work at the level of the Treasury's bank examiner, the Controller of the Currency, and the Department of Justice, has not yet been done.

National Security Council economist Norman Bailey has also offered a more complex scheme involving "exchange participation notes." The plan would give creditors notes guaranteeing a fixed percentage of debtor countries' export earnings in exchange for the medium-term portion of the outstanding debt.

Leutwiler's friends in Washington and in the financial press, who have raised a drumbeat against "bailing out the banks" in the editorial pages of the *Wall Street Journal* and the *Washington Times*, have upset the planners' calculations concerning the U.S. Congress. Whereas the passage of the $8.4 billion U.S. contribution to the IMF seemed trouble-free at the end of February, the activities of the "Shadow Open Market Committee," joined by former Reagan administration officials Paul Craig Roberts and Michele Frattiani, have cancelled all bets on this topic.

Most fundamental is the speed at which the crisis may break. A senior Federal Reserve official commented, "All central banks are always thinking about this sort of question. I just spent two hours discussing this over lunch with someone from the Bank of England. The problem with Rohatyn's plan or with any of these ideas is that you can't do them fast enough to help when you need them. What would happen in the case of major defaults? A variety of things would be proposed and done simultaneously. The central banks would move immediately to try to control a liquidity brushfire which might otherwise turn into a firestorm. It's relatively easy to anticipate central bank actions. But you can't pre-specify everything in advance. It depends on what banks have what problems."

Princeton's Kenen, the author of one of the most widely-quoted refinancing plans, say, "The problem is that we [who propose to refinance the developing sector] are not up against conventional monetarism. We are up against the old von Hayek view. We are facing Austrian business cycle theory *circa* 1930, the view that the only way to get rid of inflation is to purge the system of all its excesses. The problem is that anything less than unanimity favors the 'let it all go down' approach. That has been my fear for some time, a fear which I have been reluctant to express publicly until now. We have the following paradox: we may offer the only rational plan to save the system, but it is impossible to attempt to negotiate it before the crisis strikes. But when the crisis strikes, it is too late."

That is by no means to say that the efforts of Secretary of State Shultz et al. to emerge from the crisis with a set of supranational controls over the world economy are null. On the contrary, lack of a coherent policy on the part of the administration leaves the United States vulnerable to a plan which would turn over American national sovereignty to the International Monetary Fund.

DOCUMENTATION

The LaRouche proposal for gold-based credit

This document lays out the program for a gold-backed world monetary system developed by economist Lyndon H. LaRouche, Jr., a leading figure in the Democratic Party and the chairman of the advisory board of the National Democratic Policy Committee. This gold proposal presents the unique mechanism for reorganizing the world financial system to the end of expanding world industrial production and trade and creating the basis for Third World countries to develop economies capable of producing wealth—the only competent solution to the mammoth crisis of unpayable Third World debt now hanging over the world. LaRouche's gold policy is therefore diametrically opposed to the restrictive, credit-strangling gold plan being brought forward by the Bank for International Settlements and its propagandizers in the United States, such as Rep. Jack Kemp of New York.

The immediacy of this issue is dictated by the debt crisis and the crisis of the international financial system. The world is months, perhaps days, from the biggest financial collapse since the 14th-century collapse of the Bardi and Peruzzi banking houses of Europe, which bankrupted every European government then in existence and ushered in one of the darkest ages in world history.

At the New Delhi meeting of Non-Aligned nations that began March 1, the governments of the debtor nations have the opportunity to adopt the LaRouche plan and jettison the present unworkable system in favor of a world economy premised on growth; again at the end of March, the governments of the Group of 77 meeting in Buenos Aires have this central issue before them; the heads of state of the industrialized countries, meeting in Williamsburg, Virginia at the end of May, have the same issue posed to them.

LaRouche's gold proposal works like this.

President Ronald Reagan should announce on national television that the United States will take the unilateral step of remonetizing its gold reserves at $500 per ounce, as part of a coordinated effort with other major Western and developing-sector governments to create a new gold-based world monetary system.

At this moment, the world network of banking and financial systems is bankrupt. No amount of austerity or other International Monetary Fund conditionalities can make the roughly $800 billion of outstanding Third World and East bloc foreign debt payable. Although the network of old European aristocratic families, with their financial holdings, the *fondi,* are prepared to implement genocide against Third World nations and others, through the *fondi*-run Bank for International Settlements (BIS) and the International Monetary Fund (IMF), this "solution" cannot stabilize the world monetary system. Nor can various so-called solutions involving vast quota increases for the IMF and its assorted institutions.

