The original documents are located in Box C26, folder "Presidential Handwriting, 8/30/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Jim -

I plan to keep this with the meeting briefing papers.

I will give Eleanor a copy for her decision file.

Any other action?

Trudy

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

August 30, 1975

ECONOMIC AND ENERGY MEETING
August 29, 1975
11:15 a.m.

MEMORANDUM OF DECISIONS

FROM: L. WILLIAM SEIDMAN LWS

Decision 1: U.S. Participation in International Tin Agreement

The President approved announcement at the United Nations' Seventh Special Session of his intention to join the International Tin Agreement, subject to congressional consultations and approval and conditional upon the freedom to continue sales from the GSA tin stockpile. The announcement should state that we are joining the International Tin Agreement because it avoids direct pricing or indexation, works through a buffer stockpile, and incorporates a balanced voting system. The announcement should also include a sentence indicating that our intention to join the Tin Agreement does not obligate us to join any other commodity agreements and that we will continue to review commodity agreements on a case by case basis.

Implementation: Assistant Secretary of State Enders will incorporate this decision into the text of Secretary Kissinger's address to the United Nations' Seventh Special Session.

Decision 2: Presidential Statement on the New York City Situation

The President requested the preparation of a draft Presidential statement on N.Y. City, indicating that he is sympathetic to the people of N.Y. City but that he has not seen a sufficient amount of evidence that N.Y. City has adequately moved to solve their problems. The statement should also include an indication of what would constitute adequate action.

Implementation: The Treasury will prepare a draft Presidential statement for review the week of September 1.

Decision 3: New York City Chronology of Events

The President requested the Treasury to prepare a summary of the actions that have been taken to date by N.Y. City to deal with their financial situation.

Implementation: The Treasury will prepare the above summary for review the week of September 1.

Decision 4: New York City Financial Situation

The President approved the preparation of a Treasury memorandum outlining possible actions by the Federal Government to contain the effects of a possible New York City default.

Implementation: The Treasury will prepare the above memorandum for review the week of September 1.

Decision 5: U.S. Negotiating Position on Gold

The President requested that the Economic Policy Board Executive Committee conduct a secret ballot of its members on the issue of the U.S. negotiating position on gold and transmit the results to him the afternoon of August 29.

Implementation: Mr. Seidman's office conducted the secret ballot and transmitted the results to the President.

THE WHITE HOUSE
WASHINGTON

Jim -

It is my feeling that we should definitely keep this paper here and not send to Central Files --- just too many very sensitive subjects.

Agree?

yes

Trudy

ECONOMIC ENERGY MEETING

Friday, August 29, 1975

11:00 A.M.

THE PRESIDENT HAS SEEN....

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

August 28, 1975

ECONOMIC AND ENERGY MEETING
August 29, 1975
11:00 a.m.
(60 minutes)
Cabinet Room

From: L. William Seidman LWS

I. PURPOSE

A. To review the current economic outlook.

B. To review the U.S. negotiating position on gold at the upcoming IMF meetings.

C. To consider the U.S. Government position on the International Tin Agreement.

D. To review the latest developments in the New York City financial situation.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The Weekly Economic Fact Sheet is attached at Tab A. The Economic Policy Board Weekly Report is attached at Tab B.

Several economic indices have been released since the last Economic and Energy meeting and a revision of the Troika forecast in light of recent events is now underway. The review of the current state of the economy will include a review of the food price situation and outlook.

The International Monetary Fund meetings begin this Saturday in Washington. The Treasury and the Federal Reserve have agreed on all aspects of the U.S. position with the exception of gold. Memorandums from Secretary Simon and Chairman Burns outlining their positions are attached at Tab C.

Secretary Kissinger wishes to announce, in his address next week to the United Nations Seventh Special Session, that the United States will sign the

International Tin Agreement and will seek ratification by the Congress. A memorandum on U.S. participation in the International Tin Agreement is attached at Tab D.

Memorandums outlining the New York City situation are attached at Tab E.

B. Participants: William E. Simon, L. William Seidman, John T. Dunlop, James T. Lynn, Rogers C.B. Morton, Alan Greenspan, Frank G. Zarb, Arthur F. Burns, Robert S. Ingersoll, Richard L. Dunham, Brent Scowcroft.

C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Review of the Current State of the Economy

Alan Greenspan will review the current state of the economy with emphasis on the outlook for food prices.

B. International Monetary Fund Meetings

Secretary Simon and Chairman Burns will review the issue of the U.S. negotiating position at the International Monetary meetings which begin this Saturday.

