ANNEX B

Summaries of Statements Submitted to the Commission*

*Individuals that testified and submitted statements in response to the Commission's invitation were asked to prepare brief summaries of their statements for inclusion in this report. All summaries received are reproduced, as submitted, in this annex.

Summaries of Statements Submitted to the Commission

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Holzer, Henry Mark, Brooklyn Law School, "Gold and Monetary Freedom," November 12, 1981.

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Larson, Martin A., Liberty Lobby, "The Desirability of a Specie Monetary Standard," January 10, 1982.

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U.S. Policy Toward Gold

Submitted by

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March 4, 1982

The United States needs a new policy toward gold. For the previous several decades, U.S. gold policy was obsessed by the costs of altering the $35 parity rather than by a reasoned analysis of how U.S. gold holdings could be managed to enhance U.S. economic and foreign policy interests. The U.S. Government owns 264 million ounces of gold which, at recent market prices, has a value in excess of $100 billion. This gold is too valuable to sell and too costly to hold as a sterile asset.

The observation that there was price level stability in the long run in the nineteenth century provides the rationale for the proposals that the United States now return to the gold standard. However, long-term stability in the price level was not attained without cost; cyclical variations in income and employment were pervasive under the gold standard. Moreover, financial crises occurred on the average of once a decade and were the source of pressures to establish a central bank as a lender of last resort, both to cope with financial distress and to provide an "elastic currency."

The rationale for establishing a monetary standard is to help achieve financial and economic stability. A monetary standard is successful only if it is consistent with the financial and budgetary practices. Many countries have sought to establish foreign exchange parities for their currencies, only to be obliged to abandon them because they were inconsistent with their financial and budgetary practices. The United States has had a ceiling on the Federal debt for at least fifty years; however, whenever the growth of expenditures relative to revenue has caused the Federal debt to press against the ceiling, the ceiling is quickly raised. Bolivia, which has had more than 100 revolutions and coup d'etats in the last century, would not suddenly realize political stability by adopting a U.S.-type constitution.

The task of attaining U.S. price level stability is not the institutional one of deciding on a parity for gold, and then stipulating that the changes in gold holdings of the monetary authorities will be the only significant source of changes in the monetary base. Rather, the task is to establish the credibility of the U.S. government's commitments to a stable price level, and that significant costs will be incurred to achieve this objective.

If the U.S. authorities decide to go "back on gold," they must choose a new parity for the dollar. Consider that Rip van Winkle went to sleep in 1961, when the dollar price of gold was \$35.00. Upon awakening in 1981, he is asked, "What should be the new dollar price of gold?" On the basis of traditional arguments about a proportional relationship between the world price level and the dollar price of gold--the type of argument that provides the justification for the gold standard--he might decide on $\$105 = \frac{300}{100}$, since the U.S. price level now is about three times higher than the 1961 price level. But this price is much, much lower than recent market prices. If the gold parity were set at or near recent market prices, then it almost certainly would prove to be much too high if the United States succeeds in achieving reasonable price level stability.

From the point of view of the U.S. national interest, gold has a much more important role in the settlement of payments imbalances internationally than in determining the rate of growth of the money supply. As long as the market price of gold is highly variable, the most appropriate approach is to develop trading arrangements for transactions in gold among central banks. The U.S. international balance sheet--the relation between U.S.-owned reserved assets and liquid dollar assets held by foreign official institutions--appears significantly different if the gold owned by the U.S. authorities is valued on current or recent market prices. The U.S. authorities should take the initiative in attempting to standardize the approaches taken by national monetary authorities to the valuation of monetary gold. A formula might be devised to value U.S. gold in the basis of the average of prices over the last three or four years. For example, the formula might use the closing price in 36 of the last 48 months, the six months with the highest prices and the six months with lowest prices would be excluded from the determination of the value.

At some future date if the market price of gold is at or near the levels consistent with its long run equilibrium values, the U.S. authorities might take the initiative toward establishing a parity for the dollar in terms of gold. The necessary condition for a move to such a parity is the attainment of relative price stability. The sufficient condition is the move back toward a system of pegged exchange rates,

COMMENT BY THE INTERNATIONAL INSTITUTE FOR RESOURCE ECONOMICS

Submitted by

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December 29, 1981

My recent speech to the Men's Republican Club of Montgomery County Maryland expressed the views of the International Institute for Resource Economics on the gold issue. It is still relevant. Here it is:

"Since 1971 the dollar has been convertible only into an unspecified quantity of an unknown commodity. Since that date, only fools have chosen to hold dollars instead of goods. This must continue, until the dollar is again convertible into a specific quantity of a known commodity.

Which commodity? This decision can be left to the technicians. High unit value and ease of identification are considerations.

The decision to close the gold window, rather than to change the price in accordance with the increased cost of production was dictated by idiots. They were concerned with minor advantages that might accrue to the Soviet Union and South Africa. They predicted a price of $6 as the free market price of gold. Most important of all, they ignored the fact that the convertibility of the dollar into gold, as agreed to at Bretton Woods, ahd become the cornerstone of civilization on this planet.

When the International Monetary Fund met to vote on "Paper Gold"; I was there. What was I doing? I was giving away rubber yardsticks. On each yardstick, in ten languages, was the warning: "Never Trust a Politician!"

INFLATION HAS A SIMPLE SOLUTION! ALL THAT IS NEEDED IS A FIRM DETERMINATION TO RESTORE CONVERTIBILITY!"

The Institute deplores the efforts of the enemies of convertibility to complicate this issue. It is brutally simple. There are two kinds of money; HONEST and DISHONEST. History teaches us that honest money has a batting average of 1000; dishonest money a batting average of zero.

CONSTITUTIONAL GOLD

Submitted by

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November 12, 1981

The most important "commission" on the gold standard in American history was the Constitutional Convention. What is now Article I, Section 8, Clause 2 of the Constitution originally gave Congress the power "To borrow money and emit bills on the credit of the United States". The language "and emit bills", understood to authorize inconvertible paper money, was opposed almost unanimously, the delegates voting by an overwhelming majority to strike it from the text of the Constitution. As George Bancroft, the great nineteenth century American historian, concluded, "The adoption of the Constitution is to be the end of paper money ... if the Constitution shall be rightly interpreted and honestly obeyed."

In the Convention debate, absolute prohibition of paper money was urged by Oliver Ellsworth, later second Chief Justice of the United States Supreme Court, and Senator who decisively shaped the federal judiciary. The record states: "Mr. Elseworth thought this a favorable moment to shut and bar the door against paper money. The mischiefs of the various experiments which had been made, were now fresh in the public mind and had excited the disgust of all the respectable part of America. By withholding the power from the new Government more friends of influence would be gained to it than by almost any thing else. Paper money can in no case be necessary. Give the government credit, and other resources will offer. The power may do harm, never good."

Reservation of an emergency paper money power was urged by James Madison, chief architect of the Constitution, author of the Bill of Rights, fourth American President. The journal of the proceedings, which is Madison's own, records: "This vote (to bar the power) in the affirmative by Virginia was occasioned by the acquiescence of Mr. Madison who became satisfied that striking out the words would not disable the Government from the use of public notes as far as they could be safe and proper; and would only cut off the pretext for a paper currency, and particularly for making the bills a tender either for public or private debts." (Emphasis original.) Contrast Madison's intent to the legend on our Federal Reserve Notes, "legal tender for all debts public and private".

Among other implacable foes of paper money was Alexander Hamilton, our first Secretary of the Treasury, who historians conclude "in economic terms, literally built the United States". Paper money, he said, is "so certain of being abused--that the wisdom of the Government will be shown in never trusting itself with the use of so seducing and dangerous an expedient."

Chief Justice Marshall also condemned paper money, observing, "Its value is continually changing; and these changes, often great and sudden, expose individuals to immense loss, are the sources of ruinous speculations, and destroy all confidence between man and man."

Only the Civil War and Reconstruction, our greatest constitutional crises, could undermine the integrity of the monetary system carefully established by the Revolutionary generation. Our recent inflation confirms again the folly of ignoring the political vision of the Founding Fathers. Yet our problems are compounded by economists more intent on testing their theories than in fulfilling their responsibility to repair us to the classical gold standard that is part of our most fundamental political legacy.

Unless one is ready to hold the First Amendment, or representative democracy, out of date, the ideas of Madison and his peers cannot be dismissed as inapplicable to today's conditions. Since the other political institutions these men built for us continue to serve so well, we should not so casually dismiss the gold standard as the product of another age. Madison's ideas are very modern. In one of his lesser known works, entitled "Money", he examines the defects of monetarism. In the eighteenth century, "monetarist" claims were asserted by Hume and Montesquieu. Madison refuted them with the sounder classical doctrine. Inflation, wrote Madison in 1780, "has not been the effect of the quantity, considered of itself, but considered as an omen of public bankruptcy." He presents telling arguments to prove the case.

The recorded thoughts of our greatest statesmen and thinkers--both economic and political--establish beyond doubt the intellectual legitimacy of the gold standard. We all would benefit by an end to the recent, discredited, experiment with inconvertible paper money, and the restoration of the classical quality of free convertibility of notes into gold that America's founders originally secured in the Constitution.

This Gold Cómmission should especially heed the words of Thomas Paine, America's most influential Revolutionary thinker, who decisively shaped the ideological direction of the American Revolution. Shortly before the Constitutional Convention he wrote: "As to the assumed authority of any assembly in making paper money, or paper of any kind, a legal tender, or in other language a compulsive payment, it is a most presumptuous attempt at arbitrary power. There can be no such power in a republican government: the people have no freedom, and property no security where this practice can be acted: and the committee who shall bring in a report for this purpose, or the member who moves for it, and he who seconds it merits impeachment, and sooner or later may expect it."

-- Ralph J. Benko

WHAT ROLE FOR GOLD IN THE MONETARY SYSTEM?

Submitted by

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NOVEMBER 12, 1981

The hundred years of the classical gold standard were marked by large secular fluctuations in prices. The most difficult period was the last quarter of the 19th century when prices fell sharply and the world economy was in a protracted recession. The reason for the secular price fluctuations was the irregular growth of the world stock of monetary gold. According to Professor Cassel, if gold reserves had increased at a steady rate of 3 per cent a year prices would have remained reasonably stable. Instead, the gold stock increased at much higher or lower rates for periods of 20 to 25 years, depending on gold production. Until 1914, the index of wholesale prices in the United States fluctuated with world production of gold adjusted for a 3 per cent trend, although with a lag of five years. The inflation in World War I disrupted the relationship of gold to prices and all of the belligerents except the United States abandoned the gold standard.

The restoration of the gold standard after World War I presented a number of problems. The stock of monetary gold was not sufficient to sustain the high postwar level of prices and gold production was less than half as much relative to world reserves as before the war. The gold exchange standard economized on the need for gold reserves, but not enough to compensate for the decrease in gold production. The gold standard, which was restored in 1925-30, collapsed in the great depression of the 1930s, and all countries abandoned the gold parities of their currencies. In the United States, gold redemption of the dollar was terminated in March 1933 and the gold clause in contracts was abrogated by the Congress in June. In accordance with the Gold Reserve Act of 1934, the President fixed a new price of $35 an ounce for gold. The private holding of gold was forbidden, but the Treasury sold gold to foreign monetary authorities until this was ended in August 1971. Gold did not act as a limitation on the money supply after 1934 because whenever the reserves were near the legal minimum the requirements were reduced until they were finally eliminated in 1968.

The persistent inflation has revived interest in restoring the gold standard. The problems this would create seem insuperable at present. Gold production has been falling since 1966 and the absorption of gold in the arts and industry has exceeded production in recent years. Even before the inflation, the growth of the stock of monetary gold was minimal. The world pattern of payments is seriously unbalanced, and if members of OPEC could convert their net dollar earnings into gold at a fixed price they would probably do so on a large scale. Other countries with large holdings of dollars could also decide to diversify their reserves by converting them into gold. Finally, private holders of dollars in this country and abroad could present enormous amounts for conversion into gold if they thought the price was too low; and private holders of gold could sell enormous amounts to the Treasury for dollars if they thought the price was too high.

Although it is not feasible to restore the gold standard, some of its features could be gradually adopted as domestic and international monetary conditions improve. It might be possible to find a way of resuming reserve requirements against Federal Reserve notes and deposits, although not as rigidly as in the past. It would be desirable to moderate the fluctuations in dollar exchange rates for the major currencies and ultimately to return to fixed par values with considerable flexibility. It might also be possible to restore convertibility of the dollar into reserve assets for settling balance of payments deficits if the United States were to receive reserve assets in settlement of its surpluses. These are steps that should be considered when our inflation has been halted and the world pattern of payments becomes better balanced, instead of undertaking far-reaching commitments on gold which the United States would be unable to meet.

THE NECESSARY CHARACTERISTICS OF A MONETARY STANDARD

Submitted by

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JANUARY 7, 1982

There are already in use in the United States a large number of standards of weight and measure including standards of weight, liquid measure, length, area, volume, temperature, barometric pressure, time, speed, and numerous engineering standards for pipes, bolts, threads, and others. These standards have proven themselves in actual practice to be effective and efficient means, without government intervention, for people in our economy to cooperate in the production and distribution of goods and services. Identification of the characteristics that these standards share in common will, therefore, provide an empirically sound basis for identifying the characteristics that are necessary in order for a monetary standard to achieve comparable results.

All successful standards of weight and measure possess four characteristics;

1. THEY ARE REAL. They all have an actual, observable, measurable, substantive existence outside the minds of their users. None is subjective. Length can be seen, weight can be measured on a scale, speed is observable. However, while all standards are real, the application of all standards involves important subjective aspects. While a yardstick is objective, users of it decide subjectively how large to make their houses, how much land to allow for various uses, etc.

2. THEY ARE STABLE. All standards remain the same from place to place and from one time to another. Stability is necessary in order that economic activities that are dispersed in space and time be coordinated accurately and predictably.

3. THEY ARE SYSTEM-WIDE. All successful standards are available and known by all people in the system that use the measure — thus facilitating cooperation.

4. THEY ARE APPROPRIATE. All standards possess the quality that is being measured. A standard of length is a length, a standard of weight has weight, a standard of volume has volume. Nowhere is a length used as a standard of weight, or a speed used as a standard of temperature.

These four characteristics make all existing standards of weight and measure effective and efficient means for coordinating the production and distribution of goods and services throughout the economy. The only role of government in this process is to *define* the standard and to insure that scales and other measuring devices are accurately calibrated. Decisions as to actual dimensions of goods in the economy are left to the subjective discretion of the people involved.

When gold is evaluated in terms of these four characteristics, we find that it fails to meet all but the first condition, that of being real.

1. GOLD IS REAL. Gold has an observable, tangible existence. It is the reality of gold that leads proponents to believe that the use of gold as a monetary standard would rationalize the money supply.

2. GOLD IS *NOT* STABLE. The total supply of gold changes as new gold is added through mining operations and existing gold is used for industrial and cosmetic purposes. Gold is stable only in a relative sense being relatively more stable than iron or wheat. The *value* of gold is highly unstable, varying from person to person and from time to time.

3. GOLD IS *NOT* SYSTEM-WIDE. While almost everyone has heard of gold, very few people can accurately identify gold, and only experts know how to measure "karats". While anyone could weigh a piece of gold, only an expert could certify the metal as gold and attest to its purity.

4. GOLD IS *NOT* APPROPRIATE. Gold is measured by weight. The function of a monetary standard is to measure economic price. If weight were an appropriate measure of price, the heaviest goods would have the highest prices and all services, having no weight at all, would be free. Clearly, gold fails to meet the test of appropriateness.

Therefore, gold fails three of the four tests that a monetary standard must meet. Its popularity as a possible monetary standard can probably be accounted for by the fact that, historically, gold worked *better* than other commodities like grain and iron. Going on the gold standard today, however, would be like the Wright brothers, failing to make their airplane fly, advocating return to the horse and buggy. The wiser course would seem to be to search for something that successfully meets the four tests for a monetary standard.

Such a search leads to TIME as the proper monetary standard.

1. TIME IS REAL. Time is based on the rotation of the earth (hours and days) and the orbit of the earth around the sun (days and years). Time is as real as the rising and setting of the sun and the changing seasons. Its reality is measured by clocks and calendars.

2. TIME IS STABLE. Time is as stable as the rotation and orbit of the earth — extremely stable — the benchmark against which all other changes are measured.

3. TIME IS WORLDWIDE. All peoples of the earth keep time records. Clocks and calendars are found all around the earth.

4. TIME IS APPROPRIATE. A great deal of evidence supports the proposition that time is an appropriate monetary standard. One body of evidence consists of all the ways that time is presently used to organize and coordinate economic activities. Work is regulated in hours, days, and weeks; entry into the labor force is governed by age as is exit from it; rent and interest are charged by the month; taxes come due annually; depreciation is defined by time; economic planning is done in man-hours; and, ironically, inflation is measured by price changes over time. Another body of evidence is the universal association of time with money. People spend time, invest time, and save time just as they spend, invest, and save money. Finally, the time required to produce a good or render a service is a reasonable basis for setting price, as evidenced by actual practice in most fields, including auto repair, psychotherapy, and consulting.

A reasonable basis for adopting time as the monetary standard in the United States would be to convert dollars to hours by the following equation;

$$\frac{\text{Gross National Product}}{\text{Total Hours Worked}} = \text{Dollars per hour.}$$

For 1980, the equation is $\dfrac{\$2{,}626\text{b}}{194.66\text{b}} = \$13.49$ per hour.

ASSESSING THE ROLE OF A RESTORATION OF A GOLD STANDARD

STATEMENT OF

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PRESIDENT

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NOVEMBER 12, 1981

Mr. Chairman and members of the Gold Commission, I am David B. Bostian, Jr., and I am appearing today as President of Bostian Research Associates, Inc. It is a privilege to accept your invitation to state my view on the possible role of gold in the domestic and international monetary systems.

I do not advocate an immediate return to a domestic or international gold standard because of major economic and structural problems which exist today. I do advocate a gradual and experimental shift toward a possible full gold standard through the issuance of new gold-backed bonds or notes. The interest rate that such a new gold-backed issue would bear and the yield spreads relative to the existing, unconvertible government securities of similar maturity would offer important free market benchmarks by which to gauge the plausibility of an eventual return to a complete gold standard. Clearly, considering our $1 trillion national debt and the approximately $100 billion in interest that must be paid on it each year, a possible lowering of the interest expense would be a worthwhile goal. Nevertheless, when the basic question of instituting a gold standard as a fiscal and monetary discipline arises, those who favor it in any form must realize that it may fall short of optimistic expectations because the sources of real long term economic growth are not solely monetary in nature. Restraint in both the creation of money and federal deficits, while a constructive policy, does not, of itself, insure a greater supply of goods and services by which real economic wealth is measured!

There are many advantages to be derived, however, from any effort which reduces inflationary expectations and a gradual shift toward a gold standard through a possible experimental issue of gold-backed government securities is one way to maximize the advantages without incurring undue risks. If world political and economic conditions were more stable, this Commission might be advised to move more rapidly on instituting a gold standard, but we cannot rapidly return to the stable conditions that would allow the institution of a full gold standard. Indeed, one might ask if such a standard would be needed under an assumption that conditions were actually stable? The risks of a hasty return to a gold standard are much more clearly defined. Consider the following:

- It would be difficult to determine the proper price at which gold should be fixed under such a standard. A price that was too high would be inflationary and a price that was too low could result in deflation.

- World gold production over the years has been very volatile with major discoveries and events disruptive of continuous mining hard to predict.

- The Soviet Union and South Africa accounted for approximately 77% of world gold production in 1980. (Soviet Union production was 8,300,000 troy oz., South African production was 21,669,468 troy oz. and world production was 38,882,381 troy oz.)

- Assuming adequate production and availability of gold, there is still the question of whether it would provide an adequate base to support real economic growth.

- Given the tremendous worldwide debt burden today and the inflation that has been a precondition to the servicing of that debt, a sudden disinflationary trend, such as might follow the rapid movement to a full gold standard, would possibly cause the disorderly liquidation of said debt with dire economic consequences.

- For maximum worldwide effectiveness, should an eventual return to a full gold standard be deemed worthy of serious consideration, a meeting of the IMF would be necessary to consider establishing an international gold standard. Given the need for three-fifths of the membership (and 85% of the votes) to agree on such a course of action, an exploratory meeting should be convened.

CONCLUSION

We must move with caution in reestablishing a gold standard because of the political and financial instability that characterizes the modern world economy. There is no easy solution to the economic malaise in which we find ourselves today and any sudden movement to an assumed panacea could be costly. If there is to be a relatively painless way out of the debt-ridden morass in which we find ourselves, it will only be through significant increases in productivity, i.e., through a national effort to increase the output of goods and services, the benchmarks of real wealth. In the last analysis, only if the nation has the will to be disciplined and productive will it ever adhere to any standard, gold or otherwise, nor will it ever achieve its maximum long term economic growth potential.

WHY GOLD?

By George L. Browning
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January 19, 1982

THE QUESTION: Is a money system based on gold essential to the social and economic health of the United States? THE ANSWER: Clearly and definitely, "YES". America's economic and money history provides the proof.

From 1776 to 1933, a period of 157 years, this commonwealth was elevated from thirteen impoverished colonies to the position of the wealthiest and most powerful nation in the World. This feat was not accomplished through the use of large quantities of money. It was accomplished by the wise and efficient use of manpower and material resources. In 1933 the total quantity of money in America was only $42.0 billion.

Today, in 1982, 49 years later, the money supply of the United States is over $2,500.0 billion -- sixty times as much money as it had in 1933. The nations's population has almost doubled and the physical quantity of material wealth available for purchase is nearly twice that of 1933. With sixty times as much money and twice as many people capable of rendering services, the economic management of the United States does not have the competency to provide for the needs of her people.

Horrendous unemployment, underproduction and maldistribution of wealth, and lack of housing and health requirements -- these are producing social unrest, rebellion against authority, violence, crime and insecurity for our families and properties.

America's sufferings are due to false money and economic concepts. Believing that increased money quantities would provide needed management for the nation's manpower and material resources, this nation cut the cords which tied the dollar to the hitching post of gold reserves. Only the whims of the politicians and money managers in power were left to control the quantity of dollars to be manufactured out of credit paper.

With sixty times as many dollars, America is unable to provide for the needs of only two times as many citizens. A better understanding of the nature and of the correct uses of good money is needed.

Money, per se, is not wealth. Money, per se, cannot create wealth. That which is used as money may have, or it may not have, a commodity value. Gold and silver coins have a commodity value. Paper currency and bank checks have no commodity value. Money is merely a mental thing based on faith - faith that the next fellow will accept that which is proffered as money in exchange for his goods or services. In the absence of that faith, not even gold would serve as good money.

Money's power, whether for good or evil, resides in its circulation - not in its mere existence. Centuries ago Aristotle said: "MONEY HOARDED AND NOT CIRCULATED IS STERILE AND NONPRODUCTIVE". Today, one trillion billion dollars locked up in vaults or in time and savings deposits, without circulation, could not produce employment, wealth or the distribution of wealth. When money is circulated in the home economy, not exported to a foreign economy, no money is consumed, used up or wasted. This is true whether the purpose of the spending is productive or destructive. Bad spending may waste precious manpower and material resources; it may impoverish the nation in material wealth, but it does not waste money.

For money to retain its value, its purchasing power, the money quantity must not be excessively increased over the quantity of wealth available for purchase. The total quantity of money in a nation, multiplied by its circulating velocity and divided by the total things sold determines the purchasing power of each unit of money - or the price level.

Gold's value in preserving the integrity of money is found in its disciplinary power to prevent over expansion. For thousands of years gold has been admired and desired for its beauty, its durability and its many uses, however, its scarcity has given it its greatest monetary value. The growth in gold quantity has never seriously exceeded the growth in material wealth quantity. Since early civilization, nothing has been found which will equal gold as a measuring stick for value, as a medium of exchange or as a temporary storage house for earnings or accumulated wealth. No credit money, throughout history, which has been securely and adequately tied to gold reserves, has ever defaulted or lost its purchasing power.

The United States can easily provide its people with a sound money system based on gold, without economic cost but with enormous social and economic gains. All the financial machinery needed is here. While, in recent years, America has lost to other nations over half of the monetary gold it held, the nation still holds enough gold to back the new money system.

It is utterly illogical to even consider returning the present dollar money system to a gold basis. The disparity between dollar quantity and gold quantity is so great that such an attempt would bring to the nation and to dollar holders insufferable punishment. The dollar should be given an extended life of about twenty-five years, but with its quantity reduced at least four per cent each year. This can be accomplished by requiring banks to reduce their dollar loans at least four per cent per year. Since money does not affect prices until it circulates, and since only twenty per cent of American dollars are now fully circulating in the forms of currency and demand deposits, and are responsible for price inflation, it is evident that if all dollar holders were allotted their share of available material wealth or gold, each dollar would have no more purchasing power than that now possessed by two dimes.

It is proposed that the United States create an entirely new money system. The new unit of money should be called "GOLDER". One hundred golders shall have a value equal to one ounce of gold. The Federal Reserve System and all banks of the nation shall be required to carry accounts in both golders and dollars. Gold reserve requirements for golders shall be approximately the same as those required for dollars in the 1930's. To avoid future money quantity inflation, it will be necessary to bring all financial institutions carrying checking accounts under the control of the Federal Reserve. The dollar's value in relation to the golder's value must be determined in the international money market. If it takes four hundred dollars to buy one ounce of gold, it will take four dollars to buy one golder. If it takes eight hundred dollars to buy one ounce of gold, it will take eight dollars to buy one golder. An attempt on the part of the government to give dollars a definite value in golders would create such economic chaos as to endanger our form of government.

THE REAL ISSUE IS FREEDOM OF CHOICE IN CURRENCY

Submitted by Joe Cobb
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November 12, 1981

The madate of the U.S. Gold Commission, to examine the appropriate role for gold in the U.S. monetary system, has been interpreted by most commentators as "whether or not to fix the price of gold in terms of dollars." We submit, for your consideration, an alternative proposal: Let the American people have freedom of choice in currency; demonopolize the monetary system of the United States and let gold (or silver, or Swiss francs, or anything else chosen by individuals) circulate or be used as a lawful tender.

The most important function that a monetary unit serves is as a noun for quoting relative prices. The context of this inquiry into the role of gold, therefore, must address the meaning of the very words we use to write contracts.

In the novel "1984" by George Orwell, there was a government agency called the Ministry of Truth that deliberately changed the definitions of words in the English language, so that victims of Big Brother's tyranny could not communicate with each other and organize a political revolution. The evolution of the U.S. monetary system over the past 190 years has followed the same path.

In 1792, Congress passed the first Coinage Act (1 Stat. 250) which created our decimal coinage system. The U.S. dollar was defined as 416 grains of silver .89243 fine. Because the new nation, for political reasons -- Article I, Section 8, of the Constitution -- was supposed to have a common currency, the Congress established a monopoly for the central government's coins. Under Article I, Section 10, however, it is clear that the intent of the Founding Fathers was for the U.S. monetary system to be based on silver and gold, not paper money. None of the Founding Fathers suspected that just 70 years later, Congress would pass the legal tender law and make the paper dollar our basic unit of money (12 Stat. 345).

Because there was a government monopoly for "dollars," the Supreme Court refused to distinguish between paper dollars and silver dollars (79 US 457). The principle had been established that the word "dollar" is a governmentally defined word, and whenever Congress wants to do so, it can change its definition. In 1913 and 1933, moreover, Congress created the Federal Reserve System and subsequently prohibited Americans from using anything other than its monopoly money (Federal Reserve Accounting Unit Dollars). Congress simply stripped any and all meaning from the word "dollar" in its original sense.

Because businessmen and investors, and those who accumulate savings, rely upon the name of the monetary unit to calculate and plan and to

Statement of Joe Cobb, Choice in Currency Commission

write contracts for future payment, philosopher John Locke developed a principle for honest money. He wrote, the "unit was and should be a definite weight of bullion, which must not be altered." (1695)

Bullion -- pure "noble" metal. Definite weight -- the monetary system should emerge from the common system of weights and measures; it should not be "invented" by government as an artificial denomination of weight. It was an unfortunate historical accident that the common coin in the Thirteen Colonies was not precisely an ounce of silver, which might have gone by the name "One Ounce" without the government's trademark ("silver dollar"), but for that matter there was not a standard definition of the ounce in those days either. It was the monetary use of metal that led to the establishment of the U.S. standards of weight in 1827 (cf. NBS special publication 447).

The principle of freedom of choice in currency, therefore, is founded on the use of gold and silver, by units of weight, in all kinds of transactions where honest men and women come together to make contracts. It is impossible today to make an honest long-term contract in terms of "dollars" because the word has no meaning.

There is no difference between using the word "dollar" today in a contract and using the word "shrug" (e.g., I promise to pay you 100 shrugs in five years, at 10,000 percent interest); how many Big Mac hamburgers do you think you will be able to buy with the "dollars" you get back? Yet, in the U.S. courts and in payment of taxes, the undefined word "dollar" is the unit of measurement.

Since the issue we believe the U.S. Gold Commission should address is really the essence of a market economy, and the capital markets in particular, that is the definition of the noun that Americans may use to quote relative prices, we urge you to recommend the repeal of all monopoly elements in the U.S. monetary system. Two bills in Congress would achieve this: The Free Market Gold Coinage Act, sponsored in the Senate by Mr. Symms (S.1704) and in the House by Mr. Crane (HR.3789) and the Free Market Silver Dollar Act (HR.4965). These legislative proposals would create a parallel currency system for the United States and permit individuals to exercise freedom of choice in currency -- a right they have not had since 1792 because of a monopoly in courts for something called the "dollar."

In a free market economy, freedom of choice always makes the system work better. There are many reasons to believe that the new frontier in freedom of choice -- currency competition -- will be the only way to save the United States from a devastating inflation that has already caused the highest interest rates in history, because nobody with any money to invest is willing to secure those investments with pieces of paper promising to pay "one shrug" in the future in exchange for real goods and services today.

If the principles of John Locke were good enough for Thomas Jefferson and Congress when the Declaration of Independence was signed in 1776, the principle of "bullion weight" and "freedom of choice" must be the guiding principle for re-establishing the monetary system, and strengthening the capital markets, of the United States today.

GOLD IS THE ONLY PERMANENT STABLE MONEY

Submitted by

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6 January 1982

The U.S. Gold Commission has a golden opportunity to recommend a return to the gold standard for the following reasons:

1. The present system of having unbacked and unlimited creation of paper money has led, both in the U.S.A. and foreign nations, to unending inflation without avoiding such traditional economic ills as unemployment, recessions and high interest rates.
2. A fully convertible gold standard will avoid the dangers of both inflation and an inflexible monetory base.
3. No practical substitute for gold exists which will be universally acceptable as a constant medium of payment between nations and persons.

In view of the above, the following policies are recommended:

1. The U.S. by law provide that U.S. currency and coin be fully convertible into gold coin, at the parity of $500 per troy ounce of fine gold. This parity would provide approximately 100% gold backing for U.S. currency and coin in circulation, and therefore allow an ample amount of gold for making interim internal and foreign adjustments before a statutory 40% gold backing level would be reached.
2. The U.S. mint only one type of gold coin, namely a $500 coin which would have the same weight, composition and dimensions as the South African Krugerrand, and which appropriately should have the head of Alexander Hamilton and the motto "In God We Trust, All Others Pay Cash" stamped on one side, and with the Great Seal of the U.S. on the obverse. The Krugerrand could also be made U.S. legal tender for $500.
3. The President, by and with the advice and consent of the Secretaries of State, the Treasury and Commerce, have power by law to declare a foreign currency, which is not fully convertible into gold coin, to be a Paper Currency and to determine its value in U.S. currency for the purpose of calculating import duties and official penalties.
4. The U.S. by law recognize that:
   a. The period from the present time to about the year 2000 will be one of real deflation, even if disguised by monetary inflation, based upon both expectations and the Kondratieff Cycle.
   b. In order to maximize the employment of labor, wage rates should be determined by the Law of Supply and Demand, and the U.S. reduces employment by attempting to set artificially high wage rates for any group of persons.
   c. No U.S. industry should have any right to request governmental assistance if its workers are employed at wage rates above those prevailing in a free labor market.
   d. The U.S. should by law deprive the states of the power to regulate wage rates, prices and rents.

5. The U.S. take prompt action to reduce high interest rates, which are crippling the housing and other industries, by balancing the federal budget through the raising of excise taxes on alcohol, tobacco, etc to approximately one-half of the general West European levels, thereby also leaving some tax resources to the states.

This submission is based upon traditional principles of free market economics which always work when given the opportunity to function in a civilized society. Failure to return to a fully convertible gold standard and its necessary attendant economic disciplines and freedoms will only damage the U.S. economy and further undermine the prosperity of the people.

