New Monetary System Emerges As World Awaits U.S. Participation

"We disagreed when in 1971 President Nixon decoupled the dollar from gold," West German Chancellor Helmut Schmidt told the April 27 *Neue Ruhr Zeitung* newspaper. With those words he summed up the concerted European discussion for a new gold-based international monetary

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system, emerging this past week, to finance the unprecedented new round of East-West and North-South industrial development deals just signed.

Far from an attack on the dollar and his American allies, Schmidt's activities, in close coordination with French President Giscard d'Estaing and France's real Gaullists are meant to finally establish the dollar as the center of a world monetary order based on the "American System" of nonlinear credit expansion in favor of high-technology exports to industrially develop the Third World and increase East-West collaboration. In line with this, the German and French press and governments mounted a heavy attack this week on Lord Keynes' International Monetary Fund (IMF), center of British influence in present monetary affairs, including a forceful dismissal of the British government's current demand to "dethrone the dollar" in favor of the IMF's funny-money Special Drawing Rights (SDRs) as "juridically impossible," in the words of leading West German financial journalist Horst Siebert.

So far the U.S. patriots in Washington grouped around the Robert Strauss-Frank Weil-John Moore "pro-trade" faction of the Carter Administration have ensured, via pressure on the President, that the "cheap dollar" Blumenthal Treasury officially rejects the SDR madness. However, as in the international trade and diplomatic fronts, the Administration is still out in the cold, simply not participating, on the international stabilization of the dollar awaited for impatiently by all America's friends abroad. Without a firm U.S. policy on an "American System" dollar the future of the world economy will remain in grave danger.

Whose Gold System?

There are as many versions of gold systems as there are "gold bugs" in the international financial circuit, but the touchstone of an American System modeled on Alexander Hamilton's First National Bank and 1790 *Report on Manufactures* is the dedication of credit to expanded trade and industrial investment geared to ever more technologically advanced industrialization of the less-developed areas of the world. Thus it is essential that an international finance system provide for national credit policies to have the freedom to expand along with the development programs financed, while ensuring the necessity of credit expansion into such productive channels and away from real estate speculation, government debt and other paper bubbles.

The gold system being discussed by Schmidt, Giscard and their collaborators fills this bill precisely because it posits the dollar and the U.S. economy as its centerpiece. "Germany has no intention whatsoever of excluding the dollar for the creation of a monetary area hostile to the U.S.," Chancellor Schmidt told the British press in London this week, "On the contrary, restabilizing the dollar remains our priority . . . No one will succeed in splitting Europe from the United States."

The kind of "pre-1971" system the Europeans envision is a Hamiltonian version of the 1914-1971 "gold exchange standard." As before 1971, the dollar would be pegged to a per ounce gold value and all other currencies, marks, yen, and so forth, to a dollar value and thus indirectly but coherently to gold. The gold would come into play to settle trade imbalances between central banks — governments — only.

What went "wrong" in the period up to the Nixon cut-off of the dollar from gold on August 15, 1971 was not the gold exchange standard but *how it was used:* under British intellectual hegemony in postwar economics, Hamiltonian direction of credit was halted in favor of real estate and raw materials-related bubbles such as the Eurodollar market, causing a contraction in the U.S.'s export market by maintenance of the Third World in an impoverished state. By the early 1970s, U.S. export collapse produced (as today) a huge trade deficit, financed by creation of dollars which could not be used by the recipients.

This allowed the British government to bring its dollars to the U.S. Treasury window and demand payment in gold — "now, please" — in summer 1971, touching off a general run on the dollar which forced a panic closing of the gold window. "We knew it was wrong to move the dollar off gold but we didn't know what the hell else to do," said a former Nixon Administration source recently.

What is proposed by Schmidt, Giscard, and the rest of

America's allies today, similar to the widely circulated U.S. Labor Party programs, is a "return to a gold exchange standard" as a highly placed Swiss banker collaborator of Schmidt's said recently, based on the dollar to which all other currencies would be pegged — but run in a Hamiltonian direction. That is, as the U.S. creates credit expansion for large-scale development programs in the East bloc and Third World, through the Export-Import Bank in cooperation with the commercial banking system, so will the rest of the industrially advanced OECD nations. Although the "number of dollars in the world" would thus obviously increase vastly faster than the "number of ounces of gold in Fort Knox," the U.S. will in aggregate go into a *massive trade surplus,* so that the need to settle trade imbalances in gold decreases — and the pressure on U.S. gold reserves approaches zero! No "devaluation" or adjustment of the dollar-gold rate need be made.

