A Glossary

Out of the Woods Comes the Snake

Much of the trouble in understanding the world money muddle is a vocabulary problem. Memorize the following glossary, and you can astonish your friendly central banker or finance minister.

BRETTON WOODS—The town in New Hampshire where, in 1944 at the old Mount Washington Hotel, Harry Dexter White of the United States, Lord Keynes of Great Britain, and other delegates of the allied capitalist powers negotiated the postwar world monetary system. The delegates sat in rickety white chairs around a hollow square of dining-room tables covered with white tablecloths. Lord Keynes's friends called him "Maynard."

CONVERTIBILITY—The United States, the economic titan of the postwar world, stood ready to convert dollars held by foreign governments into gold on request. However, nations were glad to add not only gold but also dollars to their monetary reserves, because the dollar was considered as good as gold—even better, since dollars would earn interest if they were invested in U.S. securities. Thus the dollar became the sun of the world monetary system, and all other currencies its moons. But, alas, the dollar gradually weakened as the United States ran deficits year after year. Finally, on August 15, 1971, the Bretton Woods System collapsed when President Nixon said the United States would no longer convert dollars into gold or into . . .

SPECIAL DRAWING RIGHTS (SDRs)—International monetary reserves created by the IMF and nicknamed "paper gold." SDRs do not have the many uses of dollars—for foreign trade, investment, or dealing in foreign exchange markets; they are used only to settle payments deficits between nations. Yet the nations of the world have declared that SDRs—in altered form—should in time replace both dollars and gold as international money. Whether the nations really believe that is open to some doubt. The Europeans suspect the United States of wanting to

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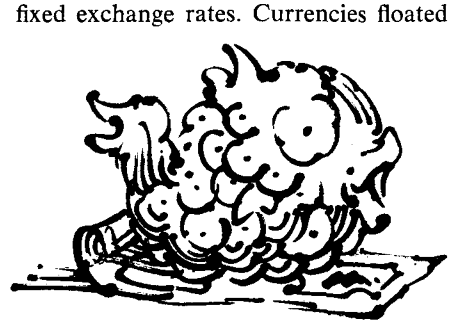
preserve the "dollar standard." The United States suspects some European countries of wanting to restore the gold standard.

FIXED EXCHANGE RATES—The Bretton Woods Agreement—more the design of White than Keynes—required every country joining the International Monetary Fund (IMF) to pick a par value for its currency in terms of gold (whether it actually had any gold or not). The United States, which had most of the world's gold reserves, said it would keep the par value of the dollar at one thirty-fifth of an ounce of gold (where President Roosevelt had set it in 1933—before then it was worth one twenty-first of an ounce). So gold was officially priced at thirty-five dollars an ounce, and all other countries picked par values for their currencies in relation to gold and the dollar. The Bretton Woods System was one of fixed exchange rates, with only a little wobbling above and below par permitted.

FLOATING EXCHANGE RATES—As the Bretton Woods System fell apart, so did fixed exchange rates. Currencies floated



up or down, with supply and demand. The dollar, first cut in value by 8 percent and then 10 percent, subsequently floated still lower—until it began to climb again in the fall of 1973. The dollar has been coming on strong as the U.S. trade and payments position has improved—partly because dollar devaluation gave this country a trading advantage, partly because world food shortages increased demand for American farm products, and partly because, with the Arab oil embargo, the United States looks better off for energy resources than its chief competitors, Western Europe and Japan.

THE SNAKE—The Western European nations think stable exchange rates among them are essential to linking their economies closer together, so they are trying to hold their currencies inside a "snake" —really a water snake, which floats about in relation to the dollar.

WORLD MONETARY REFORM—Everybody has his own notion of what reform means. To the Europeans and Japanese, it chiefly means the end of the dollar's role as a reserve currency; the United States, they feel, should make good on its debts like any other country instead of having the power to print dollars to cover them. To the United States, the main object of reform is to improve "the adjustment process"—the way governments go about correcting their deficit or surplus positions. Countries can adjust, for instance, by changing their exchange rates, reducing trade barriers, increasing foreign aid, or controlling domestic inflation. Negotiating reform is proving unspeakably difficult. So everybody has begun to speak in favor of "monetary evolution"—his own kind.