C. International Tin Agreement

William Seidman will review the issue of a U.S. Government position on the International Tin Agreement.

D. New York City Situation

Secretary Simon will review the New York City financial situation.

A

CEA
August 28, 1975

WEEKLY ECONOMIC FACT SHEET

Production

- Industrial production rose by 0.5 percent in July following a similar increase in June. Rising production was most evident in the consumer goods sector, with consumer goods output in July about four percent above the March low.

- Revised data for the second quarter now show a slight 1.6 percent annual rate of increase in real GNP compared with the slight decline reported earlier. The revisions were largely due to a slightly lower rate of inventory liquidation and a pattern of consumer and business outlays virtually unchanged from the earlier estimates.

- Housing starts rose 14 percent in July to a 1.2 million annual rate, about 20 percent above the lows of earlier in the year. Building permits have continued to advance. Despite the recent rise in interest rates mortgage market conditions still appear consistent with our expectations of a continued modest recovery in housing.

- New orders for durable goods rose by 5.3 percent in July. Excluding the order increase in the automobile industry, new orders rose by four percent. New durable goods orders are now 17 percent above the lows of earlier in the year. The backlog of unfilled orders, which had been declining sharply, leveled off in July.

Employment and Unemployment

- Although we had expected a slight increase in July the seasonally adjusted unemployment rate declined to 8.4 percent, significantly below the 8.9 percent average of the second quarter. Employment in retail trade and nondurable manufacturing rose, and the length of the workweek in manufacturing rose sharply by 0.4 hours in July while the average amount of overtime rose by 0.2 hours.

- Although the employment situation is improving we believe that the July decline in the unemployment rate overstates the real improvement in the employment situation that is now occurring and that an increase from the July level is likely to be reported for August. Employment as measured in the household survey has increased fairly rapidly since March (by 1.2 million). Total nonfarm payroll employment, however, which tends to be less erratic because it is based upon the actual payroll reports of employers, has shown no definite up trend.

Personal Income and Retail Sales

- Personal income declined $5.7 billion in July after a rise of $29.8 billion in June. Excluding the special effects caused by the special tax payments, however, personal income rose by about $10 billion in both June and July and at a better than ten percent annual rate since the March/April turning point. This is consistent with our expectation of a continued strong performance by consumer spending over the balance of this year.

- Preliminary estimates of retail sales show a strong increase of 2.5 percent in July. The reports of weekly sales through mid-August suggest a flattening out though at the July level.

Prices

- Consumer prices rose by a seasonally adjusted 1.2 percent during July, the second month of rapid increase. The consumer price index has risen at a 12.2 percent rate since May compared with the six percent annual rate of the first five months of the year.

- The price flareup in the past two months is largely attributable to higher food prices, although rising energy prices and a pick up in the rate of price advance for non food commodities have also played a role.

- Although the pace of price advance may subside below the July rate in the next month or two we must anticipate uncomfortable retail price reports for several more months at least.

Money and Financial

- Interest rates have continued to move upward. Over the past month short term interest rates have risen by 20 to 30 basis points. The pattern of rising rates has now spread into the longer term market largely because of the disappointing price developments and the possible strengthening of expectations regarding future inflation.

- The rate of growth of the various monetary aggregates has flattened out since early July and this has brought the growth rates since April back to the 7.5 percent upper point of the target range set forth by the Federal Reserve earlier in the year.

B

August 28, 1975

ECONOMIC POLICY BOARD WEEKLY REPORT

<u>Issues Considered by the EPB During the Month of August</u>

1. Review of current state of the economy
   Reviewed the major economic events of the past five weeks and how they are likely to affect the Troika forecast.

2. Report of the EPB/NSC Task Force on Commodities Policy
   Reviewed options paper on U.S. Government position on the International Tin Agreement and approved for submission to the President.

3. New York City financial situation
   Reviewed developments and affirmed current policy outlined by the President of no additional Federal financial assistance.

4. Financial condition of major U.S. cities
   Reviewed preliminary analysis of financial condition of major U.S. cities. Directed expansion of analysis including a review of legislation introduced in Congress to provide direct Federal assistance to cities in the form of Federal guarantees and insurance on city debt obligations.

5. Economic analysis of an international grain reserves system
   Reviewed analysis of the budgetary considerations of the proposed grain reserves system, the impact of world grain reserves accumulation, and the relationship of the grain reserves system to general U.S. agricultural policy.