This is precisely the kind of system called for by Gaullist Michel Debre earlier this month, who urged the U.S. to support the dollar by going back to the kind of international development policies which made the dollar the world currency in the first place and made the gold link work since "the dollar was as good as gold, no, better than gold."

The European strategy to get from here to there was laid out clearly by a top German bank's gold trading desk commenting on the U.S. Treasury's April 20 decision to sell gold to support the dollar. First, the gold sales, which were demanded of President Carter by Schmidt and Giscard, will establish a "U.S.-West German-Swiss-Japanese swap relationship de facto among central banks to support the dollar," he asserted, since the European and Japanese governments intend to buy up the U.S. gold via their leading commercial banks. Next, the same governments intend to move the U.S. "toward a currency system including currencies pegged directly to gold," of the dollar-centerpiece variety.

British "Barbaric Relic"

The "gold is a barbaric relic" line circulated by the disciples of Lord Keynes and repeated by confused U.S. bankers scared half to death by the 1971 debacle, in fact, refers *properly* to the wrong sort of gold system, the so-called gold reserve standard in place under British Imperial domination of the world markets up until 1914. Unlike the gold exchange standard which can be run on Hamiltonian credit expansion, the gold reserve standard stipulates gold is the be-all and end-all of the monetary system. All currencies are valued in gold, gold coins themselves (sovereigns, Louis d'or, etc.) circulate as money, and credit expansion is strictly limited to the rate of gold mining — and the political control of the owners of the gold mine. Central banks are irrelevant in the last analysis, since gold circulates in the open market and payments are balanced à la Adam Smith — any *national policy* planning of credit for development becomes impossible, indeed forbidden.

The distinction between this and the Hamiltonian-Gaullist gold standard was defined clearly by François Donati in his eulogy of the late Jacques Rueff in *Les Echos,* April 25: Contrary to "distortions" of Rueff by Keynes and others, Jacques Rueff was not proposing a sheer return to the pre-1914 gold (reserve) standard. He was demanding the institution of a system where gold would serve as a basis for international credits whose creation would be controlled (that is planned for development) to avoid inflation.

The End of the IMF

A major political attack on the International Monetary Fund is at the center of this new political motion for a "golden dollar" monetary system. The demands of the British government first announced by Prime Minister James Callaghan March 14 to the London Finance Houses Association for the "dethroning" of the dollar and its replacement as a world reserve by the SDR (publicized on this side of the Atlantic only by the U.S. Labor Party for the past month), surfaced openly this week on the front page of the New York *Journal of Commerce* as the IMF interim Committee prepares to meet in Mexico City April 29-30. "Britain Favors SDR Substitution Plans" ran the front-page headline.

But this British "flight forward" audacity may serve instead to doom the IMF itself, rather than the dollar. "Finance Minister in Mexico — Resistance Against the IMF Plans" ran the headline in today's *Die Welt.* Both the U.S. and West Germany reject "point blank" the SDR substitution account, reports journalist Horst Siebert. "It is juridically impossible to force a country to exchange its dollars for SDRs . . . The Germans think that the fund has enough liquidity, and they deny the need for another quota increase. The danger is that British Chancellor of the Exchequer Denis Healy will try to evade Chancellor Schmidt's demand to give equal attention to inflation and unemployment."

The *Journal of Commerce* reports similarly that the SDR substitution plan is "an April fool's joke" as does the April 24 edition of the Swiss newsletter *Investment Index.* It denounced "a top UK official's claim" that the SDR scheme would "allow the West's central bankers to unload their dollar reserves . . . to dethrone the dollar. . . . Naturally the Bundesbank . . . is not keen to help the City of London ploy. . ."

Meanwhile the economic austerity policies of the IMF in general are under attack from member governments. Mexican President Lopez Portillo in La Paz April 24 denounced the "international financial institutions" such as the IMF whose policies threaten Mexico with "auto-cannibalization." The West German daily *Frankfurter Allgemeine Zeitung* the same day attacked the IMF for proposing "unworkable" measures in Peru which would lead to "social chaos" and "a debt moratorium nobody wants." In Egypt, the government initiated a purge of IMF-linked officials and there were rumors that Minister of Economy Kaissouny would resign and that Prime Minister Momdu Salem would be sacked because the public sector-linked faction of the Sadat government is opposed to their IMF austerity programs.

Les Echos, *Paris financial daily, journalist François Danati's eulogy of Jacques Rueff:*

His adversaries, starting with Maynard Keynes in 1929, often distorted his thoughts. Alfred Sauvy attacked him for wanting to "stop a flood with a cork" by proposing to reestablish the gold standard. But Jacques Rueff was not proposing a sheer return to the pre-1914 gold standard. He was demanding the restoration of a system where gold would serve as a basis for international credit the creation of which would be controlled to avoid inflation.

