticut, Britain put forth John Maynard Keynes' plan to create an international unit-of-account, an international paper money—not unlike the Special Drawing Rights which are now being established at U.S. insistence. This plan called for the creation of "paper gold" for Europe to use in settlement of its balance-of-payments deficits with the United States and other suppliers of reconstruction materials. This paper credit would have been accepted by the United States (and other surplus nations) in lieu of gold. At the end of the reconstruction process, according to this plan, the United States would be left with international reserves comprising both gold and paper credits, while Europe would be left with virtually no growth or loss in its net reserves, but with a massive accumulation of real capital and a viable economic base. Through this stratagem, therefore, Europe could have retained what meager gold stocks it still possessed, meanwhile financing its reconstruction with a heavy importation of American goods (much as today, America is asking to finance

its domestic and overseas expenditures with European credits).

But America summarily rejected this proposal, not only because of what it believed to be an inflationary potential for the U.S. economy, but also because it felt little desire to accumulate the "paper gold" certificates which Keynes proposed. For if this paper credit were to be counted in its own reserves, the U.S. recognized, it would entail the same inflationary potential as gold itself. (Again, much the same attitude has been taken by Europe in recent years, insisting that U.S. payments deficits are "exporting" America's inflation to Europe.) And if this "paper gold" could not be counted as bona fide reserves, then this would be the equivalent of merely giving away American goods. America did not at this time conceive of the day in which it would itself be desirous of obtaining such credit.

The U.S. advocated a literal "fund," made up of gold and foreign currencies, whose resources would be lent to deficit nations to help them meet their balance-of-payments deficits. Because it was apparent that the U.S. dollar would in fact be the major currency in demand—since the United States would be the major exporter of reconstruction goods—it was agreed that the United States should supply the largest single share of the capital for the IMF-IBRD institutions: 22 per cent.

Because voting power was based on the share invested and an 80 per cent majority was required to pass any proposal, the U.S. was the only country possessing a veto. And because any country that needed to borrow more than its quota—established by the IMF on the basis of share invested—was required to give assurances that it was taking "corrective measures," i.e., the Adjustment Process, the U.S. was in a position to block any loan or policy proposal if it did not approve of the character of the proposed correctives.

This locked in European—and later Latin American, African and Asian—development policies with U.S. world strategy. For example, the U.S. used its power to put pressure on Castro when he sought an IMF-IBRD development and stabilization loan before turning to Soviet aid: "Castro could obtain aid, but only by acquiescing in terms (credit restraint and a balanced budget) that would prevent him from carrying through the social revolution by denying him the use of the tool of deficit financing for handling industrialization and agrarian reform, and by imposing economic controls that would be very apt to stir popular unrest against his government. The stabilization conditions, in other words, were basically designed to preserve the Cuban status quo, allowing only a few fringe reforms to be put into operation." (New York Times, April 22, 1959.)

Even the World Bank's massive reconstruction loans and the IMF's balance-of-payments stabilization loans proved inadequate to meet the financial needs of European recovery. During 1946-47, in fact, France alone lost 60 per cent of its gold and foreign exchange reserves, while those of Sweden fell 75 per cent. Meanwhile, the United States continued to accumulate gold; its gold stock increased from \$20.1 billion in 1945 to \$24.8 billion in 1949, an all-time high.

This huge inflow, far from constituting an unmixed blessing to the United States, became a matter of the most urgent concern. Not only did the continuing transfer of gold to the U.S. threaten to reduce the vitality of the nation's export markets, the Commerce Department noted, but it also threatened to bring about domestic inflation—much in the

same manner as the prewar inflow of European gold would have done had it not been "sterilized." It was because of these potential problems that the United States adopted policies designed to repatriate Europe's gold through foreign aid, trade, lending and investment policies. As a result, the U.S. gold stock declined by \$6.7 billion during 1950-62, while that of what was to become the European Common Market rose by some \$9.7 billion, reaching \$11.5 billion by the end of 1962.

