

Gold by Montresor

More noise about a gold standard

The odious supply-siders have stepped up their campaign for a deflationary version of remonetization.

Some months ago, the President appointed his special commission on gold. Mr. Beryl Sprinkel, who is allowed some hand in running the Department of the Treasury, then waged a little battle to force the commission to file its report by Oct. 1, thus ensuring that no work of substance would be accomplished. Mr. Henry Reuss, one of Paul Volcker's accomplices in the 1971 disaster, vehemently protested, and more time has been given to the commission.

A vacationing President Reagan, among others, has read the numerous articles in the American press to announce with great fanfare that consideration was being given to returning the dollar to some form of a "gold standard," seen as one, perhaps the only, means of bringing inflation under control.

Messrs. Evans and Novak have reported the inhuman efforts devoted by Mr. Stockman to cutting a budget inflated, notably, by interest paid on account of soaring interest costs by the U.S. Treasury, and added that he and gold-minded friends inside the administration and around it, were looking forward to a return to gold.

This apparent "great debate," however, was not limited to remonetization advocates. The *New York Times*, which has endorsed every single folly committed in monetary affairs since Paul Volcker and his friends de-pegged the dollar from gold, published an editorial

Aug. 22 excoriating the proponents of a return to monetary gold, and in rather severe terms.

I learned, by talking to one well-known priest of the curious supply-side cult, that the *Times* editorial was the result of a clever plot hatched between supply-siders and the newspaper's editors. The latter, I was told, do not want a gold standard, but they want a debate on this issue, as witness the Aug. 27 guest editorial by Mr. Jude Wanniski.

In another discussion, a senior staff member of the International Monetary Fund who prides himself on his aristocratic descent, expressed the utmost contempt for Messrs. Stockman, Laffer, Paul Craig Roberts, et al., lashing out when I mentioned that the National Security Council was running detailed studies on how gold would be brought in as soon as the U.S. currency collapsed, which the NSC clearly expects in short order. "Ah! but they do not know anything about economics! We, the cool-headed ones, do."

They expect that the Reagan administration's policy will abjectly crash, as the budget deficit runs out of control, and perhaps then the dollar, engulfed in the maelstrom of loss of confidence, at which point they propose a return to the 19th-century gold standard, so profitably used by the City of London: a highly deflationary affair whereby no credit would be issued unless it is completely covered by bullion, thus

making the world credit, and hence the world's economic prosperity, totally dependent on the strict quantity of metal mined.

Mr. William Rees-Mogg, lately the editor of the *Times* of London, and now with General Electric Ltd., U.K., helped draft the plan. Lawrence Kudlow, a Rees-Mogg protégé who is chief economist for the Office of Management and Budget, supports it.

Looming behind this scene is a glassy-eyed fellow whose shoulder-length hair would better recommend him for the role of Dorian Gray than that of a monetary expert: he is an adviser to the central bank of Uruguay—no small feat to bring order to books primarily reflecting transactions on narcotics and arms-smuggling accounts. Robert Mundell will shortly convene his friends at Villa Santo Colombo, a haunt owned by the Monte dei Paschi Bank: there the Siena Group will deliberate on the best ways of selling President Reagan the program of deflation demanded by the Basel Bank for International Settlements.

The truth is that neither this person, nor the "gold bugs" know the great secret of gold, currency, and credit, which establishes a rigorous link between productive wealth generated by the economy, and the quantity and quality of credit put in circulation. At this moment, gold could perform an indispensable function to stabilize the international financial mess; it could also make it worse, depending on whether it is the "cool-headed" ones who preach deflation at all costs, or productive-minded persons, who will reintroduce the ancient metal into the monetary system.