THE IRRECOVERABILITY OF THE GOLD STANDARD

Richard N. Cooper

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January 1982

The idealized gold standard as it appears in text books conveys a sense of automaticity and stability - a self-correcting mechanism with minimum human intervention which assures rough stability in prices and balance in international payments. The actual gold standard could hardly have been further from this representation. Major countries of the world were on the gold standard proper only from 1870s to 1914, and briefly during the late 1920s and early 1930s. The first period went down in history as the Great Depression - until the second period came along to exceed it in depth and severity.

In the United States the last third of the nineteenth century was a period of unprecedented controversy over the monetary standard, first over the resumption of gold convertibility for the greenbacks issued during the Civil War, then over the monetary role of silver. Legislation was constantly before Congress to change monetary relationships. The year 1896 saw the only U.S. presidential campaign devoted to the issue of monetary standard. The question of the monetary standard was thus a source of continual turmoil and uncertainty, not serene stability.

The public debate reflected the fact that, contrary to current claims for it, price stability was not assured either during the gold standard period proper or over a longer period during which gold held dominant influence. Short-run variations in prices, in fact, were considerably higher during the period of the U.S. gold standard, 1879-1913, than in the more recent period, 1960-1979.

Long-run price movements were also substantial. Prices declined about 50% in Britain, France, Germany and the United States from 1816 to 1849, then rose about 50% until the general establishment of the gold standard in the early 1870s, then fell nearly 50% again until the gold discoveries of the 1890s, then rose sharply in the two decades before World War I. This is hardly a pattern of stability, although it is true that prices sometimes declined over long periods of time. However, contemporaries had no confidence that price levels would return to earlier levels. This lack of confidence is reflected in the movements of interest rates. Real interest rates on long-term bonds - interest rates corrected for the movements in prices - followed roughly the same pattern as prices themselves: high in the 1870s, gradually declining to the turn of the century, and then rising again. This pattern implies that the bond-purchasing public did not anticipate correctly future price movements. They apparently adjusted their expectations slowly, in response to past price movements. It is thus not true, as is sometimes claimed, that the metallic standard provided for stability in the real value of long-term financial contracts. A close look at history provides little comfort to the proponents of a revived gold standard.

If we turn from history to the contemporary setting, there are two broad proposals for gold in the U.S. monetary system, each with numerous variations in detail. The first involves reintroduction of some form of gold backing for U.S. monetary liabilities. The second involves some form of convertibility of U.S. monetary liabilities into gold at a known price. Some of the proposals for backing involve basically a monetary rule in thin disguise: gold plays no essential role in these proposals. Some variants would however require periodic purchases of gold by the United States, giving rise to technically difficult but not insuperable problems concerning the discrepancy between the market price for gold and the official price for gold.

The second class of proposals involves convertibility of one form or another of dollars into gold at a known price. The difficulty with these proposals is determining the price. Foreign monetary authorities hold around $250 billion and an additional $700 billion is in private dollar deposits outside the United States. This is over and above dollars held by Americans and others in the United States. Too low a price for gold would invite large-scale conversion of these dollars into gold. The system would quickly collapse through the exhaustion of U.S. official gold holdings. This continguency could of course be avoided by pricing U.S. gold at a much higher than current market price. But then the U.S. would almost certainly have to <u>buy</u> gold out of new production and private hordes. This would undermine the discipline which gold convertibility was supposed to establish in the first place.

There is another disadvantage with reinstituting gold in a monetary role that is in any way linked to the market for gold. The major producers of gold in the world, together accounting for 80% of world production, are South Africa and the Soviet Union. Both countries exercise considerable discretion in the amount of gold they sell into the market. Both are at political odds with other nations. To restore an important monetary role for gold would give these two countries a windfall of considerable magnitude, because of the higher price involved. An ill-conceived attempt to avoid this price increase and to rely on new supplies would place the monetary system of the United States hostage to political decisions in one or both of these countries.

The choice of a price for gold plays a central role in the viability of any restoration of gold to monetary role. Yet the choice of a price, while crucial, is unavoidably arbitrary. So long as this is so, a rule based on a supposedly fixed price of gold can not be a credible rule. If gold were to become unduly constraining, its price could be changed, and that possibility would be widely known. In this respect, the situation is fundamentally different from that in the nineteenth century. Then the dollar price of gold was <u>historically given</u> and not open to question. The price was not conceived as a policy variable. Yet gold ceases to provide monetary discipline if its price can be varied. So long as the price of gold is a policy variable, the gold standard provides no escape from the need for human management, however frail that may seem to be.

FACILITATING THE OPTIONS OF USING GOLD AS AN AUXILIARY CURRENCY

Submitted by

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November 13, 1981

The Gold Institute/l'Institut de l'Or is the developmental, technical and industrial arm of leading producers of gold and gold products in 15 countries, outside of South Africa and the Soviet Union which have their own entirely separate gold activities. We provide precise and timely statistics on the production and flow of gold, and extend the beneficial uses of gold by technical assistance to the many industries which use it, and to central banks, ministries of finance and mints in their issuance of gold coinage. Last year 57 governments issued some gold coins as detailed in our annual publication MODERN GOLD COINAGE.

Some nations, such as Switzerland and the United States, have had considerable time periods of economic and governmental activities which have resulted in steady levels of purchasing power of their currencies; whereas others have had economic and governmental activities resulting in continually depreciating currencies. An example of this latter is Brazil, the largest country in Latin America. For half a century the purchasing power of its units of currency has been continually decreasing by 20% to more than 50% each year, so that the value of today's Brazilian cruzeiro expressed in Swiss francs or dollars or gold is less than one-thousandth of what it was thirty years ago. The Brazilians have survived for many decades with a traditionally depreciating national currency, just as the United States survived with a temporarily depreciating "greenback" currency from the Civil War years until the restoration in 1879 of dollars having a relatively steady purchasing power.

The United States is now in a period in which its units of currency are depreciating in value and the nation is indicating its desire to undertake the economic and governmental activities which will result in its currency having a steady rather than a declining purchasing power. However, these measures are, of necessity, fundamental ones, requiring careful and enormous efforts, not only by the Federal Reserve System, but by the whole Executive Branch of the government, the whole Congress, and the support of the majority of the entire electorate. They require time to accomplish.

Meanwhile, just as was necessary in the United States in the years after the Civil War until 1879, and has continually been necessary in Brazil, some auxiliary, or parallel, currency is useful. In Brazil, the auxiliary currency for two generations was the United States dollar, equivalent to one thirtyfifth ounce of gold. In the United States "greenback" dollar period after the Civil War, the auxiliary currency was gold, or sometimes the British pound, equivalent to a quarter of an ounce of gold. In the United States today, needs for an auxiliary currency are beginning to be met by the use of metallic gold in the form of gold bullion bars, bullion coins of other countries, and other gold pieces of precisely marked purity and weight. Residents of the United States, recently estimated at 8 million in number, have large amounts of gold bullion, coins, medallions, and precisely marked pieces, in what might be called their "private reserves," and these are available for various transactions in which the payer and the receiver wish to use gold as an auxiliary currency.

An example of usefulness of an auxiliary currency earlier, was in 1865 when a Pennsylvania company was able to make a favorable multi-year contract with a Danish company to import the mineral cryolite from Greenland. The payments were specified not in United States "greenback" dollars nor in Danish kroner, but in British pounds (quarter ounces of gold), the then auxiliary currency for both the United States and Denmark. Likewise, in Brazil, where the cruzeiro interest rates are high, many productive operations have been made possible by dollar financing, with corresponding repayments in dollars.

Examples of the present use of gold as an auxiliary currency include the payment of dividends in the form of gold, and a 3-1/4% industrial bond issue with both principal and annual interest payable in gold. The trustee of this is Continental Illinois National Bank & Trust Company of Chicago. The securities firms involved include Drexel Burnham Lambert, Inc. of New York and Ross and Partners of London, and they are equipped to arrange similar low interest bond issues payable in gold for others.

The U.S. government has already done much to restore freedom of gold movement. In this present period it would seem desirable to further facilitate the options for U.S. private citizens and corporations to use gold as an auxiliary currency. Encouragement should be given to the private financing of construction and other productive projects by the use of gold with its attendant low interest rates, without which the projects and their resulting contribution to employment and the strength of the economy, would not occur. There are many examples of the beneficial use of an auxiliary gold or gold-based currency to accomplish this in other countries.

To protect the U.S. economy, the gold which constitutes most of the U.S. government's crucial foreign reserves needs to be gradually increased and not depleted. However, U.S. refiners are producing around three million ounces of refined gold bullion per year and it is recommended that the U.S. government convert some of this into weight-denominated gold bullion coins and issue the coins, without tax impediment, through bullion dealers and banks equipped to distribute them and maintain markets for them, just as U.S. Treasury bills and bonds are now marketed through dealers and banks especially equipped for the purpose.

GOLD : ARCHAIC THROW BACK OR MODERN TOOL?

Submitted by:

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Jan.15,1982

Returning the United States to a gold standard could be either the most effective way to fight inflation or the introduction of monetary rigidity that would set the stage for crisis in the financial markets.

The key determinent of the puzzel is the price at which gold and the dollar are proposed to be connected. If the price is set too low, giving the dollar and inflated value, there would be claims against the U.S. gold stock as dollars were offered for gold. An outflow of gold would result with the same destructive consequences seen in the late 1950s and early 1960s. If the price were set too high the dollar would be undervalued causing an influx of gold and the threat of renewed inflation. Only the "right" price would work.

It is impossible for any group, government or otherwise to determine the right price. The right price is a moving target. The "free" market is not a mechanism for determining price. The Russians have been trying to manipulate the gold price for over a year. They withhold supplies when they feel the price is low and sell when it is high. Through their bank in Zurich Switzerland they are constantly trading gold. Ricght now the possibility of the U.S. returning to a gold standard is depressing the gold price. Investors fear that the U.S. would choose a low price in order to give a higher value to paper dollars.

The United States should take steps to enter the gold market, obtain current experience and struggle to find a way to make a connection between the dollar and gold.

A first logical step is to join the ranks of governments such as South Africa and Russia that realize income from the sale of gold coins. Selling a U.S. coin that flutuates with the gold price makes sense.

A second logical step would be to begin buying and selling gold with the objective not of manipulating the gold price but of blunting Russian efforts at manipulation and increasing U.S. gold holdings. This would make the U.S. an important participant in the gold market and provide a sound basis for determining if a full return to the gold standard is warranted.

Gold is money and has been for centuries. Gold bugs use that historical fact as evidence to their point that returning to a gold standard offers only benefits. They should really look at gold as money to see both sides of the issue.

Look at prices in terms of gold. We are eccustomed to looking at prices only in terms of dollars. Take oil for example. All the while the price of oil was rising in dollars it was falling in terms of gold. Lately as the dollar price for a barrel of Saudi crude has been falling the gold price for that barrel has been rising.

Understanding gold as money is key to the issue. World markets would not be automatically served by returning to the gold standard.

There is a difference betwee dilution and inflation. Using gold as a monetary tool could be helpful in preventing excessive dilution of the dollar but not necessarily helpful in fighting inflation.

Consider the oil example. If rising prices for important commodities such as oil are inflationary when they occurr in dollars they must also be inflationary when they occurr in terms of world money or gold.

A falling gold price can be just as inflationary as a rising gold price. Stability is the objective. But not forced manipulated stability. Rather genuine stability is the requirement for lower inflation and reduced dilution.

A free gold market is a useful score card. If the gold price stabilizes as a consequence of U.S. monetary and fiscal policies we would know that we were doing the right things. If we lock in a gold price through a gold standard connection we wouldn't know whther or not our policies were correct. We would only know how we were doing as a manipulator of the gold market.

Staying off the gold standard could be just as useful as returning to the gold standard. The key is having respect for gold as world money. If we have genuine respect for gold as money and show that by participating in the gold market we will reap the benefits no matter how the gold standard issue is finally resolved.

GO SLOWLY. WALK BEFORE RUNNING. SELL GOLD COINS AND BECOME MORE ACTIVE IN THE GOLD MARKET. LATER LOOK AT THE GOLD STANDARD ISSUE AGAIN.

TENDER & THE U.S. CONSTITUTION

Submitted by

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February 1, 1982

You may get two ideas from this: (1) The use of any tender other than gold and silver is UnConstitutional. (2) Legal Tender statutes are UnConstitutional because they deprive individuals of property (money is property) without due process of law.

HISTORY: A. Pre-Constitution 1787: Colonies in chaos due to fiat money. Creditor runs from debtor. Creditors were paid without mercy.

B. 1787 - 1900: U. S. made greatest progress in history of mankind. Mostly on gold/silver standard. U. S. still a Republic. Well, almost.

C. 1900 - 1968: U. S. drifts to Democracy. Last underpinning of precious metal removed (silver-certificates). Federal Reserve established.

D. 1968 - present: Democracy in full force. Fiat money = 100% ! Tending to chaos; democracy leads to mob-ocracy, commissions, skepticism, collectivism.

EVIDENT TRUTHS: No nation ever survived intact that debauched its currency (commercial life blood) & No nation has ever lived more than 200 years under Democracy.

According to the U. S. Constitution fiat money must be UnConstitutional. Article I Section 8.5.: "Congress shall have Power: To coin Money,..." period. It does not say "to coin it out of paper". The 1787 Committee of 11 considered "emission of bills of credit" which means fiat money. By a vote of nine in favor - one against and one divided, it rejected "bills of credit". The key words are CONSIDERED and REJECTED. The Legal Tender Decisions have ignored the intent of the writers of the Constitution. If the Constitution meant to coin Money out of paper, they would have stated: "and emit bills of credit".

The combination of Art I Sec 8.5. and 10.1. closed the door to fiat paper forever. Section 10.1.: "No State shall... make any Thing but gold and silver Coin a Tender in Payment of Debts;..." The word "coin" was capitalized. These 17 words were composed by Roger Sherman, an enemy of fiat money for many reasons. Among them; he was cheated by it and lost a lawsuit about it.

These 17 words were accepted by the Committee unanimously (11-0). The Legal Tender Decisions have totally scorned this prohibition on the States to impose on their citizens any Thing but gold and silver. They have nicely coerced the States to violate the Constitution on a wholesale basis.

Noah Webster called Legal Tender "the devil" and those who favor it "were counterfeiters, deserving of the gallows,...".

"The very words Legal Tender...", according to Paul Leicester Ford, Editor of the FEDERALIST (1898), "... are a lie and a fraud, through which someone is to be robbed."

Daniel Webster said Legal Tender statutes were UnConstitutional. Amendments (V) & (XIV): "No person shall... be deprived of life, liberty, or property, without due process of law;...".

Additionally; Art I Sec 10 says, along with its prohibition of fiat money: "No State shall... pass any bill... or law impairing the Obligation of Contracts,...". Contracts are sacred! Debts are not to be paid at a discount with a printing press!

CONCLUSION:

I. Gold/silver coins should be imprinted with the weight of pure metal in grams or decimals & value in dollars ("dollar" is used twice in the Law). It is a power of Congress to: "... regulate the Value thereof, and of foreign coin, and fix the Standard of Weights and Measures;..." No other power is enumerated for the physical description of real money! The dollar is our trademark for real money.

II. Since gold is necessary for a specialized nation and division of labor (which means a high standard of living), and since gold production represents a consumption of capital, it would be advantages to everyone to economize the use of gold. The banking system has provided an ingenious solution to this problem: Fiduciary media. FM consists of 'claims to money' that are not backed by gold. Therefore, I suggest reserve requirements be set at 20-25% gold backing. Experience has shown this to be a practical figure. If a note is known to be convertible 100% of the time into real money, then it becomes the absolute equivalent of 'real money'. Thus, people do not hoard to any extent when government keeps its contracts.

III. Eliminate any mention of "legal" on any notes denominated in real money. It is not necessary. See also 111 US 701.

FINALLY: When the time comes to sequester imaginary* debts, in whatever fashion, let it be known IT IS NOT THE FAULT OF OUR CONSTITUTION! Do not blame it! Let that one-of-a-kind masterpiece be preserved unblemished for it intended to do away with bogus money & bullets and install a Republic. Please join me in noticing those who have and do violate their oath to support it.

Respectfully,

C. F. Dockstader

* Hugh Williamson, May 13, 1785, used the term "imaginary money of the several states" in his paper on the adoption of the Dollar. Serious students of proper tender under the Constitution should read THAYER v. HEDGES, 1864, 22 Indiana 282. Note that not once did the Supreme Law use the word "legal". Also see Hagar 111 US 701.

STATEMENT BEFORE THE GOLD COMMISSION

Submitted by

Rudiger Dornbusch

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November 13th, 1981

Lack of fiscal discipline, high real interest rates and persistently high inflation, all draw attention to disarry in our macroeconomic policies. The Enquiry of the Gold Commission is an important opportunity to look for more coherent policies and for institutions that lend stability and credibility to our macroeconomic targets.

The historical record does not bear out the belief that the gold standard provided a stable economic environment. Under the gold standard of the 19th and early 20th century one crisis chased another and macroeconomic performance, except for the average rate of inflation, was poorer then compared to the last twenty years. The accompanying table makes this point for the case of the US.

A Comparison of Macroeconomic Stability*

Period	Inflation Average	Variability of: Unemployment	Inflation	Money Growth	Real Interest
1879-1913	0.5	4.5	5.5	6.7	13.2
1960-1979	4.6	1.4	4.3	1.9	3.5

*Variability is measured by the standard deviation. All data are percentage rates.

The table reveals that unemployment, inflation, money growth and the real interest rate all were more variable under the gold standard than they have been in the recent past. Even the low average rate of infaltion under the gold standard is accidental. From 1870 until 1895 prices were continually falling. Later, under the impact of Australian gold discoveries prices were rapidly rising. The long term average happens to be near zero inflation, but for shorter periods there is substantial instability, especially in wholesale prices.

A gold standard is undesirable from a cost-benefit point of view because it absorbs real resources that have alternative, productive uses. If in the present US economy all highpowered money were to be backed by gold an amount equal to 0.3 per cent of GNP would have to be devoted every year to provide for growth in the real money stock. Under a fiat-money, by contrast, we can have monetary control without a real resource cost.

The adoption of a gold standard presents extraordinary difficulties in selecting the appropriate support price and the transition strategy. A price that is too low invites a run, a price that is too high invites deflation. A transition to gold at a future point in time, at the then prevailing market price, is entirely unreasonable since it allows a speculative bubble to determine the path of prices.

If gold is not to serve a formal role in the monetary system then gold should be immediately denationalized. The existing gold stock should be sold off with the proceeds used to finance budget deficits. The current gold holdings at $300 an ounce are worth nearly $80 billion and can thus make an important contribution to deficit finance. There is no reason for the minting of gold coins at a time of public sector austerity, nor is there a reason to maintain gold for potential uses as a foreign exchange market intervention asset. Of course, gold holdings could perhaps turn out to be convenient, but on that argument we should also hold ample supplies of Deutsch Mark, Sterling and Yen, Silver and Platinum. There is no indication that the present, large gold holdings yield services, current or prospective, that are at all in line with the resource cost of holding the treasure.

A lesson of the 1970s is that fiat-money, managed with imperfect knowledge and under political pressure, can easily give way to cumulative inflation. It is important to lock in the gains from two years of prudent monetary policy by a move to formal monetary rules that establish the fact and expectation of long-term price level stability. In the transition such monetary rules should be accompanied by transitory incomes policy.

THE INADEQUACY OF ACCOUNTING AND SECURITY OF THE NATION'S ALLEGED GOLD RESERVES AND POSSIBLE REPLACEMENT OF THESE RESERVES

Submitted By

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February 10, 1982

This is a brief summary of the writer's written testimony before the Gold Policy Commission. This written testimony includes the following:

(1) My certified letter to all members of the Gold Policy Commission dated 12/4/81 containing a copy of my privately printed pamphlet, "Mr. President, Where Is Our Gold?", to give the Commission a sampling of my eight years of research. The letter suggested to the Commission that it determine the quantity and quality of the nation's alleged gold, its rightful owner, and the whereabouts of 165 million ounces of gold that left Fort Knox during the eight year period of the London Gold Pool, whose destination has not been satisfactorily accounted for.

(2) My letter dated 1/6/82 to Secretary of the Treasury, Donald Regan, covering the inadequacies of accounting and the insecurity of the nation's alleged gold reserves.

(3) My transmittal letter dated 2/4/82 to all members of the Gold Policy Commission enclosing my letter of 1/28/82 to Robert Black, President of the Federal Reserve Bank of Richmond, which outlines the evidence that the Federal Reserve System and not the U. S. government has title to whatever gold is warehoused by the U. S. Treasury.

(4) My letter dated 2/9/82 to all members of the Gold Policy Commission asking that the Commission consider several suggestions for the government to borrow and/or recover the gold necessary to back U. S. currency and/or other instruments of liability or for use in gold coins (legal tender or otherwise).

All of these documents are to be made part of the printed record of the Gold Policy Commission. This written testimony covers the following points in an effort to prove to the Commission that

(1) The U. S. Treasury and its agents do not hold the gold claimed.

(2) Whatever gold is disclosed as warehoused by the U. S. Treasury and its agents by an external, independent, physical inventory and

genuine assay, belongs not to the U. S. government, but to the Federal Reserve System.

(3) The alleged audits that have been done by Treasury would not be acceptable to a qualified certified public accounting firm.

(4) Security at the U. S. bullion depositories, mints and assay offices has not been satisfactory.

(a) Deputy Secretary of the Treasury, Robert Carswell, in a letter to Senator William Proxmire, Chairman of the Senate Banking Committee, dated 12/19/78, stated that, "...I must now inform you that there have been significant irregularities in accounting and management procedures in the New York Assay Office that appear to go back a number of years" and "The full truth may never be known because of the inadequate records kept over the years."

(b) Secretary of the Treasury, Donald Regan, on 11/16/81 ordered the Director of the Mint to move "...all Treasury owned monetary gold bullion bars" from the New York Assay Office to the West Point Depository and did so without using this physical move to determine the accuracy of the count, weight and fineness of the bars.

(5) An investigation of the circumstances and terms under which a total of 235.3 million Troy ounces of gold allegedly went into the hands of "official foreign monetary institutions"(*) during the period of 1944-1971 (when the so-called "gold window" was closed) might develop the best source for recovering a portion of the needed gold.

In respect to all of the foregoing, it is suggested that the Gold Policy Commission recommend in its report to Congress that Congress take such steps as to request the General Accounting Office to make a thorough investigation of all the questions raised by my eight years of study and investigation. In addition thereto, it is suggested that the Commission recommend to the President that he create a "Blue Ribbon Presidential Commission Of Inquiry", as was done by former President Eisenhower in 1953, to order a separate audit and inventory to examine the circumstances, responsibility and authority for the U. S. Treasury and/or the Federal Reserve System losing control of 325.4 million Troy ounces of gold, or over 60% of the nation's gold hoard between 1944 and November 1981.

I stand ready to assist in any way possible, particularly by bringing to the attention of the General Accounting Office and the "Blue Ribbon Presidential Commission of Inquiry" some of the irregularities and unauthorized actions that have been discovered under the Freedom of Information Act and otherwise.

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(*) Reference tabulation "U. S. Gold Stock 1944-Nov. 1981" distributed in Treasury's News release of 12/11/81.

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Views Presented to the Gold Commission

Submitted on November 13, 1981

By William Fellner
American Enterprise Institute
Yale University, Emeritus

I. Four Conclusions.

A. When specific conditions are satisfied, the gold standard can function effeciently, with major advantages over the available alternatives.

B. In the now foreseeable future these conditions will not be satisfied, and systems belonging in the gold-standard category would therefore malfunction with very damaging consequences.

C. However, the more distant future is unpredictable in this regard and, partly for this reason, I feel opposed to a resumption of gold sales by the Treasury.

D. We should not experiment with schemes that would give the superficial appearance of restoring a system belonging in the gold-standard category but would build into the system elements alien to the basic conception underlying the gold standard. Such constructs would involve the same political arbitrariness which we must learn to overcome in our present monetary system and, by covering up the essence of the matter, they would reduce the likelihood that we shall deal with these risks successfully.

II. Sketching the Argument Behind the Conclusions.

(1) When specific conditions are satisfied, the gold standard has significant advantages because gold then serves with reasonable efficiency as a proxy for goods in general. Hence, by the simple and credible technique of stabilizing the price of gold with reliance on a stockpile, the authorities can in those circumstances come reasonably close to stabilizing at the same time the general price level. Investors and consumers can then gear their expectations to such a behavior of the price level, and the highly damaging uncertainties of inflationary periods are avoided.

(2) The essential condition of gold serving as an acceptable proxy for goods in general is that the real price of gold (defined as its relative price expressed in relation to goods in general) should remain reasonably stable, that is, that the real price reflecting market preferences should show no disturbingly steep and unpredictable trend. To what extent this condition tended to be satisfied during the heyday of the gold standard, and what could have been done in those days to avoid the occurrence of some disturbed subperiods, are questions of considerable complexity. But on the whole, in a past era the conditions required for the efficient functioning of the gold standard were in my appraisal well enough satisfied to have made it an efficient monetary system, one that was indeed superior to the available alternatives. I also believe that it would be wrong to take it for granted that in no future era will the essential conditions of the efficient functioning of the gold standard again be satisfied.

(3) However, these conditions will not be satisfied in any future near enough to serve as a basis for present policy planning. Even if by an international agreement all major gold-holding official agencies of the world decided to return to gold, and the risk of large official inflationary gold sales to us or deflationary gold purchases from us were excluded, the real price of gold--its price relative to goods in general-- would not remain unchanged. This implies that a fixed current-dollar price of gold would not be associated with a reasonably stable general price level. The reason is that in the present circumstances the gold output does not show the required responsiveness to a rising real price of gold. There is no positive output response that would prevent a rise in the real price of gold from becoming large and from cumulating, even if with significant price fluctuations. At present the real price of gold in the United States is roughly five times what it was about ten years ago, but the noncommunist world output has declined from about 40 to about 30 million ounces a year, and there occurred also a significant deline of the world output including rough allowances for the output of the communist countries. This is obviously not how a proxy for goods in general should behave. It may, of course, be objected that, even in the past, output responses often came with substantial lags, but so far there are no signs of such a response to recent price trends. In the present debate the emphasis should be placed primarily on this rather than on mere transition difficulties (the so-called reentry problem).

(4) It is sometimes argued that the size of the gold output does not matter much because, due to the practical absence of physical depreciation, the size of the stock is so large in relation to the current output that the stock is all that matters. According to this argument the present stock would be amply large enough to prevent any upward trend of the real price of gold if, by tying the dollar to gold, we made the holding of gold unattractive to private owners. This argument is erroneous.

At present approximately 1,700 million ounces of gold seem to be held by private owners, much the greater part in jewelry and art objects. Unless the official agencies purchased this gold with severely inflationary results, the size of the privately owned stock would <u>remain what it is</u> and the only consequence which a postulated "unattractiveness" of gold to private owners could have would be a temporary reduction of the gold price to a level at which holding on to the given stock would become "attractive". However, the amount of gold the public would want to hold at that assumed low price would thereafter be rising, along with the size of the world's population and its standard of living. If the gold output remained insufficient to accommodate this increasing demand, the real price of gold (as defined in (2) above) would be rising from its initial level, and it would be rising at a hard-to-predict and presumably irregular rate.

This would express itself in substantial and disturbing deflationary pressures on the general price level <u>unless</u> the nominal (current-dollar) price of gold were raised successively <u>or</u> central banks and other official agencies now jointly holding between 1,100 and 1,200 million ounces were gradually unloading their stock. One or both of these two things would be very likely to happen. But to base an alleged "gold standard" system on political decisions concerning increases of the current-dollar price of gold, or to base it on gold sales of the official agencies for the sake of keeping the price of gold from rising, would introduce into such a system the same kind of political leeway the misuse of which we must try to overcome in the management of inconvertible paper money.

However, I repeat that I consider the market and policy trends of the more distant future unpredictable, and I feel opposed to the resumption of gold sales by the Treasury.

CURRENCY AS SEIGNIORAGE

Submitted by:

Brian W. Firth,

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February, 1982

SCOPE

Many commentators are considering whether there is a role for gold in the banking system, i. e. whether gold can be linked to currency. It is here contended that any such proposal must be unsound both in policy and in principle. In policy, because the currency is today heavily over-valued (Professor Laffer holds that the currency is never traded for less than ten-sevenths of the liquidated value of the assets of the Federal Reserve Bank; Professor Rothbard — usually a protagonist of the market — argues that the price of gold, in currency, should be four or five times higher than today's $385): thus the debate itself might trigger a crash of the currency. In principle, for three reasons: (a) Congress has been authorized to regulate the value of (its own and foreign) coin, but of nothing else, (b) since Federal Reserve notes are — where Congress has legislation — legal tender, their value can hardly fall below that of U. S. coin, and (c) the method here recommended for the regulation of the value of coin would link not only coin but also currency to gold.

THE PROBLEM SITUATION

The problem with coin is easily articulated: if "regular" means "predictable", the Congress has failed to regulate the value of coin. First, the metal content of coins has, historically, proved variable — even the cent, which has circulated continuously since "copperheads" of 1/10th. troy oz. emanated from numerous mints during the War between the States, is not safe from executive interference. Second, coins are — by congressional policy — in short supply: gold coins trade for 140% of their value as specie (i. e. the value they would have if the mint were open), silver coins for 110% of specie value, homogeneous copper coins for almost twice specie value (the "regulated" price of copper would be $1. 45 per pound, the market price is 80¢ per pound).

Any solution, therefore, must have two qualities. First, it must convince the owners of coin that its value will be guarded by the Congress. Second, it must render coins available in unlimited quantities — without, however, disturbing the market for metals.

THE SOLUTIONS

Congress — unlike the States — has in theory an unlimited choice of species but in fact only three options which could readily command confidence.

Firstly, the Congress could transfer the status of legal tender — where it has legislation — to the cent of 1/10th. troy oz. copper, 95% fine. There would then be no possibility of the "penny" ever being worth more then 1¢, coppers would no longer be "hoarded" (in bottles rather than banks), and normal minting would tend toward equilibrium (i. e. Congress would stop minting cents when they cost ten mills). Such a devaluation of the money is allowable, since Congress is not prohibited from impairing the obligation of contracts; however, it would give rise to a surge of wholly illusory profits (where accounts had been kept in currency). It should be noted that currency would go to a premium, since not only debtors but also creditors would prefer a note to one hundred small coins, so that the devaluation would not be as large as today's market price of copper would suggest.

Secondly, the Congress could institute free coinage of 900-parts-silver fractional coins. The "price of silver" (in currency) would then express the discount rate of F. R. notes. The advantage of this option is that the States have traditionally used a silver standard, de jure from 1792 to 1871 and de facto from 1934 to 1964: thus we might expect to see several States enact legal money statutes. The disadvantage is that the value of silver is volatile, because it is mined not for its own sake but as a by-product of copper, etc.

Thirdly, the Congress could resume the minting of gold coins (resume is the proper word, so long as the American Arts medallions fail to gain acceptance as legal money in any State).

Today, a double eagle is worth, as specie, $370 currency. This is to say that the face value is 5.4% of the value of the metal; and we know that this is comparable to, but more than, the premium on foreign gold coins.

Thus Congress could mint its gold coins (which, be it remembered, were standardized before white men reached the Rand) for a seigniorage — payable in currency — equal to the face value of the coin: the market for bullion would not be disturbed, since the seigniorage would be higher than for many other coins, but nevertheless gold would flow to the mint, because U. S. coins command a high premium.

Once currency-as-seigniorage became an accepted institution, the currency would be stabilized. Suppose that currency fell until the price of gold, in currency, were $850; then the seigniorage would be 2.4%, U. S. coins would be the lowest-premium gold coins, and gold owners all over the world would want F. R. notes with which to pay for the coining of their gold.

CONCLUSION

The contemporary problem, of regulating the value of U. S. coin, is open to a legislated (i. e. lasting) solution. It is, for the Congress to mandate that the Treasury shall strike a U. S. gold coin for whomsoever proffers both the necessary fine gold and also currency equal to the face value of the coin.

This would effect two major improvements over the present situation. First, an established U. S. coin would be available in unlimited quantities, instead of U. S. coins having artificial, scarcity value. Second, the monetary system would be isolated from, and fail-safe with respect to, the banking system: a collapse of the currency would simply restore free coinage of gold.

