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# GOLD ONLY TRANSITIONAL TO 3-WAY TRADE

by David Goldman

Sept. 6 (IPS)—There is now universal recognition that last week's decisions by the International Monetary Fund's Interim Committee point to a dominated role for gold in international payments. Interim Committee members France and Mexico defeated U.S. opposition to proposals to permit exchange of gold between central banks, and to sell off some of the IMF's large gold holdings, presumably to member central banks; Comecon member Rumania, the only socialist member of the IMF, backed France and Mexico from the sidelines.

But there is some doubt, even among the most politically-advanced members of the Non-aligned Nations group, as to the significance of this move, which bears the support of most of Western Europe. The rantings of conservative theoloegians notwithstanding, the use of gold as a monetary reserve in present circumstances has nothing whatsoever to do with a return to the "gold standard" of the 1920s. By gold, Mexico and other Third World countries mean three-way development, including the socialist countries and Western Europe, and transfer ruble credits from Comecon. For large-scale trade and development credits to be issued outside of the dollar sector, which has dominated world trade since 1944, there must exist a reserve asset in common among the central banks which participate in this three-way process. Gold, for a number of reasons, is the only monetary reserve asset held in large quantities both by the advanced-industrial countries and by the socialist countries. It therefore provides an **interface** between the two monetary systems.

In actuality, the backing for a nation's credit — acceptance of its currency abroad is a form of credit — is the productivity of its labor force. What makes the Soviets' transfer ruble viable international reserve currency is not, in the final analysis, that Soviet gold reserves amount to between $20 and $30 billion at recent market prices, but rather that capital goods bought by the Soviets with transfer rubles can effect an economic "take-off" in the Comecon sector. By providing the Comecon economies with a sufficient **range** of technologically-advanced capital goods to employ large sectors of the skilled and underutilized Soviet farm population, the West would find itself in trade balance with an expanding Soviet sector in little more than five years.

## Compatibility

Similarly, the issuance of transfer ruble credits by Comecon agencies, such as the R15 billion Special Fund which Soviet Ambassador Malik cited in his U.N. speech, extends the **real creditworthiness** of the Soviet sector to the Third World, since these credits would be used mostly for purchases of Western capital goods under a three-way arrangement. As Mexican central bank governor Ernesto Fernandez Hurtado explained to IPS this week, this is how the Third World views the transfer ruble. As in the case of the Soviet sector, the trememdous potential productivity of Third World countries, initially in the field of agriculture, **given sufficient capital inputs**, is the real "backing for such credits.

Once this process of trade and self-expanding investment is set into motion, not a Troy ounce of gold need change hands, except for minor and temporary adjustments. Provided that development credits are of a sufficiently long maturity — a minimum of 12 years for large projects in the Comecon sector — income generated by such projects will cover what capitalists call the problem of "balance-of-payments equilibrium" between nations.

In this context, gold is less a financial than a political necessity. For a nation presently under capitalist rule, such as West Germany or Japan, to conclude the necessary treaty arrangements with the Soviets to make the transfer-ruble acceptable for purchases of Western capital goods, there must be a reserve asset in common for the settling of claims of one sector upon another. In the ongoing negotiations between the West Germans and the Soviets on the use of the transfer ruble, according to the newspaper Deutsche Zeitung, this is the first point that the German side conceded, i.e., that Soviet and German gold reserves are the basis for the compatibility of the two credit systems.

## Transition Out of Dollar

In addition, gold is key to current discussions among the capitalists over how to jerry-rig the remains of the old dollar monetary system while waiting for a new one to come along. The dollar is no longer a standard for international transactions. As the French and Italians drummed in to the IMF's annual meeting this week, international contracts denominated in dollars for shipment of goods, let along long-term investments, have no measurable value, due to the instability of the debt-ridden dollar sector! Overwhelmingly, the reserves of Western Europe and other advanced industrial nations are U.S. dollars, which have no precise value, or gold, which, until this week (and its "legal" status is still unclear) was frozen under the decree of the United States. While capitalists find such problems difficult, a recent series of discussions indicates a certain progress in their thinking:

1) Rinaldo Ossola of the Bank of Italy proposes that, since the dollar is bankrupt, the world will divide into "currency" blocs around the leading currencies.

2) Former Federal Reserve chairman William McChesney Martin says firmly what Ossola will only admit privately: that these blocs will have no reserve asset in common to clear payments with other than gold.

3) Nicholas Krul, the chief economist of the respected Swiss bank Lombard Odier, adds one more currency bloc to Ossola's dollar, Europe, and Japanese yen — the ruble zone!

Pegging the value of currencies to gold represents a short-term device to ensure monetary stability at a time when the irregular downward path of the depression in different national sectors makes currency values a speculator's game, and constitutes a major threat to international trade. In the above views of leading international bankers, the link is self-evident between short-term measures which capitalists favor merely to ensure stability, and the transition to a ruble-based monetary system using a gold-pegged ruble as the standard measure of currency values and large-scale ruble credits to finance economic expansion.

Mexico and other Third World countries who back the use of gold understand this process perfectly well. They want it to occur in the advanced sector, and they want their share in it. Mexico backs the restitution of gold not for the pittance its gold reserves would bring on the international market — in Mexico's case less than $70 million, or 5 per cent of its foreign debt — but to gain



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entry to these negotiations. Iraq, for similar reasons, has been accumulating gold in its reserves.

### Dollar Short-Fall

A related question is frequently asked: why can't Western countries like West Germany, with $24 billion in dollar reserves, simply lend these out for development purposes? A glance at the account books of West Germany, the best-heeled of Western European countries, gives the answer. Against DM 50 billion in currency reserves (about $20 billion) in the German central bank, German corporations have short-term liabilities to foreigners of DM 34 billion. These liabilities derive mainly from the financing of Germany's international trade, either from bills of exchance obtained on the Eurodollar market, or suppliers' credits from its trading partners. These liabilities must be repaid at the prevailing inflationary interest rates on the dollar credit market. Because the European economies were initially funded with dollar reserves under the Marshall Plan and similar arrangements, their own credit sectors are an extension of the dollar sector. Their reserves are not free, but are the basis for Europe's and Japan's participation in dollar-financed trade.

Japan's case is even more illustrative; the Bank of Japan holds about $12 billion in reserves, against a short-term external debt of over $33 billion, owed to New York and Eurodollar banks.

As long as Western Europe is hooked into the dollar sector, its deployment of dollar reserves must reflect prevailing conditions on the dollar credit markets — where the U.S. Treasury, the world's most secure borrower, is forced to pay its expenses with 13 to 18 day notes! In summary, ther is no way that international trade can survive within the dollar credit structure. Gold represents the only "fallback" position that capitalist countries have, and simultaneously creates the basis for three-way credit and trade arrangements between the Comecon countries, the advanced sector, and the Third World.