Triffin Plan

The Background

From the discussion in the previous chapter, it is evident that Keynes was attempting to establish a thoroughly reformed system consistent with the British interests of that time. Some of the major provisions were not acceptable to American side. The U.S. representatives under the leadership of Henry Dexter White were cautious and conservative in viewing the Keynes plan of establishing a clearing Union, especially because of the fear, as they felt, that the United States, undamaged by war would find itself providing unlimited finance to the rest of the world. The United States put her own outlook contained in the White plan. The two plans were forged together in equal proportions and what followed was the Bretton Woods Agreement of July 1944 creating thereby two international institutions, the International Monetary Fund and the International Bank for Reconstruction and Development, now called the World Bank.

The International Monetary Fund started its operation on 1st March 1947, and it was only after a few years that dissatisfaction with the performance of the Fund started being expressed from different quarters. In criticising the
Fund Robert Triffin went to the extent of saying that "the record of the first ten years was grim and dismal one, and to deny it would be futile, would be a disservice to the cause of the institution itself. ¹

The central feature of the Bretton Wood system has been that it adopted gold exchange standard system to ensure escape from the difficulties resulting from the failure of gold supplies to keep pace with normal requirements for monetary reserves. Under this system the major portion of world liquidity was to be met by the accumulations of short term obligations of the key currencies. The key currency approach was accepted on the assumption that it might help economise on gold and help relieving shortage of world monetary reserves. Consequently, the privilege of being the issuer of international liquidity was assigned to the United States and the U.S. dollar, the then safest currency, became the principal reserve currency in the post world war II global monetary order. Dollar supplies were assumed to be in a position of providing for two third to three fourth of international liquidity requirements during the decade 1949-59.

The game showed a profound success for a decade or so without no one becoming aware of built-in-destablization in

¹ Robert Triffin. "Europe and the Money Muddle. (Yale1957) PP. 116
the system, except at least one foresighted man Robert Triffin who pointed out first the built-in-dangers in the system and the sure possibility of the system becoming hostile, particularly to the United States. Triffin found three main observations as a matter of concern for the U.S. planners.

1. The pronounced downward trend of U.S. current account with western Europe till 1959 - interrupted only by the height of European boom and the suze crisis - pointing to the president and growing deterioration in U.S. competitive position vis-a-vis this area.

2. The surplus with the rest of the world being closely associated with the level of the financing made available to these countries by U.S. export of capital and economic aid.

3. Finally, U.S. overall exports of capital and economic aid had been relatively sustained throughout the period 1948-59, at level considerably in excess of U.S. current surpluses. This gap had been financed mostly by a persistent deterioration of U.S. net external reserves and liquidity position, through the gold losses and increasing short term indebtedness abroad.²

These observations brought in focus a double dilemma unescapable for the United States and its severe repercussions for the international monetary system.

A readjustment in the U.S. overall balance of payments was unavoidable to halt persistent deterioration of her net reserve position. The task of bringing readjustment in the overall balance of payments was too difficult in itself and if could anyhow be accomplished, then even, the most successful readjustment would leave in its wake two major problems of vital concern to both the United States and the rest of the world. As puts Triffin, "The first is that the elimination of our ever all balance of payments deficits would, by definition, put an end to the constant deterioration of our monetary reserves and deprive thereby the rest of the world of the major source by far-two thirds to three-fourths from which the international liquidity requirements have been met in recent years, in the face of a totally inadequate supply of monetary gold. The second is that the huge legacy of short term foreign indebtedness already inherited by us from the past is likely to place a handicap on sound policies for economic growth and stability in this country. Refugees capital has flown here in large amounts after the second world war, as it had flown to London after the first world war. Some of it may return home, as currency conditions become definitely stabilized in Europe, just as it left London in the late 1920's. Our huge gold losses of last year were due in part to such a repatriation of foreign capital at a time when interest rates had fallen here well below the rates available in Europe. They have been slowed down this year by an extremely sharp size of
interest rates in this country, prompted by our domestic concern about creeping inflation. In this case, external and internal interest rates policy criteria happily coincided, but they may diverge tomorrow. As and when we feel reassured about our international price and cost trends, we many wish to ease credit and lower interest rates in order to spur our laggard rate of economic growth in comparison not only with Russia, but with Europe as well, we may then be caught, however, exactly as the British were in the 1920’s, between these legitimate and essential policy objectives and the need to retain short term funds here in order to avoid excessive gold losses.¹³

The wisdom of U.S. statesman of ensuring key currency status for U.S. dollar, become clearly exposed to unanswerable question within a short spare of ten years. Though political and economic gains for a key currency country are enormous, they can not last longer. The supply of international liquidity and its injection into the world monetary circuit depends upon the magnitude of the deficits in balance of payments of the key currency country. This in other terms means decline in her net reserve position through increases in short term monetary liabilities unmatched by corresponding increases in her own gross reserves. Special Allowing this process to continue, no doubt brings an inflow of real resources from the rest of the world towards the key currency country, however, it can not be allowed for indefinitely

3. Robert Triffin "Gold and the Dollar Crisis." pp 9-10
long period, as it will tend to bring about a collapse of the system itself through the gradual weakening of foreigners' confidence in the key currency. The United States and the real gain from creating and supplying international money by expending her liquid liabilities to the rest of the world of the $8.5 billion increase in world reserves in the year 1959-69 the U.S. provided $7 billion through the increase in her liabilities to foreign monetary authorities. Triffin noted, "This happened to the United Kingdom in 1931. The Collapse then was brought about by large shifts on sterling balance into gold and dollars, leading to the devaluation of sterling. It happened again as a consequence of war time developments and resulted then both in the 1949 devaluation and in the protracted inconvertibility of sterling and recurring balance of payments crises of Britain throughout the post war years."4

"Appropriate to the non-inflationary real growth in world trade and production, there was inevitable need to increase world liquidity amounting to at least $6 billion or as much as $17 billion, in the ten years from 1958 to 1967, depending on whether trade grows during this period at the rate of 3 percent or 6 percent a year and also on the following assumptions."