Possession vs. Promises: Public Policy Issues for Reconciliation

Submitted by

The Gold Bondholders Protective Council, Incorporated
P.O. Box 2283, Seattle, WA 98111

February 11, 1982

The Gold Bondholders Protective Council, Inc. is an investors association established for the purpose of protecting the rights and interests of investors who own bonds containing a gold clause which have been distributed to the public in these United States. It embraces unredeemed obligations issued and guaranteed by the United States Government and its political subdivisions, foreign governments and their instrumentalities and like corporate entities which have otherwise maintained sound credit ratings. The Council believes it appropriate for the Gold Commission to examine and address conflicting U. S. Public Policy which is clearly inconsistent with respect to the treatment currently accorded gold coin of the U. S. and contractual promises therefor. It should be pointed out that Treasury records indicate 66% of the gold coin struck by the Mint is still outstanding, whereas only ¼ of 1% of the original gold clause obligations remain outstanding in 1982.

If a taxpayer receives gold coin of the U. S. as current income, the Treasury requires the coins be valued at their higher market value for tax purposes, thereby placing the taxpayer in a higher marginal bracket. However, when the taxpayer tenders the gold coin to the Treasury to discharge his taxes, the Treasury credits him with their lower face value. When this policy is changed and made consistent to promote rational planning, the hoard of gold coin will begin to circulate and gold will flow into the Treasury. Therefore, the Council recommends that income denominated in terms of U. S. Gold coin be valued at the lower, face value for tax purposes since it is in harmony with the Administration's policy of reducing marginal rates of taxation.

Government obligations promising to pay both principal and interest "...in gold coin of the United States of the present standard of weight and fineness...upon presentation and surrender....", remain outstanding. Although most have matured, others don't fall due until after the year 2000. In the aggregate, there is less than $30 million of these gold clause obligations remaining, equally divided between Federal, State and Municipal bonds. All were issued between 1834 and 1934 when gold was valued at $20.67 per ounce. This Commission has heard a number of suggestions urging the Treasury to issue new gold bonds. It is the Council's view that this action cannot take place until the older gold bonds are honored according to the terms specified.

Approximately $1.25 billion par value of unmatured corporate obligations containing a gold clause remain outstanding today. They are primarily long term first mortgage bonds issued by the nation's railroads, with maturity schedules extending out to the year 2361. Through various congressional enactments, the railroads were offered enormous land grants. The purpose of land grants in excess of the needed right-of-way was to provide an asset base upon which the capital needed to construct the railroad could be borrowed.

Since 1933 when the Joint Resolution outlawing gold was initially passed, the holders of these gold bonds have suffered. In the corporation's case, the shareholders have benefited. Given the current rate of inflation, the bondholders will be decimated by maturity date if the gold clause is not enforced; all of the bondholders' property will then revert to the shareholders for a pittance.

It is the contention of the Council that the gold clauses contained in these public and private obligations which were widely sold to the public remain operative and should be enforced as such for the following reasons: 1) The coinage power granted by the U. S. Constitution is not so broad a grant of authority so as to empower Congress under the guise of controlling monetary policy to affirmatively and directly nullify property rights created by otherwise legal contracts. 2) The Joint Resolution which the Supreme Court found to be valid respecting private debt (Norman vs. Baltimore & Ohio, 1935) is in reality a violation of both substantive due process and the takings clause of the Fifth Amendment of the Federal Constitution because the Joint Resolution does not bear a rational relationship to any legitimate end sought to be achieved or promoted either at the time the resolution was passed or in light of current monetary policy. 3) As evidenced by the Gold Ownership Act and more recent legislation validating contractual gold clauses, the national economic emergency which arguably justified the passage of the Joint Resolution has now passed and the Joint Resolution is an anachronism which can no longer stand based on these changed facts and circumstances. 4) The Joint Resolution was repealed upon passage of the Gold Ownership Act, and, therefore gold clauses which are unredeemed remain valid and operative. 5) Since these gold bonds were not delivered to recent investors until after the effective date of legislation revalidating gold clauses, for purposes of such legislation, the bonds did not "issue" until after the effective date of the validating legislation. Accordingly, the contractual property rights which are embodied in the gold clause must be enforced for that portion which remains unredeemed in order to prevent a further diminution of the Bondholders' capital.

In conclusion, it is clear the rights of the bondholder have been grossly neglected. The issuers received gold to finance their operations and expansion programs. They spent or invested the loan at its full buying power and have enjoyed the benefit of the bondholder's money since then. In exchange, the bondholder was to receive a modest income which was secured by a government guarantee or a first mortgage agreement and indexed to an easily ascertainable gold value. The exchange was voluntary, equal and the bargain was fair. Congress interfered with the contractual obligations existing between the parties and gave the issuer a windfall which unfairly and unnecessarily deprived the bondholders of their investments. Congress acted intentionally and directly to deprive and take away the property and rights to which the bondholders are entitled under the gold clauses in their bonds. This intrusion upon the bondholders' contractual property rights must now cease for no legitimate public "good" is served thereby. Accordingly, the Gold Bondholders Protective Council requests the U. S. Gold Commission address these claims as enumerated above and urges it to construct a coherent policy which reflects justice and equality under law.

Supply-and-Demand Folly

How can economic problems be solved when the very basics of supply and demand are not understood?

To an economist, supply is the monthy Gross National Product statistic, demand is a rising standard of living, and there are no limits to either.

To a wise man, supply is resources (water, energy, arable land, forests, minerals, living space, privacy, everything) and demand is nearly 5 billion males and females (and all that that means).

Americans and Europeans, almost without exception, are brainwashed by businessmen and politicians into lapping up the economist's definition of supply and demand not the wise man's. The rest of humanity has to tag along. So, in spite of all the talk about man's ingenuity and cleverness, wisdom even at the university level seems to be just about nonexistent.

Michael Grogan
2179 Canal Road
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Florida 33410

October 9, 1981

Dear Mr. Volcker,

Population Standard

Since money is a sort of rationing coupon, linking population to resources, money supply should be based on population figures, not gold.

Only if population and resources-in-use increase roughly equally, as has been the case throughout history, should money supply be increased to keep prices stable.

But if, as is now the case, population increases but resources do not, money supply should not be increased, so as to ration resources more effectively by pushing prices up.

Is the latter YOUR idea? Inflation may be a blessing in disguise as an effective if inequitable way to balance resources and population. Basing money supply on population would bring the growing imbalance between population and resources home to everyone.

Sincerely,

Michael Grogan

Michael Grogan

P.S. About half a century ago my uncle asked Montagu Norman, then Governor of the Bank of England, if it would make the slightest difference if all the gold in the bank's vaults were replaced by one pellet from the droppings of a donkey.

THE OBJECTS OF MONETARY REFORM

Statement Submitted By

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December 29, 1981

1. The main task facing government today is that of restoration of integrity to the monetary system that has been steadily corrupted, particularly since 1934, with closing of the mint to free coinage, the suspension of gold convertibility, the sequestration of all monetary gold, and the repudiation of all gold debt obligations, beginning with those of the government itself.

2. The monetary standard should be as fixed as that of the weight of a kilogram or the length of a meter; neither the standard nor the circulation should be subject to bureaucratic control; to adjust either by official action is as futile, and as disreputable, as to change the weight of a bushel in the interest of a stable supply or price of the corn crop. As a resolution of this Institute, taken by its trustees in 1970, states:

> RESOLVED, That the essence of the money problem is moral more than technical - that as money is the standard of economic value and measure of commerce the manipulation of money is evil, whether in the interest of creditors or debtors, industry or labor, producers or consumers, government or taxpayers; that the integrity of money should be maintained by clearly defined content and composition, and by adherence to the definition.

3. Just as the prosperity of a merchant depends upon the quality of his merchandise and the reliability of his undertakings, so the weal of a great power is equally affected by the quality of its money, and the integrity of the standard. The Byzantine empire, though shrinking politically, was for seven hundred years the dominant commercial power of Europe and the Middle East, a position contributed to by the integrity of its coinage; Great Britain became the ascendant commercial power of Europe after the opening of its mint to free coinage in 1666, and that dominance was enhanced when it became the first and leading power to establish its monetary standard on gold. The decline of U.S. economic power and international prestige is a direct result of the wastage of this precious asset.

4. The current world-wide inflation from decay of monetary integrity may be due to U.S. influence and adoption of U.S. monetary practices, beginning with the widespread imitation of the Federal Reserve System, and later with the establishment of fiat international exchange through the International Monetary Fund and the various international institutions like The World Bank that have promoted an excessive burden of debt.

5. A reformation of the monetary system demands restoration of credibility to U.S. monetary policy. This requires the following actions:

a. Abolition of the Federal Reserve System with its power to create legal tender currency based on debt.

b. Reopening of the mint to the free coinage of gold, as existed from 1792 until 1934, with the establishment of a gold coin standard of value, at a mint value of the dollar at somewhat more than the current world market price of gold.

c. Constitutional amendment declaring only gold coin, or official warehouse receipts for gold held in government depositories, as legal tender in payment of public dues or private obligations denominated in dollars.

d. Constitutional amendment declaring monetary gold to be free of government seizure except in payment of taxes duly levied by Congress.

6. Fear of insufficient circulation under a gold coin standard and free coinage is groundless. No metal or other commodity in commerce is in more abundant supply in relation to annual production, than gold. Under free coinage, gold appears in circulation, or disappears, in response to market demand, and not as determined by a government bureau.

7. A free coinage gold standard is not designed to guarantee stable prices, nor should be so used, for prices are the result of a multitude of forces and influences, among them primarily, the emphasis or mood of the market; nor will a gold standard prevent credit crises, which are also an effect of subconscious rather than overt influences and under bureaucratic management of the currency are often promoted by bureaucratic action. A gold currency will only do what it is intended to do, that is, provide a standard by which other goods and services can be measured, and a store of value for future payments.

AS GOOD AS GOLD

Submitted by

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JANUARY 13, 1982

In the current debate on a gold standard the stumbling block is the fundamentally wrong premise in the quest to fix a price for gold. It is not possible to fix a price for gold in terms of any existing currency. Far better to consider not a price but a value. Gold has a value as a medium of exchange, in other words as a currency. Consider the implications of using gold as money.

Assume all gold reserves minted into coins of standard weight and fineness. At a given date equate the number of coins so available with the figures used internationally in representing the price of goods and services in circulation. One coin will be found to equate to many hundreds of dollars.

Now start using only gold coins to pay for goods and services. Note the dramatic fall in the numbers on the price tickets (the first skirmish in the war on inflation). Continue to mint all newly-won gold into the standard coins. Charge the weight of gold going into industry or jewellery at the value of the equivalent number of coins. Paychecks would of course come down accordingly. Checks and all paper transactions could be continued but only against deposits in the equivalent number of coins. Gold money thus on deposit would pay interest whereas gold now in the bank does not.

The result would be a stable currency and stability of values. The gold-producing countries would not get any richer (you can't eat gold) whereas countries with exports of commodities or manufactures, instead of suffering from "lack of hard currencies" would find that their products are as good as gold.

This desirable state of affairs would continue as long as the supply of coins was adequate to satisfy the needs of international commerce. However the rate of increase of the net worth of the world is historically greater than the rate of increase of gold production and is likely to remain so. In this situation the remedy would be to have a periodic re-valuation of the value of the coin. Clearly this value is going to tend upwards and, as a concomitant, the numbers on the price tickets will go down - the very reverse of inflation. Gold thus produces capital gains.

The return to gold usage (rather than a gold standard) would provide a solution to currency and exchange problems and, since the money supply would be finite, a cure for inflation and a clear directive for monetary policy.

SOME NEGLECTED ASPECTS OF GOLD

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The Gold Commission has examined the historical workings of the gold standard in the United States. This survey has not related its actual workings to the underlying theory of the classical gold standard, devised by David Hume and known as the price-specie flow mechanism. Numerous studies by eminent scholars exist. Their aim has been to examine how close has been the workings of the standard with the theory. Among those scholars are J.M. Keynes for the United Kingdom, Jacob Viner for Canada, Harry D. White for France and James D. Angell. Viner and White, in particular, concluded that the price-specie flow mechanism did not work in reality as predicted in theory. Differences among countries and divergences from theory were based on alternative domestic arrangements in different countries and different responses to similar stimuli. Viner notes, for instance, that "variations in Canadian gold stocks appear too small to have been effective means of adjusting the Canadian balance of indebtedness to borrowings from abroad." White found that "the specie flow-price mechanism is doubtless one of the forces, but there seems to be no justification for assuming that it is the sole or even the dominant means of adjustment. It is my opinion that nothing in the experience of France, the U.S. or Canada verifies the claim that the specie flow-price mechanism of the neo-classical theory is the all-important means of adjustment.

It is posited that along with Viner and White's conclusions, conditions for the working of the gold standard were more prevalent in the pre-World War I era than in the contemporary world. Hence, if the evidence does not support the gold standard for the earlier period it is even less likely to be operative today. It is argued that greater price flexibility, upward and downward, existed in earlier days, in part, because of the greater dominance of the agricultural sector in the world and U.S. economies. Prices in the contemporary world, both in terms of levels and by sectors, show greater flexibility on the upside and less on the downside. Consequently, in many markets, greater adjustments occur in output and employment than in prices. This has significant effects. Adjustments in output and employment on the downside has the effect of spreading fixed overhead burdens over smaller output levels. Great resistances to price reductions develop; and in fact, price hikes may occur at the same time that output levels are falling. Price inflexibility would deter the smooth working of a gold standard, domestically and internationally. I would suggest that monetary policies become more restrictive and of longer duration than would be required if the world were characterized by more flexible prices. Adjustment processes would be more easily achieved and the greater social costs incurred because of inflexible prices would be avoided.

One expert witness has supported his position, favoring a return to gold by citing John Maynard Keynes as authority. This was done in a Wall Street Journal article, November 27, 1981, by Mr. Alan Reynolds. Over more than 25 years, Keynes wrote much about the gold standard and monetary management. It is impossible in one WSJ column or in a brief memorandum to do full justice to the insights of such an imaginative and loquacious man whose various writings encompass up to twenty-five full sized volumes. Nevertheless, based on a rather extensive examination of his works, I believe it fair to conclude that Keynes would have preferred some alternative to gold if it held prospects of insuring domestic monetary discipline. In the Treatise on Money, he wrote as follows:

> "I think it an allusion to suppose that there are any special characteristics governing the supply of gold which make it likely to furnish automatically a stable standard of value, except the characteristic which it share with all durable goods - namely, that the increment to total supply in any year is likely to be very small. Apart from this, gold has depended, and will continue to depend, for its stability of value, not so much on the condition of its supply, as on the deliberate regulation of demand." (Volume II, p. 293)

In the same work, Keynes noted that

> "There is little evidence to support the view that authorities who cannot be trusted to run a nationally managed standard, can be trusted to run an international gold standard. For a nationally managed standard would not subject the country's internal economy to such violent strains as those to which the attempt to continue to conform to an international standard may subject it, so that the inherent difficulty and the necessary sacrifice will be less in the former case than in the latter." (Volume II, p. 299)

Keynes last view towards gold was expressed at the Bretton Woods' negotiations which led to the International Monetary Fund. He had proposed an International Clearing Unionand new monetary unit, the Bancor. (The Bancor is currently approximated by the SDR.) For Keynes, the Bancor would not be wholly divorced from gold. He contemplated holders of gold could convert it into Bancors, but holders of Bancors would be unable to convert them into gold. This asymmetry implies Keynes would have been willing to dethrone gold from a prominent position in the international monetary system. He was, it is reasonable to infer, a realist who never abandoned his view that "in truth, the gold standard is already a barbarous relic." (Monetary Reform, 1924, p. 187.) Keynes contended that even Mr. Hawtrey and other gold standard supporters would "allow gold back only as a constitutional monarch, shorn of his ancient despotic powers and compelled to accept the advice of a Parliament of Banks." (ibid., p.187)

One cannot infer in honesty what Keynes would say to the Gold Commission today. One feels he would support an SDR, based on a basket of currencies as has evolved under the IMF. He might have difficulties with a monetary rule currently advocated by some. He would not, contrary to views of one expert witness, advocate a return to gold. Finally, Keynes as a realist and pragmatist was more concerned with having things work than with theoretical esoterica or elegeant arrangements.

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GOLD-BASED CURRENCY?

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Few would dispute the fact that monetary discipline is needed to restore order and balance to the economy.There is a growing call for gold to play a part in this discipline,but we cannot ingore the fact that the gold-standard era was not one of economic stability,but of traumatic fluctuation.A former director of the Bank of England,Vincent Vickers,(a prominent industrialist) resigned in protest againstthe gold standard.He said, "We returned to the gold standard in 1925 for the benefit of the City of London,and so ruined our basic industries.A monetary system which begets such flagrant injustice cannot be regarded as an equitable system."

Though a gold basis would be less regid and restrictive than a gold-standard,the fact remains that neither bears any <u>necessary</u> relationship to the actual financial needs of industry and commerce.The value of the metal itself moreover is subject to violent fluctuations as a result of psychological factors quite unrelated to those needs.A fluctuating standard is no standard,a contradiction in terms.

The absurdity of monetising gold is illustrated be the fact that when the metal has been dug out of holes in the ground it is promptly buried in other holes (called vaults),whence itwould dictate the quantity of goods and services that intelligent beings may produce and consume.Presumably <u>someone</u> would decide what proportion of a country's gold is to be monetised,and its value,and presumably such decisions are arrived at through intelligently assessing the actual needs of the economy.It would then seem the height of absurdity to abdicate this rational process to a non-intelligent metal !

Winston Churchill,when Chancellor of the Exchequer,called it a "deadly absurdity".He said in Parliament,(see Hansard Vol.264,21.4. 1932)"When I was moved by many arguments and forces in 1925 to return to the gold standard I was assured by the highest experts ---- that we were anchoring outselves to reality and stability---.But what has happened? We have had no reality,no stability.The price of gold has risen since then by more than 70%.That is as if a 12-inch foot rule had suddenly been stretched to 19 or 20 inches,or the pound avoirdupois had suddenly become 23 or 24 ounces.Look at what this has meant to everybody who has been compelled to execute their contracts on this irrationally enhanced scale. Look at the gross unfairness of such distortion to all producers of new wealth,and to all that labour and science and enterprise can give us. Look at the enormously increased volume of commodities which have to be created in order to pay off the same mortgage loan or debt.--- I say this monetary convulsion has now reached a pitch where I am persuaded that the producers of new wealth will not tolerate indefinitely so hideous an oppression."

Mr.Churchill continued;"Are really going to accept the position that the whole future development of science,our organisation,our increasing co-operation and fruitful era of peace and goodwill among men and nations;are these developments to be arbitrarily barred by the price of gold?Is the progress of the human race in this age of almost terrifying expansion to be arbitrarily barred and regulated by the fortuitous discoveries of gold mines here and there or by the extent to which we can persuade the existing cornerers and hoarders of gold to put their hoards again into the common stock?Are we to be told that human civilisation and society would have been impossible if gold had not happened to be an element in the composition of the globe?These are absurdities,but they are becoming dangers and deadly absurdities.They have only to be left ungrappled with long enough,to endanger that capitalist and credit system upon which the liberties and enjoyments and prosperity,in my belief,of the masses depend."

Our liberty depends on the survival of the free-enterprise system and is inseparable from it.The productive potential of the system has been almost destroyed by creeping socialism and the growth of bureaucracy. But unless the supply of money is controlled it will be found necessary to control everything else.For this purpose a Statutory Authority is neededfor its scientific control.Charged with the specific duty of maintaining a stable price-level,it would use as its gauge a weighted average of all the prices which go to make up the cost of living. Exercising inexorable monetary discipline,it would not permit deficit financing by government except within the parameters it establishes in order to maintain the value of money. Taxation likewise would be governed by those parameters.

The trade cycle,based as it is,on psychological factors,would be levelled off if the public KNEW that positive action would be taken by the Statutory Authority to keep the money supply in balance with the wealth-on-sale (goods and services).There would in effect be a commodity-standard.Gold is neither a standard nor a commodity if it is monetised.Wealth is not money or gold (these may merely be tokens to facilitate exchange).True wealth should rather be gauged by the goods and services,with which the monetary tokens should always be kept in balance by the Statutory Authority.

SUMMARY OF MY VIEWS ON RESTORING THE GOLD STANDARD

Submitted by

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January 26, 1982

This summary consists in two parts: (1) A condensation of my previous criticisms of Dr. Anna J. Schwartz's definition of a gold standard which she submitted to the Gold Commission on October 6, 1981; (2) a short statement of my own views on restoring a gold standard.

(1) Dr. Schwartz's "definition" of a gold standard is seriously misleading in two respects: It assumes that this must necessarily be an international gold standard -- arrived at by a vote of (presumably) the majority of members of the United Nations. It would be impossible to get any dependable restoration of a gold standard by this method.

The other more fundamentally misleading defect is that Dr. Schwartz persistently confuses a weight with a price. She therefore wrongly declares that adopting a gold standard is an act of "price-fixing" of gold. When the U.S. changed the so-called "price" of gold from $20.67 to $35 an ounce, what it really did was to declare that the paper dollar, instead of being convertible into gold at approximately one-twentieth of an ounce, would be convertible at only one-thirty-fifth of an ounce. It was, in other words, defining the value of a paper dollar as being one-thirty-fifth of an ounce of gold -- a weight, not a "price."

(2) The restoration of the gold standard in the United States need not depend on our ability to get a vote by the majority (or any other portion) of the members of the United Nations to participate. The participation of other nations would help, but the United States would be well able to adopt the standard alone. It would involve an undertaking on the part of our government to convert its paper dollars on demand into gold at a fixed gold weight for the dollar.

This could not be undertaken immediately. The first step would be for the government to announce its intention of returning to a gold standard not later than such-and-such a date (at least two or three years in the future). The next step would be for the government immediately to stop inflating. It would be impossible to return to a sound and maintainable gold standard if the value of the paper dollar kept falling. Therefore, the inflation would have to stop almost immediately after the government's intentions of restoring a gold standard were announced. If this were done, and if the general public were confident that the government would actually carry out its promise to return to gold, the currency would approach and reach parity with gold even before the date of the actual beginning of convertibility of the paper money into gold.

It will be noticed that this schedule implies the almost immediate discontinuance of any budget deficit.

This is the essence of the proposed program. A few additional reforms would be desirable along with it. One would be the abolition of the Federal Reserve System, which in its very nature is an assurance of inflation. (The government, of course, should not continue to have power to make money artificially cheap or artificially dear).

Summary of "Gold and Monetary Freedom"

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November 12, 1981

Dr. Allan Greenspan has written ". . . that the gold standard is an instrument of laissez-faire and that each implies and requires the other." Of course, he is correct: economic freedom--more specifically, for our purposes, monetary freedom--is an indispensable prerequisite to any meaningful financial use of gold.

However--and this is the core of the Commission's problem--today there is little economic freedom in America. And almost from our first day as a Nation, there was little monetary freedom; now, there is none.

To understand our lack of monetary freedom it is necessary to go back into history. With the birth of our Nation at the Constitutional Convention of 1787, our Founding Fathers created a new government which possessed expressly delegated powers. Congress was the recipient of legislative power, and in the monetary realm it was authorized only to borrow money, to coin money and regulate its value, and to punish counterfeiting--as to monetary affairs at least, the delegates had substantially resisted the siren song coming from the unfree and semi-free statist European political systems.

But the resolve of America's leaders soon began to ebb. Less than four years after the Convention, the scope of our government's monetary power divided our Nation's leaders at the highest level. The question was whether Congress could charter a bank. President Washington sought opinions from his Treasury Secretary, Alexander Hamilton, and his Secretary of State, Thomas Jefferson. It is popularly believed that the two disagreed. Actually, on the issue of government power, they were in complete agreement--in principle. Hamilton held that Congress's few delegated monetary powers were sufficiently broad to encompass chartering the bank, especially if those powers were "loosely" interpreted, and that Congress even possessed extra-constitutional powers beyond those which had been specifically delegated. Although Jefferson denied to Congress the bank chartering power, he would have granted it to the states--thus sharing Hamilton's statist premise about the power of government over monetary affairs. When the Bank Controversy was over, Hamilton's view prevailed. The monetary power of Congress had grown considerably.

Congressional power expanded nearly thirty years later, when Hamilton's views about its extra-constitutionality became part of the bedrock of American constitutional law. In 1819 John Marshall's opinion for the Supreme Court in M'Culloch v. Maryland expressly held that in monetary affairs, the government of the United States was, like the monarchs of Europe, "sovereign."

That sovereignty was never more apparent than throughout the Civil War's "greenback" episode. In order to fight the war, the northern government of President Lincoln created legal tender and simply forced individuals to accept greenbacks, no matter what they thought the paper was worth. As usual, the Supreme Court of the United States was a willing accomplice to Congress's usurping of nondelegated, extra-constitutional monetary power. In the first important legal tender case to reach the Court, Hepburn v. Griswold, every one of the justices (majority and dissent) agreed on the underlying principle: that Congress possessed a broad monetary power whose outer boundaries were far from clear. Less than eighteen months later, Hepburn was overruled by Knox v. Lee, and legal tender was expressly held to be constitutional.

By the time of the last legal tender case some years later, nearly three centuries had passed since the 1604 English Case of Mixed Money had approved Queen Elizabeth's sovereign power to debase her coinage. Yet despite the fact that in America we had created a different kind of political system, despite a written Constitution that narrowly circumscribed the power of our government, the foreign sovereign who had been repudiated by the colonists seemed to have been replaced by a domestic one--at least in monetary affairs. The idea that monetary power belongs to the sovereign was conceived in Europe. If, despite the United States Constitution, that idea was born in America in John Marshall's M'Culloch decision (midwifed by Hamilton's opinion to Washington in the Bank Controversy) and reached its majority in the Legal Tender Cases, then its maturity came in three twentieth century cases.

In Ling Su Fan v. United States, the Supreme Court concluded that attached to one's ownership of silver coins were "limitations which public policy may require," and that the coins themselves "bear, therefore, the impress of sovereign power."

Two months later the Court went even further, at least in dicta. Nobel State Bank v. Haskell held that a state bank could be forced to help insure its competitors' depositors against insolvency. In the course of his opinion for a unanimous Court, Justice Oliver Wendell Holmes actually went so far as to admit that government monetary power was indeed omnipotent: "We cannot say that the public interests to which we have adverted, and others, are not sufficient to warrant the State in taking the whole business of banking under its control."

Holmes' dictum very nearly became a reality in the early days of the "New Deal," when, in a statist orgy of rules, regulations, proclamations, executive orders, resolutions, decrees and manifestos, America's banks were ordered closed, her dollar was devalued, her gold standard abandoned, private ownership of gold was illegalized, and gold clauses were nullified. Although only the gold clause issue reached the Supreme Court, when nullification of the clauses was upheld, it was crystal clear that the Court had de facto approved of all the New Deal's statist exercises of raw government power--based on a chain of precedents running back inexorably to Noble State Bank, Ling Su Fan, the Legal Tender Cases, M'Culloch, the Bank Controversy, and thence to the Elizabethan Case of Mixed Money. Ironically, but not surprisingly, in little more than three hundred years, a round trip had been completed: from an English monarch's unlimited monetary power, to the reposing of identical power in the hands of a supposedly free representative democracy. When the smoke of the Gold Clause Cases had cleared--to the profound detriment of individual rights--the government of the United States unquestionably controlled every aspect of this Nation's monetary affairs: money, credit, banking, gold, the securities business, and more.

In the nearly fifty years since then, that control has both deepened and become considerably more sophisticated (as in the Bank Secrecy Act), emulating other contemporary societies which we rightly disparage for their lack of freedom.

The United States--its government and its people--can not have it both ways. Either we have monetary freedom and a gold standard, or no monetary freedom and no gold standard. There is no middle ground.

Indeed, should this Commission recommend that a gold standard be instituted, and should Congress and the President take the unlikely follow-up step of introducing one, even then, a gold standard resurrected under today's economic and monetary controls would not be worth the paper it was proclaimed on. Until the government of the United States once and for all pulls out of the economic and monetary affairs of its citizens--whether there be a gold standard or not--we cannot have economic, or monetary, freedom. Without it, what we have instead, as uncomfortable as this may be to admit, are revocable privileges--which are the antithesis of individual rights.

HISTORICAL EVIDENCE SUPPORTING A RETURN TO A GOLD DISCIPLINE

Submitted by

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February 1, 1982

My historical research has led me to see the stabilizing powers of gold within monetary systems. This research has been collated in The Golden Constant: The English and American Experience, 1560-1976.

My findings can be summarized as follows:

1. There must be a discipline over the money supply. Nearly everyone agrees with this in the abstract. Disagreement arises over the question of at what levels and how to exercise the discipline.

2. Attempts at monetary discipline when managed by men have not worked. I am not referring solely to the history of the United States. The same observation can be made for England, Germany, France, Italy and Japan. The only exceptions were draconian measures ending brief periods of crisis.

3. Therefore, I believe there must be management by law--not by men. An example of what I mean by "law" is that currency must be convertible into precious metal at a price fixed by law, with a legal reserve in place to guarantee conversion.

   One example of managerial judgment by men is when a governing board selects target interest rates or target growth rates in selected definitions of money supply and makes continuing judgments of appropriate open market operations to try to hit these targets.

4. Those monetary laws that worked best throughout history have been based upon the discipline of the precious metals. Notice that I am not saying that whenever the system was based on precious metals it was stable; I *am* saying that when in history we find long-run stability of prices we find precious metals standing behind it.

5. The precious metal that has had the most successful experience in stabilizing price levels is gold.

Based upon these findings I submit the following conclusions. The American public and the world at large would be well served by a monetary reform that would include:

a. Some form of a gold standard based on law;
b. Arrived at in consultation with our trading partners;
c. Accompanied by extensive fiscal reforms including budgetary policies to preclude over-spending.

Statement by Helen B. Junz, Vice President, Townsend-Greenspan & Co., Inc., New York, N. Y.

Mr. Chairman, I will focus my remarks primarily on the international aspects of some of the gold link proposals before you. Although the implications of each of these proposals differ, the objectives are consistent and clear: they spring from the growing dissatisfaction with the apparent intractability of inflationary tendencies in the world economy and the attendant volatility of interest and exchange rates. To bring about a greater degree of price stability and, thereby of predictability of the economic environment, is a policy priority shared among most nations today. However, there is considerably less agreement about the way in which this goal can be accomplished and about the role that gold can play in the process.

At this time when interest in relinking gold and the domestic money supply is being revived in the United States, other countries seem to be moving away from gold for purposes of controlling domestic monetary expansion. Even the most traditionally gold-conscious countries, such as Switzerland, appear to be headed towards a weaker rather than a stronger linkage. And both, the Swiss and the Dutch, who together with the French have generally been Europe's spokesmen in favor of a role for gold in the international financial system, do not consider a move to gold convertibility practical at this time. Although currently not supportive of moves to restore a system of gold convertibility, most industrial countries and a number of developing countries as well never really fully agreed to the concept of demonetisation of gold either. Accordingly, a number of developing countries, particularly some OPEC members, have materially increased their gold reserve holdings. And the members of the European Monetary System, have included gold in their reserve pooling arrangements. Foreign authorities clearly are more interested in the ability to activate their gold reserves for purposes of intervention in foreign exchange markets, and, if needed, as collateral for official foreign borrowing, than they are in re-establishing convertibility. These attitudes have clear implications for the success or failure of some of the gold standard arrangements this Commission is examining.

These arrangements can be grouped into three sets by ascending degrees of convertibility. The first set of proposals calls for a link between gold and the domestic money supply without convertibility of dollar assets into gold. Such arrangements are least subject to international influences. Their purpose is to impose a legal constraint or specific rule on the expansion of the money supply. The imposition of such an objective rule stems from the belief that the authorities are too exposed to political and social pressures to be able to pursue their stated goals in a steady fashion. If this is so, it is hard to understand why they would be able to remain within the gold cover constraint, when they were unable to stick to other promises. A gold cover commitment on the monetary side, a priori, is no different from a legislated debt ceiling on the fiscal side. And the experience with the latter has been that whenever the ceiling became a real constraint there was a change in the legislation rather than in policy. Thus, before a gold cover commitment could change market expectations about inflation in the United States, domestic and foreign holders of dollar assets would have to be convinced that the imposition of such a requirement somehow is more binding than past experience indicates.

The second set of proposals attempts to shield a gold based domestic monetary policy from external influences by limiting convertibility to domestic residents. This would require the imposition of exchange and capital controls. Enforcement of such controls in a world with capital markets that have become increasingly interrelated and by a country that is at the very center of this international financial network just is not realistically feasible.

The final set of proposals involves broad gold convertibility at a fixed official price. Under ideal circumstances, such a gold standard will, indeed, work to stabilize the domestic price level. For that to happen, the supply of gold needs to expand in line with the growth of real demand for money. But past experience has shown that this is not always so, particularly in the short-run. The supply of gold is governed by rather different factors than is the demand for money. Furthermore, because decisions about new supply are concentrated among a very small number of gold producers, there can be no assurance of a smooth flow of new supply. Further, the consequences of having supply decisions for a core commodity concentrated in the hands of a small number of producers are abundantly clear.

