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Gold Sale Options: Dollar Revival Or Dollar Sabotage?

In the wake of the March 12 Bonn-Washington communiqué on dollar support measures, a communiqué which ostentatiously avoided the subject of gold reserves' role, the gold issue has surfaced in the press and moved toward the center of policymakers' debates. A good deal of unclarity prevails even among those best-informed on other financial subjects.

FOREIGN EXCHANGE

The choice now is essentially whether central banks will mobilize the mammoth firepower of gold reserves, upvalued to the market price and thus expanded to counterweigh the piles of footloose, speculative liquidity that have been marshaled for bear raids against the dollar, or whether the rabble of the international markets will, on the contrary, have a new weapon thrown to them as the Treasury offers to sell off those reserves. In historical terms: will U.S. reserves be beefed up and used deliberately as backing for export and industrial credit along Hamiltonian lines, or will an unprincipled Jacksonian dismantling of national financial assets accelerate?

The first gold option is one that was widely bet on by continental bankers and some antagonistic Wall Street insiders before Blumenthal and Schlesinger at least temporarily shot it down. This was what Frankfurt circles referred to as a "supersnake" — a currency stabilization agreement involving the U.S., Japan, and Western Europe — which would involve revaluing the U.S. gold reserves to the market price of at least $170 an ounce, thus multiplying the U.S.'s non-dollar reserve holdings to the $50 billion range, and immediately providing the resources to withstand the London-directed bear raids against the dollar which, for lack of foreign reserves, have proven so serious in the past eight months.

Most important by far, even a preliminary commitment by the U.S. to perform central bank swaps in gold at the market price — a de facto remonetization of gold — would signal a willingness on the part of the nation's leadership to use gold, not simply as a defense, but as collateral for an export offensive in what would become a self-expanding global market. If the world's major gold-reserve holders — the U.S., West Germany, Switzerland, and France — decided to jointly upvalue and deploy their gold reserves as backup for public and private long-term export credits, having swapped enough gold with Japan to draw them into the arrangement, the resulting takeoff of trade and investment would dwarf the impressive 12 percent annual increase in U.S. manufacturing sales abroad achieved during 1970-74 with a modest increase in Export-Import Bank financing, and paralleled by a growth in our trading partners' own exports.

As originally conceived by its assassinated sponsor, Jürgen Ponto of the Dresdner Bank, the gold-backed monetary arrangement would not only funnel gold trading and currency deposits into Luxembourg as a Western center for credit issuance geared toward industrializing the OPEC nations and the rest of the underdeveloped sector, but would hook up with a gold-backed transfer ruble as the East bloc's unit of account in three-way purchases of oil, technology, and intermediate goods. By last spring the strong Comecon minority favoring the T-ruble had already been forced to back down, but all that stands in the way of starting to renegotiate this gold option is the small but ferocious group in Washington headed by Blumenthal and Schlesinger.

There are several variants of the second, and opposed gold option. It boils down to U.S. Treasury sales of gold on the open markets. The most frequently cited way to do this would be simply to offer gold for dollars. This is supposed to leave foreigners holding more gold and less unwanted dollar paper, stabilizing the dollar. It is also supposed to drive down the market price of gold, thus, by a psychological reciprocal principle, enhancing the dollar's status. Apart from the probability that "smart money," if deterred from gold speculation, would seek even more deutschemark, yen and Swiss franc outlets, thus undercutting dollar parities further to Blumenthal's delight, the U.S. would not even gain assets usable for dollar-purchase interventions to hold up dollar rates on the foreign exchanges.

Therefore — and some Federal Reserve as well as foreign sources think this is a real possibility — the Treasury might sell gold in exchange for marks or yen directly, in order to repay marks, etc. borrowed earlier in "swap" form. This also has little problems e.g., if Americans were allowed to purchase the gold, they would sell dollars for foreign exchange to do so, and if they weren't, Congress might object. Mainly, however, it shares with the other versions of gold sales more fundamental antidollar implications. Unless the Treasury sold a huge chunk of its gold — which Congress would definitely forbid — the auctions would raise a piddling amount of funds, or mop up a piddling amount of foreign dollars, at the cost of announcing that once more the U.S. is in the panicked, desperate, chaotic state of 1968-71, when London manipulated Washington into taking precisely this sort of reckless step to bolster the dollar against pressures London had created, and when the steps didn't work, inducing the U.S. Administration to cut the throat of trade, industry and labor as the only choice left.

