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Gold by Alice Roth

The Laffer plan

Reagan's real advisers don't like it, and Europe sees it as too deflationary.

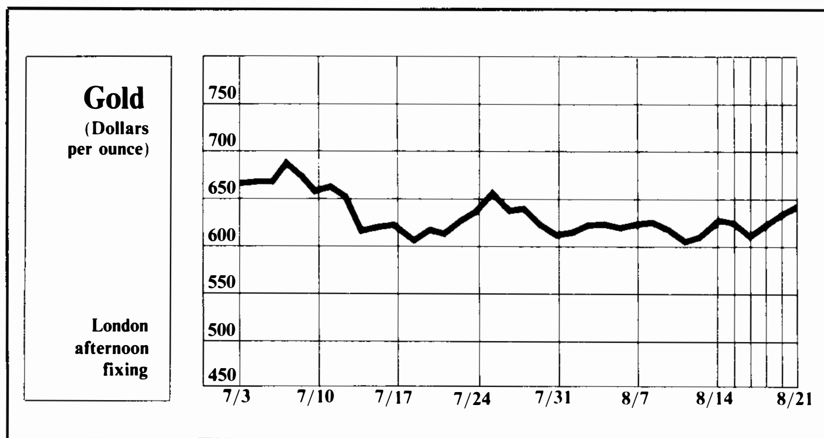
Despite abundant press publicity for Reagan adviser Art Laffer's scheme for a return to the gold standard, seasoned political observers view the Laffer plan as pure window-dressing, to be swept aside as soon as the former actor steps into office.

One reason for this is that those Reagan advisers who are most likely to hold top economic posts in his administration are traditional monetarists. Arthur Burns, Alan Greenspan, William Simon, and George Schultz are all "against" the Laffer plan, according to Charles Stahl, publisher of a widely-circulated newsletter on gold and commodities. Sources at Georgetown University's Center for Strategic and International Studies (CSIS) say that Laffer has no real clout within the Reagan camp. Burns has just been named Reagan's top adviser on international economic policy, heading a committee which includes Rimmer de Vries of Morgan Guaranty, Gotfried Haberler of the American Enterprise Institute, and Richard Whalen. None of them are gold enthusiasts.

More important, the Laffer plan has run into opposition among Western European governments, who normally favor gold but are wary of the deflationary consequences of a gold standard as defined by Laffer. In a recent issue of *Le Monde,* columnist Paul Fabra reports that "the U.S. would run into objections from most of the European countries, starting with France" if it went with the Laffer plan. The problem, as Fabra sees it, is that Giscard, like de Gaulle, views the return to gold exclusively "as a matter of international relations" rather than as a tool for imposing monetary discipline within individual countries. (Fabra, no Gaullist, favors the latter approach.)

In a paper he prepared for the Reagan campaign entitled "Reinstatement of the Dollar: The Blueprint," Laffer proposes that the U.S. accomplish such monetary discipline by "pre-announcing" a return to a fixed, official dollar-gold parity. The new official price would be determined by the "free market" involving a three-month transition period, during which time the Fed and Treasury would not intervene in the foreign exchange market and have no net gold market interventions. Once the gold price was fixed, the Fed would be required to maintain official gold reserves at between 30 to 50 percent of the domestic monetary base. The Fed would be forced to contract monetary supply whenever official reserves dipped below this target level.

Laffer's approach is incompetent because it ignores the fact that the U.S. has $800 billion in liabilities in the form of deposits on the "offshore" Eurodollar market, much of which turns over on a weekly and even daily basis and is a major source of global inflation. There is presently no way to control this much-overlooked portion of the money supply, except through deflationary measures on a scale which would bankrupt most of U.S. industry. The alternative would be to negotiate a set of international agreements among the U.S., other industrialized countries, and OPEC dollar holders, to consolidate these "excess dollars" so that they can be channeled into productive investments. In other words, Giscard's dealing with gold "as a matter of international relations" makes infinitely more sense than Fabra's call for deflation on a country-by-country basis, an approach which even Fabra admits would collapse every French bank.



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