

## 'Two options' from the Corriere della Sera (17. August 1971)

**Caption:** On 17 August 1971, the Italian newspaper Corriere della Sera expresses concern about the economic consequences, in Europe and throughout the world, of the United States' unilateral decision to suspend the dollar's convertibility into gold.

**Source:** Corriere della Sera. dir. de publ. Spadolini, Giovanni. 17.08.1971, n° 192; anno 96. Milano: Corriere della Sera. "Due prospettivi", auteur:Lenti, Liberto , p. 1.

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## Two options

Nixon's decision to suspend the conversion of the central banks' dollar reserves into gold was already in the air. It had been rumoured for some time, especially since the substantial speculative movements resulting from a possible change in the gold content of the dollar, equivalent to \$35 per ounce of fine gold, had gradually induced the monetary authorities of various countries to adopt ad hoc measures to deal with the situation. Such measures included allowing the rates of exchange for the Canadian dollar, the deutschmark and the guilder to float against the dollar, as done by Canada, Germany and the Netherlands, or by de facto or statutory stabilisation of two dollar markets depending on whether they arose from commercial or financial transactions, as done by Belgium and France, or again by revaluing the franc and schilling as in the case of Switzerland and Austria.

But speculators never act haphazardly, and in these circumstances their actions reflected the weakness of the dollar as a result of the persisting — indeed, the aggravated — global deficit in the US balance of payments. The dollars leaving the US monetary area, and in part accumulating in other central banks' official reserves, reached a level at which it was virtually impossible for the US monetary authorities to convert them into gold, since for some time its gold reserves had stood at about ten billion dollars. There was, therefore, a danger of the central banks, especially the more alert among them and those less committed to international monetary collaboration, suddenly asking for the conversion of all their dollars into gold, placing the whole system in crisis. This is the explanation for Mr Nixon's decision, which does not yet imply a change in the gold content of the dollar, something that also affects the exchange rates between individual national currencies such as the lira and the dollar.

Mr Nixon's decision also reflects an interim phase in the bout of arm-wrestling in which the European and the US monetary authorities have been engaged for some time. In other words, the European monetary authorities, some more insistently than others, are calling on the US monetary authorities to devalue the dollar against gold, which would make it possible to revalue European currencies automatically against the US dollar. Naturally, the revaluation would be greater or less depending on the particular situation of the individual European currencies at the time. For example, the deutschmark is in a better position than the other European currencies.

The US monetary authorities, on the other hand, are asking the European authorities to revalue their currencies against the dollar without modifying the official price of gold currency, which may be done in other ways, in the meantime officially altering the exchange rate, as Switzerland and Austria have already done. Or by allowing the official rate for European currencies against the dollar to float between broader margins, for example plus or minus two or three per cent if — as is to be hoped — a unified monetary policy within the European Economic Community is introduced, in other words if fixed exchange rates between European currencies are maintained and they are allowed to float jointly against the dollar.

For the time being it is impossible to say how this trial of strength will be settled. The US monetary authorities have taken the first step. The European, including the Italian, authorities have done no more than to suspend dollar quotations. But the uncertainty cannot continue indefinitely. It is a fact that a floating rate for the dollar paves the way for multiple adjustments of the reciprocal rates of exchange between the various national currencies. Nevertheless, to appreciate these various possibilities it should be borne in mind that the global deficit in the US balance of payments has been brought about not by imports of goods outweighing exports, which could be effectively counteracted by devaluing the dollar, but by a growth in the negative balance in unilateral transfers, in other words US aid and military spending in the rest of the world plus its short- and medium-term capital exports.

Recently, however, the ratio between exports and imports of goods has also become less advantageous, which is the reason for the measures to promote exports and put obstacles in the way of imports. By stepping up protectionism, the US hopes to increase the positive balance of trade, in other words the trade in goods, and in this way to bridge the gap, if only in part, in the balance of payments generated by unilateral transfers and capital exports. But this is, I feel, a somewhat forlorn hope.

What is the position of Italy's economic system? As things now stand, the measures adopted by the US are making it harder for us to export to the dollar area and easier for imports from that area, which is certainly not to Italy's benefit, especially bearing in mind the shrinking of the economy that is a feature of this phase.

This, then, leads to two options. One is to maintain unchanged the exchange rates for the lira against other European currencies, especially those of European Economic Community countries, including Great Britain, whilst at the same time accepting a higher margin of fluctuation between this group of currencies and the dollar. This decision might be justified by the growing volume of inter-Community trade. The other option is to profit from the situation to adjust the rate for the lira against other European currencies, albeit at a lower level than the implicit devaluation of the dollar. But it should be clearly borne in mind that in this case this would mean devaluation, however modest, of the lira against the Community currencies. We shall find out more over the next few days about the decisions to be taken by Italian monetary authorities.

Libero Lenti