6. Construction industry collective bargaining bill
   Reviewed summary of major provisions.

7. Federal financing bank policy on purchase of Federally guaranteed loans
   Reviewed OMB memorandum. Treasury and OMB will discuss their differences on this issue, and if necessary, prepare an options paper for consideration by the Executive Committee.

8. Windfall Profits Tax
   Reviewed analysis of Senate Finance Committee bill and alternative Administration proposals.

9. Reviewed status report of Pan American financial situation

10. Economic impact on decontrol of oil on the airline industry.

11. Aviation Fuel Cost Increases: Pass Through
    Approved filing of DOT, FEA, and CWPS petition of the CAB to adopt emergency procedures permitting the airlines industry to pass through fuel price increases.

12. Aviation fuel cost increases: Capacity Agreements
    Approved no petitioning the CAB for temporary capacity agreements designed to meet the airlines' near term fuel cost problems.

Task Force Status Reports

1. Food Deputies Report

   - Food component of the CPI increased 1.7 percent in July--the food at home component increased 1.9 percent and food away from home component increased 0.5 percent.
   - Food prices are 11.3 percent higher than in the same month a year ago.
   - These increases do not reflect the market impact of grain sales to the Soviet Union. Most of the increase was due to fruits and vegetables, meats, poultry and fish.
   - Since mid-July crop estimates for the USSR, the U.S. and Western Europe have declined 27 million tons.
   - Total world grain output is now estimated at 26 million tons lower than the July estimates largely eliminating the possibility of any appreciable recovery the worldwide grain stocks.

Major Upcoming Agenda Items

1. U.S. Grain policy

2. Robinson-Patman Act

3. Proposed task force on ocean policy

4. American-Pan American consolidation

5. International aviation policy statement

6. Aviation regulatory reform

7. Status report on export credit issues

8. Status report on inflation impact statements

9. Status report on the Council on Wage and Price Stability activities

Grain Situation

An Economic Policy Board reassessment of U.S. grain policy now underway will address the related issues of additional sales to the Soviet Union, the timing of any additional sales, procedures for monitoring grain exports, and the effect of additional sales on other U.S. negotiations with the Soviets.

C

THE WHITE HOUSE

WASHINGTON

August 28, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Negotiating Position on Gold

Secretary Simon requests your advice on the U.S. negotiating position on gold at the International Monetary Fund meetings which begin in Washington this Saturday. The Treasury and the Federal Reserve have agreed on all aspects of the U.S. position with the exception of gold.

At issue is the extent to which central banks and governments should be free to purchase gold from one another. The Treasury is prepared to accept an agreement permitting gold transactions between governments conditioned on a global limit and acceptance of the notion that no government should trade in gold with the objective of attempting to peg the price. The Federal Reserve believes greater restraint on inter-governmental transactions in gold is necessary.

A memorandum from Secretary Simon outlining the Treasury position and briefly reviewing the other principal issues on the IMF agenda is attached at Tab A. A memorandum from Chairman Burns outlining the Federal Reserve Board position is attached at Tab B.

_________ Treasury Position

_________ Federal Reserve Board Position

THE SECRETARY OF THE TREASURY
WASHINGTON

August 28, 1975

MEMORANDUM FOR THE PRESIDENT

Need for Your Advice on Next Week's Monetary Negotiations

I would like very much to meet with you this week to discuss our negotiating positions for the important negotiations next week in which I will be participating. In particular I need your advice on a matter on which Arthur and I are still unable to agree: the gold question which we reviewed with you on June 3 and on which, despite subsequent efforts, we have not been able to reach agreement.

Because of the gold issue we're in a difficult tactical position. We, along with the French, have held out for a package agreement on the three principal points. The French position has changed. They now indicate a willingness to "unbundle" the issue of gold and quota increases leaving the exchange rate issue for later. There is some question whether this represents a serious position -- they are probably aware of our disagreement with the Fed on gold and thus our inability to negotiate. They also probably realize the difficulty in gaining Congressional approval of quota increases in the absence of agreement on the exchange rate issue.

In any case their initiative appears to the world to be positive and forthcoming. They appear to have dropped the trappings of intransigence and have assumed a position of flexibility. Unless Arthur and I can determine a mutually acceptable position on gold, we cannot negotiate on this issue. If they refuse to deal on the matter of exchange rates, we in turn cannot afford to agree on the highly popular issue of quota increases without losing one of our best cards and incurring the enmity of some of our key Congressional supporters on the exchange rate issue.

