NationalBank OF BELGIUM
Eurosystem

2012-12-14

PRESS RELEASE

On the origins of the Triffin dilemma: Empirical business cycle analysis and imperfect competition theory
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NBB Working Paper No 240 - Research Series

Robert Triffin (1912-1993) played an important role in the international monetary debates in the post-war period. He became famous with his book Gold and the Dollar Crisis, published in 1960, in which he predicted the end of the Bretton Woods system. In Triffin's view, there was an obvious dilemma, as the increase in foreign dollar balances to meet international liquidity needs was only sustainable when there was no doubt about their convertibility into gold. But once foreign dollar balances loomed large relative to US gold reserves, the credibility of this commitment was threatened. Triffin's analysis has been the subject of major debates in the academic and policy-making worlds. Still nowadays the Triffin dilemma figures prominently in the discussions on the international monetary system. Several authors argue that a modern version of the Triffin dilemma is emerging with regard to the US external debt, as there is a growing asymmetry between the fiscal capacity of the United States (the 'backing' of US Treasury bills) and its sovereign debt.

In this paper, we focused on the origins of the Triffin dilemma. We argued that there was a remarkable continuity in Triffin's work. From his earliest writings, in 1935 and 1937 when he was still a graduate student, Triffin developed a vision that the international adjustment process was not functioning according to the classical mechanisms. This view was based on thorough empirical analyses of the Belgian economy during the Great Depression and shaped by a business cycle perspective with an emphasis on disequilibria and the transition period (all typical elements of Dupriez's approach of economics). His doctoral dissertation on imperfect competition theory at Harvard in 1938 and his Latin American missions for the Federal Reserve in the 1940s further reinforced this basic view.

Like so many economists of his generation, Triffin was marked by the Great Depression of the 1930s, especially the fall of sterling. Triffin was critical of the classical theory of the international adjustment mechanism. As early as a 1937 article, based on Belgium's experience in the first half of the 1930s, he strongly criticised Cassel's purchasing power parity theory, as not suitable for analysis of the transition period, which was of crucial importance for policy-making. In the 1940s, Triffin argued that the international monetary system in the interwar period was a sterling exchange standard. Consequently, as Great Britain was the major centre of world trade and finance, the main result of "orthodox" gold standard policies was to spread British cyclical disturbances throughout the world. For Triffin, the policy conclusion was to put international liquidity at the core of the international monetary system. Moreover, in Triffin's view, a sustainable international monetary system depended also on economic policy coordination. As he observed in Europe and the money muddle (1957), "Countries whose peace, progress and welfare are intimately interdependent must, in their own interest, learn to use or limit their national sovereignty in the light of their interdependence".

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