A perhaps even more serious problem in operating a gold standard system is that any addition to, or decrease of, the Treasury's gold stock triggers an offsetting change in the money supply. Whereas such an offset is fully appropriate when the change in gold holdings stems from portfolio decisions of U.S. residents, this cannot be taken as given when it originates abroad. The essence of the gold rule is that it functions objectively and does not distinguish among the causes that trigger changes in the monetary environment. This means, however, that any overseas disturbance will immediately reverberate through the U.S. economy, regardless of the state of the economy at the time. U.S. monetary conditions, thus would swing with the rise and fall in world demand for gold. For example, the Soviet Union covers its foreign currency needs largely through gold sales into the free world market. A harvest failure in the Soviet Union, thus triggers gold sales. These in turn exert downward pressure on the world price of gold, making it profitable to sell gold to the U.S. Treasury. This inflow of gold then would cause an increase in the money supply and in the domestic price level. Conversely, an increase in political tensions tends to raise the demand for gold triggering a deflationary reaction in the United States. Portfolio decisions by foreign holders of dollar assets, politically or financially motivated, would affect U.S. monetary conditions in a parallel manner, destabilizing the U.S. economy, purposely or indirectly.

Given the relative volatility both economically and politically, that appears to be characterizing the 1980s, there likely would be a significant number of occasions when outside influences could effectively destabilize domestic monetary conditions. Accordingly, pressure would build for discretionary action to shield the domestic economy from such outside influences. But once an override mechanism to the objective rule of the gold standard is established, the system is as vulnerable to the push and pull of domestic political and social pressures as is the system it is intended to replace.

These problems are quite fundamental and exist aside from the thorny question of how to determine the appropriate official price for gold at which re-entry could be effected. The gold standard, like any other simple objective rule, cannot be an unerringly appropriate guide to policy action in today's complicated world. The discipline it would exert clearly would be helpful in containing inflationary tendencies. However, the costs associated with failure could be tremendous for such failure would put in question the political determination of the authorities to achieve and maintain financial stability. What it finally comes down to, is that discipline can be successful only in achieving its goal, if the political will to do so is strong. Any woman can tell you that no corset can help fit a size 18 body into a size 8 dress for any length of time. Imposition of outside discipline can help an overeater shed a few pounds, but without a change in basic attitudes, inevitably this discipline eventually will give way to another eating binge. However, once attitudes have changed and discipline has become a part of the behavior pattern, outside constraints appear unnecessary.

TOO EARLY FOR GOLD

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February 1, 1982

Discussion about going back to a gold standard has suddenly become respectable. The idea that something must be done to restrain the inflationary habits of politicians has gained an acceptance that was unthinkable a few years ago. Advocates of a gold standard believe that once convertibility of the dollar into gold at a fixed price is restored, inflationary expectations would quickly fall, prices would stabilize, interest rates would decline, and real growth would return to the economy.

We do believe that a monetary system built on a hard base is the only way to prevent the government from printing money willy-nilly. As it has in the past, gold can probably play this role in the future better than anything else. Being commodity money, gold has the advantage of enabling free-market forces to maintain relatively stable prices over the long term.

The fact that the gold standard is desirable, however, does not mean that it can be reinstated any time soon. Excessive credit expansion since gold-backing behind the dollar was removed has led to rampant inflation and has brought acute illiquidity to both the private and public sectors. Until these imbalances are corrected, reinstating the gold standard can do more harm than good.

Assuming that we can return to gold now, what should the price be? The best way is to let the free market set this price. One proposal now receiving attention would have the government announce a set date several months hence when it would start to buy and sell gold at a fixed price. That official rate would be based on the market quotation prevailing just before the deadline. The problem with such a plan is that no free market for gold would really be in existence during the interim period. The huge supply held by central banks wouldn't be available for sale. Speculators could drive the price sky high by buying as much gold as possible. When the government absorbs this vast influx of gold at lofty prices, it would inject billions of dollars of new reserves into the monetary system. Banks could then effect a new wave of credit expansion, the money supply would skyrocket, and runaway inflation would surely follow.

Why can't the government simply fix a rate high enough to support the dollars now outstanding or to cover the nation's foreign liabilities? For one thing, such an arbitrary rate must be set far above recent market quotations. It would have the inflationary effects noted earlier. Also, it would freeze the existing illiquidity into a new monetary system and would prevent the free market from correcting the mess.

A return to the gold standard is possible only if the metal is fairly priced relative to all commodities. This is the only way the purchasing power of gold - and the money it backs - can benefit from the self-stabilizing feature of a hard money system. What, then, is a fair price for gold in terms of its purchasing power? Since 1934, when gold was fixed at $35 an ounce, producer prices have increased by about 670%. A comparable increase for gold would give us a price of $270 an ounce. Looking at gold over a much longer period of time, during the 100 years when gold was fixed at $20.67 an ounce, the producer price index average 38.4 (1967=100). Currently standing just below 300, it has multiplied roughly eightfold. A similar increase for gold would bring a price of only $165 an ounce. In terms of its commodity purchasing power, then, the next official gold price should be somewhere in the range of $150-300 an ounce.

A return to a gold standard now at this price would be terribly disruptive, however. The public is still highly inflation-conscious. If the government agreed to sell the metal so far below the current market price, it would surely lead to a run on the U.S. stockpile. Tens of billions of dollars could be drained out of the banking system and the overall effect would be drastically deflationary. Politicians will never willingly deflate the economy to such a degree. Hence restoring the gold standard in the near future is out of the question.

This does not mean that some kind of gold standard can't eventually be reestablished. The gold standard was restored in the 1870's after commodity prices had fallen by more than 50% from their Civil War peaks. A similar opportunity may present itself later in the 1980's. Free-market forces are now at work to bring about a switch from inflation to deflation. Widespread price declines are now a fact for all financial assets, including gold and collectibles, and they are beginning to emerge in the real estate sector. Soon this deflation will spread to other sectors of the economy.

After this deflation has finally led to credit contraction and a worldwide depression, the price of gold may well have dropped to its fair market value later in this decade - perhaps below $200. At that time, but not before, it will be possible to reinstate the gold standard.

WHY GOLD IS NOT THE ANSWER

Submitted by

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November 12, 1981

You have received many proposals to give gold a centrol role in our monetary system. The proposals differ widely and so do the arguments advanced on their behalf.

Some believe that gold is "honest" money. Those who bring goods and services to market should be paid with money containing equivalent real resources. This doctrine appeals to concepts of value handed down for centuries and embodies view about the nature of the contract between citizen and sovereign. The honesty of money, however, is not guaranteed by backing it with gold. If the U.S. Government were required to mint gold coins from newly mined gold, the coins would embody the real resources used in producing them. But producers of other goods and services would be wrong to regard them as honest money. The value of money derives from our ability to use it, not the cost of producing it. An honest money is one whose purchasing power is stable. If there were new discoveries of gold or dramatic improvements in methods of mining, the resource cost of a gold coin would fall, and it would not be an honest money.

Two other arguments are advanced by advocates of gold. They say that a gold standard is the best way to maintain price stability in the long run. They say that the decision to adopt a gold standard will dispel uncertainty in the short run.

I have doubts about the promise of long-run stability. You went over the record at one of your meetings, when you discussed the excellent paper by Anna Schwartz, and I agree with the conclusion that one of you drew then. Some say that the gold standard gave us price stability. It may be more accurate to say, however, that we were able to stay on gold in periods that were intrinsically stable and forced to abandon gold when they ended.

I have even deeper doubts about the assertion that a quick return to gold will dispel uncertainty, assuring the success of supply-side policies. Consider the legislation introduced by Senator Helms. Six months after Congress adopts his bill, the Federal Reserve banks will start to buy and sell gold freely at a "standard" price equal to the average of market prices in the previous week. There is no way to know how this legislation would affect market prices during that critical week. There is no way to know what will happen thereafter. The public might sell large amounts of gold to the Federal Reserve banks, and the legislation would then mandate rapid expansion of the monetary base. The public might buy large amounts of gold, and the legislation would then mandate rapid contraction. In either case, the Federal Reserve System might have to declare a "gold holiday" very soon. This seems to me a recipe for heightening uncertainty, not for ending it.

A fourth argument is advanced on behalf of gold. It is the case for not going back to pegged exchange rates. Let me make three observations: (1) Exchange rates can be pegged without using gold. A link to gold is not necessary nor sufficient to keep a pegged-rate system from breaking down. (2) Most observers have strong doubts about returning to pegged rates. Those who favor them believe that floating rates have been a major cause of international instability. Floating rates were adopted, however, to insulate national economies from external shocks, and they have been rather helpful in this regard. (3) I would remind those who favor pegged exchange rates that we cannot adopt them unilaterally. To do so de facto would require the cooperation of other countries; to do so de jure would require a formal decision by the International Monetary Fund.

At one of your sessions, someone said that he favors the "development" of a gold standard, not a "return" to a gold standard. I take this distinction seriously. If a gold standard is to have any chance of conferring long-term stability, it must prevent the monetary system from creating or accommodating inflationary pressures. It would have thus to be very much stricter than earlier gold standards. It would be necessary to back the currency completely by gold. Yet this radical reform might not go far enough. During the last decade, we have been assaulted by a dozen definitions of money. This barrage reflects uncertainty about the usefulness of any single concept. It also reflects an economic process. When the authorities clamp down on the supply of one monetary asset, the financial system produces substitutes for it. The very attempt to control a particular aggregate, even by backing it with gold, reduces the relevance of that aggregate.

In your deliberation, you have concentrated on a return to gold by the United States, acting unilaterally. You should pay close attention, however, to the international ramifications. Under present international monetary arrangements, a foreign government can peg the value of its currency to the U.S. dollar. (To this extent, the United States cannot decide unilaterally that dollar exchange rates should float.) Under present arrangements, however, a country can maintain its peg only by purchasing and selling dollars. If the United States restored convertibility to gold, other countries could still peg directly to the dollar. But they could move to a gold standard, too, and this would likewise fix the prices of their currencies in terms of the dollar. More importantly countries pegging to the dollar and those pegging to gold could buy gold from or sell gold to the United States. There is another possibility. Foreign governments and central banks hold some $167 billion in balances with U.S. banks, Treasury bills, and other dollar claims. They hold an additional $80 billion of Eurodollar deposits. These could be used to purchase gold from the United States, affecting the monetary base. Many people ask what should be done with the large U.S. gold stock if it is not given a new monetary role. I believe that the Government should hold onto its gold stock. The United States has huge stocks of tanks, aircraft, and missiles. It does not want to use them but cannot get rid of them. The United States should keep its gold for analogous reasons. The future is undertain and unsafe. One can conceive of international emergencies in which gold may be the only acceptable means of payment. One can conceive of circumstances in which we would want to redeem the dollars holed by foreign governments. Do not try to concoct a new use for gold. In the words of another economist on another occasion: Don't just do something. Stand there!

GOLD, THE ONLY HONEST UNIVERSAL MONEY

Submitted by
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February 3, 1982.

"How many reams of paper cut into bills can circulate as money? The worthless tokens are signs of value only in so far as they represent gold...While gold circulates because it has value, paper has value because it circulates." That irrefutable and cogent truism, in and of itself, is the concise epitome of the case for a prompt return to the discipline of the gold reserve standard which would automatically place a limit on the profligate printing of fiat money by vote-buyingpoliticians and their associated self-serving pressure groups. It is not a quotation from any great American; it is from the "Critique" of Karl Marx, a true believer in honest money. The nearly half century binge on dishonest nothings is the core of our inflation. The U. S. and the western world are now on the brink of a monetary catastrophe that can make the great depression appear to have been a boom unless the discipline of gold is invoked.

The enemies of gold, knowing that that discipline will end their self-serving, resort to such specious superficialities as Russia and South Africa will also benefit. Their incidental benefit does not compare with the greater vital benefit to the staggering monetary system of the western world. The blacks of South Africa had their wages held down by the blatant hypocrisy of the U. S. in its futile endeavor to keep the price of gold at $35. Since that hypocrisy has been shattered, black wages have been quintupled. Any figures on Russian gold and the important cost of its production are pure guesstimates; most likely, Russian propaganda. To the adamantly biased, the simple answer is to demand that both pay in gold for everything they buy from the west.

Paper money is pure fiat(government IOUS of nothing). By whatever nomenclature, none is as "good as gold" nor will the contrived rhetorical alchemy of the political hierarchy turn them into gold by its deceptive hogwash. Under a convertible gold standard, preferably with a 100% gold requirement, they would be given value as warehouse receipts for gold. It would give the electorate the power to pull the rug out from under the vote-buying spenders who would then find little inducement to run for office and give the people a sound reason to vote. It would be the crux of putting the kibosh on inflation and the devastating interest rates. If this last chance administration had given the return to the gold standard its first consideration, it would have facilitated its success in its needed reforms. If it does not return to it very shortly, its patchwork surgery will be but an interlude to the next spree and the ultimate monetary collapse.

In the face of the glaring success of OPEC in setting its own price for its valuable asset and keeping it from the manipulations of the so-called free market, gold advocates, without any regard for our gold as an asset that will buy materiel and arms (even from your enemy) in time of war, without sound reasoning, either propose, a denigrating gold low price arrived at through each individual crystal ball or tossing to the wolves on what they naively term the "free" market to be gobbled up as in the past, e. g. wanton Carter, at their price.

There is only one sound basis upon which to return to the gold reserve standard; that is, by the commonsense of shedding the politically embedded complex of denigrating our gold asset and recognizing the unequivocal fact that the tobaggoning dollar is close to the bottom of the hill. That commonsense mandates, that the U. S. and it alone must commensurately equate the value of our invaluable gold asset with the reality of the billions of owe-you-nothing dollars that have been spewed around the world. This sound mathematical equation calls for an initial price of several thousand dollars an ounce as our selling price. Our purpose then should be to, over time, take a goodly part of those gold threatening dollars out of circulation; thus gradually increasing the gold value of the dollar. At this initial stage we would not oblige ourselves to buy gold at our set selling price. Sellers of gold would have the world gold markets. Over time, our price and the markets' price would meld to a consensus price. We would have an honest convertible dollar with increasing substance value and our gold asset would be protected from the machinations of the marauders.

The sufference of the glaring failure of monetarist fine tuning boggles one's reason. It is clear that it is politically perpetuated by and for that hierarchy. Ludicrously, the punishment by staggering interest rates is being meted out upon its victims by the culprit, the Federal Reserve Bank.

The stacked Gold Commission with but two of its seventeen members for the gold standard is a sad omen. It has seriously jeopardized the stature of this reform administration, giving it a resemblance to that of the voted-out Carter. If its only monetary reform is to be the issuance of more gold coins as the surgery to right the inflationary monetary mess, it will be a tragic cop-out to those who put it in office, tragic for the country, and probably tragic for it.

Unless President Reagan has it up his sleeve to insist upon the return to the gold standard at a high protective price and gets it so cemented that it can not be violated in the future, whatever little success he may hope to have in controlling inflation will be very short lived.

International trade is seriously in need of a gold value denominator. It would eliminate costly currency hedging and would foster world trade. It would also control inflation through its penalty, the loss of gold by the inflationist country.

THE DESIRABILITY OF A SPECIE MONETARY STANDARD

Submitted by

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January 10, 1982

The role of gold and silver has been fundamental in the monetary systems of all countries since the dawn of civilized society. This has been and remains true because a reliable and stable-medium of exchange is a basic necessity in every economy, especislly in one consisting of advanced and sophisticated production; and that gold and silver alone have ever served in this crucial capacity with any degree of continued success.

We should note (1) that no nation or monetary authority has ever had the power to issue fiat money without abusing this power and thus causing destructive inflation; and (2) that such abuse has always resulted in the most serious consequences. Sometimes, the outcome has been a dictator or the utter breakdown of the social order; in others, where wisdom and statesmanship have supervened, reforms were effected which placed the nations involved, not only on the course of recovery, but gave them periods of prosperity and tranquility.

Perhaps the most important historical instance of great statesmanship was that of our Founding Fathers, who had, from bitter experience, learned the inevitable consequences of inflation (in that case unavoidable because of the War of the Revolution). After the Continentals, as well as the various irredemable currencies issued by the colonies reached a certain point of depreciation, they ceased to circulate; and those who prepared our Constitution were determined that no such tragedy should recur in the United States. They therefore enacted two provisions in that instrument, one of which states that "Congress [alone] shall have power to coin Money, regulate the Value thereof, and of foreign coin;" and that "No State shall...make any Thing but gold and silver Coin a Tender in the Payment of Debts." This means simply that there shall be no currency except specie issued by Congress (or notes redeemable in such medium); and that every state must pay its obligations in such currency.

Perhaps the most important example of devastating inflation is that of the decline and fall of the Roman Empire; as its powers waned and tributes no longer flowed in from the conquered provinces, there was no employment for millions of slaves who had previously produced goods for export or served in the mansions of the wealthy. Once emancipated, they had to be supported and entertained; thus, bread and the circus. However, since taxes were insufficient to pay for this welfare, the government attempted to solve its problem by issuing vast amounts of debased currency;

and, though Draconian laws were enacted to compel the acceptance of this at face value, it ceased, in due course; to circulate at all; and this was one of the basic causes leading to a millennium of Dark Ages, during which life expectancy fell to four years, and the entire population of Europe was threatened with extinction.

In 1922-23, inflation occurred in Austria and Germany which finally increased the price of a loaf of bread to a trillion marks. The middle class was destroyed, a development which brought Hitler to power and resulted in WW II, with costs which are beyond comprehension.

Since it is so much easier to print fiat money than it is to extract taxes from an angry and restive population, the temptation to issue it is almost irresistible. But this is the road to national suicide!

We know there are serious monetary students who believe that, in order to avoid inflation, we need only limit the federal budget to current income, restrict the issuance of currency to actual need, and exercise a strong fiscal restraint. But, as we have noted, we know of no historical instance in which any authority with power to issue fiat currency has refrained from abusing that power. Thus it is that since WW II, inflation, taxes, and interest rates have gone into the stratosphere.

Thomas Jefferson was an uncompromising proponent of a solid and redeemable currency. He held that the national government alone should have power to issue currency and that this should forever be in the form of specie or in notes so redeemable.

The great monetatry scholar, Ludwig von Mises, declared that sound money is libertarian, because it is affirmative in approving commodity choice in a free marketplace; it is negative only in preventing the government from meddling with the economic and monetary systems. In practice, the classical gold standard is the only effective curb on the power of government to inflate currencies, and thus enslave the people by destroying their life-savings; its abolition renders all other legal and constitutional safeguards useless. History demonstrates that whenever government cannot negotiate loans and dares not impose additional taxes, it resorts, if possible, to the dishonest use of fiat currency.

After much research, I find myself in agreement with those who advocate the gold standard; and I can see no impediment to its return except the opposition of powerful political and economic interests who wish to continue the present manipulation of our money.

For these and related reasons, I urge the Gold Commission, the Department of the Treasury, and its Secretary, Donald Regan, to give serious thought to the need and expediency of returning to the gold standard -- to the constitutional mandate -- before the continuing inflation shall have brought this great nation to the very brink of economic catastrophe.

A PERMISSIVE WAY OF ACHIEVING A GOLD STANDARD WITHOUT PRIOR FIXING OF THE DOLLAR PRICE OF GOLD

Submitted by

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December 28, 1981

To object to the gold standard because it will not bring freedom from poverty, depression, unemployment and war, is surely the setting up of a strawman. The gold standard prevents debasement of the monetary unit. Like a huge fly-wheel it gives stability to the monetary system.

Although forces in government, in the Fed and its member banks will oppose giving up their banking powers and privileges, they cannot very well object to a gold standard brought about in a permissive manner in the free marketplace.

Only the following legislation is required. The Secretary of the Treasury is instructed to offer monthly, gold notes in such amounts and durations as the market can absorb. The competition of money-market, mutual, pension and other funds will produce bidding, even though payment is made in gold. The price of gold should not rise unduly because the increased demand is relatively small. The Fed should be enjoined from buying government or other securities. Its discount rate must be at or above the prime bank rate.

The Fed must not issue any more Federal Reserve notes (dollar currency) but existing dollar currency must be exchangeable at market rates for up to 90% of Treasury gold, for gold currency, the dollars received being destroyed. Gold from any source ;may be used to back up additional gold currency. Gold deposits will come into existence, side by side with dollar deposits, just as gold and greenbacks did after the Civil War. Gold reserves for gold deposits would be the same percentage as dollar reserves. Gold currency is 100% backed by gold. Gold loans will be at lower interest rates and markets will quicken. Dollar deposits will gradually disappear as old dollar loans are repaid and new loans are made in gold.

The Fed would be shorn of most of its functions. It would be hard to make a case that it has served the country well.

AN URGENT RETURN TO THE AMERICAN SYSTEM

Submitted by

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January 8, 1982

Since approximately October 1981, the economy of the United States has entered the beginning phase of a new world depression. At this moment, we are near the threshhold of several alternative kinds of chain reactions of financial collapse in both our domestic economy and the world market. Although restoration of a gold reserve system will not stop this depression by itself, the immediate establishment of such a gold reserve system is an indispensable part of any effective package of remedies.

The government of the United States must take immediate, unilateral action to (a) define the monetary gold reserves of the United States as the sole basis for circulation of our nation's currency in international markets, and (b) to invite other governments to join with us in creating a new gold reserve system. Monetary gold should be priced at approximately $500 an ounce, the estimated competitive market price for adequate supplies of monetary gold from mining. Gold reserve transfers in settlement of monetary accounts is to occur only among nations which enter into such an agreement.

The banking system of the United States must be regulated in a manner consistent with such a gold reserve policy, and no foreign financial institutions should be permitted to engage in business within the United States except on condition that they accept the conditions of regulation and transparency of regulated banking institutions of the United States.

The effect of these two cited measures will be to tend to dry out the flood of fictitiously generated "offshore, unregulated" credit into U.S. capital markets. Therefore, the government and banking system must take concerted action to generate adequate supplies of credit.

The Congress must authorize gold reserve issues of U.S. Treasury, gold reserve-denominated currency notes. These issues of currency should not be employed for government spending, but for lending through special discount windows of the Federal Reserve System. This lending should occur, at rates of not above 4%interest per annum, as participation in a percentile of individual loan agreements contracted between borrowers and private banking institutions. Such participation should be restricted to capital-intensive improvements of production of agricultural and industrial goods, of transportation, and to capital improvements by designated units of government.

The domestic objective of such supplementary lending is to expand rapidly the tax revenue basis and to increase average levels of national productivity as measured in terms of per capita output of tangible goods. This is the only possible means for remedying in-sight Federal deficits now aimed at levels of $150 billion a year or higher, deficits which will skyrocket off the charts once the full impact of the new depression is felt.

The foreign policy objective of such measures is to create a degree of order in international monetary and economic relations, within which order reorganization of the debt overhang of developing nations can be reorganized on a gold reserve-denominated basis. The objective of such actions is to achieve a level of increased volume of hard-commodity world trade in the reasonably projected magnitude of between $200 and $400 billion annually.

The proposal to re-establish the gold reserve policies of the American System of political economy should not be confused with proposals to introduce a "gold exchange system." The latter proposals would have catastrophic consequences, including a general collapse of the capitalist economy worldwide. The function of a gold reserve system is hard, gold backing for that margin of credit which is not immediately secured by sale of commodities for dollars. By making new issues of currency as good as gold, we make our entire currency issue implicitly also "as good as gold."

We must act quickly. Farms and firms which have been driven out of existence are no longer prospective borrowers, employers or purchasers of goods. We must act before the chain reaction of collapse enters the next phase-change, while most of the structure of our goods-producing and transportation sectors still exist to be revived to healthy economic life.

THE USE OF A BASKET OF COMMODITIES TO BACK THE CURRENCY

Submitted by

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JANUARY 14, 1982

This is to suggest that the Gold Commission consider the use of a broad group of commodities to back the currency. There would be advantages in using a number of commodities as compared to the use of a single commodity, gold.

Some of the commodities that might be considered for inclusion in a broad group of commodities would include, besides gold: oil, steel, coal, coffee, wheat, copper, corn, aluminum, soybeans, silver, platinum, uranium, and wood.

If the currency were fully convertible into commodities, inflation would largely come to an end for the simple reason that the final relationship between units of money and units of goods would have been finally and definitively established. Inflation only exists because there is no fixed relationship between units of money and units of goods.

There would be various criteria that would need to be met for a particular commodity to be included in the group as a backing for a currency: the commodity should be easily stored, without spoiling; there should be a relatively abundant and stable supply; it should be readily transportable; it should have a relatively high ratio of value to size and weight, so that the storage cost is not excessive; the commodity should be sufficiently uniform so that units are of the same value (or at least it is relatively easy to determine grade or quality); and preferably there should be either a good domestic supply or a number of friendly nations with available supplies.

The advantages from use of a number of commodities, rather than gold alone, would center around avoidance of the special problems associated with gold, such as the fact that the supply of gold in the U.S. is too small to back the currency (at current values, less than 1/4th the value of the existing money supply); gold production is excessively centralized in two countries, South Africa and U.S.S.R., whose control over the supply could be inimical to the best interests of the U.S.; and the rising cost of new gold, as less accessible veins are mined, would cause a built-in inflation effect.

Other advantages of using a group of commodities would relate to the avoidance of the problems associated with use of any single commodity, whether it is gold or something else. This would include the obvious problems of tying currency to any commodity which has had the severe fluctuations in unit value that gold has had over the last year or so. Also, of course, inflation (or deflation) is not prevented by tying the currency to a single commodity, if there is the possibility that the value of that commodity will fluctuate in ratio to the value of other goods. However, with a group of commodities, if the group is sufficiently inclusive, inflation can be largely eliminated, almost by definition.

Another advantage of a group of commodities is that the supply may be partly represented by commodities already under U.S. control, for example, metals under the stockpiling program, oil under the government reserve supply program (or Naval reserves), various foods stored under farm subsidy programs, timber on U.S. lands, and so forth. This can reduce the problem of acquiring the commodities used to back the currency.

Further, gold to an extent suffers from the same defect as a paper currency in that its value depends on mass perception of its future exchangeability, of the willingness of others to accept it in payment in the future. If everyone lost faith in the future acceptance of paper currency, it could cease to have value, as it did in Germany in the 1930's. The only reason the same thing could not happen to gold is the fact that it does have some intrinsic value-in-use; but, in the absence of a hoarding factor, this value could be much less than any fixed value as a backing for currency.

There is a basic problem associated with any precious metal as an exclusive basis for a currency. Its very preciousness results largely from scarcity, but this scarcity means that the supply is not large enough to back a currency. Further, the mystique associated with precious metals results in a hoarding that distorts the market value, as compared with what the value-in-use would otherwise be.

It is suggested that the Gold Commission give consideration to this concept of using a broad group of commodities to back the currency. It would appear to have substantial advantages over the use of any single commodity, such as gold.

COMMENTS ON THE PROPOSAL OF A GOLD STANDARD TO REVITALIZE OUR ECONOMY

Submitted by:

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Did you ever really look at a tree? Do you know what it is? Do you know how important it is to our survival? It gives us shade in the summer and in the winter warmth from a fire place. It gives us shelter in a house and it gives us communication through our newspapers and letters.

We over exploit this wonderful "gift of nature" by destroying oxygen producing forests, that help us to survive, and then turn them into thin sheets of paper, worthless paper, stamped with ink and the words "legal tender" as if to give them some value that nature didn't.

This bad paper is called "money." Originally this money was accepted as having value when it was exchangeable for so much of nature in the form of gold or silver. Then it was good paper. Good paper was a check on our plunder of nature as it represented certain resources of nature such as gold and silver in a ratio to other resources of nature such as trees and therefore we could not so readily devastate these trees.

What we have now is "legal tender" paper that can be exchanged for other "legal tender" paper -- in other words nothing. But we use this "nothing" as falsely representing a resource of nature that isn't there to plunder another resource of nature that is there -- in other words we get something for nothing. Eventually this leads to a day of reckoning. Our blind fascination with this "legal tender" bad paper carries us to our self destruction.

Young eskimos were given so much bad paper as payment for working on the Alaskan Pipe Line that they went and bought out their own whaling fleet to plunder the endangered Bowhead whale with the latest weapons of destruction and carnage. The elder eskimo whaling captains were so appalled at this paper funded war on whales that they set up their own organization to control it -- they were closer, historically, to a barter economy or value oriented economy. The eskimos claim that they need the whale to survive but bad paper led some to destroy the very basis of their survival.

Again I say, and I cannot be too emphatic in these dire times of ever diminishing and plundered resources, the rain forests of the world are being destroyed by the leverage of bad paper. The rain forests give us our oxygen -- the natives call them the lungs of the world.

In parts of South America where unbacked paper money is dropped like confetti, inflation is so rampant that tourists have their eye glasses torn right off of their faces by the natives for the gold content of the frames.

Our bankers, the megabankers, have dropped so much confetti on Poland that Poland is exporting food from the mouths of citizens to try and pay off its debt not realizing how its natural wealth was ripped off by confetti. But this Disney Land Empire of MegaBankers is awakening to the fact that followers of their "paper cross" are diminishing and that they themselves are losing faith in it.

So to boost their religion they are seeking gold relics and turning to the "gold cross" of the infidels and their barbaric worship. To help them do this they got a "bail out" insurance to give their confetti, they just can't seem to give up this "opiate of the bankers," substance, in the form of the Monetary Control Act and other pending legislation, that is to be subsdized by the taxpayers. Now they will have a direct path to Fort Knox and our pockets.

What this means is that you and I, as usual, the tax payer, particularly the middle class tax payer, is to further subsidize the further blunders of the "confetti boys" as well as our self destruction. While we choke on paper the bankers, like the South Americans, go after our eye glass frames.

To save ourselves, let's cut off the bankers' paper supply and return to a gold standard with a free circulating gold coin currency with gold and silver backed treasury bonds so that we can keep our eye glasses as well as our shirts.

SUMMARY OF STATEMENT OF NOVEMBER 3, 1981 SENT TO GOLD COMMISSION, WASHINGTON,DC

Submitted by

Philip H. Mann - 7737 N. Kendall Dr.(C201), Miami, Fl. 33156 -- Feb. 4, 1982

PART I - CONDITIONS PREVAILING PRIOR TO DEPARTURE FROM GOLD STANDARD,MAR. 1933:

During 1928-1929 general business was good, but terrific speculation in Commodity and Stock markets. By Sept. 1929 the Dow Jones Ind. reached 386; call-money 20% - all commercial banks a high Loan/Deposit Ratio of 78%. Drastic liquidation in commodity and stock markets, and bank credit began in October 1929 and continued until June/July 1932, resulting in THE DEPRESSION. By July 8, 1932 the D.J. Ind. Avgs. declined 89½% to a low of 41. Commodities suffered sharp declines. Also, by July 1932, all basic indices: production of automobiles, building, steel, lumber, electric power, paper, carloadings, retail store sales, wholesale prices, etc. were at depression lows. The Great Depression was ended in July 1932.

The recovery started in July/August 1932. By Sept. 7, 1932 the D.J. Ind. advanced 100% to 80. Commodities also advanced sharply. Basic indices also shared in this recovery. Their message was loud and clear. The Great Depression's backbone was broken. Such recoveries usually continue a long time.

The foregoing conditions prevailed when President Roosevelt was inaugurated March 4, 1933. At the end of his three hour radio inaugural speech he announced he would recommend to Congress: (a)that the U.S. go off the Gold Standard; (b) raise official price of gold from $20.67 to $35 an ounce, a 40.94% devaluation; (c) refuse to pay gold for Gold Certificates.

The late Senator Carter Glass of Virginia, former Secretary of the Treasury in Woodrow Wilson's Administration and chief architect in forming the Federal Reserve System in 1913, was shocked at President Roosevelt's sudden repudiation of his party's platform to maintain the Gold Standard. He delivered a most eloquent speech April 27, 1933 on the Senate floor, part of which I quote: "With nearly 40% of the entire gold supply of the world, why are we going off the Gold Standard? With all the earmarked gold, with all the securities of ours they hold, foreign governments could withdraw in total less than $700 Million of our gold which would leave us an ample fund of gold in the extreme case to maintain gold payments both abroad and home. To me, the suggestion to devalue the gold dollar 50% means national repudiation. To me it means dishonor. It is immoral ----". "The history of inflation is recited. Bacon, the wisest philosopher since Christ, the author of the inductive system from which we have drawn all our inventions, valued experience; Edmund Burke, the great rhetorician of all times, was logician enough to magnify experience; Patrick Henry, the great advocate of human liberty, said that his feet were lighted by the lamp of experience. Yet, here today, we are flying right in the face of human experience, rejecting it all. More than half of our laboring population will be the people to suffer under this unbridled expansion. That is what it is, because the rein is so loose that the steed will never stop until he goes over the precipice killing his rider." (See Exhibit 1A - Congressional Record, Senate, April 27, 1933, pages 2460-2462.)

