Gold Dinar: An Economic and Strategic Response to Chaos

by Michael O. Billington

Mounting concern around the world that the Bush Administration is madly threatening to drive the world into perpetual warfare, while doing nothing to address the global financial-economic collapse, has led to the introduction of a number of defensive measures by nations and groups of nations acting in concert. One such measure is the proposal for creation of a Gold Dinar, intended as a replacement for the dollar as the currency of trade among nations. With a war against Iraq looming on the horizon, and U.S. threats against Saudi Arabia escalating in the establishment's institutions and publications, it is increasingly probable that the Gold Dinar policy will be implemented in the near term, among certain Islamic nations at first, and potentially expanding to include non-Islamic nations.

Malaysian Prime Minister Dr. Mahathir bin Mohamad hosted a two-day seminar in Kuala Lumpur on Oct. 22-23, called "The Gold Dinar in Multilateral Trade." This was the second major conference in Malaysia on this subject involving representatives of members of the Organization of Islamic Conference (OIC). The first conference, "Stable and Just Global Monetary Systems," held in August, announced that the Gold Dinar would be implemented as a bilateral arrangement between Malaysia and certain unspecified partners by the middle of 2003, and extended to multilateral agreements over time. At the more recent seminar, Bijan Latif, the head of Iran's Central Bank, offered to support the establishment of a secretariat in Malaysia to coordinate the development of the Gold Dinar policy. Dr. Mahathir supported the idea.

Not a Gold Standard

In his speech to the October seminar, Dr. Mahathir made clear that the proposal was not intended to establish a gold standard (as put forth by fixated "gold bugs" around the world), but to return to the Bretton Woods policy of a gold-reserve system, which was destroyed when President Richard Nixon removed the dollar from a fixed peg to gold on Aug. 15, 1971, allowing currencies to float at the whim of speculators. Dr. Mahathir reminded the participants, that after World War II, "when the Allied nations met in Bretton Woods to determine the principle for the rate of exchange of international currencies in order to facilitate trade, they decided to use gold as a standard." This worked until 1971, when "the market claimed that it could determine the exchange rate through the demand and supply of currencies freely traded in the market. But the profiteers moved in and manipulated the value of the currencies so that there was chaos in terms of exchange rates of currencies."

The Gold Dinar policy intends to return to the former, superior policy. Tan Sri Nor Mohamed Yakcop, an economic adviser to Dr. Mahathir, explained the system at the August conference as follows, using trade between Malaysia and Saudi Arabia as an example: "Malaysian exporters will be paid in ringgit [the Malaysian currency] by Bank Negara [the Malaysian National Bank] on the due date of exports. . . . Similarly, the importers will pay Bank Negara the ringgit equivalent of their imports. The Saudi Central Bank will do the same for its exports and imports. Say, at the end of a three-month cycle, the total exports from Malaysia to Saudi Arabia is 2 million Gold Dinar, and the total exports of Saudi Arabia to Malaysia is 1.8 million Gold Dinar. Therefore, for that particular three-month cycle, the Saudi Central Bank will pay Bank Negara 0.2 million Gold Dinar. The actual payment can be by way of the Saudis transferring 0.2 million ounces of gold in its custodian's account in the Bank of England in London, to Bank Negara's account with the same custodian. The important point to note here, is that the relatively small amount of 0.2 million Gold Dinar is able to support a total trade value of 3.8 million Gold Dinar."

The weakness of the system as it is now proposed is that gold, too, is subject to speculation, especially if it is pegged to a currency such as the dollar, which is heading for a plunge due to the collapse of the U.S. banking system. Dr. Mahathir is aware of the problem: "Gold prices can also be manipulated," he said, "but not as easily as the U.S. dollar or other currencies. . . . Speculation and manipulation will not be as easy as when local currency is valued against the U.S. dollar."

EIR Founding Editor Lyndon LaRouche has proposed that the necessary return to a Bretton Woods system of fixed exchange rates must also peg currencies to a "basket of commodities" rather than to gold, as a means of basing currency valuations to the real economy, rather than tying the real economy to a speculative entity (see *Documentation*). Although the Gold Dinar proposal assigns a value to gold in terms of dollars, Dr. Mahathir suggested in his speech that he is thinking along the lines of a "basket of commodities": "The value of one Gold Dinar is one Gold Dinar, no matter what the exchange rate of a currency is against the Gold Dinar. If the value of goods and services is expressed in Gold Dinar, the value remains the same, no matter which country is involved in the trade."

