Laffer's plan is that it is somewhat more specific than Lehrman's: Laffer proposes that before any gold price can be set, the Federal Reserve act to halt *all* credit to the economy by the central bank.

Laffer's plan is explicitly based on then Treasury Undersecretary Paul A. Volcker's 1972 "U.S. Proposal to the International Monetary Fund," in which Volcker proposed a return by the U.S. to the gold standard in such fashion as to contract credit in the U.S.: "Any radical change in our monetary order . . . would require not only Volcker's acquiescence, but more likely his enthusiastic support. It is quite conceivable that Volcker could actually lead the search for a new order," Laffer quotes from Volcker's 1972 plan throughout.

Laffer claims to seek a system, he told *EIR* in an interview, in which the dollar, contrary to Dr. Lehrman's proposal, would be re-affirmed as the world reserve currency. Laffer claims that merely by setting a gold backing, other countries will be forced to use the dollar as their basic reserve.

Laffer proposes that "The Federal Reserve will stand ready to sell gold to all demanders at a price 0.7 percent higher than the official price in exchange for units of its liabilities." It is unclear whether this includes private as well as official liabilities. In any case, the opening for foreigners to dump Treasury securities for gold, remains, as in Lehrman's plan.

Like Lehrman, Laffer calls for a "transition period": "The U.S. would announce its full intention of returning to a convertible dollar at some prespecified time, say three months," at which time the *market* would set the price. During this period, "money supply" through open market operations and all other Fed loans through the discount window would be halted. "The U.S. could announce that during this three month interval, neither the Federal Reserve nor the U.S. Treasury would 'take a vacation' so as not to disrupt the natural forces in the private markets." As Laffer notes, this would reduce new credit to the economy to zero at a time when the U.S. economy needs a 35 percent annual rate of credit growth merely to stay afloat.

Laffer proposes that the "free market" then set the U.S. gold price at whatever level it reaches after the credit crunch has taken effect. It is possible that the shutoff of Federal Reserve credit could plunge the economy into such a slump that U.S. prices would fall sharply enough to lead the dollar to rise vis-à-vis gold. If that happened, the United States would have to peg the dollar to gold at a low price ($300 or less), then keep reducing credit to maintain the peg. If the dollar collapsed on world markets due to the recession, the dollar would be devalued drastically with respect to gold. In either event, the new gold price would reflect and maintain industrial collapse, rather than paving the way for recovery.

Wanniski: 'A Specie Resumption Act'

Jude Wanniski, the former Wall Street Journal *editor turned supply-side economist, has embarked on a wide campaign boosting a return to the gold standard throughout the national press. A close ally of Arthur Laffer, he has been the publicist for Rep. Jack Kemp on supply side issues and is now supporting Kemp's campaign for gold remonetization. Mr. Wanniski's most recent piece on the gold standard "Now Money," was published by his new economic consulting firm Polyconomics in August 1981.*

Mr. Wanniski, a collaborator of Lewis Lehrman, has endorsed the Lehrman plan and his writings on gold conform to it, although they are much less detailed. We print here a Sept. 28 interview with him by *EIR*'s Kathy Burdman which exposes one of the most important flaws in the Lehrman free-market ideology.

Burdman: You say you object to the statement that your gold proposal would lead to the sort of credit contractions advocated by Milton Friedman. Given the large volumes of inflationary credit now in the U.S. markets, how would you keep the dollar on the gold standard without cutting credit?
Wanniski: We want to expand credit to the economy. When the dollar is linked to gold, people will automatically decide to lend long. Everyone who has money to lend will begin to lend it to the economy. Credit will grow.

Burdman: But there are 1 trillion Eurodollars out there, over $300 billion in speculative real estate earnings a year, there are speculators in the Treasury debt, and all of them may decide to dump now, and demand gold for their dollars. Your whole argument rests on "confidence." If the confidence doesn't materialize, what's to keep the dollar from collapsing?
Wanniski: We will have to limit our credit creation according to the lines of people lining up asking for gold. But there won't be any lines.