Failure next week as a result of our internal difficulties would increase the political pressures for an Economic Summit with a monetary agenda. A Summit with this agenda, originating seemingly as a result of the failure of the "technicians" of the Interim Committee, could be from an economic and political standpoint a high risk, low reward scenario for the U.S.

The solution, it seems to me, is to agree with Arthur on a gold position that provides us with a negotiating basis, one from which we can deal on gold and offer to deal on quotas if after some U.S. concessions the exchange rate issue can also be settled. If the exchange rate issue cannot be settled, we can still indicate a willingness to settle on gold leaving quotas and exchange rates for later. I am sorry to bother you again on this matter but I urgently need your advice.

Background

As background the three principal issues on the IMF Interim Committee's agenda are, an increase in IMF quotas, the exchange rate issue and the gold issue. Those three issues are the final distillation of the Committees overall charge to develop steps to update the international financial system and to develop some practical measures of financial assistance for LDCs.

1. IMF quota increase -- Agreement on an increase of one-third in IMF quotas is close. The quota increase will result in a substantial expansion in the amount which governments can borrow from the IMF in cases of need and entails an increase in the obligations of governments to lend to the IMF when other governments are deserving of assistance. Our present offer is to recommend to Congress that our share in the quota increase be limited to less than one-third. This would drop our overall quota share from 22.9% to 21.9%, and would permit the OPEC countries' quotas to double from 5% to 10%. Under certain circumstances we are prepared to reduce our overall quotas even further so long as this is accompanied by a change in IMF rules defining the size of the majority required for key actions -- from the present 80% - 85% - to sustain our veto.

2. Exchange rates -- This is perhaps the most implacable issue on which we are negotiating. It is directly related to bread and butter concerns, principally the relative competitiveness of nations' goods in international markets and their respective home markets and to the international role of the dollar and the advantages that the French are convinced go with its present role. The French position is that the floats that in varying degrees characterize the world's principal currencies are aberrations and that phased return to the par values called for under the IMF articles is essential. Presently all major countries are in violation of the basic undertakings in the IMF articles with

respect to exchange practices. The French have been insistent that their ultimate objective -- all must be part of a fixed exchange rate system -- must be spelled out implicitly in any language adopted as a substitute for the obsolete article presently in place. I am considering offering to end the interminable debate surrounding the wording of a new article by simply eliminating the obsolete provisions and not replacing them at this time.

Whether this will provide a satisfactory resolution to this issue is problematical. For tactical reasons, discussed later, and for longer run reasons, agreement will be difficult. The fundamental problem involves the desire of the French to improve their relative competitive position by obtaining from their standpoint, a more attractive exchange rate for the franc -- a move that requires a fixed exchange rate system within which to operate. The French sorely miss the advantage that the structurally undervalued franc provided in the period starting in 1958 and ending with the float of major currencies including the dollar.

They intellectualize their position by arguing -- sometimes with effect, if not with accuracy, that a system of fixed exchange rates exerts discipline and is therefore not inflationary. Recently they have skillfully tapped the world's craving for stability in a dangerous and swiftly changing environment by making a political argument for the "stability" of a fixed exchange rate system. This argument is spurious. Such a system is fixed in name only and lacks the elasticity to adapt without a series of foreign exchange crises to the changes in fundamental economic relationships that are at the source of the disturbing changes that we have all observed. In effect what tends to be fixed is the dollar, i.e., others have much more say about the value of the dollar under the fixed than under floating rates. The French in particular adjusted their exchange rate frequently in the post-war period against a fixed dollar to maintain a highly competitive trading position.

3. <u>Gold</u> -- The Interim Committee has agreed that the official international price for gold should be abolished and that the monetary role of gold should be phased down. It is also agreed that the substantial amount of gold held by the IMF should not be immobilized forever. On this point there is agreement that some IMF gold should be put to use and that some constraints or conditions should be applied to official gold sales and purchases in the near future.

The French have either agreed to or appear ready to agree to the following:

a. The German proposal that a part of the IMF's $7 billion in gold (at the official price of $42 per ounce; the market price is $161) be restituted to members according to their quotas with part being sold in the private market and the proceeds used to establish a trust fund to help selected LDCs. Disposition of the rest of the IMF's gold would await a later decision which would require an 85% majority.

b. A global limit on official gold holdings under which no government would buy gold when the effect would be to increase total governmental holdings. The reserves held in the form of gold by some countries could increase without a change in the overall amount held by governments (including the IMF).

c. In addition the French are willing to agree that no government should trade in gold with the objective of trying to peg the price.

d. The French agreed to re-enter the snake under amended rules which specifically prohibit the settlement of balances in gold. This involved some domestic political risk for the French government and is at variance with long established French theology on the subject.