America's balance-of-payments deficits were welcomed abroad during the 1950's. And they aided the U.S. economy at home by helping to restrain potential inflationary pressures. European economic activity thrived, and with it the demand for U.S. exports grew. In addition, European prosperity paid the political dividend of laying to rest whatever fears of widespread economic depression and left-wing political ascendancy may have been left over from 1945. Europe was firmly in the Western bloc.

#### [THE TABLES TURN]

**B**Y YEAR-END 1962, HOWEVER, THE "dollar gap" had become transformed into a "dollar glut." The Common Market's gold reserves had risen to \$11.5 billion, while its additional \$6.7 billion in liquid claims upon the dollar represented an amount which, if converted into gold, would have reduced U.S. gold stocks by 42.5 per cent. Furthermore, U.S. deficits were beginning to impose serious economic strains upon European economies, especially those of Germany, France and Holland. It was at this time that Europe's central bankers concluded that the time had come for equality in treatment with the United States, and they began to insist that the U.S. feel itself bound by the same economic constraints, the same Adjustment Process, to which European nations had subjected themselves in periods of deficit.

The U.S. recognized that its long string of deficits had enabled it to obtain over \$1 billion a year more in foreign goods and services than it supplied. And so, although President Kennedy agreed in 1963 to take steps to reduce America's payments deficit, the U.S.—much as any debtor—was somewhat reluctant to relinquish its privileged status. Joined by its sister-in-deficit, Britain, the U.S. proposed a reform of the IMF which was designed to make being in debt easier.

The basic aims of U.S. financial policy at this time were two-fold. The first was to minimize the actual outflow of U.S. gold in settlement of deficits. In effect this meant obtaining credit in one form or another, either by borrowing from the IMF or by inducing other nations not to cash dollars in for gold.

To achieve the second aim, the operations of the now disbanded Gold Pool were crucial, dating from its formation in 1961. By backing the value of the dollar at \$35 per ounce of gold, the Pool encouraged individuals and governments to hold onto their dollars.

In the IMF at this time our proposals were limited merely to expansion of its reserves, which would enable the U.S. and Britain to finance their payments deficits by borrowing from the IMF. But in view of the sustained run of U.S. deficits since 1950 (save for a small surplus in 1957), the Common Market nations were adamant in their opposition to increasing international reserves for the purpose of enabling the United States to run its deficits unchecked.

In addition, the Common Market economists were already complaining about America's growing investment in European industry. They correlated this investment outflow with America's payments deficit and concluded that the U.S. was obtaining a cost-free takeover. For while private U.S. investment funds were buying out European enterprises with dollars, the payments were turned over to central banks which refrained from cashing the dollars in for U.S. gold on the grounds that this would disrupt world financial conditions.

Thus at the IMF's 1963 meetings, the German representative stated that: "I should like to warn against the conclusion that, as if by some purely technical reform, one could solve in an automatic or painless way the adjustment problems which are due either to structural distortions or to policy discrepancies between the member countries of our international system. . . ."

"I want to stress that any improvements that might be thought out for our international monetary system should not be concentrated only to the question how best to finance balance-of-payments deficits, but also on the even more important question of how to provide sufficient incentives for curing them."

During 1964 Europe became even more reluctant to finance the U.S. deficit. At that year's IMF meetings, Italy joined in calling for "'multilateral surveillance' of the means of financing balance-of-payments disequilibria." France urged that "reference will have to be made to gold," in financing future balance-of-payments deficits, as "the only monetary element outside the scope of government action." (It may be noted that de Gaulle's objection of March 20, 1968, to world currency reform was virtually a restatement of the unanimous position of the Common Market in 1964.)

However, Europe's voice remained ineffective. The United States defaulted thoroughly on its intention to restore equilibrium in its balance of payments. True, it had tied foreign aid to the purchase of U.S. exports, so that only about six per cent of U.S. aid since 1962 represented an actual balance-of-payments outflow. True, it had imposed the Interest Equalization Tax to discourage the outflow of U.S. funds for the purchase of foreign securities which offer higher interest premiums. True, early in 1964 President Johnson had imposed controls upon bank lending abroad and upon foreign investment, under the euphemistically entitled "President Johnson's Voluntary Balance-of-Payments Program." And true, even foreign spending by the U.S. military in Europe had been cut back. But these were only palliatives in view of the immense drains upon the dollar which were to be set in motion in 1965 by the Vietnam War.

