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London Negotiations to Raise Price of Sterling Are Reported

Move Believed Aimed to Stem the Flow of South African Gold Into Speculative Markets; Position of Dollar Involved

By H. Eugene Dickhuth

In a last minute attempt to prevent the flow of South African gold into the speculative and quasi-black markets of India and the Middle East, negotiations are reported to be under way in London with the object of raising the sterling price. This is not a British Empire affair alone, but it involves directly the important question of how much the dollar is worth in terms of sterling and vice versa, it was pointed out in financial circles yesterday.

In fact, if present plans materialize, the British pound may be worth only $3.68, against the current official rate of about $4.02. Decisions to be reached in England may thus have a vital bearing on the outcome of the forthcoming international monetary conference at Bretton Woods, N. H.

According to reports in leading London newspapers, statesmen and technical experts of the Union of South Africa are pressing British authorities for a change in the sterling-dollar rate which would result in a raise of the gold price to 190 shillings an ounce. They would prefer a speedy decision, it is said, "before the talks concerning higher wages for South African white miners are resumed."

The present official price which London authorities pay to the Union is 168 shillings a fine ounce. The United States purchase quote of $35 an ounce is equal to about 173 shillings and six pence measured against the current dollar-sterling rate.

Without disturbing the ratio between Washington and London, Britain may thus increase its gold price by five and one-half shillings. However, if the South African view prevails and the purchase quote is increased to 190 shillings without altering the price of $35 an ounce offered by this country, the value of sterling in terms of dollars would automatically drop to $3.68.

What the chances are for the realization of such a development cannot be predicted at this point. It seems, however, that South African insistence on better prices is a strong one. The differential between 168 shillings an ounce and 173 shillings and six pence is relatively minor. It stems from the fact that from the $35 paid by United States authorities shipping costs are deducted.

New York bankers familiar with the situation say that the crux of the Anglo-South African difference of opinion is explained by the fact that the British government has bought gold from the Union at about $33 an ounce and sold it to India and Middle Eastern countries at the inflated price of $60 or thereabout.

Printed statements by fiscal experts in India leave no doubt that such transactions have taken place and some gold is reported to have been sold from this hemisphere as well. South African labor, knowing of these developments, in turn presses for higher wages.

In these circumstances it is, of course, possible that a compromise will be reached by arranging, for example, some sort of profit-sharing method on the proceeds of eventual gold sales to the East between London and Pretoria. This would not necessarily disturb the dollar-sterling ratio of $4.02 for £1 sterling.

However, Union officials may request that the entire question may be settled between the empire and United States as the principal holder of most of the world's monetary gold stocks. In that case, decisions will have to be made in London and Washington which may have considerable influence on international trade and future currency stability, and on the eve of the Bretton Woods conference at that.

It is generally considered unlikely that Britain could unilaterally raise its gold-buying price to 190 shillings without consultation with the United States and while maintaining the then fictitious dollar-sterling parity of $4.02, although the pegging of the Indian rupee to sterling, even in the face of higher gold prices, could be construed possibly as a precedent.

However, the problem in itself is viewed in banking circles as another practical illustration of the difficulties of stabilization discussions without even knowing how much one currency is worth in terms of gold or measured by any other standard. It will require almost the wisdom of Solomon on the part of the directors of the proposed international fund to determine when "normalcy" prevails in a given country or when a "disequilibrium" develops which calls for corrective measures.

While no responsible international banker and trader wants to discourage the forthcoming stabilization discussions, there are apprehensions that the ceiling may be rough before any practical agreement can be reached. A case in point is the demand for higher prices by South Africa, which may upset the entire international monetary applecart.