Gold by David Goldman

Gold reappears in the monetary debate

Mundell's views on gold, IMF Special Drawing Rights, and the need for a $1 trillion central bank.

Professor Robert Mundell, the ultimate guru of "supply-side economics" and a figure of remote but significant influence in policy circles around the Reagan administration, re-opened the gold debate in public with a Jan. 31 essay in the *Wall Street Journal* ("Selling the White House on Gold-Backed SDR's," Feb. 15). In a Feb. 10 discussion, Professor Mundell clarified his published views, and argued that the International Monetary Fund and the IMF paper world currency, the Special Drawing Right (SDR), cannot work in their present form. He called for a new institution, a "trillion-dollar world central bank."

Mundell insists that progress toward his proposal for a world central bank is "coming very fast," and was anxious to give the impression that members of the administration were on this track. Arguing against the expansion of the International Monetary Fund, Mundell believes that the Bretton Woods institutions were compromised fundamentally by the concession to floating rates and the demonetization of gold. In response to proposals for a major expansion of the IMF's SDR, he said, "SDRs are small potatoes. How many of them are there now? The SDR is not an asset. It is not backed by anything. SDRs are a red herring; gold is not a red herring—it is the answer to a sound monetary system—but the real problem is the debt."

Mundell's argument is that the IMF must be replaced. He says, "To function, the SDR has to be a convertible SDR [that is, convertible into other currencies], and the IMF does not have the right to make the SDR convertible; it abandoned that right when it moved to floating rates." I.e., by eliminating any criteria for fixing the value of the SDR, the Fund eliminated the ability to fix the ratio of SDRs to anything else, and make it a convertible asset.

A bank of issue must be sovereign; it must be able to set the standard of the currency it issues. A national central bank does this through its power to tax. But if the IMF receives the power to issue an international currency in significant amounts, it must also have the power to force the governments who issue these currencies to fix their exchange rates against each other, or gold, or both.

Mundell repeated, "The SDR may be useful, but it's a red herring. I am not even sure that the issue is gold, although gold is the answer to a sound monetary system. The debt problem is the real issue. The SDR is one of the things that got us into the problem in the first place. What is required is a major shift in attitudes. The debt problem requires systematic funding through a new institution. This can either be the U.S. Treasury, or a group of creditor countries, or a multilateral institution—it should be the latter. [*EIR*'s] old proposal to forgive the debt is attractive; it may even come to that, or may end up that way although under a different name."

What did Professor Mundell think of the relatively small quota increase offered by the just-concluded meeting of the IMF in Washington? "If there is something more imaginative in the works, no one would want a big increase in quotas," Mundell answered.

"The broad outlines of my article are going to come fast, because it is the only solution. The IMF doesn't like it, because the new institution is in competition to them. But people may be thinking about this. The United States may begin to realize that more patchwork won't work. The IMF is now just being patched up. Why patch up an old thing when you can get a new one? Ronald Reagan is old enough to see this, and he is brazen enough to go for a big one—and I am talking about a $1 trillion central bank."

Robert Mundell is a Canadian, not American, citizen, and his professional career was spent in the orbit of the Bank for International Settlements and International Monetary Fund. His link to the 'patriotic" supply-siders is somewhat ironic.

Mundell's closest friend in the Congress, Rep. Jack Kemp (R-N.Y.) made the same pitch to President Reagan during a private meeting at the White House Feb. 14. Arguing that the administration should not support any quota increase whatever for the International Monetary Fund, for the "bankrupt old system," Kemp urged the President to accept the Mundell plan for a new world central bank and a "new Bretton Woods conference" to fix exchange rates. The President, an aide reported, argued back that the recovery now in progress in the United States will alleviate the world crisis, and that the United States should view the IMF quota contribution as a way to buy time.

"The President will not move on this until there is a crisis in the markets," said a Kemp aide.

EIR*'s regular gold columnist, Montresor, will return in future issues.*