

Good morning,

Yesterday, investors looked for every excuse to rush to the exits. No definitions from policymakers, no confidence from investors. It is a very simple formula, very rational. On top of this, at 8:30am we had the release of the Empire Manufacturing Index, coming at -9.41 vs. an expectation for -4.60. Before the bell, equities in Europe and Asia were already down. But with this new piece of data, there was no doubt markets were going to sell. The S&P500 closed at 923.72pts (-2.38%). It was good day for the USD, after **Russian Finance Minister Alexei Kudrin** said that Russia has confidence in the USD and that there are no immediate plans to switch to a new reserve currency. Tomorrow, we have the BRIC nations meeting...Consequently, oil came down to \$70.55, yields dropped, mortgages gained and swaps compressed. And gold...well, well, gold is at \$932!

Let me put Mr. Kudrin's statement in historical context. This weekend, after some heavy gardening work, I tried to follow the example of Niccolo Machiavelli, as described in that emotional letter of December 1513, to his friend Francesco Vettori. Machiavelli wrote: "...*On the coming of evening, I return to my house and enter my study; and at the door I take off the day's clothing, covered with mud and dust, and put on garments regal and courtly; and reclathed appropriately, I enter the ancient courts of ancient men, where, received by them with affection, I feed on that food which only is mine and which I was born for, where I am not ashamed to speak with them and to ask them the reason for their actions; and they in their kindness answer me; and for four hours of time I do not feel boredom, I forget every trouble, I do not dread poverty, I am not frightened by death; entirely I give myself over to them...*"

I didn't exactly enter any ancient court. I went to this link (from the Ludwig Von Mises Institute): <http://mises.org/books/monetarysin.pdf>, where I "spoke" with **M. Jacques Rueff (1896-1978)**, who played a key role in the monetary history of France, in the 20th century. Thus, I fed my curiosity with the famous interview he gave to "The Economist", on February 13th, 1965. The interviewer was the distinguished Assistant Editor, Fred Hirsch (FR). Among other things, M. Rueff had this to say:

*"...In 1930 I was financial attaché in the French Embassy in London, and in that capacity I was responsible for the deposits of the French Treasury with British banks. They were the direct result of eight years of the gold-exchange standard, because we had kept the pounds sterling in London, as my colleagues in New York had kept in the American market the dollars that had been pouring into the French Treasury from 1927 onward. Then, in 1931, the failure of the Austrian Creditanstalt caused successive waves of repatriations; and it was **this collapse of the gold-exchange standard that, without any possible doubt, transformed the depression of 1929 into the Great Depression of 1931.**"*

FR: While you are on this historical episode, what would your comments be on the very widespread view that it was to a substantial extent French pressure on London at that time, through the withdrawal of sterling balances that was in part responsible for the general collapse later on?

Rueff: Let me tell you that, unhappily for the world, the French pressure did not exist, or was so mild that it had no effect. There is ... a letter from Sir Austen Chamberlain, who was then Foreign Secretary in London, to M. Poincaré, who was Prime Minister and Finance Minister in France; it must be of 1928. Sir Austen said, "We know that you are entitled to ask gold for your sterling, but in the frame of the close friendship between Britain and France we ask you, so as to avoid trouble for the City of London, not to do that." And we were, I must say, weak enough to comply with this request and not ask for gold. The fact that I had such important sterling deposits in London shows that we did not use this right to ask for gold. The adjustment, which would hardly have been felt if carried out on a day-to-day basis, was not made, and we had the fantastic boom of 1927, 1928, and 1929. This explains the depth of the collapse and of the depression, because the adjustment was so long delayed. We were too gentle in complying with official appeals not to convert our sterling balances into gold. It is exactly the position in which we are now. We are moving without any doubt to the same kind of outcome as in 1931, because it is so clear that the dollar is approaching the end of its acceptability for payment abroad, and we shall have the same disruption of the existing system (Note: This disruption occurred on 17 March 1968). But in delaying it through various devices—by the increase of the quotas of the International Monetary Fund, the Roosa bonds, the central banking swap credits, the Basel agreement, the agreement of the Group of Ten, and all the rest—we are doing exactly the same thing, namely, delaying the correction of the U.S. balance-of-payments deficit. If we acted as genuine friends of our friends, we should do exactly the reverse."

I would like to end today's letter with a question: **Do you think history repeats itself? Why?**