Soviets, West Europeans Maneuver for Gold Backed Monetary System

June 12 (NSIPS) — Most of Western Europe, the Soviet Union, and a segment of the United States financial community have agreed on a gold-backed monetary system, in reaction to the collapse of confidence in the bankrupt dollar credit structure.

But these forces have restricted their actions to narrow defensive maneuvers so far, despite clearcut policy statements coming from the Soviets and a few Western European spokesmen. Rockefeller and Kissinger, the principal defenders of the bankrupt mass of dollar debt structures, have made clear that they consider any threat on the monetary front to be a military provocation. Neither the Soviets nor the Europeans have indicated they are ready to go in for the kill against the bankrupt "Eurodollar" and related debt structures, and finish Rockefeller off.

In the most emphatic of a series of recent Soviet policy statements, the Soviet weekly Economic Gazette denounced the uncontrolled Eurodollar market as the source of the "the crisis of the dollar at the present time." The Gazette says, "As in the past, the dollar is threatened by the destructive influences of a huge mass of roving means of payment, which is capable at any moment of creating currency difficulties which even the dollar cannot escape...All of this undermines the efforts to work out an international currency-financial system for capitalism. Temporary and flabby compromises can in no way help to overcome the monetary crisis."

Documenting the disastrous effects the currency crisis has had on Western Europe, Economic Gazette warned that the dollar standard "leads to the accumulation of American debt in other countries and turns into the generator of international inflation." Merely putting central bank gold into circulation is not enough, the journal concluded. Instead, the Soviet commentator cited "the growing role of the transferable ruble as a collective currency."

For the first time, the Soviets have put forward an understanding of the way the monetary breakdown-crisis works, and the type of solution required. But Soviet diplomats held back from proposing concrete steps towards a new monetary system at the Nairobi meeting of the United Nations Conference on Trade and Development last month — the best-placed international forum to make such proposals.

Furtive Measures

In response, British commentator C. Gordon Tether warned readers of the London Financial Times this week that the stream of Soviet statements on gold and monetary reconstruction were more than America-baiting. The Soviet's views, Tether wrote June 10, are identical to those of the French Gaullists, and the "shambles of the present monetary system" make gold "the option we must consider."Nonetheless, Tether hedges, the transition "cannot be made overnight." A top executive of the British Steel Corporation warned privately, "Things are going to have to get a great deal worse before the City of London will adopt these proposals."

Western Europe's leading financial houses — in France, Switzerland, Belgium, and more cautiously, in West Germany and Britain — have no illusions about the durability of dollar debt structures. They are furtively talking about dumping the dollar behind the scenes — but unwilling to come forward with support for debt moratoria and related measures that would put the Atlanticist financial faction out of its misery.

In the U.S., economists for several multi-billion dollar banks conceded that "what the Europeans are doing makes complete sense," as one put it. Outside of the immediate Lower Manhattan circuit, U.S. bankers are now willing to concede that bandaid arrangements will no longer hold the bankrupt international markets together. A number of influential financiers have agreed that the ICLC proposal for an International Development Bank "is the way to go." But these individuals are in the spot of a lifetime drunk who decides to go on the wagon for the first time.

This week's virtual breakdown of currency markets provided the required shock. As of June 9, bankers sadly admitted that nothing could prevent the flight of money out of the British pound, U.S. dollar, and West German mark into commodities and Swiss bank accounts. The announcement June 7 of $5.3 billion credit to the Bank of England to provide confidence for the British pound drew jeers from currency speculators, who proceeded to give that bankrupt currency its worst beating of the year. European financial officials fear that the pound collapse could force the Bank of England to shut down currency markets in the City of London, the world center of the Eurodollar market.

Axis Axed

To date, the only concrete step the Europeans have taken is to prepare defensive arrangements in case of a sudden total breakdown of the Eurodollar market, which now finances most of world trade. Giving up hope in the International Monetary Fund and other relics of post-war monetary agreements, the Swiss, West Germans, and French have agreed to use the Bank for International Settlements in Basel, Switzerland, as an emergency international clearing house. The Swiss institution now functions as a clearing house for the European central banks. The Swiss and West German central banks this week signalled their intentions this week by employing the Bank for International Settlements to intervene for them in currency markets.

Earlier this week, the Swiss bankers extracted a major concession from the West Germans, creating a "zone of monetary stability" between the two countries. While the monetary breakdown is too far gone to lend credibility to any such monetary arrangement, the Swiss-West German agreement adds up to a repudiation of the "dollar-deutsche mark axis," the Schachtian agreement between the U.S. and West Germany for austerity in Western Europe.