#### [GOLD AND VIETNAM]

**T**HE ROLE OF VIETNAM in America's balance-of-payments problems posed to Europe more clearly than ever the basic question: to what degree were they willing to absorb the costs of an aggressive American Cold War over which they had no control. For as U.S. military spending increased, the likelihood of America settling its payments deficits decreased.

The direct foreign exchange cost of American military activity abroad is now running at the rate of \$2.6 billion annually; according to Richard Janssen, writing in the Wall Street Journal (April 1, 1968), \$1.5 billion of this may be

chalked up to the Vietnam War. And the *indirect* cost of the Vietnam build-up is \$2 billion. This figure includes the effect that intensified war production and high defense spending has on our balance of trade—a shortage of capital and skilled labor, an increased rate of inflation, special import needs and diversion of production facilities away from exports.

Thus Senator Hartke, writing in the Saturday Evening Post on April 22, 1967 concluded: "To put it bluntly, Vietnam has ruined any chance we might have had for attaining equilibrium in our balance of payments. . . . Until recently there was curiously little official acknowledgment that after all Vietnam is the real culprit."

Certainly Undersecretary of State Nicholas Katzenbach still gave curiously little acknowledgment nearly a year later. At a meeting in Rome on January 5, 1968 he said: "Even if Vietnam did not exist," the U.S. payments problem would be "about equal" to what it is now.

But regardless of the official ignorance on the part of the U.S., the Europeans insisted on connecting further extension of credits with the Vietnam War. Indeed, the Italian foreign minister suggested at the Rome meeting with Mr. Katzenbach "that a prompt end to the Vietnam War would help solve the U.S. balance-of-payments problem."

And on March 12—just two days before all the U.S. gold not tied up in the 25 per cent domestic legal backing for Federal Reserve notes was depleted—the connection was made in the halls of Congress, as Senate doves joined to oppose a waiver of the 25 per cent "gold cover" on American currency. They recognized that if they could prevent the release of more gold for shipment overseas to settle U.S. payments deficits, the Administration, in order to continue the Vietnam build-up, would be forced to ask Congress for a Declaration of War.

The Senate's final vote approved the waiver by the narrow margin of 39 to 37, with Senate doves Aiken, Church, Gruening, Hatfield, McGovern and Young in dissent. (They were joined by numerous hawks who had their own reasons for wanting to exert congressional restraint over President Johnson.) But the Gold Pool, the fixed link between the dollar and gold, was not to survive even the next weekend.

#### [DEFEAT OF THE GOLD POOL]

**T**HE MAGNITUDE OF AMERICA'S DEFEAT when the Gold Pool was dissolved may be indicated by the intensity with which the U.S. had fought to create and preserve it. After all, the Gold Pool had been formed in 1961 to maintain the dollar "as good as gold"—namely at \$35 an ounce. It was during the Kennedy-Nixon campaign of 1960, in response to a speculative flurry which pushed the price up to \$41 an ounce, that the U.S. took the lead in "pooling" its gold reserves with those of Britain, the six Common Market nations and Switzerland. The result was a \$31 billion gold fund, the stated purpose of which was to supply gold at \$35 per ounce to anyone who wished to buy it on the London gold market, thus maintaining a stable price.

But from that moment in the early 1960's when foreign short-term dollar claims came to exceed the U.S. gold stock, the dollar has no longer been "as good as gold." This was not emphasized until 1966, however, when the U.S. began to exert strong pressure upon European governments not to cash in their dollars for gold, virtually a diplomatic refusal to redeem

the dollar with gold. For seven years the Pool succeeded in maintaining the price of gold on the London market, although overseas markets continued to reflect higher prices. But as the position of the dollar deteriorated further, bringing sterling down in its path, it became impossible to maintain the orderly market which the Pool was formed to insure.

