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.

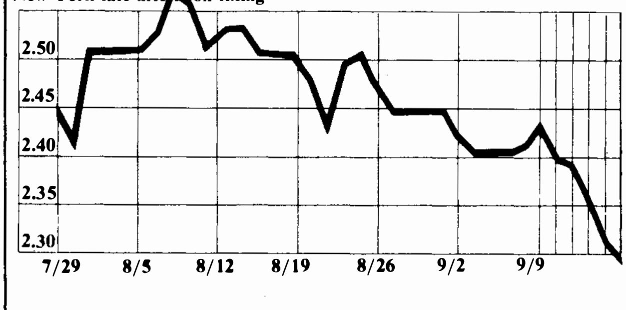
That is, the U.S. Treasury must direct the Federal Reserve System to take a percentage of the loans by private banks for investments in technologically progressive forms of agro-industrial production of goods, energy production, transportation improvements, and water projects. The criterion for these 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.

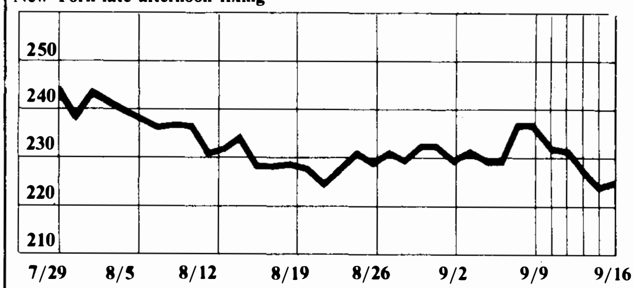
Let the public debate begin. Closed-door consultations bring the danger that the followers of Milton Friedman will reverse their bolt from the gold system in 1971 in such a way as to compound the damage to the productive base of the U.S. economy. The U.S. needs credit, not deflation. And an American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

Currency Rates

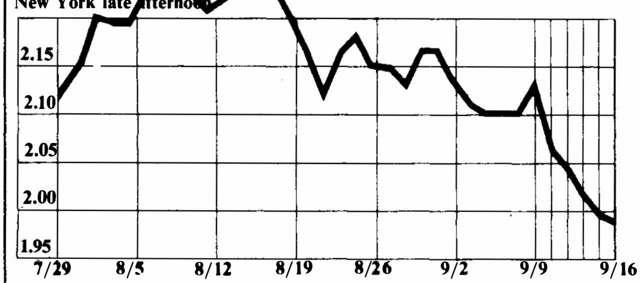
The dollar in deutschemarks
New York late afternoon fixing



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