4. Ibid. P. 67
(a) The United States of America, Germany, Switzerland and Venezuela will not increase their reserves.

(b) In the next decade the United Kingdom and France will increase their reserve to 40 percent of imports as at the end of 1957 or to $4.8 billion and $2.5 billion respectively and the requirements of these two countries for the ensuing decade will involve an expansion of these base figures in line with the growth of their trade, and

(c) Sales of gold by the U.S.S.R. will average $200 million a year, that is the average of annual sales in 1966-68.5

This shortage of international liquidity as calculated by Triffin could be made up within existing from work of international monetary institutions, through reliance on the balance of payments deficits of the key currency countries mainly of the United States. But this could further aggravate the difficulties of the United States and strengthen the trap as explained by Triffin. The gap therefore is unlikely to be filled by the method under practice. Otherwise U.S. short term obligations would further increase enormously, thereby impairing confidence in U.S. dollar, and ultimately causing gold outflow from the U.S. or alternatively forcing U.S. monetary authorities to raise U.S. short term interest

5. Ibid.  PP 49-50
rates inconsistent with domestic growth objective.

The key currency approach to the problem of international liquidity turned hostile to both the global payments system and the United States, supremacy in world monetary affairs.

Triffin noted, "the most fundamental deficiency of the present system and the main danger to its future stability lies in the fact that it leaves the satisfactory development of world monetary liquidity primarily dependent upon an admittedly insufficient supply of new gold and an admittedly dangerous and haphazard expansion in the short term indebtedness of the key currency countries." 6

Under such circumstances, the task of designing a new world payments system had become inevitable to avoid collapse of the world monetary & economic order. Triffin gave warning of the danger ahead. "In the absence of any specific planning and policies, the growing inadequacy of world reserve would be most likely to lead, within a relatively short span of years, to a new cycle of international deflation, devaluation and restrictions, as it did after 1929. Such a cycle might be triggered by unfavourable economic developments outside the centre countries themselves, but its international spread would begin with the difficulties which the United States or the United Kingdom might experience, as a result of any

6. Ibid. P. 100
considerable drawdown or reversal of the inflow of foreign funds to their markets. The lessons of the 1930s and the radical changes which have taken place since then in governmental attitudes and policies would probably rule out any widespread recourse to acceptance of internal deflation as method of adjustment. Devaluation and restrictions would be the most likely outcome of such a situation. 7

7. Ibid. P. 70
**Basic Features of Triffin Plan & their Appraisal:**

Triffin's main contribution lies in demonstrating two basic problems. Firstly, that the solution of the U.S. balance of payments was likely to bring to the fore another, and in the long run perhaps more serious, problem. This problem is the necessary consequence of the growth of the gold exchange standard in the 1950s, when the U.S. Balance of payments deficits served as a source of international liquidity as long as they were neither too large nor too persistent. The danger inherent in this situation is that elimination of the deficits, by drawing up a most important source of liquidity, would threaten to throw the world into a deflationary spiral.

Secondly, as to what should be the new device of supplying the world with adequate monetary reserve once the sources like United States are discarded by making them re-establish balance on their external accounts.

According to Triffin the use of national currencies as international reserves is impractical and the building up of foreign exchange reserves involves the making of loans from depositor countries frequently poor, to banker countries usually rich. "The constitution of international reserves in the form of a national currency tends to stimulate
unrequired lending to the major creditor country and add to the difficulties which it may already face in financing its surpluses abroad. It is fails in this task, the gold shortage will remain unsolved but appear instead in the guise of shortage of the main creditor country's currency. If on the other hand it redistributes abroad sufficient grants and credits to finance not only its current account surpluses, but to offset in addition the unrequired inflow of short term funds from abroad, its net reserve position will gradually deteriorate to the point where its currency no longer appears as absolutely safe to reserve holders. The flow of reserve funds will then tend to slow down, or even to reverse itself, in such a way as to accentuate again overall balance of payments disequilibrium, rather than cushion them. The readjustments imposed at this stage upon the creditor country will, if successfully carried out, arrest at the very least its previous contribution to the maintenance of an adequate level of international liquidity. There is a serious danger, however, that a less skillful handling of the situation may result in a sharp reversal of liberal trading policies throughout the world, or even trigger large scale movements of short term funds from one currency into another and from all currency into gold. 8

8. Ibid. p. 89
Triffin is opposed to the reliance both on gold and national currency or currencies as a means of supply of international liquidity. He had in his mind apprehension that world monetary system would soon be entangled in monetary change resulting from devaluation of currencies and restrictions on world trade and flows of capital if the folly of the system was allowed to continue its region. It was indeed a prophetic warning against the collapse of key currency system.

Besidelly Triffin's attempt was to design a system of world payments capable of supplying the needs of a growing international economy. The scheme presented in famous Triffin plan emaged as a revolt against the key currency approach under gold exchange standard system and emphasized centralization of reserve by covering the international Monetary Fund into a world Central Bank. Explaining the need and nature of internationalization of reserves, Triffin says: "The shortage of gold supplies in relation to reserve need be made up but not more than made up - by the provision of an additional medium in which reserve can be held. This new medium, however, should not take the form of national currencies, the actual supply of which to reserve holders is dependent at all time on the vagaries of the key country's balance of payments, and the actual demand for which from reserve holders may fluctuate irrationally and catastrophically
with every change in confidence in the key countries monetary position and policies. The foreign exchange component of international reserve should be made up of international deposits rather than currencies." He further emphasized, "A collective organization and effective internationalization of the present gold exchange standard are particularly essential in this respect, if we are to eschew the well known pitfalls unanimously denounced by economists and sadly demonstrated by events in the early 1930s."  

The famous Triffin Plan was first expounded in two articles: The return to convertibility or convertibility and the morning After; "Tomorrow's convertibility, Aims and international Policy" in the March and June 1959 issues of the quarterly review of the Banca National del Lavoro. Later on the plan in comprehensive form was presented in his book entitled "Gold and the Dollar Crisis published in 1960.

Among the proposals designed to expand the system of international liquidity and credit arrangements, the Triffin Plan has received wider acceptance and has provoked broad discussion in economic literatures.

The basic features of the Triffin Plan contained in "The new chapter for international monetary Fund" are


10. R. Triffin "Europe and the Money Muddle". Yale University Press 1962, p. 303
taken for discussion under following heads:

A  PROVISION OF INTERNATIONAL LIQUIDITY

Triffin focussed his attention almost on improving international liquidity in both quality and quantity terms. For this he suggested replacement of foreign exchange balances held by central banks, with IMF deposit. These funds deposits are to function as international reserves and to all intents and purposes, the new and principal medium of international settlements with fixed value in terms of gold and convertible in national currencies at fixed parity exchange rates.