The Pool's collapse on March 4, 1968, came at the end of a series of events that began in June 1967. France withdrew, refusing to suffer any further gold losses as the penalty for America's overseas military expenditures and expanding foreign investments. In order to preserve the Pool, the U.S. picked up France's nine per cent share, thus increasing its gold contribution to 59 per cent of the net Pool sales. In order not to spur gold speculation, France obligingly remained silent about its withdrawal.

Gold losses by the Pool's active member nations proceeded at a moderate rate. But havoc ensued when the pound sterling was devalued on November 18, 1967. Gold Pool sales amounted to nearly \$800 million during the last two weeks of November alone. Nor was the furor mitigated when France—which no longer felt compelled to remain silent about its withdrawal—revealed that it had indeed terminated active membership in June. This announcement was taken in some quarters to indicate that France had joined Russia and South Africa in anticipating a higher price for gold.

In an attempt to stem the ensuing movement out of paper into gold, the Gold Pool nations—without France—met in Frankfurt on November 27, 1967. At the conclusion of this meeting they announced their determination to continue meeting any and all demands for gold at \$35 an ounce. This statement temporarily dampened speculative activity.

Meanwhile, however, continuing pressures on the dollar worked to undermine the Pool's activities. Not only did the United States hesitate to take corrective measures—to increase its income taxes, reduce its budget deficit and slow the rate of domestic inflation—but increasing talk of a further build-up of forces in Vietnam clearly implied that an even more rapid deterioration in the U.S. balance of payments would be in the offing. The Tet offensive of the National Liberation Front, followed by North Korea's seizure of the Pueblo, strengthened this speculation.

By early March 1968, the death of the Gold Pool was imminent. In effect, the sources feeding it had dried up. Italy also had as much as withdrawn. With the money it received for the gold it gave the Pool to sell on the market, it had turned around and bought more gold to replenish its own stocks. Belgium, seeing Italy's gold stock rise rather than decline, was balking at further contributions. The Bank of England's ability to meet further gold sales out of its own reserves was virtually exhausted. And by the close of trading on Thursday, March 14, the U.S.—because of the necessity to maintain a 25 per cent legal gold cover for its Federal Reserve notes—was unable to supply the Pool with enough gold to meet another day's sales. In response to the growing panic, the London gold market was closed, and three days later the seven active Gold Pool nations, meeting in Washington, announced that the Gold Pool had disbanded.

Among the new financial arrangements brought about by the demise of the Pool was the "two-tiered price system," which the U.S. had proposed in November 1967, but which was rejected by the other Pool members as unstable. One price is set

for official sales between governments, which will continue to be transacted at \$35 an ounce. The other price applies to all non-governmental traders in gold, and will be allowed to change from day to day just as does the price of copper, zinc and other metals—thereby satisfying South Africa's and Russia's demand for a higher gold price. This proposal effectively revalues the price of gold, while simultaneously enabling the U.S. to maintain its commitment to buy and sell gold at \$35 an ounce to settle official intergovernmental transactions.

One of the first responses to the new two-tiered pricing system came from the oil-producing nations. Through their joint cartel, they requested an immediate increase of the royalties and taxes due from U.S. and British petroleum companies in proportion to the decline of these currencies vis-à-vis gold. This was an early sign that the two-price system represented a disequilibrium which meets many of the essential conditions of actual devaluation of the dollar.

While the two-price system will stop the drain of U.S. gold through the Gold Pool into the open market, it does not prevent governments from cashing in their dollars for gold at the rate of \$35 an ounce. For the time being, however, there seems to be an agreement among the major holders of dollars that no such demands will be made on the U.S. gold stock.