Also, shortly after Roosevelt's inauguration, March 1933, he declared a National Emergency closing all the banks. There was no justification for such action, because most weak banks (nearly 7,000) had failed and were closed prior to Roosevelt's election. (See Congressional Record - Senate - April 27, 1933, page 2467 - Senator Glass' radio speech of Nov. 1, 1932) Exh. 1A.)

The data discussed in this PART I clearly indicates the depression reached its bottom in July 1932 and that a vigorous recovery started in July/August 1932. This took place nine months before Roosevelt took office March 1933. There were no justifiable circumstances to depart from the Gold Standard. This departure started the great money printing presses then and have continued to the present time.

PART II - THE INFLATION THAT FOLLOWED DEPARTURE FROM THE GOLD STANDARD:

During the past 30 years I watched with great concern the acceleration of inflation and the constant depreciation of the U.S. dollar. Have read numerous books and articles on INFLATION. It is interesting to note some important remarks made during the great debate during September 1790 by the French statesman, Mirabeau, on irredeemable currency: "a nursery of tyranny, corruption and delusion; a veritable debauch of authority in delirium; that infamous word, paper money, should be banished from our language."

In 1933 the official price of gold was increased from $20.67 to $35 per ounce. In 1968 the last domestic connection between the dollar and gold was removed by Congress eliminating the requirement that the Federal Reserve hold Gold Certificates equal to 25% of the value of outstanding Federal Reserve Notes. In August 1971 the last foreign connection between the dollar and gold was removed by President Nixon when he notified foreign central banks that the U.S. would not redeem their dollars for gold. This action caused domestic and foreign commodities - gold and silver to sky-rocket. Note the steep advances from 1971 to 1980: Commodity Research Bureau Futures Index (27 markets) up 248% - Reuters Price Index up 273%; B.L.S. Wholesale Price Index up 155%; Gold up 233%; Silver up 240%.

PART III - SUGGESTIONS FOR RETURNING TO THE GOLD STANDARD

See Exhibit 2 - attached to my Nov. 3, 1981 Statement - a splendid article by Robert A. Mundell, Professor of Economics, Columbia University - I quote: "It is unfortunate that two of the 20th Century's most influential monetary economists, Keynes and Friedman, wrote their major theoretical works for a closed economy with scant attention to the problems of international inter-dependence. Both economists generally assumed a national closed economy on an inconvertable paper standard, generally ignoring that in the 1930's as today gold represented the principal external monetary reserve." "Keynes' system thus takes into account the wage rate, the money supply, the price level, and the exchange rate, and the need to anchor the system by choosing a 'standard'; he chooses wage rates. This accounts for the support of 'wage policy' by his influential disciples."

Why is gold so important? Because it has maintained a stable purchasing power which is recognized and accepted worldwide. Professor Roy Jastran, University of California, has calculated on an index with 1930 as 100, that the purchasing power of gold in England was 125 in the year 1600 and 129 in the year 1900. In 1900 the average weekly earnings of British workers were equal to ½ ounce of gold; in 1979 (after two world wars, a world slump, a world inflation) their earnings were also equal to ½ ounce of gold, same as 1900.

CONCLUSION: Since 1933, disciples of the Keynes System and the Friedman Monetarist System have managed our monetary policy. They failed to realize that many years of experience have proven that whenever any country embraced the policy of irredeemable currency the ensuing INFLATION would progress according to a law in social physics known as 'law of accelerating issue and depreciation'. They failed to realize it was easy to refrain from the first issue; it was exceedingly difficult to refrain from the second issue; to refrain from the third and following issues was impossible.

Philip H. Mann

Summary of

THE GOLD STANDARD: RETROSPECT AND PROSPECT

Submitted by

WILL E. MASON

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FEBRUARY 11, 1982

A reconstituted gold standard is being proposed by "supply-siders" as the only means of giving the central bank the power over the money supply presumed by monetarists and required for a supply-side solution to inflation. Actually, the shattered monetarist/supply-side fantasy cannot be salvaged in this manner. "The gold standard" is a euphemism for a variety of arrangements involving an increasingly ambiguous relationship between gold and money. Gradual inadvertent de facto severance of the connection between gold and the money stock led to recurrent crises climaxed by international collapse of the gold standard (1931-33). Misconstruction of the International Monetary Fund (IMF) Agreement on exchange-rates and gold policy as implying a new gold (exchange) standard contributed to the inoperability and ultimate failure of the Fund (1971-73).

Conceptual deterioration explains this tragic history. The preclassical monetary standard was, simply, the material constituting standard money. The triumph of gold over other metals was merely a matter of convenience. In the classical period the issue shifted from convenience to substance, i.e., which metal is the most stable standard of value? By the time gold won the bimetallic controversy at the end of the nineteenth century, the concept of a standard of value (gold or any other tangible commodity) was precluded by the concept of marginal utility, which proved that nothing intrinsically contains a given amount of value in the manner of length or weight.

In neoclassical literature the term "monetary standard" became synonymous with "monetary system." The standard was, therefore, confused with the policies required to ensure determination of the money supply by the national gold reserve. Forgetting the purpose of the policies permitted de facto departure from the standard while maintaining the mechanics of currency convertibility into gold. Henceforth, whatever the gold standard was supposed to signify, it no longer linked the quantity or value of money with either the quantity or value of gold. The classical distinction (and relationship) between the monetary unit (dollar, franc, etc.) and the monetary standard was lost. "Money" became referred to as the "standard of value." In short, the standard of value became nothing more than the abstract unit of account.

This was precisely what the anticlassical antibullionists had meant by the abstract standard that they opposed to the gold standard defended by the classical school. Thus, the legal losers in the bullion controversy of the early nineteenth century were ultimately the actual winners. The distinction between gold and paper standards was erased while people thought they were on a gold standard.

The gold standard, which in classical analysis was a proxy for the labor standard of value, was inadvertently replaced by a goods standard of value. The goal of stable prices triumphed over that of stable wages, and productivity gains became increasingly reflected in rising wage rates instead of falling prices. This shift was facilitated by declining price competition and organization of labor, business, and agriculture. In due time stable prices gave way to rising prices as well as wages. This was permitted by a growing elasticity of the money supply accounted for by financial innovations circumventing the gold standard limitation on the money stock. Thus, the inherently deflationary impact of the gold (labor) standard of value was minimized. The only reason the gold standard lasted as long as it did was that bank demand deposits were not recognized as money till well into the twentieth century; therefore, they were not subject to the limitation of the gold standard till other ways of getting around the restriction were discovered. Legal abrogation of the gold standard (1931-1971) represented a volitional repudiation of aggregative control of the money stock independent of the microeconomics of domestic markets.

The alleged automaticity of the gold standard, which some people suppose will solve our problems for us, is a myth. Is the (a) gold standard any more compatible with contemporary institutions today than it was in the nineteenth and early twentieth centuries when the gold standard existed in name but not in fact? Is there a role for gold in the quest for a workable compromise between the external stability desired by official "monetary authorities" and the internal stability universally preferred by the public?

THE WALL STREET JOURNAL, THURSDAY, SEPTEMBER 17, 1981

An Epistle to the Gold Commissioners

By ALLAN H. MELTZER

The gold standard is an idea whose time is past—long past. The classical gold standard is not a superior method of solving our current problems of inflation and unemployment, whatever its merits a century ago.

Advocates of a return to gold offer their nostrum as a means of stabilizing prices but offer few details about how to reach this desirable goal. All we are usually told is that the gold standard is a "supply-side" solution, which will reduce interest rates, stabilize prices and eliminate the summer's excess supply of zucchini. None of these claims is true.

The fact is that a gold standard stabilizes only one price—the dollar price of gold. Whether other prices, for example an average of the prices of the goods and services that people buy and sell are relatively stable or unstable then depends on what happens to the aggregate demand and supply of these goods and services.

Suppose the world price of oil falls and Arabian sheiks or Iranian mullahs sell gold to maintain their spending. The U.S. must buy the gold to prevent the gold price from falling. This expands the domestic money stock—whether that stock is entirely in gold or is a mixture of gold and paper with gold backing. The required increase in the money stock raises aggregate demand and the prices of all other goods and services in the U.S.

There is nothing special about oil. A failure of the Russian wheat crop, the growth of world productivity relative to U.S. productivity, world inflation—any sizable change affecting world demand and supply of goods and services—would cause domestic prices to change.

Most Classical Period

These are not speculations about what may happen. They describe what did happen under the gold standard in its most classical period. Prior to 1913, we did not have a central bank. Gold coins circulated and checking deposits, many bonds and other financial assets were redeemable in gold.

The U.S. price level was not stable from year to year, or decade to decade. The price level was approximately the same in 1913 as in 1882, but this gives a misleading suggestion of stability. Prices of goods and services fell 47% in 1882-96, then rose 41% from 1896 to 1913.

Real economic activity was more variable under the gold standard than in the recent past. Recessions lasted twice as long, on average, from 1879 to 1913 as in 1945-80, and expansions and recoveries were about one-third shorter. Per capita real income, a useful measure of the living standard, rose more slowly. The most reliable statistics suggest that real per capita income rose a bit faster in the disappointing decade of the 1970s than under gold prior to 1913.

All economic problems cannot be blamed on the monetary standard or cured by changing the monetary standard from gold to paper or from paper to gold. Comparisons of events in 1879 to 1913 with 1945 to 1980 cannot, by themselves, decide whether the gold standard is superior or inferior in some global sense.

They do tell us that the gold standard neither gharantees nor brings smoother growth in standards of living, higher real growth, shorter recessions, more durable expansions or year-to-year price stability. If we care about these things, we should have second thoughts about returning to a gold standard.

All economic problems cannot be blamed on the monetary standard or cured by changing the monetary standard from gold to paper or from paper to gold.

Advocates of gold complain about current variability of money growth and the uncertainty created by changes in monetary policy. A return to gold does not solve these problems. The gold standard makes the quantity of money in the U.S., and its rate of growth, depend on the decisions of Arabian sheiks, South African central bankers, the productivity of foreign workers, the budget and monetary decisions of major countries and other factors.

From 1879 to 1913, many major countries adopted or remained on the gold standard. They accepted part responsibility for fixing gold's price. Every 50 years or so, the demand for and supply of gold brought the broad index of prices of goods and services into an equilibrium that was the same as the equilibrium reached about 50 years earlier.

The belief that prices will return to the same value within a few decades probably reduced the cost of financing long-term capital, like railroads, a principal investment in the late 19th Century. But it is a mistake to regard the gold standard as a guarantor of price stability even in this long-term sense.

The supply of gold depends on discoveries and improved methods of mining and extraction. Nothing in the gold standard mechanism guarantees that relative changes in demand and supply for gold will return the price level to some fixed value every 50 years or every century. This happened in the past because gold deposits were discovered, better methods of extraction developed and banking panics occurred often enough to wipe out some of the money stock and lower the price level.

The only permanently fixed price under a gold standard is the one that the government fixes—the price of gold. The alleged discipline of the gold standard is a political decision to set the price of gold once and forevermore.

Gold standard advocates should be praised for insisting tirelessly that the only way to maintain price stability is by controlling money growth and for reaffirming that the most reliable way to control money growth is from the supply side. These are views that they share with people like Milton Friedman or the members of the Shadow Open Market Committee whom the press describes as monetarists.

Similarity in the views of monetarists and advocates of the gold standard does not extend to the means of controlling money from the supply side. Monetarists insist there is only one way to control money reliably. The central bank must control the size of its own balance sheet by restricting the dollar value of the assets it buys. About 90% of the assets are government securities purchased in past failed attempts to set interest rates or exchange rates.

If the Federal Reserve controls the amount of assets on its balance sheet, the principles of double-entry bookkeeping *guarantee* that their liabilities are controlled. These liabilities, and the corresponding assets, are known as the monetary base, so the monetarist prescription is: Control the size or growth rate of the monetary base.

Without divine intervention, neither the Fed nor anyone else can control the monetary base, interest rates and exchange rates simultaneously. We are—they are—permitted to make one choice from these three (and all the other) proposed targets.

Many attempts to watch multiple targets by using the 24 collective eyes on the Federal Reserve committee that makes monetary policy decisions convinced a majority of the committee's 12 members that one target achieved is better than a basketful of failed promises. The 24 eyes are now glued on one target—the announced growth rate of the money stock —in hopes of repairing the Fed's damaged credibility. Let's hope they stay there.

A gold standard is not a more believable or reliable way to control money or the monetary base. Such statements are the

(continued on reverse side)

WALL STREET JOURNAL Thursday, September 17, 1981

very opposite of the truth because no one can choose both the price of gold and the rate of money growth. If the announced price of gold is too high compared to the demand for gold and the world supply of gold, gold flows to the U.S. People pound on the door, offering gold in exchange for dollars. The Fed, or the government's gold buyer, is required to issue more money. The stock of money increases, and prices rise. If the announced price of gold is too low, people offer dollars and buy gold. The stock of money falls and prices fall. If these changes in offers and demands for gold are difficult to forecast, and they are, we have booms and recessions whenever there is a large change up or down in the demand for gold.

No Doubt About the Effect

Again, these are not speculations about what could happen. They are a description of the past performance. After Franklin Roosevelt decided in 1934 to raise the buying and selling price of gold from $20.67 to $35 an ounce, we did a lot of buying. The stock of monetary gold rose 50% in the next three years. Prices rose, despite the Depression. To prevent the effect of gold purchases from further expanding the money stock, the government thereafter sterilized the effect of gold on money. Whatever one believes about the wisdom of these and subsequent decisions there is no doubt about the effect of the overvaluation of gold on the money stock.

Where would you set the gold price to prevent a repeat of the inflationary gold flows of the '30s, or deflationary gold flows? Don't make the mistake of thinking that someone else knows the right price to set and keep constant for the next 100 years. He doesn't. That's why advocates of the gold standard never suggest or hint at how or where the price of gold should be set to stabilize prices in an uncertain world. And don't look to the market for guidance. The market changes its collective mind every minute.

The administration knows that we cannot fix exchange rates or the price of gold and control money. Treasury Secretary Regan and Undersecretary Sprinkel should be lauded for insisting on a freely floating dollar. A free float removes one obstacle to better monetary control. It is a step on the path to lower inflation that has yielded benefits.

Other steps could be taken to make monetary control more certain, more reliable and less variable. But it is a mistake to think that a return to the gold standard is one of them.

Mr. Meltzer is professor of political economy and public policy at Carnegie-Mellon University.

The Case for a Price Rule Such as the Gold Standard

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November 13, 1981

Returning to a price rule such as the gold standard is the only way out of the prolonged period of stagflation the United States has been experiencing. No matter to which policies the Reagan Administration turns, it continues to face the same barriers to success - inflation. While legislation is to reduce tax rates by about 23% over four years, inflation continues to raise tax rates. By the time tax rate indexation begins in 1985, tax rates will probably be higher than when Ronald Reagan took office. Inflation is also hindering efforts to balance the Federal budget through both retarding the growth of income and raising the costs of debt servicing. Today, inflation is <u>the</u> problem.

There are two competing approaches for combatting inflation. One, labelled a "quantity rule" approach, asserts that the rapid expansion of the money supply is the source of inflation. The proposed cure: give the Federal Reserve more power and incentive to tinker with the supply of money. The second, labelled a "price rule," asserts that the value of money continues to depreciate because the government refuses to anchor the price of money. The proposed cure: have the Federal Reserve once more intervene to stabilize the relative price of money now and in the future.

The last twenty years has been a steady shift of U.S. monetary policy away from the price rule approach and towards a quantity rule approach. This period has also coincided with a steady and dramatic rise in the levels of dollar inflation and dollar interest rates. Between 1947 and 1964, under the Bretton Woods System, dollar inflation averaged only 1.4% and T-bill yields averaged only 2.1%. In 1965 the U.S. removed its commitment to redeem Federal Reserve deposits in gold at $35 per ounce. Over the 1965-67 period, interest rates jumped to an average 4.4%, and inflation 2.0%. Following the March 1968 abolition of the 25% gold reserve requirement behind Federal Reserve notes, average inflation rose to 3.3% and T-bills to 5.8% in the 1967-71 period. Inflation, in the year and a half after President Nixon's August 1971 slamming of the gold window, jumped to an average 6.5%. The Smithsonian Accord still fixed the value of the dollar in terms of other currencies. But even that was eliminated in February 1973. Between 1973 and 1977 inflation averaged 9.1% and T-bills 6.2 percent. However, there remained one last price rule. The Fed still targeted interest rates, the value of today's dollar relative to tomorrow's. Following the elimination of the last price rule in October 1979, we experienced record inflation and interest rates.

The shift to a quantity rule has not worked because it is an indirect imprecise tool for controlling inflation. The policy objective is not the supply of dollars, it is how fast the dollars are deteriorating in value. To affect value, the quantity of dollars must be controlled relative to their demand. This creates several obvious problems.

First, most economists would agree that our ability to accurately forecast the demand for money is extremely limited. Second, our ability to estimate the supply of money is not much better. There are problems with collecting accurate data and then correcting them for seasonality and trading day variations. Third, economists cannot even agree what the correct measure of the money supply is, much less that the Fed controls it. With the growing list of domestic and international substitutes for Federal Reserve liabilities, however, there is a growing consensus that those narrow definitions of money on which policy decisions are focused represent only a small fraction of what constitutes money. Dollar money markets are global, and the Federal Reserve is only one of many international participants.

So the Fed's new obsession with money growth targets is a search for a mythical formula which is bound to fail. Even worse, it flies in the face of the logic of why we have a monetary system and a central bank to begin with. The goal of an effective monetary system should be to make money useful, not restrict its use. Monetarism has turned the logic of central banking on its head.

The key to making money useful is to stabilize the value of money now and in the future. The way to do that is through a price rule. Focusing monetary policy on stabilizing the value of money is a direct way to reduce inflation and inflationary expectations. With less emphasis on the number of drops passing through the Fed's spigot, and more quality control in maintaining an even size, the attractiveness of the dollar improves, probably leading to an expansion in the supply of dollars.

There are at least three different price rules which could be adopted. One is to reestablish control over long-term interest rates. While this mechanism stabilizes today's prices relative to tomorrow's, it does not anchor either price level in terms of commodities. A second alternative is for the Fed to reestablish control over exchange rates. However, while such a move stabilizes spot prices in our country relative to those abroad, it still does not anchor spot prices acorss countries.

The third possibility is to reestablish control over commodity prices by establishing a gold or other commodity based system. The value of the dollar could be stabilized in terms of a basket or a single commodity, though a single commodity is probably less prone to political manipulation. By far this is the superior system, for it does what none of the alternatives do - stabilize spot inflation. In turn, lower expectations of inflation lower interest rates.

The precise form of the standard, however, is not as important as the intervention mechanism. Regardless of the standard chosen, the Fed must be governed by two basic rules: (1) If the dollar price of the standard starts to rise, the Fed must intervene to buy back dollars at the fixed price, and (2) If the dollar price starts to fall, the Fed must intervene to sell dollars. By following these rules about price stability, the Fed knows when and by how much it must intervene. By watching the same market price of the standard, the private market in turn knows quickly and efficiently whether the Fed is "playing by the rules."

BETTER A "CINDER BLOCK STANDARD" THAN NO STANDARD AT ALL!

*Submitted by : PAUL W. NORDT, JR.**
32 Maple Drive, North Caldwell, NJ 07006

** Age 67, Chmn., JOHN C. NORDT CO., INC., Precious Metals Manufacturer, employer of about seventy persons, a business dating from the year 1872. Mr. Nordt is a professional Mechanical Engineer, active in public affairs in New Jersey all his life, serving in elective office locally and identified with community and religious affairs continuously for more than a half-century. Married for forty-two years, three children. Two sons in top management of the Nordt company, daughter a doctoral candidate in the field of Clinical Psychology.*

Since 1966 a close student of U.S. monetary problems , with an increasing concern as monetary policy seemed increasingly in the hands of theorists and academicians who seemed blind to the anthropological evidence that mankind has at least a few quirks of behavior disqualifying him from controlling the money system with any degree of stability, devoid of specie convertibility by the people.

* * *

I have submitted not only letters, but copies of a speech (not presented) and a pamphlet "WHY WORRY? ---IT'S ONLY MONEY" during the days past when the Commission has met. I have had responses from a few on the Commission; viz., Dr. McCracken, Dr. Paul, Senator Jepsen, Gov.Wallich and Congressman Wylie, but when I realize the volume of literature showered upon you, it's not hard to see why no more have answered.

My appeal to you is, I think, somewhat unique in nature. I do not claim to be a professionally trained economist. I wonder, though, whether very many of you recognize how crucially important is the moral issue when one considers monetary policy. Surely, you must be aware of the great need for the public to trust the value of The Dollar. When that trust is destroyed, to restore it is not an easy or quick task. I am told that Aristotle made the statement:

> IN AN IDEAL STATE OF SOCIETY PERHAPS THE INTRINSIC QUALITY OF MONEY MIGHT ENTIRELY DISAPPEAR AND BE REPLACED BY THE VALUE DERIVED FROM THE CONTROL OF THE STATE. BUT FOR THAT TO OCCUR THE CONTROL OF THE STATE WOULD NEED TO BE PERFECT IN AUTHORITY AND GOD-LIKE IN INTELLIGENCE.

To be "perfect in authority" the state would have to be manned by persons wholly free of the capacity to do ill . . . . . free of avarice and greed. To be "God-like in intelligence" implies that our government would have to be staffed by people that never make a mistake. Surely it's not necessary to argue the fallibility of mankind. Even "The Fed's" governors are a few steps lower than The Almighty!

You on The Commission I am sure are sufficient students of American history to be aware that those who founded our American Government were much aware of mankind's frailties . . . . . FRAILTIES THAT MAKE ALL OF US UNQUALIFIED TO MANAGE A FIAT MONEY SYSTEM!! The people must have some form of immediate control, a way of expressing their confidence (or lack of it) in the currency

BETTER A CINDER BLOCK STANDARD THAN NO STANDARD AT ALL ! *(Continued)*
By Paul W. Nordt, Jr.

issued and the monetary policy established. As you all know, the idea of "checks and balances" underlies our entire system of government. Distrust of people in power is, obviously, the hard core reason for this. Tragically, going back decades our people have been deprived of exercising any "check" or "balance" when it came to the value of dollars. Then, in '71 the whole world lost its power to express directly any feelings about The Dollar.

After one of your meetings I approached Gov.Wallich with the question, "Do you see any connection between the skyrocketing inflation after August '71 and the fact that at that point President Nixon removed from The Dollar any meaningful definition?" If I recall his abrupt reply, it was, "There is absolutely no connection!", then he walked curtly away.

It is possible I misunderstood him at that time. Nevertheless, I urge you all to air your thoughts regarding definability of The Dollar, definability in tangible, intrinsic and specific terms. Although I have attended most of your public sessions, I recall nothing at all that dealt with definability or about mankind's capability to control money when the people are denied any way to express dissatisfaction over its value.

It's a pity that when Congress established the Gold Commission it did not choose a different name. More accurately, it ought to be "The Commission to study DEFINABLE MONEY vs. UNDEFINED MONEY. Possibly with more impact the name could have been a bit more succinct and called it something like THE FUNNY MONEY COMMISSION.

Gentlemen, that is not as "zaney" an idea as it may sound. When we consider how the name "gold" affects the minds of the Keynesian-type economists, they believing that golden money is a "BARBARIC RELIC", it might be more productive for The Commission to think of itself as studying the true differences between good money and bad money, "funny money" being a term of derision for today's buck, but not too inaccurate a description at that!

To avoid the acknowledged prejudices by so many against gold as money, wouldn't it be useful to think of a "CINDER BLOCK STANDARD", comparing it with what it's like having no standard at all. Seriously, gentlemen (and Mrs. Anna Schwartz), I challenge you to take up that argument. It may not be as facetious as you might think at first glance. Oh, you can change it to such standards as barrels of bourbon, or pork bellies, or rides on "THE METRO". The true issue: DOES THE WORLD HAVE A RIGHT TO KNOW JUST WHAT A DOLLAR IS?

Yes, candidly, I believe that if you truly, and in good faith, really talk this out you will all agree our dollars cannot remain simply pieces of paper , meaningless printing thereon. The Constitution declares that our Congress "regulate the value thereof" (of money). Surely you can't regulate something that has no definition!!

How I'd love to chat with each of you personally!

Paul W. Nordt, Jr.

Paul W. Nordt, Jr.
32 Maple Drive
North Caldwell, NJ 07006

THE MORAL ISSUE OF "HONEST MONEY"

Gary North

Summary of the Paper

A. <u>What Economists Know</u>

1. Economists cannot, as scientists, recommend any policy because of its scientifically demonstrated benefits to the public. (The problem of interpersonal comparisons of subjective utility.)

2. Economists, by training, avoid questions of economics and morality.

B. <u>What Is Honest Money?</u>

1. Most marketable commodity
   a. Possesses <u>historic</u> value
   b. Expected to possess reliable, somewhat stable <u>future</u> value

2. Governments possess a monopoly over the creation of money
   a. Monopolies tend to be abused
   b. Central banks tend to accommodate past price inflation
   c. Monetary inflation becomes a permanent phenomenon
   d. The implicit contract -- the promise of reliable money -- is broken

C. <u>Civil liberties and the Gold Standard</u>

1. Redeemable money restricts government's ability to debase currency unit
   a. Public can protest debasement by demanding gold for depreciating paper
   b. Arbitrary money manipulation ("flexible monetary policy") is hampered
   c. Implicit contract by government to produce honest money is enforced

2. Iredeemable currency reduces public's ability to pressure arbitrary state

D. <u>Guarding the Guardians</u>

1. Specialists can speculate against the Treasury's promises

2. The gold standard forces the Treasury to defend its promises daily

Summary of Appendix

A. Three-step Program
   1. Abolish legal tender for U. S. government money
   2. Allow private minting of "gold dollar" and "silver dollar"
      a. Fixed weight and fineness established by law
      b. 100% reserves for all specie-money substitutes (warehouse receipts)
      c. No attempt to set exchange ratios by law among various currencies
   3. Full gold-coin redeemability by Treasury at market prices

B. Freedom does not threaten the free society

FLEXIBLE GOLD CONVERTABILITY*

Submitted by
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Traders are defrauded and trade is impeded when the value of the currency varies unpredictably. As abundantly demonstrated by the many arguments presented to this Commission, neither the "Fixed Price" nor the "Free Float" systems provide adequate predictability. With the Free Float system, the lack is obvious. Predictability is also lacking with the Fixed Price system, since in practice, as history shows, there is no way to maintain the system without recurrent revaluations.

What is needed is a system which would provide free convertability between dollars and gold at definite, predetermined and predictable values. The system suggested here is designed to eliminate short term, unpredictable variations in the dollar price of gold, while automatically adjusting the price by small increments to the long term trend of the free market. This would provide a reasonable degree of predictability during the time period required for the delivery of goods and the completion of payments for most contracts in both domestic and international trade.

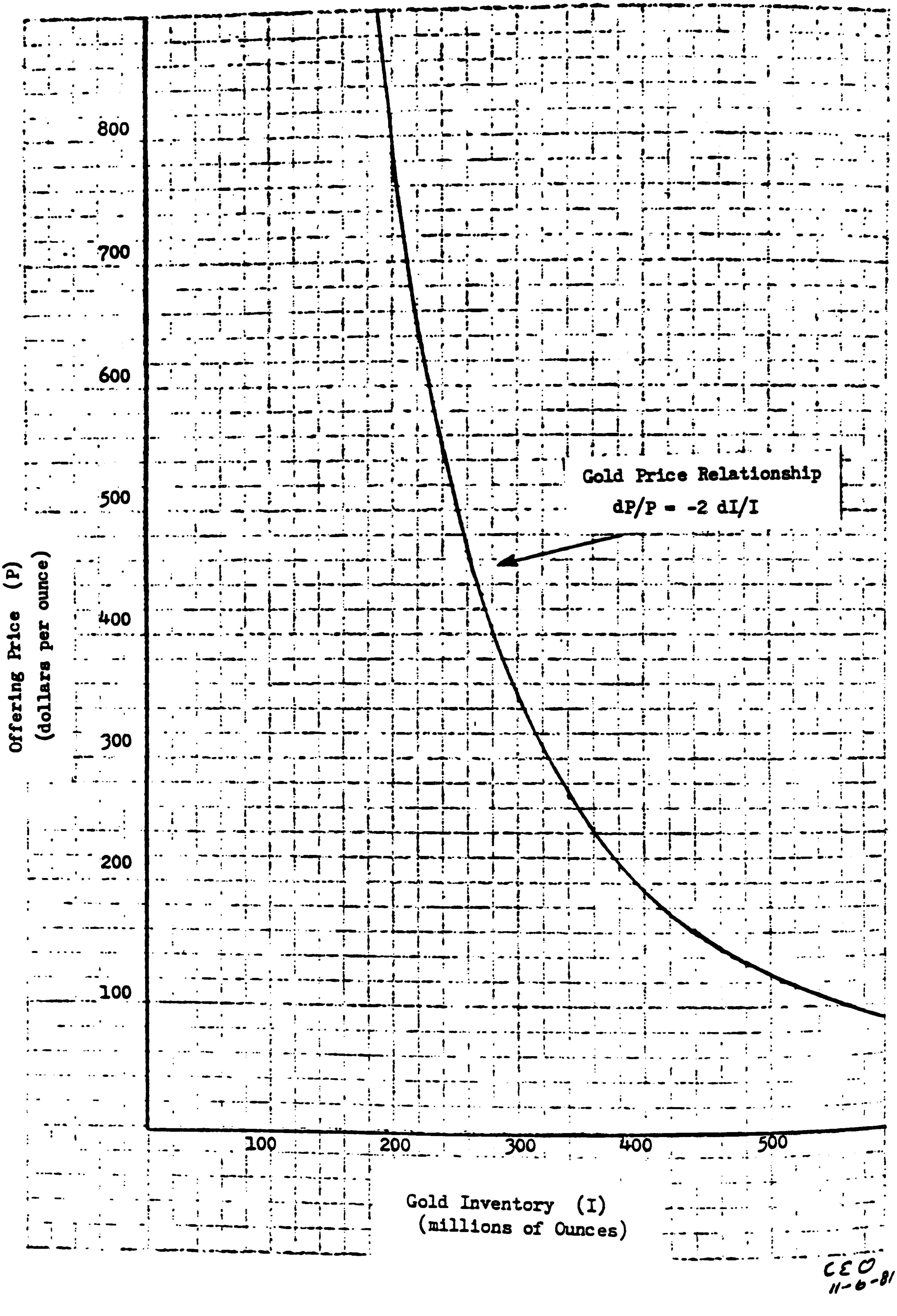
Although the system described below does provide a reasonable degree of predictability, it would not necessarily make the dollar a safe vehicle for a long term storage of value, nor would it provide any effective "discipline" on the tendency of our government to inflate the currency. It would however provide a convenient index of whatever inflation or deflation is actually occuring.

The benefits described above can be obtained by mandating a predetermined relationship between the official selling price of gold (P), and the actual inventory of gold in the Treasury (I), as shown in the attached diagram.** This suggested relationship, $dP/P = -2dI/I$, would force a 2% increase in the price for every 1% decrease in the inventory, and a 2% decrease in the price for every 1% increase in the inventory, etc. To reduce speculative activity, the official buying price would be set at 1% below the official selling price, and all prices would be determined each day by the inventory of gold in the Treasury after all orders for that day were satisfied.

Tying the dollar to gold in this predetermined relationship would stabilize the price of both dollars and gold. This system would not prevent all variations in the dollar price of gold, but it would damp out the short term variations and allow analysis and extrapolation of long term trends. The actual degree of predictability provided would of course depend on the accuracy of the analysis of such trends.

*This proposal is also described in the author's book, "Compassion and Common Sense" (1980, MCP Books, Box 273, Germantown, MD 20874)

**The attached illustrative diagram is based on an assumed initial inventory of 264 million oz. of gold, and an assumed initial price of $450 per oz. Using these values and integrating gives: $(\$/oz)(\text{millions of oz})^2 = 31,363,200$.


800
700
600
500
400
300
200
100
Offering Price (P)
(dollars per ounce)
Gold Price Relationship
dP/P = -2 dI/I
100
200
300
400
500
Gold Inventory (I)
(millions of Ounces)
CEO
11-6-81

HOW TO MAKE FULL BODIED GOLD AND SILVER COINS. IMPROVE OUR MONETARY SYSTEM

Submitted by

Edward E. Popp
543 North Harrison Street
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January 15, 1982

While the Gold Commission was authorized to study and make recommendations "concerning the role of gold in domestic and monetary systems," more good will come if the role of silver is included in the recommendations.

