Circumstances force gold action

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speculation. Decision
Given the run on gold, the world's central bankers were faced with a decision. They could either work within the old system by having the US devalue the dollar before the Western nations' gold suppliers were bought by speculators in the London gold market, or they could make a "clean break" and begin work on a third currency. The choice would result in either a loss or a gain for the US, depending on the market price of gold.

Under the plan actually adopted, as the gold pool nations supplement gold reserves with IMF Special Drawing Rights and on longer buy or sell gold on the free market, the market price of gold will fluctuate like that of any other commodity. Ironically, if gold is devalued, the hoards which might be released and made productive which will be longer bought for monetary use could depress the price well below the $35 level at which nations will still buy and sell gold. Professor Modigliani outlines two major problems in maintaining this two-price gold system. First, there is the possibility of a "third-country drain" in which France, for example, might agree not to sell gold on the private market but could buy US gold and then resell it to, say, Algeria. Algeria could sell it on the open market, thus draining US reserves again. Second, the possibility that the new agreement may be inconsistent with our obligations to the IMF to redeem dollars paid for either gold or that nation's own currency. If France refuses to agree not to sell gold on the private market, the US continues to have a short supply of francs, we cannot redeem dollars. France might prevent (and thus live up to the IMF's idea) two-currency system by violating last weekend's gold policy accord.

The question
Will France sell gold to the private market? "I must frankly confess that I don't know," said the professor. Even if France does enter the private market, if the reserve of the Gold Pool is strong enough to sell gold to France the situation probably will not get out of hand. Professor Modigliani indicated here that he thought there was a "good chance the agreement will work." Regardless of international arrangements, however, confidence in the dollar can truly be restored only when the US balance of payments deficit is corrected. Professor Modigliani feels that the large domestic money supply must be reduced to the economy is far greater than any beneficial effects they might have on the balance of payments. Although he feels that a tax increase is an economic necessity if the war continues to "very much against this stupid tax on tourism," and "opposed to any restrictions on trade." An alternative, he pointed out the somewhat startling fact that corporate profits earned abroad are not taxed at the same rate; thus, companies tend to keep large amounts of money abroad. If foreign profits lost their tax advantages and companies were required by law to bring their earnings back into the country, a very major improvement in our payments situation would result without causing any dislocations in our economy.

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what is your potential?

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