Report to the Congress
of the
Commission on the Role of Gold
in the
Domestic and International Monetary Systems

March 1982

Contents of the Commission’s Permanent Record

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** Congressional Record of Senate discussion of establishment of Commission, June 16, 1980, S7071-2.

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** Congressional Record of House appointment of members to Commission, March 23, 1981, H1041.

** Congressional Record of Senate appointment of members to Commission, May 20, 1981, S5357.

** Congressional Record of Senate agreement to extend Commission deadline, September 22, 1981, S10248-50.

** Congressional Record of House agreement to extend Commission deadline, September 24, 1981, H6589.

** Missing: See Legislative History P.L. 96-389 or Congressional Records
PUBLIC LAW 96–389 [S. 2271]; October 7, 1980

BRETTON WOODS AGREEMENTS ACT—INTERNATIONAL MONETARY FUND—QUOTA INCREASE

For Legislative History of this and other Laws, see Table 1, Public Laws and Legislative History, at end of final volume

An Act to amend the Bretton Woods Agreements Act to authorize consent to an increase in the United States quota in the International Monetary Fund, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

INCREASE IN UNITED STATES QUOTA

SECTION 1. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following new section:

"Sec. 32. The United States Governor of the Fund is authorized to consent to an increase in the quota of the United States in the Fund equivalent to 4,202.5 million Special Drawing Rights, to such extent or in such amounts as are provided in appropriation Acts."

BASIC HUMAN NEEDS

SECTION 2. (a) The Bretton Woods Agreements Act is further amended by adding at the end thereof the following new section:

"Sec. 33. (a) The President shall instruct the Secretary of the Treasury, the Secretary of State, and other appropriate Federal officials to use all appropriate means to encourage countries, in formulating economic adjustment programs to deal with their balance of payments difficulties, to design those programs so as to safeguard, to the maximum feasible extent, jobs, investment, real per capita income, policies to reduce the gap in wealth between rich and poor, and social programs such as health, housing, and education.

"(b) To ensure the effectiveness of economic adjustment programs supported by Fund resources and the reinforcement of those programs by longer term efforts to promote sustained growth and improved living conditions—

"(1) United States representatives to the Fund shall recommend and shall work for changes in Fund guidelines, policies, and decisions that would—

"(A) permit stand-by arrangements to be extended beyond three years, as necessary to enable Fund members to implement their economic adjustment programs successfully;

"(B) provide that in approving any economic adjustment program the Fund shall take into account the effect such program will have on jobs, investment, real per capita income, the gap in wealth between the rich and poor, and social programs such as health, housing, and education, in order to seek to minimize the adverse impact of those adjustment programs on basic human needs; and

"(C) provide that letters of intent submitted to the Fund in support of an economic adjustment program reflect that the
member country has taken into account the effect such program will have on the factors listed in subparagraph (B);

"(2)(A) before voting on the approval of any standby arrangement with respect to any economic adjustment program, the United States Executive Director shall review—

"(i) any analysis of factors prepared by the Fund or the member country in accordance with subparagraphs (B) and (C) of paragraph (1), or

"(ii) if no such analysis is prepared and available for such review, an analysis which shall be prepared by the United States Governor of the Fund which examines the effect of the program on the factors listed in subparagraph (B) of paragraph (1); and

"(B) the United States Executive Director of the Fund shall take into account the analysis reviewed pursuant to subparagraph (A) of this paragraph in voting on approval of that standby arrangement;

"(3) United States representatives to the Fund, to the Bank, and to other appropriate institutions shall work toward improving coordination among these institutions and, in particular, shall work toward formulation of programs in association with economic adjustment programs supported by Fund resources which (A) will, among other things, promote employment, investment, real income per capita, improvements in income distribution, and the objectives of social programs such as health, housing, and education, and (B) will, to the maximum extent feasible and consistent with the borrowing country's need to improve its balance of payments position within a reasonable period, ameliorate any adverse effects of economic adjustment programs on the poor;

"(4) United States representatives to the Fund and the Bank shall seek amendments to decisions on policies on the use of Fund and Bank resources to provide that, where countries are seeking Extended Fund Facility or upper credit tranche drawings from the Fund and are eligible to receive financing from the Bank, the Fund and Bank will coordinate their financing activities in order—

"(A) to take into account the effects of economic adjustment programs on the areas listed in clause (A) of paragraph (3),

"(B) to provide, to the extent feasible, Bank project loans designed to safeguard and further basic human needs in countries adopting economic adjustment programs supported by Fund resources, and

"(C) to provide, as appropriate, Bank financing for programs of structural adjustment that will facilitate development of a productive economic base and greater attainment of basic human needs objectives over the longer term; and

"(5) United States representatives to the Fund and the Bank shall request the Fund and the Bank to provide periodic analyses of the effects of economic adjustment programs supported by Fund or Bank financing on jobs, investment, real income per capita, income distribution, and social programs such as health, housing, and education.

"(c) The National Advisory Council on International Monetary and Financial Policies shall include in each of its annual reports to the Congress a statement detailing the actions and progress made in

94 STAT. 1552
carrying out the requirements of subsections (a) and (b) of this section.

(b) Section 80 of the Bretton Woods Agreements Act (22 U.S.C. 286t–9) is amended—

1. in subsection (a) by striking out “entered into pursuant to loans from the Supplementary Financing Facility”;
2. in the first sentence of subsection (b) by striking out “entered into pursuant to loans from the Supplementary Financing Facility”; and
3. in the second sentence of subsection (b) by striking out “by the Supplementary Financing Facility”.


RECYCLING BALANCE-OF-PAYMENTS SURPLUSES

Sec. 4. (a) It is the sense of the Congress that (1) the interests of the United States and those of other member countries require an effective International Monetary Fund equipped with resources adequate to facilitate orderly balance-of-payments adjustments; (2) persistent balance-of-payments surpluses in oil exporting countries have placed, and will continue to place, severe strains on the resources of oil importing countries and on the liquidity of the Fund; (3) these strains can only be relieved if the oil exporting countries assume a greater burden for financing balance-of-payments deficits through direct methods of recycling their surpluses and through proportionally greater contributions to the Fund and to the international lending institutions; and (4) the Fund must explore innovative proposals to encourage more direct recycling of oil surpluses and to increase its own liquidity.

(b) The Bretton Woods Agreements Act is further amended by adding at the end thereof the following new sections:

“Sec. 34. The Secretary of the Treasury, in consultation with the United States Executive Director of the Fund, shall study and, following consultations with member countries, shall report to the Congress prior to May 15, 1981, with respect to—

1. the current adequacy of Fund resources, together with projected needs of the Fund over the next five years;
2. the feasibility of increasing Fund liquidity by encouraging the Fund to borrow directly from the governments of oil exporting countries;
3. the feasibility of increasing Fund liquidity by encouraging the Fund to borrow in private capital markets through the issuance of securities backed by Fund resources;
4. the feasibility of an offer by the Fund of incentives to oil exporting countries, including financial guarantees by the Fund for government-to-government loans to countries with balance-of-payments deficits, in order to promote more direct recycling of oil surpluses; and
5. methods to enhance cooperation between commercial banks and the Fund to promote the availability of adequate resources for balance-of-payments financing.”
“SEC. 85. It is the sense of the Congress that the Secretary of the Treasury and the United States Executive Director of the Fund shall encourage member countries of the Fund to negotiate a dollar-Special Drawing Rights substitution account in which equitable burden sharing would exist among participants in the account, and shall report to the Congress prior to May 15, 1981, with respect to progress toward achieving this goal.”.

DEBT RESCHEDULING COMPARABILITY

SEC. 5. Section 29 of the Bretton Woods Agreements Act is amended by striking out “on the use of the facility”.

TAIWAN

SEC. 6. The Bretton Woods Agreements Act is further amended by adding at the end thereof the following new section:

“SEC. 36. It is the sense of the Congress that it is the policy of the United States that Taiwan (before January 1, 1979, known as the Republic of China) shall be granted appropriate membership in the Fund and that the United States Executive Director of the Fund shall so notify the Fund.”.

PALESTINE LIBERATION ORGANIZATION

SEC. 7. The Bretton Woods Agreements Act is further amended by adding at the end thereof the following new section:

“SEC. 37. It is the policy of the United States that the Palestine Liberation Organization should not be given membership in the Fund or be given observer status or any other official status at any meeting sponsored by or associated with the Fund. The United States Executive Director of the Fund shall promptly notify the Fund of such policy.

“In the event that the Fund provides either membership, observer status, or any other official status to the Palestine Liberation Organization, such action would result in a serious diminution of United States support. Upon review of such action, the President would be required to report his recommendations to the Congress with regard to any further United States participation in the Fund.”.

ASSISTANCE TO THE PRIVATE SECTOR OF EL SALVADOR AND OTHER NATIONS

SEC. 8. The Bretton Woods Agreements Act is further amended by adding at the end thereof the following new section:

“SEC. 38. It is the sense of the Congress that in providing assistance through loans or other means to any nation, in particular El Salvador and Nicaragua, the Fund and the Bank should encourage programs which assist the private sector to create an environment which will stabilize the economy of the nation; and that the United States representatives to the Fund and the Bank shall promote the use of assistance by the Fund and the Bank to encourage such programs.”.

SEC. 9. The United States Executive Director to the Fund shall seek to insure (a) that Fund salaries do not exceed those levels endorsed by the Fund Bank Joint Committee on Staff Compensation Issues; and (b) that travel costs are minimized by limiting first class and supersonic travel to instances where no reasonable alternative exists.
ROLE OF GOLD IN INTERNATIONAL MONETARY SYSTEMS

Sec. 10. (a) The Secretary of the Treasury shall establish and chair a commission consisting of—
(1) three members of the Board of Governors of the Federal Reserve System and two members of the Council of Economic Advisors, all of whom shall be designated by the Secretary of the Treasury;
(2) one majority and one minority member each from (A) the Joint Economic Committee of the Congress, (B) the Committee on Banking, Housing, and Urban Affairs of the Senate, and (C) the Committee on Banking, Finance and Urban Affairs of the House of Representatives, who shall be designated by the Speaker of the House of Representatives and the President of the Senate, respectively, upon the recommendations of the majority and minority leaders of the respective Houses; and
(3) four distinguished private citizens with business, finance, or academic backgrounds who shall be designated by the Secretary.

(b) The commission shall conduct a study to assess and make recommendations with regard to the policy of the United States Government concerning the role of gold in domestic and international monetary systems, and shall transmit to the Congress a report containing its findings and recommendations not later than one year after the date of enactment of this Act.

(c) Sums appropriated pursuant to section 5 of Public Law 95-612 shall be available to the commission to carry out its functions.

FULL APPROPRIATIONS REQUIRED

Sec. 11. Section 32 of the Bretton Woods Agreements Act, as added by section 1 of this Act, is amended by striking “to such extent or in such amounts as are provided in appropriations Acts” and inserting in lieu thereof “limited to such amounts as are appropriated in advance in appropriation Acts.”

EFFECTIVE DATE

Sec. 12. This Act shall take effect on its date of enactment, except that funds may not be appropriated under any authorization contained in this Act for any period prior to October 1, 1980.

Approved October 7, 1980.
II. Record of Meetings

** July 16, 1981, informal notes.

** September 18, 1981, transcript.

--- October 26, 1981, transcript.

--- November 12, 1981, transcript.

--- November 13, 1981, transcript.

--- December 11, 1981, transcript.

** January 8, 1982, transcript.

** February 12, 1982, transcript.

--- March 8, 1982, transcript.

** Missing
GOLD COMMISSION TO HOLD PUBLIC HEARINGS

The Gold Commission will hold hearings on Thursday, November 12, and Friday, November 13, 1981. The hearings will be open to the public and will begin at 10:00 a.m. on November 12 and 9:30 a.m. on November 13 in the Cash Room of the Main Treasury Department Building in Washington, D.C. The public is advised to use the Pennsylvania Avenue entrance to the Treasury Department.

The following witnesses are scheduled to testify before the Commission.

1. **Panel 1 -- Thursday, November 12, 10:00 a.m. - 1:00 p.m.**

   Dr. Robert Aliber  
   Professor of International Economics and Finance  
   University of Chicago  
   Chicago, Illinois  

   Dr. Henry Mark Holtzer  
   Brooklyn Law School  
   Brooklyn, New York  

   Dr. Allan H. Meltzer  
   Maurice Falk Professor of Economics and Social Science  
   Graduate School of Industrial Administration  
   Carnegie-Mellon University  
   Pittsburgh, Pennsylvania  

   Mr. Andrew G. E. Racz  
   President & Chief Executive Officer  
   A. Racz & Co., Inc.  
   New York, New York  

   Mr. Robert E. Weintraub  
   Senior Economist  
   Joint Economic Committee  
   United States Congress  
   Washington, D.C.

2. **Panel 2 -- Thursday, November 12, 2:00 p.m. - 5:30 p.m.**

   Mr. Ralph Benko, Esquire  
   Attorney at Law  
   Pattison, Sampson, Ginsberg & Griffin, P.C.  
   Troy, New York
Mr. Edward M. Bernstein
President
EMB (Ltd) Research Economists
Washington, D.C.

Mr. David Bostian
President
Bostian Research Associates
New York, New York

Dr. Peter Kenen
Director, International Finance Section
Princeton University
Princeton, New Jersey

Dr. Murray Rothbard
Professor of Economics
Polytechnic Institute of New York
Brooklyn, New York

Dr. Robert Solomon
Guest Scholar
Brookings Institution
Washington, D.C.

3. Panel 3 -- Friday, November 13, 9:30 a.m. - 1:00 p.m.

Dr. William Fellner
Resident Scholar
American Enterprise Institute
Washington, D.C.

Dr. Alan Greenspan
President
Townsend-Greenspan, Inc.
New York, New York

Dr. Roy Jastram
School of Business Administration
University of California, Berkeley
Berkeley, California

Dr. Marc Miles
Associate Professor
Department of Economics
Rutgers University, New Brunswick
New Brunswick, New Jersey

Dr. Earl A. Thompson
Professor of Economics
University of California, Los Angeles
Los Angeles, California
Dr. John Williamson  
Senior Fellow  
Institute for International Economics  
Washington, D.C.

4. Panel 4 -- Friday, November 13, 2:00 p.m. - 5:30 p.m.

Dr. Richard Cooper  
Maurits Boas Professor of International Economics  
Harvard University  
Cambridge, Massachusetts

Mr. Richard Davies  
Managing Director  
The Gold Institute  
Washington, D.C.

Dr. Rudiger Dornbusch  
Department of Economics  
Massachusetts Institute of Technology  
Cambridge, Massachusetts

Ms. Helen Junz  
Vice President  
International Economics  
Townsend-Greenspan, Inc.  
New York, New York

Mr. Alan Reynolds  
Vice President and Chief Economist  
Polyeconomics  
Morristown, New Jersey

Dr. Hans F. Sennholz  
Chairman, Department of Economics  
Grove City College  
Grove City, Pennsylvania
The meeting in the above-entitled matter convened at 10:00 o'clock a.m.
Commission Members:

Secretary Regan
Chairman Weidenbaum
Mr. Coyne
Senator Dodd
Congressman Neal
Governor Partee
Congressman Paul
Congressman Reuss
Governor Rice
Senator Schmidt
Governor Wallich
Congressman Wylie
Mr. Costaragna
Senator Jepsen
Mr. Jordan
Mr. Lehrman
Mr. McCracken

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Brooklyn Law School

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Maurice Falk Professor of Economics & Social Science
Carnegie-Mellon University

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UNDER SECRETARY SPRINKEL: Good morning, ladies and gentlemen. If we could take our seats, I'd appreciate it. Secretary Regan is unfortunately tied up in a meeting in the White House and I have the pleasure of opening these meetings.

I am pleased to open this public hearing of the Gold Commission, established, as you know, to conduct a study to assess and make recommendations with regard to the policy of the United States government concerning the role of gold in the domestic and international monetary system.

As you also know, we have had three meetings to date. I think we're making good progress in identifying problems and objectives and in defining the ideas to be considered by the Commission.

It is clear from our early discussion that the Commission members agree fundamentally on the essential need to deal with inflation and restore stability to the U. S. economy.

In justice, though, there is a diversity of views about whether gold can and should play a role in this effort and, indeed, about the role gold has played in the U.S. economic history. So, we are pleased this morning to have the opportunity to hear the views and analyses of a number of private experts on these questions.
Our total hearing this morning will consist of four panels of experts. This morning, we have Dr. Robert Aliber from the University of Chicago, an old friend; Dr. Henry Mark Holtzer of the Brooklyn Law School; Dr. Alan Meltzer of the Carnegie-Mellon University, another gentleman I've known a long time; Mr. Andrew Racz, of A. Racz and Company; Mr. Robert Weintraub, the Joint Economic Committee.

Welcome, gentlemen. Thank you for agreeing to appear before the Commission. I will ask that the witnesses proceed in alphabetical order in presenting their initial statements. Then I will invite questions from Commission members and Dr. Schwartz after all of the initial presentations have been heard.

The written presentations of all witnesses will be entered in full in the Commission record. I would suggest that Commission members also proceed in alphabetical order -- I believe you are seated that way -- in putting your questions to the panel and limiting themselves for the first round of questions, at least, to about five minutes each.

I don't want to limit any questions or debate, but we do want to assure that all members -- and they are all not here, obviously -- have a chance to ask questions. Let's see how this procedure works. If you want to amend it, we'll do so. If it's satisfactory for now, we will begin with Dr. Aliber. Please proceed, Bob.
DR. ALIBER: Thank you, Mr. Under Secretary. I am certainly honored to be invited to appear before the Commission. I think your work is extremely important and extremely timely.

Gold, as we know, has an important monetary history. U. S. gold holdings are the largest in the world. Indeed, gold is a $100 billion asset at recent market prices. I will summarize in my statement the reason for the Commission is well established.

We've been unhappy with the inflation and the monetary instability, the high interest rates of the last ten or fifteen years. Gold seems to promise that it might be a monetary rule which would provide greater stability.

What we are hunting for is a binding promise, a binding promise or supercommitment that will limit, prevent repetitions of the experience of the last fifteen years. The gold standard appears to some to provide that sort of a promise.

The gold standard is a relatively simple mechanism. It consists of a parity and price for each country's money in terms of a unit of gold. A monetary rule which relates changes in some aspect of the monetary system, the monetary base, the money supply, to gold in-flows and out-flows.

Several hundred years ago, David Uhne (phonetic) provided a beautiful story about the self-correcting,
automatic, mechanism of the gold standard. It is important
to note that the purpose of the gold standard as it developed
was not to provide price stability.