While the French have agreed to the above, points a - d, they and others are more or less united in their opposition to a situation in which gold could under no circumstances be used (other than in exceptional circumstances), a limit that in response to Arthur's strong urgings we have sought to negotiate. Countries like Italy which have large gold holdings and which have recently encountered exceptional circumstances agree with the French. They and others feel that we have been unduly doctrinaire on this point.

Arthur feels that this is not the case. He fears that the known longing on the part of some European central bankers to reimpose a gold based system -- a system in which the price of gold would be pegged to a currency or to a collection or basket of currencies -- will be translated at some point into action. If this occurred, he feels that we would be at a relative disadvantage because this would involve a less elastic and responsive exchange rate system, a diminution in the role of the dollar, and an increase in the relative importance of powers such as France that have large reserves held largely in the form of gold. He also ascribes an inflationary effect if gold were pegged at the present level, roughly four times the official level, and central banks with large gold holdings were able to "write up their reserves." This in turn would lead to a large increase in stated reserves and Arthur and others believe a dangerous and inflationary rise in world liquidity.

I concede part of the last point that international liquidity as distinct from domestic liquidity has increased with the rise in the market price of gold. If the price of gold were pegged and reserves were written up accordingly, it would in large part be a recognition of the fact that gold currently is well above the official price of $42 per ounce. In substance the increase in international liquidity which Arthur fears has happened. I'm not entirely convinced that this is bad since there has been a need for additional international liquidity. Our inflation problem has its origins in our inability to curb the growth of domestic liquidity and further lapses in this area will set the stage for more inflation -- international liquidity -- control will play a small role.

I doubt the ability of central banks to peg the price of gold if fundamental forces are in the direction of lower prices. I fail to see why efforts to hold up the price of gold would be any more effective today than our efforts to hold down the price of gold at $35 per ounce was in the 1960s.

If market forces are tending to push up the price of gold, central banks could on a frequent basis reset their pegs at excessively higher levels, but they can de facto restate their reserves at market prices right now, as France has done, ignoring the official price of $42 or any new official price.

I believe there are two fundamental forces at work that have a bearing on gold. In our inflationary time governments will part with gold reluctantly. Until prices are stabilized, gold stocks will come down grudgingly in small increments because governments and central bankers are not immune to the store of value aspect of gold, they too like to "hold a little gold."

By the same token a gold based system, a system in which payment deficits are settled by sales of gold from one central bank to another central bank, is improbable because central banks will not wish to part with their gold preferring to settle in some other form -- such as dollars or a basket of currencies.

If prices stabilize, the price of gold is likely to fall sharply -- an event which I think governments and central banks would be unable to stop. This does not preclude a situation in which certain governments and central banks would not seek under the global limit and in the context of IMF sales to increase their holdings of gold. Such countries would have to accept the risk that gold purchased could depreciate sharply if gold in response to general price stabilization dropped in price. Moreover, the idea that an extraordinary hoard of gold will automatically result in an extraordinary amount of international power regardless of the relative size and efficiency of the hoarding country's economy seems far fetched.

Moreover, we are still holding the world's largest gold stock and this can be a decisive factor in the market for a long time if we wish it to be.

William E. Simon

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

August 28, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: Arthur F. Burns

In preparing for the international monetary meetings that will start on Saturday, August 30, the Treasury and the Federal Reserve have agreed on practically all aspects of a U.S. position. Unfortunately, disagreement remains on one fundamental aspect of the U.S. position on gold.

The question at issue is to what extent central banks and governments should be free to buy gold from one another at market-related prices. (Market prices have recently been in the range of $160 to $170 per ounce; the official price is $42.22 per ounce.) The Treasury is willing to accept complete freedom for such transactions. The Federal Reserve believes that some restraint on inter-governmental transactions in gold would be wiser policy at present.

There are five basic elements in the Federal Reserve's stand on gold:

First, a large measure of freedom for governments to trade in gold at a market-related price may frustrate efforts to control world liquidity. Such freedom would provide an incentive for governments to revalue their official gold holdings at a market-related price. (France has already done so.) This in turn could result in the addition of up to $150 billion in international official reserves. Liquidity creation of such extraordinary magnitude would endanger, perhaps even frustrate, our efforts and those of other nations to get inflation under reasonable control.