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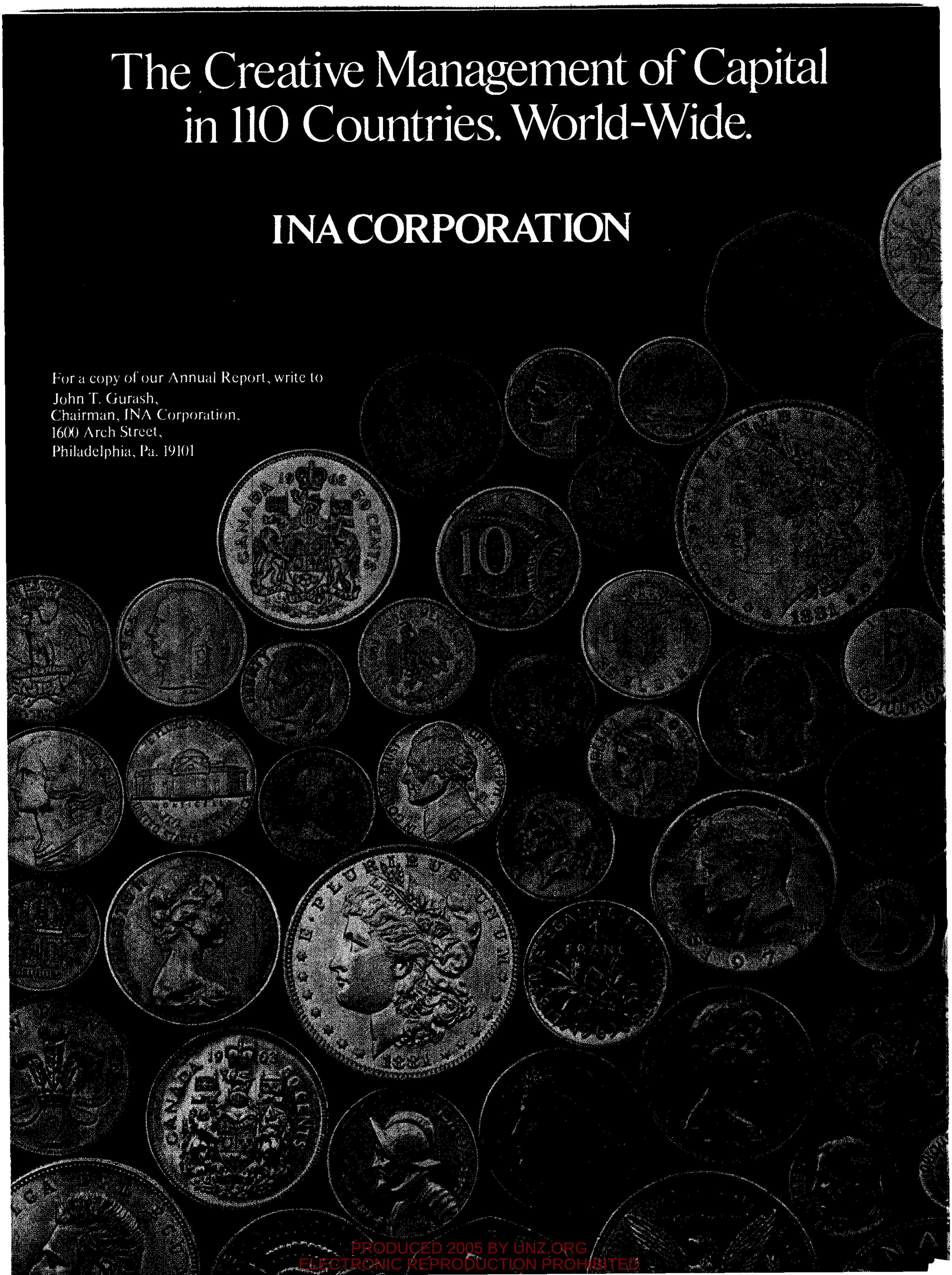
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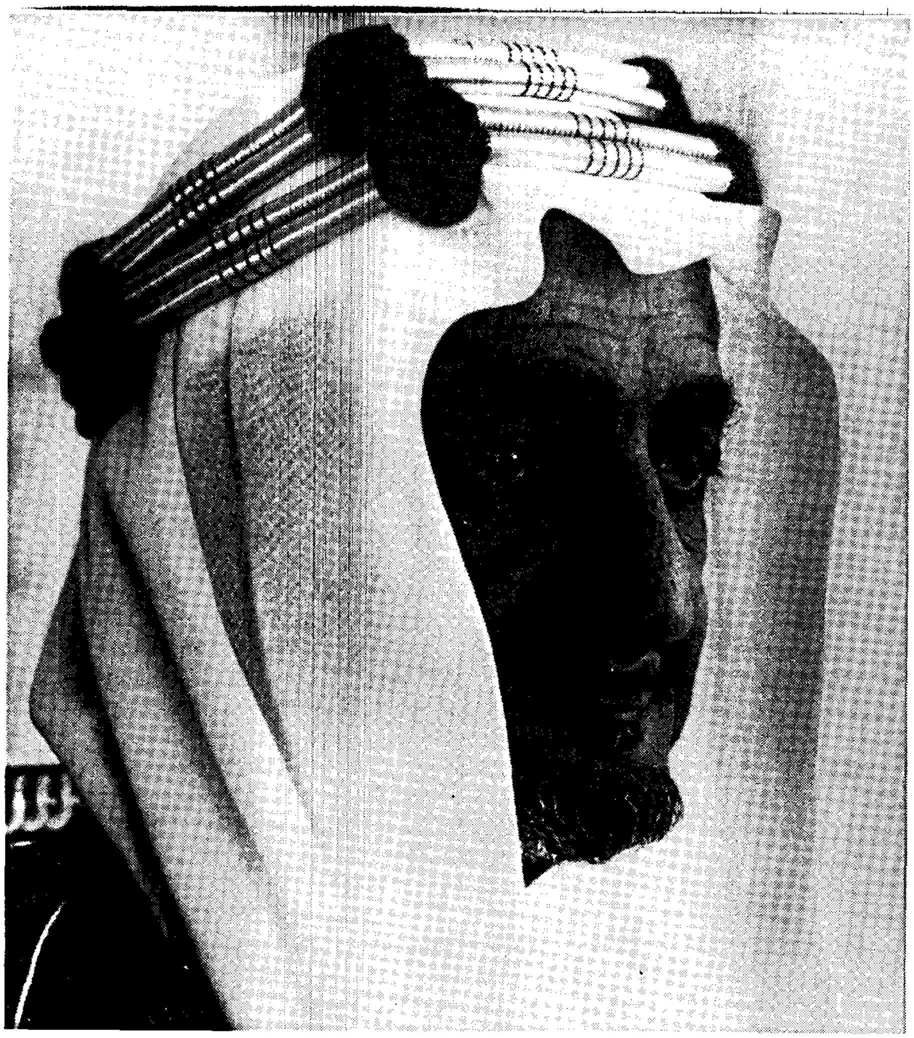