Price stability was simply an accidental by-product.
The purpose of the gold standard was to provide stability to
the holders of the money. It was a better money in terms of
default risk, if you want, than any other money.

Indeed, if we look at the history of gold in the
system and the history of price level movements in the system,
then the gold standard appears far less attractive. In the
16th Century, the European price levels went up by a factor of
five, to six, because the price of gold in the old world was
substantially higher than the price of gold in the new world.

In the 18th Century, the price level doubled. Now,
there are periods when one can, by picking the beginning
period and picking the end period, conveniently find that the
gold standard provided price stability over a particular
period of time -- over a century, over 150 years.

It is very easy, by altering the beginning period
and altering the terminal period, to provide a period in
which price level instability over the long run was associated
with the operation of this self-correcting mechanism.

The operation of the self-correcting mechanism led
to financial crises. Indeed, in the United States, in the
19th Century, we had financial crises, a bank failure -- a
substantial bank failure, on the average of once a decade.
Indeed, I would argue that it was probably likely that in this
very room, more than a century ago, hearings were conducted
on the need for some sort of a banking mechanism to provide
greater monetary stability than we then had and to provide an
elastic currency. How the situation has turned.

Now, it's instructive to look at U.S. monetary
history. We more or less, when the United States became
independent, inherited the gold parity of Great Britain
although we modified it slightly. Before the first 150 years
of the Republic, the U.S. gold parity was effectively $20.67.

We went off that gold parity twice. We went off of
it the first time, effectively at the beginning of the Civil
War. We went off it because we made an option to finance the
war on the basis of paper money. We returned to that gold
standard, the $20.67 parity, in 1879 after the price level had
fallen by 50 percent. Roughly, it had fallen back to where it
was at the beginning of the war.

The second time we went off the gold standard was,
at the $20.67 parity, in 1933. We returned in March 1933. We
returned to the gold standard arrangement at the end of
January, 1934, with a 75 percent increase in the price of gold.

Now, that gold price increase in the late 1930's,
I would argue, was an adjustment to the substantial increase
in the world price level that occurred about the time of World
War I, although the gold price increase was modestly larger than one would have predicted from the increase in the world price level at that time.

One consequence, incidentally, of that gold price increase was that the price of gold in the United States was higher than that of the rest of the world. We had a tremendous flow of gold to the United States and, indeed, a golden avalanche.

U. S. gold holdings increased very rapidly in the late 1930's. Let us look at the current situation where we are asked to go back on gold the third time in two decades.

I'd like to introduce this by assuming that Rip Van Winckle was in this room. Rip had gone to sleep in 1960 or 1961. He was asked when he awoke in 1981, "How do we set the new dollar price of gold?"

Just as a sort of a footnote, I think I was one of the few economists in Washington in the early 1960's who was writing that we needed an increase in the price of gold to solve some international problems because the world price level had increased since World War II.

The gold price had remained unchanged since 1934. In the most heroic or romantic moment, one thought that the appropriate price for gold in the early 1960's might have been $70 and up, $80 and 70.

If Rip Van Winckle woke up today and he used the
traditional calculations to determine what the gold price should be, he would come up with something like $125 an ounce. Perhaps, he might make an error. He might say $180 an ounce.

This is extremely important. If there is a stable relationship between the world commodity price levels and the dollar price of gold, then the market price of gold is two to three times as high as the U.S. gold parity should be.

If there is no stable relationship between the world commodity price level and the price of gold, there is no case for going back on the gold standard.

If we were to go back to the gold standard arrangements and pick a parity, we would probably have to pick a price somewhat higher -- somewhat higher than the current market price. In the initial period at least, the U.S. monetary mechanism would be a buyer of gold.

There is a tremendous risk that if that policy initially were thought to be successful in achieving price level stability, that we would end up with a wing-ding inflation and a golden avalanche, a flow of gold to the United States out of the mines and out of the hordes around the world that would make the flow of gold in the 1930's appear trivial.

That would make the recent inflation appear modest. We would be moving back toward an inflation the likes of the 16th Century. One of the ironies of the system, then, is that those who favor a return to gold for domestic money are
subjecting us to a risk of tremendous inflation. Well, my statement then goes on and deals with gold and credibility issues. The issue there is can we introduce gold into the system.

Can we introduce gold into the system in such a way as to provide a stable monetary ruling. The problem with providing stable monetary rules is that rules are frequently broken. The issue really becomes one of whether having gold in the system increases the credibility of any other type of commitment, of any other type of commitment that the government makes or that the legislature makes.

Now, it is possible. It will not happen instantly. Then the credibility of the gold standard arrangement will only begin to develop after there have been a number of instances or, indeed, crises, in which the monetary authorities face the option between going off gold -- as we have now done three times in our history -- or of sticking with the commitment and having a significant financial crisis or disaster.

I think we are living in a period in which the likelihood that the U.S. polity would stand for the cost of that commitment is extremely small.

My statement concludes by suggesting that gold still has an important international role to play. The gold's role in the future is as an international money, not as a national money.
As an international money, there are a number of suggestions in the statement. The first is that it behooves us to begin to value gold at or near its market price rather than at the $42 parity.

It is important to begin to standardize the valuation of gold by the National Monetary Authorities. It is important that we begin to develop trading arrangements, probably based on the market price so that central banks and countries with payments deficits can have some assurance that they can trade gold with countries in the payment surpluses on off-market transactions as a way to help finance their payments.

At some future date, if we are successful in reducing the rate of inflation and getting back toward price stability, the gold price would fall substantially. We may begin to think towards developing a parity for gold for international transactions.

Thank you very much, Mr. Chairman.

UNDER SECRETARY SPRINKEL: Thank you, Dr. Aliber.

Dr. Henry Mark Holzter of the Brooklyn Law School.

DR. HOLTZER: Good morning, Dr. Schwartz, Under Secretary Sprinkel and members of the Commission.

As you know, I am not an economist, but rather a professor of law at Brooklyn Law School in New York. My field is Constitutional law. I've lectured and written extensively
on the legal aspects of gold and the nature and scope of government monetary power.

For example, two of my books are entitled The Gold Clause and The Government's Monopoly, subjects in which I've had a long interest. I must confess to a certain ambivalence this morning.

While I appreciate having been invited to testify before this Commission, at the same time, I feel like the lawyer who must tell a court that it lacks jurisdiction. I have come here to say that despite this Commission's good faith, it cannot discharge its Congressionally delegated task.

That is, to make recommendations with regard to the policy of the U.S. government concerning the role of gold in domestic and international monetary systems, without first understanding and then admitting some hard truths about our nation. Let me explain.

Dr. Alan Greenspan has written, "...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. Almost from our first day as a nation, there was little monetary freedom.
Now, there is none. As to economic freedom, tax laws have redistributed wealth on the basis of need and have otherwise removed from productive use, capital necessary for reinvestment diverting it to countless ends disapproved by those from whom the money was taken.

Anti-trust and fair trade laws have contradictorily and impetently attempted to compel competition and protect consumers from themselves. Instead, such laws have caused business decisions to be predicated not on marketplace considerations, but on guess work as to how bureaucrats and judges would interpret unintelligible laws.

Labor laws have created compulsory unionization with its many attendant problems for unwilling employees and employers and contributed greatly to America's steady decline as the world's preeminent industrial power.

Wage and hour laws have required private employers to establish pay scales and working conditions mandated not by the free market in mutual agreement, but by government fiat.

Restraints on the use of private property are commonplace in the name of zoning and so-called civil rights. Liberty of contract is substantially restricted in the name of equalizing bargaining power in the so-called public interest.

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. In the monetary realm, it was authorized only to bor-
row money, to coin money, and regulate its value and to punish
counterfeiting.

The Constitution also expressly barred the states
from coining money, minting bills of credit, making anything
but gold and silver as tender in payment of debts.

Clearly, when the work was finished in that hot
Philadelphia summer of 1787 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.

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.

Congress wanted to charter the first bank of the
United States. The question was whether the legislature
possessed the power. 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'
few delegated monetary powers was 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. Washington signed the Bank Bill. For nearly 30
years afterwards, few people noticed that the monetary power
of Congress had grown considerably.

Congressional power expanded nearly 30 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, McCullock
against 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, a story much
too well known to the members of this Commission to recount
here. Suffice it to say that 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' usurping of nondelegated extra-constitutional monetary power.

In the first important legal tender case to reach the court, Hepburn against Grinswald, while a bare majority held that the Act could not be applied to a debt contracted before legal tender became law, every one of the justices, majority and dissent alike, nevertheless agreed on the underlying principle that Congress possessed a broad monetary power whose outer boundaries were far from clear.

Less than 18 months later, Hepburn was overruled by Knox against Lee. Legal tender was expressly held to be Constitutional. At the time of the last legal tender case, some years later, nearly three centuries had passed since the 1604 English case of the mixed money had approved Queen Elizabeth's sovereign power to debase her coinage.

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 McCullock decision midwifed by Hamilton's opinion to Washington in the bank controversy.

It reached its majority in the legal tender cases. Its maturity came in three 20th Century cases. In Ling Su Fan (phonetic) against the United States, the Supreme Court concluded that attached to one's ownership of silver coins were "limitations which public policy may require".

The coins themselves "bear therefore the impress of sovereign power". Two months later, the Court went even further, at least in the Noble State Bank against Haskill. It held that a state bank could be forced to help insure its competitors' depositors against insolvency.

In the course of the opinion for a unanimous Court, Justice Oliver Wendall Holmes actually went so far as to admit that government monetary power was indeed omnipotent. "We cannot say that the public interest to which we have averted 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. 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 was abandoned.
Private ownership of gold was illegalized. 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 of the New Deal's statist exercises of raw government power.

Based on a chain of precedents, running back inexorably, the Noble State Bank, Ling Su Fan, the legal tender cases, McCullock, the bank controversy, and then the Elizabethan case of mixed money.

Ironically, but not surprisingly, in little more than 300 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 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 security business and more.

In the nearly 50 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.

Under Secretary Sprinkel, Dr. Schwartz, other
members of the Commission, I have come to Washington today to
say that the United States, its government and its people,
cannot have it both ways.

Either we have monetary freedom and a gold standard
or no monetary freedom and no gold standard. Though mine may
be a lonely voice crying in a wilderness of omnipotent govern-
ment, I emphasize that there is no middle ground.

If this Commission wishes to recommend the gold
standard, it must first understand the nature and scope of
our nation's lack of economic and monetary freedom and then
communicate that understanding to the American people.

Only then and in that context can a gold standard
recommendation from this Commission have any real meaning.
Indeed, should this Commission recommend that a gold standard
be instituted and should Congress and the President take the
unlikely followup 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. Thank you.
UNDER SECRETARY SPRINKEL: Thank you, Dr. Holtzer.

Dr. Allan Meltzer of the Carnegie-Mellon University.

DR. MELTZER: Thank you, Mr. Chairman. It is a pleasure to appear before this Commission and to help in the deliberation of what is an important issue.

I would like to say that I share Dr. Holtzer's commitment to a free society, but, alas, that's about the only point on which I can agree with him.

I believe that while the commitment to a free society is important, the central question that we have to address is within the framework of a free society, what is the best way to accomplish the tasks that are imposed upon the government.

I would like to begin by congratulating this Commission. I think it takes up a series of important issues. It deals with a question that badly needs to be addressed -- namely, what is it that we can do to improve the control of money in the American economy or, indeed, in the world?

This is a problem to which there is no shortage of solutions. We have a surfeit of solutions. There are many ways in which we could end inflation. There are many ways in which we could end inflation and maintain a freer society.

The basic question to be addressed by the Commission is not whether we should control inflation or whether we should do it within a framework of freedom. Which
A system of monetary control is likely to provide both greater freedom and greater stability in a world in which we have less instability in the economy.

We live in a world in which there are risks, inherent in nature, simply because the rainfall doesn't come, because trade doesn't proceed at uniform rates, because we are subject to shocks of various kinds from the demand side, from the supply side, from the fiscal and monetary systems -- our own and other countries.

The issue which this Commission wants to address is not whether we want to provide price stability in that framework consistent with the maximum freedom that we can provide, but how can we within that framework reduce those risks to the minimum that we must bear in a society which is subject to unforeseen changes of various kinds.

There is another reason for congratulating the Commission on taking the approach that it does. The notion of controlling money, gold, commodity standards or in general, expresses a dissatisfaction with the efforts that have been made on a managed paper system attempting to control money by estimating what is going to happen in the demand for money, by trying to outguess the market about what is going to happen to interest rates and output.

By making these necessarily incorrect judgments and assessments which have been, I think, the hallmark of the
policy in countries that have tried to control money in the way in which ours has for so long tried to control it.

The essence of a gold standard or any system of change is to think about a rule or a method of controlling money from the supply side. I find that a lauditory and important objective.

I would like to discuss that objective. That is the objective of trying to improve the stability of the American economy, the stability of the monetary system, to reduce the risks that we must bear to the minimum, that we must in fact bear and how that relates to the way in which the monetary system operates in the control of money from the supply side.

When we think about the control of money from the supply side, we run against the three classic problems. One is the mechanism for adjustment. One is the question of discipline. One is the question of credibility.

We have really only two basic — one basic choice we must make at the various outset. We have to decide on whether we are going to have a system of fixed exchange rates.

That system requires necessarily that prices will fluctuate more and because prices are inflexible, do not adjust instantly for information for reasons that we partly understand and partly remain ignorant of.

Output must change. In the choice of a system of
fixed exchange rates, it necessarily involves a system in which prices must fluctuate somewhat more than would be required under a system of a floating exchange rate.

In any consideration of controlling money, we must make a judgment as to whether in fact that control is going to be given over to a fixed exchange rate system with the necessary price and output fluctuations that arise in that system or whether it is to be done through a floating exchange rate system under which we allow the exchange value of our currency against other currencies, against commodities in general, to move up and down as dictated by the market.

We make our efforts to control the quantity of money directly through the actions of the central bank or monetary authority. That basic question must be the first matter decided by the Commission.

If the answer is that we prefer or we conclude that a floating exchange rate system is better, then the answer to the second question of whether we should have a gold standard is we cannot. The two are fundamentally incompatible.

Under a floating exchange rate system, we allow exchange rates to change. Exchange rates fall in a period of inflation and rise in periods of deflation, producing a stabilizing mechanism that helps us to maintain price stability provided we maintain a rate of growth in the money stock geared to the long-run rate of growth and output.
Prices will not remain absolutely stable from week to week or month to month under any system. That is because we live in a world in which there is instability. There are shocks that we cannot possibly foresee that have durations that we cannot possibly imagine and that we are not even certain about as we pass through them, or even after we have passed through them.

Imagine if someone were to ask you what the price of oil is going to be a year from now or what the price of gold is going to be a year from now or what the price of any commodity is going to be a year from now.

Neither you nor I nor anyone else has a correct judgment. The market makes a judgment about each one of those things every day. It corrects its impression on the following day or from minute to minute.

Therefore, a system which ties the U.S. economy to the value of the commodity that we choose as money or the paper that we choose as money, to one of those market prices, necessarily means that as those prices move in response to shocks which cannot be foreseen in advance, then necessarily our economy will reflect those changes.

Again, I would say the judgment that has to be made is not whether some concept of freedom or some concept of justice requires us to have one of those systems. It is which way do we minimize the real cost of bearing the shocks that
must necessarily be born in a world which is subject to
constant change. The changes, whose nature and duration
cannot be instantly appreciated and cannot be forecast in
advance and whose duration is uncertain even at the time that
we pass through them.

Who would have predicted in 1972 that the price of
oil would jump? That it would jump again in 1978? Who would
have predicted in 1974 how long that price would remain?

The same is true of gold or of any other commodity.
If we tie our monetary system to one of those commodities, we
in fact impose on the economy, on the real sector of the
economy, a burden of adjustment which in my judgment is larger
than the burden of adjustment that the economy must necessarily
bear under alternative monetary arrangements, such as a
system of floating exchange rates.

A program for restricting the range within which
the money stock may grow -- I would like to expand on a few of
those points. The basic problem of discipline is a problem
that arises in any monetary system.

We cannot solve the basic problem of discipline by
imposing upon ourselves a rule such as the gold standard,
because there is no sanction for abandoning the gold standard.
The only kind of rule which will make sense is one which would
carry with it some penalty.

To announce that we go on the gold standard does
not immediately increase credibility. It raises a whole
series of questions about whether that discipline will be
invoked. What will happen when we run into a crisis? Supp-
the price of oil goes up and the OPEC nations decide to buy
gold? Will the United States then sell all the gold and
deflate its economy?

Will it abandon the gold standard, as it should
properly do under those circumstances? Suppose, in fact, it
goes the other way? Suppose the price of oil goes down?

The OPEC cartel breaks up, the Arabs sell their
gold. Should we put our monetary system in the real sector
our economy as a hostage for the changes that may occur
because of changes which occur in all parts of the world?

I think the obvious answer is that that would on-
be a sensible solution. It would only make good economic
sense if, in fact, that were the best standard. That is, i:
that were the minimum risk that we could bear.

It turns out, I believe, that careful considerat-
of the alternatives will quickly lead you to the conclusion
that I have already reached. Namely, that it is not the
minimum risk standard in the world in which we live.

The minimum risk standard is not a standard in
which we tie ourselves to any single commodity and probably
not to any basket of commodities. For these reasons, I
believe there are better alternatives to maintaining monet-
stability.
Among those alternatives, the one that should be given the most important consideration is standards which restrict the power and authority of the monetary authority in this country, to increase the quantity of money at will, by amounts which are unrelated to any promise or any performance standard and without any sanction imposed upon the actions of the central bank so that there is no penalty on them for exceeding their own self-announced and self-imposed standard or for exceeding their statements of what it is that the monetary system would do or for exceeding by large amounts the rates of growth of money that bear any relation to the possible rates of growth in the American economy.

Those problems have been with us for a great deal of time. It is for that reason that I laud the Commission for taking up these important questions.

What is the basic problem that causes this question of standards? If we were to depart, if we were to assume that the rest of the world will be more benign over the next decade than it was over the previous decade.

The basic problem that we face is that there is in our system the fact that prices do not adjust instantly. Not just wages, but many prices do not adjust instantly. When there are disturbances in the economy, real wages change.

Prices and relative prices, the price of one thing relative to another, changes. This causes real changes in the
those real changes in the economy have real costs which American citizens in other countries must bear. In such a system, if we peg the price of the exchange rate or other price or the price of gold, in addition to the rigidity which is built into the system through contracts, through historical procedures, for lack of confidence about what the future will be, to risk sharing arrangements, to whatever devices men have come up with in order to pool those risks.

