World Bank Head Calls for Monetary System Linked to Gold

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In the run-up to the G20 summit of leading economies, to be held Thursday and Friday in Seoul, the president of the World Bank has published a column in the Financial Times calling for a fundamental revamping of the global currency system involving a lesser role for the US dollar and a modified gold standard. The Financial Times underscored the significance of the column by making it the subject of its front-page lead article on Monday.

In his column, World Bank chief Robert Zoellick, a former US Treasury official, points to the crisis conditions prompting his proposal. He begins by observing: "With talk of currency wars and disagreements over the US Federal Reserve's policy of quantitative easing, the summit of the Group of 20 leading economies in Seoul this week is shaping up as the latest test of international cooperation."

Here Zoellick is referring to the announcement by the US Federal Reserve last week of a second round of "quantitative easing"—the printing of hundreds of billions of dollars to buy US Treasury securities—and the sharp criticisms of this move by major US trade competitors including China, Germany, South Africa and Brazil. The US move is seen correctly as an intensification of a deliberate policy to cheapen the dollar in order to make exports less expensive and foreign imports more expensive.

The Obama administration is focusing its economic attack on China. It wants to line up Europe, Japan, India and other Asian countries at the G20 summit behind its demand that China allow its currency to appreciate more rapidly.

However, its cheap dollar policy is roiling relations with other export-oriented, surplus nations, most notably Germany. In unusually bellicose language, German Finance Minister Wolfgang Schäuble denounced the US in an interview this week with Spiegel magazine. Saying the American "growth model" is in "deep crisis," he added, "The United States lived on borrowed money for too long, inflating its financial sector and neglecting its small and mid-sized industrial companies."

He went on to declare: "The Fed's decisions bring more uncertainty to the global economy… It's inconsistent for the Americans to accuse the Chinese of manipulating exchange rates and then to artificially depress the dollar exchange rate by printing money."

The US—the world's biggest debtor nation—is exploiting the privileged position of the dollar as the primary world reserve and trading currency to drive up the exchange rates of its rivals, in essence a trade war measure. It is unleashing a flood of speculative capital into so-called emerging economies in Asia, Latin America and Africa, pushing their currencies even higher and creating the danger of speculative bubbles and inflation.

This aggressive and unilateralist policy on the part of the United States is exacerbating global tensions and destabilizing the world monetary and financial system. It is heightening the likelihood of a breakdown of international relations and the outbreak of the type of uncontrolled currency and trade warfare that characterized the Great Depression and led ultimately to World War II.

In his column, Zoellick urges the G20 to "build a cooperative monetary system that reflects emerging economic conditions." He continues: "This new system is likely to need to involve the dollar, the euro, the yen, the pound and a [Chinese] renminbi that moves towards internationalization and then an open capital account."

The new system, he writes, "should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values. Although text books may view gold as the old money, markets are using gold as an alternative money asset today."

This is a tacit acknowledgment that the monetary system that has existed since 1971 and is rooted in the system established at the end of World War II—and which is anchored by the US dollar—is no longer viable. It is furthermore an admission that there is no other national currency that can replace the dollar as the basis of global currency relations.

One expression of eroding confidence in the US dollar—and the monetary system based on the dollar—is the spectacular surge in gold prices. On Monday, gold for December delivery set new records, closing above $1,400 an ounce.

Zoellick argues that the "scope of changes since 1971" justifies the erection of a new monetary system. However, he is silent on the most important of these changes—the vast decline in the global economic position of the United States and the decay of American capitalism.

The United States emerged from the wreckage of World War II as the unchallenged global economic hegemon. Its industry dominated world markets. The US share of world auto production in 1950 was 79 percent. In 1955, it accounted for nearly 40 percent of world steel production. At the same time, the vast bulk of the world supply of gold was in Fort Knox.

The US engineered the postwar recovery of world capitalism, ensuring that the monetary and trade architecture was favorable to its interests. Key to the postwar recovery and expansion was the establishment of a new monetary system, the Bretton Woods system, under which exchange rates were fixed and pegged to the dollar. The dollar served as the world reserve and trading currency, but it was backed by gold at the rate of $35 per ounce.

However, this arrangement contained a fundamental contradiction—the attempt to use a national currency as a world currency. Even the massive economic wealth and power of the United States could not override the basic contradiction between the global economy and the nation-state system of capitalism.

By the late 1960s, the quantity of dollars held overseas far outstripped US gold reserves, and the US was facing growing competition from resurgent Germany and Japan. The Bretton Woods system collapsed in August of 1971 when the Nixon administration, facing a run on the dollar, removed the gold backing from the US currency.

That ushered in so-called Bretton Woods II, a system of floating exchange rates tied to the dollar—an arrangement that was even more dependent on international confidence in the strength of American capitalism. That confidence has progressively eroded as the US has built up ever-greater debts and its industrial base has withered, leaving its economy increasingly dependent on financial speculation.

The financial crash of September 2008, which was centered on Wall Street, has fatally undermined confidence in the dollar. The fact that the financial crisis takes the form of a currency war and breakdown in the system of exchange rates—what had been the pillar of the postwar recovery of world capitalism—underscores the fact that the current crisis is not merely a conjunctural downturn, but rather a systemic breakdown of the system.

Zoellick's proposal for a return to some form of gold standard is both utopian and reactionary. There is no possibility that the dramatic shift in economic weight between the older imperialist powers—first and foremost, the US—and emerging economies such as China and India can peacefully produce a new international economic equilibrium based on a reduced role for the US dollar. As in the twentieth century, so in the twenty first, the declining powers will not willingly accept a lesser position and the struggle for control of markets, raw materials and sources of cheap labor inevitably leads toward world war.

Were the proposal for a new gold standard to be carried out, moreover, it would result in a catastrophic contraction of credit, plunging the world into a depression exceeding that of the 1930s.

The breakdown of the currency system is an expression of an insoluble crisis of the capitalist system that can be resolved in a progressive manner only through the international revolutionary movement of the working class and the establishment of world socialism.

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