UPI

Saudi Arabia's King Faisal—"The king appears to worry less about Israel than about Mideastern rivalries."

The Ecopolitics of Oil

How long will the West accept an oil-supply situation that erodes its currencies, alliances, and standards of living? War with Araby? The possibility exists.

by Richard C. Longworth

When the governors of the International Monetary Fund met in Nairobi, Kenya, last fall to debate the world's new monetary system, they gave relatively little thought to the impact of the oil crisis on that system. The ministers and bankers were not blind to the problems an energy crisis could cause; rather, nearly everyone thought the new system would be in place by 1975, presumably before the crisis would hit. A Libyan delegate warned that the oil nations would oppose any restriction on their right to pile up huge monetary reserves, but few money men heard him. Most were playing hooky among the lions and zebras in Nairobi's game park, and the Kenyatta Conference Center was three-fourths empty.

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Now, a half-year later, the crisis is nearly upon us and holds huge potential for upsetting the reformed monetary system before it even goes into effect. The crisis, it should be stressed, is not a matter of the short-term shortages caused this winter by the Arab embargo on oil shipments to America and by the cuts in production for Europe and Japan, both aimed at putting pressure on Israel. The long-term problem has nothing to do with Israel and probably would persist even if Israel were to vanish. It is the squeeze over the next ten to fifteen years caused by the probable refusal of the oil nations, Arab and non-Arab, to produce as much oil as the industrial nations need. The oil producers' logic is impeccable: First, they cannot begin to spend the money they would get by supplying all the world's needs, and, second, oil is their only source of income and should be conserved to guarantee a prosperous future. They threaten no cutback in present production. Rather, they say they are unlikely to double that production —which is what an oil-thirsty world will need to keep going.

Much has been written already on the effect an oil drought could have on life in the West—the death of air conditioning, for instance, or night baseball or the private car. Just as imminent are wrenching changes in America's role in the world—e.g., injury to the American-European-Japanese economy and the impending breakup (already begun) of NATO, on which U.S. policy has been based since 1941. Responsible men are even suggesting that the United States may go to war to secure the oil it needs to live.

Of that, more later. For a glimpse into the future, it is necessary to begin, as the crisis itself began, with money.

James E. Akins, the new U.S. ambassador to Saudi Arabia, early last year wrote that the Arab nations and Iran must produce 48.5 million barrels of oil per day by 1980 to satisfy the growing Western economies. That is more than double the 23.8 million barrels that those nations drilled per day in 1972. Akins predicted five dollars per barrel as the probable average 1980 price. From that, he calculated that these arid, underpopulated nations would earn a staggering $210 billion between now and then, including $63 billion in 1980 alone. The *Financial Times* of London noted that income on this scale "could enable countries like Saudi Arabia to buy companies the size of Exxon or Shell at the rate of one a year without feeling the pinch."

Two things, both surmised by Ambassador Akins, have happened in the brief year since his predictions appeared. First, the Arabs warned that they have no intention of raising production that much. For most of them, the unspent