If we impose upon that standard in addition a fixed price for gold, we increase the burden of adjustment that system and make the system less stable than it would be if we provided an adjustment for other prices, including the relationship between the dollar and other currencies or between the dollar and gold.

Now, we have a lot -- of history. Much of that history comes from a system which is more favorable to the gold standard than the present world is.

Most of that history of the gold standard comes a relatively small world in which the number of large trade who would be potential buyers or sellers of gold was relati ly limited. It doesn't come from a world in which there are Idi Amins and Khoumeinis and Quadafis and people who might delight in causing us harm even at their own expense.

We live in a world of dispersed power in many countries. It is a system which is less friendly to a
unilateral gold standard than even the 19th Century standard was. In the 19th Century standard, if we look at the 19th Century we are left with this very important fact.

If we compare the monetary history and the real history of the United States, from 1854 to 1980, what we find is -- leaving aside all wars -- that one regularity stands out. It takes two years from the peak of a cycle to the trough of the cycle. Two years from the trough to the next peak. We have four year cycles.

Four years from peak to peak. Four years from trough to trough. Our post-war experience is remarkably better. Non-war business cycles have had longer expansions and shorter contractions.

Although we have had difficulties and problems with inflation, our record in this period has not been so bad that we should abandon the benefits of the greater stability that we have achieved in order to pursue some standard which worked more poorly during the period in which it operated.

On a world wide basis, not on a unilateral basis and in a multi, much more limited range of power positions and not in the multilateral powered world that we live in today.

I conclude from that that the gold standard is an idea whose time has passed. The central problem that the committee faces is an important problem. It turns out that there are better ways to solve the problem than the one which
has been proposed most recently by a limited number of people desirous of returning to a system that perhaps had worked better in retrospect than it ever did at the time.

Thank you.

UNDER SECRETARY SPRINKEL: Thank you, Dr. Meltze Mr. Andrew Racz of A. Racz and Company.

MR. RACZ: Mr. Chairman and members of the Gold Commission. When President Reagan first mentioned gold prior to the 1980 election and when President Reagan created the Gold Commission, he had already made monetary history.

This Administration has reversed the mistaken philosophies of previous Administrations by recognizing that gold is a monetary asset. Gold has an increasing, as opposed to a decreasing, role in international monetary affairs.

The existence of the Gold Commission is one of the first and maybe the most significant victories of what is called Reaganomics today. The purpose of my presentation is number one, to state that gold is a monetary asset.

Two, to state that gold and silver are vital strategic American assets. Three, to propose a viable, constructive and aggressive American gold policy. Four, 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 pl
a forceful role in constructive foreign policy. Let me now turn to some specifics.

I suggest that this Commission immediately recommend that the President declare number one, gold and silver are vital national monetary assets. Two, an embargo on any further sale of gold and silver except under those policies as recommended by the Gold Commission.

Three, immediate re-evaluation of gold and silver holdings at current market prices and an incorporation of those figures into our National Reserve assets.

These points which form the first but elementary part of my recommendation require nothing more than a philosophical change from the neglectful attitude of some previous government officials of not obscure positions who wanted to squander American gold. They did.

Their intention was to put gold next to pork bellies in the commodity pages where they thought it belonged. Those policies were totally and utterly mistaken.

President Reagan should declare that the era of government illiteracy as far as gold is concerned is over. In practice, the Commission should recommend that it accepts that it is the policy of the United States to increase, as opposed to decrease, our gold and silver reserves.

Two, this Commission should recommend the creation of a department which would empower the Treasury to enter the
future marketing of gold, whether it is Chicago, London, Hong Kong. Three, the Treasury should be given information for its agents to acquire gold in private transactions from other countries, from mines in any part of the world.

From newly acquired gold, the Treasury is empowered to seek to take eventual profits, treating gold no differently than central bank has carried its currency purchases and swap arrangements, sales, in what they consider a time-honored fashion.

Basically, there should be no conceptual difference between buying and selling Swiss francs, yen, or buying and selling gold and silver. The only difference is that it is our stated national intention to increase our assets in this vital, strategic, monetary reserve.

Apart from the strength and integrity of the dollar, gold could be construed as the most vital monetary reserve asset we have. The increase in the price of gold has, if anything, a favorable implication for the United States and America.

Point number five. The Treasury prepares for the immediate sale of approximately $50 billion gold backed bond at seven percent coupons, converting the gold at $550 with five years of maturity in the denomination of $550 each.

Bonds can be marketed for American and foreign residents. Simultaneously, the Treasury should declare that
it is the policy of the United States to purchase gold on the open market, either in the physical form or, as I mentioned previously, the future market.

Details of those transactions should not 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 had for five years within the Soviet colonial system. As stated in this statement -- that's my professional opinion.

In today's Wall Street Journal, I found that Soviet deposits have declined in one year from $8.5 to $3.6 billion. They have today in the reserve, with those of Chile and Malasia. Soviet borrowing in the last 12 months managed to increase by $750 million. That's how far their credit goes.

The immediate effect of such issue is not only pure interest savings, although it is very significant. $50 billion at seven percent. It would divert borrowing from the government bond markets, particularly in the short-term market which governs the most important interests.

It would lighten the pressure on corporate borrowing. Most importantly, however, it would demonstrate the tremendous monetary power of the United States. We are the only country with gold that is basically unimportant to carry out our export import business and monetary transactions. We are the only
country with the integrity to redeem a $50 billion gold issue either in gold or in dollars. It is unquestionable.

Should the Republic of France, the bank of international settlement follow our leadership, perfect. It would simply create an extra page in the London Financial Times and gold and silver backed bonds would be treated similarly as the Euro-currency bonds are traded in Swiss francs, the mark, the pound, sterling, yen and Canadian dollars.

If gold and silver backed bonds expand on that in the international capital markets, so much the better. Let me say that this subject is not new to me. In 1976, July, when gold hit 100, I happened to be in Johannesburg.

I recommended to the government of South Africa to market 1,000 denominated units with five ounces of gold at 10 percent interest and five ounces of gold to be bought at $145. This recommendation was reviewed in the front pages of the Johannesburg Sunday Times.

Subsequently, I received several interviews with Dr. Dietrick (phonetic), the state president, who was, of course, personally a financier. In early 1980, when the silver crisis, the issue was again mentioned in The New York Times.

A subsequent article, I stated it is almost inevitable in an inflationary atmosphere that government as
well as corporations and mining causes would eventually go via
a silver and gold denomination and raise extra capital at low
interest rates.

Now, today lower interest rates and all balance
sheet financing, at a time when the Euro-currency market has
increased from $70 billion in 1972 to $1.2 trillion today.
All balance sheet financing for governments and corporations is
a matter of prime importance.

Let us carry this argument a little bit further.
If our friendly governments, financially powerful governments
and corporations, bought maybe $100 or $200 billion in that
manner, the whole world interest rate market would vastly
change.

With lower interest rates, that is vast savings in
balance of payment expenditures. We would -- the government
of the United States -- demonstrate our monetary superiority
together with the monetary Allies vis-a-vis the Soviet Union.

This Administration has come to power to achieve
military parity with the Kremlin at the cost of $1.5 trillion,
30 times more than the initial $50 billion gold backed bonds
which I'm recommending.

I have estimated that in the next 14 years, the
military expenditures the United States might need would be
exactly $4 trillion, which is roughly equivalent to the
estimated gross national product of the whole country, the
United States of America, in 1986. This $4 trillion simply doesn't exist.

Having been born in Hungary, let me say that I am very grateful that President Reagan fully understands the necessity to stand up to Russian Imperialism. At the same time, let me point out that by combining monetary and military policy, we can achieve military supremacy of the United States.

Accordingly, I hereby recommend that in order to take advantage of the resulting and very obvious savings of floating one or several gold and silver backed bonds with different characteristics, the Treasury creates a nonmarketable eight percent, so-called trade-on bonds, which this government can offer to all of the American banks that are currently stocked with uncollectible debts from Eastern European countries.

In exchange for unsound paper issued by Poland, Romania, East Germany or Hungary, the banks should be offered the opportunity to pass on their dead assets to an eight percent, ten year debt to the Treasury, with the commitment that no further loans would be issued to the above-mentioned countries.

The German and French banks could always be bailed out by their own respective gold reserves. The Japanese, of course, have their trade surplus and England has its oil. True freedom bonds, of course, are made possible because of the savings created by gold backed bonds and the potential drop
in interest rates. I'm only talking, by the way, about
$25 billion. That is why I want to call gold and silver
backed bonds the defense bonds.

Let us visualize the subsequent events. If Romania
wants to roll over a $5 billion obligation of which $2 billion
is now held by American banks, negotiations about late
interest payments or possible roll over refinancing would be
handled not as a commercial but as a political transaction.

I therefore recommend the establishment of a
standing committee headed jointly by the Secretary of the
State and the Secretary of the Treasury where each and every
one of our newly created customers -- namely, the debt-ridden
desperate members of the Russian empire, would come for a
loan.

Let me now call a spade a spade. Who is financing
the troubles today in Central America? Who is paying for
Cuban troops galavanting in Africa? Who is really paying for
the Russian grain imports? Finally, who paid for the military
equipment sent to Viet Nam to slaughter American boys and
indirectly force two American Presidents out of office?

Let's stop living a lie. Directly or indirectly,
all of these monies were borrowed by the Soviet Union, by
Eastern European satellites. Chase Manhatten and our most
respected financial institutions lent them the money. The
time to demonstrate our monetary supremacy and enter into
constructive negotiations, is about to begin. I have had countless discussions on this subject or part of this subject with many well known Americans, some of whom held high office in the last ten years in the Nation's Capital.

None has been more helpful than former Secretary of Treasury, Governor John Connelly, who asked me to convey a single message today. The time for action was yesterday.

Let's visualize for a single minute that by cutting off Eastern European and Russian credit, the President could start negotiations with the leaders of the Kremlin. There would be no need to go to Geneva.

Borrowers always go to the lender. We can negotiate right here in Washington. In Washington, a day after issuing the gold backed bonds, the freedom bonds, we can start negotiating about reducing the $1.5 trillion defense appropriations.

If we achieve a five percent savings -- and we have to trust President Reagan who has already proven his negotiating skill in reducing the budget -- let us see what we have. A 75 to $100 billion cut in defense spending. A single digit prime rate and probably not more than seven or eight percent inflation rate.

The stock markets would probably go up to 500 points. I estimate that with such a scenario, 100 points is equivalent to at least $100 to $150 billion increase in the
gross national product. Each $150 billion GNP increase would represent at least $30 billion in tax revenues.

It is easy to see, Mr. Chairman, that in 1984, instead of talking only about the balanced budget, this Administration will be the first to discuss a second tax cut in the first four years of its existence.

It is far too obvious that this Republican Administration has already created a revolution in its economic policies. Is it our next objective to build bombers and be remembered as a government which has the architects to build the most sophisticated military equipment?

Why not go down in history as the Administration who made the dollar the most respected currency? If we called gold into active service and via its gold policy, used monetary as opposed to military, power to negotiate the military budget. Let 1981 be the year when we make the world recognize our monetary power.

Accordingly, we must create an active gold policy which could bring about the credibility of our monetary supremacy. We could have the upper hand in negotiations and in bringing about a more stable international environment.

We could make the Soviet Union recognize that its military supremacy was built on credit -- American credit. It is a shaky foundation. It is a thing of the past. The monetary supremacy of the United States will become immediately
recognizable. Just let the Romanian delegation come to Washington and ask for $2 billion. They can talk about Castro and his $6 billion yearly alimony from the Kremlin. We can go on and on. We can talk about Afghanistan.

The borrower is always begging the lender. The discussion about the permanent use of gold is a healthy and constructive undertaking. I have concentrated on only one issue. We have to recall, and recall immediately, gold into active service.

Make it an active as opposed to a passive reserve asset. Substitute military supremacy with monetary supremacy. None of this discussion would have been possible if not for the foresight of this administration which pushed gold into the forefront of study and evaluation.

The monumental significance of the Gold Commission, Mr. Chairman, is already a matter of historical record.

UNDER SECRETARY SPRINKEL: Thank you, Mr. Racz.

Finally, Dr. Robert Weintraub, of the Staff of the Joint Economic Committee.

MR. WEINTRAUB: Thank you, Dr. Sprinkel.

My statement will differ somewhat from my written submission. Mostly, you will be grateful to hear it will be shorter.

As it was implemented in the United States, the gold standard had three elements. One was convertability.
The Treasury bought gold from and sold gold to all comers at a fixed dollar price. International claims were settled by gold transfers.

Second, gold was used as money, as exchange media. Third, after their creation in 1913, the Federal Reserve banks were required to hold gold certificate reserves behind their currency or note liabilities and their deposit liabilities in ratios prescribed by law.

Today, none of these provisions is in effect. As described in my prepared testimony, my proposal is to provide once again for a certificate reserve requirement for Federal Reserve liabilities.

My proposal requires that gold certificate reserves be kept behind only Federal Reserve notes. However, it would be easy enough to amend my proposal to cover the Federal Reserve's deposit liabilities as well if you find that the proposal to reinstate a certificate reserve has merit and that broadening the coverage would improve it.

The purpose of my proposal is to put a lid on the growth of the nation's exchange media and, thereby, inflation. Our exchange media population is very accurately measured by the sum of publicly held coin, non-bank traveller's checks, currency and deposits in depository institutions that can be withdrawn by check.

The Fed now calls this sum M-1-B. It will be
called M-1 in 1982 and that is what it should have been
called always. There are some, perhaps many, who will assert
that it is unwise to focus monetary policy on constraining the
growth of our exchange media.

For now, let it suffice to say that I believe it is
unwise not to do so. I will develop my reasons for saying so
later on. In my proposal, the limitation on M-1-B growth is
enforced by tying the maximum allowable growth of currency in
every 12-month period to a programmed increase that period in
the value of the Federal Reserve's gold certificate.

The official price of gold, which is now $42.22 an
ounce, and as correlaries, the value of the Fed's gold certi-
ficates and the maximum growth of currency issues will be
allowed to increase percentage wise each period by enough to
offset a predetermined increase in the certificate require-
ment, which starts at nine percent, plus the maximum desired
growth in M-1-B, plus an adjustment for changes in the checking
deposits to currency ratio.

The adjustment will be made by application of a
formula that will permit reaching, but not exceeding, maximum
M-1-B growth if the deposit to currency ratio changes. The
formula is given in my prepared testimony.

In essence, the price of gold is increased faster
than the programmed increase in certificate requirement, plus
the limit on M-1-B growth, if the public prefers to hold more
exchange media in the form of currency, it would rise more slowly if there was an increase in the checking deposits to currency ratio.

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 to.

Thus, 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 does not require or in any way provide for Treasury sales of gold at a fixed price to anyone at this time or in the next few years at minimum. However, it paves the way for future consideration of this question.

It can be considered when the official price of gold equals or exceeds the market price. As was noted earlier my plan provides for yearly increases in the official price or book value of gold.

The official price, now $42.22 an ounce, is essentially programmed to rise in a period of eight or so years to the market price. Capital gains accruing to the Treasury from raising the official price would be used to retire Federal Reserve held Treasury debts.

The time table for increasing the official price of gold can be changed if desired. Whatever time table is
adopted, and I think mine is reasonable if not optimal, we
should put off until the official price is equal to or greater
than the market price, the decision on whether to again
require Treasury to buy gold from and sell it to all comers
at a fixed price and settle international claims by gold
transfers.

Historically, as Richard Zecker has observed,
convertability was used not to restore stability in a monetary
crisis but to preserve the value of the dollar after monetary
stability had been restored as, for example, in 1879.

My plan can be improved by amending it to provide
immediately for coinage of gold by Treasury as suggested by
Dr. Paul and Mr. Costamagna.

Under their proposal, as I understand it, gold
coins would be sold to all comers at market prices, plus a
small fee to cover coinage costs. Exactly how gold coinage
would be incorporated into my gold certificate reserve plan,
even while the official price of gold is below the market
price, is detailed in an appendix to my proposal which I have
submitted this day, marked Weintraub Appendix A. I believe
it has been distributed.

Finally, to make the coinage provision meaningful,
we have to make sure, as Richard Raun has pointed out, that
increases in the dollar price of gold coins are not subject
to capital gains taxes or losses deductible. That, too, I
recommend.
To recapitulate, at this point, my amended proposal is to reinstate immediately two of the three elements that comprised the gold standard as it was implemented in the United States until 1933.

To lay the foundation for review and consideration of the third element -- convertability at a fixed dollar price, in about eight years. If adopted, my proposal would produce important benefits.

Most important, it would provide our monetary system with the anchor that it now lacks and which it needs to promote price level and economic stability. It would legislate the currency and exchange media growth be reduced to noninflationary levels and kept there.

The importance of doing this is shown by the fact that over the years as the growth of our exchange media, or what is now called M-1-B, was speeded up, inflation accelerated. From 1956 to 1967, yearly M-1-B growth averaged 2.4 percent. Yearly GNP inflation averaged 2.2 percent.

From 1968 to 1980, both averaged 6.4 percent.
From 1977 to 1980, yearly M-1-B growth averaged 7.5 percent.
Yearly GNP inflation was 7.7 percent.

Some will quarrel with focusing on exchange media or what is now called M-1-B. They will say that until 1980, we did not measure exchange media to include NOW and ATS accounts and credit union share drafts.
That is true. But all it testifies to is that the Federal Reserve was slow to recognize the obvious. Therefore, it is important to define check deposits generically as my proposal does, and not try to provide a list now for all time.

Critics also will argue that the relationship between M-1-B growth and current dollar GNP growth is slippery and has changed in recent years because of the shift in money demand. They are wrong.

Their demand functions probably are misspecified. The fact is that measured from one three-year period to the next, in the post-Korean War period, yearly percentage changes in GNP and M-1-B have been very closely related.

Quixotic concerns with complicated econometric forums and short-run myopia cannot be permitted to blind us or to blind you to the stability and closeness of the M-1-B current dollar GNP relationship over a three year period, a not very long run.

That relationship is captured in the chart labeled Weintraub Chart 1, which also has been distributed. The chart plots yearly average percentage increases in M-1-B on the horizontal axis and yearly average percentage increases in nominal or current dollar GNP on the vertical axis.

The data are grouped in three-year non-overlapping periods from 1956 until now. The chart shows the relationship between the two is close and stable.
That, in turn, means that despite all the new financial instruments and innovations in recent years, RP, Euro-dollars, Money Market Mutual Funds, NOWs, minimum balance banking, streak banking, credit cards, et cetera.

