

JAN 21 1974

Transcript of Press Conference

held by

CHAIRMAN ARTHUR F. BURNS

at

7:00 p.m.

November 13, 1973

in the

Board Room

Federal Reserve Building

20th Street and Constitution Avenue, N.W.

Washington, D.C.

Chairman Burns: Good evening, gentlemen. It is a fine hour to get you here but it is nice to see you at the Board. I have an announcement to make. It is very brief--just a single sentence. I would like it distributed to everybody.

How many sheets of paper are here? You have the communique issued at the March 1968 meeting. And do you have Article 4 of the IMF Articles of Agreement?

A. Yes, we have it, sir.

Chairman Burns: Why don't you distribute that. Well, I think you have now the raw materials that you need and I simply want to make a few brief explanatory remarks and answer questions. This communique states that the March 1968 agreement is now formally terminated. That's the essence of it. Now let me explain first of all

why this communique is confined to seven countries, central banks of seven countries. The reason is very simple. These were the seven countries that entered into the March 1968 agreement. Since that agreement was made in Washington and since we are now ending it with a decent burial, the decent burial is taking place in Washington.

Now, if you will take a glance at the communique issued in 1968, turning to the second column, you'll see it reads -- just about 8 or 10 lines down -- "the Governors believe that henceforth officially held gold should be used only to effect transfers among monetary authorities and therefore, they decided no longer to supply gold (that is to sell gold) to the London gold market or any other gold market."

Do you remember the circumstances of the time? There was great uncertainty about the balance of payments of the United States and also Great Britain. A gold pool had been established by a number of the central banks, and gold was flowing out from it to the private market in massive volume. The central bankers felt that their reserves were being depleted; so they created a two-tier system, and hencefore, according to their decision, there were to be two markets for gold. First, there would be an official market. Central banks would trade with one another at a fixed price, a price of \$35 per ounce. Second, there would be a free market, and there, private citizens and business firms would trade in gold the way they trade in

any non-ferrous metal or any commodity. So this two-tier market was established in March 1968, and the purpose was to lock up gold. And central bankers agreed, not only not to sell to the private market, but also not to buy from it.

Well, so much for that agreement. Now you might ask the question, why terminate it? And if you ask that question of central bankers, I think you would get different reasons. Now there is one reason that I think you would probably get from every central banker, and that reason is that events have passed by the March 1968 agreement. It no longer has any relevance to the actual world. And, of course, this is true. There hasn't been any official market for gold, practically speaking, since August 15, 1971, when convertibility of the dollar came to an end.

Now, let me say a word about the meaning of the termination of the March 1968 agreement. The different governments and different central bankers, may and undoubtedly will, interpret this termination differently. On this subject, I am going to speak for the United States Government, and for the United States Government alone. And I will under no circumstances make any comment about any other government or any other central bank. In so far as you may be interested in knowing the thinking of this or that government or this or that central bank, you'll have to go to the source. I think that's the only fair way to proceed. It isn't that I want to make any secret of it, but I think everyone ought to speak for himself on this issue.

Now as far as the United States Government is concerned, our interpretation is very simple. We will henceforth be guided by Article 4, Section 2, of the Articles of Agreement of the IMF. Article 4, Section 2, is before you. Now the language of that Article is a little more technical than we need for the present purpose. It refers to margins above and below par. The margins are not relevant to anything that we are going to discuss today. What the Article says is simply that no member shall buy gold at a price above par value. Well, the par value at the present time is \$42.22, so that as far as we're concerned we are not going to buy gold at the market price. As you know, the market price is in the neighborhood of about \$100, and has been in recent days. Not so long ago, it was a little above \$120. So we're not going to buy gold.

Then Article 4, Section 2, states that no member shall sell gold at a price below par value. Well, a member is free to sell gold at a price above par value. Par value is \$42.22; the market price is in the neighborhood of \$100. We're going to operate under Article 4, Section 2. We consider that Article to remain in effect. Therefore we consider ourselves free to sell gold. We do not consider ourselves free to buy gold, unless or until the price of gold falls to or below \$42.22. That is our interpretation.

So stripped of all details about margins, etc., to repeat, since gold is now selling well above its par value, we now consider ourselves free to sell gold to the market. We

think that is the meaning of the action taken by the central bankers. That's our interpretation; we hope others interpret it the same way, but it's up to others to interpret this action as they see fit. And a corollary is that we shall refrain from buying gold, certainly under present circumstances, being bound, as we consider ourselves to be, by Article 4, Section 2.

To say the same thing once again, the practical upshot of all this is, that from the standpoint of the American Government, the U.S. may henceforth sell gold from its stockpile but the U.S. Government will not buy gold either from other central banks or from the market, in present circumstances and in foreseeable circumstances. That is the practical meaning of the termination of the March 1968 agreement.

Now let me make finally a few comments that are interpretive comments, rather than factual. First, let me repeat once again, that I'm giving you the American interpretation of what this termination means. We will govern our conduct according to the interpretation that I've given you. One or more other central banks may interpret the termination differently.

Point two. Whether, when, in what amounts, and in what ways gold is to be sold by the U.S. -- all this will be resolved at a later time. I have nothing whatever to say on this and I shall have nothing whatever to say on that subject today.

