Will Reagan jump for a gold standard?

The last-ditch option on remonetization is now, at least, out in the open, but nothing will happen immediately.

Several reports have circulated in the newspapers suggesting that President Reagan will attempt to cut the Gordian Knot of monetary policy with a golden sword. He will remonetize the Treasury's gold reserves in order to finally bring down interest rates and thereby eliminate the huge gap in next fiscal year's budget deficit that will otherwise arise from the Treasury's added interest costs.

Such has indeed been suggested by the economist of the Office of Management and Budget, Dr. Lawrence Kudlow, who, before he came to Washington, was chief economist of Bear, Stearns and Company. He is a protégé of Mr. William Rees-Mogg, the London *Times* editor who campaigned incessantly for a return to the gold standard. Indeed, it was Dr. Kudlow who first gave to the press the budget office's revised estimates of a deficit nearly double Stockman's previous figure. Of course, the type of gold approach that Rees-Mogg, Siena Group economist Robert Mundell, and Kudlow have promoted will not meet the President's requirements. The ex officio member of the administration who has been most tireless in promoting the sort of gold standard which simply stops all credit creation, Mr. Lewis Lehrman, a Warburg family protégé, has managed to obtain a seat on the President's gold commission, which next meets Sept. 18. However, Mr. Lehrman considers himself "on the outs," for the obvious reason that a gold standard of his sort would promote a general crash of the credit system immediately it were adopted. The meeting of the commission next month will result in mere press fluff.

It is more important that the discussion has begun, than that it is not immediately feasible to reintroduce gold on the model that Lehrman, Kudlow, and others pro pose. As I have emphasized, no one who has a senior role in the institutions which propose to manage the developing credit crisis has the least confidence that the crisis can indeed be managed; the entire senior officialdom of the International Monetary Fund and the Bank for International Settlements are keeping their personal funds in the form of gold and highly liquid paper of the leading industrial nations.

Further evidence of the extent of gold hoarding emerged last week when Japan released figures for gold imports for the month of July, in which that country brought in 25 tons of gold; the Japanese total gold imports for the year now exceed $88 billion, or five times the gold imports of last year. What Japan's trading companies are accumulating outside Japan is hard to say, but is probably at least as much as has been imported.

The rate of accumulation of gold in private European hoards was also a record last year, as well as the rate of increment of central bank gold holdings, which rose in 1980 for the first time in a decade. The Japanese have apparently waited for a bargain before buying. European investors, characteristically more cautious, emptied the developing sector of over 150 tons of the metal in 1980, buying at the highest average price ever.

Both at the political and the market level, the evidence continues to build that the nature of the crisis expected before the end of this year is such that neither governments nor private fortunes will do very well without a substantial gold portfolio commitment. To the extent that a strategic upset enters the picture, the desire to accumulate gold will be all the greater.

In this context it is indicative that the price of gold reached $430 during the week of Aug. 17, responding to the clash of American and Libyan fighter aircraft in a way that it had not to the drawing out of the Polish domestic crisis. It is impossible to say, and not of great interest to this writer, whether the price will fall back again, perhaps to the $350 range, as astute analysts like August Arace of Tucker, Anthony, Day still suggest. Should the world strategic situation worsen in an important and obvious way, the gold price will have bottomed on the day that should happen.

The very minimum price that could bring gold back into the monetary system, were world leaders to experience a sudden conversion to rationality, is $500 per ounce, and under less ideal circumstances, is likely to be considerably more. Gold is therefore attractively priced as a vehicle for long-term capital preservation; a further price fall would merely make it more attractive still.