Triffin writes: "The key stone of our proposals would be the substitution of IMF balance in national currencies - i.e. mostly dollars and sterling - in all members countries' reserve. Such balance should be made equivalent in all respect to gold itself and as widely usable and acceptable in world payments." 11

"...All countries should undertake to hold in the form of Fund deposits a uniform and agreed proportion of their gross monetary reserves." 12

11. Robert Triffin: "Gold and the Dollar Crisis" p. 102
12. Robert Triffin: Ibid p. 10
In Triffin Plan, these Fund deposits are to be created initially, by transferring to the Fund the national currencies primarily dollars and sterling held as reserves by the central banks of member countries, plus any amount of gold that they might wish. International settlements have to be made in terms of Fund deposits, which could be drawn upon by holders to procure any currency, needed in such settlements or needed for exchange market intervention. The amount of Fund deposit withdrawn would be merely debited to the withdrawing's deposit account and credited to the account of the country whose currency was purchased from the Fund. The Fund deposits would be a safer medium for reserve investment than any national currency, for the reason that they would be fully convertible in gold or in other currencies and carry an exchange rate guarantee plus earning of interest rate suitably determined by the Fund. "These various features, combining the earning powers of foreign exchange holding with the safety of gold holdings, should ensure, in time, a large and continuing demand for fund deposits by central banks."

As against one way convertibility of bank or gold in Keynes plan, Triffin envisaged a two way convertibility between gold and Fund deposits. In view of a likelihood of

14. Robert Triffin: "Gold and Dollar Crisis" P. 10
sudden and unpredictable shifts between gold holdings and Funds and deposits, and in order to protect the system from such vagaries, Triffin suggests in this plan "all members should undertake to hold a uniform and agreed minimum proportion of their gross reserves in the form of Fund deposits. They would be entitled — but not, of course compelled — to convert into gold at the Fund any deposits accruing to their account in excess of this agreed minimum requirements. The plan makes it obligatory on the part of member countries to deposit their gold and foreign currency reserves with the IMF to minimum amount of 20 percent which will adjust automatically to keeping with an increase or decrease in the reserves and thus provide funds for the deposit account.

The centralization of reserves as envisaged in Triffin plan is claimed to have preserved fully the incentives that are behind holding of foreign exchange reserves on them, and the same time is claimed to have reduced considerably the weight of the deterrents like risks of exchange fluctuations, inconvertibility, blocking, or even default etc. As a proof of his scheme being a viable proportion consistent with high degree of convertibility, Triffin gives some hypothetical

15. Robert Triffin: Ibid p. 10
estimates regarding the possible accruals of key currencies and gold to the Fund, and make a case against the likelihood of excessive gold depletion of scarcity of any currency.

As per minimum reserve requirements, all countries would have to transfer to the Fund equivalent amounts of assets, as a result of which nearly half of the Fund assets (4.9 billion) would be in gold and the rest in various claims on members, but very largely in U.S. dollars more than dollars 3 billion and close to dollar 2 billion in pound sterling.

Triffin writes "This pattern of Fund assets should rule out in practice any real danger of a "Currency scarcity" in the Fund and guarantee therefore the full and continued convertibility of Fund deposits into any currencies needed by members, currency sales by the fund would be credited to the deposits accounts of the countries whose currency had been sold, and the large gold holdings of the Fund (nearly dollar 5 billion) would enable it to meet any request by such members to covert into gold the excess of their deposits above their 20 percent minimum requirements. The ultimate objective of Triffin's plan is to eliminate fully from the international monetary system the use of national currencies of international reserves. Therefore it is natural that the residual foreign exchange reserve amounting to dollar 10 billion after 20 percent minimum deposit requirements has been

met, must also be converted into international Fund deposits so that all member countries hold all their reserves exclusively in gold and Fund deposits, except for small working balances in actively traded currencies.19

Triffin, rules out the possibility that obsojuction and consolidation of all outstanding foreign exchange reserves with the possible of moderate working balances into Fund deposits would pose any danger of either gold or currency scarcity. However as safeguards, for Fund's liquidity both against unforeseen conversion of excess deposits into gold and in the long run against the increasing gap between the probable level of world gold stocks and the desirable expansion of overall monetary reserves, Triffin has suggested that (a) the minimum deposit requirement could be raised from 20 percent to some higher ratio, with vote of a qualified majority of member countries (b) the IMF should issue gold certificate with a good yield and an intermediate term and request members to take up, thereby blocking part of the excess depositors; (c) so long as country does not permit its currency to be converted into gold, the IMF should not permit its balances to be converted into gold.20

In the addition to the creation of Fund deposits through liquidation of currency balance, the fund deposits would be created through credit operation. The IMF would create

credit on the basis of 'Principal deposits'. The credit creation would in no way be different from that of commercial banks anywhere. Commercial banks grant loans against funds they have received from their depositors and the funds thus lent are transferred to the accounts of the borrowers, bringing about an increase in their total deposits. The banks expand their advances on the basis of those deposits, which have been created by their advances. In this way all commercial banks are able to create credit several times greater than the amount of the deposits initially received. The same would apply to the IMF after its reform. The IMF's advances would be made to those countries in need of funds on the basis of the above mentioned minimum deposits. These advances would be transferred to the IMF deposit accounts in the name of the receiving countries, should the receiving countries purchase the foreign currencies they need against these accounts, their accounts would be debited and the same amounts would be credited to the accounts of those countries which issued the currencies. Thus the IMF could increase its deposits by its own advances and thereby expand its base for credit creation so long as countries selling their currencies did not draw in gold on their IMF deposits. Therefore, the extent of credit that can be created by the IMF deposits solely upon the total deposits that remain without being converted into gold. 21

The credit creation and lending capacity of the Fund has not been left unlimited with a view to preventing global inflation. Triffin writes: The overall lending capacity of the Fund can properly be limited to the creation of bancor (Fund deposit) amounts sufficient to preserve an adequate level of international liquidity. Various criteria could be retained for this purpose. The simplest one might be to limit the Fund's net lending over any twelve months period, to a total amount which could together with current increases in the world stock of monetary gold, increase total world reserves by, let us say, 3 to 5 percent a year.\textsuperscript{22}

The above mentioned features of Triffin's proposal for IMF indicate that what Triffin wants to be organise the international payments mechanism on the principle of mutual credit thus multilateral crediting. Triffin plan thus envisages turning the international Monetary fund into a world central bank type organisation where the central banks of member countries would keep deposit accounts expressed in terms of new reserveunit bancor and would enjoy credit and financing as are available to commercial banks within a country from its central bank. At the same time the IMF, as recognised, would become essentially a kind of clearing house. In granting credit to the central bank of, say country A, it would transfer

\textsuperscript{22} Robert Triffin : Ibid p. 103
to its accounts the sums to the central bank of
say country B.

