

# World Bank chief nixes return to gold standard

By Chris Isidore, senior writer

November 10, 2010: 2:48 PM ET

NEW YORK (CNNMoney.com) -- A return to the gold standard by major economies is not practical, World Bank President Robert Zoellick said Wednesday, just two days after an opinion piece he wrote stirred talk of the need to do just that.

"The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values," he wrote in the piece that appeared on the opinion pages of Monday's *Financial Times*.

Gold rallied on the news, hitting record highs Monday and Tuesday after Zoellick's opinion piece was published.

But Zoellick said that was not a call to return to the gold standard.

Speaking in Singapore Wednesday, Zoellick clarified that he was referring to the need for gold to play a role in a new international monetary system, which would need to balance the values of the the dollar, the euro, the yen, the pound and eventually the Chinese yuan.

"Gold is now being used, being viewed, as an alternative monetary asset. This is not the

same as a gold standard," he said in prepared remarks.

Press accounts of his presentation said he added "I don't believe you can return to a fixed exchange rate system and that is the gold standard. I'm not advocating a return to the 19th century when money supply was linked to gold."

World Bank spokespeople in Washington couldn't confirm those comments due to the time difference with Singapore.

Gold prices have been climbing steadily for several years, but are still far below the inflation-adjusted record hit in the 1970's. It settled down \$10.80, or 0.8%, at \$1,399 an ounce in New York trading Wednesday after Zoellick's follow-up comments were reported.

Press reports quoted Zoellick saying that gold had become the "yellow elephant in the room" that needs to be acknowledged by policymakers of major economies and central banks as discussions of a new international monetary system move

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forward.

"Is he trying to start a debate? Yes he is. Does he want a gold standard? Not necessarily," said David Merkel, a stock manager and principal at Aleph Investments, who said Zoellick's comments were useful in stirring a necessary discussion about economic policies of the major economies and their central banks.

Merkel said it's not practical to expect major governments to try to return to a gold standard because the desire to control currencies to deal with economic weakness.

But he said that means there is a real risk of a so-called 'currency war' as countries try to deliberately weaken their currencies order to boost their own exports.

"In a crisis like this every country wants to export, but not everyone can be cheap at the same time," he said. "This hunger for gold and a strong currency, it's a response to all we've been through and a sign of distrust."

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