The gold-sale scenario built up slowly from March 13 through March 17. Most glaring on Monday, the thirteenth, as the U.S.-West German communiqué got digested, was the absence of a gold reference. U.S. Trade Ambassador Robert Strauss, according to reliable sources, had inserted a reference to gold-reserve swaps which was deleted through the following classic Angloid ploy: Blumenthal and energy czar Schlesinger popped up demanding that the communiqué pledge an administra-

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tively decreed impost on oil imports, and under the direction of Treasury Undersecretary Anthony Solomon, the U.S. members of the drafting team hastily "traded off" deletion of the gold provision for deletion of the oil provision.

On March 14, Hobart Rowan of the *Washington Post* quoted Treasury sources as announcing, "We are not going to give gold a monetary role" — i.e. option one is dead — while keeping mum on the gold market selloff option; Frankfurt and Zurich financial analysts remained convinced, however, that the U.S. would eventually have to sell gold to foreign central banks to defend the dollar, and reported that the West German Bundesbank directors thought so too. West German Finance Minister Hans Matthoefer had already said in connection with the communiqué, that gold swaps were "being held in reserve"; more ambiguously, Chase Manhattan Bank head David Rockefeller told the *Wall Street Journal* in a March 13 interview that he was "not averse" to a role for gold in dollar defense.

The Swiss bankers' daily *Neue Zürcher Zeitung* went public on March 15th with a report that it was Blumenthal's Treasury that had put the kibosh on a Carter commitment to gold. The NZZ added that there may, however, be a followup agreement involving central bank gold transfers — or merely Treasury sales of foreign-denominated U.S. government securities, a pet gimmick of London circles. In reporting the dollar's weakness the same day, CBS radio commented that "some think gold backing for the dollar is a good idea"; one of these, in an interview with the Swiss weekly *Weltwoche*, was Swiss central bank chief Fritz Leutwiler, who said that U.S. authorities" are still giving "positive consideration" to the use of gold, in a cryptic reference to the faction that was undercut during the Bonn-Washington negotiations.

Meanwhile the gold markets and the middle levels of the Federal Reserve and Treasury were rumbling with rumors that the Treasury would indeed soon auction off some gold. On March 16, the gold-sale option mounted in credibility, with an allusion by Fed Chairman G. William Miller to the large amounts of gold at Treasury's disposal — immediately taken by the markets as a "threat" to sell some of it off. The Treasury's gold specialist privately told various inquirers that Blumenthal would never consent to swaps — "our official policy is against remonetization" — but might well start selling gold in the markets. This briefing showed up in the March 16 *Journal of Commerce* editorial's report that "It now seems clear that while the U.S. doesn't want to sell its gold to other central banks for foreign currency, it will consider selling some gold at auction, either here or abroad."

As of Friday, March 17, it was reliably reported that the Treasury administrative department which would have to wrap up the authorizations for gold sales two to four weeks before an auction had not yet started any such paperwork. But the rumors — along with a certain amount of profit-taking and possibly some extra gold offerings by South Africa and the USSR — helped drive the New York spot price of gold down about $4.00 over the course of the week; on March 17, political tensions around the Mideast and the SALT talks were said to have contributed to the $2.00 drop in the New York price from the London afternoon fixing of $1.8320...instead of adding to gold's attractiveness as a hedge, which is usually the case.

The logic of the gold sales as an anti-dollar ploy was smugly summarized by a senior dealer at one key London firm's New York branch: "Either the Treasury does a Mickey Mouse sale (of gold), in which case the market calls their bluff right away, and the dollar drops some more, or they do a giant sale — which people like Georgia Congressman Larry MacDonald wouldn't allow, although I would like to see them sell all the gold, half a million ounces a week, and clean up all the dollar liquidity."

To those sane enough to reject the gold sale option, meanwhile, the open market sale of foreign-currency bonds is being proffered as a more sober option — although, as one Wall Street broker put it, "That would just put us deeper in the hole, unless we wanted to run a sort of international Ponzi game." And assurances are being spread that no auctions can take place until the International Monetary Fund ratifies new rules permitting national treasuries to do so, in June.