The recognized IMF would carry on lending operations
similar in many respects to those of national central banks
credit and lending operations. According to Triffin the IMF
loan would fall into two broad categories. Firstly advance
or rediscounts undertaken at the initiative of the borrowing
countries. Any loan granted by the Fund to a member would be
credited to its fund deposit account, and the member could
draw on this account in any currency whatsoever, "Secondly,
through open market operation or investments, undertaken at
the initiative of the Fund itself. According to Triffin,
"The second broad category of fund lending would take place
through investment in the financial markets of member
countries. These operations would be decided very rarely
at the initiative of the Fund itself, but always of course
in agreement with the monetary authorities of the countries
concerned." An important feature of the fund investments
would be that guarantees against exchange and inconvertibility
risks will have to be provided by the country seeking Fund's
investment. These would be similar to those guarantees which
protect the Fund's own deposit liabilities. 23 These investment
would be made out of the outstanding national currency,
reserves overwhelmingly U.S. dollar and pound sterling.

foreign currencies in exchange for their own currency but not in exchange for other foreign currencies owned or acquired by them. This means that the Fund does not fulfill one of its avowed duties viz, to assists in the establishment of a multilateral system of payments in respect of current transactions between members.

Both these shortcomings are obviated by the reformed procedures through the use of the fund as a clearing House for such settlements. Foreign currency balance acquired by a central bank be deposited to its fund account and debited to the account of the debtor of such balances. Any other members currency could be purchased by a member through corresponding debits to its own account and credited to the account of the country whose currency is bought. Finally any loan granted by the fund to a member would be credited to its fund deposit account and the member could draw on this account in any currency whatsoever without having to make any representation that it need to make payments in that particular currency.

Triffin Vs Keynes : Triffin plan : certain feature in common with the Keynes plan. The Keynes plan provided for the creation of an international clearing union and a special international reserve currency unit, bancor, each member was to be allocated a quote based on its average volume
transferred to the IMF by members in exchange for Fund deposits, in those markets whose need for international capital is greater. A portion of such investments might even be channelled into relatively long-term investments for economic development through purchases of IBRD bonds of other securities of a similar character.

The lending operations as envisaged by Triffin have superiority over those in practice. In Triffin plan the normal procedure for fund advances are not much different from those in practice, yet the proposed structure of Fund operations would elimination of the most puzzling requirements of the Articles of Agreement. At present the lending operations of the Fund are governed by Article V, section 3, subsection (a) of the articles of Agreement of the fund, which entitles a member to buy another member's currency in exchange for its own currency subject to the condition that the purchasing country 'represents' that it is presently needed for making payments in that currency which are consistent with the provision of the agreement. This article literally interpreted means that it is possible, on the part of the member concerned to identify any particular currency it needs. However the fact is that under convertibility conditions it is difficult to do so. Moreover, the Article allows members to purchase
of foreign trade in terms of the new currency. Triffin admits the similarity of his plan with that of Keynes. He writes: "The proposals that follow would, on the contrary, preserve the core of the Keynes plan mechanism, while meeting jointly, the objections raised against it. They would retain the IMF - or bancor - accounts as a fully multilateral means of settlement, thus simplifying vastly the lending and borrowing operations of the institutions, and guaranteeing in much firmer fashion the continued interconvertibility of all member currencies against a relapse into discrimination and bilateralism in world trade and payments."

**A Critical Appraisal of Triffin's Deposit Scheme:**

The Triffin plan was designed as a system of world payments capable of supplying the needs of a growing international economy. It therefore, has resemblance with the Keynes plan, but the same time has been made free from some of the objections levelled against Keynes plan. Triffin has been much careful in providing for international limitations on the rate of increase in liquidity, to serve as safeguards against the potential threat of inflation. Yet Triffin plan gave rise to lively controversies over its being inflationary. Some critics assert that rather than being inflationary, the Triffin plan is deflationary in nature.

Triffin plan of internationalization of reserves raises number of issues of theoretical and practical importance.
Firstly, as to whether the countries be expected to consider deposits with the IMF as part of their reserves, to be drawn on freely, or will these deposits be considered inferior in some way and used sparingly as the gold tranche with the IMF & in the later event the Triffin plan may actually rescue liquidity, since countries have to give up gold and dollars to obtain these IMF deposits.

In Triffin Plan the initial deposits (amounting up to 10 percent of gross reserves) are not to be considered fully usable. For this reason there is fear that international liquidity would reduce rather than being increased. "Initially there might be a rather large loss of liquidity. Central banks are to surrender certain liquid assets that they now have mainly foreign exchange and gold in return for deposits of equal amount with the reconstructed International Monetary Fund. Central banks are to be required to maintain 20 percent of their gross reserves in the form of deposits with the IMF. These deposits can be used to discharge international indebtedness, but are to be maintained at 20 percent of gross reserves. This requirement must be demand to improve like all percentage requirements, al i.e., in a modified from the each rank fallacy. 24

The centralization of reserve in Triffin plan though

starts from an initial funding of 20 percent of national currency reserves with the IMF, however the ultimate is to convert all the national currency reserve international fund deposits, except possibility for some working balances in actively traded currencies. According to Harrod, the liquidation of all key currency balances would entail destruction of liquidity or otherwise would make it necessary for the IMF to increase its lending or open market operations, so as to sustain a net increase in world liquidity by more than offsetting the initial destruction.

The argument of Harrod that liquidation of national currency balance whether fractional or by total amount would entail destruction of liquidity does not seem valid. International liquidity is required for three motives—namely transaction, precautionary and to very small extent for speculative purpose. Triffin scheme makes allowance for the amount of international liquidity required for transaction purposes. It is obvious that liquidity reserves are held mainly for precautionary motive. No doubt that IMF deposits are not as liquid as national currency balance are, however they are available to a member country whenever need for financing her balance or payments deficit arises. From this angle it makes no difference whether precautionary amount of liquidity is held with the central banks or with the IMF. Therefore liquidation of national currency balance would
not entail destruction of international liquidity.

