The original documents are located in Box C4, folder "Presidential Handwriting, 9/25/1974" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

September 25, 1974

ADMINISTRATIVELY ~~CONFIDENTIAL~~

MEMORANDUM FOR: KENNETH RUSH

FROM: JERRY H. JONES

SUBJECT: U.S. Position on Gold

Your memorandum to the President of August 27 on the above subject has been reviewed and the following comments were made on September 24:

> -- I am returning this to you as I clean up desk. Several weeks ago we had meeting on this. What was decision? Or, was position deferred?

Please follow-up with the appropriate action.

Thank you.

cc: Al Haig

9/25/74

OFFICE OF THE PRESIDENT

WASHINGTON, D.C.

From the President:

To: Ken Rush

Date: 9/24/74 Time a.m. p.m.

I am returning this to you as I clean up desk.

Several weeks ago we had meeting on this.

What was decision?

Or, was position deferred?

THE PRESIDENT HAS SEEN...

THE WHITE HOUSE

WASHINGTON

August 27, 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: KENNETH RUSH K. R.

Subject: U.S. Position on Gold

Attached are Economic Decision Memorandum No. 2 (Tab A), my memorandum of June 4 transmitting a suggested U.S. position on gold prepared by Secretary Simon (Tab B), and Herb Stein's memorandum of June 3 containing his reaction to Bill Simons' proposals (Tab C).

Attachments:

Tabs A through C

A

A

THE WHITE HOUSE

WASHINGTON

June 7, 1974

MEMORANDUM FOR THE PRESIDENT

FROM: KENNETH RUSH K. R.

SUBJECT: Gold Policy

Pursuant to your decision last week, I have prepared the attached Economic Decision Memorandum for your signature.

00436

THE WHITE HOUSE

WASHINGTON

Economic Decision Memorandum #2

TO: Secretary of State
Secretary of the Treasury
Counsellor to the President Rush
Chairman, Federal Reserve Board
Chairman, Council of Economic Advisers

SUBJECT: U. S. Government Position on Gold

I have approved a USG position on gold, the elements of which are as follows:

1. Governments should be permitted to sell gold at individually-negotiated, market-related prices to any buyer subject to a limitation -- that no government would sell more than 10% of its present holdings during any twelve-month period during the next three years unless the IMF gave its concurrence to larger sales.

2. The IMF should be permitted to sell from its gold stocks and would be expected gradually to make such sales to obtain additional resources to assist its members.

3. Any IMF member government should be able, as an alternative to direct sales, to employ the IMF to act as its agent in selling gold from its government stocks on an orderly basis over time with an appropriate commission to the IMF and with the IMF being prepared to extend assistance to the selling government at the time the gold was transferred into the custody of the IMF; such IMF assistance should be equivalent to a substantial proportion of the current market value of the gold and should not restrict the selling government's access to other IMF facilities.

4. Governments should be permitted without restriction to pledge gold as collateral for loans received from other governments or from private lenders.

5. Each government should be permitted at any time to buy, from the market and from other governments, as much gold as it has sold net during the previous twelve months.

6. Gold valuation and settlement obligations should be removed from the Articles of the IMF and from other multilateral monetary agreements.

7. At a time when the change can be introduced without severe risk of market disruption, U. S. citizens should be granted permission to invest in gold and it should be anticipated that in the light of conditions at that time the U.S. Government would feel free to sell gold from its stocks if that should appear desirable to insure that the permission for private ownership of gold did not have an undesirable effect on the U.S. international payments position.

Secretary Simon is authorized to utilize the elements of this position at the June meeting of the C-20 and in other negotiations.

~~Confidential~~
Classified by Michael A. Samuels
Automatically declassified on public release

B

~~KR~~
~~JM~~
File

THE WHITE HOUSE

WASHINGTON

June 4, 1974

~~CONFIDENTIAL~~

MEMORANDUM FOR: KENNETH RUSH

FROM: JERRY H. JONES

SUBJECT: U.S. Position on Gold

Your memorandum of June 4 on the above subject has been reviewed and approval has been given on Secretary Simon's negotiation proposals.

Thank you.

A Suggested U.S. Position on Gold

Background

For most of the postwar period the U.S. Government, and only the U.S. Government, freely exchanged its currency for gold with authorized foreign holders. In 1968 the major governments agreed not to buy from, or sell to, the private market, and a two-tier gold price system arose. In August, 1971, the U.S. discontinued transactions in gold with foreign authorities at the official price. The only operationally significant price of gold since then has been the private market price.

In his outline of U.S. monetary reform plans at the IMF meeting in September, 1972, Secretary Shultz stated: "I do not expect governmental holdings of gold to disappear overnight. I do believe orderly procedures are available to facilitate a diminishing role of gold in international monetary affairs in the future."

Since that speech no practical steps have been taken to implement a diminishing role for gold. Last year the major countries did agree that governments could sell into the private market, but no sales have taken place. Even though the market price of gold has been in the $150 to $180 range in recent months -- compared to the pre-August-1971 official price of $35 per counce -- some governments may have refrained from selling out of fear that government sales into a thin market with no possible governmental buyers would lead to a severe price decline.

