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Mr. Nixon's Paper Standard

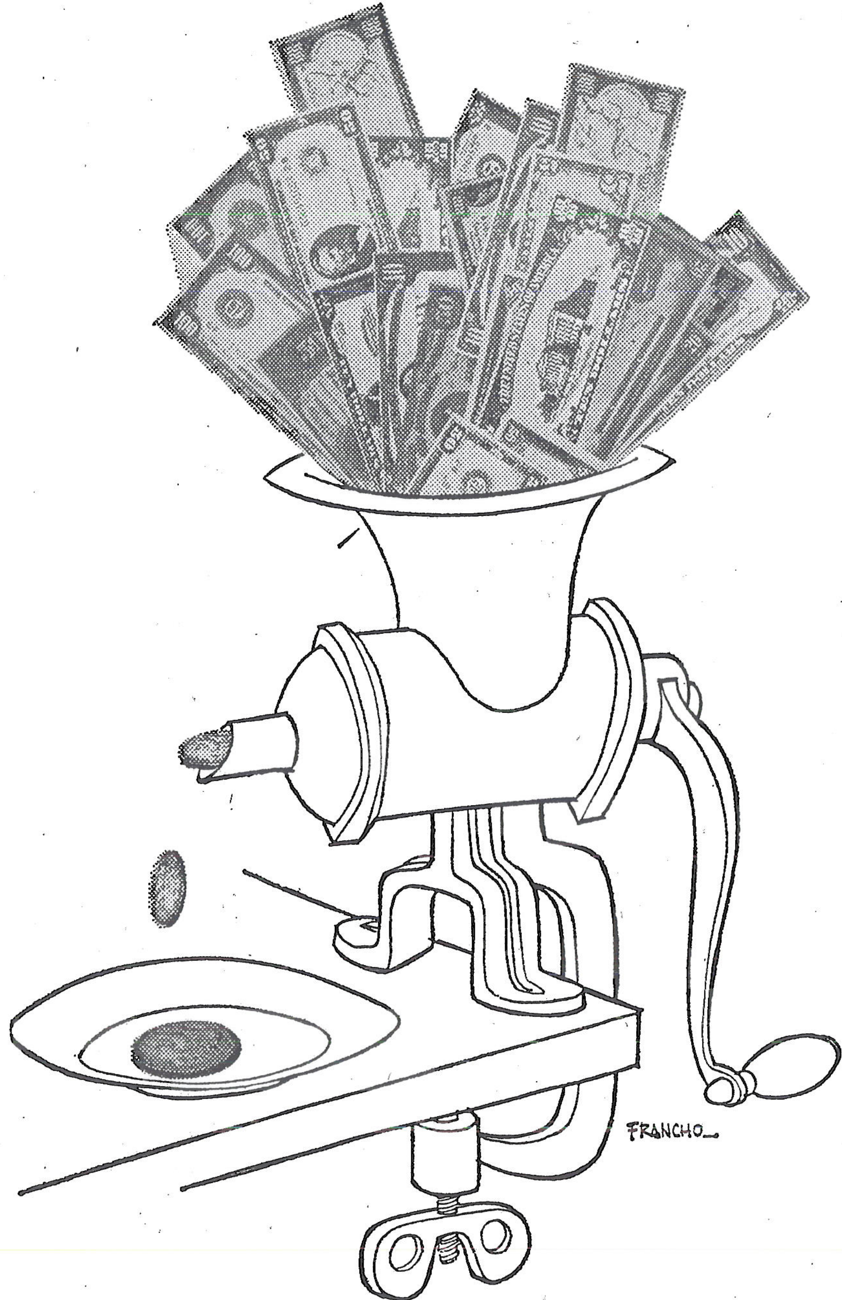
By JOHN BROOKS

By far the most startling part of the President's new economic program is the decision to suspend gold payments against dollars—an act that, among other things, removes the underpinnings from the world's money.

A little historical perspective will show why this is so. It has been much noted in recent days that the United States' obligation to exchange dollars in any quantity for gold at the pleasure of any nation's central bank, goes back to 1934. It really goes back a good deal further than that. The system in force since 1934 is described as the gold-exchange standard. Prior to that—from 1879 to early 1933—the United States was on the far more stringent gold standard under which it undertook to exchange gold for dollars, not merely with foreign central banks but with all comers, including its own citizens.

Since no other major nation is committed to redeeming its currency with gold, Mr. Nixon has formally demonetized gold and put the world's money effectively (although temporarily) on a paper standard. Is that a good thing? Perhaps; Lord Keynes, the greatest modern economic seer, called gold a "barbarous metal" and looked forward to the day when it would be demonetized. What gives one pause is the manner in which the step has been taken. Ever since the great Depression of the 1930's the world powers have been slowly and painfully building up a system of international monetary cooperation based on consultation.

Elaborate machinery—the International Monetary Fund, the monthly "Basel Club" meeting of central bankers, the reciprocal-loan "swap" agreements—has been established. Now, by taking the linchpin out of the machinery without (so far as has been revealed) any prior consultation with anybody, apart from last minute for-information-only notification of Canada and Japan, the President would seem to have done his best to knock down what has been built.



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The nearest parallel is the permanent suspension of gold payments by Britain on Sept. 21, 1931. While necessary because of Britain's economic weakness, that was not salutary. Chaos resulted. The pound in terms of dollars quickly dropped from $4.86 to $3.50; trading nations seeking competitive advantage resorted to devaluations of their own; confidence in money waned everywhere, and international trade dried up.

It is true that there are many differences in the two situations, the chief one being the present industrial strength of the United States. Perhaps world money is now on the automobile standard. But there is one more cause for disquiet, and that is a suspicion that the President and his advisers, in making their Draconian move, did not understand what they were doing.

Mr. Nixon is at pains to point out that the dollar has not been devalued and that the official price of gold is still $35 an ounce. The gold is still on the shelf of the store, that is, and its price is the same as yesterday; the only thing is, it isn't for sale right now. Does that mean its price is the same? Obviously not; its price, in market terms, is infinity.

Again, the President describes the action on gold as "very technical." Unilaterally overthrowing a long-standing system based on written agreements and constant consultation is hardly more accurately described as technical than breaking a treaty with a surprise armed attack.

One hopes for an early restoration of gold payments, pending an international agreement to scrap the barbarous metal at last. As George Santayana said, "Those who cannot remember the past are condemned to repeat it."

John Brooks of The New Yorker is author of "Business Adventures," "Once in Golconda" and other books on the financial mystique.