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IMF: Gold's lure

Intereconomics

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COMMENTS

France

Reciprocity American Style

France, la Grande Nation, is in difficulties. What had started as a seemingly harmless protest movement of students ended in astonishingly damaging repercussions on the economy. But the General and his faithful Minister President, M. Couve de Murville, are still afraid of the drastic medicine of devaluing the franc. For the time being, they hope for the beneficial effects of selective import quota restrictions and of forced exports.

It is, of course, clear that no government outside France can work up any enthusiasm for de Gaulle's economic programme of which it must be said, no matter whether it agrees in detail with the rules and regulations of GATT or not, that it is highly protectionist. But extraordinary situations will always require extraordinary measures. That is the reason why the EEC countries and the Scandinavians try to make the best of a bad job and have agreed to the French programme, perhaps mainly because they hope for a quid pro quo of being granted as much leeway for similar measures of their own, should they ever become necessary in the future.

It is, however, amazing how the United States react to the French plight. Not many months ago, Washington had demanded of the EEC a premature and unilateral reduction of the external Common Market tariff under the Kennedy Round, though all the EEC members had every reason, at the time, to press for the previous fulfilment of the pledges given by the US—because the promised decision about doing away with the system of the "American selling price" is still hanging fire. Now, when there would be a chance for a friendly gesture towards the countries of the EEC, the United States has chosen to become the spokesman for all those who threaten reprisals. Do the transatlantic experts seriously believe that devaluing the French franc is a preferable alternative? Or would they also look for suitable reprisals against it?

IMF

Gold's Lure

Since the gold market has been cut into two sections, speculation about the probable future of gold as the basis for currencies has never ceased. Discussion has been again revived by an offer of the South African government in Pretoria to the IMF to sell it about \$ 50 million worth of South African gold at a

rate of \$ 35 per ounce troy, against currency. The administration of the Fund and a number of its members do not believe that the Charter of the IMF forbids such transactions, but the United States is in favour of rejecting the South African offer. The Federal Government of the US believes that the decision made in February last about Central Banks of member countries of the IMF not buying any gold at free market prices has established a permanent agreement binding on all.

This means that the decision to be taken by the IMF will have to answer the question whether South Africa will have to sell its gold production in the free market, or whether some of it will still be channelled into currency reserves. The division of the gold market into two sections can work relatively satisfactorily only as long as the gap between the private and the official gold prices does not grow too wide. This aim, there is no doubt, can be reached more easily if all the gold offered by South Africa reaches the free market. If gold is refused unconditionally its way into currency support, this would be the signal that gold had been definitely started on the way out from its dominating eminence as the currency metal. To accumulate currency reserves artificially, after such a decision, would mean that traditional reserves are not being supplemented but replaced in this way. This process of pulling gold down from its former eminence must not, however, be drawn out infinitely. Gold's lure as the metal behind every currency has anyway been fatally weakened. Gold is not at all needed as part and parcel of the currency system, and it is only a question of time and of the incidence of death among Central-Bank Presidents when gold will at last have been completely demonetised.

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East Africa

EEC-Association — And What Now?

The East African States of Tanzania, Uganda, and Kenya have carried on negotiations with the EEC for three years, which have now been successfully concluded: These East African States are granted the same treatment as if they were inside the Common Market, which means that their deliveries to any of the Six have been made duty-free. Agricultural supplies sent to the Common Market area are to be treated, as far as possible, in the best interest of the African states. In their turn, the African partners will abolish their tariffs in respect of exports from the EEC, with the exception of import duties levied in the interest of economic development in the East African states.