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Aren't we sitting on a gold mine?

The price isn't right, but it doesn't matter -- all that glitters won't be sold

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Buried in the Treasury's International Reserve Position report is an intriguing bit of math. The document details the total amount, by weight, of the Treasury's gold reserves, plus a dollar value for said metal. But some fast division reveals something interesting: The Treasury marks the value of its gold at $42 an ounce, the price settled on in 1973, two years after the United States scrapped the Bretton Woods System, which had held gold at $35 an ounce for decades.

Wait -- what? Spot gold is heading toward $1,100 per ounce, and the Treasury is embracing a Cold War relic of a price? If the Treasury's bling were valued at the spot price, we'd be sitting on a literal gold mine of nearly $288 billion. Why doesn't the Treasury account for the huge run-up in gold prices?

For starters, marking the Treasury's gold to market would create a huge headache of an ever-fluctuating balance sheet as the price of gold rises and falls, pointed out Dimitri Papadimitriou, president of the Levy Economics Institute at Bard College. Plus, if gold tumbled, we'd lose our hypothetical wealth as quickly as we'd accrued it.

More important, the United States isn't selling its cache. Evaluating the Treasury's gold for the market would be like putting a price tag on the White House or the Statue of Liberty -- a possibly entertaining but pointless exercise. For the Treasury to say it suddenly has greater wealth in its coffers might make us feel better about the burgeoning deficit, but it doesn't really change anything. For revaluation to have any economic impact, we'd have to sell, according to Mark Calabria, director of financial regulation studies at the Cato Institute.

And if the United States were to dump its gold on the open market, there's no way we'd get today's spot rate. Governments around the world collectively hold about 20 percent of the world's gold reserves. Among these, the United States holds about one-third of that.

Pouring it into the market would make prices crash. Even if the Treasury were to

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sell off gold a bit at a time, anticipation of future sales would exert a downward pressure on prices. Any transaction would also require deft political maneuvering and delicate negotiations, because other central banks plus the industry-backed World Gold Council wouldn't be too keen on us holding a red-tag sale on our gold.

Raising the value of the Treasury's gold stockpile would have an inflationary effect, too, which is the last thing the Federal Reserve wants right now. In 1933, President Franklin D. Roosevelt increased the book value of gold to $35 an ounce from $20.67 to battle deflation. It did the trick, but the move was risky. Given that the Fed now has safer ways to create inflation, a revaluation and sale would come across as the powers-that-be playing fast and loose with a shaky economy.

There are certainly people, such as Rutgers University economics professor Michael Bordo, who think the United States should unload some of its stash, on the grounds that the gold standard doesn't work and that by holding on to the metal we're clinging to a de facto version of an antiquated policy. Some research papers argue that the wealth we keep locked up in gold coins and bullion would be better utilized if injected into the economy.

The problem, according to James Barth, senior finance fellow at the Milken Institute, is that selling gold is a one-shot solution.

Unlike raising taxes or cutting spending, you get to sell your gold only once. Yes, it might help us out of this slump, but we would have one less major asset to fall back on the next time the economy dives.