The ultimate goal of any study pertaining to the monetary system should be to recommend a monetary system as close to the ideal as can be obtained. The ideal monetary system will be obtained when all the items in the money supply are brought into circulation without incurring interest-bearing debts.

Gold and silver full bodied coins can be brought into circulation without incurring interest-bearing debts. So the more full bodied gold and silver coins we add to our money supply, the closer we will be to having an ideal monetary system.

Our money supply now consists of U.S. token coins, U.S. notes, Federal Reserve notes, and bank credit. Of these four items, the U.S. token coins and the U.S. notes are the only items issued by the U.S. government. They are the only items that came into circulation without incurring interest-bearing debts.

The U.S. government is already making and selling full bodied gold coins called, medallions, in one ounce and in one-half ounce coins. In like manner it also can make and sell full bodied silver coins in one ounce and in one-half ounce coins.

To bring these full bodied coins into circulation to serve the public as media of exchange, all the Congress has to do is to declare that these coins will be received as payments for all taxes, fees, duties, and other charges due the U.S. government. The government in turn will use these coins as the payments for its current expenses.

Just as the U.S. government now sets the value of the medallions to the current market value of their metal content (plus a small service charge) on the day it sells the medallions, the government is to set the value of the coins to the current market value of their metal content on the day it receives them as payments.

To give the public additional opportunities to obtain U.S. full bodied gold and silver coins directly from the government, Congress can authorize the mint to accept from the public gold and silver in any acceptable form (coins, bullion, nuggets, etc.), make it into the current gold and silver coins and charge the owner of the metal a fee sufficient to cover the cost of the minting process. Then give the newly minted coins back to the person who brought the metal to the mint.

In order to bring more of the full bodied coins into the money supply and in order to reduce the need for government borrowing, Congress can, in addition to selling the coins, authorize the government to issue the coins as payments for its needed expenditures. The government is to pay out the coins at the market value of their metal content at the time the coins are used as payments. All of the government's idle gold and silver can be used in this manner.

If the above procedures are adopted, we can expect the following results:

1. It will not cost the government anything to adopt them.

2. The monetary system will not yet be ideal, but it will be one step closer to the ideal. A much greater part of the money supply will be brought into circulation interest-free.

3. It will please the large number of people who want gold and silver to be used in our monetary system.

4. It will do no harm; it will incur no burden or loss for those people who do not want gold or silver in our monetary system. Any person who gets paid in gold or silver coins can immediately exchange them at a bank for other currency or for bank deposits without any loss of exchange value.

5. If the government's income and expenditures remain constant, the U.S. government's interest-bearing debts can be reduced in an amount equal to the dollar value of the gold and silver coins sold and paid into circulation.

6. People will learn that when gold and silver coins are used as media of exchange at the current market value of their metal content, the coins will always stay in circulation.

Submitted by

LOIS D. POWERS - ECONOMIC NEWS AGENCY, INC.

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From Editorial by Charles R. Stahl in Green's Commodity Market Comments 9/23/81 and 10/21/81

The gold standard is currently the subject of a profusion of press articles, most of which are missing the point. Whatever the pros and cons of the gold standard, and even assuming that the gold standard is the solution to all our economic problems (which it is not), there is no practical way to implement a gold standard system within a reasonable time; therefore the discussions on the subject are, in our humble opinion, a waste of time. In today's world, no country can establish and maintain a gold standard alone. We have an international monetary system, which is governed by IMF statutes; those statutes can only be changed by negotiations and agreement among all members of IMF. Those who remember how many years it took to get rid of gold as the numeraire of the monetary system will appreciate that even if negotiations were to start next year, after the report of the Gold Commission has been completed--assuming that it will be in favor of restoring the gold standard--we will be well into the 1990's before the new system could be ratified. And that certainly would be too late in order to lower the interest rates, which the supplysiders believe the introduction of the gold standard would achieve.

Today's gold standard proponents must have a very poor opinion of the members of the Interim Committee, of IMF, and of IMF's entire body of central bankers and finance ministers, if they believe that all the arguments which they are now advancing in favor of the gold standard were not mulled over a thousand times by those experts, and considered wanting.

The bill introduced in the U.S. Senate proposing the return to a gold standard is based on the premise that the price of gold should be fixed at whatever it will be in the world markets six months after the United States announces its intent to return to the gold standard; that bill is the "Laffer stock" of the gold cognoscenti. Professor Laffer believes that when the United States announces its intention of fixing the price of gold in terms of dollars or vice versa, the price of gold will decline to some "reasonable" level, somewhere in the \$250-\$300 area. With due respect to all the gold standard proponents, the very day the United States announces its intent to return to the gold standard and to peg gold at whatever the price will be six months after that announcement, gold will embark on an alpine climb, and the 1980 gold Everest of \$875 will be easily left behind.

A further premise of the Senate bill is to forbid the Fed and the Treasury to intervene in the foreign exchange and gold market during the six-month period. With the Fed and the Treasury out of those markets as a stabilizing factor, can anyone really believe that the price of gold will go anywhere but higher? There is an enormous vested interest in gold; not only Swiss banks and their clients, not only German banks and their clients, not only South African mining companies, not only the Soviet Union, not only OPEC countries, not only Far East interests, but millions of people who own gold and who would be only too glad to see its price go higher rather than lower, and who would bet on it.

But let us assume that Professor Laffer is right, and that the price of gold will decline to $250-$300, or whatever level below current prices, and that the price of gold will be fixed at that level. That price would then constitute a floor, and the same thing would happen which happened in 1968, when the gold pool of the central banks operated by the Bank of England had to stop its sales because the demand for the yellow metal at the official price was much too large. Incidentally, it was in these pages in December 1967 that the two-tier gold system was first proposed. It met with a great deal of incredulity from the U.S. Treasury, but when the chips were down, in March 1968, the two-tier system became a reality. Ultimately it gave way to a free market entirely, and that is exactly as it should stay.

Whenever the gold standard was in force, the assumption was that fixed exchange rates would last forever. Since forever did not last, a restoration of the gold standard cannot be achieved; the gold standard is like virginity, once lost, it cannot be restored.

The proponents of the gold standard point out that the run-up in the price of gold has benefited the Soviet Union and South Africa most. What they overlook is that the $850 peak price on the London fix did not last longer than one hour, and that the intraday high of $875 for spot gold on Comex did not last more than one minute, so that no large quantities of gold were sold at those lofty prices, either by the Soviet Union or by South Africa. As a matter of fact, the average price of gold last year was $613, and in 1980 the Soviet Union sold only 90 tons of gold. Maintaining the free gold market, as opposed to pegging the price of gold, does not permit gold producers to sell large quantities at peak prices; whereas should the gold standard be restored, then producers would have a ready outlet at a fixed price.

The Soviet Union has the world's largest unmined gold reserves, in excess of 5 billion oz. Should the price of gold be pegged at, for example, $800 per oz., that would give the Soviet Union potential assets of four trillion dollars! With that kind of money, over the years, they would not have to bury us, as Khruschchev once said, they could buy us out. . .

Our readers certainly remember that we severely criticized another bill introduced by Senator Jesse Helms to restore the gold standard, based on the fantasies of Professor Arthur Laffer. However, the Free Market Gold Coinage Act is an improvement, even though parts of it must be changed, particularly the paragraph referring to how the Treasury should compute the price of gold when buying or selling the coins, and it could help reduce inflation by absorbing excess liquidity (if and when there is one). The Treasury would use its 263 million oz. gold hoard to mint the coins, which would be sold at the market value of gold. The bill could be amended to provide for use of the proceeds to balance the Federal budget, and theoretically the Treasury could collect over $100 billion from the sale of those coins. However, the difficulty is to determine the price at which the Treasury should be selling or buying those coins at any given time, and whether it should be entitled to a seignorage, and if so, how much. There is one more question to ponder: if the Treasury is obliged to buy any quantity offered or to sell any quantity demanded, wouldn't that be like giving the Treasury the major say in what the actual price of gold will be? On balance, the reintroduction of U.S. gold coins is an acceptable idea, provided that the Treasury will just mint them, and will not be obliged to maintain a market (i.e., will not have to buy them back).

THE BEST MONEY SYSTEM

Submitted by

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1 Dec. 1981

The best monetary system known to history was based on gold or silver coins that were of the same size and quality for all cooperating countries. Its being based on coins of standard value makes them interchangeable among countries.

This system was used by the Greek city states, by the Byzantine and Arabic Empires between 700 A.D. and 1100 A.D., by the cities of Northern Italy during the fifteenth century and by the Latin Monetary Union and Northern or Scandinavian Union in Europe during the latter part of the nineteenth century and early years of the twentieth.

Although a system based on a coin of standard value for all countries has proved its worth, it is doubtful if the United States could stay on such a system until the budget is balanced and inflation of the currency is discontinued. If American citizens are permitted to have their gold minted, the United States will find it easier to adopt the gold standard when our inflation of the currency is stopped and other countries start trading the golden coins that they are now hoarding. There are good reasons why we should plan to use the metric system with a gram of gold being the unit of value.

LORD JOHN MAYNARD KEYNES

The writings of Lord John Maynard Keynes are being followed in making the monetary policies of the United States and of much of the world. A careful study of his works show that he promoted policies which he himself said was the best way to overthrow capitalism.

His biographer reported that Keynes was in favor of the undemocratic practice of leaving major decisions to a small group of intellectuals.

In a letter to his mother Keynes referred to himself as being a Boshevik which may account for his sabotaging democracy and capitalism.

TESTIMONY OF ANDREW G. E. RACZ

TO THE GOLD COMMISSION

NOVEMBER 12, 1981

The purpose of my presentation is:

1) To state that gold is a monetary asset;

2) To state that gold and silver are vital strategic American assets;

3) To propose a viable, constructive and aggressive American gold policy; and

4) To prove that the United States is the world's most powerful monetary power.

This Administration can combine monetary policy with foreign policy to achieve prosperity at home and to play a forceful role in constructive foreign policy.

I recommend that:

1) The Gold Commission accepts that it is the policy of the United States to increase, as opposed to decrease, our gold and silver reserves.

2) This Commission should recommend the creation of a department which would empower the Treasury to enter the futures markets in gold in Chicago, at the COMEX, in London, Hong Kong and Zurich.

<u>Immediate Recommendation</u>

The Treasury should prepare for the immediate sale of approximately $50 billion in gold-backed bonds with a 2% coupon convertible into gold at $550 per ounce with five years maturity. Simultaneously, the Treasury should declare that it is the policy of the United States to purchase gold on the open market, either in its physical form or hedge its position on the futures markets. No details would be disclosed.

Members of the Gold Commission are to be reminded that the Soviet Union is not in a position to do the same. Whatever gold it has is needed to finance its food bill. There is no $50 billion surplus that can be held for five years within the Soviet colonial system. This is my professional opinion.

The immediate effect of such an issue is not only pure interest savings, but it would divert borrowing requirements from the government bond market and would relieve the pressure on corporate borrowing. Most important, however, it would demonstrate the tremendous monetary power of the United States of America. We are the only country whose gold is unimportant to carry out our daily business and the only country whose integrity to redeem the $50 billion gold issue either in gold or in dollars is unquestionable.

Furthermore, the Treasury should create a non-marketable, 8% "Freedom Bond" which this Government can offer to all the American banks that are currently stocked with uncollectible debt from Eastern European countries. In exchange for the unsound paper of Poland, Rumania, East Germany and Hungary, the banks should be offered the opportunity to pass on the dead assets to a low-coupon, say 8%, 10-year debt to the Treasury with the commitment that no further loans would be issued to the above-mentioned countries.

The "Freedom Bonds," of course, are made possible because of the savings created by gold-backed bonds and potential drops in interest rates.

Let's visualize for a single minute that by cutting off Eastern European and Russian credit the President could start negotiating with the leaders in the Kremlin.

Our aim is to cut our defense appropriation immediately! A 5% cut in our 5-year, $1.5 trillion defense appropriation would represent a $75 billion saving.

Just think about it...$75 to $100 billion cut in defense spending! THE RESULT: a single digit prime rate and probably not more than a 7% or 8% inflation rate. The stock market would probably go up 500 points. I estimate that with such a scenario, every 100 points is equivalent to at least $100 billion, maybe even a $150 billion, increase in the gross national product. One hundred billion dollars in GNP represents at least an extra $30 billion in tax revenues. It is easy to see, Mr. Secretary, that in 1984 instead of a balanced budget we would have a surplus; and you would be the first Secretary of the Treasury to recommend a second tax cut in the first four years of an Administration.

GOLD: THE SOLUTION TO OUR MONETARY DILEMMA

Submitted by

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February 9, 1982

We are confronted with an apparent monetary dilemma: the choice between a 1929-style depression if we stop inflation, and, far worse, sooner or later, a 1923-German-style currency collapse if we allow inflation to go on. Our dilemma arises on the one side from the inherent accelerative tendencies of inflation--of money creation. On the other side, it arises from the fact that the inflation we have already experienced has encouraged people to become highly illiquid and badly over-borrowed; the other side of the coin of the inflation-induced illiquidity is an artificially high velocity of circulation of of money. Stopping, or even substantially slowing, inflation must produce a rebuilding of liquidity, a reduction of the velocity of circulation, and thus a contraction of spending and revenues and a massive inability to repay debts, along with huge unemployment. Because these are the consequences, we cannot realistically expect the government to stop or even reduce its inflation for very long. Every such attempt is fairly soon abandoned and the incipient tendencies toward contraction overcome by a fresh acceleration in the creation of money.

Most proposals for the establishment of a gold standard provide no escape from this dilemma. If implemented, they would succeed in ending inflation, but only at the price of bringing on a depression, for they would require a reduction in the rate of increase in the money supply from its present level of seven or eight percent or more per year to a rate commensurate with the increase in the supply of gold--perhaps two or three percent a year. They offer no remedy for the attendant drop in the velocity of circulation and consequent inability to repay debts.

The kind of gold standard I advocate is designed to deal with the drop in velocity. Its aim would be to stop inflation completely without precipitating any contraction of spending calculated in dollars. In essence, the mechanism for achieving this would be to go over to a <u>100% reserve gold coin system at a very high price of gold</u>.

Under such a system, the money supply of the United States would be, in effect, a quantity of gold ounces, which I estimate in the neighborhood of 500 million, allowing for present official US gold reserves, private holdings, and anticipated gold imports. Under this system, even if the velocity of circulation fell from its present level of roughly six to its 1946 low of about two, there need be no contraction of spending calculated in dollars, if the gold were priced high enough. For example, a gold-ounce GNP of 1,000 million would be equivalent to our present dollar GNP of roughly 2.5 to 3 trillion at a price of gold between $2,500 and $3,000 per ounce.

The transition to this system could either be abrupt or gradual. If gradual, it should consist of the following steps, perhaps best spelled out in a constitutional amendment. 1. An absolute guarantee against any future confiscation of private gold holdings, as occurred in 1933, and in 1917 in the case of banks. 2. The abolition of all taxes, federal, state, and local, on the purchase and sale of gold. 3. The recognition by the IRS and the courts of revenues and incomes calculated in gold, with no tax imposed on account of a rise in the price of gold. 4. The full enforceability of gold contracts in terms of specific performance; the absolute immunity of all such contracts from legal tender legislation in any form. 5. The granting to private minters, for a nominal fee, of the right to use the seal of the United States in the minting of new gold coins. 6. The requirement that all privately issued bank notes and checking deposits denominated in gold be <u>100% backed by gold coin or bullion in the possession of the issuer</u>. 7. The extablishment of a legal tender value <u>for gold</u> in terms of debts dénominated in paper dollars, which value could be raised from time to time as the market price of gold rose.

As these steps were taken, the private demand for gold and its monetary use would enormously increase, as would its real value. At some point, once gold had become reestablished as a private money of the market, the government could use its gold reserves to redeem the outstanding supply of non-gold money defined on an M1 basis. Until that time, no sales of government gold should be permitted.

Once on the 100% reserve gold coin standard, further inflation--in terms of gold--would be virtually impossible, and no basis would exist for a contraction of spending in terms of gold. The 100% reserve gold coin system would thus be the ideal monetary system, secure against the boom-bust cycle of inflation and deflation, and the way to eventually escape from our present inflation without contraction.

Summary of Gold Commission Testimony by Alan Reynolds

The tripling of long-term interest rates since 1965 reflects accelerating loss of confidence that the dollar will hold its value in the future. Long-term interest rates never exceeded 5-6% under any gold standard. If interest rates returned to the gold standard level, the federal budget would be in surplus.

Any monetary rule may be bent during crises, but this does not justify abandoning all predictable rules. No quantity rule can have long-term credibility because the definition of money is constantly changing and velocity has been unpredictable since 1971. If markets nonetheless believed that a quantity rule would end inflation, interest rates and velocity would fall, requiring violation of the rule or abrupt deflation. A gold standard can stop inflation quickly, as in France in 1926, without the quantity rule's risk of deflation.

The relevant comparison is between the classical or Bretton Woods gold standards and the period since 1968 or 1971. It is misleading to compare ancient wholesale commodity prices (mostly farm products) with today's broad price indexes. Gold itself was a broader measure of value.

Research by Zarnowitz indicates that about half of the "recessions" from 1879-1914 did not really exist. Not one recession has been plausibly blamed on the gold standard, though deflations of 1921 and 1929-30 were partly due to <u>failure</u> to adhere to the gold standard. Recent cyclical performance has not improved, despite such advantages as a large service sector, deposit insurance, unemployment insurance and a central bank. No gold standard period experienced as bad a blend of unemployment, inflation, volatility and stagnation as in 1979-81.

A true gold standard provides a legal definition of the dollar as a fixed weight of gold, with government standing ready to convert dollars for gold and vice-versa. There is no need for a fixed relationship between official gold hoards and some measure of money. Monetary policies must simply be adjusted to stem a persistent inflow or outflow of gold, maintaining the guarantee of the dollar's value in gold.

The money supply under convertibility is whatever people are willing to hold without switching to gold. There is no rigid link between gold production and money, nor between the stock of dollars and income or output. Producers of gold hoarded it in the 1970s for the same reason that producers of oil decided that oil in the ground was a better hedge against inflation than dollar assets in a world of managed money.

No foreign nation could upset the dollar price of gold without "cornering the market" on dollars or gold, which is impossible. Suppose the Soviets dumped tons of gold to get dollars, then traded those dollars for grain. If that started a general inflation, gold at a fixed price would become a bargain. U.S. farmers would trade their new dollars for gold, quickly stopping any inflation.

The most that monetary policy can do is to provide a stable unit of account for long-term contracts. Gold is clearly superior in this respect to any observed or hypothetical alternative.

FOR A 100% GOLD DOLLAR

submitted by

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The chronic and accelerating inflation of our time is the consequence of the dollar--and other world currencies--having been cut loose from its original moorings in the market commodity, gold. Instead of its former definition as a unit of weight of gold, the "dollar" is now simply the designation of the Federal Reserve on a piece of paper. Whereas on the gold standard, new money can only be acquired by the costly process of mining a scarce metal, now--under a fiat paper standard--new money is manufacturered at will, and virtually costlessly, by the Federal Reserve System. The business of manufacturing costless money has been placed, as a coercive monopoly, into the hands of the Fed, that is, of the federal government. Inflation is a process of the destruction of the value of the currency by increasing its supply, and so the sole culprit for this inflation is the federal government (and other central governments throughout the world) and its money-manufacturing arm, the Federal Reserve System.

Monetarist economists understand some of this process, but their rather naive solution is to maintain the power of the Fed to the full but to urge it to use that power wisely. This is equivalent to putting the proverbial fox in charge of the chicken coop and urging that fox not to eat (or to eat at a fixed and steady rate) any of the chickens. This solution ignores the fact that it is to advantage of any fiat money factory to use its power to create new money: to finance its own expenditures, and to subsidize favored political and economic groups.

Just as we need a Bill of Rights to chain down government and prevent it from violating the rights of freedom of speech and the press, so we need a fundamental way, a way going beyond mere exhortation, to chain down government and to prevent it from manufacturing fiat paper and debasing the value of our currency. To do so, just as the Bill of Rights separates church and State, so we must separate the State from money.

The most important step toward separating money and State is to return to--or go forward to--the definition of the dollar as a unit of weight of gold. Under cover of the depression emergency, the U.S.government confiscated the gold of every American in 1933. The depression is long gone, but the stolen gold still lies under the ground at Fort Knox and other depositories of the U.S.Treasury. Making dollars redeemable in gold coin once again will end the regime of fiat paper, restore a market commodity as the monetary standard, and restore the property rights to gold which the American had purloined from them a half-century ago.

Since the dollar has not been redeemable in gold for a long time, its official statuory definition in terms of gold (now at approximately $42 per ounce) has been a dead letter. Since any initial definition of a term is arbitrary, we are free to fix the new weight of the gold dollar at whatever level is most convenient. I submit that, if we are to return to the gold standard at all, we may as well go forward to the best possible such standard, and that means a system in which every dollar note or demand deposit is a genuine "warehouse receipt", that is, is backed 100% by gold. At the present time, this would mean a return to gold at approximately $1600 per ounce; such a rate would give the U.S.monetary system enough gold to back every dollar at 100%.

Such a high "price" (actually, low weight) of gold has been charged with being "inflationary", but that would only be true if the presently constituted fractional reserve banking system could pyramid a multiple of dollars on top of the newly expanded gold base. But the unappreciated virtue of such a $1600 price is that it would enable the speedy liquidation of the Federal Reserve System, the turning over of the gold to the nation's banks, and a subsequent free banking system operating on the basis of 100% gold. The "classical" gold standard was far from perfect, and its lack of perfection stemmed from the existence of central banking, and the inflation and boom-bust cycles triggered by the policies of the central bank. The U.S. economy was far sounder and more stable before the existence of a central bank, and it will be so after the central bank is eliminated.

The abolition of the Federal Reserve will end the regime of managed money, whether gold or fiat, and will complete the separation of money from the State.

As for the relation of such a 100% gold dollar with other countries, the solution is simple: any country that also returns to a gold standard will have its currency fixed to the dollar according to its weight; and fiat currencies will freely fluctuate in relation to the gold dollar.

PLEASE

Submitted by

Jim Russell
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January 4, 1981

The small company I own will close its doors at the end of the Ohio apple harvest after 111 years in the apple processing business. A miserably short apple crop in northeast Ohio was the cup of hemlock, but the demise has been inevitable for some years now. The management (that's me) has simply been unable to cope with the decade-long government policy of inflation and usurious interest rates.

In this huge and complex economy, the loss of Rhodes Cider Mill will draw less notice than the death of a sparrow. The apple jelly I make from fresh cider only will be missed by a few diabetics who found it was the only jelly they could eat. Those customers who thought our cider the very best will have to look elsewhere next fall. My few part-time employees will have to supplement their pre-Christmas earnings in some other way. Not even a blip, however, will appear on any economic indicator.

Liquidating my very own little business will rob me of a degree of independence in which I have reveled. I have often worked 120 hours a week motivated by a force more powerful than any whip. Now I will go to work for an employer (and perhaps my creditors), and I fear 40 hours will prove to be drudgery. I can't ignore the feeling that somehow my loss was not entirely my own fault or an accident.

The inflation and interest rates I couldn't quite handle are surrepticiously transfering a great deal of wealth out of the hands of many and into the hands of the few. My hard-learned understanding of human nature convinces me that inflation is not entirely an accident of democracy. I more than suspect that those who do benefit by it have had more than an idle interest in its continuance. I observe no group that has benefited more by inflation than the wealthy legislators of the national government.

I have been a victim of inflation, but I will no longer allow people of political influence to steal my assets and destroy my independence. I have been forced by law to transact my financial dealings in a currency that may be cheapened at the direction of a few influential people. Those people have used that power to cheat me. I demand that power be removed from those hands.

I will not have the value of my money controlled by the Federal Reserve Board, by Congress, or by any group of men. I demand money that cannot be cheapened by any man for any reason. I will no longer accept dollar bills that are subject to manipulation as the measure of the value of my labor. I want my gold that is now stored by my government circulating freely in my country. I want an honest day's pay for an honest day's labor, and I will accept nothing less.

Who are these men at the Federal Reserve that they should be granted the power over the value of an entire nation's money? Who gave them the wisdom to "manage" the money and thereby the lives hundreds of millions of American? Do they know when interest rates should go up or when they should go down to benefit this nation? The evidence is overwhelming that they do not know, and they can not know. There is dramatic evidence that they do not even know what the money is they are trying to control.

Does the Federal Reserve hold the power to manipulate the money supply for evil or selfish motives? Why would any nation entrust such devastating power to a body of men when an inanimate object (gold) has demonstrated the ability to fulfill the role of money free from the devices of humans to enhance or subtract from its value.

After the experience with inflation of the recent past, the real issue before The Gold Commission is how to protect the basic human right af any citizen to reap the fruits of his or her labors. In this complex economy of ours, we must have money that will provide a store of value as well as a medium of exchange in order to secure that right. The dollar bill, and all of its relatives, have failed miserably to act as a trustworthy store of value. Gold has always filled that role, and its acceptance in exchange for goods or services exceeds all other mediums even after a period during which the United States Treasury deliberately and avowedly attempted to reduce the monetary role of gold. (It is noteworthy too, that throughout the period during which the Treasury attempted to discredit gold that the value of gold as measured in dollars increased many times over.)

Why are promissary notes of the United States Treasury selling for less than 60¢ on the dollar? Because the Treasury redeems those notes with dollars that are certain to be worth less upon redemption. (Alexander Hamilton would be enraged to see the low esteem of his beloved agency.) Why are Americans growing poorer, their productivity declining, their capital stock deteriorating, their interest in government faltering, and their economy suffering a thousand ills? They do not trust, and with just cause, the only legal tender a perverted government allows. Be gone with it.

THE ESSENTIALS OF A SOUND CURRENCY SYSTEM
(a summary of a long article with the same title)

Submitted by

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February 1982

The essentials of a sound currency are these:

1) A commodity standard for the nation's unit of value; and, in the light of the experience of highly commercialized nations for at least a century and a half, that standard had best be a quantity of gold.

2) It is admissible, convenient, and useful to use paper notes as legal tender currency along with standard coin or even without coin, PROVIDED the nation's Treasury maintains a reserve of standard coin or bullion or of both large enough to enable it to stand ready at all times to convert (or "redeem") said legal tender notes at face value into standard coin or bullion.

3) This sort of a currency system will not work <u>satisfactorily</u> in any free-enterprise country unless the government thereof so manages the economy as to maintain a high degree of competition both in its domestic commerce, especially, and its foreign commerce.

During the period from January 1, 1879 (to go no farther back) to March 1968, this country was undeniably and continuously on a single gold standard and maintained the convertibility of its legal tender, non-gold currency at face value into standard coin or bullion. And during that long period, the purchasing power of a paper dollar was precisely the same as that of the gold dollar. Prices of goods and services commonly went up a little in good years and down a little in poor. Only in times of war or of big booms or busts did an inflation rate or a deflation rate exceed 1 or 2 percent.

In fact, in March 1968 and by statute in August 1971, our Government found it necessary to abandon convertibility for our paper currency and has not resumed it to this day. Since that abandonment, we have had a high inflation rate every year, good, bad, or indifferent. And continous inflation is cumulative. In the last fourteen years the general level of consumers' prices has increased by 183 percent. Our paper dollar now will buy no more than 35½ cents would buy in 1967.

This great inflation of prices, this great decline in the purchasing power of the dollar, has worked vast inequities between debtors and creditors, has created great uncertainties for businesses, labor organizations, families, and all public fiscal authorities and has given us intolerably high interest rates.

In the history of the world there have been hundreds of cases of governments having been forced or led to suspend specie payments (as the term used to be) for their paper currencies; and in no single such case has any government ever managed to avoid rapid depreciation in the purchasing power of its unit of value — pound, franc, mark, peso, whatever. And the simple reason for this having been the case is that sensible people who earn, save, and invest rapidly lose confidence in the worth of such paper currency, even though it is issued by their own government and made legal tender for all taxes and all debts public and private within the country. The present juncture in world history affords no exception to the record.

Every nation in the free-enterprise world is now experiencing a high inflation rate and all the consequent economic ills. The great majority of such nations had been on a gold standard at least for a time — as signatories of the post-World War II Bretton Woods International Monetary Accord. All are now trying to make do with inconvertible paper currency. Bretton Woods is in shambles.

There is no way that this nation or any other nation can bring the present rampaging inflation under control without first re-establishing a standard of value and convertibility for its paper currency.

During the long hiatus, so much gold has fallen into the hands of speculators that probably no one nation, not even the United States, could alone re-establish the gold standard. But nations with large gold reserves have, fortunately and wisely, kept their reserves pretty well intact. A number of them acting in concert could certainly re-establish the gold standard in their respective countries. Each could (and would anyway) set the new price in its own currency at which it would resume buying and selling gold. No heed need be given the prices quoted in the speculative markets of Hong Kong, Zurich, or whatever.

Any new international accord that the United States adheres to should by all means prohibit any signatory to use the currency of another nation as the whole or any part of its treasury or bank reserves and should include a clear statement to the effect that each signatory remains entirely free to regulate the export of capital. It is highly debatable whether or not the actual fund of the International Monetary Fund should be continued. The advisory and statistical functions of the IMF should be continued.

TITLE: RETURN U. S. DOLLARS TO QUALITY MONEY

Submitted by: Harry R. Scharlach
725 E. Maple Street
Hoopeston, Illinois 60942

Date: December 30th., 1981

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I respectfully submit some thoughts on gold's role in our monetary system, for consideration by the U.S. Gold Commission.

We have had ten years of experience with fiat U.S. Dollars, since August 15, 1971.

The massive "new" economic approaches to achieve monetary stability have all been found lacking in credibility.

High interest rates, for example, do not stop inflation. In the long run, high interest rates increase inflation and bankruptcies.

The U.S. should now adopt the old classical monetary approach to reduce inflation and interest rates and bankruptcies and revive our sagging economy.

A return to gold standard dollars is now required.

This action would give U.S. financial and business institutions a chance to function properly in a progressive manner.

The rule of "QUALITY MONEY" backed by gold shoud now be substituted for depreciating fiat money.

The "quantity" theory for dollars has already been proven a failure.

The cost of mining gold and it's market price for gold should both be taken into consideration when adopting an official new price for gold. The price should be such that the U.S. Treasury would gain gold rather than lose gold.

A return to some form of gold backing for U.S. Dollars will not be a step backwards but the necessary step forward to return to sound monetary practices.

All holders of U.S. Dollars should again be entitled to see their dollar assets represent a store of value earning interest without further depreciation. This is the only honest way to print money.

THE UNDISCIPLINED DOLLAR

Submitted By

EDGAR J. SCHOEN

400 East Randolph Street
Chicago, Illinois 60601

JANUARY 29, 1982

This monograph was published and copyrighted in the Spring of 1980. It is a chronological recital of sellers' and buyers' markets in real estate from the beginning of the 19th century to date, and of the vagaries of the dollar during that period of time.

The first two chapters are by way of introduction to the subject matter. The first chapter (pages 1-4) deals with the report of a meeting in Washington of the international governmental financial leaders of the western world in 1966. It discloses a number of different viewpoints concerning fiscal policies of the western nations. It also discloses how wide from the mark the international financial leaders have been. As to the dollar, it reveals the flight of gold from the United States during the period from 1958 to 1966. It is a truism that when a nation is in trouble, gold leaves that nation. Chapter 2 (pages 4, 5) deals with the relation of quantity of money to inflation, taking the position that whatever the definition of inflation may be, a prolonged and violent inflation cannot take place without a sharp rise in the quantity of money.

Chapter 3 (pages 6-19) deals with a succession of buyers' markets (lows) in real estate beginning with the year 1820 through the year 1897. It discloses that once every 18 years there had been a buyers' market in real estate. It discloses that every generation has had a boom in real estate followed by a bust. This chapter also discloses that during the 19th century, up to 1897, the United States followed the admonition of George Washington to avoid entangling foreign alliances; and that in 1897, the United States actually was the richest country on earth.

Chapter 4 (pages 19-27) deals with the period from 1897 to the beginning of the Great Depression. It was then that the United States first became embroiled in foreign alliances.

Chapter 5 (pages 28, 29) deals with the factors that brought about the creation of the Federal Reserve Board, and the use of its notes as currency. Chapter 6 (pages 30-36) deals with the hyperinflation in Germany in 1923 and inflation in the United States since 1964. Chapter 7 (pages 37-40) describes the involvement of the United States in the international financial bank crisis of 1931. Chapter 8 (pages 41-49) covers the period from the election of Franklin Delano Roosevelt to the early days of 1980. These chapters disclose buyers' markets in real estate in 1910, in 1928, in 1946, and in 1964.

