A progold policy for the U.S.?

At its June 11 annual meeting the Bank for International Settlements, the central bankers' central bank, decided to increase the valuation of gold on its balance sheet from the previous $42.22 per ounce to $208. The BIS move underscores the fact that the U.S. is one of the few major industrial countries which still maintains the fiction of a $42 official gold price.

Earlier this year, the member countries of the newly formed European Monetary System agreed to pool 20 percent of each nation's gold reserves in a central fund and to value the pooled gold at a price closely related to world market prices, according to a formula devised by the French government. Although many EMS members continue to value the rest of their gold reserves at prices well below market price (most notably the West Germans, who price their gold at about $75 in deference to the U.S.), the formation of the EMS represented a giant step toward complete gold remonetization. Even Britain, which has very little gold and which for years has cheered on the U.S. Treasury is its campaign to eliminate the "barbarous metal" from the world monetary system, revalued its own reserves to the market level less a discount of 25 percent on March 31 this year.

Despite gold's de facto remonetization, the Carter Administration has persisted in its anti-gold stance. The French daily *Les Echos* reported June 15 that U.S. Federal Reserve Board Governor Henry Wallich had made the following statement concerning gold at a recent conference of the Association for the Study of Economic Problems held in Paris. Asked what he thought of gold's monetary role, Wallich responded:

"Gold is at the bottom of the scale in central bankers' international reserves. It is in the right place. Central banks have to sell it to acquire other assets. Theoretically, it is possible to imagine that a central bank would like to make gold a standard, but in that case, why not potatoes as well?

"The essential thing in that context is to have an assured stock of gold, potatoes, or any other raw material in order to meet demands for reimbursement. Gold is doubtless a very interesting commodity, but it has a weaker and weaker role to play in monetary policy."

Commented *Les Echos*: "The U.S. sees such problems from a decidedly different angle than we do."

Ironically, the U.S. bias against gold, which began with President Nixon's August 1971 decision to sever the dollar's link to gold, has contributed mightily to the weakening of the U.S. currency during the 1970s. With approximately 265.5 million ounces in official stocks, the U.S. is still the largest single government holder of gold in the world, not counting the USSR, and stands to benefit heavily from a gold upvaluation. At present market prices of $280 an ounce, U.S. reserves are worth $74.3 billion. By comparison, the eight EMS countries together hold total gold reserves of 403 million ounces, worth $112.8 billion at market prices.

Thus, if the U.S. were to join the EMS in remonetizing gold at market prices, approximately $160 billion in additional liquidity would be created, literally "overnight." USLP chairman Lyndon LaRouche porposed last year that these upvalued reserves be utilized as the "collateral" for a major expansion in credits to Third World countries to cover their purchases of U.S. and European capital goods—a world economic recovery program.

The LaRouche plan must be distinguished absolutely from recent British proposals (see last week's column) which would restore gold's role but within a framework similar to the British-dominated nineteenth-century system. Under the British model, an economy which experienced a drain on its gold reserves would be cut off from access to international credit and would be forced to deflate. But, as LaRouche emphasizes, this British system is based on a fraudulent economic method: the expansion of paper credit is not in itself inflationary; inflation is caused by the failure to reinvest the nation's economic surplus productively.

—*Alice Roth*