

## Gold by Montresor

### Mr. Zijlstra's proposal

*A Bank for International Settlements plan to restore gold exchanges in the words of its president.*

Ignored by the international media was "the only intelligent thing anyone has said" during the just-concluded annual meeting of the International Monetary Fund, in the estimation of Deutsche Bank Chairman Wilfrid Guth. Referring to the Per Jacobsson Memorial Lecture of Bank for International Settlements President Jelle Zijlstra, former Federal Reserve Chairman William McChesney Martin said to a European journalist, "It is a turning point in world financial history."

Mr. Zijlstra, the Dutch central banker who leaves the BIS this year, merely had the temerity to say first that the Federal Reserve's methods of monetary control had no hope of success; second, that central banks must manage the gold price; and third, that they must manage the parities of their respective currencies.

Presented on the Sunday before the IMF meeting took place, the Dutchman presented the one open statement of crisis, at least for those without SDRs in their ears. His recommendations were as brutal as their source would suggest, i.e. the BIS wants not sham monetary controls, but direct lending controls as well as brutal budgetary reduction in the United States.

It is not to endorse Mr. Zijlstra's specific recommendations, but to put on record the historical fact that the financial elite has no doubts that gold must return to the monetary system, that I cite these ex-

cerpts from his address, particularly because no other journalist has seen fit to do so:

"It is my firm conviction that a devaluation of the dollar combined with a substantial increase in the price of gold [during the 1960s] would have meant a real improvement of the situation. . . . It would not have been necessary to conclude, too early, that the Bretton Woods system could not be maintained, as was done in 1973 on the eve of the great oil crisis. . . . The resulting chaos would have been significantly less. . . .

"We need sufficient management of floating rates to avoid movements of currencies that are erratic or completely unrelated to fundamentals; and we also need, within the European Monetary System, sufficient flexibility to maintain a realistic structure of rates between participating countries. . . .

"At present the principal gold-holding central banks refuse to give more than a moment's thought to parting with their gold reserves and thus effecting a de facto demonetization, either by selling gold in the market against foreign exchange or by placing it in a (not yet existing) substitution account within the IMF against the receipt of SDRs. . . .

"Step by step, not always painlessly, the freedom of central banks to effect transactions in gold, whether among themselves or in the

free market, has been restored. How times have changed may be illustrated by the example of the monetary mobilization of part of the gold holdings of the central banks participating in the European Monetary System. . . .

"It is most frustrating that, sale against foreign exchange apart, there is no systematic manner in which this reserve component can be used. I feel that it is necessary for us, within the Group of Ten and Switzerland, to consider ways to regulate the price of gold, admittedly within fairly broad limits, so as to create conditions permitting gold sales and purchases between central banks as an instrument for a more rational management and employment of their reserves. . . .

"The monetary policy now being pursued in the United States aims at controlling the money supply by regulating the liquidity of the banking system. Let me just say that it is based on an assumed stability of the relationships between the various components of the money supply and their respective required reserves. This cannot but lead, as it has proved to do in practice, to wide fluctuations in short-term interest rates and at times to very large differences between short-term and long-term rates.

"Recently, this monetary policy has been subject to severe criticism. To a certain extent, this is understandable. A monetary policy which gives rise to prime rates of 20 percent at a rate of inflation of around 10 percent, which pushes up the exchange rate to a level far out of line with the underlying balance of payments position, and which thus has serious dislocating effects internationally, simply asks to be called into question."