The new economists who propose to cure our ills by generalizing the system of market economy, should rightly claim allegiance to Rueff because he was one of the first to demonstrate that the well being of the citizenry cannot be obtained by the different dirigist system of income redistribution which leads in fact to a result contrary to that sought. One of the images often used by Jacques Rueff is that of "the man jumping from the top of a skyscraper": as long as it lasts the fall can seem all the easier if he doesn't know exactly how far he has to fall but the encounter with the ground is unavoidable, unless one opens the parachute proposed by Rueff. Until the end of his life, he never stopped repeating that there was still time to avoid a catastrophe by applying the principles which allowed him to save the franc and restart economic expansion three times in 30 years.

Swiss Investment Index No. 15-16 April 24, 1978
'EEC Supports IMF Plan Swapping Dollar for SDR'

"Expressing concern at the dollar's instability and the atomic cloud of the footloose funds now wracking international money markets, a top UK official claimed here that the scheme would allow the West's central bankers to gradually unload their dollar reserve."

The above is a quote by western press in a report from Luxembourg of April 17. Was the "top UK official" Jenkins, the Fabian who is now doing his best to keep Europe an assortment of querulous dwarfs? In any case, he forgot to say on whom which central banks were going to unload their dollar "reserves" with which the high priests of the new economic order symbolized by bankers trust pyramid engineered the great plundering scheme devised in Bretton Woods in 1944.

Why is the British government so bent on the SDR scheme? Some suggest that it is the best ploy to dethrone the dollar and get back in on the parasitic scheme by administering the SDR from London. What better way than to capitalize on the growing difference between the U.S. establishment trying to uphold the "reserve" status of the dollar with the Arabs' support and its erstwhile allies in the Zionist camp? The condition sine qua non for reasserting London's former role is, of course, that the Bank of England get rid of its own 18 billions "reserves" in dollars. And what better way than to convert them into SDRs — the obligation of everyone and no one. Naturally the biggest holder in dollar "reserve" is not keen to help in the City of London ploy for fear of offending its U.S. "friends" while the Saudis, locked into the U.S. relationship for better and worse....Hence the double-barreled attack last week, which mimicked the City's impressively engineered 1976 "comebacks" of the pound through a bull market in London....

Brits Want to Take the Gold and Dump the $

The City of London financial press are unanimous in their hysteria at the announcement this week that the U.S. is conducting gold sales to support the dollar. The Financial Times, *for example, carried no less than four articles on April 21, the day after the U.S. announcement; each claimed that gold would somehow "replace" the dollar, and that Britain could control the gold market.*

London Times, *"Gold and the Fighting Retreat of the U.S. Dollar":*

The . . . gold sales inevitably strengthen the position of gold and weaken the dollar . . . the gradual liquidation of the (U.S. gold) stockpile itself soon (will) begin to strengthen its price . . . People want to get out of a suspect currency . . . Every central bank holding dollars is now sitting on a loss . . . We are now near the end of the period of dollar predominance. Given . . . the lack of understanding in Washington . . . it is virtually inevitable that the dollar should cease to be acceptable as a reserve currency on the present scale . . . Gold is the better money in the present and offers better security for the future. If Washington challenges gold to a knockout fight, there is only one possible victor.

Financial Times, *"The Americans Try to Kill the Golden Calf":*

It is a gesture that the (gold) sales are most questionable. . . . actions intended to demonstrate determination (to support the dollar) can easily be read in the outside world as a sign of desperation . . . The difficulty is to restore confidence in a currency which has proved a loss-making holding, and a speculative flight into gold has been an apparent danger for some time . . . Not even American stocks — representing a little over a decade of mining output — are big enough to convert gold into "a commodity like any other."

Cold Shower for Witteveen

Journal of Commerce, *New York, April 27:*

Assistant Treasury Secretary Anthony Solomon has thrown cold water over a proposal by out-going Fund managing director, Johannes Witteveen, that a certain portion of official reserves be substituted for special drawing rights (SDRs). This proposal has the very active support of the British, who have had a long and painful experience with having their currency a reserve asset and the Belgians. It is most likely to die of neglect.

The proposal does have some support on Wall Street. Henry Fowler, Chairman of Goldman Sachs International Corp. and a former Secretary of the Treasury, says emphatically that he favors a substitution account. "Any time is the right time to consider it," he states in answer to present Treasury officials, who feel it would be better to see how the present system works first.

The amended articles to the Fund, conceived in Jamaica in January, 1976, have just gone into force. They dethroned gold and established SDRs as the "numeraire" of the monetary system.