Point three. The termination of the March 1968 agreement, which I'm now announcing, does not of itself change or affect in any way the present law which prohibits American citizens from owning, buying or selling gold.

Now, finally, and most important of all, the termination of the March 1968 agreement is not intended by the U.S. or by any of the other central banks, and here I can speak for them and do, this termination is not intended to prejudice any ultimate decisions concerning international monetary reform. In other words, the present decision-- the decision that I have just announced--is entirely without prejudice as to any final decisions concerning the role of gold in the international monetary system.

Now that's the end of my announcement and my elucidation of it, and now I'll take a few questions. Let them be essential questions. I can't honestly say I'm tired, but I do have people in my office waiting, I do have a most impatient wife, and I have some of my colleagues at the Board who are eager to go home, and I think the rest of you are as well. Governor Daane was with me, would you like to add anything to what I've said?

Governor Daane: No, Mr. Chairman. I think you have covered all the essential points.

Chairman Burns: Mr. Bryant, you're my mentor, but you were not with me. Have I misled the group so far?

Mr. Bryant: I have nothing to add, Mr. Chairman.

Chairman Burns: You see, he has nothing to add, but he hasn't answered my question. All right, let's turn to your questions.

Question

My question was, Mr. Chairman, with this agreement or the suspension of the agreement, are signatory governments free if they so wish to deal among themselves in gold at market related prices.

Chairman Burns: The agreement says nothing about that. I am confident that none of the major central banks will buy gold in the foreseeable future.

Question

From the market or from each other?

Chairman Burns: Both, either from the market or from each other.

Question

At prices above the official price?

Chairman Burns: I am confident that will not take place. However, I cannot say categorically that it will not take place, nor can I say that there is an explicit agreement that it should not take place. I am expressing a practical, but also I have reason to think, an informed judgment.

Question

But would this create a problem for the Common Market snake who have already agreed to revalue the special drawing rights as well as their positions in the IMF and the odd man out in that situation was, of course, gold since they are committed to settle debts in proportion to these reserves.

Chairman Burns: But that is not really taking place. Gold is not passing among central banks. And since they are not selling, they are also not buying.

Question

Could you explain the timing of this decision and the specific reason why it was done now rather than months ago or months from now?

Chairman Burns: Well, that's not easy. I don't think there is any special explanation. This has been talked about for a long period. A lot of the central bankers were involved. It seemed to some of us--it certainly seemed to me--that we ought to stop talking about it. Either do this--terminate the agreement--or stop talking about it. You know, there comes a time, at least when you've reached my age, when it serves no purpose to keep talking. Young men can afford to spin their wheels. As far as I'm concerned, the time comes either to do something or, if you can't, you turn to something else. Now that is a straight forward explanation.

Question

Mr. Chairman, why weren't you able to reach a common agreement among the central bankers as to the meaning of the dissolution.

Chairman Burns: Well, there was no intention that I could discover on anybody's part to buy gold. The American interpretation caused legal difficulties. We wanted to be guided by Article 4, Section 2. So then, Switzerland is not a member of the IMF. How can Switzerland, you see, undertake a commitment under the articles? So there's the legal difficulty. Some central bankers, while they have no intention to buy gold under any circumstances, are just not sure. Some don't care to sell, you know, but why enter into this agreement not to buy? They like to be free. They are not quite sure what it may involve them in. But I think that the best answer to your question

is not the answer that I'm giving you. The best answer to that question you can get by talking to other central bankers. Let them tell you what they think. I'm telling you what I think. For a moment I was overstepping the boundary that I set for myself.

Question Well, was it the hope of the central bankers that this decision would reduce the differential between the free market price and official price?

Chairman Burns: Well, this is a speculative matter. I have views on that subject but I'm not going to speculate on that tonight. However, I would not be surprised if each of you does some speculating. By speculating, I mean thinking about the subject. Let me only say this. It does give, I think, the governments of the world a certain flexibility, which I think is of some importance, particularly at a time of floating exchange rates.

Question Were each of the countries that agreed to terminate aware of the American interpretation?

Chairman Burns: Yes, they are aware of the American interpretation. Oh yes, fully aware. Aware of the fact that I'm talking to you now and giving it. Of course, they are.

Question What is the position of the French Government which is not mentioned...

Chairman Burns: I will not explain the position of the French Government or the position of any other government except my own.

Question Mr. Chairman, without talking about any particular governments, what other possible interpretation is there to the agreement?

Chairman Burns: Well, I think that a few imaginative men, you see, they read this one sentence and then they can go on and say: "Well, what does this imply?" I've tried to deal with that by going to the central issue, as I see it, in my very last statement, where I emphasized that the termination of this agreement does not prejudice in any way the shape of international monetary form.

Question I'm not clear, Mr. Chairman. Is anybody else making this announcement simultaneously?

Chairman Burns: I am making this announcement. To the best of my knowledge, I alone am making it. However, I would be surprised if in the natural course of events other central bankers did not hold press conferences with their journalists tomorrow. Today I'm simply making this announcement out of Washington.

Governor Daane: If you recall, the earlier communique was announced by former Chairman Martin--it came out of this same Board Room.