The rate of rise of M-1-B's velocity remains what it was in Eisenhower's presidency, about 3.3 percent per year. As a result, it has been and continues to be a pretty good bet that in any three-year period, current dollar GNP will increase percentage wise by 3.3 percent plus the percentage increase in M-1-B.

The percentage increase in M-1-B will equal the percentage increase in GNP minus 3.3 percent -- a pretty good bet. Let me add that measured from one year to the next as well as from one three year period to the next, this has been an even better bet since 1972 than before 1972.

In other words, the volatility of the rate of rise of M-1-B's velocity has been less recently than in the 1950s and 1960s. Add also that nothing -- nothing whatever -- is gained by increased M-1-B growth.

When all is said and done, accelerating M-1-B growth increases the inflation component of GNP, not real growth. The record displayed in the chart refutes those who talk about $40 or $50 billion of missing money.

There are no missing exchange media to speak of. If there were, the rate of rise of M-1-B's velocity would have
been substantially higher in recent years than in the Eisenhower and Kennedy years. It hasn't been.

The fact that Federal Reserve officials refuse to recognize the stability and closeness of the exchange media current dollar GNP relationship and refer instead to shifting demands, missing money and slippery relationships, is precisely why it is important to legislate lids on currency and exchange media growth.

Our fiscal and regulatory programs will not be credible until we do. No one can be sure what the Federal Reserve will do or even what it will focus on next year and in later years until we do.

Until we do, financial markets will be unnecessarily volatile and investors unnecessarily hesitant. It is also important that we tie these lids to gold. In this regard, former Federal Reserve Board Chairman William Martin, told the Senate Banking Committee in 1965, "By retaining the traditional gold backing for federal reserve notes, the proposal, a proposal to repeal the certificate of reserve for federal reserve bank deposits, would be reassuring to those who in their continuing concern for the stability of the dollar see in a gold cover requirement an important element of strength.

The value of any currency is so much a product of confidence that one should not disregard this advantage."
Later, in the same hearing, Chairman Martin, responding to questions by Senator Douglas, stressed that, "The gold cover requirement has some valuable disciplinary effect."

Let me close by noting that my proposal, despite what a subsequent witness, Robert Solomon, asserts, gives the Federal Reserve ample discretion to meet with any liquidity crisis and to implement counter-cyclical policies.

I have already discussed how my proposal allows the Fed to meet any liquidity crisis. In regard to counter-cyclical action, first if the trend rate of rise of M-1-B's velocity jumps well above the 3.3 percent average of the past 25 years, inflation would rise unless offsetting action was taken.

Such a jump in velocity could occur in a war or war-scare emergency. It could occur if future banking innovations and new money instruments allowed proportionately greater economizing on holding exchange media than innovations and money instruments did in the past.

Whatever the reason, in the event the appropriate antidote is to keep currency and M-1-B growth well below the legislative lids. That can be done just as easily under my proposal as now.

The Fed will be free to operate under the legislative maximums under my proposal. However, if the rate of
rise of M-1-B's velocity should fall, the three percent lid on M-1-B growth recommended for 1984 and later years might have to be increased.

The Fed would have ample discretion to deal with this case as long as M-1-B's velocity is rising. If it is rising even one half of one percent, there would be no reason for change.

However, an upward revision of the lid on M-1-B growth would be warranted if velocity exhibits negative growth -- an unlikely case, I think. It would be easy enough to provide for revision were this case to come to pass.

Indeed, the legislation can provide for automatic review every four or five years to determine whether a higher lid is warranted. In any case, it would be unwise not to legislate safeguards against the recurring nightmare we have been living with, a nightmare of persistent excesses of currency in exchange media growth just because there is a chance that the time will come when we want to relax these safeguards.

Laws are made not to stop us from ever, come hell or high water, doing what now appears to be dangerous, but only to make us deliberate before we do.

I would think in this regard that the Federal Reserve would welcome the legislation that I propose. It will not diminish the Federal Reserve's independence. It will
increase it. It will increase it by providing a buffer against strong, sudden, ephemeral and perverse political winds. Recent history shows that this buffer is needed. Thank you.

UNDER SECRETARY SPRINKEL: Thank you, Dr. Weintraub. You have now heard from each of your invited panelists. I'd like to proceed to the questioning by alphabetical order. We have about an hour and 45 minutes remaining. If you could keep the initial questioning to something near five minutes, I think we'll have adequate time.

The first member of the Commission, by alphabetical order, Mr. Costamagna what questions do you have?

MR. COSTAMAGNA: May I ask, Chairman Sprinkel, as a point of order, are our questions to be directed to all speakers at this time or just one individually?

UNDER SECRETARY SPRINKEL: Whomever you would prefer.

MR. COSTAMAGNA: I mean all of my questions will have to be taken up at this time?

UNDER SECRETARY SPRINKEL: It's up to you, sir. I doubt we can in five minutes.

MR. COSTAMAGNA: My first question is of Professor Holtzer. Doctor, first of all, I want to thank you for sending us a copy of your book. Being a lawyer myself rather than an economist, I found it particularly interesting reading.

DR. HOLTZER: Thank you.
MR. COSTAMAGNA: My question is in terms of a domestic ownership of gold. What legislative changes do you think would have to be made in order to allow Americans to be able to own gold if possible?

DR. HOLTZER: Well, is this --

MR. COSTAMAGNA: I would phrase that more in terms of gold as money. I know that we can currently own gold.

DR. HOLTZER: I was going to address the question as asked. We lawyers characterize it as leading. It is my contention just by way of preface that there is no right to own gold.

At the moment, Americans may own gold just as they could before Roosevelt came into this city. Shortly there­after, they couldn't. I envisage the day when we won't be able to.

It isn't a right, as I characterized in my testimony today, or an irrevocable privilege. To me, the most fundamental question is how can Americans be assured of the right to own gold. I would add somewhat redundantly, permanently, forever, unsaleably, unconditionally, et cetera.

I don't know whether, even through the device of Constitutional amendment, that can be done anymore than speech can be assured to be free notwithstanding the First Amendment saying that Congress shall make no law respecting speech.
The fundamental cleavage here, I think, is between rights and privileges. The only way that we have a chance, I think, regarding gold as now owned or as an integral part of the monetary system, would be through amendments to the Constitution. I am not even completely sanguine about that.

The devilish minds of judges, as you well know, seem able to surmount almost anything. I think they would have a more difficult time of it. I think if anyone could ever get an amendment enacted to that effect, it might reflect sufficient public feeling on the subject so as to perhaps dissuade them.

At the bottom of it, owning gold just for security, owning gold as money, owning gold for whatever disparate reasons that people might wish to ultimately rests, I think, on the recognition of individual rights, as I said in my talk.

Until and unless that happens, either in a general, diffuse, widespread public way or an institutionalized way through an amendment of some kind, it is hopeless largely.

You know and I know and I think everybody in this room knows, if they will admit it, that the Congress of the United States could tomorrow morning nullify the gold clause which is now legal.

They could nullify the so-called right to own gold. They could do whatever they damn pleased about all of it. If the President approved it or even if he didn't, there could be
an override, we'd be out of the gold business tomorrow.

Suddenly, it would be FDR all over again.

We will be told, of course, that it is important. It is necessary. It has to do with the smooth function of the government and the monetary system. That is nonsense. If we were on the street, I would characterize it differently. I'm sure everyone knows what I mean.

It is simply an issue of statism. Either we're going to have a government which has either total or virtually total or lots of power over people -- economically, politically, monetarily, socially, et cetera -- or we aren't.

The gold issue is simply a subcategory of that much wider problem. Just to finish this quickly, I started out thinking about a Constitutional amendment for gold. As you know from my book, I finally took the position that there has to be a complete separation of government and money.

Short of that, it won't work. Even at that, it may not work.

MR. COSTAMAGNA: Then you feel that what appears to be happening as a de facto ownership of gold and the possibility of a de facto domestic gold system developing by virtue of Americans being able to by at least foreign coins.

Maybe that is the best that we can have at the moment?

DR. HOLTZER: De facto and not de juris if that
is the distinction you wish to make?

MR. COSTAMAGNA: Yes, I am.

DR. HOLTZER: There is no question about it.

MR. COSTAMAGNA: My next question if I still have time is of Mr. Racz. In the paper which you supplied us, rather than in your talk, I noticed you made a statement here that I am quoting -- Well, you were quoting, I should say, President Reagan's statement.

That "Money in the hands of the people is more valuable than money in the hands of the government". I don't know if you recall that in your writing.

MR. RACZ: Yes. That was before the election, when he discussed this.

MR. COSTAMAGNA: I understand your thoughts of having convertible bonds. I also appreciate your saying that these bonds and their conversion privilege would allow the individual buyer to ultimately have gold if he wishes to convert.

MR. RACZ: That's correct.

MR. COSTAMAGNA: Can I say then that you would agree with the further statement, if I may take the liberty of further adding to that quotation, that gold in the hands of the people is more valuable than gold in the hands of the government? Would you comment on that?

MR. RACZ: What I am saying is more assets in the
hands of the American government and American people and our
allies is better.

What has happened in the last 20 years is first,
we have given out a lot of power as a country and as a nation
because of Viet Nam. In the subsequent ten years, because we
were ill prepared and we had some domestic problems.

We have given up a lot of power for oil. What I
am foreseeing here -- and believe me, somebody who has lived
inside the Soviet empire, through military spending, we are
absolutely jeopardizing our whole future.

In the next 14 years, we don't have $4 trillion to
spend on defense. Now, unfortunately, I've never been an
attorney but I've been a businessman all my life and I am a
member of the New York Stock Exchange.

When I structure a project, I try to foresee the
pluses and minuses. This problem of standing up to Russian
Imperialism and that's what I want to call it, is a necessity.
They are in Afghanistan. They are in Somalia. They are in
South Yemen. They are in Central America. They are in Cuba.
They are all over the place.

Because of the last Democratic Administration or
because of other mistakes, we have to stand up to them. Not
at the price of $4 trillion. We don't have it. What we have
to do -- and we have found out that we have the assets. We
can stand up to them.
We have money. To make our money more valuable, we discover we have gold. We use gold in an imaginative, sophisticated manner like an investment banker, so we can tell the other guy, "Now, look fellow. You want to fight with us? You want to compete with us? You want to be arrogant with us? We'll teach you a lesson fast."

Not next month. Not two months from now, but next week.

MR. COSTAMAGNA: Then you would be advocating that the government use the gold as an asset rather than the people.

MR. RACZ: As an individual, naturally, I don't know how to negotiate with the Kremlin. They never came to me. Today, the market is open. Any American citizen can go to Chicago and our firm would be delighted to take their orders for Americans. They can buy gold and silver -- no problem. They just place an order.

MR. COSTAMAGNA: They can't buy American gold, though.

MR. RACZ: They can buy American and foreign gold because we are willing to take both of them. Just call early enough in the morning so that we can go to the London market or the Swiss market.

The contract is an $85 commission, any time, sir. People today can buy gold and silver. Let's get this point clear, okay? What I am saying is the gold and the silver that
the government has given the opportunity to the Treasury or the
government in a highly sophisticated, imaginative way, to
raise maybe $100 or $200 billion which doesn't have to go
into the short end of the market. This daily decides the
prime rate, et cetera.

Use this leverage immediately to negotiate on this
$4 trillion defense expenditure. Frankly, I fully trust,
just from observation, of course, in reading the paper, the
negotiating power of President Reagan. He will use it.

I don't want to advocate that tomorrow morning I
want to bankrupt Eastern Europe. If necessary, use it.

UNDER SECRETARY SPRINKEL: Gentlemen, thank you.
If we could proceed, the time is up.

MR. COSTAMAGNA: Yes, sir.

UNDER SECRETARY SPRINKEL: The next member is
Mr. Coyne who is not here. He has submitted two questions
that he requested I ask. I'll be glad to ask one of them if
that is agreeable to the Commission. Otherwise, we'll do it
later.

MR. COSTAMAGNA: Wouldn't it be in the interest of
time to follow the usual procedure, which is simply to submit
the questions and have them answer them on the record?

UNDER SECRETARY SPRINKEL: Yes. I'd be pleased to
do that as well. The next member of the Commission is
Senator Dodd. Do you have some questions, sir?
SENATOR DODD: Thank you, Mr. Chairman. Let me express my apologies to the Commission for not having been here earlier. I was a little bit late this morning.

I would like to ask a series of questions, a couple if I could, to Mr. Weintraub, having arrived a little after the testimony of the earlier witnesses. I'll be going over those and will possibly have some questions on the next go-around.

Mr. Weintraub, on page four of your testimony -- now, this is the prepared testimony that you submitted ahead of time. You link money growth under your proposal with the assumption that the number of ounces certified by the certificate reserves does not change.

I'd like to ask you a couple of very brief questions. How valid is that assumption? Wouldn't all gold sales and purchases have to be prohibited in order to validate that assumption?

MR. WEINTRAUB: I think I covered that at the end of my prepared testimony, Senator, when I referred to the fact that the final question concerns possible Treasury purchases and sales of gold on pages 12 and 13.

I said in this regard that if the Treasury purchased gold, greater growth of currency would be allowed than the prototype plan contemplates unless the requirement ratio was adjusted commensurately. You could do that.
As long as the legal value of gold is below the market value, such purchases are unlikely at least on a scale large enough to be concerned about.

This is because the Treasury's immediate spending power would be decreased by such purchases by an amount equal to the difference between the market and legal values of gold times the number of ounces purchased.

It is highly unlikely that Treasury would make any purchases. Gold sales, of course, are possible. However, if there were sales they would reduce the allowable growth in currency in the current and all future years.

That prospect, I think, would act as a very strong deterrent to future gold sales until such time as the price of gold were equal -- the official price were equal to the market price.

At that point, I'm recommending we re-examine the question of convertability. I don't think it represents any real problem, Senator.

SENATOR DODD: You sort of anticipated the next two questions. It would appear at first glance that your proposal is incompatible with convertability proposals, where sales and purchases of gold would be permitted to take place as market conditions dictate.

That would appear to be the case and therefore, confronted with that incompatability, how would you respond to that?
MR. WEINTRAUB: I think that in eight years, we might want to face up to that. We may view my proposal as a bridge to that point in time.

I think that if we were to go to convertability, then it is clear you'd have to have another set of guidelines for guiding monetary growth. It may be that in eight years, we would decide that this system has worked well enough.

Let's leave it in place. Let's keep affixed an official price of gold at which we neither buy nor sell gold.

SENATOR DODD: The base price, as you pointed out, is $42.22, obviously much lower than gold's market price today. Under a system of convertability, such a low price in a pure gold regime would have a massive counteractionary effect.

I wonder if you have any similar problems under your proposal.

MR. WEINTRAUB: No. Keep in mind that the official price is the price at which gold is neither being bought nor sold. There is no problem here whatever.

Any sales or purchases by Treasury in the next eight years would have to be at market prices under my plan.

SENATOR DODD: You are not using the base price?

MR. WEINTRAUB: No. The base price is simply used as a means of increasing the maximum allowable currency growth.
SENATOR DODD: In effect, what you are suggesting here is we don't really need to use gold. We could use any commodity where you had a fixed supply, where you fixed the supply. You could use paper clips, in effect.

MR. WEINTRAUB: Yes, indeed. You certainly could. You could even do without this. However, I would again remind you of former Chairman William Martin of the Federal Reserve Board's statement that this is indeed a valuable discipline.

It does give people confidence. It would have some welcome effects. I don't think we should ignore that at all, Senator.

SENATOR DODD: Mr. Chairman, I'll pass at this point.

UNDER SECRETARY SPRINKEL: Thank you, Senator Dodd. Senator Jepsen is missing. Dr. Jordan is here. Do you have some questions for the panel?

DR. JORDAN: I would like to ask a question for each of Professors Aliber, Meltzer and Weintraub to answer.

If you consider a monetary rule, whether or not it included a gold reserve certificate, do you believe that a legislative statute would be sufficient to give the sufficient probability that it would be adhered to and to give credibility to the rule? Or do you think it would require a Constitutional amendment?

DR. ALIBER: I think your question can be
rephrased in terms of another question. That is, how much
credibility do you want? How much credibility do you think
you can get? How much credibility are you willing to pay for?

The legislature can establish a monetary rule
which will give some credibility. A Constitutional amendment
would undoubtedly provide greater credibility. A Constitu­
tional amendment with severe penalties for failing to adhere
to the rule would even provide greater credibility.

Credibility can be thought of in terms of a ladder.
You can buy more of it at higher legislative or Constitutional
costs. It's important to note that the legislation credibili­
ty should be distinguished from what the public believes
about credibility.

Rules become credible only when the authorities
face a choice, a problem, a crisis, a choose to abide by the
rule rather than to incur the costs of deviating from the
rule.

DR. JORDAN: Do you have a recommendation as to
what you would like to see done?

DR. ALIBER: At this time, it seems to me that the
costs of trying to introduce gold into the domestic monetary
system are just so high, the risk is so immense, that the
use of gold I think should be limited to trying to improve
the functioning of gold in international monetary arrange­
ments. I have so indicated some arrangements in the
concluding part of my testimony.

DR. MELTZER: Think about the debt ceiling that we are all familiar with. It is a rule without any sanction. Consequently, it turns out to be no rule at all.

So any rule has to have some sanction. A rule that says you have to provide for two to four percent growth in the money stock doesn't provide a sanction of what would happen in the event that the rule were breached or the Congress would decide to breach it because of some perceived or imaginary crisis, is not a rule.

It would have low credibility. Therefore, I would think what is important in thinking about rules is to make the rule carry with it a sanction. That is a sanction which was time honored at one time was that whenever the finance minister devalued, it was considered a mark of shame. He had to resign.

In our day, it's considered to be an achievement and he is applauded. I would think that that represents something about the nature of the society and what it wants to do.

In order to achieve something with a rule, there must be a sanction in the rule which is there and which is imposed. For example, I would have as a sanction that when the rule of two to four percent money growth is breached, that the entire Federal Reserve Board or the people
responsible for the rule, would be forced to resign. That would be one type of sanction.

MR. WEINTRAUB: I guess I'm a little more sanguine, Dr. Jordan, about laws. I think, as I said in my testimony, that they are intended not to make us, come hell or high water, never do something. Rather, to make us deliberate before we do it.

We actually do that even with the debt limit, although that might become something of a charade. There is no doubt that Congress has to raise that debt limit before the Secretary of the Treasury can order the issuing of new debt.

I might add that in the case of my own feeling that I wish to place on the growth of currency and, thereby, M-1-B, there are sanctions that would be involved. They are the usual ones, as I think I pointed out on October 26.

The governors of the Federal Reserve could be removed for cause by the President if in fact there were some deliberate violations of that ceiling. Congress could impeach. Private citizens could go into court and get a writ of mandamus demanding performance.