About a month ago the European Community finance ministers -- in part because of current concern over Italy's financial difficulties -- came up with three proposals:

i. that governments be allowed to trade gold among themselves at market-related prices,

ii. that governments be allowed to buy from the market, and

iii. that some sort of intergovernmental mechanism be set up to limit fluctuations in the market price of gold.

The Europeans have been told that these proposals are unacceptable to the U.S. Government since they would create strong tendencies to move the international monetary system back toward an inflexible -- indeed explosive -- rigidity.

U.S. Proposals

The U.S. now needs to put forward a position which would:

- -- respond constructively to the recent European initiatives and thus reduce the likelihood of a breakdown in international monetary cooperation through decisions by some European governments to go their separate ways in the near future in their monetary treatment of gold;
- -- assist nations in adjusting to the new patterns of payments resulting from the large increases in the prices of oil and some other materials; and
- -- facilitate the further evolution of the international monetary system in directions already generally agreed.

The proposed position should represent a desirable exercise of U.S. leadership at a time when there is an unusually good opportunity to seek agreement with the new financially-sophisticated governments in France and Germany.

The U.S. position should provide that:

1. Governments should be permitted to sell gold at individually-negotiated, market-related prices to any buyer subject to a limitation -- to insure against any inordinate sudden inflationary impact -- that no government would sell more than 10% of its present holdings during any twelve-month period during the next three years unless the IMF gave its concurrence to larger sales.

2. The IMF should be permitted to sell from its gold stocks and would be expected gradually to make such sales to obtain additional resources to assist its members.

3. Any IMF member government should be able, as an alternative to direct sales, to employ the IMF to act as its agent in selling gold from its government stocks on an orderly basis over time with an appropriate commission to the IMF and with the IMF

being prepared to extend assistance to the selling government at the time the gold was transferred into the custody of the IMF; such IMF assistance should be equivalent to a substantial proportion of the current market value of the gold and should not restrict the selling government's access to other IMF facilities.

4. Governments should be permitted without restriction to pledge gold as collateral for loans received from other governments or from private lenders.

5. Each government should be permitted at any time to buy, from the market and from other governments, as much gold as it has sold net during the previous twelve months.

6. Gold valuation and settlement obligations should be removed from the Articles of the IMF and from other multilateral monetary agreements.

7. At a time when the change can be introduced without severe risk of market disruption, U.S. citizens should be granted permission to invest in gold and it should be anticipated that in the light of conditions at that time the U.S. Government would feel free to sell gold from its stocks if that should appear desirable to insure that the permission for private ownership of gold did not have an undesirable effect on the U.S. international payments position.

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 00439

Collection/Series/Folder ID No. ..... :	004700052
Reason for Withdrawal .... :	NS,National security restriction
Type of Material .... :	MEM,Memo(s)
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Description .... :	re U.S. position on gold
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C

~~CONFIDENTIAL~~

C

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 3, 1974

MEMORANDUM FOR SECRETARY SIMON
COUNSELOR RUSH
CHAIRMAN BURNS
SECRETARY KISSINGER
ASSISTANT TO THE PRESIDENT FLANIGAN

Subject: Secretary Simon's Memorandum of June 1 on U.S. Proposal on Gold

We are in agreement with paragraphs 4 through 7 of the suggested American proposals but consider it important that paragraphs 1 and 2 should be modified and paragraph 3 should be omitted. We are basically worried about the danger that U.S. acceptance of these items would imply acquiescence in the idea of a supported price for gold, which would lead then in succeeding steps to pegging the price and restoring gold to the center of the international monetary system.

Paragraph 1. In our appraisal the limitation on sales should be omitted from this provision. That limitation would merely have the undesirable effect of lending support to an effort at gold-price maintenance. The argument that the sales limitation would prevent a steepening of inflation abroad and that the U.S. has a particular interest in this we find unconvincing. Those countries which are willing to engage in highly inflationary policies -- a seemingly widespread attitude abroad -- will do so pretty much regardless of how much gold they are permitted to sell. Quite aside from this, in a world of flexible exchange rates such policies abroad would result in rising dollar rates rather than in a spread of the additional inflation to the U.S. Furthermore the rise in the dollar rates which would be brought about in such circumstances would not weaken our export prospects since it would merely offset the effects of the deterioration of foreign competitive positions resulting from their inflation.

~~CONFIDENTIAL~~

Paragraph 2. In our appraisal the provision should stipulate that the IMF will indeed be selling gold out of its own large stock. We should thereby create an additional source of supply when additional demand will come into play as a result of private American ownership. The alternatives would be (a) to sell part of our own official gold holdings at that time, and (b) to let American residents buy gold from abroad. The disadvantages of (a) would be that we would have less "official" gold at a future time when central banks abroad might well develop arrangements under which important American objectives would require having a large stock for interventions. The disadvantages of (b) would be that it would raise the dollar price of our imports. Any estimate of the future American private demand is so wholly conjectural that we should not build policy on guesses that this demand will be small.

Paragraph 3. In our appraisal this provision for the IMF to act as an agent in the sale of gold, should be omitted, essentially for the same reason why Paragraph 1 should be modified. Paragraph 3 would give institutional support to efforts at gold-price maintenance. We also think that if the IMF has this role in translating gold into a larger amount of reserves than it is now worth, the LDC's will demand a share of the reserves so generated.

Herbert Stein

Herbert Stein