Triffin's deposit scheme brings forth a question as to whether it would give rise to international financing. Triffin's claim is, "the maintenance of a portion of a country's reserves in this form would therefore be no burden on it and would not raise the internal financing problem which some countries now find in financing their quota subscription to the Fund." It is true that the initial subscription of 20 percent of gross reserves would not entail an internal financing problem; nor would the further supplementary subscriptions by some countries, constituted by the handing over of the dollar or sterling balances remaining to them after initial subscriptions have been paid, but the initial subscriptions, and the supplementary subscriptions by themselves, take no addition to international liquidity. The addition only occurs when the I.F. starts lending or conducting open market operations, which cause the aggregate deposits with the fund to rise above the level established by the initial and supplementary subscriptions. The additional deposits can either be with real or left with the I.F. If withdrawal takes place, then

25. K. Triffin "Gold and the Dollar Crisis" p. 106
the power of the IF to lend or operate in the open market would be limited by the amount of the initial gold subscription (about dollar 5 billion). If this happens, the whole scheme by which the IF is to lend or invest enough to ensure a rise in total world liquidity resources by 3 percent a year or more would break down at the end of three or four years. One can expect, however, that countries leave a part of extra deposits with the IF, being induced by a gain through sufficient rate of interest and the knowledge that excess deposits remain gold convertible. This will raise internal financing problems, yet it be supposed that, in consequence of IF lending to underdeveloped countries and thus giving these countries the power to increase their purchases, say, from the United American deposits rose above their previous level, underdeveloped countries would discharge their net indebtedness by paying in IF gold units, which the IF authorities could be obliged to accept, but the overall external surplus of the IF in the net sum total of all individual dealings of its citizens, or the banks who turned in these 'gold units' to the Federal Reserve would expect to receive dollars in exchange, where would these dollars come from? By internal financing on the part of the IF government, Harrod writes: "Thus, although, no internal financing would be required
for initial move, which in itself does nothing to increase
world liquidity, but rather the other way round, all further
increase of deposits with the IF, which could be the
consequence of lending or investment by the IF, and could
be equal in amount to that extra lending or investment
minus gold withdrawals from the IF, would require internal
financing. 27 Thus apart from gold withdrawals, any net
increase in world liquidity would have an equal counterpart
in the form of internal financing by creditor countries.

However, Carrod admits that to the extent that a
country allowed the inflow of IF gold units to increase
the cash basis of commercial banks, there would be no problem
of internal financing.

Carrod seems to be ignoring the fact that financing
and adjustment in the balance of payments disequilibria
have necessarily to go together. It would be the natural
course to allow the inflow of gold units to raise cash
basis of commercial banks, why should a surplus country
not have 'inflow' of money and why should it be allowed
to sterilise 'money in-flow'? Now, then, the international
adjustment process would operate? Therefore flow of gold
units should be allowed to generate a corresponding
decrease or increase in money supply through changes in

cash basis of commercial banks in both the creditor and debtor countries. This would not only help relieve from
the problem of internal financing but also would ensure effective operation of balance of payments adjustment
mechanism.
wreck the whole mode of operation which Triffin proposed for it. Hence the fund own liquidity is subject to doubts in the long run. The role of gold and ultimately the fate of funds' liquidity or solvency has attracted attention of many critics. Triffin himself is aware of this problem, however, he believes that the danger of gold or currency scarcity in the fund would be extremely remote. He argues that, "convenience and earning incentives have so far promoted countries other than the United States and the United Kingdom to retain, on the average, more than half - rather than merely 20 percent of their gross reserves in foreign exchange rather than gold."28 However, Triffin recognizes the need of additional preventive measures, and suggests three techniques to be used alternatively or in combination. Firstly, to issue medium term gold certificates, payable either in gold or in excess fund deposits, and carrying a higher rate of interest than liquid fund deposits. Such certificates should be particularly attractive to higher reserve holders, secondly to authorize the fund to raise uniformly the 20 percent deposit requirement to a higher ratio - 25 percent or 30 percent, for instance, of each country's gross monetary reserves. Thirdly to leave the

28. R. Triffin: "Gold and the Dollar Crisis" PP 110
Gold in Triffin is Plan

Another point of concern in the Triffin plan is related to the treatment of gold. Triffin makes a convincing demonstration of the total inadequacy of the free world's supply of monetary gold, yet he proposes to retain gold as one of the important and normal means for making international settlements. Under his plan some members would have to pay gold to the IMF to cover part of the proposed increases in their subscriptions, and perhaps to meet the requirement that they hold 20 percent of their own reserves in the form of IMF balances. Thereafter, however, the IMF would have no assurance of ever getting any additional gold except by buying in the open market, or except so far as members might elect to sell gold to it voluntarily. On the other hand, each member would be free to demand conversion into gold of any IMF deposits it held in excess of the proposed minimum of 20 percent of its own reserves. Hence nothing would explicitly prevent a member from selling as much as it pleased of its reserves held in the form of foreign exchange which the IMF ordinarily must buy in return for new IMF deposits, and then demanding conversion of the excess above the 20 percent minimum into gold held by the IMF. If many members did it, the process would quickly exhaust the IMF's gold, and would
basic 20 percent requirement unchanged, or to increase it
more moderately - but to improve higher deposit requirements
upon that portion of each member's reserves which exceeds
the average ratio of world monetary gold to world imports.21

These methods to check gold conversions are quite
convincing, hence the objection against the treatment of
gold in Triffin plan does not seem sound. It would likely
be one of the rarest event that funds solvency or liquidity
gets endangered, and that IMF goes to market for purchasing
gold to meet conversion obligations.

The Changing Structure of Fund Assets over Time
and the Problem of Guarantee:

Under Triffin plan, the structure of IMF assets is
subject to gradual change and hence gives rise to the
problem of guarantee. The fund would start with deposits
amounting to $11.2 billion after 20 percent reserve
requirements have been met. The assets corresponding to
these deposit liabilities would be $4.2 billion of gold
and $6.3 billion of exchange. The structure of fund assets
will change because of the fact that foreign exchange
would be deposited in excess of the minimum 20 percent
requirement, and secondly because the resources of the

29. Ibid.  PP 115
Fund would be used in open market operations and in
making medium and short term investments in under-developed
countries. As a result the increase of Fund assets would
consist of foreign exchange and securities loans to members,
direct investments in the securities of organizations such
as the International Bank for Reconstruction and Development,
with the passage of time, an increasing proportion of its
assets would consist of direct obligations of less developed
countries, and obligations of investing intermediaries such
as IBRD. The IMF's investments at the beginning would be in
national currencies having no international circulation
and which may be subject to more or fewer exchange restrictions.
Though all investments would be guaranteed against devaluation
additional quantities of various currencies paid in to
compensate for devaluation would hardly have to same
acceptability.

This transformation might repair member countries
confidence in the soundness of the proposed IMF deposits.
It, therefore, would be essential to reinforce these deposits
by appropriate guarantees. Grifflin plan assigns a crucial
role to such guarantees. The IMF deposits would carry an
exchange guarantee, expressed in a gold unit of account.
If the price of gold were raised, the amount of fund deposits
standing to the credit of each member would be increased
correspondingly. If any currency were devalued relative to gold, the Fund deposit would then buy more units of that currency.