It should also be noted that in placing the lid on currency, the Secretary of the Treasury will also be involved. He's got to sign the request of the Federal Reserve to print more currency.
There are a lot of people who might stop the printing press in this case. I think it would work rather well. I am not so sanguine as to understand that there might not come a time when the rule would be changed.

UNDER SECRETARY SPRINKEL: Thank you, Dr. Jordan. Mr. Lehrman and Dr. McCracken are missing. Congressman Neal?

CONGRESSMAN NEAL: I guess my interest in this is along the lines indicated by the questioner, Mr. Jordan. I am particularly intrigued with Dr. Weintraub's proposition.

As I understand it, it would require essentially that we go to a monetary rule. Isn't that essentially, Dr. Weintraub, what your thinking is?

DR. WEINTRAUB: Yes, at a maximum. There would be no minimum, of course, Congressman Neal, but you might say it is half of the loaf of the bill that you put into the hopper several times in the past to control money growth.

CONGRESSMAN NEAL: I also think I have more faith in our system and so on than I hear indicated by some. I think that if we had in law a monetary rule that it would be the intent of the Congress and the authorities that would administer the law to do it in good faith.

The difficulty I'm having with your proposal, which I certainly find very fascinating and very useful, is that I still can't see the advantage of it over a legislated monetary rule.
The disadvantage I see is that it seems to me that it's quite complex. I think because of its complexity, there would be difficulty in communicating just what had transpired should we move in this direction.

Of course, it would require legislation also. Just the recommendation of this Commission would not bring it about. In the bill that I've introduced and other proposals also, there is the possibility for some flexibility.

That is, if a super majority of the Board of the Fed, the Market Committee of the Fed, voted for some emergency reason to exceed the limits, then that would be entirely possible under your proposal.

I don't know that we would have that kind of flexibility. I'm just sort of thinking out loud with you and it seems to me that if there were a general agreement that we ought to move in the direction you suggest, and of course, I would love to see that.

I can't see the advantages of your proposal over legislating a monetary rule. It seems to me the disadvantages of your proposal would be that it is complex. It might not be the flexibility that there would be under the legislated proposal.

I am just anxious to hear your comments and those of Dr. Meltzer and Dr. Aliber and others also.

DR. WEINTRAUB: There is no question but that much
of what you say is correct. My system and my proposal is
more complicated than a simple "put a lid on M-1-B growth"
would be, which is more easily understood.

That is its principal disadvantage. I think
people could understand that that's what its purpose was.

There is, however, an advantage.

The advantage is, as I said before, we are linking
the growth of money to gold through the certificate reserves.
That does have a psychological advantage. I'm not a psycho-
logist, but I do know that such people as former Chairman
of the Federal Reserve Board, William Martin, who was an
outstanding chairman as we all know, well understood this
psychology.

As a result, he favored retention, right up until
the very end, in keeping the gold certificate reserve on in
the 1960's.

I might add the problem with that gold certificate
reserve was that it would not bend. It could only be broken.
The proposal I have put forth is one that would bend but not
break. You could gradually ease it.

I would also say that the plan is very easily
amended. I think it is a good idea to put in an emergency
clause. By a super vote of the Federal Reserve Board or the
Federal Open Market Committee, you could get a limited
waiver for a short period of time.
This is essentially what was envisioned in your bill. Instead of a three percent maximum, if there were such a period, where there was a sudden scare and everybody began to hang onto money and the rate of rise of velocity went below zero for a short period or even for a longer period, the Federal Reserve could, by this super vote, essentially provide more currency than the three percent maximum that I envision.

On the other hand, I think that should be done — that should not be done lightly. One should put all manner of safeguards in there to make sure it's done only for very good reasons.

I think I also said that the Congress should probably review every four or five years what the lid is. I do believe that it is plenty flexible. I don't think you would want to get it anymore flexible or you'll be back to where we are right now, which is no constraint whatever.

I think it is terribly important to realize that no one in this room, including the three Federal Reserve Governors, can guarantee that we will not have nine percent money growth again next year, or starting next month.

They just can't guarantee it. One reason for it is they have no constraint. They will play it by ear.

DR. MELTZER: I am very much in favor of your proposal. I agree with the merits that you have suggested
that it has relative to Dr. Weintraub's proposal. Namely, it is simple, easily understood, clear, and it accomplishes the major purpose.

That is it doesn't provide perfection, but it provides much greater stability and would have prevented us from having the last 15 years of inflation if it had been adopted some time ago.

I would only amend your proposal. I would be very happy to see your proposal enacted into law. I would think that it would be an important step in the right direction. I think the proposal perhaps would function better if it contained a sanction that would help to establish credibility. I would be willing to accept it without the sanction if that could be achieved.

CONGRESSMAN NEAL: Dr. Aliber?

DR. ALIBER: Yes. I think it is a theorem that simple rules are preferable to more complex rules. Therefore it seems to me that the Weintraub Proposal is unnecessarily complex.

Moreover, it seems to me that the Weintraub Proposal really goes back to a view of gold, the credibility of gold, that is passe. You may remember that in Schlesinger's book on Kennedy, he wrote that the only decision which President Kennedy thought more dangerous and more costly than dropping the bomb was changing the dollar price of gold.
When we change the dollar price of gold and we devalued in 1971, it was a mouse. It was not an explosion. I think the effort to attempt to figure out a way to use gold to get credibility into the system simply does not pay off in terms of cost-benefit analysis.

CONGRESSMAN NEAL: Thank you.

DR. WEINTRAUB: May I add one word to this? It is always possible that as a proposal such as mine grinds its way through this Commission and out into the legislative process, it could be amended to become the proposal that Congressman Neal has suggested.

I personally would favor sticking with mine. I think it has certain advantages. I do think that in this Commission's deliberations, that's the one that's got to be considered. I personally would favor continuing to consider it through the legislative process.

CONGRESSMAN NEAL: May I just make one comment? I just wanted to let the record show that I meant no criticism of Dr. Weintraub. I think he's been a great champion of promoting the idea of stability in our monetary system. He has been a great warrior in the battle against inflation.

I hold his views in very high regard. I just wanted the record to show that.

UNDER SECRETARY SPRINKEL: Thank you very much,
Congressman Neal. Governor Partee?

GOVERNOR PARTEE: To continue along more or less the same theme for just a little bit, it does seem to me that we have two subjects that we're discussing today and that were presented by the witnesses.

One is what the role of gold should be. The other is the desirability or undesirability of a monetary rule. Dr. Weintraub has ingeniously joined these two things. It seems to me, Bob, that there is -- going back to Senator Dodd's question.

It seems to me that the practical effect of your proposal is to immobilize the current gold stock pretty much. As you said, in response to him, the Treasury wouldn't buy any gold, because it costs too much. They wouldn't sell any gold, because it would reduce the monetary base on which money growth could be based.

Dr. Aliber, for example, suggested -- if I understood him correctly -- that in time, we ought to seek a market value of gold that would look forward to its being traded again among central banks.

That is, that there would be an official position for it. Dr. Racz suggested that we should use gold as a collateral for a convertible bond that would be available at a lower percentage interest rate than nonconvertible bonds are.

It seems to me one other possible disadvantage of
your program, other than those that were mentioned by
Congressman Neal, is that it immobilizes gold and means that
you can't have free use for other purposes. What would you
say to that?

DR. WEINTRAUB: I would say that it might
immobilize it for a few years. Let's ask ourselves what
would be the result of selling gold right now?

That is, if we wanted to do this. First off, it
would decrease the monetary base, as you know. Of course, you
could compensate for that by open market purchases.

We would then have to decide what to do with the
Treasury's capital gain. Of course, you could do the same
thing that I'm recommending. Namely, to use it to retire
Federal Reserve debt.

I don't see any advantage in this. I don't really
see why we would want to sell gold. On the other hand, I
don't want to say that such a case is impossible. I would
simply say to that that in that event, one can go before the
Congress, the President can go before the Congress, and ask
for a waiver, a change in the scheduled certificate reserve
requirement increase.

If in fact you were selling gold for some emergency
reason, then at that point in time, what you would want to do
is to reduce the certificate reserve requirement commensurate-
ly. It is easily done, Governor. I don't see any conflict
whatever. It would, of course, require a change in the schedule. We all know that Congress can do things very fast when it wants to.

In my lifetime, they've declared war several times. I can't miss this opportunity to say something to my friend, Dr. Aliber. I didn't think dropping the bomb was costly at all. Maybe that's because we were in different places at the time.

GOVERNOR PARTEE: Let me ask Dr. Aliber what he had in mind. I thought that the suggestion was that more in the ordinary course, you would expect that the central banks, the governments, might trade gold to settle -- as a reserve asset, to take care of balance of payments, deficits and so forth.

You couldn't ask for a Congressional waiver every time the United States wanted to do that. What would be your comment on this question of immobilizing the gold?

DR. ALIBER: U.S. owned gold has a market value in excess of $100 billion. I expect that market value is going to fall because this Administration's policy will be successful in bringing down the rate of inflation.

The market price of gold will fall substantially. We should all be thankful for that. But perhaps, the market value will trough at $60 billion or $50 billion. One can easily think of occasions in which we will find it to our
advantage to wish to sell gold as a way to help stabilize activity in the foreign exchange market or U.S. intervention in the foreign exchange market.

That may not seem immediate. I think it's not likely to be immediate. There have been occasions in which that has been useful in the past. There will be, almost certainly, likely to be occasions in which it will be useful in the future.

It seems to me, to lock up $50 or $100 billion of gold for what is essentially a window dressing operation is a rather expensive form of drapery.

DR. WEINTRAUB: Let me make a further comment on this. My plan doesn't lock it up forever, as you know. When the official price gets to be equal to the market price -- I think that will be in about eight years under my time table.

We can then make a decision as to whether or not to have full scale convertability. Some people might look forward to that. I certainly don't want to say yes or no to it at this point in time.

I also point out that my time table is a little lengthy for some people. You can shorten it. It's easily done. The numbers are easily manipulated.

I do want to caution all of you of Richard Zecker's point which I raised in my prepared testimony. One doesn't go to the gold standard during periods of monetary instability.
Basically, we have gone to the gold standard convertability in settlement of international claims against the dollar by transfers of gold only after we have restored economic and monetary stability as, for example, in 1879.

That is what my plan essentially is looking forward to do. It may be that four years from now, Dr. Aliber can come before the Congress and say, "I think it's time to have full scale convertability", and I may at that time say yes, it is. I surely don't think we ought to do this tomorrow.

GOVERNOR PARTEE: May I ask just one more question?

UNDER SECRETARY SPRINKEL: Surely.

GOVERNOR PARTEE: Mr. Racz, you proposed at one point in your paper the issue of, I believe you said, a $50 billion bond at a seven percent interest rate with a convertible feature for gold at $550 an ounce.

May I ask you how you arrived at those two figures -- seven percent and $550?

MR. RACZ: It's very simply a market judgment. What I also stated with respect to a previous question was the American government could actually both the physical and the future market. In case the gold -- in other words, if we are selling a convertible on bonds at $550 and the market price is $420, I see absolutely nothing wrong since we have the dollar in case of redemption, to pick up the
equivalent value in gold even at lower prices or even buy
more. I appreciate we have a value of gold holdings at
$100 billion, a national debt of a trillion, a Euro-currency
market of $1.2 trillion.

I would say a constructive policy is to have
constantly increasing gold supply and a series of bonds sales
in gold and silver.

DR. MELTZER: May I just add one thing to the
question that was asked previously, Governor Partee? I think
that there is a fundamental difference between Dr. Aliber and
Dr. Weintraub which is being lost in this discussion.

That is, if I understand Dr. Aliber's point of
wanting to make transfers in gold to settle international
transactions, he obviously is thinking about a fixed exchange
rate system of some kind.

 Whereas, I believe Dr. Weintraub's proposal does
not require a fixed exchange rate system of any kind.

GOVERNOR PARTEE: I don't know. Were you thinking
of a fixed rate system?

DR. MELTZER: If he is not, then I don't understand
why we would have to transfer gold.

GOVERNOR PARTEE: It's an asset that could be used
to settle a debt.

DR. MELTZER: So could anything. I mean, any
asset could be used.
DR. ALIBER: This is an asset whose total value is now 100 plus billion. We could think of countries under the current system that have actually sold gold or have mortgaged their gold — Portugal is one example.

Long before we get back to the fixed parity or fixed exchange rate system or pegged exchange rate system, we will find numerous occasions in which central banks will intervene in support of their currencies in the exchange market. They find it very useful to get the foreign exchange by selling gold.

It would be advantage to sell that gold to other central banks off market rather than to sell that gold on the market. There is no automatic association between gold transactions among central banks and a fixed exchange rate system.

That was characteristic of a brief period in monetary history unlikely to be characteristic over the next 25 or 50 years.

DR. MELTZER: I would only add that I see no advantage in that system. Under the present arrangements, anybody can sell gold. Any central bank can sell gold at any time at the world market price. As you point out, they do.

SECRETARY REGAN: Congressman Paul, before you start your questioning, may I apologize to the members of the Commission and to the witnesses for not being here during
their opening statements and during the early questioning.
I assure you I will read the record carefully in order to
find out what transpired in my absence.

Unfortunately, I had to be at a series of meetings
across the street. That required my being there rather than
here. I assure you I will be here for the remainder of the
session.

Congressman Paul, would you make your questioning?

CONGRESSMAN PAUL: Thank you, Mr. Chairman.

I find it rather frustrating to try to ask questions
to five individuals in five minutes. I guess that leaves us
one minute per individual.

I would like to make sure that the rules are clear
that by submitting questions, we can have those answered in
writing if we don't get them asked.

SECRETARY REGAN: Right.

CONGRESSMAN PAUL: I have two questions, essentially
that I would like to direct to the panel in general. The
first one has to do with something a little less complicated
than the Weinstraub plan.

It is something that I think needs to be discussed
because I think it's at the base of all of our discussions
and it is the essence of all of our discussions. That is
trying to understand the monetary unit and the definition
that we might ascribe to this piece of paper we call the
dollar.
It is my understanding, under the gold standard a definition is precise. We have a precise definition. We either say that the monetary unit is a specific weight in gold or that this dollar is defined in a precise, specific amount or weight of gold.

The argument for this is that this provides trust in the money. It allows people to save with confidence that they will get back something of equal worth at a later time.

This also begs the question about who shall have the authority to make new money. Is it somebody who has control of the printing press that makes this or shall new money come about by sweating and working and somebody who earns new money.

Who has this authority to make new money? Does it instill or give power to that individual who has this authority to create new money?

My first question, to be more precise, is what is the definition of the dollar in your minds? In the same line, I note on here it says on here the Federal Reserve note. In the old days, a note meant a promise to pay.

I see this is even signed by the Secretary of the Treasury. The Treasury signs this. It's a promise to pay our people something. I want to know whether that is a misnomer, whether we should change the name and call it monopoly money, paper money, counterfeit money or shall we...
continue to call it a Federal Reserve note? A note means a promise to pay. Today, I understand that if you turn this in, they pay you but they pay you with another Federal Reserve note.

I think it's not very surprising that people have lost a bit of trust in the money. The second question I have for the panel is to defend the system that we have.

It seems to me that we've had a pretty fair chance to work with the paper. We've had ten specific years. As a matter of fact, ten years distinctly different from any time in our history. The record is rather poor.

Interest rates are very very high. Unemployment is high. For the first time in our history, real wages are down. Bankruptcies are higher than ever.

I think that if anybody defends the paper system and the opportunity for government to manage money, they must defend this past ten years or explain it or tell me how it won't continue, as long as the authority exists in government to continue running off these (indicating).

DR. HOLTZER: Congressman Paul, let me make a quick answer to the question you raised. As you were saying that and before you began, I was toying with something I carry in my pocket just to keep my hands busy.

It's an 1886 silver dollar. Now, the difference between that and what you have in your hand is explained by
two words -- government power. As long as government has anything to do with either this or that, you're going to continue to get the difference between this and that.

The only way to bridge that gap, the only way to stop this from turning into that is by getting the government out of this whole business completely.

As a matter of fact, with all respect, if I were an economist, I wouldn't come down here and go through this kind of a ritual. It's absolutely pointless wheel spinning. No matter what is decided, it's going to be and it certainly can be undecided the next day.

Then there's going to be another set of hearings. There's going to be another Commission, more study, more legislation and more pen signing ceremonies at the White House no matter who is up there. Then it's going to change.

Then there's going to be a war or an oil embargo and monetary problems. We're going to slam the window shut. We're going to open the window up. We're going to have convertibility. We're not going to have convertibility. It's going to go on and on and on.

That is my answer to the question you raised, which is a very good one and which needs to be answered and defended, as you say, by people who have a different attitude from mine.

DR. ALIBER: Congressman, you raised four questions
and I will try to answer two of them. In terms of the promise
to pay, as long as the Secretary of the Treasury is willing
to take that Federal Reserve note in settlement of my tax
bill, then I am sort of comfortable with the system.

    It is true we've lived through a disastrous
decade. It would be a misreading of history to believe that
we have not lived through disastrous periods in which gold has
served as money.

    I referred in my testimony to the 16th Century.
If the money misperforms, the nature of the political system
is to change the nature of the monetary arrangement. The
reason we've had the Federal Reserve system was that the U.S.
monetary system misperformed in the 19th Century.

    For 30 or 40 years, there were hearings like this
one on how do we develop a stable monetary mechanism.

    MR. RACZ: The problems of the last ten or 15
years have been largely political problems. They are all well
known. As a result, frankly, any vast revolutionary change in
the monetary system, in my opinion, is totally impractical
and impossible.

    To stop currency fluctuations, to stop interest
rate fluctuations, I don't know any cure. I never had any
cure. I read quite a number of international and American
newspapers. It is a painstaking process. It will not be
finished in the first four years of this Administration.
It means painstaking budget cuts, needing a revolutionary change in the tax structure where it was possible to make a tax change. It may need a re-evaluation in the value of gold. It may mean a total change in our export policy. It will take many many years.

Until all of these changes happen, any revolutionary change and theoretical discussion, I think is just a total waste. We just have to get down to the day-to-day pedestrian tasks.

The Gold Commission has a tremendous historical achievement. It opens the tension on important national assets. It is only one little step in the long picture.

DR. MELTZER: Let me try to answer your two questions, Congressman. First, the monetary unit and its precise definition -- of course, it's nominal value is that it's just a piece of paper with the unit that we've put on it, one dollar. We could call it by some other name.

Its real value is the value of the goods and services that it exchanges for or the physical assets against which it exchanges. Its real value, of course, is only determined by the number of nominal units that we produce relative to the goods and services for which we can exchange.

