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Nixon arguing 69-6/71

Burns suggests making it look like Foreign countries forced a suspension of convertibility upon the U. S.

May 19, 1971

STRICTLY CONFIDENTIAL (FR)

Dear Mr. President:

The international monetary crisis is not over. It is therefore highly important to plan ahead.

If things come to the pass of a U. S. suspension of gold sales and purchases, we should do all we can--both substantively and cosmetically--to make it appear that other governments have forced the action on us. We want to portray suspension as a last resort and to present a public image of a cool-headed government responding to ill-conceived, self-defeating actions of others.

The opposite tack--initiating suspension without being forced to it by the actions of others--would probably leave us in a much weaker bargaining position for post-suspension negotiations. Many foreign governments would claim that the U. S. Government had been eager to throw down the gauntlet, and had done so with insufficient excuse. In the public eye, both here and abroad, a large part of the onus for the ensuing period of crisis would probably fall on us. In such a hostile environment, it might be significantly less likely that we could negotiate limited exchange-rate flexibility, a more equitable sharing of aid and defense burdens, and other important U. S. objectives.

It is therefore desirable to pay out gold and other reserves in substantial amounts--perhaps two billion dollars--before a suspension. In any announcement of suspension, moreover, extensive albeit low-keyed publicity should be given to the actions of those countries purchasing gold in the weeks prior to suspension. There is little reason for believing that the United States would be significantly better off after suspension with, say, \$10-1/2 billion of gold rather than with, say, \$8 1/2 or \$9 billion. The balance of advantages, therefore, is very strongly in favor of paying our reserves for an interim period

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One of our main post-suspension bargaining chips (i. e., a concession to give to other governments) would be an agreement to restore dollar convertibility (into gold and SDRs) as part of a package resolution of the crisis. If anything, this bargaining chip would have a higher value if we wait to suspend until it seems to be forced on us by the actions of others.

Sincerely yours,

Arthur F. Burns

The Honorable Richard Nixon
The President of the United States
The White House
Washington, D. C.

Copy to: Secretary Connally