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A new gold exchange standard or a British-style remonetization?

by Kathy Burdman

President Reagan, who ran for office against the supranational Trilateral Commission in a bid to make America great again, recently appointed a presidential commission to study the possibility of returning the U.S. dollar to a gold standard. The President, according to Washington sources, looks forward to addressing the gold question as soon as Congress has settled on its tax and budget legislation.

The economic storms of the decade since Nixon shattered the gold standard make the gold commission's duties urgent. What is less clear to many partisans of a new gold standard is the *kind* of standard required.

President Reagan requires a standard that would restore the American System of rapid new investment in industrial growth—in which gold was the basis for the issuance of *new, long-term credits* permitting such investment, and fostering the development of new markets through industrially geared credits abroad.

This kind of gold standard was outlined in a statement this month by *EIR* founder Lyndon H. LaRouche, Jr. (*EIR*, June 23), that called for the monetization of U.S. gold reserves "at approximately $500 an ounce or at current bullion market value, whichever is higher." He emphatically stated that a remonetization will only awaken the U.S. economy if it is coupled with "volumes of noninflationary, low-interest credit . . . by issuance of U.S. gold reserve-backed notes," so that gold is used to underwrite a mobilization for industrial growth.

LaRouche termed this the only "patriotic" action available to the President in the current financial chaos. Leading members of the new presidential gold commission, many of whom have long histories of collaboration with foreign banking circles at the expense of U.S. interests, have no such gold standard in mind.

Led by Lewis Lehrman, a longtime associate of the semisecret Swiss-based Bank for International Settlements, key members of the commission intend to manipulate the President into supporting a gold standard imposed upon the U.S. by the BIS central banks, with a deliberate *credit contraction* of a sort that would exceed the Federal Reserve's current butchery of the White House's economic objectives and productive economy.

The new presidential gold commission seems stacked with individuals dedicated to the sort of "great deflation" associated with the March 1980 gold plan of Lewis Lehrman. Lehrman, the former Rite-Aid drugstore chain chief, now heads his private New York-based Lehrman Institute and acts as a policy controller of supply-side point-man Jack Kemp and Office of Management and Budget Director David Stockman, who last fall pushed Lehrman as a candidate for treasury secretary. In his 1980 proposal, Lehrman calls for a sharp cut in the nation's credit supply, followed by a removal of the dollar as the world's principal reserve currency and a "pure" gold standard.

Established by legislation last fall sponsored by Sen. Jesse Helms (R-N.C.) and Rep. Stephen Neal (D-N.C.), the new commission reportedly includes:

Treasury Secretary Donald Regan, chairman; **Anna Schwartz,** the new commission's executive director, ghost author of Milton Friedman's fraudulent *Monetary History of the United States*, and a Princeton University economist; **Lewis Lehrman; Council of Economic Advisers chairman Murray Weidenbaum,** and **CEA member Bruce Niskanen; three members of the Federal Reserve Board of Governors,** as yet unnamed. Two of them will probably be Chairman Volcker and rabid monetarist Henry Wallich. Volcker, following his role in the destruction of the gold standard, wrote a little-known 1972 U.S. Treasury paper advocating a new gold based deflation, often cited by Lehrman's group. Other members: former Senate Banking Committee chairman **William Proxmire** (D-Wisc.), and former House Banking Committee chairman **Henry Reuss** (D-Wisc.), who were among Paul Volcker's closest allies from the time he convinced Nixon's cabinet to smash the gold standard in 1971, may well push the Lehrman plan; **Representatives Ron Paul** (R-Tex.) and **Roger Jepsen** (R-Iowa), both highly susceptible to supply-side manipulations in the past; **House Banking Committee members Chris Dodd** (D-Conn.) and **Chalmers Wiley** (R-Ohio), whose disposition is unclear; **Rep. Stephen Neal; Sen. Harrison Schmitt** (R.-N.M.), who tends to favor high-technology growth but whose banking aide leans toward

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the Lehrman approach; and **Leo Costamana,** a California auto dealer and member of the Reagan kitchen cabinet.

