Fight over world monetary system splits Anglo-American ranks

With the world gold price soaring to ever-higher peaks, an expanded role for gold in the international monetary system appears assured. The battle over the future of the monetary system has now reached such a pitch that the Anglo-American financial establishment appears split over how best to cope with the reality of the European Monetary System (EMS) and its effective remonetization of the metal.

On Sept. 19, Robert Roosa, a partner of the New York investment bank Brown, Brothers Harriman,

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called on the Carter Treasury to halt its monthly gold auctions. Roosa told the *New York Times* that "gold still had an 'intrinsic value' in the reserves of major nations and that therefore 'we should not run our supplies down.' " On the same day, Treasury Secretary William Miller announced to the National Conference of State Legislatures that there were no plans to change the auctions and reiterated Treasury's view that gold's monetary role is on the wane.

Also on Sept. 19, the state-owned French radio station commented cryptically that such huge jumps in the price of gold have only been seen historically on the eve of the outbreak of a major war, but this time the war is being fought out "politically." The Paris broadcast went on to note that the U.S. Treasury's effort to demonetize gold had proved a colossal failure.

Meanwhile, Samuel Brittan, a well-known monetarist economist, predicted in a Sept. 20 *Financial Times* article the emergence of a group of "commodity-based" currencies, with gold only one of the commodities in question. Brittan's "commodity-based" system—echoing Sir George Bolton's earlier Bank of England scenarios—was one of several plans floated by key Anglo-American policy outlets in the last week in an effort to contain the EMS and redirect it as an agency for imposing economic austerity rather than, as key French and West German circles now see it, an institution through which to launch a world industrial revival.

According to a well-placed Belgian banking source, even such fixtures of the Anglo-American establishment as the Federal Reserve's Paul Volcker are currently reconsidering a shift in the U.S.' antigold policy, but along the lines suggested by Brittan.

The latest leg in gold price spiral—that is, from $350 on up—apparently was not orchestrated by Dresdner Bank, as before, but by British and Swiss interests who are desperately "bulling" the market in an effort to recoup heavy losses which they incurred earlier selling gold "short." A West German banking source identified Britain's N.M. Rothschild and Swiss Credit Bank as key forces in this "bull market" operation.

Two weeks ago, I hypothesized that West Germany's Dresdner Bank and its customers had achieved a significant "corner" in available physical gold supplies as of late August, and that this was triggering a mad scramble by gold "bears" to pin down remaining supplies to meet their delivery commitments. Rumors subsequently surfaced in the Italian press that both N.M. Rothschild and Johnson Matthey, another important British bullion house, had suffered severe gold trading losses. Other sources identified the Banque Crédit Suisse, Switzerland's third largest bank, as having been burned badly as a result of its short-selling activity.

This could explain why Crédit Suisse was so anxious to obtain gold at the Sept. 18 U.S. Treasury auction, where the metal sold at a record average price of $377.78 an ounce. Crédit Suisse was the second largest successful bidder, taking 339,000 ounces out of a total 750,000. Bank of Nova Scotia was most successful, with 350,000 ounces, but, according to the West German source, the Canadian bank may actually have been buying on behalf of Crédit Suisse. Crédit Suisse and Bank of Nova Scotia were also among the four successful bidders at the Sept. 5 International Monetary Fund sale. Dresdner notably failed to bid high enough to receive any gold at either auction; having locked up considerable amounts at previous auctions at prices under $310, Dresdner may be just sitting pretty.

The question still remains: How long can the gold boom last? Since the emerging new gold-based monetary system can only function if the gold price is reasonably fixed, we expect that Dresdner, and the European and Arab government interests which it rep-

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resents, will soon attempt to stabilize gold at about $350 an ounce. On the other hand, the Anglo-American camp, or some factions within it, may try to foment as much market turmoil as possible.

The remonetization converts

The new-found interest in gold among some Anglo-American circles was further underscored last week when a group of prominent economists released a report advocating a return to a fixed exchange-rate system and the repegging of the dollar to gold. The economists served on an international monetary advisory board to the Securities Group, a New York investment bank formed in December 1978 whose senior partner is Charles Atkins of the London School of Economics.

According to the Sept. 17 *Wall Street Journal*, not all members of the advisory panel, which was chaired by Eugene Birnbaum of the SRI/Wharton World Economic Program, agreed that gold should be remonetized. The progold members of the panel, however, suggested that a repegging of the dollar to gold at current market prices would "set the stage for renewed confidence in the dollar." Gold remonetization, they added, would promote currency stability, encouraging foreign trade and domestic investment and bolstering "the productive efficiency of the world market economy." (A complete analysis of this report will appear in an upcoming issue of *Executive Intelligence Review*.)

This author can hardly argue with the above conclusions, but one must still ask: Why does a firm like Securities Group sponsor such a report? The answer may be that, as Brittan's piece shows, some British factions are toying with the idea of a restoration of the gold standard, modeled on the British-dominated pre-1914 system. In their scheme of things, gold would be used to impose austerity, to *destroy liquidity* rather than to *create more stable forms of credit* needed to finance industrial development.

Illustrative of this approach was the Sept. 12 *Financial Times* article which warned that the reserve-pooling mechanism of the EMS is creating excessive liquidity. In March of this year, the EMS was formally launched with the pooling of 20 percent of the participating countries' gold and dollar reserves. Valued at market prices, total gold reserves of EMS member countries (including the 80 percent not pooled) have grown from about $91.1 billion at the beginning of this year to $139.0 billion at present—a $47.9 billion gain! What the British fear is that this newly created liquidity may be mobilized by the Europeans to finance expanded trade and development deals with Middle East oil producers and other developing countries.

The fall issue of the New York Council on Foreign Relations *Foreign Affairs* included a seemingly favorable commentary on the EMS authored by Citibank economist Harold van Cleveland. Van Cleveland proposes a "broadening" of the EMS to include the U.S., Britain, and Japan, but states that the foundation of the new system must be a protracted period of "monetary discipline." Moreover, a Washington source reports that, at the Sept. 15-16 Group of Five mmeting in Paris, U.S. Treasury officials proposed that gold make up 20 percent of the basket of currencies included in the IMF's Special Drawing Right. Intended to counter French and West German plans to circulate the European Currency Unit (ECU) as a new gold-backed international reserve, the U.S. plan was met with scorn by European officials.

—*Alice Roth*

'Commodity-dollar' alternative to gold

In an effort to coopt European motion around instituting a gold-backed monetary system, Financial Times *commentator Samuel Brittan has floated a proposal for "commodity-based" currencies. Brittan aired this plan in an article entitled "Why Gold Still Glitters" in the Sept. 20* Financial Times, *excerpts of which appear below*:

A successful future monetary standard could be based on a variety of commodities. It cannot be long before some distinguished authority starts advocating a move to an oil standard. My guess is that money will be related to a group of commodities rather than just one or two, with perhaps rival monies related to rival commodity baskets.

In the meanwhile, the monetary aspects of gold will not be quickly legislated out of existence...

My guess is that if the boom does not puncture of its own accord, national authorities will intervene to "stabilize" the market. This could mean a stepping up of U.S. and IMF gold sales, with perhaps other countries joining in as well. Such sales have the special attraction of providing the U.S. with a noninflationary way of financing its payment and budget deficits and easing the pressure on the dollar. Once central bankers start operating in terms of upper and lower gold price ranges, on however informal and shifting a basis, we will be back on a rough and ready gold exchange standard. The standard may be broadened to include other commodities, but the experiment in purely paper currencies will be at an end.