Second, governments may be tempted to spend the paper profits from revaluing their gold holdings, thus increasing overall spending in a politically easy way -- but also intensifying inflationary pressures.

Third, removal of all restraints on inter-governmental gold transactions may release forces that would increase the importance of gold in the monetary system. In my judgment there is a significant risk that the Treasury's recommended position would inadvertently foster, or at least permit, an increase in the relative importance of gold in the monetary system. Indeed, it could well stimulate the formation of a gold bloc in Europe, thereby certainly weakening our international political position and, perhaps, worsening our economic position as well.

Fourth, until we and other countries have forged a consensus on the desired shape of the future world monetary system, we should not isolate the gold question and deal with it apart from other critical issues of monetary reform. Moving ahead on gold in the absence of such a consensus may inadvertently and dangerously prejudge the shape of the future monetary system.

Fifth, there is no compelling practical problem that requires early action on gold issues. Sizable borrowing facilities exist to help countries tide over emergency needs for balance-of-payments financing. Countries needing to use their gold holdings can either sell some gold in the market or arrange to use their gold as collateral for loans. In short, there is no clear economic reason at present for being concerned about deferring a resolution of outstanding gold issues.

In our discussions with the Treasury, the Federal Reserve has diligently sought agreement on the gold issue. I have gone a considerable distance in an effort to narrow our differences:

(1) I have dropped my earlier insistence that an individual country's holdings of gold be subject to a ceiling.

(2) I have agreed that the limit on the world stock of monetary gold could be defined so as to include the holdings of the International Monetary Fund in addition to the holdings of member governments. (This implies that sales by the IMF would enable individual central banks and governments to increase their gold holdings.)

(3) I have proposed the important concession that a government may buy gold from another government if the purchase will accommodate an emergency need by the selling government to mobilize its gold holdings; also that a government which had made a sale under emergency conditions could repurchase that amount from another government without involving the emergency provision.

(4) I have suggested that all the understandings governing gold transactions be reviewed after one year, not after two years as was proposed in June.

I cannot go further and still protect the U.S. interest, as the Federal Reserve sees it. In my judgment, a failure to resolve the gold issue at the international monetary meetings next week would not produce adverse economic or political consequences. I believe that there is a good chance of a successful negotiation next week on the increase in IMF quotas and on the legalization of floating exchange rates. We should push ahead on these questions.

The Federal Reserve's recommendation to restrict inter-governmental transactions in gold commands strong support in the United States among those of the financial and academic communities that are sensitive to these issues. In fact, the Treasury's Advisory Committee on Reform of the International Monetary System, which includes among others several former Secretaries of the Treasury, is inclined to go further than the Federal Reserve in restricting inter-governmental transactions in gold.

Let me say, finally, that if we ever do decide to accept the French position on gold (and this in essence is what the Treasury's position amounts to), we ought at least to extract from them a weighty political quid pro quo. And if there is to be a Summit meeting, and if the Federal Reserve's advice is rejected, would it not be wise to postpone our concession to the French on the gold issue until that time, so that we could get something substantial in return?

D

THE WHITE HOUSE

WASHINGTON

August 28, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: U.S. PARTICIPATION IN THE INTERNATIONAL TIN AGREEMENT

Secretary Kissinger wishes to announce, in his address next week to the United Nations Seventh Special Session, that the United States will sign the Tin Agreement and will seek ratification by the Congress.

In February 1975 an interagency Task Force was jointly established by the Economic Policy Board and the National Security Council for the purpose of reviewing U.S. commodity policy in general and its application to specified commodities. All major agencies concerned with these issues are represented on the Task Force. The Task Force has recently reported on its examination of the economic and political considerations involved in U.S. participation in the International Tin Agreement.

This memorandum requests your decision on whether the U.S. should announce at this time its willingness or unwillingness to sign the International Tin Agreement.

Background

By April 30, 1976 the U.S. and other major tin producers and consumers must decide whether to ratify the Fifth International Tin Agreement (ITA) which was negotiated in Geneva last June. The Fifth Agreement is similar to the previous four agreements. It is five years in duration and seeks to stabilize fluctuations in the price of tin both by sales and purchases of tin (within authorized limits) and by the imposition of export controls when tin prices drop severely. The ITA operates through an executive organ, the International Tin Council, whose decisions are subject to joint consumer/producer control.

