

threshold of 2.40 marks is psychologically conditioned, not only by the Americans' high interest rates but also by the flareup of talk about remonetization of gold. No one here in Frankfurt believes that any of the gold plans under discussion in the administration right now are viable, so that the minute that anything just a little more dramatic happens, the dollar will start to slide to 2.20 at least.

EIR: How will the "same-day settlement" system affect you?

A: It could well be that the entire system will come crashing down the day "same-day settlement" goes into effect. Even if it takes only one day to get all the bugs worked out of the system while everyone is trying to adjust, there are definitely going to be a few failures. Some people are going to get caught short, and then the only question will be whether the Fed wants to, or can, move fast enough to keep enough shortfall cases afloat. The problem will not be this or that case, but rather the chain reaction. For example, we clear \$15 billion daily. If money we expect from certain sources does not come in, the treasurer has the job of trying to dig it up somewhere else. So far we have managed it, and the Bundesbank functions as lender of last resort. If the Fed does not do the same thing—and fast—bust.

EIR: Won't this also curtail your own lending operations? Poehl says central banks want more control on volume and velocity of growth of lending. This looks right down that line.

A: Not really. The squeeze they want is on inner-American banking. We have set up private standby-lines with American banks. And not only in New York. If we have to rely on pulling funds in from other subsidiaries, it will mean we are de facto giving up clearing in New York. It may come to that, but it will not present us with any survival problems.

EIR: How does German banking evaluate the Washington revolt against Volcker's interest rates? Has it come down to a time question, or are people still cynical about the chances for any political motion against Volcker to really be effective?

A: Not cynical. What is now happening in Washington has everyone convinced that the people talking to those senators and congressmen in the recess period were really serious and made their point. It is a time question in a certain way, but actually everyone here sees President Reagan, and thinks he is going to be willing to defend his economic policies and high interest rates at the gun-point of the National Guard if necessary.

EIR: Fine, that's your evaluation as of now. But how do you evaluate your own position now?

A: All I can say is that the war-cry in Frankfurt now is "Bang that damned dollar bloody!" I do not know, no one knows what the Bundesbank will do at the IMF meeting in Washington [on Sept. 29], but I can tell you that German bankers are going to be telling everyone and the Americans that the United States needs lower interest rates. At this point we think it is appropriate to tell the Americans the obvious, which is that those interest rates mean suicide for the American economy itself. Since monetarists never listen to reason anyway, it will also be necessary to point out to people who listen to them that the experiment never worked in Britain, and there is no reason why it should work in the U.S., unless of course the Americans really want a British-style economy.

EIR: Chancellor Schmidt is showing a good deal of strength. Thatcher and Mitterrand are propagandizing that they too agree on almost everything. Who has more weight in Europe?

A: Mitterrand and Thatcher have no more than their common stupidity with respect to the Soviet Union in common. The British economy is a disaster, and the French are working overtime to destroy what has been built in the last 20 years. As far as their attitude toward the Soviets, they are in agreement with the Americans. All I can say is that I could care less about being dependent on the Soviets for raw materials and energy supplies to the tune of 20 percent and more. Who cares? At least they keep to the contracts, which is much more than you can say for jerks like Qaddafi.

LaRouche: how a gold standard should work

Lyndon H. LaRouche, Jr., the noted economist who is chairman of the advisory board of the National Democratic Policy Committee, has issued a call for serious open discussions of plans for returning gold to a central place in the world monetary system.

To prevent the imminent onset of a new depression, already upon us due to the incompetent usurious policies of Federal Reserve Chairman Paul A. Volcker, we have no alternative but to put the U.S. gold reserves to work as a base for massive credit expansion in capital-starved industry and agriculture.

The upcoming meeting of the Presidential Gold Commission presents an ideal forum for debate on how to return to a gold-based system.