Whatever the case in this regard, the discussion and implementation of the bilateral or restricted multilateral Gold Dinar policy can provide a much-needed defense against the collapse of the dollar-centered financial system, and could contribute to a more durable global solution in the near future.

Strategic Necessity

Dr. Mahathir emphasized that the Gold Dinar policy is being driven by the crushing reality of the economic and strategic crisis. The disastrous situation in the Holy Land, the terrorist attacks of Sept. 11, 2001, and the threatened war on Iraq, have resulted in "the whole world's economy being unable to grow," he said. "The West, and in particular the Americans, are very angry. So are the Muslims. Angry people cannot act rationally." He concluded his speech: "Of course, the Gold Dinar can be a trading currency for all countries, not necessarily Muslim countries. But Muslim countries are in the best position to demonstrate the viability of the system, . . . and in the process, show the world that they are capable of growing with stability and peace. And this will do more towards countering oppressions by their enemies, than the futile violent retaliations."

Other voices are also warning that the current folly in Washington will only hasten this break from the bankrupt IMF system. James Sinclair, the head of the mining company Tan Range Exploration, said in an Oct. 28 editorial in *Financial Sense Online:* "It is perceived, and correctly so, that the Islamic world is controlled via the use of the U.S. dollar as the main settlement currency. . . . I am told there is a significant possibility that when the U.S. attacks Iraq, the united Islamic salvo back will be at the U.S. dollar via the Gold Dinar." The Saudis, he says, "are less likely than most observers think to rescue the dollar this time."

In fact, the Saudis are already repatriating deposits from the United States, as reflected in the increase by $30 billion in deposits in Saudi banks in September.

Sinclair also notes, as did Bijan Latif of the Iranian Central Bank, that "the establishment of a gold-based currency is rebellion against the IMF, as it is distinctly forbidden under IMF rules." Sinclair adds: "The advent of the Gold Dinar would be the 'nadir' of the IMF and World Bank."

Other commentators have noted the concern in Saudi Arabia that the United States may freeze Saudi assets in U.S. banks, forcing them to consider the Gold Dinar as a replacement for the dollar, and dumping dollar holdings altogether if necessary. As amazing as this sounds, given the long history of U.S.-Saudi friendship, there has been a drumbeat of anti-Saudi hysteria in the United States recently, escalating since the infamous presentation before the Defense Department's Defense Policy Board on July 10 by the RAND corporation's Laurent Murawiec, which declared Saudi Arabia the mother of all terror, and calling for the overthrow of that country's government and other Arab "dictatorships" (see *EIR*, Aug. 16, 2002). Although Murawiec was fired by RAND for this mindless diatribe, Richard Perle, who runs the Defense Policy Board, was never publicly reprimanded, let alone fired, and the Saudis took note.

Even more blatant was the report issued by the leading think-tank of the American establishment, the Council on Foreign Relations, in October, on "Terrorist Financing." The report is the work of a task force, headed by Maurice "Hank" Greenberg of the AIG insurance cartel, himself a notorious money-launderer. The report castigates Islamic charities in general, but hits Saudi Arabia in particular: "For years, individuals and charities based in Saudi Arabia have been the most important source of funds for al-Qaeda; and for years, Saudi officials have turned a blind eye to this problem," says the report. Making their intentions clear, the CFR adds: "It may well be the case that if Saudi Arabia and other nations in the region were to move quickly to share sensitive financial information with the U.S., regulate or close down Islamic banks, incarcerate prominent Saudi citizens or render them to international authorities, audit Islamic charities, and investigate the *hawala* system—just a few of the steps that nation would have to take—it would be putting its current system of governance at significant political risk." Nonetheless, they argue, the Bush Administration must proceed, and stop pretending that "Saudi Arabia is being cooperative, when they know very well all the ways in which it is not."