Burdman: You said a year ago that the supply side program of budget and tax cuts, and tight money, would create a stock and Treasury bond market boom, and a

recovery. That was based on your assertions that these programs would produce "market confidence." But instead, Wall Street is lining up to dump stocks and Treasury bills. How do you know they won't dump dollars?
Wanniski: If they do, we simply sell our gold on the free market until the gold price stabilizes. We conduct all our open-market operations focused on their effect on the gold price. We sell gold for dollars, removing dollars from the system and tightening up.

Burdman: And when the gold stocks get low?
Wanniski: Then we conduct Treasury-bill open-market operations for the purpose of stabilizing the gold price. We go right out the back door, and sell off the Fed's Treasury bill portfolio for cash, and take the cash, and buy gold from private dealers, and sell that on the open market.

Burdman: You mean you drain liquidity from the banking system by selling treasury bills?
Wanniski: Right.

Burdman: And you will do this no matter how much the market asks for Treasury bills, even if the market bids the interest rates on Treasury bills up to, say, 20 percent?
Wanniski: That would be our commitment. The government would conduct monetary policy solely to maintain the gold price, and it would not use monetary policy for any other purpose. Let the money supply do what it wants. Let the fed funds rate do what it wants.

Burdman: And let interest rates go as high as the market wants?
Wanniski: Yes. Give me control over money creation and we can afford to set any price of gold. But the market won't demand high rates, they'll have more confidence. . . .

Burdman: If they don't happen to have confidence, then you stand ready to suck in all the money in the system necessary. . . .
Wanniski: Yes. Suck in M-1A, suck in M-1B, take it and sell gold.

Burdman: And anyone with a dollar to dump is entitled to step up and demand the gold?
Wanniski: Anyone who has dollars; citizens, foreigners.

Burdman: Any British investor with one of the Eurodollars created out of thin air by the Euromarket banks, can walk into the Fed and demand U.S. gold reserves?
Wanniski: Yes. First they have to leave the Eurodollar market and become U.S. dollars, but yes. But they won't come; they'll have greater confidence in the dollar.

Burdman: Why don't you make a distinction between which dollars are good and legitimate, and those which are not? Why not decide to honor dollars from other governments under treaty arrangement, but not unregulated offshore dollars?
Wanniski: How can you say which is which?

Burdman: Why not make a distinction between dollars earned productively, as in a corporation's manufacturing profits or a worker's paycheck, and dollars from real-estate speculation?
Wanniski: You sound like [Lazard Frères partner]Felix Rohatyn. You want credit allocation. You want to tell me where I can earn my money and what I can do with it. That would damage the free market. We can't be the ones to step in and tell people what is productive. There is no way to tell. I'm going to let the people decide what is a productive investment.

Burdman: And if they choose, like Wall Street, to speculate in real estate and Eurodollar book credits, you will honor those dollars at the gold window?
Wanniski: A dollar is a dollar.

Burdman: And you will tighten credit to keep the gold prices so honored?
Wanniski: All monetary policy will be aimed at the gold price.

Burdman: Could you then explain to me just what is the difference between your plan and the Specie Resumption Act of 1879?
Wanniski: There is no difference conceptually but the actual gold price. The Specie Resumption Act set a lower gold price than was current; it was very deflationary because it attempted to restore an earlier price level. All we want to do is set the price at whatever the market opens at tomorrow, say $420 an ounce, and then say, "Beyond that, we will stop all inflationary credit expansion."

Burdman: Once the price is set, you are adhering, as in the Specie Resumption Act, to tightening domestic credit to maintain the price of gold.
Wanniski: Yes.

Burdman: How can you say you disagree with Milton Friedman? That is exactly the sort of credit contraction he wants.
Wanniski: Because, I told you, people won't dump.

Burdman: How can you rest your program on the confidence of Wall Street, which has already shown its colors?
Wanniski: Wall Street will have confidence, because it represents the people. I have faith in the people. Wall Street represents Main Street.