Although we participated in negotiating the current Tin Agreement as well as previous agreements, the U.S., alone among the major consuming nations, has declined to ratify

Tin Agreements. However, in public speeches in recent months, Secretary Kissinger and other senior Administration officials have indicated that we would give serious consideration to ratifying the Tin Agreement as part of our recently reaffirmed policy of considering commodity agreements on a case-by-case basis.

Significantly, the United States Government owns a tin stockpile, currently valued at $1.3 billion, approximately equivalent to one years total world consumption. The stockpile, administered by GSA, is reduced when prices rise and increased when prices fall. GSA has traditionally maintained its flexibility to pursue an independent national stockpile policy.

It is our interpretation that GSA would not be under any legal requirement to harmonize disposal policy with ITC policy, but it may come under political pressure to conform, or at least to refrain from selling if the ITC applies export controls. Anticipated revenue from GSA tin sales could be affected by these ITC pressures.

Economic Considerations

Advantages in Signing the Agreement

- U.S. participation in the Tin Agreement is unlikely to have any material impact on the price of tin. In the past the ITA stockpile alone has been too small to prevent large price increases. This is likely to continue.

- The ITA lacks many of the negative features frequently associated with international controls. A majority of both the producers and consumers is required to approve either an increase in the buffer stock target price or the imposition of export controls. Under the voting system, the U.S., Japan, and the FRG would together control at least 49.9 percent of the consumer votes and probably a majority depending on the number of consumers who sign.

Disadvantages in Signing the Agreement

- The agreement is more effective in arresting price declines through export controls than it is in moderating price increases by sales from its stockpile.

- The major potential drawback of U.S. participation is that it could potentially limit U.S. freedom to pursue an independent policy with respect to sales from our $1.3 billion tin stockpile. One effect could be a reduction of anticipated revenues from the tin stockpile disposals.

Political Considerations

Advantages in Signing the Agreement

- U.S. credibility among developing countries would be enhanced if we ratify the ITA which is the first commodity agreement negotiated since our public affirmation of a willingness to consider such agreements on a case-by-case basis. It will be ratified by all the other major consumer nations.

- The six developing country tin producers in the agreement--Indonesia, Thailand, Malaysia, Bolivia, Nigeria, and Zaire--are politically significant moderates which would welcome our participation.

Disadvantages in Signing the Agreement

- Signing this reasonable agreement could create unrealistic expectations among the LCDs and become a precedent which would lead them to escalate their demands on the U.S. to sign other, undesirable, commodity agreements.

- Partially shifting decisions about tin prices from the marketplace to an international political forum--the Tin Council--makes us vulnerable to political pressures and risks friction with the tin producers if our stockpile policies are inconsistent with their objectives.

Congressional and Industry Consultations

Senate ratification will be required to join the agreement. No consultations with the Foreign Relations Committee have been held. Other committees with no direct jurisdiction have expressed interest in the agreement and should also be consulted.

Consultations with industry are not completed. The limited contacts that have been made indicate that the industry will not now publicly oppose a decision to join the agreement. However, the industry remains philosophically opposed, and is certainly not enthusiastic about the agreement. With more time, these consultations can be completed.

Options

Option 1: Announce at the UN Special Session our intention to sign the Tin Agreement, and seek ratification by the Congress.

Option 2: Announce at the UN Special Session our intention to join the Tin Agreement, subject to congressional consultations and approval and conditional upon freedom to continue sales. State that we are joining the Agreement because it avoids direct pricing or indexation, works through a buffer stockpile, and incorporates a balanced voting system.

Option 3: Make no announcement at the UN Special Session regarding U.S. participation in the Tin Agreement. This would permit consultations with Congress, further consultations with industry, and would allow us to announce a decision to join the Agreement at any time, before April 30, 1976.

Decision

Option 1 ______ Announce at the UN Special Session our intention to sign the Tin Agreement, and seek ratification by the Congress.

Supported by State and NSC

Option 2 ______ Announce at the UN Special Session our intention to join the Tin Agreement, subject to congressional consultations and approval and conditional upon freedom to continue sales.

Option 3 ______ Make no announcement at the UN Special Session regarding U.S. participation in the Tin Agreement.

Supported by OMB, Commerce, Treasury, Interior, USDA, CEA, STR, Defense, CIEP, GSA and the Federal Reserve Board

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

MEMORANDUM FOR THE PRESIDENT

Subject: New York City Situation

Summary

The probabilities have increased sharply that New York City will default on September 11 or September 15. Our figures indicate that the City will be in a negative cash position as of September 5, but by juggling accounts will be able to survive until the note maturities of the following weeks.

