GOLD

'A beautiful trick'

Western European and OPEC nations should take steps to counter the depressive effects of U.S. monetary policy on the world economy, according to a memorandum released Oct. 18 by leading international economist Lyndon H. LaRouche, Jr., a candidate for the 1980 Democratic Party presidential nomination.

Capital control measures currently being contemplated by Federal Reserve Chairman Paul Volcker and the Carter administration could make the dollar a "non-negotiable currency," LaRouche stated. In that event, European and Arab governments, which hold large dollar balances, should attempt to protect their economies by compelling the International Monetary Fund (IMF) to accept these dollars in exchange for gold valued at or near the current market price of $400 an ounce. This would drain the IMF, which has only $40 billion worth of gold at that price.

It would also put the U.S. Treasury into a form of receivership. The Treasury would have to accept European and Arab demands for the restoration of gold as a key world reserve instrument, and upvalue its own gold reserves in order to remain solvent. The U.S. currently holds 265 million ounces of gold worth about $100 billion at market prices.

The LaRouche memorandum reads in full:

"In response to the treasonous package of measures by Federal Reserve Chairman Paul A. Volcker, European and OPEC financial officers should declare that the 'capital controls' measures of Volcker et al. have made the U.S. dollar a financially non-negotiable currency. They should aid the United States against Volcker's treason by demanding that the International Monetary Fund (IMF) pay off non-negotiable dollar demands in gold.

"Let the IMF pay off dollars in either pegged gold prices or in gold at current market prices. In either case, the IMF will be bankrupted, and the Treasury and Fed will be forced to value U.S. gold reserves at market prices.

"This trick will work beautifully at this juncture. The only question is whether the Arabs and Europeans have the nerve to take advantage of the stupidity of Volcker et al. in this way."

In previous public statements, LaRouche, a contributing editor to *Executive Intelligence Review*, has advocated a major expansion of U.S. exports of high-technology capital goods and farm technology. Such an export drive could be financed through floatation of gold-backed Eximbank bonds, already authorized by the bank's charter.

A three-point gold proposal

Scoring the "aspirin administered by international monetary meetings," financial columnist François Donati wrote Oct. 4 in the French daily *Les Echos de la Bourse*—the Paris equivalent of the *Wall Street Journal*—that the U.S. government has "extensive means" at its disposal to prevent the continued collapse of the dollar and to halt chaos in the international markets.

Donati asserted that the solution lies in proposals made by the late Jacques Rueff, Charles de Gaulle's chief advisor on monetary affairs and a well-known advocate of gold's monetary role.

The present situation, wrote Donati, "should be the occasion to reflect anew on one of the common-sense solutions proposed earlier by Jacques Rueff. It consisted of three proposals which were inseparable from one another.

"What is the problem? The existence of a large mass of unwanted dollars which increases each year. How to sterilize it? We must take advantage of the increase in gold [prices] to revalue all the metallic reserves in the central banks, beginning with those of the United States. This is the first proposal.

"It would then be clear that monetary reserves are amply sufficient to make good all foreign debts denominated in dollars. We thus neutralize the inflationary effect which the massive increase of [U.S.] official monetary reserves might otherwise threaten to create.

"That is the second proposal. It would allow redemption of the United States' external debts in a much healthier fashion than that proposed by the IMF with the creation of "substitution accounts" for the dollar. Moreover, part of the new liquidity thus created would permit annulment of the non-oil-producing Third World's debts, in order to free the Third World from a more and more intolerable weight.

"The third proposal, just as fundamental, would consist of a new Bretton Woods to reestablish rational discipline in the creation of international means of payment, based on a respected standard of which gold would be the basic component.

"This in no way would mean the return—unthinkable for all sorts of reasons—to the sort of gold standard that functioned before the First World War. But this would enable us, after having cleaned the Augean stables, to avoid witnessing a renewed anarchic proliferation of monetary numeraires.

"Interest rates could be massively lowered, investment could take off again, and unemployment could finally decrease."