Gold by Montresor

Gold and "M-World"

South Africa (via the International Gold Corp.) considers its place in a brave new monetary world

The South African authorities are skilled at keeping their counsel, and do not easily let outsiders read their intentions. Nonetheless the contents of a "gold pricing model" published indirectly by the South Africans, through their New York firm, the International Gold Corporation, must raise some eyebrows: a careful reading shows that the South Africans have mixed themselves adroitly into the present, far-from-academic concerning the future of the world monetary system following the dissolution of the present one in the not very distant future.

A press release issued Jan. 28 by the International Gold Corporation says the following:

"Variations in gold prices can be explained through the influence of major economic and political variables according to the gold pricing model developed by the International Gold Corporation. . . . The rate of growth of world money supply, the foreign exchange value of the dollar and real economic activity worldwide are the dominant influence in the gold price. . . . Most prominent of these is the rate of growth of world money supply.

"Because gold is regarded internationally as a currency unit, "the release continues, "it serves as a store of value and, occasionally, as a means of exchange. For that reason . . . gold's market value is determined by the relationship of gold to all other currencies supplied to the financial markets. The faster the growth of money, the stronger the gold price."

Considerable speculation has been aroused concerning the stickiness of the gold price in the $490-500 range. Friends of Dr. Robert Mundell, the advocate of return to the gold exchange standard with the greatest (if indirect) influence in the Reagan Administration, are now arguing that Mr. Paul Volcker fears to permit money supply to rise such that the price of gold would either exceed the $500 level, or fall underneath the $400 mark. No one need take such allegations serious as currently presented.

Readers of such delphic utterances must put themselves in the frame of mind of the people who own most of the world's gold, who (and we may thank the International Gold Corporation for having earlier published the first comprehensive documentation of this fact) are the old European *fondi*, or old family fortunes of Switzerland, Italy, Germany, France, and Britain.

The *fondi* (as they call themselves) have no illusions that the present monetary order can survive more than a matter of months, at best, and they consider what institutional arrangements that might follow were best suited to their interests. They would prefer to take matters out of the hands of mere sovereign nations.

The most vociferous advocate of supranationality among circles who have the ear of the Reagan administration is Mr. Mundell. His disciple, Prof. Ronald McKinnon of Stanford University, is a favorite of the London *Financial Times*. Prof. McKinnon has coined the term "M-World," i.e., a unified world money supply, to argue that individual nations' economic policies no longer matter, and that nothing short of a world monetary authority dictating credit policy to individual nations will set the world economy aright.

"I am neither a Keynesian nor a monetarist," protests Prof. McKinnon. "Both of the schools attack me, because they still favor national sovereignty in world monetary affairs."

Since the Versailles summit of industrial nations' leaders last July, the notion of such supranationality has been far from academic. For the first time the notion of "coordinated exchange rate intervention" to stabilize currency parities was raised; and although this notion has foundered on lack of interest in the Reagan administration, nonetheless it remains on the official agenda.

Since all central banks now insist that the relative value of currencies is determined by money-supply growth, the implications of such "coordinated intervention" are not really far short of what Prof. McKinnon has proposed.

Under conditions of general monetary chaos, what will the central banks do? As the central banker to central bankers, Mr. Fritz Leutwiler of the Bank for International Settlements told a gathering at Davos, Switzerland the first week in February, the answer is nothing—until governments give them a free hand—and then a great deal.

The South Africans have apparently made their bid to be a member of this party whenever it chances to form.

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