At the same time, the "Special Drawing Rights" created by the IMF will provide an alternative to either demanding gold or holding dollars. The SDRs are essentially a new kind of international money, created by international agreement, that may be used like gold to settle payments accounts. The SDRs would be allotted in proportion to each nation's contribution to the IMF, so the U.S. would receive more than a fifth of the \$5 billion worth proposed to be created over a period of five years—probably starting in early 1969. It might seem that this provides us with a painless way to incur deficits, yet avoid the Adjustment Process. And indeed this was what the U.S. had in mind when we first proposed the SDRs some time before the gold crisis.

However the Europeans can still block the activation of the SDRs at the IMF meeting that will make the final decision next fall. They will not approve activation if they are not satisfied with the steps we have taken by then to abolish our deficits, including particularly those relating to Vietnam. Far from letting America off the hook with unconditional credit, the SDRs plan has provided the Europeans with the power they have sought for years to review U.S. policy and impose the Adjustment Process upon it. Ever since its gold stocks began to run low, the U.S. has dreamt of eliminating gold, with its strict financial constraints, from the world monetary system, replacing it with unlimited easy credit. This dream has not been fulfilled.

#### [GOLD AND THE COLD WAR]

**A**MERICA'S DESIRE TO SEE GOLD eliminated from the world monetary system is understandable. It had used gold as a lever with which to exercise world power, not only to purchase foreign businesses, but also to finance its overseas Cold War operations. Gold, America perceived, was power; as long as gold was the basis of the world monetary system, power followed it. Therefore, when its gold stockpile was depleted, America naturally wanted to transform the monetary system in such a way as to phase gold out, thereby preventing any other nation from using the

power it provides—especially in view of the fact that the major potential gold bloc nations are the Soviet Union, South Africa and France.

If the United States has lost the lever of gold in world financial influence, it has obtained a not unsubstantial lever in the very size of its international debt. In this, its position is not unlike that of Germany in the late 1920's when the German government used its indebtedness as a tool with which to exact "restraint" among its creditors, holding up the alternative of a monetary collapse.

This threat of a worldwide financial collapse explains the high degree to which Europe has accommodated the United States. Europe is considerably more dependent upon the smooth functioning of international finance than is the U.S.; foreign trade represents about 25 per cent of the Common Market's combined national income, compared to only four per cent for the United States. Disruption of Europe's foreign trade would result in severe dislocations of its economic life, causing massive unemployment of its capital and labor resources.

Because of his efforts to avoid this situation, Charles de Gaulle has been made into the whipping boy of the greater part of the American press. According to popular opinion in the U.S., it is he who is threatening the stability of world finance. De Gaulle, however, has only joined the already established Common Market position of 1963 and '64 that it is the United States that produced chaos by the public demonstration that it has finally, by its own mismanagement, *spent* its power in the world. Faced with the decision of whether or not to enter the Vietnam War—when it was already overextended in its foreign accounts—the U.S. chose to dissipate its world power and render obsolete the exchange standard upon which rested the edifice of the world's postwar monetary order, rather than adjust its activities to its new limitations. In advocating a return to the pre-World War II gold standard—under which *all* international deficits had to be settled with gold—General de Gaulle was only calling for the United States to pay the price of its Cold War posture, a price figured in the very gold which had been the crux of America's world power and which came to this country as a result of Europe's political and financial crises preceding and during World War II.

De Gaulle's appeal to the "universal and impartial" character of gold is seen as a threat by this country—and this is an accurate perception, for the impartial logic of gold has negated the imperatives of American power. As early as April 1963, Professor Terence McCarthy saw clearly that we could not evade this logic. In *A Strategy for American Security*, he wrote: "The claim is made that the enormous annual expenditure on armaments and the military establishment in this country is vitally essential to the maintenance of America's world position. It is nearer the truth to say that without a shot being fired, without United States armies once engaging the enemy, her world position is being frittered away, irretrievably, by America's tacit repudiation of the basic value of her currency."

*From 1964 to 1967 Michael Hudson was a balance-of-payments analyst for the Chase Manhattan Bank (which of course is not responsible for the views expressed here).*

*The author would like to acknowledge his indebtedness to Professor Terence McCarthy for numerous observations incorporated in this article.*