Gold by Alice Roth

Will gold finance arms buildup?

Treasury officials are eyeing U.S. gold reserves to finance a federal budget deficit blown up by a short-term arms buildup.

According to well-informed Washington sources, senior Treasury officials are currently working out the final details of a plan which would harness U.S. gold reserves to finance a burgeoning federal budget deficit. Staff papers have been circulated proposing a range of options for using gold, including more public gold sales, outright transfers of U.S. gold to major foreign central banks, the issuance of gold-collateralized or gold-indexed loans to the U.S. by foreign central banks, or U.S. flotation of gold-indexed Treasury bonds to the general public.

The sources say that the Treasury has already received assurances from major central banks that they will cooperate. The existence of such a plan, in fact, could go a long way toward explaining the recent stabilization of the gold price at around $700 an ounce, which has puzzled many market analysts.

Wall Street bond market analysts believe the Treasury will be in a considerable pickle if it doesn't mobilize the potential additional liquidity created by gold's rise to finance its deficit. The federal deficit for calendar year 1980, including off-budget items, has been conservatively placed at $91 billion, and the interest cost could be very high indeed if the inflation rate fails to drop to 10 percent as officially projected.

The Treasury had previously refused to consider offering gold transfers or gold guarantees to European governments, on the basis that such an arrangement would remonetize gold and effectively place the U.S. Treasury under European receivership. However, all such objections (including the matter of how the loans are to be repaid) have apparently now been thrown to the wind. The matter of financing a short-term U.S. military buildup is the primary question on officials' minds.

Indeed, the plan to use gold was actually formulated by the staff of the Office of Management and the Budget (OMB), often characterized as "the Rand Corporation" of the federal government.

A strong public hint that a gold deal is in the making was offered by London *Times* editor William Rees-Mogg in a Feb. 1 commentary entitled "How the gold boom could be the key to convertibility." Rees-Mogg called for the reestablishment of dollar-gold convertibility at about $750 an ounce to increase the attractiveness of the dollar to investors, the restoration of fixed exchange rates, and a substantial revaluation of the dollar and yen against the British pound and European currencies. "At $750, or whatever was chosen, an ounce would be a very high price for gold so inflation would continue on an artificially expanded gold base, but the high price of gold would also underwrite the liquidity of the system and allow world inflationary expectations to be reduced throughout the 1980s, rather than being halted in an episode of catastrophe," Rees-Mogg stated.

A somewhat dubious version of the U.S. Treasury plan was also aired by William F. Buckley in his syndicated column last week, "How to Make Gold Reserves Work for the U.S." Buckley reported that Dillon Read economist Evan Galbraith had devised a plan for the British government which might be extended to the U.S. Under this scheme, the Exchequer would issue low-interest bonds which would be readily convertible into gold. No explanation is given of how the gold-short British Treasury would pay for these if gold skyrocketed.