A Specie Resumption Act of 1982

If Mr. Lehrman has his way, when the President's gold commission issues its report in mid-October, it will call for something very like the Specie Resumption Act of 1876, which placed the United States on the British-dominated *gold reserve standard.* This triggered a multi-million-dollar outflow of capital and led to the panic and depression of 1879. This gold standard, which ruled the world from the 17th century until the sterling collapse of 1914, was noted for its deflationary simplicity. It simply held the creation of new credit fixed to the linear and quite slow pace at which physical gold was removed from the mines of the British colonial empire.

This gold reserve standard, so called because gold is the only reserve asset permitted, is a sort of "automatic-pilot" monetarism, which wrests control over national economic and monetary policy from the deliberative powers of elected governments, and fixes the rate of credit creation far below that necessary to produce substantive capital investment in new technologies.

Britain, and its Venetian bankers, invented this monetary "discipline" to hold the colonial world, the United States, and the European continent in a state of backwardness so far as possible. Meanwhile, the British and Venetians, who controlled the gold supply, controlled the world's credit and terms of trade.

This system is utterly at odds with the American gold exchange standard, which prevailed from 1920 to Aug. 15, 1971. Under this kind of standard, the dollar (and, in the Gaullist version, other currencies) serve as supplemental reserves. As long as the leading nations conduct healthy, high-technology trade among themselves and launch industrial exports to the Third World, the OECD countries' current accounts will be in balance or surplus. There will be no need to bring national gold reserves into play to cover deficits. Credit for export and investment can be created without limit, as long as the credit is productively directed. *The gold base must serve not as a restriction on economic development,* but as a safety net against a change in investment policy. Only if—as during the Vietnam years of Johnson and Nixon—nations veer from the development path, will the gold "trigger" force the incompetence of their policy to the fore.

The BIS and Mr. Lehrman

Lewis Lehrman has a plan for the United States which, like the LaRouche proposal, is a credit policy and only secondarily a gold policy. In its specifics, Lehrman's plan is quite the opposite of LaRouche's. He proposes to turn control over U.S. credit to the shadowy gentlemen of the Basel-based Bank for International Settlements, who today control the gold reserves of Europe, and would run any modern gold reserve standard.

Mr. Lehrman is an associate of the BIS-controlled Siena Group, which has planned such a BIS-based gold system for years, and which designed the current supply-side program of the Reagan administration to fail, deliberately paving the way for the sort of monetary panic in which the President would be forced to turn to the waiting Lehrman gold plan.

Ten years ago, the Siena Group was created by the 500-year-old Monte dei Paschi Bank in Siena, Italy, the living symbol of the continuing power of the ancient Venetian-Genoese financial oligarchy.

Their aim, and that of the BIS, Siena chief Robert Mundell told a meeting of the Securities Group in New York last March, is to remove the dollar as the world monetary base and force the U.S. under the gold reserve "discipline" of the BIS and the central banks. "The fault doesn't lie with the standard," Mundell said. "It lies with the operators and interruptors of the standard," that is, the sovereign governments. Mundell, of course, is also the father of "supply-side economics."

Mr. Lehrman, on behalf of the Siena Group, wrote the plan which they now hope to introduce as U.S. law. Entitled "Monetary Policy, the Federal Reserve System, and Gold," it was published by Morgan, Stanley investment bank in March 1980. The Federal Reserve, Lehrman advises, must halt all credit creation and return to a British-style "bank rate" of the 19th century. "Fed open market operations must cease," he writes, cutting creation of credit through that venue to the markets altogether, and be replaced by a "remobilized or positive discount rate," in which the central bank provides credit to the economy only through the discount window, but at punitive rates. "This would of course mean massive bankruptcies and a huge crash of the economy," Lehrman Institute fellow Benjamin Rowland of Salomon Brothers told *EIR* recently. "It would be very politically unpopular for Reagan."

With this Lehrman proposes a gold reserve in which "the dollar must be defined by law as equal to a weight unit of a real commodity such as gold," such that "no bank, not even the central bank, could expand credit beyond the demand for it in the market." He calls for the U.S. to "convoke an international monetary conference with the goal of establishing a true gold standard, one which would *rule out the special privilege of official reserve currencies* and thus remedy the most profound defeat of the Bretton Woods exchange-rate regime," under which sovereign governments had some control over their national banking systems.

The extent to which the central banks of the BIS, who control the gold reserves, would then control national governments is clear.