However, these guarantees in the long run lose their significance, for the reason mentioned above in relation to transformation of Fund assets. Moreover, there are difficulties in the concept of guarantees by the investent intermediaries. As seen Almen points out, bonds, issued by IIMO carry neither an exchange nor a gold guarantee. The bonds are issued in particular currencies and are repayable in those currencies, on a legal tender basis, regardless of what their gold or exchange equivalent may be at the time of repayment. Members of the IMF guarantee to maintain the value of their capital subscriptions in terms of gold equivalent, but the IMF itself does not issue bonds with a gold equivalent. Therefore IMF investment through IMF bonds would be subject to all the risks of devaluation and restrictions on exchange and capital movements. In the basis of these reasoning Almen's remark is worth consideration, "even if it is assured that guarantees of the kind envisaged could be secured by the proposed IMF, an important question remains. "Could not

30 See Almen: "Devaluation of International Liquidity and the Role of the Fund" in IMF Staff Papers, April 1961
official balances or to that part in excess of regular working balances, or it could apply to existing balances or to future additions to them.  

In the absence of such specific and comprehensive guarantees, from key currency countries, the fate of fund deposits would remain uncertain. Therefore in Triffin plan, the fate of fund deposits depends upon the BOP policies of the member countries. The acceptability of exchange assets depends upon maintaining BOP discipline, which limits the quantity of national currency paid out to foreigners. Gold flows may be disturbing, but they are rude disciplinarians. In the absence of comprehensive guarantees, the fund would have to perform effective disciplinary job regarding the BOP policies of the fund members.

The stock of international liquidity and its rate of growth can not be precisely defined in terms of options. Although the adequacy of international liquidity may be related to the rate of growth of volume and value of international trade, yet it can not provide a precise base for calculations. The fact is that the need for international reserves and for their growth are more dependent on and must be clearly related to the institutional setting in which payments imbalances are resolved. The greater the reliance upon financing and greater the potential volume of destabilising speculations, the greater will the need for international reserves be. Contrariwise, the more prompt the adjustment mechanism, the smaller is the needed volume of reserves likely to be - though it will never be zero, even with freely flexible rates. We shall examine Triffin plan in the light of relationship between adjustment and financing.

So far is the question of balance of payments adjustment mechanism is concerned Triffin constructs his plan in the institutional setting as embodied in the Articles of Agreement of the International Monetary Fund. The conditionality attached to the Fund loans and advances and underlying
adjustment process have been fully retained in the Triffin plan. Triffin writes, "They (fund advances) should be subordinated to full agreement between the Fund and the member with relation not only to the maturity of the loan, but also to the broad economic and financial policies followed by the member to ensure long run equilibrium in its international transactions without excessive recourse to trade and exchange restrictions."\(^{32}\)

It immediately follows that the same objections can be levelled against Triffin plan as are levelled against the lending policies of the present International Monetary Fund, one of the major objection being the "asymmetry" of the inherent adjustment mechanism. The point of objection is that International Monetary Fund makes its lending dependent on the ability of the borrowing countries to convince the Fund that they are following economic and financial policies so as to ensure long-run equilibrium in their external transactions, and whatever may be the cause of deficit in a country's balance of payments the burden of adjustment falls on the country alone.

Secondly, the balance of payments adjustment policies of the IMF were not compatible with domestic policy objectives of deficit countries.

\(^{32}\) R. Triffin: "Gold and the Dollar Crisis" p. 116
As Solomons puts it, "A second weakness of the Bretton Woods system - though one would describe this to the way in which the system was managed rather than to its structures as defined in the Fund Articles - concerned the balance of payments adjustment process. As individual countries encountered balance of payments problems - this invariably means deficits. The problems were dealt with on an individual basis, the international community provided both credits and advice, usually through the Fund. Exchange rate adjustment was a rare event among the industrial countries, when it did occur, the amount was large. Virtually no one was looking at the adjustment process from a system-atic view point, asking whether the balance of payments policies and the aims of individual countries were compatible with each other and with a stable international monetary system.34"

Keynes had prescribed in his plan 'devaluation' for correcting balance of payments deficit. Triffin on the other hand recommends disinflationary domestic policies for setting one's house in order, rejecting flexible exchange rates system as a false solution. Triffin writes, "My basic objection to them (flexible exchange rates),

34. Robert Solomons: "The International Monetary System" 1945-76, New, New York, p. 32
however, is that actual disequilibria in the exchange markets are not exclusively related to disturbances in the international cost and price pattern. Under convertibility conditions, an excessive rate of credit expansion, particularly in a small country, may spill but very quickly into balance of payments deficits, long in advance of any substantial price increases, these being held down any way by the competition of imports from abroad. The depreciation of the national currency under the free-interplay of market supply and demand would, however stimulate increase in import prices, cost and wage levels in general. Speculation would accelerate and amplify these disequilibrating movements without, of and by itself, correcting the internal financial policies which lie at the root of the balance of payments deficits. Thus in Triffin plan what is available policy measure for correcting balance of payments deficit is the reduction of domestic expenditure and of excess liquidity. Triffin cites the example of Belgium, Italy, Germany and Austria in the early post war years, when the elimination of excess liquidity played a major role in the spectacular balance of payments recoveries; on the other hand the balance of payments difficulties of Norway and the

35. R. Triffin : "Gold and the Dollar Crisis" p. 82-83
United Kingdom were clearly related throughout to excess liquidity pressures rather than to lack of competitiveness. In this reasoning one argues that devaluations of 1949, as a measure to offsetting the rise of domestic prices and the resulting external deficits, reflected "erroneous diagnosis" of the situation. These devaluation reportedly led to an excessive deterioration of these countries' terms of trade, and failed to correct the over-liquidity which was at the root of the balance of payments difficulties and which could only be eliminated through a monetary purge, through stringent credit and fiscal disinflation, through large balance of payments deficits or finally through domestic price rises.

As compared to Keynesian approach to the adjustment mechanism, Triffin's prescription of disinflationary monetary and fiscal policies seems, at the first instance, superior ones. Effectiveness of devaluation rests on three conditions namely absence of excess liquidity in the domestic economy, favourable elasticity conditions and the level of income being unchanged after devaluation. If the fiscal and monetary policies of income expansion are being simultaneously accepted with devaluation, then no improvement is likely to take place in the balance of payments. The reason is obvious. Devaluation operates mainly through the price effect on
imports and exports, but if after devaluation the level of income is allowed to rise either by an excess of investment over savings or by an excess of government expenditure over taxation, the income effect of rising income on exports and imports is sure to swamp the price effect of devaluation. The reduction of domestic expenditure should be the main policy variable before devaluation is resorted to, so far Triffin is right in recommending a cut in domestic expenditure as a policy measure to be given first priority. Domestic disinflationary policies adopted by a deficit country would prove to be more effective. The disinflationary policies would tend to benefit the deficit country in two ways: Firstly there would be the income effect on exports and imports. Given the income elasticity of import demand, disinflation would tend to reduce import bill, and to increase export earning (as greater volumes of goods would be left available for exports). Secondly disinflation by itself would tend to lower the aggregate demand and hence would tend to reduce general prices (both of exportable and domestic consumption goods) write and wages. This would increase price competitiveness of the wanting in question, and would cause a further improvement in the balance of payments.