Therefore, statesmen and diplomats, elected officials of countries, and responsible citizens would be morally called upon to support President Reagan were he to declare in a television address that the Bretton Woods monetary system, put together in 1944 no longer functions, and that the world must return to gold. But there are various pitfalls that must be avoided. There are gold proposals, introduced by BIS chief Fritz Leutwiler and his votaries in the United States, such as Rep. Jack Kemp (R-N.Y.) and Rep. Ron Paul (R-Tex.), which constitute mere "fool's gold." The Leutwiler-Kemp gold proposals, also raised by such spokesmen as Herman Kahn of the Hudson Institute, would sharply reduce world liquidity flows by 30 to 40 percent, and serve as the hard rock against which the productive economies of the world's governments would be dashed.

A competent gold plan

Any competent gold proposal, as LaRouche has emphasized, must undo the damage done by the demonetization of gold undertaken by the foolish President Richard Nixon in August 1971, under the ill counsel of then-Treasury Secretary John Connally, Assistant Treasury Secretary Paul Volcker, Rep. Henry Reuss, and a host of others. A competent gold plan must emphasize the following elements:

A) The principal problem of economics today is that there is a tremendous need for capital goods to industrialize the Third World, and simultaneously, there are 30 million unemployed workers and 35 to 40 percent idled capacity in the advanced-sector nations. A competent solution to the crisis must match both sides of the equation, finding ways to use the Third World demand for goods to energize the employment of idle resources in the "Northern" or advanced-sector economies.

B) The Third World and East bloc are in no position to order the goods of the advanced sector, because they are weighed down with the crushing burden of a combined $700 billion in debt. The IMF and the Ditchley Group of advanced-sector bankers are now declaring the developing nations "uncreditworthy," except under condition that the Third World governments "agree" to apply IMF-dictated austerity against their peoples on a scale even Adolf Hitler might have blanched at.

C) To redress this problem, gold must be introduced into the monetary system. The gold holdings of all major governments should be remonetized at $500 per ounce, the cost of extracting gold from the most marginally producing gold mines. This price would be set by treaty agreement among governments, and would be protected against any attempts by private speculators to drive gold's price either higher or lower.

D) Gold would be used for:

1) Settlement of imbalances in current payments due among nations. Those countries that have imported more than they have exported, and thus have a trade *deficit,* will settle this deficit by selling reserve (monetary) gold at $500 per ounce after a required period.

2) Gold will serve as the measure for setting a parity system of fixed exchange rates, establishing the basis for stable long-term contracts, and eliminating the practice widespread among the oligarchies' *fondi* of debasing Third World countries' currencies and destroying their economies through flight capital.

3) Gold will destroy the "Keynesian multiplier" now operant through the unregulated $1.7 trillion Eurodollar market and through the national credit systems of Western governments, which allows the amount of currency in circulation to be multiplied a disproportionate number of times.

4) All new issues of currency, either in the advanced-sector or developing-sector economies, will be allowed only through Abraham Lincoln-style gold-reserve-denominated currency notes, to be issued strictly through the treasury of the nation in question. In the case of the United States, the Federal Reserve will be federalized and made a subservient branch of the Treasury. The sole purpose of new currency issue will be to fulfill the sovereign purpose of developing countries' national economies, not for speculation, for personal aggrandizement—nor to enrich the *fondi.*

5) The Treasury will issue these gold-reserve-denominated currency notes at nominal interest rates to the private banking system. The Treasury will issue these notes for up to 50 percent of the value of a private bank's loan to a productive industry. The Treasury will issue these loans to private banks, provided the banks are lending for technologically progressive investments in any among the following areas: production of tangible wealth in basic industry and agriculture; improvements of basic economic infrastructure; world trade in commodities used for such purposes by importers, or some other specified application established by law. In this way, it is guaranteed that all new credit is solely being issued for productive investment; non-productive investment is excluded.

6) A general world debt reorganization shall be effected to eliminate the debt overhang currently crushing Third World governments. All outstanding debts owed by the developing-sector nations will be frozen at current levels. These governments' treasuries or national banks will issue low-interest, gold-backed bonds, bearing 2 to 4 percent interest. These

bonds will be given to private banks and lending governments, as well as multilateral lending institutions in place of the current outstanding debt. The bonds will have a grace period on payment of the debt of 3 to 5 years. The bonds will be underwritten by a new world lending authority to replace the pro-genocide IMF, World Bank, and BIS, which will all be disbanded. This new institution, which will be chartered by treaty agreement among Third World and advanced-sector nations, will also have the authority, subject to the approval of these governments, to issue *new* gold-backed issues of credit to the Third World. Only one restriction will be placed on this new credit: the Third World must use it to import high-technology capital goods, agricultural goods, and infrastructural inputs from the advanced sector.