The real value changes all the time. It changes in response to the way in which the public perceives the future. What we would like to do -- it would be a great
service to our people and to people throughout the world if we could do a better job of stabilizing the real value.

Indeed, I aimed my remarks in my testimony at precisely that issue. The issue before the Commission is precisely the one that you posed. What is the best way to stabilize the real value of our currency?

Every system of stabilization is going to have some benefits and some costs, as all things do. We are not going to get perfect stability. We would like to know what system of stability will produce the minimum variability at the lowest cost.

Second, and I will come back and make a few remarks about that at the end. Second, you asked to comment or defend the present system. I have no desire to defend the present system. As you know, I am a critic of the present system.

I think that among the systems that are available to be considered, the present system would stand low. No matter what present commitment this Administration, this Federal Reserve Board may have, no one can believe that the future will either be a period of noninflation or nondeflation.

Our record over the past 50 years is a record of periods of very severe deflation followed by periods of very severe inflation, interrupted briefly by a period of stability which is much shorter than either the periods of deflation
or the periods of inflation.

We have absolutely no belief that a future system such as the one we have, whether it's tied through or whether it is untied, that that system would produce stability. Nor is there any reason to believe that we cannot do better.

I believe that the way to do better is to adopt some fundamental changes, which this committee could very well do. One is the Neal proposal. Adopt that. Sell gold out of the Treasury to people who would like to buy it at their demand.

Adopt parts of Senator Simm's proposal which would allow people to buy gold out of the Treasury and make it subject it to no taxes on the transaction. There would be a warning system to the Treasury.

When people come to buy the gold at the market price, that would be a warning to the Treasury that people had lost confidence in the money. That would produce some system which would keep us.

The combinations of those things I think are very salutary steps in the direction of providing greater stability than we have had over time. I can elaborate on some other changes that I would like. I share your view that it would be very useful to take back the gold from the International Monetary Fund and other steps along that line and allow that to be part of the government's gold stock which would be
available for sale to the public.

    I believe that kind of a sanction is a very useful
device for making sure that the monetary discipline that is
so badly needed in this world has a better chance of being
maintained. No system will give us an absolute guarantee in a
world that is subject to the kinds of changes that ours is.

    DR. WEINTRAUB: I guess I would repeat Alan's
remarks as I associate myself with them in many respects.

    The system hasn't worked very well that we are
operating under. That's why the Commission exists. The
plain fact of the matter is I think it behooves all of you to
recognize that and to come up with a recommendation that
would strengthen the system.

    Particularly, strengthen its ability to prevent
persistent inflation and periodic periods of deflation. I
do believe that the plan that I have proposed, although
somewhat complicated perhaps in comparison to the Neal bill,
and I have no ego involvement in this.

    As Congressman Neal knows, I had some input as a
staffperson on that bill. It would accomplish at least the
prevention for a while, as long as the law lasted, in
persistent excesses in the creation of currency and money and
thereby inflation.

    I don't believe for a minute that one ought to not
recommend something because it is somewhat complicated. I
don't think that my plan is terribly complicated. I think it would do the job. If you have a more simple plan that you can recommend, surely I would be for that.

If you are constrained in any way, then I think you ought to at least consider this plan. Consider it very seriously. The reason you are here is basically to find ways of improving our current monetary system.

CONGRESSMAN PAUL: Thank you.

SECRETARY REGAN: Congressman Reuss?

CONGRESSMAN REUSS: Thank you. Mr. Weintraub, you list yourself as a staff member of the Joint Economic Committee. As you know, the Democrats in this Congress control the chairmanship of that committee. I happen to be the chairman and Dr. Galbraith is our staff director.

You're not a member of that staff; are you?

DR. WEINTRAUB: No. I am a member of the Republican staff, Mr. Reuss.

CONGRESSMAN REUSS: Thank you. You have, for a good many years, been advocating the use of a monetary rule by the Federal Reserve, one which would restrict the issuance and the creation of new money to something like three percent a year; have you not?

DR. WEINTRAUB: Yes. On occasion, I've been very happy when you joined in that proposal.

CONGRESSMAN REUSS: Did you during those many
years and prior to your surfacing of your gold linkage proposal, in recent weeks after the Gold Commission got going.

Did you, during those years ever suggest in writing or in your relationships with members of Congress that there should be a gold gimmick attached to your proposal?

DR. WEINTRAUB: I don't know that I ever suggested it to anybody in the Congress. I know that I did discuss it with Milt Friedman some time ago, a long time ago.

CONGRESSMAN REUSS: Did you ever write anything --

DR. WEINTRAUB: On more than one occasion.

CONGRESSMAN REUSS: -- about the so-called Weintraub plan?

DR. WEINTRAUB: No. I never have written anything until now.

CONGRESSMAN REUSS: This is a mighty name here, Chairman William Martin. You quote him as saying in 1965 that the gold cover requirement had some valuable disciplinary effects. As a matter of fact, a year or two after that, Bill Martin was before the Congress advocating the total removal of the gold cover requirement, wasn't he?

DR. WEINTRAUB: Yes. He was wrong the second time.

CONGRESSMAN REUSS: You aren't suggesting that Bill Martin supports your proposal, are you?

DR. WEINTRAUB: I'm suggesting that in 1965, he saw the value of tying the issue of currency to gold...
certificate reserves. I think he was correct at that time. If he has since changed his opinion -- and I would have no way of knowing where he would stand now.

He obviously changed it in 1968. He saw some reason for repealing that law. I would hope that he would see the value of again reinstating it, but I don't know that for sure. I would say his opinion in --

CONGRESSMAN REUSS: As you know, Bill Martin is very much alive and if he does support your proposal, I would ask that you include that in the record.

DR. WEINTRAUB: I really don't know Mr. Martin and I don't want to ask him. I might also point out something to you, if I could. In 1968, had you asked me was I in favor of repealing the gold backing behind currency, I would have said of course I was.

Then I didn't realize that we needed the constraint I now realize that we do.

CONGRESSMAN REUSS: I'm sorry I didn't ask you. Now, Mr. Racz, you had me right along with you, sir, when you said that we have to stand up to Russian Imperialism. I'll go with that.

MR. RACZ: Thank you, sir.

CONGRESSMAN REUSS: Then you lost me when you suggested that we go on the gold standard. That would provide a marvelous floor price for those Russian Imperialists,
and do you really want to do that?

MR. RACZ: Sir, look at some numbers. The Russians today have to sell every ounce of gold they produce. Russia today, as well as Eastern Europe, is bankrupt. Totally bankrupt. We can give them that help.

I am advocating that since they cannot float gold backed bonds -- because in order to do so, they have to have the currency reserves. You have to keep the currency and the gold in case I come in and buy gold and get the dollars back or the Swiss franc or whatever they choose.

We can do that. That's the American monetary supremacy that comes into question. This is what I have never seen in the newspapers. I have never seen a leading American politician stand up and say, "Gentlemen, the world is in trouble, but we are the most powerful monetary power in the world. Therefore, we can set the rules."

Now, in setting the rules, one of our keys is that not only do we have surplus gold, but we can acquire additional gold in the open market or from central bankers who need money. We should be very aggressive as a monetary power.

We don't have to spend vast sums of money as a military power. I --

CONGRESSMAN REUSS: I still don't understand why, if the Russians are so bankrupt and have to sell every ounce of gold they can mine before it stops rolling, that we want to
put together a bail out program and give them a floor price on it. They're not Chrysler. Why would we want to do that?

MR. RACZ: They are selling the gold on the open market in any case.

CONGRESSMAN REUSS: Yes, but if we put the Treasury on an enforced basis as a purchaser of gold, which I take it your program mandates, that's great news in the Kremlin. They've got a floor.

MR. RACZ: May I ask you how is it, if the Russian gold is so much and we don't -- let's assume we don't have all of the exact statistics. The gold went to 700 or 800, which wasn't so long ago. This is exactly in the last 18 months.

The whole of Eastern Europe and Russia fell on its face. Romania is 12 months away from where Poland is today. East Germany is going to follow and then, of course, all of the satellites.

I have no knowledge, of course, except that I read the situation in Russia is not better. Like in any business, we have to give something in order to gain much more. I appreciate if they would be selling their gold at four, maybe they would be selling at 500.

We can leverage it up to 600 or 700 with the bonds. So, it's a business transaction and on balance, we come out ahead.

CONGRESSMAN REUSS: Thank you. My time is up.
SECRETARY REGAN: Thank you. Governor?

GOVERNOR RICE: Thank you, Mr. Chairman.

Professor Meltzer, if I understood you correctly, you said that one of the disadvantages of the gold standard was its rigidity and it would increase our vulnerability to shocks of various kinds.

How would, say, a commodity standard based on a collection of a number of basic commodities, a basket of basic commodities, meet this problem that you have with the gold standard?

DR. MELTZER: It is a fundamental theorem of modern economics and one for which James Tobin just won the Nobel Prize. A basket of commodities is going to be more stable than any single commodity in its element, because of course, each price may change. You only, when any price changes, you only take one-tenth, one-eighth, one fraction of that into consideration.

You would always have a more stable commodity basket if you took a basket of commodities than if you chose any single commodity basket. That is, you would always have the expectation that that would be true.

It may turn out that one commodity would remain stable over time. We have no way of knowing that. Our problem is, of course, to deal with a world which is changing. In such a world, our expectation would be that a basket of
commodities would be more stable than any single commodity.

It is my judgment that we can do even better than that.

GOVERNOR RICE: By adopting a rule?

DR. MELTZER: My adopting a quantity standard, that's right. A rule tied to the range of fluctuations within which money growth could occur.

GOVERNOR RICE: I take it that if we were to go to some kind of materials standard, you would prefer a commodity standard then?

DR. BELTZER: I would prefer a multiple basket commodity standard over any single commodity standard. I believe that that's the testimony. That's not an opinion. I think that's the judgment of modern economics.

GOVERNOR RICE: Thank you. Mr. Weintraub, in your proposal, is it possible to have a currency shortage as a result of supply of currency that people want to hold bumping up against your legal cover ceiling and if so, what would happen?

DR. WEINTRAUB: It won't. It's not possible, because of the adjustment. As the deposit to currency ratio falls or as the currency to deposit ratio rises, then the maximum allowable currency growth rises commensurately. So, it's not possible to have a shortage at all.

If the public is demanding to convert deposits into currency, the Federal Reserve can meet that demand.
GOVERNOR RICE: But the cover is against only currency. If people choose to hold more than a certain amount, don't they run into the cover ceiling?

DR. WEINTRAUB: Because that would change the deposit to currency ratio. I have a formula which adjusts the maximum allowable currency growth for changes in that ratio.

So if the public demands more currency relative to deposits, then the Federal Reserve can supply it. There is an adjustment. That would of course keep still the money growth, the total of currency and other exchange media, within the desired limit.

The partitioning as between checkable deposits on the one hand and currency on the other could be anything that the public desired.

GOVERNOR RICE: I'll have to study your proposal.

DR. WEINTRAUB: I would be very happy to come and see you sometime and try to explain it at greater length if you would like, Governor.

GOVERNOR RICE: I might have to ask you to do that.

DR. WEINTRAUB: Thank you.

GOVERNOR RICE: Professor Holtzer, do you favor returning to the gold standard at the present time, given our present statism as you call it?

DR. HOLTZER: To the extent, Governor, that doing so would invoke or necessitate an act of government, as indeed
it would, I would have the reservations I have expressed here earlier today more than once.

A slightly fuller answer, I think is in order.

I think a return to gold can be facilitated by government while in the process of getting old of the gold, money, et cetera business, by allowing or recognizing the right of individuals to deal in gold in some kind of a monetary unit.

There are some bills in Congress, I understand, now to that effect. I think a gold standard is better than a non-gold standard. I think a gold standard is better than unbacked, fiat, monopoly, funny money.

My reservations, each time I say that, cause me to say instantly thereafter that if it's government that "allows it", makes it possible, does it, et cetera, it's usually a short term solution.

I am for a gold standard if that is what evolves in the free market. If the government can facilitate that by withdrawing as in retreat on a battlefield, I would be delighted. So, it's difficult for me to give you a yes or no answer.

If I say yes, I am in favor of returning to a gold standard, there are too many governmental implications in that. If I say no, it's at risk of indicating I don't believe that the free market would choose gold -- as I do, by the way.

So, if we can work it out somehow that the free
market can and will adopt gold and government will act in a sense of benign neglect, I would be delighted. I would give government no other role other than that.

Government, after all, has tinkered, in my view, long enough. I believe, in other words, in the complete separation of government and money, which I know is a heretical thing to say -- probably here, certainly in this city, let alone to governors of the Federal Reserve System.

I don't believe that government ought to have any role whatever regarding the subject of money. It's none of government's business -- money. Money is to facilitate private, voluntary transactions between free people.

Once you've said that, you've damn near excluded any reference justifiably to government at all. Thank you for asking me that question.

GOVERNOR RICE: Thank you.

SECRETARY REGAN: Thank you, Governor. Governor Wallich?

GOVERNOR WALLICH: Mr. Chairman, I would ask Mr. Aliber. Would you have any guess as to what would be the effect on the private demand for gold in the world of a return to some fixed price of gold by the U.S.?

DR. ALIBER: It would be helpful if you tell me whether we're going to return to gold at the price of $200 an ounce or $800 an ounce and relate that to the then
GOVERNOR WALLICH: My presumption would be that if this were done, it would be done somewhere in the neighborhood of the price that would have developed in the market as the time approached.

What I am concerned with is many people hold gold because they expect a rate of return on it, and some only for diversification. If that rate of return is credibly removed by fixing a dollar price for gold that lasts into the indefinite future, do you foresee heavy unloading of gold by those holders?

DR. ALIBER: There is one practical aspect of the gold fixing and of fixing the gold parity. If it were fixed tomorrow, one would have to come in slightly above the market price so that the Secretary would not be embarrassed by having to sell a lot of gold immediately.

If the gold parity were $450 an ounce and given the price level expectations the U.S. government would end up buying a tremendous amount of gold, just a tremendous amount of gold.

That's because we would have, for awhile at least, find that the rate of return on U.S. government securities is substantially higher than the rate of return on gold.

Now, what's the volume? Well, in the six year period from 1934 to 1939, our gold holdings more than doubled.
One could easily imagine that the market value of U.S. gold holdings would increase by tens and even hundreds of billions of dollars if one came back into gold at the current price.

GOVERNOR WALLICH: Is it your understanding of what is commonly meant by the gold standard that then the money supply would have to be allowed to rise? In other words, if the gold stock should determine the money supply?

DR. ALIBER: I think that if one asked the man in the street what do we mean by the gold standard, he would come up with three answers. There's a fixed price. There's convertibility and in flows and out flows of gold affect the money supply.

So, tying this into the previous question, the paradox is, the irony is, that the people who view gold as being a way toward price stability would, under this scenario, subject the U.S. to a very sharp increase in the money supply and to a sharp increase in the U.S. price level.

We have a wonderful analogy. It is Spanish gold and the impact of Spanish gold on Europe in the 16th Century.

GOVERNOR WALLICH: Could I address a question to Mr. Racz?

MR. RACZ: Yes, sir.

GOVERNOR WALLICH: You seem to be familiar with data. Do you have an estimate as to the share and total gold supply in the world that is held by private non-official holders?
MR. RACZ: Yes. Approximately one million ounces. It's about 50 percent held by central banks, 25 percent by various other agencies and 75 percent private. I have the numbers here.

GOVERNOR WALLICH: In other words, the private holdings are a larger part of the total?

MR. RACZ: I think it's about 75 percent. Now, may I answer your previous question which ties together? One of the factors which makes this world very unstable is that one million barrels of oil, let's say, at $30, is roughly equivalent to an annual income of about $10 billion.

Now, if we assume that in the 1980's, the big oil boom is over, you can always assume that the Persian countries which are now in the process of acquiring assets other than oil -- which is natural for them. They could acquire a tremendous amount of American government gold if we opened the market.

Consequently, I am not in favor of Treasury selling any gold whatsoever except for strategic purposes. I think if we open American gold for central bank transaction or if we open it up to American citizens or directly to other citizens, I think it would lead to a tremendous national tragedy. There are consequences that today we cannot foresee.

Just as it has become clear in the last few years
that we need an energy independence, I would say that we need a monetary independence.

If we consider gold as a reserve asset, as I do, we need independence from any eventuality.

GOVERNOR WALLICH: Could I just ask you a couple of specific points on your bond proposal?

MR. RACZ: Yes, sir.

GOVERNOR WALLICH: Are you familiar with the gold convertible bonds issued by the French government?

MR. RACZ: Yes, sir, and I think it was very badly constructed. It was a bad investment. That's all.

GOVERNOR WALLICH: Let me ask you then, if instead of making such a bond convertible at a price somewhat above the market, that you make it convertible at the present market price at the times the bonds were issued.

MR. RACZ: Yes.

GOVERNOR WALLICH: Would you need any interest to be paid on that at all or more than a nominal amount of interest?

MR. RACZ: The issue would sell out in two seconds.

GOVERNOR WALLICH: So, essentially, it's the appreciation of the gold and not the gold backing of the bond that provides the equivalent of interest?

MR. RACZ: Yes. It would be selling very well. The interest savings would be more. They would be larger. We
would be achieving our immediate purpose better.

GOVERNOR WALLICH: Would the existence of such a gold bond issued presumably by the U.S. government have any influence on interest rates on non-gold bonds issued by corporations?

MR. RACZ: In terms of comparison, we have now a case in point. When the Treasury has to -- I think 15 percent of our expenditure is servicing the national debt. When we look at 1982, which is a critical year, I think we have to use what you call surgical steps.

If we can lower interest rates and we liberate money, for instance, which is tied up in money market funds et cetera, we could have an invigorating economic recovery which would create the tax revenues.

I am talking of a practical program for 1982. However, sir, I have also proposed that there should be a series of gold and silver backed bonds. Today, I would be concentrating on what would knock down the interest rates fastest and what would prove American monetary supremacy easiest.

GOVERNOR WALLICH: Okay. Do I have time for another?

SECRETARY REGAN: I'm afraid not, Governor.

GOVERNOR WALLICH: All right. Thank you.

SECRETARY REGAN: Dr. Weidenbaum?
DR. WEIDENBAUM: I have a question for Dr. Meltzer who raises the important subject of sanctions to enforce rules, whether they are monetary rules or gold rules under the jurisdiction of this Committee.

You cite the public debt ceiling. Although I must say that gives me a rare opportunity to correct my good friend. The sanctions there are powerful. On rare occasion, when Congress hasn't increased the debt limit, the result has been awesome.

