GOLD

Gold and the question

The brilliant title article "The European Monetary System and the Outlook for Gold" written by London's C Gordon Tether for the March 1979 issue of the *Gold Newsletter* of the National Committee for Monetary Reform calls the real question facing advocates of hard money today: Are you a patriot? Mr. Tether by his gaping ommission answers the question. The only gold-backed credit system that will *save* the dollar and U.S. world leadership will be that for which the American Revolution was fought—the system of U.S. Treasury Secretary Alexander Hamilton.

Gold advocates, including this publication, have for years denounced fiat money misuse of the Federal printing presses to debase U.S. industrial progress. But Mr. Tether has, obligingly, sharply posed the ancient British System solution to this real problem in modern terms: get rid of the U.S. dollar and U.S. industrial power altogether, so that Britain might reinherit the earth.

Mr. Tether's thesis is that the EMS at present is a Keynesian plot by the Trilateral Commission and "U.S. imperialism" to globalize the dollar as fiat money, but that it may yet be saved by a Margaret Thatcher-led "European" revolt to do away with currencies altogether and put the world back on the pre-1914 gold reserve standard. In thus attacking 'he *real* EMS—which is neither of these—Tether attacks America's actual allies in Paris and Bonn whose efforts for a thoroughly Hamiltonian EMS have given the U.S. its last chance for real hard money—a gold-backed dollar.

Patriotic readers of the respected NCMR *Gold Newsletter* and attendants at the Liberty Lobby's May 12-13 Washington Financial Survival Seminars, at which Mr. Tether will be the featured speaker, would do well to remember that this nation fought two world wars for its financial and industrial survival to do away with the British Empire's ver-

DOMESTIC CREDIT MARKETS

Step by step, Miller moves to ration credit availability

Treasury Secretary Michael Blumenthal told a newsmen's luncheon in Washington April 30 that he opposes the use of credit controls as an anti-inflation tool. However, given the Carter Administration's propensity for doublespeak—typified by Federal Reserve Chairman William Miller's recent statement that he thought interest rates had risen high enough, which was followed by yet another hike in interest rates last week—one should not rule out the imposition of wartime credit rationing as the next step in the Administration's ostensible efforts to arrest inflation.

As we reported last week, Sen. Jesse Helms's anxiety over the prospect of government entanglement with private credit flows prompted him last month to sponsor a bill to repeal the Credit Control Act of 1969, which gives the President standby authority to selectively ration credit. Helms's bill will be the subject of hearings to be held by the Senate Banking Committee May 24-25. While Administration spokesmen have said that they dislike the idea of credit controls, they have also said they don't want to see the Credit Control Act repealed. This has only increased suspicions about their future plans.

A staffer on Sen. William Proxmire's Banking Committee told a reporter last week that the proper question to ask was not what powers does the Credit Control Act give the President, but what powers doesn't it give to him! Under the Act, which was pushed through Congress in the inflationary climate triggered by Vietnam War defense spending, the President at will may direct the Federal Reserve to cut off credit to selected areas of the economy—such as the very fragile auto market, real estate, business spending, etc. The Act also authorizes the President and the Fed to move against U.S. bank and corporate borrowings on the Eurodollar market, an increasingly significant sion of the gold reserve standard.

EMS: Gold *Exchange* Standard

Alexander Hamilton's *Report on Manufactures* stipulated clearly that the basis for hard money—and this is what *has* made America great—is the dirigistic direction of credit by the central bank to the highest technology sectors of the national economy, to ensure the constant technological breakthroughs and vigorous capital formation which alone produce productivity and thus a profit on capital, rendering the currency a desirable investment medium. That is all a currency is for. The British Crown, to the contrary, has spent the 18th, 19th, and 20th centuries *embargoing* technology from the U.S. and the world by seeing to it—using gunboats—that no other country, except Britain, which colonially controlled the gold mines, had the coin to invest. That was the gold reserve standard—a credit rationing system which kept nine-tenths of the globe in rural backwardness.

French President Giscard and West German Chancellor Schmidt, on the contrary, have proposed in the EMS a gold *exchange* standard such as Hamilton's in which the *exchange* reserve currency, the dollar, will be turned into hard money. The EMS member central banks would soak up billions of footloose Eurodollars through intervention and bond issues, and deploy them as Export-Import bank-type credits in consortia with private commercial banks into the underdeveloped sector to create huge high-technology investment projects. The dollar would be the most profitable investment medium—the hardest currency—in the world.

What went wrong in '71

As we wrote on May 2, 1978, "What went 'wrong' in the period up to the Nixon cut-off of the dollar from gold on August 15, 1971, was not the gold exchange standard but *how it was used*: under British intellectual hegemoney in postwar (Keynesian) economics, Hamiltonian direction of credit was halted in favor of real estate and raw materials-related bubbles such as the Eurodollar market, causing a contraction in the U.S.'s export market by maintenance of the Third World in an impoverished state. By the early 1970s, U.S. export collapse produced (as today) a huge trade deficit...

"This allowed the British government to bring its dollars to the U.S. Treasury window and demand payment in gold—'now, please'—in the summer of 1971, touching off a general run on the dollar which forced a panic closing of the gold window..."

Mr. Tether takes cunning advantage of the hard money man's desire to see his gold investments prosper—as they would under the real EMS in any case—to frighten his readers into deserting the sinking dollar ship altogether.

—Kathy Burdman

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source of bank and corporate liquidity which has come under scrutiny for fueling an inflationary inventory buildup in the U.S. economy reminiscent of 1973-74.

Donald Woolley, chief economist of Bankers Trust, said in an interview that credit controls are too much of a political liability for the Administration to be thinking along those lines. "Even if controls did slow down borrowing, the effect wouldn't show up in the inflation rate right away," said Woolley. "The Administration would not score any points with the public by invoking controls." Woolley also believes that the Fed staff "doesn't have any stomach for controls—they view them as an Administrative nightmare."

The fact remains, however, that Fed Chairman Miller is already moving step by step to limit credit availability. The money markets seem to have practically ignored a proposal issued by the Fed on April 13 to impose new reserve requirements on member banks that, in the Fed's own words, is "designed to establish more effective control over growth of bank credit." The Fed invited comment by May 18 on a proposed rule that would apply a 3 percent reserve requirement on member bank repurchase agreements (RPs) and federal funds borrowings from nonmember banks, corporations, and Federal agencies.

In proposing the regulatory change, the Fed noted that almost 20 percent of the growth in commercial bank credit over the past six months has been financed through RPs—sales of Treasury bills by banks to corporations under an agreement to repurchase them in several days—and overnight interbank borrowings on the so-called federal funds market. At the end of March, total member bank RP liabilities were $42 billion and outstanding federal funds were $23 billion. Thus, the effect of the new rule would be to increase required reserves—and drain banking liquidity—by $1.9 billion.

Bankers Trust's Woolley commented that if it is implemented, the chief effect of the new restructuring of reserve requirements would be to drive even more banks out of the Federal Reserve System.

Since early this year, when Eurodollar interest rates eased, U.S. money center banks have been issuing large amounts of certificates of deposit (CDs) on the cheaper Eurodollar market to raise lendable funds. According to Woolley, the use of new domestic reserve requirements, which would raise the cost of borrowing money in the U.S., would tend to shift bank borrowings increasingly onto the Eurodollar market.

However, if the Fed simultaneously moves to impose reserve requirements on banks' Eurodollar branches, then the effect will be an across the board shutoff of credit availability.

—Lydia Schulman