With this madness as establishment policy, the Saudis, and others, may well see no choice but to pull out of the dollar-based system. This is one reason for the great interest in LaRouche and his proposals in the Mideast today. It may well lead to the timely adoption of the Gold Dinar policy among Islamic nations, and progress toward a New Bretton Woods monetary system.

Documentation

LaRouche's 'Trade Without Currencies'

*The following are excerpts from Lyndon LaRouche's article "On a Basket of Hard Commodities: Trade Without Currencies" (*EIR*, July 18, 2000). LaRouche argues that under today's economic conditions, neither a gold-reserve-denominated dollar, nor a "basket of currencies," can work as the foundation for returning to the successful model of the 1945-71 Bretton Woods world monetary system; and he poses the necessary alternative.*

In today's relevant European circles, as elsewhere, it is generally agreed that what President Franklin Roosevelt's U.S. did, to organize a post-World War II monetary system, worked very well, most notably to the benefit of both the U.S. and western Europe. . . .

However, it is also emphasized among those who recognize the urgency of returning to the principles of the pre-1971 types of international monetary agreements of fixed exchange-rates, that the U.S. dollar of this year 2000, if compared to the prestigious U.S. dollar and economy which still existed while President Kennedy was alive, is a relatively shabby thing. In addition to that fact, the fear is, that under either a new U.S. Bush Administration, or a presently unlikely Gore alternative, the worth of the dollar would sink quickly to incalculable depths. . . .

In fact, the strength of the 1945-1965 Bretton Woods System, lay in the fact that the standard of value was, *in effect,* a basket of *hard commodities.* The U.S. dollar's strength as a reserve currency, was based upon the assurance that the current obligations against the U.S. dollar would be matched by the combination of an export-surplus plus gold bullion at a standard, fixed price for monetary-reserve gold. The gold-reserve system worked, because it was defended by protectionist and related regulatory measures, both internationally, and within the relevant nations themselves. It was the *physical* strength of the U.S. economy, as measurable per capita, *a strength measured in terms of rates of growth of physical productivity per capita and per square kilometer,* a strength expressed as *periods of high rate of increase in hard-commodity forms of capital formation,* which was crucial for the way in which the U.S. economy performed during the initial two decades of the post-war monetary system. This physical strength, matched with war-torn Europe's needs for both expanded volumes of U.S. agricultural products and machine-tool categories, enabled U.S. credit to stimulate a rate of growth of physical productivity, per capita, in western Europe, a growth from which Europe obtained the means to meet its obligations to the U.S. . . .

"This had been President Franklin Roosevelt's intention for post-war U.S. aid to nations and peoples he intended should be liberated from the colonialist systems and legacies of Portugal, the Netherlands, the British monarchy, and France. Roosevelt detailed infrastructure-development for Africa as an example of this policy. That policy, as it had been intended by Roosevelt, should become the basis for new forms of cooperation between those sections of the world's economy which have the ability to provide advanced technologies, and less developed regions. This policy-orientation provides the mission-orientation which a new, fixed-exchange-rate, world monetary system must adopt. . . .

In the present situation, where the valuation to be placed on each and every currency of Europe and the Americas, among others, is increasingly in doubt, what constitutes the quality of durable value upon which medium- to long-term, hard-commodity capital formation could be rationally premised? . . .

In a situation in which the hard-commodity content among currencies is fluctuating, one has still the option of constructing a synthetic unit of account which is based upon an agreed basket of hard commodities. Thereafter, as currencies fluctuate, it is the currencies, not the commodities, which are given implicitly adjusted values, as based upon the basket of commodities used to define the unit. Such a synthetic unit could serve as the accounting-system of an international credit facility, as, in that sense, the basis for creating a kind of successor to SDRs.

Thus, in the matter of medium- to long-term capital loans for hard-commodity investments, the relevant currencies are priced according to the basket of commodities as a standard. The loan is made in these units, not currency-prices; however, the exporter is credited with that number of synthetic units at the time the product is delivered, and repayments of the loan are determined by the price of the relevant currency, in those units, at the time that specific payment is due.

Thus, in effect, a barter-like system of medium- to long-term lending of hard commodity product, is used to approximate the "gold-reserve plus basket of commodities exported" system which operated in relevant Transatlantic relations during the 1945-1965 interval of a fixed-exchange-rate system.

That is the gist of the matter.