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Gold and Dollar Anxieties

The impression that the world's currency and financial markets had entered calmer waters has proved deceptive. Early in March a fresh gold rush broke out, and the free gold market shook to its foundations. Once again speculators concentrated on the dollar, the sole efficient reserve currency that remains since the devaluation of sterling failed—at least in the short run—to bring about the hoped-for strengthening of the pound. To persist in looking upon the pound as „the dollar's outer defence line“ is a delusion, and every attack on the dollar thus becomes a fresh strain on the existing monetary system.

The renewed run on gold was fanned by the uncertainties surrounding the American economy. Among the factors liable to undermine confidence in the dollar are: wage disputes, ever larger government spending and the fear that the growing involvement in Vietnam will cause the United States to slide into a war economy.

Under the pressure of uninhibited speculation the London gold market was temporarily closed. The governors of the central banks of the United States and six European states met hastily to discuss the rescue of the dollar and the fate of the international monetary system. The splitting of the gold market, which now protects the market for currency gold from private demand, seemed to be the only practicable way out of the crisis. The speculators' hope to derive profit from an official rise of the gold price, i. e. the devaluation of the dollar by the United States, should, for the time being, have lost its basis, all the more since the beginning dethronement of gold as the central currency reserve instrument will considerably diminish the importance of the primary metal.

However, the dollar is not yet brought out of the firing line of speculation and rumors. The leading countries are agreed that the most important means of achieving this is a decisive reduction in the American balance-of-payments deficit, to be followed in due course by its complete elimination. It is only fair to admit that from the point of view of the world monetary system President Johnson's five-point programme, which is designed to put the American balance of payments back on a sound basis, provides a realistic remedy. It comes closer to the root of the balance-of-payments trouble and the dollar crisis than all previous prescriptions. The American government should not, however, confine itself to coming to grips with the red figures where they appear in the balance of payments. As a necessary corollary to the President's programme appropriate measures need to be taken to stabilise the internal economy, which at the present time is not in a state to provide a firm enough basis for the measures which are being taken to right America's external economic position. But now that the economy is able to shelter behind the protective wall of the five-point programme, more energetic steps to deal with internal economic problems, above all in the fiscal sphere, may also be expected.

In any event one thing is clear: the latest changes on the monetary front have dragged the whole problem of the gold-exchange standard out of the realm of theoretical and experimental discussions and into the cold wind of monetary realities. The way is now open to proceed with a more realistic assessment of the currency problems. Even supporters of the pure gold standard should know that a modern monetary system is impracticable without a currency that is internationally recognised as the leading currency, capable, if need be, of intervening. There are encouraging prospects that the dollar will grow sufficiently strong to fulfill this role and that the international exchange system will be stabilised. The Western World is strong enough to maintain a system which is based on gold, the dollar and the drawing rights of the International Monetary Fund such as they exist already and are planned for the future. Until such time as a better order has been established the closest cooperation on the part of the leading central banks is essential if the international exchange system is to be guarded against major disturbances.

Wolfgang Reisener