The use of accommodating short-term capital movements
as a means of achieving adjustment in the balance of payments through discount rate has received no attention in Triffin plan. It is so, probably, because the financing of imbalances is already available with the reformed Fund. In fact Triffin is against the use of flexible interest rate policy to protect reserves. Referring to America's problem of gold outflows, he argues that America has to raise the rate of interest, but the consideration of internal economic growth may not permit all the times, the pursuit of a dear money policy. 36

The adjustment process as advocated in Triffin Plan is not a comprehensive one, rather it suffers from all those short-comings which have been present in I.F.'s institutional framework. In the Articles of Agreement of I.F., payments deficits were broadly classified into three categories, temporary, due to climatic or cyclical factors which could be expected to be self correcting and not calling for adjustment by the country concerned; those due to excess demand caused by over expansion in domestic monetary or fiscal policy which had to be corrected, and fundamental disequilibria which would exist even without excess demand, for which exchange adjustment and the measures were needed.

36. H. Triffin : "Gold and the Dollar crisis" pp. 9
If these three categories, only the second type has received such attention in Triffin’s analysis. Dealing with this type of disequilibrium both Im and Triffin advocate that a deficit country should follow a disinflationary policy. This prescription is helpful only on a single occasion, that is when the deficit in the balance of payments is caused by a policy of monetary expansion and inflation in the deficit country. In this situation it is justifiable to ask the deficit country to disinfla
t her economy, giving all assistance meanwhile.

There may be other causes of deficit in the balance of payment. A deficit may result from a fall in productivity in the deficit country while productivity is constant or improving in the credit country. In this case a reduction of monetary expenditure is no solution, rather it may require more investment in the debit country to keep pace with that of credit country. Further, a deficit may be caused by an over-valued exchange rate in which case the solution lies in exchange rate adjustment to parity on the part of the debit country. Also the deficit may result from a change in income elasticities of demand of the credit and debit countries. The rate of growth of income in the two countries may be equal. If, starting from equilibrium where the two countries international accounts are in balances,
the income of the two countries elasticity of demand for imports of the debit country is higher than that of the credit-country, the former country has, of necessity, to incur a deficit in the balance of payments. In this situation the remedy is not reduction in domestic investment in the debit country for it would retard economic growth, but a structural adaptation of the economy so as to produce import substitutes if the country concerned is not willing to impose import restrictions on those goods for which the income elasticity of demand is high. There may be one more reason of occurrence of a deficit in the balance of payments. The deficit may be caused by a recession in the credit country which increases its exports to and decreases its imports from the debit country. This kind of disequilibrium requires that the burden of adjustment must be placed on the credit country. If the debit country reduces its expenditure so as to eliminate the deficit, it would aggravate the recession in the credit country.

Triffin was overwhelmed by the highly inflationary monetary conditions prevailing in most of the European countries at the end of the world war II and during the following years. As given in the following table, money supply in 1947 was twice its pre-war level in Switzerland, two and a half times in the United Kingdom,
Belgium, the Netherlands and the Scandinavian countries, eight times in France, thirty two times in Italy, and sixty times in Greece.

The inflation index stood in 1947 at from nearly seven to ninety times its prewar level in Austria, France, Italy and Greece, as against approximately twice to three and a half times, prewar level in other countries.

**Table (1947 in % of 1938)**

<table>
<thead>
<tr>
<th>Countries</th>
<th>Money supply</th>
<th>Domestic inflation</th>
<th>Foreign balance in 1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>5995</td>
<td>6764</td>
<td>223</td>
</tr>
<tr>
<td>Italy</td>
<td>3258</td>
<td>3649</td>
<td>257</td>
</tr>
<tr>
<td>France</td>
<td>811</td>
<td>892</td>
<td>144</td>
</tr>
<tr>
<td>Norway</td>
<td>437</td>
<td>363</td>
<td>136</td>
</tr>
<tr>
<td>Sweden</td>
<td>245</td>
<td>214</td>
<td>130</td>
</tr>
<tr>
<td>Denmark</td>
<td>302</td>
<td>266</td>
<td>114</td>
</tr>
<tr>
<td>Netherlands</td>
<td>263</td>
<td>256</td>
<td>150</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>252</td>
<td>295</td>
<td>120</td>
</tr>
<tr>
<td>Belgium</td>
<td>332</td>
<td>306</td>
<td>126</td>
</tr>
<tr>
<td>Switzerland</td>
<td>211</td>
<td>183</td>
<td>109</td>
</tr>
<tr>
<td>Austria</td>
<td>433</td>
<td>687</td>
<td>291</td>
</tr>
<tr>
<td>Germany</td>
<td>---</td>
<td>---</td>
<td>163</td>
</tr>
<tr>
<td>United States</td>
<td>366</td>
<td>233</td>
<td>---</td>
</tr>
</tbody>
</table>

Note: Foreign Balance: Ratio of the current value of goods and services imports to goods and services exports in 1947 multiplied by 100.

Source: Robert Triffin, "Europe and Money Muddles", p. 36 and 72
In view of excessive monetary expansion and accompanying deficit on external accounts of the European countries, it was quite recommendable to undertake disinflationary economic policies within those countries.

We can conclude, therefore, that the multifacet problem of balance of payments disequilibria can not be tackled with a single policy measure. Triffin implicitly has singled out inflation to be the cause of B.O.P. disequilibria, and therefore failed to equip his plan with a comprehensive adjustment mechanism, covering all the disequilibrating factors.

So far as the relationship between financing and adjustment of B.O.P is concerned, Triffin's thinking has been overwhelming by financing. He makes himself concerned with the question as to what should be the method to bring about an increase in international liquidity and hence to enhance financing capacity of the world community. Triffin failed to recognize the fact that in the absence of any suitable adjustment process, the need for financing would be much higher than what calculated on the basis of growth rate of world trade and pay ents.
C. Less developed countries and the United States under Triffin Plan:

In this section we shall first examine the impacts of the plan provisions on the economies of the less developed countries, and finally on the United States' economic and financial status.

