Triffin's new gold standard

Who's mooting a financial crisis, and why the bullion price will soon bottom out.

A new "Friedmanite" international gold standard is in the making and could take a giant step forward when and if Britain joins the European Monetary System (EMS), according to Robert Triffin, a leading spokesman of the "Siena Group" of monetary reformers and economics professor at Belgium's University of Louvain. Triffin, who was interviewed by *EIR* correspondent Laurent Murawiec, reported that British Prime Minister Thatcher "has been moving closer and closer to the idea of joining the EMS."

"What I can see happening very soon is dealings in gold among central banks, being done at current market prices or market-related prices; gold settlement, in other words, through the ECU [European Currency Unit]," Triffin remarked. "Euro-American financial relations" may be organized in the future "on an ECU-dollar basis instead of a dollar-mark basis."

Triffin, however, indicated that central banks should not be permitted to benefit from any future appreciation of the gold price, since this would lead to the creation of "inflationary" new liquidity. Instead, "there could be an agreement to limit world reserve growth, growth of ECU reserves or any other reserves to, say 5 percent per annum, to give a Friedman-type indication, with qualifications, of course, for special cases. Then we should sterilize the prospective bookkeeping profits or losses of gold."

Triffin's description of future monetary developments might be dismissed as academic, were it not that certain influential British and European bankers have been talking recently about the possibility of a severe Eurodollar market shakeout, including John Craven, deputy chairman of Merrill Lynch International, and Robin Pringle, executive director of the "Group of 30."

Indeed, only a world financial crash, or the threat of one, could induce France, West Germany, and other European governments to accept a "return to gold" in the deflationary form suggested by Triffin. What Triffin proposes is essentially a return to the pre-1914 gold monetary system, which was designed to throttle industrial growth outside of Britain. But if the Eurodollar market is destabilized, European governments might have to revert to such a system simply because gold would then be the only international currency of any recognized value, and the shattering of financial confidence might preclude the use of gold to foster growth.

The sharp fall in the gold price Dec. 9 and 10 should, therefore, be seen as part of phase one of a "crash of 1981" scenario. Investors are being panicked into dumping their gold and other commodity holdings, based on projections of continually rising U.S. interest rates which increase the cost of holding commodity futures contracts at the same time that high-yielding, short-term dollar instruments appear relatively more attractive. What such analyses ignore, however, is that U.S. interest rates cannot remain very long at present levels without precipitating major bankruptcies, which in turn could unleash a domino effect on the international banking system. Under those conditions, gold could skyrocket, and those who were clever enough to buy at the bottom would profit.

According to a source at Swiss Banking Corporation in New York, the dramatic fall in the gold price on Dec. 10, to $568 an ounce compared with $593 at the previous day's close, occurred when a single large seller appeared on the European markets. This could be an indication of market manipulation. Also feeding the panic liquidation was the *Wall Street Journal* article of Dec. 10, which reported that some European gold analysts believe the Soviet Union may be forced to double its gold sales to the West next year to raise hard currency for Poland.

By the end of the day, however, David Potts, senior gold analyst for the British mining firm Consolidated Gold Fields, told Reuters that "he would be surprised to see gold fall much below $550 an ounce, given what he suspects has been reasonable bank support around $600 lately. He said he would be looking for support now from central banks, long-term investors and the fabrication industry."

In my view, gold probably will bottom out soon, not only because European central banks will support it, but also because the fear of financial collapse (not necessarily the collapse itself) may shortly become a factor in the markets.