E) If gold is used for the above purposes, we have met the two conditions of rebuilding the world economy. We have 1) gotten rid of the debt overhang in the Third World, and provided the developing-sector nations with the liquidity needed to import capital goods from the advanced sector, and 2) we have lowered interest rates in the advanced sector in a non-inflationary way, which provides the credit needed to finance the capital goods orders from the Third World. By this method, $400 billion to $600 billion worth of export orders will be created in the Third World, and placed on the order books of the advanced-sector nations over the next few years. The developing sector will industrialize, raising the creative capacities of its peoples, and the advanced sector will export its way out of the current downward-spiraling world depression, led by the U.S. Federal Reserve Board.

The Kemp-BIS 'Fool's Gold' plan

While the LaRouche proposal for gold will expand world credit supply, producing an unprecedented economic boom, the purpose of the Leutwiler-Kemp "fool's gold" plan, now being advanced to the U.S. government, is to try to discredit the LaRouche plan and to achieve the opposite effect. In reality the Leutwiler-Kemp plan will produce a collapse, contracting world credit supplies by 30 to 40 percent and producing declines in industrial production and world trade of equal amounts. The purpose of the Leutwiler-Kemp gold plan is to maintain the *fondi*'s control of the world monetary system, by shrinking that system and reducing population and industrial output. In this way, LaRouche has noted, the Leutwiler-Kemp plan is no different from the current genocidal policies of the IMF and BIS, it is rather intensification of those policies.

The gold plan of BIS head Fritz Leutwiler was first formally announced by then-head of the BIS Jelle Zijlstra in October 1981 at a press conference during the IMF's semiannual meeting. Leutwiler has repeated the outlines of the BIS gold plan, first enunciated by Zijlstra, several times since then. The essence of the Leutwiler-BIS plan is:

A) The amount of credit in the world is not determined by the liquidity needs of industry and agriculture, but rather by linking the amount of credit to some multiple of gold (i.e., were gold to be valued at $32 per ounce, for purposes of argument, private banks could lend only $32 or $64 or some such multiple of loans for each ounce of gold held in reserve).

B) The BIS and IMF would control—along with London, Switzerland, the Union of South Africa, and the Soviet Union, the world's leading gold suppliers—the amount and purposes of gold use. This would keep control of new sources of liquidity in the hands of the *fondi* and its agent institutions.

C) Gold's price might be allowed to fluctuate until it reached a "free market rate," i.e., a price set by the BIS, IMF, and principal world gold owners. Instead of gold, tin, copper, or other commodities might be used. The amount of credit might therefore, in this latter variant, be limited to the amount of rise of a basket of commodities which would include gold and other commodities.

D) The Third World would have no say in the new arrangements. Nor, for that matter, would the United States, West Germany, Japan, Italy, France, and other advanced-sector nations, except for meaningless gestures of "consultation" by the BIS and IMF.

E) This gold arrangement would be consistent with and encourage the development of either the BIS or IMF as a "one world central bank."

The Leutwiler-Zijlstra-BIS gold plan was filtered into the United States by a Leutwiler-sycophant, Columbia University Professor Robert Mundell. It is Mundell, the actual "founder" of supply-side economics, who passed this plan to his protégé, former football player Rep. Jack Kemp. Kemp has now interested a group of Congressmen and Leutwiler allies in the Reagan administration, including Assistant Secretary for Economic Affairs Allan Wallis, to pressure President Reagan to adopt the Leutwiler plan as part of a program to avoid a world banking collapse. Kemp has mislabeled this anti-industrial, anti-capitalist, anti-growth proposal as "conservative," to gain the President's acceptance.

Last chance

The world receives few chances to atone for its past mistakes, Lyndon LaRouche recently remarked. The Bretton Woods system, established in New Hampshire in 1944, was never a workable monetary system. Now necessity has forced a second chance on the world's governments, their leaders and their populations, to junk that unworkable system. "World leaders, meeting at the Non-Aligned summit in New Delhi, India March 7, and at the heads of state meeting of the seven leading industrial countries in Williamsburg, Virginia, May 25, can now adopt my plan, end the misery of the current monetary system, and usher in a period of unprecedented economic growth," LaRouche asserted. "Or else they can face the consequences of the worst world financial crash since the 14th century."