11/30/74

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THE SECRETARY OF THE TREASURY
WASHINGTON

November 18, 1974

MEMORANDUM FOR THE PRESIDENT

From: The Secretary of the Treasury

DECISIONS ON GOLD

Following the discussion in the Cabinet meeting on November 14, I would like to recommend that you provide decisions on two basic questions regarding gold.

I. Should the Congress be asked to postpone beyond December 31 the date on which U.S. citizens will become free to invest in gold in bullion form?

Option A. The Congress could be asked to consider a postponement as an important item of business during the lame duck session on the grounds:

-- That there may be substantial investment and speculative interest in gold which could lead to:

further disintermediation from our thrift institutions with consequent damage to the housing industry, and

downward pressure on the dollar in the exchange markets since all gold for private investment will need to come from imports of gold in addition to the substantial amounts already being imported for industrial and artistic use; the additional gold imports would tend to raise the dollar prices of all our exports and imports and would thus contribute to inflation.

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-- That there is already enough uncertainty and tension in financial markets without our taking on the additional risks that would be associated with private ownership of gold.

OPTION B. A decision could be made to allow the legislation to go into effect on December 31 on the grounds:

-- That there are now no clear-cut crises in the international exchange markets or the domestic financial markets which could be used as a justification to the Congress for repeal of legislation only recently signed by you.

OK [illegible].

-- A request by you would in itself create an uncertainty because it would not be clear what response the Congress would make to the request, and because the request itself might be interpreted as a panic action.

-- A request could be construed abroad as a shift in the U.S. position that gold should be phased out of a central role in the international monetary system and should be moved toward a position like that of other commodities.

-- That the possible effects of private gold investment on the exchange value of the dollar and on disintermediation could be reduced or offset by limited sales of gold from Treasury stocks.

-- That continued restriction would be an infringement on personal freedom not justified by an adequate public purpose.

It is my understanding that Option A is favored by Arthur Burns and that Option B is favored by Alan Greenspan, Bill Eberle, Bill Seidman and me.

II. If it becomes clear that the new legislation will go into effect on December 31, should the Treasury make plans for an early sale of a limited amount, say $300 million worth, from its gold stock?

Option 1. The Treasury could plan to stay out of the market and let the market price be determined by other supply and demand forces on the grounds:

-- That Treasury intervention in the market would run counter to the rationale that the Government should not infringe on the citizens' freedoms with respect to gold.

-- That once Treasury sales had begun there would be pressures for the Government to take full responsibility for the future market price of gold.

-- That the history of past efforts to influence the free market price of gold was not encouraging and that such action at present might lead to demands for intervention in other markets.

-- That it would be premature to dispose of any of our reserve assets prior to a better understanding of the respective roles of special drawing rights, gold and reserve currencies as official reserve assets in the future international monetary system.

Option 2. The Treasury could plan to auction a limited amount of gold, presumably through a public auction handled by the GSA in a manner comparable to that used in sales of Treasury silver a few years ago, on the grounds:

OK
AFB

-- That an unwillingness of the Treasury to part with any gold at this time would undermine the credibility of the U.S. official position that gold should be phased out of the center of the monetary system.

-- That the increased import demand for gold, in the absence of official sales, could have an inflationary impact through increasing the dollar value of all other types of imports into the U.S.

-- That the revenue generated by the gold sales would permit the Treasury to reduce its market borrowings and thus reduce its competition with those who wish to borrow from the market for housing and other purposes; the gold sales would tend to offset any disintermediation effect by those who withdrew funds from thrift institutions to buy gold.

-- That in the absence of an early Treasury sale, there would be a strong possibility that the price of gold would run up substantially during the early period of next year when an initial surge of public interest would not yet be offset by a large supply, particularly of retail-size small bars of gold, so that any necessary Treasury sales at a later date might take place in an already fragile market in which the Treasury sales would cause a precipitous decline in price. In such an event, those U.S. investors who had bought gold early in the year might well have a strong feeling that the Government had treated them unfairly or at least had not acted with the appropriate degree of candor.

It is my understanding that Arthur Burns feels we should not plan an early sale although we should keep the matter under review in case we should wish at a later time to make a sale. It is my understanding that the second Option is favored by Alan Greenspan, Bill Eberle, Bill Seidman and me.

