

# Homage to Jacques Rueff

By Bill Bonner

Today, we let a dead man do the talking. Jacques Rueff died 30 years ago. But in a couple of articles written for *Le Monde* in February 1976, this economic adviser to Charles de Gaulle explained today's monetary system and what was likely to become of it. His articles were unusual. It is rare for an economist to have any idea what is going on. And on economics, *Le Monde* has things worth reading about as often as Leap Years come.

To fully appreciate Rueff's insight – and how it applies to the macro-economic circus circa 2008 – you have to begin by understanding the problem of unemployment. In the world of the 1930s, the triumph of capitalism was no sure thing. Communism, for all its faults, at least put people to work. Capitalism often left them 'sittin' on the dock of the bay'. And here we have our first measure of how far we have come since the 1970s; the average post-Mitterand Frenchman now believes that there are worse things than not working. Working, for example. Today, he passes laws to prevent it.

The real cause of joblessness is obvious, even to an economist. People don't have jobs when it costs more to employ them than employers can get out of them. In a downturn, the unemployment rate goes up. Because, in a slump, prices for 'things' fall quickly. But labour rates tend to be sticky. Employers' profit margins are soon squeezed between slippery revenue and stubborn costs for labor. Result: output falls and fewer workers can earn their keep. In a free market, wages eventually ease their way down to levels that allow capitalists to exploit workers again. Always have. But for some reason, in Britain in the 1920s, this didn't happen.

Rueff identified the culprit even before Milton Friedman did: "Since 1911, there existed in England a system of unemployment insurance that gave an indemnity to jobless workers, known as the 'dole'. The consequence of this regime was to establish a minimum salary level, at which workers would prefer to ask for the dole than work for less. It appears that in the beginning

of 1923, salaries, which had been declining with other prices in England, suddenly hit this new minimum. There, they stopped falling, and since then, they practically ceased to move.”

That’s why France runs such high unemployment today; its dole is bountiful. When you add up the costs of “charges sociales”, paperwork, and the minimum wage, more than one in ten potential workers is not worth the money. But no politician is about to suggest the solution: get rid of the dole. So, Keynes came up with a subterfuge. The central bank should cause price inflation during a slump, he proposed. Rising prices for ‘things’ meant that salaries – in real terms – would go down. That was the greasy scam behind Keynes’ General Theory of Employment, Interest and Money: inflation robbed the working class of their wages without them realising it. The poor schmucks even thank the politicians for picking their pockets: “salary cuts without tears”, Rueff called them.

“Full employment” was soon no longer a wish, but an obligation. In France, the Constitution of 1946 obliged the government to present each year an annual economic plan that achieves the goal of full employment. And today the central bank of the USA has a “dual mission” – to preserve the value of the dollar while assuring full employment. “No religion spread as fast as the belief in full employment,” wrote Rueff, “and in this roundabout way, allowed governments that had exhausted their tax and borrowing resources to resort to the phony delights of monetary inflation.”

This is where the post-1971, dollar-based monetary system comes in. It allowed the US to issue dollars – and never have to redeem them in gold. At first, the inflation caused by the build up of dollars was agreeable, said Rueff. It reduced the cost of labour. Then, when the tether with gold was hacked off in the early 1970s, inflation began “galloping away”. Readers may remember that inflation was racing along at a record speed of 14.8% in America in March, 1980, and even faster in Britain. The US government was forced to borrow at 15% yields. Britain could barely borrow at all.

Rueff died in 1978. Had he lived, he probably would have been as surprised as we have been by the stamina of the monetary horses. Except for a brief rest while Paul Volcker was managing the stables, they have run from bubble to bubble... delivering more liquidity wherever it would do the most damage. All the while, inflation continued to cut the price of labour. Between 1974 and 1984, real wages fell as much as 30%. Then, more moderate levels of inflation held them down for the next 24 years.

But Rueff's insight comes with a warning. The faith-based, dollar-dependent monetary system is like a loaded pistol in front of a depressed man. It is too easy for the US to end its financial troubles, Rueff pointed out, just by printing more dollars. Eventually, this "exorbitant privilege" will be "suicidal" for Western economies, he predicted.

Paul Volcker put the pistol in the drawer. Ben Bernanke has found it. And Jacques Rueff must look on in amusement to see what happens next.

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