As a result, if you look at the operation of the debt ceiling, you don't find appropriations cancelled in order to stay within the debt limit. You find that the rule itself is constantly amended.

DR. MELTZER: Correct.

DR. WEIDENBAUM: Hence, my question is does the role of sanctions vis-a-vis adaptation of the rules in the case that you raised in your testimony bring to mind any application to the current deliberations of the Commission whether it be on a monetary rule or a gold rule? The subject of sanctions, enforcement and hence the feedback on the rule itself.

DR. MELTZER: Yes. Well, you are correct in what you say. That is that the debt ceiling rule does have a sanction. We are never willing to exercise the sanction. So in fact, the expectation is the next time we hit the debt
ceiling, we will not exercise the sanction again. That's the case, I think, more properly and you're correct in calling it to my attention.

What we have is really an ex post sanction. After we have taken the action, we come up against the problem. Then we have to decide what to do. Sometimes, the easiest thing to do is to remove the restriction by raising the debt ceiling.

Perhaps a better way to state my point would be to say that we need to have some kind of a sanction which would be more likely to be binding such as, under the gold standard to take an example.

Under the proposal that I made a moment ago where we had a monetary rule and people have the right to buy gold, the sanction would be that they would begin to drain the gold out of the Treasury.

The Treasury would see that. It would either have to take action or it would have to do something. The price of gold would be free to rise. That would give people some incentive as well as provide a check on the rate at which they would do it.

So, that would be a rule which would work and the sanction would be self-enforcing. A sanction which said that when we came to the point where we reached the monetary rule, the governors of the Federal Reserve System would have
to resign. That would be to some extent a self policing sanction. At least we would have the opportunity of getting new people who might try to remain within the system.

I think that that's quite proper. What you're pointing out is that it isn't a matter of whether we have the sanction or whether we don't, but whether the sanction is a self-enforcing sanction or whether it's something that requires us to make a decision at the time where the most pallatable decision may be to remove the gold clause or to raise the debt ceiling or something of that kind.

I think that's an important matter which should be brought. That is, any system which we're going to come to, if it's going to be effective, it must have a sanction. The only way in which we can get the system to work is to recognize that there has to be some constraint on the behavior which makes it worthwhile for the people operating the system to believe that it's in their interests to get the system to work.

DR. WEIDENBAUM: Thank you. Thank you, Mr. Chairman.

DR. WEINTRAUB: Could I make a comment on that, if I might?

SECRETARY REGAN: Go ahead.

DR. WEINTRAUB: On the debt ceiling, it occurred to me as I was listening to the dialog that we all know now that the debt ceiling limit is going to have to be raised in
the future. There isn't any question about that. It's just a question of when.

Therefore, there is no possibility of enforcing it the way we now put it up. I would make the strong suggestion that what we do with the debt ceiling is to put it at a level like one and a half trillion dollars, effective, let us say, in 1986. Then that might be enforceable.

DR. WEIDENBAUM: Dr. Weintraub, the reason I raised the point is that it had occurred to me that under the proposal that you've been suggesting, a comparable situation might occur with comparable results.

DR. WEINTRAUB: It's not quite the same. There might be a period in the future when you'd want to have faster money growth than I envision us wanting now. I think that as a result of that, I have proposed that the Congress review the lid every four or five years.

I think that's a sensible thing. It isn't quite the same thing where you know right now that the debt ceiling is going to be breached -- the one that's in place. I mean, there's not a slightest possibility that Congress isn't going to have to raise that limit some time in the future. It's not an effective discipline as a result.

SECRETARY REGAN: Congressman Wylie?

CONGRESSMAN WYLIE: Thank you, Mr. Chairman. I want to commend the panel for taking their valuable time to
come here this morning, even to tell us that you don't think we can accomplish very much if I've interpreted what you've said correctly.

That may not necessarily be bad. May I say, Mr. Chairman, that I had the pleasure of moderating a panel at Ohio State University on monetary policy of which Dr. Meltzer was a member.

I know that you have some very definite views, Dr. Meltzer, on monetary policy vis-a-vis inflation. I wonder if you'd be willing to submit for the record your latest opinion on controlling monetary supply.

I don't think you can get into that in any depth here, but one of the reasons that we're talking of going to the gold standard here this morning is to control the money supply. I wonder if you might do that for me, at least for the record.

DR. MELTZER: May I just clarify? You'd like me to state in general statement, not about the current policy, but about the general problem? Or would you like a statement about the record of the last several years or both?

CONGRESSMAN WYLIE: I'd like to have your view of what you think is the best way to control money supply vis-a-vis inflation. I know, in moderating a panel, that you didn't think the present policy was all that good and you had some definite suggestions.
I wondered if there were some modifications since the time that we had the panel on this.

DR. MELTZER: I'd be pleased to do that.

CONGRESSMAN WYLIE: Dr. Weintraub, last month, I remember you agreed with Governor Wallich when he said that your plan for backing Federal Reserve notes with gold could just as easily be used to control the growth of Federal Reserve notes by tying the notes to some other commodity.

I think Governor Wallich mentioned the possibility of including paperclips in that, a percentage of paperclips in jest of course. But I have the feeling, if you might allow me to make this observation, that you're groping.

I think you are groping rather constructively, I might say, to find a useful function or any useful function for our 264,000,000 ounces of gold.

I make the same observation with Mr. Racz and his statement in that he says let us activate gold. Gold is an active reserve currency, an active monetary asset, an active American asset.

What's wrong with the reasoning that says times are so uncertain, why not just keep gold in stock because of the uncertain future?

DR. WEINTRAUB: Of course, my plan would keep it in stock for quite awhile, until at minimum the official price equalled the market price which I think would take about eight
years. At that time, we might want to consider taking it out of stock. At that time, I believe if my plan were implemented or something similar to it, times would not be quite as uncertain as they are now.

We would have resolved the monetary instability problem. So I would say there is nothing wrong with keeping it in stock. In fact, I would propose that we do that right now, that we do keep it in stock until such time as the official price equals the market price and until such time as the rate of inflation is zero or very close to it.

CONGRESSMAN WYLIE: Mr. Racz, you mentioned on page seven that you are in favor of a gold backed bond, a freedom bond you call it, which this government can offer to all of the American banks which are currently stocked with uncollectible debts from Eastern European countries.

In exchange for the unsound of paper of Poland, Romania, East Germany and Hungary, the banks would be offered the opportunity to pass these dead assets on.

How does that involve the American who wants to own gold?

MR. RACZ: I suggested gold backed bonds which we have discussed. To your previous question, I am in favor of increasing our national amount of gold.

The second thing I suggested, for 25 billion, is to take out all American banks who lend money to Eastern
European countries thereby making them indebted to the Treasury. I would want to use it as a leverage to negotiate and conduct international negotiations using American monetary supremacy as a weapon as opposed to engaging in a $4 trillion defense expenditure.

CONGRESSMAN WYLIE: How does that fit into convertability of gold for the U.S. citizen?

MR. RACZ: I presume gold is the catalyst. The Gold Commission, which I commend, highlight that we have a national asset which we haven't been using. By using this national asset and using our tremendous monetary power, our economic power, we can float gold backed bonds.

We can lower interest rates and at the same time, by a different kind of Treasury bonds, nonmarketable bonds made possible by the drop in interest rates. We can actually put ourselves in the position where we can use the defense expenditure.

I'm putting forward a practical policy. It may take several steps. Let us say that there is a monetary crisis in the world but America is the strongest. One of the assets which makes us strong besides the strengths of the economy, et cetera, is gold.

CONGRESSMAN WYLIE: I'll read that when I look at the record again. Dr. Aliber, you said that you think there is a proper question here as to how do we fix the new price
of gold. That's been a problem for me. If we set it between $120 and $180 an ounce, there would be a deflationary impact, I think you said. If we set it at the current market rate which is about $450 to $500 an ounce, it would have an inflationary impact.

What about setting the price somewhere in between $180 and $450, which would be about $350 an ounce?

DR. ALIBER: Let me go back to my Rip Van Winkle story. The gold price was right in 1955 and if there is a historical relationship between the monetary price of gold or the price at which we set the parity and the price level, then the current price of gold should be something in the order of $140 or $150.

If we pick a higher price, then we're making one of two statements. Then we are saying that there is no stable relationship between the world commodity price level and the price of gold -- in which case the whole argument for a gold standard evaporates.

Alternatively, we are saying we believe there is a stable relationship and we are willing to accept the inflationary consequences of pegging to gold at a price substantially higher than the price that we infer from the Rip Van Winkle story.

$300 an ounce, on the basis of the historical data, is simply much too high.
CONGRESSMAN WYLIE: Thank you.

SECRETARY REGAN: Thank you, Congressman Wylie.

Dr. Schwartz, I understand that you have not asked the witnesses any questions. Would you like to?

DR. SCHWARTZ: Let me just ask Dr. Aliber, is your interest in having gold assets revalued strictly so that they would be useful for purposes of intervention in the exchange markets? Is that what I heard you say?

DR. ALIBER: I presume there will be many times in the near and distant future in which the U.S. Treasury will find its interests served in terms of buying and selling gold in the foreign central bank.

It will be inconvenient to do so if we retained an obsolete parity set in 1973.

DR. SCHWARTZ: But the purpose would be for affecting the exchange rate of the dollar or some other commodity?

DR. ALIBER: No. I think we or other countries will want to intervene in the foreign exchange market. To finance that intervention, we can obtain foreign currencies by selling gold to the foreign central bank; yes.

DR. SCHWARTZ: But if one were more or less a confirmed believer that government intervention in the foreign exchange markets is costly and ineffectual, how would you answer that?
DR. ALIBER: Then I would suggest that those confirmed believers look at the evidence of the exchange rates in the last two or three years.

Changes in the exchange rates bear no relationship to what has been happening to contemporary relationships between our price levels and foreign price levels.

We have seen the real price of the dollar change by as much as 40 percent in a three-year period. That is a tremendous shock that the adherence to that belief is imposing on the American economy.

To go from a highly undervalued dollar in 1977 and 1978 to a highly overvalued dollar in 1981 -- no economic purpose is served by such tremendous changes in real exchange rates.

DR. SCHWARTZ: But the question is whether intervention actually achieves the aims that it supposedly has? Apparently, from the research I've seen on the question, all that it does is cost the taxpayer money.

Let me not pursue that question any further. I just wanted to assure myself of what your purpose was in arguing for a revaluation of gold.

Professor Holtzer, can you cite an example any time in history of a government that has not exercised sovereignty over the national money supply?

DR. HOLTZER: I wish I could. We came close in
1787, Dr. Schwartz, when the monetary powers were delegated by the people or their delegates to the federal government.

Now, I suggest to you that proof that something went awry is found in the discussion today here, measured against the power to coin money and regulate the value thereof.

I would add further that the fatal mistake that's been made is that all governments prior to 1787 throughout the world were one form or another of sovereignties, despotisms, dictatorships, totalitarian states.

The United States of America was generous. It was the first time anybody had tried to create a free country from the bottom up. When that free country was created, the notion of sovereignty was explicitly rejected in several respects as the debates in the history of that time make very clear.

What we have now is sovereignty over money.

DR. SCHWARTZ: Yes. I've read those chapters in your book. As you make clear, in the big debate between Jefferson and Hamilton, what was at stake was whether the states would be controlling the money supply or the federal government, neither --

DR. HOLTZER: Yes.

DR. SCHWARTZ: -- of whom abjured governmental interference.
DR. HOLTZER: You are quite right. I referred to them as statists.

DR. SCHWARTZ: As I say, I don't see where you find in the American experience, support for your view that something went awry.

DR. HOLTZER: I told you amount ago. In the first place, Hamilton and Jefferson were subsequent to the Constitution. If you begin with the debates, as I'm sure you have and I know your familiarity with the subject, it's quite clear that a paper money, government power of money issued existed at the Convention.

It was resolved by giving the government few powers. So, I would ask either rhetorically or otherwise, as it suits you, what happened from the power to coin money, regulate the value, to M-1 and M-1-B and the Federal Reserve System and this huge, barnacled super structure that we've got now over what started out to be the power to coin money and regulate its value?

DR. SCHWARTZ: Yes. The economy has become more complicated.

DR. HOLTZER: And so has the power of government become more powerful.

DR. SCHWARTZ: What I would like to know is what kind of transition period you visualize?

DR. HOLTZER: You are asking me how I would
DR. SCHWARTZ: Yes.

DR. HOLTZER: I wish that there were some serious measure of interest down here to pursue that. I think indeed that's what a Commission ought to be appointed to do.

My answer, in principle, is this. A gradual withdrawal of the federal government from money and monetary power. You could start where you like. Perhaps the first thing we'd do is abolish the Federal Reserve System.

Maybe we would allow private coinage of monies. There is a bill in the hopper now, I understand. Maybe we could Constitutionalize somehow the right to own gold and to use gold clauses and that kind of thing so as to insulate it from the next New Deal that comes down the line that wants to tinker with it.

There are a lot of ways to start.

DR. SCHWARTZ: I can think of one way the Treasury tried to get out of the private money market, by establishing its own Treasury -- I've forgotten the technical term that was used. In 1846, when the Treasury established the Treasury Independent Bank.

DR. HOLTZER: It was the Treasury that established it. That's one of the problems. What the government giveth, the government can take away.

DR. SCHWARTZ: The Treasury, unfortunately, is
going to be dealing with money if it's only collecting your
taxes and spending them.

There is just no way, it seems to me, to insulate
the Treasury from what is going on in the monetary economy.
Let me stop there.

Professor Meltzer, I want to ask you one question
that has arisen in the proceedings of the Commission. Can you
visualize the domestic gold convertibility with a floating
exchange rate system?

DR. MELTZER: Domestic gold convertibility with a
floating exchange rate. Let's be clear. Individuals would be
free to go to the Treasury and buy gold at whatever the
market price of gold would be?

DR. SCHWARTZ: No, no. It would be some kind of
fixed price for gold domestically. It would not be a floating
rate system of gold within the -- It would be true convertibi-

DR. MELTZER: That is internally, we would have in
a sense, a gold convertible standard. Externally, we would
have a floating exchange rate?

DR. SCHWARTZ: Right.

DR. MELTZER: I find it difficult to see how that
system could work for very long periods of time at a fixed
price of gold. The reason being, of course, that, as I think
you and other members of the Commission well know, there would
substantial changes in the value of the currency relative to
gold that would be occurring in the world market.

That would produce substantial changes in the
amount of money in the system. It would make the U.S.
monetary system rather more unstable than it is now.

DR. ALIBER: Might I just answer that question?
It's really a very easy answer to that question in the techni-
cal sense. It really is a Canadian decision.

For example, there is the choice of the Bank of
Canada or the Canadian government, to either peg to the U.S.
dollar under that arrangement or to permit the Canadian
dollar to float. So, it is possible to have it both ways.

We will find that some countries, under the arrange-
ment you stipulate, will continue to permit their currencies
to float relative to the U.S. dollar while other countries
will peg to the U.S. dollar or peg to gold or the parity
commensurate with that of the U.S. gold.

DR. MELTZER: Or change their minds from time to
time as to which one of those things they would want to do.

DR. SCHWARTZ: Also, convertibility to their
domestic--

DR. ALIBER: Again, they can have it either way.
The French can offer convertibility to their domestic
residents while the French franc floats. In terms of the
dollar, the Canadian can deny domestic convertibility to
their residents while they peg the Canadian dollar to the
U.S. dollar.

SECRETARY REGAN: Mr. Costamagna?

MR. COSTAMAGNA: With the nonfixed price of gold
domestic?

DR. MELTZER: No, I see no reason why we should
abjure that. I said if the removal of the taxes on sales
taxes, not capital gains taxes. But the sales taxes on gold
at the state level -- I would like to have a monetary rule.

I think that would be a perfectly appropriate
thing with the right of individuals to convert dollars to
gold at the current world price of gold, which would be a
floating price of gold with a floating exchange rate.

That would just be giving the American public the
right to buy gold from the Treasury instead of buying it from
the marketplace.

SECRETARY REGAN: Mr. Racz, do you have a final
comment?

MR. RACZ: In 1971, the Republican Administration
called it the gold window. We opened this gold window today,
it would lead to a national tragedy. We would give up our
national assets in a period of monetary, economic and
military circumstances are totally unforeseeable for the next
two, three, five, ten years.

It would be one of the greatest tragedies in
American history.

SECRETARY REGAN: Thank you, Gentlemen. I really appreciate the work that the panel has put into their appearance here this morning and the patience they've exhibited while answering the questions from the members of the Commission.

I think you are to be commended for your work and you can rest assured that all of your work and your answers will appear in the record.

This meeting is adjourned. The next meeting of the Commission will be at 2:00 o'clock this afternoon right here with another panel.

(Whereupon, the Gold Commission panel meeting was adjourned, to reconvene at 2:00 p.m. at the same location, as described above.)

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SECRETARY REGAN: I think we should get going here. I'd like to welcome the members of the panel here, Mr. Ralph Banko, Mr. Edward Bernstein, David Bostian, Dr. Kenan, Dr. Rothbard -- where is Dr. Rothbard? Is he coming in late -- great, and Dr. Solomon.

Well, if I might lay out a few ground rules here. Each of you gentlemen, in alphabetical order, should make your opening statement and then members of the Commission will question you, again, in alphabetical order.

It's my understanding that some of the members of the Commission have to attend a memorial service. We'll miss those members.

And it is my intention, if at all possible, to close this hearing around 4:00 o'clock or in through there, if at all possible.

So, with that, Mr. Benko, do you want to start, please.

STATEMENT OF MR. RALPH BENKO

MR. BENKO: Before beginning the paper proper, there's one or two minor housekeeping details I'd like to mention.

I've taken the liberty of sending away for copies of Dr. Melchior Palyi's book, The Twilight of Gold, for each member of the Gold Commission, paid for out of my own depreciating dollars, for which I will not submit a
reimbursement claim, because my present to the Commissioners -
I especially commend Dr. Schwartz to the volume since he
analyzes and exposes what he considers to be some flaws in
Dr. Freedman's analysis of the monetary history of the
United States.

I hope it's a volume of interest to the
Commission, although it doesn't bear directly on my testimony.

The next item is -- you heard, this morning,
from Dr. Holtzer, who is a prominent libertarian thinker and
he cited some of the same authorities that I will, but I am
just an average, garden variety member of what I am told is
a dying breed -- I'm a Democrat -- I hope it's not so.

But, although we sometimes use the same
authorities, I think we draw substantially conclusions.

Finally, the full paper has been submitted for
the record. It's about 30 pages long. I have about 10
minutes of excerpts that I will read orally for the
Commission.

