Gold by Alice Roth

Reagan's choice: Friedman or Rueff

A proposal to combine a gold standard with Thatcherism can't solve the monetary crisis.

In a Nov. 29 article, *London Times* financial editor William Rees-Mogg proposes that the world's monetary problems can be resolved through a marriage between British Prime Minister Margaret Thatcher's "Friedmanite objectives" and the "gold standard doctrines" of the late French President Charles de Gaulle and his adviser Jacques Rueff. He suggests that a return to gold can be accomplished with collaboration among Mrs. Thatcher, French President Valéry Giscard d'Estaing, and U.S. President-elect Ronald Reagan.

Rees-Mogg states: "Unless the basis of the world's money is itself a commodity of absolute scarcity, it will not be possible to stabilize the price of other commodities of absolute scarcity. Until that stabilization has been achieved, there is no prospect of stabilizing employment or of achieving a recovery of the world economy of more than short duration. In short, to achieve Mrs. Thatcher's Friedmanite objectives, it is the gold standard doctrines of President de Gaulle and M. Rueff which will have to be followed.

"Fortunately, there is now at least a conceivable opening for movement in this direction. The Republican platform, on which President Reagan was elected, had a gold standard clause in it, and several of his leading advisers are pro-gold.... A new Bretton Woods to restore gold convertibility to the dollar, the European currencies, and the yen might be a proposal that the new [Reagan] administration would consider. With Mrs. Thatcher, President Giscard d'Estaing and Mr. Reagan in office together, the world has an opportunity to stabilize its paper money on a gold base and bring the great inflation to an end."

In fact, there is no common ground between Rueff and Milton Friedman. The Eurodollar market, or market for dollar deposits held outside the boundaries of the U.S., now stands at $800 billion—representing $800 billion in foreign claims against U.S. assets.

Rueff would have recognized that, given this magnitude of U.S. indebtedness, Friedmanite monetary policies (including those based on linking monetary expansion to the limited supply of physical gold) would prove fatal to the world economy and to the dollar. Rees-Mogg's proposal for a "gold standard" would bring about a devastating financial panic in which much of the international banks' Eurodollar holdings would be wiped out, leading to a world depression much more severe than that of the 1930s.

On the other hand, the establishment of a new official gold price of, say, $700 an ounce, would mean that the dollar was backed up by approximately $186 billion in gold held by the U.S. Treasury—creating an upsurge of confidence in the American currency on world markets. That confidence could be sustained only if the U.S. undertook to match its paper liabilities with a large-scale expansion in industrial and agricultural exports, particularly to newly industrializing countries in the Third World. A proposal similar to this latter idea was advanced by Charles de Gaulle in 1965, on the advice of Jacques Rueff.

The confusion between Friedmanite and Rueffian economics has recently been a problem within the ranks of Reagan's economic advisers, some of whom (for example, Louis Lehrman) seem to believe they can combine elements of both. In a Nov. 30 interview with the *New York Times,* Rep. Jack Kemp (R-N.Y.), a Reagan adviser, stated: "I think eventually, if we're ever to bring inflation to a halt and have a unit of account—that is, a dollar on which the people can depend as an honest dollar—then it's going to take some form of a commodity standard, some form of a monetary standard, some policy whereby the federal government through the central bank guarantees the purchasing power of the dollar by making it convertible into a fixed amount of gold or another precious metal.... As Louis Lehrman has pointed out, throughout history nations have had to resort to some monetary standard in order to stop inflation."

Kemp's statement is commendable, except for the reference to a "commodity standard" which bears too close a resemblance to Rees-Mogg's call for a monetary system based on "absolutely scarce commodities." The new monetary standard should be a "productive capital-formation standard," à la Jacques Rueff, period.