

Gold by Montresor

Kemp's foot in the door

Despite the Gold Commission's lack of results, the New York State Congressman has kept the gold issue afloat

A Jan. 14 release from Rep. Jack Kemp, the former football player from Buffalo, has come to my attention, ignored as it was by the newspapers. He demands Paul Volcker's resignation (and prompted a question to the President on this subject at the Jan. 18 press conference). Among his proposals are:

"U.S. support for a proposal by the Chairman [he means the former President, Jelle Zijlstra] of the Bank for International Settlements, under which major central banks would coordinate monetary policy to stabilize the price of gold within an agreed range, as a method for arresting world inflation.

"Initial steps to restore the convertibility of the dollar into gold, which was ended in 1971 by President Nixon. . . .

"The convening of an international monetary conference like the Bretton Woods conference of 1944, which established the postwar monetary system. That system was destroyed by the U.S. suspension of dollar-gold convertibility."

Kemp emphasized these suggestions in a luncheon address Jan. 18 before a private group assembled by ABD Securities, owned by two West German banks, in New York City. Kemp endorsed what he calls the "Mundell-Zijlstra" plan, summarized in the points quoted earlier. Of course, Zijlstra's whole plan—which Mundell says he agrees with—includes a particularly brutal form of credit controls

for the industrial nations, in order to make the return to gold deflationary in the unpleasant old-fashioned way. Kemp toys with another, similar sort of deflation device, to enable the Federal Reserve to lend money through the discount window and through no other means, at "a market-related level" of interest rates.

But we will ignore these reminiscences of the 19th-century Bank of England's mailed fist to call attention to a more interesting feature of Kemp's performance: the other principal feature of the ABD Securities conference was a detailed and plausible presentation of the case for a 30 percent or worse collapse of the dollar's value during 1982 (see article, page 4), something far from indifferent to the future of gold's monetary role.

No one would accuse Mr. Kemp, or even the adroit Jude Wanniski, of comprehending all the implications of this sort of discussion. However, the main activity of Mr. Wanniski's firm during mid-January has been to circulate reports warning strongly against overreaction to the Polish developments. Wanniski, a keen observer of the Polish scene, defends General Jaruzelski as a "continuation of the Polish revolution," and his colleague, Dr. Alan Reynolds, has written a report decrying the futility of economic sanctions.

What does this rather sensible (if sentimental) approach to the Polish crisis have to do with the

gold issue? Since 1971 returning the dollar to gold has been a central objective of European policy, and necessarily so: their domestic and international monetary policy has borne the weight of the uncontrolled growth of the Eurodollar market, which is more a consequence than a cause of rampant foreign-exchange market speculation, inimical to European trade interests. Europe's decision to form the fixed-rate zone called the European Monetary System in 1978 involved, as is well known, a partial remonetization of gold. For the United States to return to a gold-reserve standard boils down to a commitment—as the great Jacques Rueff argued—to meet its current international liabilities with exports of goods rather than inconvertible paper dollars. That is the necessary and sufficient discipline for the American economy.

Europe, furthermore, can only exist in the context of reasonably stable relations between the United States and the Soviet Union. Its refusal to take actions which, ineffective as they might be politically, would severely damage its trade with the East Bloc, is intimately tied up with the monetary issues, as the West German Chancellor has emphasized recently.

If Schmidt is correct that the central political issue is not Poland but the world depression, then the gold issue must come to the surface in the context of any stabilization of the Central European situation. Barring the sort of "geopolitical catastrophe" which some observers predict as "the only way to save the dollar," Europe's monetary bargaining position should emerge enhanced by the shifts in world financial power now under way.