

# World Bank chief surprises with gold standard idea

11  
Zoeilick: Economies should consider a modified standard for currencies

REUTERS  
updated 11/8/2010 3:42:59 PM ET

LONDON — Leading economies should consider adopting a modified global gold standard to guide currency rates, World Bank president Robert Zoellick said on Monday in a surprise proposal before a potentially acrimonious G20 summit.

Writing in the Financial Times, Zoellick called for a new system of floating currencies as a successor to the Bretton Woods fixed-exchange rate regime, which broke down in the early 1970s and involved measuring currency rates against gold.

The former U.S. trade representative, who served in several Republican administrations, said the new system "is likely to need to involve the dollar, the euro, the yen, the pound and (a Chinese yuan) that moves towards internationalisation and then an open capital account.

"The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values," he added.

Zoellick did not spell out in detail how this system might work, but said it would help to rebuild the confidence of financial markets and the general public in the global monetary system after the financial crisis.

However, policymakers appeared cool to the idea of returning to a gold standard, while many analysts said they doubted it would be implemented given practical difficulties.

European Central Bank President Jean-Claude Trichet said central bankers from around the world did not discuss returning to a gold standard at a meeting of the Bank for International Settlements in Switzerland on Monday.

"In my memory such an idea was mentioned a long time ago by Jim Baker when he was a (U.S.) Secretary of Treasury in the 1980s. I have no particular comment," Trichet told a news conference.

A German government official, speaking on condition of anonymity, said Zoellick was correct in worrying that currency values were becoming too vulnerable to the whims of governments, but added that the idea of a new gold standard was impractical.

"The diagnosis that Zoellick is making is correct: that monetary policy is becoming overly politicised," the official said. "The system, as it is, is not functioning well."

But he added that it would not be practical to use modern monetary policy tools in a system that was "based on a commodity whose availability is dictated by natural conditions".

Analysts said it would be very difficult to introduce any new gold standard partly because the global supply of gold was limited and might not be able to keep pace with the expansion of global trade and money supply.

"Going forward, that would be something that we could look towards, but it's not going to happen within a short period of time," said Ong Yi Ling at Phillip Futures in Singapore.

The price of gold barely moved in response to Zoellick's proposal. It briefly hit a record high of \$1,398.35 an ounce early on Monday on concern about a weakening trend for the dollar, after the U.S. Federal Reserve last week decided to resume buying Treasury bonds to inflate its money supply.

That policy has fed acrimony among leading economies in the Group of 20 in the run-up to their summit in Seoul on Thursday and Friday.

China and Germany, major exporting nations, have both criticized the Fed's quantitative easing -- effectively printing money -- which is weakening the dollar.

## تعذر الاتصال

لا يستطيع فريقكس أن يؤمن اتصالاً بالخادوم عدد .ad.doubleclick.net

- قد يكون الموقع متوقفاً مؤقتاً أو مشغولاً جداً.
- حاول ثانية بعد عدة دقائق.
- إذا كنت غير قادر على تحميل أي صفحة، افحص اتصال الحاسوب بالشبكة.
- إذا كان جالوسك محمياً بجدار ناري أو وسيط، تأكد من السماح لفريقكس بالوصول إلى الويب.

معلومات إضافية

Investors are pumping dollars into emerging markets in search of higher yields, and the potentially destabilizing impact of this, along with big current account deficits and surpluses as well as China's reluctance to let the yuan appreciate faster, are set to dominate the G20 debate.

France, which takes over the G20 chair after this week's summit, says it plans to work on a new international monetary system to bring greater currency stability.

Beijing's central bank chief has suggested an alternative monetary system based on using the International Monetary Fund's Special Drawing Rights, a notional unit of value based on a basket of major currencies, instead of the dollar as the sole global reserve currency.

Zoellick was a senior official in the U.S. Treasury at the time of the 1985 Plaza and 1987 Louver Accords on rebalancing currencies among major industrialized nations. He noted that that phase of currency coordination helped launch the Uruguay Round of world trade liberalization negotiations.

While his opinion article in the Financial Times did not represent either U.S. or World Bank policy, it may reflect a greater openness in Washington than in the last two decades to some form of international currency cooperation.

"The dollar is losing its relevance especially with the emergence of Asia economies, so a more neutral benchmark may be required. Gold, amid all the recent uncertainty, is proving its worth," said ANZ's senior commodity analyst Mark Pervan.

Zoellick said a new monetary system would take time to develop and should be part of a package approach including possible changes in IMF rules to review capital as well as current account policies, and linking IMF monetary assessments to World Trade Organization obligations.

*Copyright 2010 Thomson Reuters. Click for restrictions.*