Chapter 9 (pages 50-54) deals with the creation of the present day fiat currency of the United States during the Presidency of Lyndon B. Johnson. In 1965, the then Secretary of the Treasury secured legislation removing the gold reserve requirement that had been instituted under Franklin Delano Roosevelt from federal reserves deposit liability. In 1968 the gold reserve was entirely eliminated. Up to that time, there had been a creeping inflation of approximately one to two percent a year. With the reserve gone, it was not long before the inflationary spiral brought the nation to today's galloping inflation.

Chapter 10 (pages 55-78) deals with the role of the United States Supreme Court in the creation of two of the nation's three fiat currencies; first, there were the Legal Tender Cases shortly after the Civil War, and secondly, the Gold Clause Cases during the early years of the administration of Franklin Delano Roosevelt. The majority opinions in both disclose that the Supreme Court bowed to the political whims of the moment, and thereby departed from logic and good sense.

Chapter 11 (pages 79-86) suggests that the People should have the right to vote directly upon the monetary and fiscal policies of the federal government by way of the creation of a referendum to be made part of the electoral process once every four years.

Chapter 12 (pages 87-90) suggests first that the United States today is a debtor nation, secondly, that those who insist that monetary discipline can only be brought about by a return to the gold standard are misguided, and third, that monetary discipline can only be brought about by a return to the <u>gold reserve</u> requirements destroyed during the Johnson administration.

Presently, it appears that in 1982 there will be another bottom of the buyers' market (a low) in real estate. What is the occasion for this? It is a long period of double digit mortgage interest rates to which there appears to be no present end. For this there are many causes. The primary cause? Government fiscal excesses due to the nation's fiat currency. During the fiscal years ending in July, 1973 through the same period in 1981, the government had a succession of fiscal deficits totaling 351 billions. Somewhat over a hundred billions of this was monetized. During the same period, the national debt increased some 600 billions, only a portion of which is attributable to budget deficits. The culprit? The off-budget entitlement programs, payments for which are made through a so-called Federal Financing Bank.

The author, born in 1893, a businessman's lawyer, now inactive, first learned about the 18 year real estate cycle when studying economics at Harvard under the guidance of Professor Leon Taussig.

GOLD AND THE REIGNING DELUSION

Submitted by

FOUNDATION OF THE AMERICAN ECONOMIC COUNCIL

10113 RIVERSIDE DRIVE
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FEBRUARY 5, 1982

America has fallen victim to another of History's great paper money delusions, similar in many respects to the Mississippi Scheme. If this delusion is allowed to persist, American society will continue to become less free, less harmonious and less prosperous.

This particular paper money delusion arose as a consequence of fostering fraudulent and coercive practices in the money and banking system via the political process. These practices gave rise, in turn, to the so-called "business cycle" and the protracted destruction of the classic gold standard.

Throughout monetary history, dating back at least to 400 B.C., there have existed two rival monies which are basically different in kind. Of these, one is money which is chosen **voluntarily** as a preferred medium of exchange through a process of competitive selection in the marketplace. The other is money which is defined and forced to circulate by edict of the state--that is, fiat or legal tender money.

Money which is the product of free choice is essential to the establishment and maintenance of a relatively free and prosperous society. Fiat money is an essential ingredient of totalitarianism. It is the politically induced evolution from marketplace money to fiat money that is embodied in the paper money delusion of today.

Through the institutionalization of fractional reserve banking, the passage of legal tender laws, the formation of the Federal Reserve System, and the confiscation of American citizens' gold in 1933, America gradually reverted to a money and banking system that may best be characterized as a "barbarous relic." The system is thus characterized because it incorporates elements of force and fraud more appropriate to a primitive feudal society than to a modern industrial democracy.

The time has come to establish a new kind of money and banking system that is appropriate both to the spirit of the American Revolution and to the continuation of the Industrial

Revolution. To be just, viable and enduring, such a system must fulfill a very simple and straightforward criterion: It must be free of the elements of force and fraud to the greatest possible extent. In practical terms, this means that the money system must be placed in the arena of voluntary exchange of values--the free market.

There are several obvious steps that need to be taken in order to convert the American monetary system from a barbarous relic, embodying numerous elements of force and fraud, into something approaching a modern free market money system. The recommended steps which follow have been identified on the basis of the deficiencies in the money and banking system that were discussed throughout the body of this statement:

1. The most important step is to abolish all legal tender laws, thereby removing the threat of the use of force in maintaining the circulation of a particular money. This will permit Americans to choose among competing monies--it will end the Federal Reserve's money monopoly. It will also facilitate evolutionary changes in the money system, as inferior moneys are gradually eliminated through competition, and new moneys are introduced.

2. All restrictions on entry and membership requirements should be eliminated from the banking business. Concurrently, the Federal Reserve System should be abolished.

3. Anyone who promises to place money in safe keeping for immediate return at the request of a client, should be held liable for fraud should he subsequently appropriate that money for his own uses, or intentionally place it at risk (investing or lending without the client's permission).

4. The final essential step is to return the gold presently stored in government vaults to the American people. This should be done by restoring convertibility of Federal Reserve Notes into gold coins of traditional weight and purity. The conversion ratio should be determined by market operation over a period of one to two years following passage of the enabling legislation. Once all Federal Reserve Notes have been converted, they should be retired, thus removing government and its agents from the money production business. From that point on, government should only intervene in monetary affairs to exclude fraud in the issuance of private monies.

Date: November 4, 1981

Title: GOLD AND THE NEED FOR DISCIPLINE IN MANAGING OUR MONEY SUPPLY

Submitted By: John V. Silcox, President
Bank of Hanover & Trust Company
25 Carlisle Street
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In response to your office's requests concerning bankers' thoughts on gold role in the monetary system, I offer the following observations:

It appears that some form of discipline is needed in controlling the level of money supply in our economy. This also appears to be the case with other industrial nations in the world. Central banks seem to lack the fortitude to control money supply without making concessions to the political pressures and desires of the elected government. We seem to have fallen into a pattern where the central bank accommodates deficit spending by monetizing the Treasury's debt issues and, in so doing, creates new money reserves. A return to "the gold standard", as existed prior to 1933, would provide the external discipline needed to control the growth of money supply in the country, and keep inflationary pressures in check. A return to such a system of external disciplines would require a higher degree of political sophistication than seems to exist in any of the industrial countries today, with the possible exceptions of West Germany and Japan. In addition, a return to the gold standard would create an immediate problem for the United States government in devising ways to balance the budget in a very short period of time. This would require either drastic cuts in the spending level or very substantial increases in the taxing level, or a combination of both.

While I personally question the political feasibility of making such drastic changes in our government's fiscal management policies, I am convinced that the long range effect of a return to a gold standard would be extremely beneficial. If our currency were immediately convertible into gold, long range planning could be undertaken by individuals and businesses with the assurance that a price stability could be forecast into the future. The cost of a long term investment could be measured in terms of actual on-going dollar expenses, without having to consider the impact of inflation on actual dollar returns on the investment and financing costs.

We have reached the unfortunate position where lenders and investors are not willing to provide funds for long term fixed asset investment at fixed rates of interest. As a result, lenders and depositors are requiring floating rates of interest to be applied to all types of loans and deposits. Businesses cannot project fixed asset investments, in terms of estimated units or production to be derived from such an investment, with the application of historic profit margins and cost factors. As a result, I find the businesses we deal with plan only for investments that promise a very quick repayment of invested dollars. Consequently, our industrial investment in plant and machinery has slowed down to the point where productivity gains are hard to develop.

Date: November 4, 1981
Title: GOLD AND THE NEED FOR DISCIPLINE IN MANAGING OUR MONEY SUPPLY
Submitted By: John V. Silcox, President; Bank of Hanover & Trust Co.

In summary, I feel that a return to the gold standard would be difficult - if not impossible - to impose on the American public. However, a failure to build some type of external discipline into our monetary affairs will eventually lead us to an economic collapse that may be even more intolerable.

I suggest the consideration of a modified gold standard such as that which has been recommended by the Council for a Competitive Economy. As I understand this proposal, it calls for a return to the issuance of gold coin that would be allowed to circulate as currency in the country. The proceeds of the sale of these coins by the Treasury would be used to pay off existing Treasury debt, and could not be used to finance current expenses of the government. In addition, the proposal calls for allowing other currencies to circulate in the country and be used at the discretion of the individual citizen. Under this plan a contract could call for a payment in dollars, gold, or any foreign currency that the parties entering a contract might agree to. Consequently, if the Federal government insisted on continuing its uncontrolled spending habits, the citizens themselves would be motivated to bring such spending policies under control by refusing to accept the currency of the government. Since other currencies would readily circulate, along with dollars, the burden of mismanagement would fall where it rightfully belongs - on the government.

I refer you to Mr. Joseph Cobb, economist for the Council for a Competitive Economy at 410 First Street, S.E., Washington, D.C. 20003 for a scholarly analysis of the plan I refer to above. While there do not appear to be any ideal solutions to the problems of deficit spending and inflation, there are alternatives. In my opinion, the plan that Mr. Cobb proposes seems to hold some merit.

Is a Gold Standard Workable?

By James E. Sinclair, General Partner
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The recent debate on the adoption of a gold standard has been tinged at times with more theological fervor than real understanding of the marketplace. Some advocates of the gold standard argue that nothing less than a return to gold convertibility can stem excessive growth of the money supply and bring down interest rates.

The idea of gold convertibility as a panacea is appealing in its simplicity. If the government undertakes to redeem all dollars in gold on demand at a pre-determined rate, it must automatically limit the creation of dollars to coincide with the amount of gold available in official reserves. Restrained in its ability to create new money, the government would have to confine its spending to available revenues or risk losing its gold. In the simpler era of the 19th and early 20th centuries, the gold standard functioned with a good deal of success, though perhaps with less success than legend accords it. It is not a device readily adaptable to the far more complex economic world of the late 20th century.

Today, gold is less a commodity and medium of exchange than a barometer of world anxieties. Under pressure of news communicated with the speed of light, traders can instantly bid up the price of gold or sell it down. Any number of events can drastically affect the state of the world's anxieties and thus the price of gold. Imagine for a moment the impact on the price of gold of some not-too-fanciful news developments: the overthrow of Saudi Arabia's House of Saud by a radical regine; the discovery that Libya or the Palestine Liberation Organization had gained possession of nuclear weapons; the threat or the reality of a major Soviet military incursion in Northern Africa. For the U.S. Treasury to maintain convertibility under those circumstances could be the monetary equivalent of activating a fuse to a nuclear device.

Convertibility works best in a stable climate, a condition in which price and demand are so finely tuned that conversion is an unused option. Ideally, convertibility serves as a form of discipline upon the nation's money managers, not as an option likely to be exercised by holders of dollars or gold. In today's world, the risk is high that convertibility would lead frequently to conversion. In those circumstances, the Treasury might be caught between depleting its gold supply and closing the gold window. Those were just the choices that faced the Nixon Administration in August, 1971, and its decision was inescapable. It ended convertibility and with it Washington's last direct commitment to the gold standard.

Those familiar with day-to-day operation of the markets have noted a shift in the markets' reaction to events and expectations. As recently as the early 1960's, economists assumed that interest rates were a function of money supply, that a rapidly expanding money stock would be translated into readily available money and low interest rates. But in recent years, the relationship between the money supply and interest rates has become more complex and less predicatable, more responsive to psychology and expectations, less to fundamentals. A forecast by a respected observer such as Dr. Henry Kaufman of Salomon Brothers can instantly affect markets.

By the volume theory of money, if money supply is increasing at an accelerating rate, this fact has greater impact upon interest rates than a supply growth of the same scope but on a decelerating rate of change. In a market susceptible to arcane influences, it could be dangerous to introduce yet another experimental approach, even one tested, as the gold standard was tested, over many decades. There is risk that the application of an automatic rather than judgmental brake on the money supply could produce a real shrinkage and even a truly dangerous disinflation of the type that plunged the U.S. into the Great Depression.

It is argued that gold-backed government securities could be sold at far lower interest rates than conventional Government bonds, and that this device could save the Treasury large sums in interest charges. The theory merits examination.

If a lender could be assured that his capital, guaranteed in the form of gold, would retain its purchasing power for the life of a bond, the lender could afford to accept a nominal rate of interest. However, recent issues of bonds backed by bullion--silver in the U.S., gold in Europe--have been received warily by lenders. Whether the U.S. government could market enough gold-backed low-interest bonds to meet its borrowing needs is an open question.

If the Government floated a substantial issue of bonds secured by gold and returning only a low coupon rate, what would happen? By some projections, these bonds would be readily absorbed. My view is that they would gain wide acceptance only if the buyers anticipated an ongoing rise in the price of gold, or in other words, continuing inflation.

Assuming for the moment that these new gold-backed bonds proved to be popular, how would this affect the value of other outstanding Treasury issues, those not backed by gold? Why would anyone buy a bond backed only by the faith and credit of the United States Government if gold-backed bonds were available? There is no distinction in the marketplace between old securities and new securities, old interest and new interest, so the popularity of gold-backed bonds could only have a negative effect on the great body of outstanding Treasury securities, depressing prices and inflating yields.

Fiscal and monetary policy must be corrected through adherence to disciplines, and in my opinion, along something close to the lines of present Administration policy. The gold standard is not a substitute for fiscal and monetary discipline. Perhaps after discipline has been established and goals realized, some form of gold standard might successfully be employed to hold gains already won. As a gold analyst with 21 years' seasoning in the markets, I see the gold standard not as a workable tool to achieve monetary discipline but just possibly as a device to maintain discipline and stability once those conditions were established.

Issues Before the Gold Commission

Submitted by:

Robert Solomon

The Brookings Institution

November 12, 1981

1. What would be gained from giving gold a more important official role? Some believe that a monetary rule that the Federal Reserve had to follow would limit money growth and put an end to inflation. This would eliminate all Federal Reserve discretion and eliminate counter-cyclical monetary policy. Others favor a gold-convertible dollar so as to assure that the supply of money is determined by the demand for money. This approach is flawed because it fails to distinguish "money to hold" from "money to use" and could worsen inflation. None of the gold-linked proposals address the fundamental inflation problem of the United States, which is an interaction of wages and prices.

2. What would a move toward gold do to the exchange rate system? Most proposals for a return to gold do not address this question. It is important to avoid pushing the world back to the strait-jacket of fixed exchange rates.

3. What would be done about the price of gold? An attempt to peg the market price of gold could cause monetary policy to be destabilizing. A free market price would not satsify those who are seeking the discipline of gold. This poses a dilemma for advocates of a return to gold.

4. What sort of international convertibility would be established and what are its implications? The dangers of destabilizing purchases (or sales) of gold from (or to) the United States are real, as discussed under 3 above.

5. What should the United States do with its gold? This is not a pressing problem. Our gold stock is part of the national patrimony, along with many non-monetary assets. There may be occassions to use the gold in the future but we are not forced to decide to do something with our gold assets just because they exist.

Sound Dollar Committee S.M.

P.O. Box 226 Fort Lee, N.J. 07024
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STATEMENT TO GOLD COMMISSION

TRANSITION PERIOD - Irredeemable Paper to Specie-Backed Currency.

Submitted by: Richard L. Sólyom, Chairman; February 6, 1982.

It is inevitable that sooner or later the United States will return to a specie-backed currency. The following statement concerns the transition period from our present irredeemable paper to a new specie-backed currency.

Court action (Law No. 56,182) to test Constitutionality of irredeemable paper is underway in Montgomery Co. Maryland. The appeal process for a new trial began on January 14, 1982.

The result of a favorable court decision will be, not a great upheaval, but simply that the States will have had taken away from them a priviledge they now <u>think</u> they have . . . the practice of extinguishing their debts with irredeemable Federal Reserve notes. Furthermore, a transition period will be provided automatically. It will set the stage for the following scenario:

AT THAT POINT IN TIME

1. Federal Reserve notes will continue to circulate but their use by the States will have been prohibited.
2. This will force the Congress to reassume its constitutional obligation & prerogative of coining money and regulating the value thereof
3. A bill will be passed creating a new specie-backed currency; interest free and fully redeemable.
4. The Congress will instruct the U.S. Treasury (not the Federal Reserve banks) to issue this new money.
5. This new currency will NOT be issued directly to the public by the U.S. Treasury.
6. The new currency will be issued by the U.S. Treasury to the 50 State Treasurers in exchange for "X" number of Federal Reserve notes, say .. one for twenty greenbacks.
7. The State Treasurers will use this new currency to extinguish their States' debts in compliance with Article I; Section 10 of U.S. Constitution which says: "No State shall ... emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; . ."
8. Then, two currencies will be circulating simultaneously, irredeemable Federal Reserve notes and the new specie-backed currency. Similar situations have existed in the past in this country. Citizens will then make their "preferred choice" and one or the other will dominate.

(Continued)

Sound Dollar Committee, pg. 2.

9. This scheme will introduce a new specie-backed currency into the monetary blood-stream with least disruption to industry, banking and commerce. It will, at the same time, sop up much of the debt-ridden paper money now causing ruinous inflation.

A National storm is brewing over this issue. A return to an honest monetary system is inevitable, the sooner the better.

Respectfully submitted,
R. L. Solyom
Richard L. Solyom
Chairman

Summary of Court Case:

A MAJOR CONSTITUTIONAL CHALLENGE

The Founding Fathers, when framing the Constitution, were fully aware of the dangers of paper money. Hence, Article I; Section 10 reads: "No State shall . . emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; . ." In spite of this explicit language, our government, since 1968, has been printing paper dollars without gold or silver backing. The inevitable consequence is uncontrollable inflation.

Though the "money question" has been raised by innumerable tax resisters and others, to date the government has always been able to sidetrack the issue and avoid defending its position. Now, however, comes Richard L. Solyom of Fort Lee; N.J. with a direct challenge to the value of the paper dollar. He is demanding payment in gold and silver coin from the State of Maryland as compensation for land taken from him by the Maryland-National Capital Park & Planning Commission under eminent domain laws. The outcome of his case may well decide whether or not the Constitution is still the Supreme Law of the Land.

Solyom is prepared to accept whatever amount a jury may decide is "just compensation" but claims that if he accepts paper money offered by the Park Commission, it will place the State of Maryland in direct violation of Art.I; Sec. 10 of the U.S. Constitution. Therefore he must refuse the paper money.

His landmark case was heard in the Circuit Court for Montgomery Co. Maryland on December 1, 1981. A preclusion order, issued by the presiding judge, prevented the money issue from being presented to the jury.

The case has been appealed and ultimately may land in the U.S. Supreme Court. The language of the Constitution is explicit and it is difficult to imagine a Supreme Court decision adverse to Solyom. A favorable decision by the Supreme Court will mean that Federal Reserve notes can no longer be used by the states to extinguish their debts. Such a decision will help guide the Federal government back to a specie-backed currency.

GOLD PAPER - CURRENCY FOR FUTURE

Submitted by
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8th June,1981

Inflation has become a way of life in free world economy. The expansion of money in terms of production of commodities causes changes in value of money. Sensitive as it is to continuous changing factors, economic, political, and social; the confidence in money is subject to changes and therefore shelter against falling money value in terms of commodities is being sought after by investment in fixed assets like property, land and/or commodities. With the limitation on supply of each of these shelters, the demand causes the rising price trend in all above assets, which in turn cause many social and economic problems like rising cost of production creating labour problems and unemployment. Thus inflation generates a cycle of events. Unless inflation generates a growth rate in the economy to communsurate with the fall in value of money caused by the rate of inflation the problem of inflation shelter remains. It is also met by investment into other assets. Such other investments which are sought after are gold, silver and diamonds and even other base metals. Value of silver, diamonds and base metals is subjected to the individual problems also. While gold is a distinctive asset from others, a new class of investors seek after gold. I am suggesting the introduction of paper currency or paper bond convertible in gold or gold value at a future date as an additional asset against inflation, as shelter and as a substitute to physical gold investment. Total currency in any country completely backed with gold or convertible into gold as per orthodex gold standard is an ideal situation not likely to reach in forseeable future, nor is it free from global problems.

The estimated total gold investment is 24.5 million ozs. in the year 1979. The total world production is 39.29 million ozs. in 1979. This works out to 62%. Though in 1980 investment ratio has gone down, still, it may work out to 45%. If only 25% of this demand is diverted to the paper gold, it will contribute to less pressure on physical gold.

Besides, gold reserves with Central Banks are about 1000 million ozs. If the investment in paper gold materialises to 5 million ozs. per year it would contribute to counteract inflationary pressure in the economy, and the gold of the Central Bank Reserve will find useful utilisation. This amounts to limited and restricted return to gold standard.

As I mentioned in my speech at Sixth Annual Conference of NMR at New Orleans in November,1979 that abrogation of gold clause in 1935 brought an end to automatic relationship between currency, gold and commodities. This was the beginning of the end of unequivable faith in paper currency. The introduction of paper gold is reversal of that trend. It may be only a first step in that direction.

I am restricting myself to a suggestion to issue of gold bonds by a centralised monetary authority or by Central Banks of individual country. Convertibility of gold bond into gold at a future date say 15 to 20 years is subjected with an option of either to give gold or value of gold into the local currency at the time of maturity. These bonds are to be sold across the counter of the Central Bank against (1) either surrender of physical gold or (2) against payment in local currency. In the instance of (1) the physical gold is surrendered against paper gold bearing a fixed interest and an option of delivery of physical gold in equivalent weight at the time of maturity or the value of so much weight of gold at a price prevailing at the time of maturity in local currency of such gold. (2) In second category, the option of delivery into physical gold to equivalent of weight of gold; or the value of weight of gold in local currency at the time of maturity; against issue of gold bond at a price determined in local currency. The bond may bear a fixed interest.

NOTE 1

GENESIS OF GOLD BOND

It is an issue of bonds against currency returnable in gold or gold value in currency at a future date.

Two types of gold bonds are suggested.

1. One is the issue against subscription in local currency. The Government may issue bonds at a price against local currency for so many ounces of gold to be returned in physical gold at the date of maturity. If by chance gold is not returned, it is to be paid in local currency at the price of physical gold prevalent at that time. It may vary on demand based on the price of physical gold. It is sold in units of ounces of gold, i.e. bond for one ounce of gold to be purchased against currency.

At the end of the maturity period the physical gold of one ounce is to be given or currency i.e. dollar to be given equivalent to the price of physical gold ruling at the time, for one ounce of gold.

2. Second type is when the gold bond is issued against surrender of physical gold to be given back in physical gold at the time of maturity. If physical gold cannot be returned it is to be paid back in currency of the country in which the bond is issued, at the price of physical gold ruling at the time.

Central Banks have Reserves in gold to the tune of $500,000 million at $500 per ozs. which performs no important part in the monetary systems. Some of such gold can be ear-marked against type number one of the gold bond.

It is estimated that about $30000 million in gold is in the hands of private individuals ($500 per oz) some of this may be diverted to second type of gold bond. These bonds must have all the qualifications of physical gold to some extent, besides, such bonds may offer advantages to investors by better interest rate,benefits in taxes and bearer conversion like gold. These suggestions require thorough and deeper scrutiny by the Monetary experts.

CONSTITUTIONAL CURRENCY

by Leslie Taylor, Equitor
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January 28, 1982.

The Constitutional currency with "regulated value thereof" has never been available to the citizens of the United States. Currency of regulated value is the answer to America's problem.

Until now, the meaning of the term, regulated value, has not been available to the people or their Congress. Neither the term currency, confused with money, nor the term value, have been understood, making it possible for the Congress to carry out the masterful provision for maximum production with full employment.

With the science of currency discovered, exposing the meaning of the term "regulate the value thereof" of money, there is no occasion to consider a return to the "fractional reserve" gold standard, the perfidy of which brought on the Federal Reserve Act.

Article 1, Section 8, Clause 5, is written in code. The code has been broken. Money means currency, and "regulate the value" of currency, means to establish The Unit of Value along with the units of weight, distance, volume, horsepower, speed, and temperature, etc.

The mystery about currency, and money, has been cleared up. The science of economics, as well as the science of currency, along with the science of finance and the equitable distribution of the cost of government service, which sciences eliminate usury-debt taxation, inflation-deflation, needless bankruptcy and unemployment, by leveling off the economy for equity-compensated production, are now off the drawing board, scientifically discovered and adequately defined.

The Unit of Value is now discovered and scientifically defined. Value, in the abstract, is: Production Unit Compensation Cost. The unit is The Unit of Value: The key to the solution of economic problems.

Economics has been brought to life and meaningful understanding as: Production for Compensation to Distribution for Consumption. The missing link has been Compensation, for labouring and capital. The emancipation of Labor, and, the emancipation of Capital, is found.

The purpose of the innovation of currency is for compensation. The Science of Equitable Exchange Compensation, is now discovered.

With knowledge of The Unit of Value the Congress is enabled to implement the provision of the Constitution for currency of regulated value and avail the citizens of a free enterprise wealth-economy.

It is universally known that the Federal Reserve System of debt-banking as legalized inflation-deflation, usury-debt taxation, is not only wrong, but is destroying the individual liberty of the citizens. There is no such thing as liberty without equitable compensation.

2. It is one thing to know what is wrong in our great country, but quite another thing to know what to do about it. We now know how.

We now know exactly how to replace the present currency system with the system which the now decoded Constitution provides for. Knowledge is now available for the Congress to perform a vast service for the people which they have always been entitled to.

A principle has been discovered which controls the economy and destiny of nations. The science of currency is the control. The Unit of Value is the secret of currency of regulated value which is required by the Constitution for Congress to provide. Until now, no Congress had the knowledge with which to implement the Compensation Currency provision of the U.S. Constitution. Hence the depredations of the original gold standard, which depredations were improved upon by the sly artifice and cunning of the Federal Reserve System of legalized inflation-deflation usury-debt taxation, and unbalanced budget, and national bankruptcy, shame and disgrace before the nations of the world, but with the deep delight of the leaders of Soviet Russia who may say: "Lenin told you so".

It was the gold standard that brought on the inflation-deflation of 1929-33 and enabled the Class A Stockholders of the Federal Reserve debt-banks to get gold demonitized in 1934, their arch objective. With their legalized fraud, they do not need any gold.

Let it be known: The currency of regulated value of the Constitution is specifically defined as: Price and Dollar, issued by the producing citizens, as dual documents of ownership of equity-value units of composite-posted exchange-wealth in Equity Trust Exchange Depots, as privately owned warehouses, for the purpose of delay-exchange processing to re-purchase and re-sale, as balanced compensation to holders of similiarly issued Certificates of Equity (price-dollars), effectuating equity-value units for equity-value units of exchange-wealth services.

The Comptroller of Equity and Currency operates this system for the Congress, as now mandated by the Constitution, with his Ex-Officio Managers in key positions. Through his Office, the Congress finances government service costs without a dime of debt or a penny of usury-interest, with a balanced budget, daily.

The Congress will exercise its option to repeal the Federal Reserve Act debt-banking non-value usury-interest currency system and institute the free-enterprise full-employment at full wages, full investment at maximum and uniform dividends, in a maximum-prosperity wealth-economy, free of all inflation-deflation usury-debt-taxation; the cost of government service being distributed by the Comptroller's system of Automation of Finance to the currency service, regardless of who is using the currency service at the end of each day. All present tax offices are no longed needed. The saving, and opportunity for error in these offices, is vast.

Briefly and respectfully submitted, Leslie Taylor, Equitor

Leslie Taylor, Equitor

FREE BANKING UNDER A LABOR STANDARD -- THE PERFECT MONETARY SYSTEM

Submitted by

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DEPARTMENT OF ECONOMICS
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JANUARY 8, 1982

No one to my knowledge has prescribed a financial system that would, at least within familiar economic paradigms, guarantee an automatic, simultaneous cure for all of our macroeconomic maladies (viz., inefficient fluctuations in employment, persistent and highly variable rates of inflation or deflation, and governmentally created, artificial scarcities of money). Economists seem to believe that such a system does not exist. However, there _is_ a financial system -- one with a labor standard and free banking -- that would, at least theoretically, simultaneously prevent all macroeconomic ills _regardless_ of the kinds of shocks that hit our economy and without _any_ reliance whatsoever on discretionary policy intervention.

The _only_ governmental responsibility in this financial system is to make the dollar freely convertible into an amount of gold, or noncurrency redemption asset that government finds most convenient, just enabling the redeemer to purchase a _predetermined_, _fixed_ _amount_ of labor in the free market.

So, theoretically speaking, a dollar will always buy a constant amount, say five minutes, of U.S. labor. This creates a stable and intertemporally constant wage level. To see this, suppose that the free market level of money wages were to increase, ceteris paribus. The amount of gold required to purchase a unit of labor would increase correspondingly. Since the public could then obtain more gold for a dollar from the government than they could from the free market, arbitrageurs would profit by turning dollars into the government for gold and then selling the gold in the free market. The resulting, automatic drain of dollars from the system would serve to depress money wages. The induced reduction in the free market's money price of gold would _not_ reduce the arbitrage profit because a lower gold price immediately increases the amount of gold required to purchase a unit of labor and therefore the amount of gold one can obtain from the government for a dollar; as the financial return to the gold purchase and resale decreases, its cost decreases by the same amount. The currency drain, therefore, continues until the money wage rate is restored to its original level.

In a world with many kinds of labor, our standard would stabilize the quantity-weighted average wage rate, e.g., the 30-million worker, B.L.S. monthly wage index, thereby giving an individual, for his dollar, an amount of gold just enabling him to purchase a representative set of labor services totalling a constant number of man-minutes of U.S. labor.

Since monthly wage index data are not available until well into the following month, a practical problem arises as to how to determine the relevant conversion prices. To solve this, the government should make its conversion payments assuming that the wage index will be at its theoretical value, but compensate all large converters ex post for subsequently observed increases in the index from its theoretical value and, of course, charge them for decreases in the subsequently observed index. Thus, the government would make its March conversion payments assuming that the average cost of five minutes of labor during March is $1.00; but if this average cost turns out to be, say $1.02, then all large converters would be due an extra 2% gold payment while if the index were, say, at $.97, the large converters would have to pay 3% more dollars to the government. Thus, if informed speculators thought, on balance, that the March wage index was going to be above $1.00, they would, on balance, convert dollars to gold, simultaneously sell the gold in the free market, and wait for their expected compensation from the government in the following month. The dollar drain created by this operation would depress the expected wage level until it reached unity. In this way we would always have an expected wage index, an expected dollar cost of five minutes of labor, of $1.00.

Another practical problem, a temporary one, is posed by the fact that existing contracts are geared toward about a 10% annual increase in money wages over the next few years. Allowing gradual decreases in the labor conversion rate for a few years, commencing at a 10% annual rate, before stabilizing it at, say, five minutes of U.S. labor for a dollar (i.e., to where the average wage level is $12 per hour) would preclude potentially very costly recontracting and at the same time substantially reduce the redistributional component of the increase in the value of existing long-term bonds. Alternatively, a new, recognizably distinct, labor-convertible dollar could be printed. This would not only allow existing contracts requiring the delivery of future dollars to be executed in the old, Fed-controlled, depreciating dollars and thereby permit an immediate move to an intertemporally constant wage level in terms of the new currency; it would also, by enabling the government to prohibit the Fed from transacting in new dollars, prevent the Fed from inadvisedly attempting to neutralize the efficient, labor-standard, currency flows between the Treasury and Public. After a while, once most old-dollar obligations have been fulfilled, and the new dollar has supplanted the old, the Fed could take over the Treasury's conversion operation, although this would presumably require an Act of Congress. Such an Act should also eliminate reserve requirements, bank interest rate regulations, rediscounting and open market operations as needless constraints on the free market's efficient, competitive provision of a currency-convertible medium of exchange. The intertemporally constant wage rate would insure the automatic absence of inefficient business-cylce unemployment and the removal of the artificial constraints on the banking system would assure a statically efficient, competitive banking system.

While inefficient fluctuations in employment would disappear under a labor-standard, they would be greatly exacerbated by returning to a simple gold standard because money wages and employment under a gold standard are altered by variations in the free market's relative price of labor in terms of gold and because the relative price of assets fixed in supply to the world has become highly unstable and should be expected to remain so over the foreseeable future. For the same reason, adopting the discipline of a commodity index standard would induce more severe employment swings than we've witnessed over the past decade. Moreover, unlike a gold standard, a labor standard would neither require international cooperation nor lay us open to foreign economic sabotage.