If the whole procedure isn't to become an April Fool's joke, a lot more will have to be done to make the SDR an attractive asset to hold. Mr. Fowler would like to see holders of SDRs get the same rate of interest they get on their dollars. He also favors a "token" new issue of SDRs to affirm the asset's place as the centerpiece of the monetary system.

The investment banker, who is known as the "grandfather of the SDR" believes it is time to reconsider the additional reforms — such as the substitution account — that were set aside after the quadrupling of oil prices in the autumn of 1973.

The British and SDRs
Journal of Commerce, *New York, April 27:*

Proposals to substitute Special Drawing Rights for official dollar holdings in order to take some of the pressure off the U.S. currency are viewed as promising by the British government which will be pressing for a study of such a scheme at this weekend's International Monetary Fund meeting in Mexico.

Chancellor of the Exchequer Denis Healey, who is this year's chairman of the Fund's Interim Committee, will also be urging further consideration of the U.K. five-point plan to revive the world economy.

British Prime Minister James Callaghan believes that the five key areas are growth, energy, trade, aid and long-term investment, and greater currency stability. In recent meetings with other world leaders, including President Carter and West German Chancellor Helmut Schmidt, Mr. Callaghan has emphasized the need to make progress on these five fronts. . . .

In Memoriam: Jacques Rueff

On learning of the death on April 24 of Jacques Rueff, who at the time of his death was serving on the advisory board of the Bank of France and Bank of Japan, U.S. Labor Party Chairman Lyndon H. LaRouche issued the following release on April 25 from Wiesbaden, West Germany.

Yesterday morning French sources informed me of the death of my acquaintance and valued ally, Jacques Rueff. Let our unborn posterity tremble at that saddening report.

Although I met M. Rueff only once, during a meeting in his office two years ago, there is an aspect of his life and work in respect to which we confirmed our profound agreement during that meeting. We agreed on the nature and present danger of neo-Schachtian fascist "fiscal austerity" and on the needed steps to prevent this fascist holocaust from being imposed upon the world. Since that meeting, our efforts have been parallel, and necessarily intersecting in that dedication to a common purpose.

In the nature of things, there is an aspect of M. Rueff's long and magnificent life of which I am specially qualified and obliged to speak — for the benefit of the living.

In the course of my work, I have taken the measure of the morality and intellect of most of those contemporary statesmen, bankers, industrialists and others who, in the main, determine the policies of nations and fate of peoples. Some are evil, some are useful, some are capable of becoming far better than they are. Most, at best, are mere Lilliputans. They are short-sighted, confusing the misrepresented appearance of the short-term for the true consequences of policy action. They are so pathetically susceptible to accredited gossip planted in influential circles, so easily swayed by mere opinion, that one must fairly describe them as miserably superstitious in the manner of their judgments.

As if to underline this point, during the same hours I received word of M. Rueff's passing, my financial intelligence informed me of a fresh outbreak of lemming-like lunacy among a broad selection of statesmen, central bankers and others. Once again, the superstitious Lilliputans have panicked on the basis of a mere rumor planted in influential channels for this very purpose.

Among the Lilliputans, M. Rueff was one of the few Pantagruellian giants, a true hero in the 16th century sense of Henry of Navarre and of Christopher Marlowe. Like his friend, Charles de Gaulle, M. Rueff was a shepherd caring for his sheep. In this respect, it is not necessary for me that I agree or disagree with each facet of Jacques Rueff's or Charles de Gaulle's perceptions and policies. Giants, too, may err, but remain giants among Lilliputans nonetheless.

Unlike the Lilliputans, Charles de Gaulle and Jacques Rueff accepted world-historical responsibility for the consequences of their own acts and acts of omission. They were continuers of the best current flowing through France's Louis XI, Henri IV, Richelieu, Mazarin, Colbert, Descartes, Vergennes, Turgot.

I do not eulogize. I state hard fact. Without such giants, each nation stands in peril in each fresh crisis. Today, the peril is the danger that the Lilliputans, enamored either of Keynesian Lunacy or Schachtian "fiscal austerity" will bring about a global, or nearly-global neo-Schachtian order. The "fiscal austerity" policies of the U.S.'s Federal Reserve Chariman Miller and the related neo-Schachtian policies of the IMF, the World Bank and the "Brandt Commission" are all of one piece and share common hideous, economic-genocidal consequences in this respect. It was the perception of this danger which was perhaps the outstanding achievement of Jacques Rueff during the most recent years of his work as a political economist.

This he defined clearly during our meeting. This conception he pursued most significantly and effectively during the past years of his work. Without the contributing effort of this hero the world's peril is increased: Let our unborn posterity rightly tremble for reason of this fact.