Unfortunately, the most prominent spokesmen on the President's commission come from the British Fabian school of economics epitomized by Milton Friedman

aficionados Arthur Laffer and Jude Wanniski. The Wanniski-Laffer proposals, also shared by Lewis Lehrman, repeat the insanity of the 19th-century British type of gold reserve system. In other words, by linking credit issuance to gold backing on a one-to-one basis, they intend, and will create a massive *deflation* in the monetary system, and a total crash in economic activity.

The guts of a competent return to the gold system is the use of gold as the anchor for a *credit policy*.

The first step is to monetize gold as a backing for the dollar internationally at a price that should be approximately the average of the last five years' gold price (about \$500 per ounce.) This would make gold once again the ultimate unit of account, to be used for reckoning international trade imbalances.

Second, the President and the Congress must create a new special issue of gold-reserve-denominated U.S. currency, or Treasury, notes. These notes, amounting to several hundred billions of dollars, are not to be spent by the government in the way that Federal Reserve currency creation occurs today. Instead they are to be loaned at not more than 4 percent annual interest strictly for agro-industrial goods production and technologically progressive energy production, water projects, and transportation, through the private banking system.

That is, the U.S. Treasury must direct the Federal Reserve System to take a percentage of the loans by private banks for investments in technologically progressive forms of agro-industrial production of goods, energy production, transportation improvements, and water projects. The criterion for these loans will not be the standard test of creditworthiness that now de facto rules out any long-term high-technology projects on the basis of certain frauds like "cost-efficiency." The appropriate standard for "performance-worthy" projects will be the contribution that project will make to the productive powers and overall efficiency of the now sadly depleted economy.

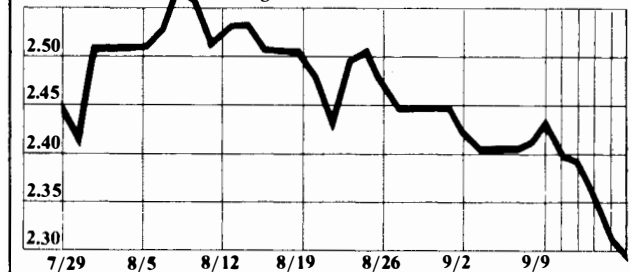
Putting gold behind our currency once more will bring new stability to our monetary and credit system, provided that its reserve base is used in order to anchor a rapid expansion of credit for productive wealth. It is not the magic of the metal that we seek, but a sound unit of account whose success will be measured in the Treasury's willingness to foster credit for productive industry and agriculture, and to slam the gates on the usurious speculators who have looted our basic infrastructure and industry in the name of fiscal responsibility.

Let the public debate begin. Closed-door consultations bring the danger that the followers of Milton Friedman will reverse their bolt from the gold system in 1971 in such a way as to compound the damage to the productive base of the U.S. economy. The U.S. needs credit, not deflation. And an American System-style gold-reserve system, outlined above, is the way to do it.

Currency Rates

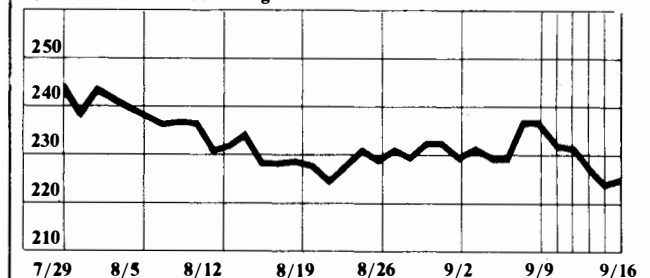
The dollar in deutschemarks

New York late afternoon fixing



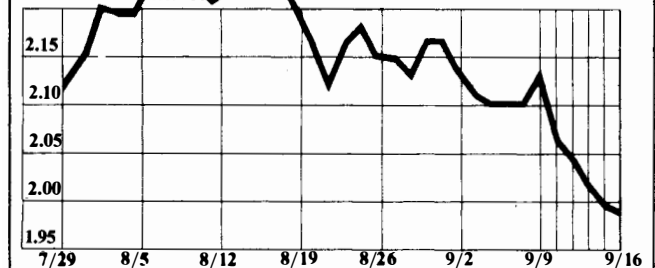
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