Said a senior official of the Bank for International Settlements of these negotiations, "The Germans are stupid. Talking to them you can only be sarcastic. They are too afraid of breaking with the status quo. Nobody, not even the so-called experts, understands anything anymore — especially that gold must be brought back into the monetary system!"

Very cautiously, West German officials are discussing a break with the dollar. Senior finance ministry official Karl-Otto Poehl told a Swiss audience this week that West Germany "sympathizes with those central banks who are trying to stabilize the gold price," and that "Western Europe and the Third World have a common interest in a stable gold price." Poehl added that the uncontrolled growth of the Eurodollar market was the cause of inflation — simultaneously praising the "strength of the dollar" for the benefit of any listening Americans. Meanwhile, West German central bank president Karl Klasen denounced "illegal foreign currency dealings," an unmistakeable attack on the illegal and unregulated Eurodollar operation.

Reprint from June 10 London Financial Times

Gold—Option We Must Consider

June 11 (NSIPS) — The following article by columnist C. Gordon Tether appeared in yesterday's Financial Times of London in his regular "Lombard" column.

by C. Gordon Tether

MOSCOW NARODNY, the Soviet Bank in London, may have appeared to be doing no more than indulging in some grinding of the Russian anti-American axe when it wrote of the monetary virtues of gold in its latest quarterly bulletin in much the same eulogistic terms as the late President DeGaulle was wont to employ to explain why he considered it to be vastly superior to the dollar.

But it was in fact giving expression to a view that is also attracting increasing support in Western European countries now that the present dollar—based international monetary system has begun to display ominous signs of cracking under the immense strains that are being imposed on it. And the theme may well be given further encouragement by the main message to emerge from the recent auction of IMF stocks — that a first step towards stabilizing the metal has been taken through the creation of an effective floor of around $125 per ounce.

President DeGaulle, it will be recalled, was accustomed to refer to the immutability, dependability and neutrality of gold as assets of crucial importance possessed by no other monetary medium and never likely to be. The Moscow Narodny's variation on this theme points out that, as a real store of value with a supply that cannot be increased in an inflationary manner by resort to the world's printing presses, gold is not rivalled — not even by "such possible synthetic competitors as the IMF's special drawing rights."

A great shock

It also argues that countries prefer to keep their reserves in a neutral asset which is not dependent on another nation — and no prizes are offered for guessing which country it has in mind — whether it is that country's economic progress or its voting power at the IMF.

I have already referred to one reason why the Russians may well see themselves as having special cause to champion gold. Another is that they happen to be major producers of the stuff themselves. But that does not alter the fact that there is a great deal in what they are saying. And, as I said earlier, it so happens, that they are far from being the only ones who are saying it.

The immensity of the crises that have overtaken three major currencies — the French franc, the Italian lira, and the £ sterling — in rapid succession has come as a great shock to many observers of the international financial scene. And this has now been compounded by the realisation that the last upheaval had begun to pose such a serious threat to the entire monetary structure that the earlier intention to let Britain sweat it out on her own had to be dramatically reversed.

So much so, indeed, that there is a growing feeling that the present system is all but on its last legs. Currency crises, it is suggested, are likely to follow one another in increasingly rapid succession as downward plunges in some currencies leave others dangerously exposed meaning that only more or less continuous feats of brinkmanship of the kind organised around the £ now stand between the world and the ultimate catastrophe.

It is when people start asking themselves whether we can't do better than that — indeed, whether we have not got to do better than that if there is to be any hope of getting global recovery off the launching pad — that their thoughts turn in the direction of gold.

The proof of every pudding is in the eating and no one who takes an impartial look at the world monetary scene to-day can be left with any real doubt that the dollar-oriented system on which it is based is turning out to be a highly unsatisfactory — not to say disastrous — mix. And they would also be forced to conclude that most of its troubles and deficiencies arise from the fact that it tends to incur the very disadvantages that gold — by its very nature — cannot be heir to.

Needless to say, the world monetary situation having been reduced to such a shambles by the weaknesses and excesses of the dollar-based system, it would not be easy to switch over to an entirely new system, with gold as its kingpin, overnight. But the time has clearly come to start seeing this as one of the options open to us that we have got to think about.

And in this connection, the outcome of the first auction of IMF gold should be a big help. For the principal message to emerge from this much-publicised non-event is that the world can begin to feel confident that gold is never going to fall materially below the level of $125—130 per ounce that has prevailed in recent months. It means, in short, that solid progress has been made towards giving gold the greater stability that will make it much easier for it to move into the central monetary role that is now beginning to beckon.