Triffin asserts that his proposal would be a blessing for less developed countries. The economically less developed countries would no longer have to keep their foreign exchange reserves in Great Britain or the United States, in the contrary, a considerable share direct or through IMF and like agencies, in the less developed countries. Triffin wants to create the impression that under his plan, firstly the flow of resources (short-term capital) from non-key currency countries (the LDC's) towards key currency countries (the advanced nations) would be reversed, secondly the export or capital to LDC's would be greater than under present IMF framework.

As a matter of fact, Triffin is wrong in these two claims. The LDC's would no doubt, no longer have to keep foreign balances in Great Britain or in the United States, but this makes no difference to them, as to whether they are kept in British and American banks or in the proposed IMF, since currency balances have been earned by them. It this
very process of earning not the place of deposit which
causes not flow of real resources from LDC's to a key
currency country. Under Triffin plan, the LDC's will have
to earn or accumulate foreign currency balances as usual
as they did earlier. And shifting the place of deposit of
those balances from London and New York to IMF will not
bring any reversal in the flow of real resources from LDC's
to a key currency country.

The assertion that export of capital would be greater
under new IMF, is also incorrect. The investment in LDC's
would be channeled in two ways, namely, direct loans and
open market operations. No doubt more funds could be available
to offer to LDC's by the IMF, but simultaneously, there would
likely be more or less a corresponding decline in capital
exporting capacity of financial centres in America and Europe
what at the best would happen, is that loans to LDC's from
world commercial banks would be replaced by IMF's interna-
tionalized loans, moreover the system of open market opera-
tions as envisaged in Triffin plan would not distribute
investment funds to the advantage of less developed countries
The system of open market operation pre supposes the existence
of highly developed money and capital markets. The LDC's do
not have capital markets capable of accomodating large scale
open market operations. The benefit of investment, in
consequence, would probably accrue to mature countries. The
system of open market operations could be of rather harm to
LDC's in at least one way. It is more .........................
likely that the multinational corporations operating in LIC's markets decide to capture the opportunity of securing IMF loans. This would strengthen the multinational corporations in LIC's and many other promising national concerns would get ignored in open market operations by the IMF.

Viewed from U.S. point of view the demerit of Triffin plan can be explained in terms of its impact on the role of U.S. dollar as international reserve currency and on New York banking centre. The abandonment of the use of national currencies as international reserve assets is at the heart of Triffin proposal. This in other words mean to solve the U.S. external monetary problems at the expense of U.S. dollar's supremacy in world economic and monetary affairs. This constituted an alternative which is highly disattractive and unacceptable to the United States. Triffin's diagnosis in based on the fact that then existing structure of international liquidity was unreliable having serious repercussions for the world in general and for U.S. in particular. The purpose of Triffin Plan was to find out of way to relieve U.S. from the serious balance of payments problem inseparable from her role of supplier of international liquidity.

As a matter of fact, the adoption of Triffin plan would not eliminate U.S. balance of payments deficit. Adoption of his plan would only reduce the proportion of the deficit
settled in gold, but it would not affect the size of the deficit itself. Under Triffin Plan, the United States or any other such country would be free to incur whatever deficit in her balance of payments, through the payment in her terms of dollar (or Pound Sterling in case of U.K.). These foreign owned dollars would find their way into I.F. getting there by converted into I.F deposits. Under Triffin plan, the I.F always buy country A's holding of B's currency from A if A offers them for sale and in the ordinary case will pay for B's currency by giving a new I.F deposits (or perhaps gold), unless A is already in debt to the I.F. This is one of the proposed new central banking function of the I.F. This would mean relieving B from pressures that might otherwise imperil B's own currency or might induce reserve loss to B. This operation would allow B to run a protracted deficit with A and other countries making payment merely by transferring title to some of its own currency to A and the others. In case A and other countries suddenly became uneasy, they could sell all their holdings of B's currency to the I.F in return for new I.F deposits. This mechanism is of benefit to the United States, and ensures to a large extent the privileges and gains associated with issuance of international money. And at the same time it ensures protection from the dangers associated with the
role of key currency issuing country. Triffin plan would allow United States to incur unlimited short-term indebtedness, as claims of countries against U.S. would with no difficulty be converted into IMF deposits. That means that the United States will have succeeded in shifting her indebtedness to IMF or in other words ultimately on other members carries with it inherent danger to dollar's supremacy in world monetary order. In case of non-sustained loss of confidence in dollar, the central banks of member countries could ask and U.S. to settle her payments imbalances in terms of IMF deposits. Hence the U.S. will have to acquire more IMF deposits by handing over more gold to IMF. In this way not only gold losses will accrue to the United States, but also the U.S. dollar would have been replaced by IMF deposits in international payments settlements.

Moreover Triffin Plan would bring adverse impact on New York's dominance in international money and finance business. According to David Rockfeller the Triffin plan during its negotiating period would cause great uncertainty and hence New York banks would probably lose some 15 percent of their foreign deposits, and after the plan having put into operation, the New York banks would have to transfer to the new Fund Bank almost $2 billion of foreign official deposits, plus a substantial amount of short-term investments (treasury
bills, acceptance etc., held by these banks for their foreign correspondents. Also from that point on, additional dollars secured by foreign central banks would be deposited with the Fund Bank. The New York banks would be in a position of dealing with the Fund Bank rather than central banks around the world.\(^{25}\)

This explains us to why the Triffin Plan was rejected by the U.S. Congress. It becomes more clear from the strong plea against the Triffin plan made by David Rockefeller on behalf of the New York bankers. Addressing ... congress be said the emotional words, "in the role of New York as an international financial centre a source of strength or weakness to the United States? Would say that it is an important source of strength. I believe the United States must exercise a role of leadership in international financial matters. This is a part - an important part - of our role in contributing to the defense and development of the free world .... all of these matters have important economic implications for the United States but also add to the political strength and position of leadership of the United States in world affairs. Today New York in many ways in the financial centre of the world. That is an inevitable accomplishment of the nation's position in political and military affairs. We can

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not have the one without the other."30

In fact the Triffin Plan is a mixed blessing for the United States. At one place it protects U.S. economy from the serious repercussions of protracted BOP deficits, but at the same time, it embodies danger to U.S. status of leadership in international money, banking and finance. In other words the price for curing her monetary ills was much high which the United States could not pay in view of her national interests. Even if U.S. Congress were liberal enough toward her an masses of the world, it could not be ready to do good to the international monetary system under the strong pressure of U.S. Jewish Lobby controlling larger part of New York banks and other financial institutions in and out, the United States.

30. Ibid.