In any event, whatever your decision on these two basic questions, I am tentatively planning to propose for your approval, after review by the Economic Policy Board Executive Committee, a public statement to be made in the first half of December, attempting to make clear to the public our position on gold and also pointing out some of the cautions which must be exercised in dealing with the bullion market.

William E. Simon

STAFFING

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: November 27, 1974 Time:

FOR ACTION: Roy Ash
Alan Greenspan

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, November 27, 1974 Time: 2:00 p.m.

SUBJECT:

Simon memo (11/18/74) re:
Decisions on Gold

ACTION REQUESTED:

___ For Necessary Action

_X_ For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

_X_ For Your Comments

___ Draft Remarks

REMARKS:

11/27 Ash ok
w/P
Greenspan ok
Seidman ok

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: November 27, 1974 Time: 11:30 a.m.

FOR ACTION: L. William Seidman (Economic Policy Board)

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: November 27, 1974 Time: 1:00 p.m.

SUBJECT:

Simon memo (11/18/74) re: Decisions on Gold

ACTION REQUESTED:

___ For Necessary Action

_X_ For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

_X_ For Your Comments

___ Draft Remarks

REMARKS:

Secretary Simon brought up this subject in the senior staff meeting which you attended this morning.

11/27 - 12:30 Seidman ok

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K. R. COLE, JR.
For the President

THE SECRETARY OF THE TREASURY
WASHINGTON

November 18, 1974

MEMORANDUM FOR THE PRESIDENT

From: The Secretary of the Treasury

DECISIONS ON GOLD

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downward pressure on the dollar in the exchange markets since all gold for private investment will need to come from imports of gold in addition to the substantial amounts already being imported for industrial and artistic use; the additional gold imports would tend to raise the dollar prices of all our exports and imports and would thus contribute to inflation.

-- That there is already enough uncertainty and tension in financial markets without our taking on the additional risks that would be associated with private ownership of gold.

OPTION B. A decision could be made to allow the legislation to go into effect on December 31 on the grounds:

-- That there are now no clear-cut crises in the international exchange markets or the domestic financial markets which could be used as a justification to the Congress for repeal of legislation only recently signed by you.

-- A request by you would in itself create an uncertainty because it would not be clear what response the Congress would make to the request, and because the request itself might be interpreted as a panic action.

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It is my understanding that Option A is favored by Arthur Burns and that Option B is favored by Alan Greenspan, Bill Eberle, Bill Seidman and me.

II. <u>If it becomes clear that the new legislation will go into effect on December 31, should the Treasury make plans for an early sale of a limited amount, say $300 million worth, from its gold stock?</u>

<u>Option 1</u>. The Treasury could plan to stay out of the market and let the market price be determined by other supply and demand forces on the grounds:

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William E. Simon

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: November 27, 1974 Time:

FOR ACTION: Roy Ash
Alan Greenspan

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, November 27, 1974 Time: 2:00 p.m.

SUBJECT:

Simon memo (11/18/74) re:
Decisions on Gold

ACTION REQUESTED:

____ For Necessary Action	X For Your Recommendations
____ Prepare Agenda and Brief	____ Draft Reply
X For Your Comments	____ Draft Remarks

REMARKS:

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Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: November 27, 1974 Time: 11:30 a.m.

FOR ACTION: L. William Seidman (Economic Policy Board) cc (for information):

FROM THE STAFF SECRETARY

Rush

DUE: Date: November 27, 1974 Time: 1:00 p.m.

SUBJECT:

Simon memo (11/18/74) re: Decisions on Gold

ACTION REQUESTED:

___ For Necessary Action

_X_ For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

_X_ For Your Comments

___ Draft Remarks

REMARKS:

Secretary Simon brought up this subject in the senior staff meeting which you attended this morning.

Agree as presented by Sec. Simon. LW Seidman

called in 11/27

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If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

WASHINGTON

November 30, 1974

MEMORANDUM FOR THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY

SUBJECT: Decisions on Gold

Your memorandum to the President of November 18 on the above subject has been reviewed and the following was approved:

I. Should the Congress be asked to postpone beyond December 31 the date on which U.S. citizens will become free to invest in gold in bullion form? Option B was approved.

II. If it becomes clear that the new legislation will go into effect on December 31, should the Treasury make plans for an early sale of a limited amount, say $300 million worth, from its gold stock? Option 2 was approved.

Please follow-up with the appropriate action.

Thank you.

Jerry H. Jones

Jerry H. Jones
Staff Secretary

cc: Don Rumsfeld