Finally, the resumptions of convertibility that would occur under a labor standard following wartime convertibility suspensions and inflations -- in sharp contrast to gold standard resumptions -- would create nothing like the gradually decreasing money wages and great depressions characteristic of our sordid past under the gold standard. Resumptions of convertibility under a labor standard would instead produce the immediate wage and price level adjustments characteristic of harmless currency reforms. The system would be depression-proof.

U.S. MONETARY SYSTEM 1981 VERSUS U.S. CONSTITUTION

Submitted by

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NOVEMBER 18, 1981

Thank you very much for your invitation to submit written testimony for consideration by the U. S. Gold Commission.

I have read the minutes of the second meeting of the Commission containing the comments by members of the Commission. None of them addressed the issue of CONSTITUTIONALITY regarding the laws under which the present U.S. monetary system operates. A brief look seems appropriate.

1) THE POWER TO COIN MONEY AND REGULATE ITS VALUE.

a) Article I., Section 8 of the Constitution of the United States (ConUSA hereafter for brevity) says:

"The Congress shall have Power...To coin Money (and to) regulate the Value thereof..."

b) ConUSA grants NO POWER WHATSOEVER for any branch of the U.S. Government to PRINT money or to create money in any manner whatsoever (electronically, by bookkeeping entry, by creation of bank checking account balances in exchange for promisory notes, by use of plastic credit cards) other than COINING IT.

2) COMPOSITION OF COINS.

a) Although ConUSA did not specify in Article I, Section 8 the composition of the coins which the Congress was empowered to "coin", ConUSA did indeed imply in Article I, Section 10 that such coins were to be composed exclusively of gold or silver. ("No State shall...coin Money (or) make any Thing but gold and silver Coin a Tender in Payment of Debts...")

b) It seems (to this writer, at least) that if ConUSA had authorized the national government to create non-specie money (a view widely held among Commission members in 1981), such non-specie money could not be used in the several states as "Tender in Payment of Debts" because of the prohibition in Article I, Section 10.

3) LEGAL TENDER LAWS.

a) Article I, Section 10 implies that states may make legal tender laws so long as such laws DO NOT "make any Thing but gold and silver Coin a Tender in Payment of Debts."

b) ConUSA makes NO grant of power to the Congress to enact any legal tender laws. The powers granted to the Congress by ConUSA are carefully enumerated in Article I, Section 8. They do NOT include any mention of legal tender. Therefore such powers are DENIED to the Congress. (Bill of Rights: Article X: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.")

c) I am aware of the decision of the United States Supreme Court in the "Legal Tender Case" (Juilliard v. Greenman, N.Y. 1884, 4 S. Ct. 122, 110 U. S. 446, 28 Law. Ed. 204.) The Court said: "The several states are prohibited from making anything but gold and silver coin a tender in payment of debts, but no intention can be inferred from this (underscoring by WIVB) to deny to Congress this power." The denial of this power to the Congress is to be found in Bill of Rights, Article X and by the absence of such grant of power in Article I, Section 8 and in all other sections of ConUSA. This court decision and its aftermath only prove that the Judiciary Branch has been a party to the debauchery of the U.S. monetary system.

Re: TERMINATION OF ONGOING "GOLD PRICE MANIPULATOR'S INFLATION"

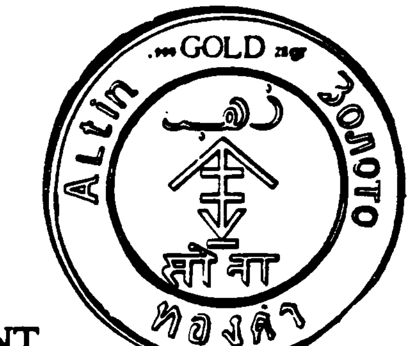
Submitted by;

New York Gold and Silver Futures Exchange
American Gold and Silver Merchants Assoc.
42 W. 35th Street NYC 10001 * tel: 736 0638

to strengthen

CONSTITUTIONALLY CONSTITUTED GOVERNMENT

Its Officers Its Workers Its Citizens



proposed gold
Executive piece

Shortly after governmental restraints on gold trading were removed in 1968 the founder and members of the above Exchange and Association innovated and conducted a new, dynamic, gigantic, vitally needed futures contract market in untraded, unlisted, neglected commodities (gold, silver, plywood, rubber, steel, chemicals, minerals, etc.) exempt from futures trading regulations by the United States Code in effect when such new markets were commenced.

These new markets, founded on Common Law Trusts In Aid of Government, were singularly and exclusively created to advance the United States of America, its peoples, its societies, its commerce and its government with (1): a vast, new, dynamic field of industry capable of fully employing its commerce and society for hundreds of years (2): funds, in the form of a 1% Exempt Commodity Futures Contract Trading Exaction, sufficient to operate its governments with little or no need for taxation in any social or political climate and (3): propagation of the benefits of benign encylic discoveries improving National health, education, transportation, agriculture and housing. (See records on file with U. S. Gold Commission).

After surplus investment capital rallied "en masse" to the above innovate Exempt Commodity Futures Contract Market the worried officers of the securities industry and the regulated commodity markets caused a United States Department of Agriculture Committee Meeting on "Trading in Puts and Calls in Non-Regulated Commodities" convened on February 14th 1973 wherein they complained of the new Exempt Commodity Futures Contract Markets success and, wherein it was suggested that Clearing Houses, Exchanges, Advisorial Services and Associations appropriate to the new market be formed and established in the Law.

In March, November and December of 1973 the instruments of title to a "financial business system" of Exchanges, Clearing Houses, Advisorial Services and Associations for trading Exempt Commodity Futures Contracts were filed with the Division of Corporation for the State of New York by the founder of the above New York Gold and Silver Futures Exchange. Said system stock is 70% federally owned.

A "Code of Trading Exempt Commodity Futures Contracts" was prepared, effectuated and mailed (registered mail) to the administrative officers of all three branches of constitutionally constituted government. Such Code conferred remunerative regulatory agency over all Exempt Commodity Futures Exchanges upon the United States Department of Agriculture and the United States Department of Justice and, directed that the securities and bond industries be permanently strengthened with a proviso that all proceeds of all Exempt Commodity Futures Contract Trading be invested in stocks, bonds and securities of the United States of America while awaiting distribution to beneficiaries named on page 27 of the January 10 edition of the New York Law Journal. (Public Notice of "Trust Funding Government).

The Supreme Court of the State of New York, the United States District Court, Southern District of New York and the United States Circuit Court of Appeals for the Second Circuit have and continue to recognize the above Exempt Commodity Futures Trading Industries standing to maintain actions at law against all avariciously demented entities entering the field to inflate world economy my manipulating gold prices to their profit. The leading culprit in the field refuses to answer an order of the New York State Supreme Court directing it to show cause why it should not be permanently restrained from selling Exempt Commodity Futures Contracts. We will seek orders against this last remaining entity from the United States Courts.

Before March 31st 1982 the above Exchange will have perfected three .999 gold medallions of differing weights commencing the practice of honoring thereon the three branches of constitutionally constituted government, and will have put them out to market through advertisements quoting their price under a $35 an ounce gold standard recall.

Directly after gold controls were removed in 1968 the above founder immediately established, in law and commerce, a managing and controlling authority (NYG&SF Exchange & Association above), over gold and silver trading and embarked upon a ten year struggle in the courts to stay the inevitable inflationary tide issuing from ill-advised removal of gold pricing controls. The decisive day for the commencement of de-flation occurred when a brave worker, David Bay: 120 E. 30 Street, NYC placed an unauthorized ad in the 1/2/80 and 1/4/80 editions of the N.Y. Times announcing the price of gold substantially below the "runaway market price". Such ad spared this Nation grievous harm and singly began a world decline in currency and commodity prices which has not abated.

The fundamental premise of a lasting, economically healthy Nation should be a prohibition (Executive, Judicial or Legislative) against private hands holding the mechanism which determines currency prices, i.e. "gold"

STEPS CLEARING AWAY INFLATIONARY DEBRIS

1. Honor our brave judiciary who uncomplainingly bore the overwhelming burdens of a now receding, near fatal, inflationary holocaust.
2. Confront State Department civil rights attorneys motives for deluding our Courts that racial discrimination exists in America.
3. Examine America's moral rights to force two traditional (Arab & Jew) adversaries to live together in unmitigated bloodshed.
4. Continue objections against annexation of Afganistan and Golan.
5. Recall "gold standard" of $35 an ounce allowing private ownership.

We endorse and recommend that Taylor Industries Inc. (NYS) and the above membership continue as the salaried minter and marketing agents for coined bullion sales with all profits directed to the U.S. Treasury.

signed 2/17/82 NYC John Van Hoore
Pres; NYG&SFE AG&SMA

GRAMDOR: A Proposal to Establish a Resilient Gold Currency

Submitted by
Herbert P. Von der Porten
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18 January 1982

The volume of money, the national debt, the offshore dollar obligations of the United States prohibit the convertibility of the dollar into gold at any sensible price. As all currencies in the Free World are based on dollar reserves, they, too, are inconvertible. This is the first time in 3000 years that there exists no genuine exchange money standard in the world.

The gold held by national treasuries performs no useful function; the gold hoarded by individuals is also withheld from the economic stream. The IMF, charged with regulating exchanges, can not cope with the flood of printing press monies. No supranational authority could do that. National agencies must govern.

A flexible gold currency could be established by the USA and the leading nations of the Free World. They should form a Monetary Union. Gold coins uniform in denomination, size, weight, and fineness would provide gold money that would circulate freely throughout the Free World. The troy ounce is too unwieldy a unit. The gram is proposed instead, and the new currency might be called Gramdor (gram d'or) with mils as subsidiary units. The Gramdor, an auxiliary currency of global validity, would not replace the local currencies as legal tender in the member nations.

Gramdors could be put into circulation without reducing monetary gold stocks. One troy ounce equals 31.103481 gram. The treasuries should offer to pay Ø31 for each troy ounce of gold. The fraction of 0.103481 g would constitute seignorage.

The relationship of Gramdors to the several national currencies would be established by the countries' paying local currencies for gold (and Gramdors) and selling Gramdors for local money.. By infusing gold money into the economic mainstreams, we would give gold a functional value, greatly enhancing its value. The initial price might well be set at \$700/oz. = \$22.50 per Ø. At this rate, our gold is worth about \$185 billion. Currency in circulation is about \$137 billion. The gold would thus constitute a 135% "cover", a very ample proportion by historic standards. Our debts make this desirable.

The envisaged Gramdor Union members would own close to one billion ounces of gold at the start. This hard money core would be worth \$700 billion. Tenders of hoarded gold might well swell this to gold worth a trillion dollars, free gold in treasuries.

All member nations would adhere to Gramdor Union principles, but each nation would be free to set its own initial price and ratios, as shown below.

The American announcement might say:

"The Treasury will pay $22.50 for one gram of gold in bullion form and certain gold medallions (Maple Leaf, e.g.) It will sell Gramdors at a premium of 1%, i.e. at $22.725 each. Gold pieces are available, ₲20, ₲10, and ₲5. Notes covered fully by gold held in escrow will also be issued, as will subsidiary coins, mils.

"There is no limit to the amount of gold accepted by the Treasury for exchange into Gramdors or dollars at the posted bid rate. <u>The amount of Gramdors the public can buy in any one week is limited to 1/10th of 1% of the Treasury's free gold stock.</u>

"The posted prices will hold good as long as our free gold stock covers between 100% and 150% of dollar bank notes in circulation. When the gold stock exceeds 150% of money in circulation the Treasury will lower its prices for gold and Gramdors by 0.1% each week until the ratio is down to 150% again.

"Should the cover fall below 100%, we will raise the rates by 0.1% a week until the 100% cover is restored. Should the cover drop below 70% of money in circulation, then the sale of Gramdors will be suspended and the buying rate will be raised by <u>0.2%</u> each week until the 70% cover is restored. Thereafter, sales <u>will</u> be resumed and the rates will be raised by 0.1% a week until the 100% mark has again been reached."

In the U.S.A. the four stages will thus be:

<u>Ample:</u>	Cover over 150%.	Buying and selling prices lowered weekly by 0.1%.
<u>Good:</u>	Cover 100 to 150%.	Prices and sales steady.
<u>Tight:</u>	Cover below 100%.	Prices raised by 0.1% weekly. Sales go on.
<u>Thin:</u>	Cover below 70%.	Purchase price for gold raised by 0.2% each week until 70% cover has been re-established. <u>Sale of Gramdors suspended until then.</u>

Other member nations may set different ratios, each according to its capacities, but the principle of unlimited purchases and limited sales and that of adjusting prices as the situations become ample, good, tight, or thin must prevail. Adherence to these methods is the cornerstone of the Gramdor system.

As one nation raises its gold price, another holds it steady, and a third lowers it in terms of its respective local currency, the exchange rates will be adjusted in an orderly manner, multilaterally. Global flexibility and resiliency are thus assured.

The free gold markets should be permitted to continue to function. They would be instrumental in channeling newly-mined gold into the Gramdor System. The 25,000,000 ounces a year would add about four percent to existing gold stocks. If only half of the newly-mined gold were to flow into the Gramdor treasuries, the monetary gold stocks would keep pace with expanding economies.

The above is a brief summary of a comprehensive plan to restore gold money to the commerce in the Free World.

HPVdP

FIRST THINGS FIRST IN THE MANAGED-MONEY GOLD-MONEY DEBATE

submitted by
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Philosopher John Dewey offered this sage observation: "[T]here is a need that comes before that of solution. That is the need for getting a reasonably clear sense of what the problems are that have to be met.... For in the technological and the medical arts, we have learned that to plunge into action before we have located what is the matter is the way to make things worse than they were before." He was talking about philosophical problems, but his remarks apply with equal validity to today's monetary problems.

The variety of views about solutions to today's monetary misery attests to the poor understanding there is of the monetary problem in its full context. Instead of attempting to define <u>the</u> appropriate role for gold by the end of its tenure, the Gold Commission might best serve the Nation by providing a clear description of the problem in its many and complex aspects. To expect specific solutions at this time in the inquiry is most unreasonable when it is remembered the relative virtues of gold money and managed fiat money have been debated in various forms for 200 years (at least back to the Bullionist controversy in the early 1800's).

For there to be a reasonable chance that a sound monetary course will be taken in the future, the proponents of paper money and gold money must settle some critical issues. The most basic of them are:

1. What is reasonable to expect of a well-functioning money-credit system? The sorry record of money management during the past few decades has the advocates of managed fiat money on the defensive. But advocates of managed money assert that the gold standard is not the answer to the problem. They point to the record of U.S. experience with the gold standard in the late 1800's and say that it did not prevent domestic short-run price fluctuations or insulate the U.S. economy from disruptive international events. So it did not, but are those achievements to expect of a monetary system?

It is arguable that broad price fluctuations are inevitable and necessary over brief spans. Consider the massive adjustments necessitated by the marked rise in energy prices initiated by OPEC in 1973. Even if there were no monetary excesses, price indexes would have to have risen for a time, until prices of nonenergy goods had been reduced for lack of demand. By such processes, an economy's real resources are re-allocated to reflect new economic trade-offs.

As for international repercussions, one thing that has become plain during the past decade is that fluctuating exchange rates do not adequately insulate an economy from international events. To think otherwise was naive, since prices, supply, and demand affect each other simultaneously and in a world context. Floating became "dirty" because clean floats had consequences for domestic prices, output, and merchandise and capital flows - consequences that were judged politically unacceptable and therefore were moderated by foreign-exchange intervention and capital controls. In an open world economy, economic decisions and conditions in one country inevitably impact on those in other countries - regardless of the monetary system. And they must, if worldwide resources are to be re-allocated in accordance with new, ever-changing worldwide trade-off possibilities.

2. In today's world of impressive financial sophistication, can a fiat money supply be controlled at all? Many monetarists now admit that former official money managers are responsible to a large extent for the current monetary problems, but they say that the outcome could be better in the future if the new managers apply appropriate operating targets and have enough determination to resist political pressure to abandon them. We shall concede that repeated earlier failures of paper money management in this country and others at many times in the past are not incontestable proof that official managers will fail again, but the historical record justifies great skepticism. In turn, warranted skepticism affects savings, investment and price and wage decisions in ways that might make the doubt self-fulfilling.

Today there is a more crucial doubt. Even if money managers were to control the reserve aggregates as deemed necessary by paper money proponents, would such control restrain growth of actual transactions money - not merely the reported monetary aggregates? With today's fiat dollar and continually developing new payments mechanisms, the amount of transactions money supportable by any given reserve base (the "money multiplier") may be nearly limitless. Each time the monetary authority brings under its control a recently developed transaction account, the private sector ingeniously creates another outside official domain.

Managers of huge financial organizations (there now is little by which to differentiate banks and nonbanks) can extend fiat dollar credits without apparent limits, secure in the knowledge that they will be able to offset their fiat-dollar liabilities with fiat-dollar claims against other huge institutions engaging in the same practice. And if by chance one of these finds itself short of dollar credit to meet an immediate liability, they can be confident that official fiat-dollar credit will be provided to bail them out, so that the financial house of cards will not collapse.

The expansion of a fiat money system is ultimately limited, of course. It is limited by the option of the public to refuse to produce and trade their goods for the fiat currency and to refuse to save and invest in currency denominated financial claims. These conditions are called "flights from currency" or "money panics," and are accompanied by depression, since economic transactions fall drastically in a barter economy. A monetary system that would check developing excesses far before this chaotic outcome becomes a worrisome possibility would seem most desirable. Today's system of paper money provides no such check. A gold system would.

3. Are the consequences of short-term banking and credit "panics" only undesirable ones? Gold convertibility provides the users of money with a means to restrain early any developing excesses originating with the issuers of money. This induces early correction of incipient economic distortions fostered by the credit excesses. A credit-based market economy may well have a potential for cyclical excesses, regardless of the monetary unit. Anyone with a service or product to offer can extend credit in the process of selling his wares. Such nonbank credit can generate business optimism and initiate a cyclical uptrend. As a practical matter, however, nonbank credit could not support an over-exapnsion for long because of the limited acceptability of nonbank IOUs. Bank IOUs are different; they are widely accepted as a means of final payment - they are money. Bank credit growth can extend expansions into speculative "booms."

If such booms are cut short by banking "panics" initiated when money users present the banks' IOUs for redemption in gold and the banks cannot pay as they promise, should the associated recession be attributed to use of the gold standard or abuse in the form of unsound credit practices? Should the downward phases of prices and business activity be viewed as needless losses of output or as necessary corrections of prior distortions? It seems that unless one is ready to expect perfection in economic decision making, one must concede that an economy may have expansionary excesses that must be corrected during contractionary phases. Seen in this light, perhaps abuse of sound credit practice should be blamed for the banking panics of the late 1800's, not use of the gold standard.

4. Which money-credit system has the better self-correcting mechanism? If errors are inevitable, the monetary system that provides the better self-correcting tendency would seem more desirable. A true gold standard (not a gold-exchange standard) is such a system. A managed, fiat money sustem is not. Indeed, the history pf paper-money managers - acting under the duress of government - is to "validate" developing distortions in order to prevent recessions, or to cut them short, and thereby to enhance the popularity of those in political power. Corrections of developing distortions thus are repeatedly prevented until malinvestments become so severe that the system collapses.

A gold-based money-credit system is managed decentrally be market participants. It compels money issuers (bankers) to learn quickly from their past mistakes or it forces them out of business through bankruptcy. When a bank's demand liabilities are redeemable in gold - which neither bankers nor politicians can create - total demand liabilities are limited by the stock of gold on hand (not necessarily dollar for dollar). Through the process of trial and error, bankers learned by late in the last century that some types of loans (assets) were more adequate collateral for ensuring their ability to meet their gold obligations than other types of assets. The more useful assets were loans to finance the marketing of a product, the near-term expected sale of which would provide either the funds for repayment or, if the sales did not occur at the price expected, a quick lesson to the banker that he misjudged economic conditions related to the loan and had better adjust his lending practices to reflect actual conditions. Economic coordination and money management thus occurred at the most dispersed, micro-economic level, and the risks were borne by those making the decisions. The banks' practice of limiting asset monetization to these "self-liquidating" loans was called the "commercial loan theory" of banking, or the "real bills doctrine." The real bills doctrine must be a part of a resurrected gold standard in order for that standard to be workable. Sound banking and a gold monetary unit together tend to keep bankers from creating excess money or to correct quickly any incipient excesses. Not just any tie between gold and the dollar would prove to be beneficial to the economy. Many forms of the "gold standard" almost surely would fail. Probably only one form would succeed.

To do nothing now about the possibility of restoring gold, however, would be to continue totally subjecting the economy to the risks of fiat money. Inaction in this instance could be dangerous in the event deep doubts about the dollar reappear and create the possibility of an imminent flight out of the paper dollar. One course of potential usefulness that has limited risk would be to demonopolize Government's power over the monetary unit, or in Friedrich Hayek's language, "to denationalize money." Decentralized experimentation with various types of private monetary units and banking practices in the market would not require Government to give up its control of paper money, such as it is. Yet, denationalization would offer the opportunity for more useful money to re-evolve before utter chaos develops. One way or another, market participants ultimately will decide what is used as money - not economists, bankers, or politicians. Why not put the market to work before all else fails and the money-credit system must be rebuilt from ashes?

IF POSSIBLE, AT LEAST BE HONEST ABOUT FIAT CREDIT SYSTEMS EXCLUDING GOLD VERSUS NON-FIAT SYSTEMS INCORPORATING GOLD BACKING

Submitted to Gold Commission by
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In response to your October 22, 1981 invitation for written views on matters being considered by the Gold Commission, please accept the following brief summary. Since 1970, I have strongly advised a cornerstone investment position in gold and gold related assets as a hedge against the inevitability of hyperinflation and/or deflation due to the emergence of a dollar fiat credit system versus a dollar credit system incorporating gold convertibility.

Throughout history efforts to debate gold and fiat paper have been primarily political ego trips _if_, a critical if, discussions failed to begin with a distinction being made between money and credit. Without this distinction, there is no science to the issue, only political emotions. Sound money has always been an unencumbered asset and credit an encumbered asset. When the basic distinction between money versus credit is overlooked, all the key issues of historical financial collapses and human suffering are overlooked. And never in all history has there been a purely credit system without gold convertibility which did not, in time, end in collapse and suffering. This is not to say gold backing is perfect. Periods of difficulty should be openly accepted for gold convertibility on the basis of there being no perfect system. But gold convertible systems have been less imperfect than fiat credit systems which are guaranteed to collapse in time not only because the record of all history proves it so but also because common sense provides simple reasons why it is so.

In sum, most of the issues so far made public by the Commission reflect individual "political" viewpoints and fail to address the unbiased fact of the absolute inevitability of disharmony and human suffering under fiat paper systems with no gold convertibility. As the U.S. dollar is now in this historically untenuous position, it is absolutely certain that dollar credit will collapse at some point unless the Commission can come up with one reason why this time there is any difference from every single case before it in history. There is at least a chance to avoid instability and suffering with gold. There is no such chance with exclusively fiat encumbered credit.

The evidence of history is thus clearcut. Fiat systems involve exclusive issuance of encumbered assets -- currency and credit. Common sense of even below average mortals involves a simple "knowing" that too great an issuance of anything which is encumbered will result in time with default. It is as certain as the law of gravity. Thus, if the Commission rejects a gold backed system, it is guaranteeing that dollar credit will eventually collapse no matter what happens. It is only a matter of time. That, it seems, should at least be acknowledged in any rejection of a gold backed system.

Weintraub Gold Certificate Plan

My plan is responsive to the Commission's charge "to make recommendations...concerning the role of gold in our domestic and international monetary system." It uses gold as the discipline to put a lid on money growth. This would prevent persistent inflation such as has affected the U.S. economy since 1968.

The limitation on M1B growth is enforced by tying the maximum allowable growth of currency in every 12-month period to the increase that period in the value of the Federal Reserve's gold certificates. The value of the Fed's gold certificate account depends strategically on the <u>official</u> price of gold. That price was last set in 1973 at $42.22 an ounce. Under my proposal, it would be allowed to increase percentagewise each period by enough (1) to offset a predetermined increase in the certificate requirement, which starts (1981 departure) at 9 percent, plus (2) the maximum desired growth in what will be called M1 beginning in 1982, plus (3) an adjustment for changes in the checking deposits to currency ratio.

1. <u>The predetermined increase in the certificate requirement</u>. A 33 percent yearly increase in the certificate requirement, as from 9 to 12 percent, 12 to 16 percent, etc., is recommended. The major purpose of this increase is to raise the official price of gold to the market price in about eight years. Capital gains accruing to the Treasury from raising the price would be used to retire Federal Reserve held Treasury debt, leaving the monetary base unchanged by the action.

2. <u>Maximum desired M1 growth</u>. Assuming for the moment that there is no change in the checking deposits to currency ratio, the official price of gold would be programmed to rise each year (beginning in 1982) by this amount plus the maximum desired growth in M1. In this latter regard, given the events of this year, 4 percent seems appropriate for 1982 and 3 percent for 1983 and subsequent years.

3. <u>Adjusting for changes in the checking deposits to currency ratio</u>. If the checking deposits to currency ratio changes, an automatic adjustment is made to permit reaching, but not exceeding maximum desired M1 growth. In essence, the price of gold is increased faster than the programmed increase in the certificate requirement plus the limit on M1 growth, if the public prefers to hold more exchange media in the form of currency, but would rise more slowly if there is an increase in the checking deposits to currency ratio. The adjustment formulas are spelled out in my written and oral submissions to theCommission.

With the adjustment, my plan is flexible enough to allow the public to hold any fraction of its total exchange media in the form of currency that it wants. My proposal will in no way prevent the Federal Reserve from meeting all demands for liquidity and from carrying out its responsibility to "furnish an elastic currency."

My plan allows for coinage of gold by Treasury as suggested by Commission members, Dr. Paul and Mr. Costamanga. Exactly how is detailed in an appendix to my oral testimony. However, my plan does not require or in any way provide for Treasury sales of gold at a fixed price. It does make it easier to consider this question at some future time by raising the official price of gold every year. In time, the official price will equal the market price.

Finally, the Commission can recommend a different timetable for increasing the official price of gold if desired without affecting money growth simply by changing the size of the programmed yearly increase in the gold certificate ratio, now 33 percent. And, of course, the Commission also can recommend that Congress authorize lower or higher maximum M1 growth than 4 percent in 1982 and 3 percent in later years. Indeed, the level of the lid should be reviewed from time to time.

MONETARY STABILITY AND GOLD

Submitted by
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November 13, 1981

The central issue facing the Commission is that of determining whether any of the various proposals for restoring a monetary role to gold can be expected to enhance rather than to undermine monetary stability. The classical gold standard creates a financial incentive to supplement costly commodity money with cheap credit money as long as the convertibility of the currency looks secure, but the currency at times falls under suspicion, whereupon a run into gold occurs, producing monetary contraction and banking crises. In a rather similar way, the Bretton Woods system subjected the world stock of international reserves to capricious variation as a result of shocks to the private demand for and supply of gold. The proposal to make the dollar convertible into gold at a fixed price, while maintaining a floating exchange rate between the dollar and the other major currencies, would tend to add to the variability of the dollar's exchange rate, because shifts between non-dollar currencies and gold would have much more impact than they now do on the foreign currency value of the dollar. All of these proposals present a clear threat to monetary stability.

The proposal of Robert E. Weintraub to restore the gold certificate reserve with a variable gold price designed to restrict the note issue within certain limits is, in economic substance, a proposal to pre-specify a ceiling for a particular monetary aggregate; the role of gold is purely cosmetic. The idea of minting gold coins and selling them against Federal Reserve notes at the market price of gold would not lead to any extensive use of those gold coins as a medium of exchange, and is monetarily irrelevant. Restoration of the international usability of gold reserves in transactions with foreign central banks would require an agreement among the leading central banks to accept gold at a market-related price; whether or not the gold price were stabilized by intervention, such an agreement would expose the value of international reserves to capricious variation. Examination of the various proposals before the Commission therefore suggests that re-establishment of a monetary role for gold would be at best irrelevant and at worst a dangerous threat to monetary stability.

If gold is not to have any future monetary role, it will be necessary to decide what to do with the Treasury's stock of monetarily-redundant gold. The logical complement to a recommendation against any future monetary role for gold is to sell the bulk of the stock, in a manner designed to maximize the present value to the US taxpayer. However, other considerations are relevant in determining the disposition of the gold formerly contributed to the International Monetary Fund by the United States: in particular, the commitments made by US statesmen and officials in the 1960s suggest that there is a case in equity for using the remainder of the Fund's gold in the same way as one sixth has already been used, to finance a Trust Fund for the benefit of low-income countries.

RESTORE REDEEMABILITY

Submitted by:
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You are doubtless inundated with instructive material from scholars on both sides of the gold question. Please also permit a few words from a common citizen who is very concerned about the rapid depreciation of our currency and sees your mission as a possible signal that the federal government might be willing to do something about it.

I was taught that money is a store of value as well as a medium of exchange. The store of value function has been lost. Consequently, preserving the proceeds from one's work against currency depreciation has now become a terrifying game - especially for those of us approaching the retirement years.

It is apparently beyond the power of man to satisfactorily create and manage a fiat currency. If we don't reunite our currency with a commodity people know and trust we may find more people than ever rushing to the safety of Krugerrands, Maple Leafs, 50 Peso coins and precious stones. This cannot be particularly beneficial to the U.S. economy.

If reuniting our currency with gold/silver is too complex perhaps there is merit in issuing a new currency backed by the precious metals, allowing it to circulate freely as an alternative to irredeemable currency. This would allow the people to decide which money they prefer. (We already have the power to make contracts in weights of gold. Why not extend that freedom?)

In the long run the present exercise by the Commission may turn out to be unnecessary. The ultimate decision about what money <u>is</u> will be made by the people. This lesson has been repeated over and over again througout history and is presently being demonstrated in Poland where the dollar and other "strong" currencies are eagerly sought because of their purchasing power. The zloty has fallen from grace and few merchants and producers are willing to trade goods for it. Let's prevent that scenerio from happening in the United States by once again linking our currency to something of value.

Sincerely,

John Wrisley

WHY THE U.S. MUST NO RETURN TO GOLD

Submitted by

JOSEPH W. WYTHE

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5 March 1982

While I do in fact favor the Gold Standard the point of the title above is that it would be futile to go back to the old monetary system in force before 1933. If we want to curb inflation and stabilize the U.S. monetary system and economy we as a nation must be prepared to take several steps simultaneously:

1. Reduce government spending considerably as a percentage of GNP, and then keep the federal budget in approximate balance. Government spending in and of itself promotes inflation (whether the budget is balanced or not) as it diverts resources from the private sector to less productive public uses.

2. Reduce our excessive reliance on credit and debt as a nation. Business cycles can never be eliminated entirely, but excessive use of credit promotes overheated booms and causes sharper recessions and/or depressions than would otherwise be the case. Too much credit distorts overall resource use from productive and sound projects to increasingly more risky ventures. First inflation and then the current wave of business failures in the U.S. are the result of excessive credit expansion. Thus a banking reform that would limit banks' ability to create credit as they do today is another pre-condition for the gold standard to function effectively.

3. Fix the price of gold high enough to induce a flow of gold into the Treasury. Milton Friedman read this paper and disagreed with my plan to fix the price of gold. In a letter he correctly pointed out that the real objective is "monetary stability", and not necessarily a fixed price of gold. I agree. The problem as I see it is to restore the confidence of the general populace in our monetary and banking system, and linking the dollar to gold might prove to be an essential step.

Excessive debt financing by both the public and private sectors has pushed interest rates to their present high levels. These high rates are the cause underlying the current wave of business bankruptcies which will surely worsen in the rest of 1982 and into 1983. Interest rates will only come down after a massive credit contraction and resulting deflation have run their course. All of this implies that a financial panic in 1983 or 1984 is now likely, after which the problem of restoring confidence will take on paramount importance. The gold standard coupled with the kinds of reforms and policy changes mentioned here may prove to be very attractive if not indispensable.

Nevertheless gold must not be viewed as a panacca. The recent suggestions by supply-siders that "bringing back gold may be the only way to make Reagonomics work" is misleading and misses the point. President Reagan's program is essentially sound, but there is a catch. Neither his nor any other program can restore health to the U.S. economy soon. The impending credit contraction and deflation must run their course first, then tax cuts to stimulate investment, reductions in the role of government and other supply side measures will have a chance to succeed. Unfortunately this reasoning implies a long and serious slump and many more bankruptcies before the cleansing of our economic system by the "invisible hand" is completed. Once our nation became addicted to debt financing the credit contraction now unfolding became a foregone conclusion.

Neither gold, nor Congress nor the President can hold back the course of events now in motion. If wise, however, our leaders can use this crisis to good purpose and reform our institutions in ways that will minimize such extreme cyclical swings in the future.