Governor Carey has not responded adequately to his responsibilities. He did announce a plan involving state control of the City's finances, but did not back up the plan with State funds. Instead he asked the New York banks to commit in effect to provide the $1.6 billion the City needs between now and November. The banks refused for the following reasons. The problem is a $3.1 billion problem, not a $1.6 billion problem. Accordingly, in the event the state control plan does not reopen the market by November, the banks knew that another makeshift solution, involving even more bank money, would be demanded then.

The major New York banks are heavily (but not dangerously) exposed to New York City and MAC now. Another $1.6 billion would be highly imprudent, the full $3.1 billion would be intolerable. Accordingly, there are only two real solutions: fund the short term debt through the State's credit, or default, in effect requiring the existing note holders to fund the debt.

USG Actions

I have asked Ed Yeo, Under Secretary for Monetary Affairs, to develop a plan to minimize the impact of a default. Participating are Dick Dunham, Rod Hills, Cal Collier and Bob Gerard of our staff. The effort is concentrating on two areas: avoiding civil unrest and preserving confidence in the financial structure, particularly the banking system. We will have the capability to employ Federal resources, if needed, in the event police or fire protection breaks down. We are developing a mechanism to insure that the City's financial affairs are placed under the control of a single Federal judge. And, with the help of the banking agencies, we are establishing procedures to insure that no bank need fail, or otherwise be unable to function, in the event of default. In short, our efforts are designed to confine the effects of a default as narrowly as possible. If these efforts are successful, a default should have little in the way of broader national economic significance.

Governor Carey

In recent weeks, it has become clear that avoiding a default is less important to the Governor than his own political future. To solve the problem without default, he would have to obtain authority to issue $3.1 billion in long term bonds. That would require both legislative approval and popular support in a referendum. If he failed, he apparently believes, he would be finished.

Accordingly, he has proposed two sets of unworkable plans, both designed to shift the blame elsewhere: either to Washington or to the banks. In both cases, he knew that neither we nor the banks could accept the other half of the bargain. But he believes that either scenario will allow him to absolve himself of responsibility in the event of default. ("I did all I could, but the USG (or banks) refused to do their part.")

William E. Simon

William E. Simon

THE WHITE HOUSE

WASHINGTON

August 28, 1975

MEMORANDUM FOR THE PRESIDENT

FROM L. William Seidman LWS

SUBJECT New York City

John McCloy called to relay Governor Carey's message with respect to the current situation. Governor Carey knows that the Federal Government cannot provide assistance. He does believe that they could be helpful by taking "a less cavalier" attitude. Governor Carey will be meeting with Chairman Burns to discuss this further tomorrow.

McCloy has just returned from Europe where he reports that European bankers and government officials are very concerned about the possible effects upon them of such a default. McCloy also reports that Paul Volcker, President of the New York Fed, points out that a default while the IMF is meeting in Washington would be particularly unfortunate.

I told him I would relay the message to you.

THE PRESIDENT HAS SEEN....

THE SECRETARY OF THE TREASURY
WASHINGTON

August 28, 1975

MEMORANDUM FOR THE PRESIDENT

SUMMARY

Arthur and I have been unable to resolve our disagreement on gold. Our inability to arrive at a common position places us at a severe tactical disadvantage in the negotiations in the Group of 5, the IMF and the Interim Committee. The question of monetary actions has boiled down to three issues: gold, exchange rates and increases in the IMF quotas.

The increase in the quotas is appealing to a wide range of countries -- it is a timely expansion in view of the prospective difficulties of the LDC's resulting from the increase in oil prices and recession. We face difficulty in obtaining Congressional approval of a quota increase absent an agreement on the exchange rate question. Henry Reuss, who is influential in these matters, has made it plain that our system of floating ought not to be relegated in any agreement to a second class arrangement. This leaves gold and the disagreement between Arthur and me on the subject. Arthur's position is that we want very precise guarantees that gold will not move back into a pivotal role in the financial system. Our view is that this is asking our friends to do the impossible, because the guarantees necessary also insure that the gold they hold is largely immobilized. We also have discussed in the attached memorandum the probability of any move to gold and its impact on us.

Your advice on this matter is urgently needed before negotiations start on Saturday morning. The attached paper, while necessarily long, is divided into sections that deal with the principal issues in our upcoming negotiations, and the status of our discussion with Arthur on gold.

William E. Simon

Attachment