But I would request that the Commissioners would
at least glance at the full paper, because it's hard to
compress the argument into 10 minutes.
Whether to return to the Gold Standard is as much a political question as an economic one. It is therefore relevant to examine the thoughts of the greatest of American political intellects on this topic.

1981 is not the first debate on the merits of a precious metal currency versus paper money. The most important debate on this topic in our history was during the Constitutional Convention. On August 16, 1787, the delegates took up the question of whether to give Congress the power to issue paper money.

The Articles of Confederation, Article 9, Paragraph 5, had set forth that the United States and Congress assembled shall have authority to borrow money or emit bills on the credit of the United States.

Under the power to emit bills, Congress had issued paper money which experienced severe depreciation causing general inflation.

What is now Article 1, Section 8, Clause 2, of the Constitution, the original draft gave Congress the power to borrow money and emit bills on the credit of the United States.

Convention debate over this language, that is to say the language over to emit bills, is notable mainly for the vehemence with which the vast majority of delegates opposed this as a power to issue paper money. The Convention
voted overwhelmingly against the power.

Whether the Convention voted to bar the power to issue unbacked paper money absolutely and in all events or to borrow except for in extreme emergencies, there is no serious question but that they did bar it or thought they had.

Absolute prohibition was urged by Oliver Ellsworth, later second Chief Justice of the U. S. Supreme Court and Senator who decisively shaped the Federal Judiciary.

The Record states: Mr. Ellsworth 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 anything else.

Paper money can in now case be necessary. Give the government credit and other resources will offer. The power may do harm, never good.

The reservation of an emergency power was urged by James Madison, chief architect of the Constitution, author of the Bill of Rights, 4th U. S. President.

The journal of the proceedings, which was 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 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.

The motion to strike Congress' proposed power to issue unbacked paper money was carried, nine states, aye; two, no.

Please contrast Madison's thoughts to the legend on our Federal Reserve Notes today, "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 and expedient."

Chief Justice John Marshall also condemned paper money as did all the great members of the Revolutionary Generation, our founding fathers.

Marshall said of paper money, "It's value is
continually changing. And these changes, often great and sudden, expose individuals to immense loss or the sources of ruinous speculation and destroy and confidence between man and man."

All of the great minds agreed in this. It was not until the Civil War and Reconstruction, our greatest Constitutional crisis, that later generations undermined their good work.

Even the politicians of the late 19th Century dared not stray from the gold standard for long. The gold standard is the only one able enough to support the immense dynamism of an industrial or post-industrial economy. Our institutions change, but the human mind our institutions serve are changeless.

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 a 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. Monetarism is no new invention. In
the 18th Century, it was asserted by Hume and Montesquieu. Madison was aware of its claims and calmly set forth the sounder classical doctrine.

"Inflation," wrote Madison in 1780, "has not been the effect of the quantity, considered in itself, but considered as an omen of public bankruptcy." He presents telling arguments to prove this case.

The Constitutional history of the requirements that U. S. currency be backed by precious metals is best summed up in the legal opinion of U. S. Supreme Court Justice Steven Field in the case of Julliard v Greeman, dissenting.

If you care to follow along, this is on Page 20 of the full testimony:

"If there be anything in the history of the Constitution which can be established in moral certainty it is the framers of that instrument intended to prohibit the issue of legal tender notes both by the general government and by the state and thus prevent interference with the contracts of private parties.

It would be difficult to believe, even in the absence of the historical evidence we have on the subject, that the framers of the Constitution, profoundly impressed by the evils resulting from this kind of legislation, ever intended that the new government, ordained to establish justice, should possess the power of making its bills a legal
tender, which they were unwilling should remain with the
states, and which in the past had proved so dangerous to the
peace of the community, so disturbing to the business of the
people, and so destructive of their morality.

The great historian of our country has recently given to
the world a history of the Convention, the result of years
of labor in the examination of all public documents
relating to its formation and of the recorded opinions of
its framers; and thus he writes:

'With the full recollection of the need or seeming need
of paper money in the Revolution, with the menace of danger
in future time of war from its prohibition, authority to
issue bills of cred that should be legal tender was
refused to the General Government by the vote of nine states
against New Jersey and Maryland. It was Madison who decided
the vote of Virginia, and he has left his testimony that
the pretext for paper currency, and particularly for making
the bills a tender, either for public or private debts, was
cut off. This is the interpretation of the clause made at
the time of its adoption, alike by its authors and by its
opponents, accepted by all the statesmen of that age, not
open to dispute because too clear for argument, and never
disputed so long as any one man who took part in the framing
of the Constitution remained alive. History cannot name a
man who has gained enduring honor by causing the issue of
paper money. Wherever such paper has been employed it has in every case thrown upon its authors the burden of exculpation under the plea of pressing necessity.

And when the Convention came to the prohibition upon the states, the historian says that the clause, 'No state shall make anything but gold and silver a tender in payment of debts,' was accepted without a dissentient state.

'So the adoption of the Constitution,' he adds, 'is to be the end forever of paper money, whether issued by the several state or by the United States, if the Constitution shall be rightly interpreted and honestly obeyed."

Gentlemen of the Gold Commission, recorded thoughts of our greatest scholars, judges and statesmen established beyond doubt the intellectual legitimacy of the gold standard.

Let us not fear to end the most recent discredited experiment with paper money.

SECRETARY REGAN: Thank you, Mr. Benko.

Dr. Bernstein?

STATEMENT OF DR. BERNSTEIN
DR. BERNSTEIN: The function of the monetary system is to regulate the production, distribution and utilization of the national income.

To perform this function, the monetary should facilitate a fairly steady growth of output at a reasonably
stable level of prices. It's by this test that we should judge the gold standard in a classical period and it's by this test you should judge proposals for restoring the gold standard.

The period of the gold standard in its classical -- or greatness -- from, say, 1873 to 1914, was a period of considerable instability of prices. The hardship that was caused by the decline in prices in the last quarter of the 19th Century can only be exceeded by the Great Depression.

We have underestimated this. It's not -- it's good evidence of the -- of contemporary views of the seriousness of this problem that the British Government appointed two Royal Commissions, a Royal Commission on the depression of trade and industry in 1886 and another Royal Commission on the value of gold and silver in 1897.

People are not aware -- or most people are not aware that the theory that there was a relationship between the behavior of prices and interest rates was first propounded by a Professor Fisher to explain the low interest rates of the 1880's during the deflation of that period.

On Page 2 of the paper I have submitted to you, I have reproduced the table on business cycle expansions and contractions in the United States prepared by the National Bureau of Economic Research.
The bottom table -- the bottom part of the table -- the averages are nine rather than the original table.

But you'll notice that from 1854 to 1914 the average duration of a contraction was 22 months. The average duration of an expansion was 25 months. Contrast that with what has happened since, say, 1945.

The average duration of a contraction is 10 months, the average duration of an expansion is 49 months.

I think we can say that is, in effect, the consequence of first having the rigidity of the gold standard and the second, having the greater flexibility although retaining some of the features of the gold standard.

Now, why do prices rise and fall over long periods of 20 and 30 years during this period? Professor Castle has said it was due to the fact that the growth of the gold stock, the monetary gold stock, was very irregular.

He pointed out that the price level in the United Kingdom in 1850 and 1910 were much the same and that he found that the gross -- or the difference between the gold stock in 1850 and 1910 represented an average annual rate of growth of 3 percent.

He concluded that if the rate of growth had been regular, we would have had relatively stable prices in this
period.

Now, of course, the reason why the growth was not regular was that the production of gold wasn't regular.

On Page 4 of the paper that I have submitted to you I have plotted the gold production from 1873 to 1933 because I think that's the true period of the gold standard. And I have done that on isoropic (phonetic) lines or logarithmic scale in which the figures are automatically reduced by 3 percent a year, though you can read the actual figures from the chart.

I've also published -- put next to it -- charted -- the wholesale price index of the United States for this period as shown by the Bureau of Labor Statistics.

You can see from this chart that there is a remarkable pattern of coincidence between the production of gold relative to a 3 percent rate of growth and the wholesale price index of the United States with a lag of a few years.

The gold standard as it was in the classical period disappeared in the Great War, 1914, and was really never restored.

The inflation during the war caused every beligerant to terminate the gold -- the conversion of currencies into gold. And after the war there was almost unanimous agreement that we should all return to the gold
standard. A number of international conferences were held for this purpose. All of them, however, were somehow slightly worried about the problem of could the world go back to gold in the old way.

Now, as a matter of fact, the General Conference instructed the Bank of England to take active steps for international cooperation on this question.

It did not do it, but the Conference in any case recommended returning to the gold standard, but the gold exchange standard.

At the same time there was a great deal of fear that there wouldn't be enough gold production to sustain the higher level of prices of the post-war period.

And the champion of this view was Professor Castle who persuaded the League of Nations to appoint a gold commission, a commission of experts on which the United States had John Williams to report on this question of gold in the 1920's and its outlook for the future.

When they published their report -- their first report by 1931, England was already off the gold standard and we were only two years away.

When the Great Depression, which resulted in 25 percent unemployment rates in the United States in 1932 -- when the Great Depression was on, there were a good many people who said the way to get out of it is to terminate
the gold standard or raise the price of gold. As you may know, two gentlemen from Cornell, Warren and Pearson, were great champions of the view that if we only put in less gold in a dollar, or to put it another way, raise the price of gold, the fall in farm prices would come to an end.

Now, when President Roosevelt came to office and declared the bank holiday, he really suspended the conversion of the dollar into gold. The Reconstruction Finance Corporation was authorized to buy gold at rising prices. And by 1934, the President thought we had had enough correction and he was ready for restoring or reestablishing the gold standard.

In fact, however, I don't believe that what we got after 1934 was really a gold standard in the traditional sense.

First, we didn't have private conversion of dollars into gold. We didn't even allow private holdings of gold.

The Secretary of the Treasury did issue regulations, he was authorized to do this, allowing foreign central banks to buy gold from the Treasury for international settlement. And we did that, as you know -- this is a unilateral thing. It's not in the legislation, it was merely authorized by the legislation, until it was terminated in August 1971 by the -- by Secretary Connally.
The reason I think though that this was not really a gold standard is deeper than that. The test of the gold standard is not merely that you get a piece of gold for your money, it's also that the monetary authorities are restrained or limited in the issue of money by the need to keep gold reserves.

As a practical matter, there was no time after 1934 when our monetary authorities were willing to allow the money supply to be limited by the lack of gold reserves.

In 1945, I appeared with the Secretary of the Treasury before the Senate to request the Congress to reduce the reserve requirement of the Federal Reserve to 25 percent from 35 and 40 percent against deposits and notes.

In the 1950's we got rid of the requirement on deposits. In the 1960's we got rid of the requirement altogether.

This seems to me to indicate that there really was no gold standard in that traditional sense. That is to say, that the meaning of the standard is that it will limit the quantity of money.

Now, as a matter of fact, it's hard to blame the monetary authorities for this. The biggest period of the fall in the gold reserves of the United States was from 1958 to 1965, maybe we could have gone a year or two later.

But if you look at Page 7, there's a table there
that shows the balance of payments of the United States, at least the trade balance, and the balance on current accounts and the change in gold reserves.

In these eight years, the gold reserves of the United States fell by 38 percent. It was also the period of the greatest stability of prices, and in the case of the prices of manufactured goods, or better still, the unit labor cost in manufacturing actually declined over this period. And the price deflator of manufacturing rose at an average annual rate of one-tenth of one percent. There are more details about that in this paper.

Now, in my opinion, the problem of restoring the gold standard is far more difficult now than it has ever been. We don't appreciate the very favorable circumstances under which the gold standard worked as it did.

We had 100 years of peace in Europe. There was only one great war that lasted more than a few years, and that was our own Civil War. It was an important element in the gold standard.

This was a period, too, when budgets were balanced everywhere and the concept of having a budget deficit was fatal to government.

At least two governments in the United Kingdom were in fact -- or least two Prime Ministers in the United Kingdom, let's say both Disraeli and -- would you believe it
slipped my mind -- that other great man. They both were
in trouble with their budgets, and Disraeli lost an
election because he couldn't balance the budget, or didn't
balance it.

SECRETARY REGAN: Gladstone?

DR. BERNSTEIN: Gladstone, excuse me. Gladstone
actually gave up the job of being Prime Minister rather than
approve five million pounds for the -- for a new dred
mort (phonetic).

This is the sort of budget problems we had in
those days. Today --

SECRETARY REGAN: Dr. Bernstein, I'll have to
limit your oral testimony to about another three minutes,
if you would.

DR. BERNSTEIN: All right, I'll move right on.
Instead of going into the history, I'd like to mention this,
I don't think it's feasible to restore the gold standard
with conversion of dollars into gold in a world in which a
few countries already have a surplus, a current account
surplus of $100 billion.

They now have to invest this in whatever assets
there are available. If they could get gold from the
United States for that, they would, in fact, in my opinion,
take a great deal of gold if for no other reason than to
diversify their assets.
There's $160 billion of official holdings in the United States. Many countries that were unable to get gold before for their dollars would hasten to convert some of these holdings into gold now.

I would suggest that the greatest danger comes from the fact that the public is a great buyer of gold and it would buy infinite quantities from the Treasury if they regarded the price set for a new gold standard as too low.

They will sell their enormous quantities to the Treasury if it were too high.

I would suggest that there are certain features of the gold standard that were desirable, for example, the limitation on the creation of money.

I think the gold standard contributed to stability through the fixed parities that it created. I think the gold standard also imposed discipline-- well, so did the Britain wood system -- on countries that were deficit countries.

I think we ought to look and see all the ways in which we could get something like this same discipline in the international monetary system and in our own monetary system without the gold standards.

I have a feeling that we can approximate it. And if we do, if we get the fact of stability of exchange rates -- if we end the inflation, that'll be time enough to consider
whether we need a gold standard.

SECRETARY REGAN: Thank you very much,

Dr. Bernstein. Mr. Bostian?

STATEMENT OF DAVID B. BOSTIAN, JR.

MR. BOSTIAN: Mr. Chairman, and members of the

Gold Commission, I'm David Bostian, Bostian Research

Associates. We engage in economic and investment research

for a number of institutional and corporate clients.

I cannot bring to this Commission the illustrious

experience of Mr. Bernstein, but we have done a great deal of

research, and I'm going to briefly summarize it, though I

would ask you to read my entire statement.

The major positive statement that can be made

about a return to the gold standard, as well as the existence

of these hearings, is that they have a plus from the

standpoint of reducing inflationary expectations. They're

making believe that the government is indeed serious in

pursuing this goal.

As opposed to the expectational benefits, as I

phrase them, there are a number of risks that I find very
difficult to overlook.

Probably the first, given the world situation

that we have, with massive domestic and international debt
structures, is that it is extremely difficult, without

substantial risk of deflation, to go back immediately to any

full gold standard.
Perhaps a simple and maybe even crude analogy would get the point across more bluntly: the world economy as I see it is analogous to a person who has been on drugs for a substantial period of time. The drugs, of course, being inflation.

You do not take a drug addict away from his drug without some type of a withdrawal therapy, lest he either die or go beserk. It's a crude analogy, but it does get the point across. We have to bring inflation down slowly, and a sudden return to the gold standard given the rigidities inherent in it could create immense problems.

Secondly, there is a problem of price. I don't know what price gold could be set at which would be the fair or correct or flexible -- feasible price. I talked to a lot of our corporate and institutional clients whom I respect in terms of their intelligence and neither do they know the right price.

Thirdly, both the price movement and production of gold has historically been extremely volatile. It bothers me that Russia and South Africa are the two major producers of gold. Both of those regimes are somewhat controversial. My suspicion is that Russia might even like to see us go back on the gold standard. Certainly, any unilateral move to the gold standard would create immense domestic problems given world volatility.
I am also inclined to believe that if we were to go back to anything approaching a full gold standard that it would have to be international in scope. I think a unilateral move -- while there are people who argue for it -- would be very difficult to support.

Having said those negative assessments, I would conclude with a positive observation, at least with respect to the gold standard.

As I stated, there are expectational benefits and a serious discussion of the gold standard.

Clearly, if government securities were backed by gold there is a plausible argument that the interest rate on those securities would be substantially less given the trillion dollar national debt and the incredible interest expense. Doing something to decrease that interest expense, even gradually, would be beneficial.

I am inclined to suggest that the Commission give serious thought to an experimental issue of a gold backed bond or note, not of major size, but enough to be meaningful and watch very carefully the free market reaction to that particular gold backed note or bond in terms of the yield spreads between it and other non-backed government securities.

I think that's a way to further the expectational benefits of the exploration of the return to the gold standard without a great deal of risk, and possibly, in
terms of those people who advocate it, see that there may be more value there than some of us who are skeptical might think at first glance.

The real question, however, about the whole issue of a return to the gold standard is the broader question of does the society have the discipline to adhere to any standard.

Clearly, if we went back to a full gold standard it would be a risk, and I don't think this Commission is going to recommend that if the society does not have the discipline to follow a standard, gold or otherwise, it will ultimately break down.

The real problem, though, it does not directly address the gold standard, in my view it is the most important thing in my paper, is not the gold standard, but the quest for real long-term economic growth. Any type of monetary standard is not an end in itself, but has some greater economic purpose.

And, clearly, I think, most of us are not satisfied with the degree with real long-term economic growth we've gotten during the decade of the 70's.

In the paper, I discussed the quantity theory of money or the quantity theory of the economy as the classical economic theory. Some people might view it as overly simplistic, but in its simplicity, I think it gets at
the basic problem that we are faced, that this Commission has
to consider, in terms of assessing the importance of a
gold standard.

That theory says that the quantity of money times
the velocity equals the quantity of goods and in that
category you can put services times the price. And most of
the endeavors in this country, in economic circles and in
government circles in recent years, has focussed on the less
side of the equation.

Looking at velocity and more importantly at the
quantity of money and the impact of the Federal deficit and
does that force the Federal Reserve to support deficit
spending and so forth.

These things are important. I'm not suggesting
that they are not, but the real measure of economic wealth
come from the right side of this equation and that simply
is the quantity of goods and services.

And when we are focussing on a gold standard or
anything in the area of monetary policy, we are not directly
focussing on the ultimate measures of real economic wealth
which is the quantity of goods and services available in the
country.

You look back at the decade of the '70's and you
will see, for example, that apart from what happened after
'71 in the unilateral ending of our convertibility, i.e., the
official end to the gold standard, in President Nixon's new economics, there were other problems that developed, so you cannot point strictly to that one incident.

Productivity declined throughout the entire decade. And, specifically, in late 1973, there was the OPEC embargo and the substantial multiple increase in the price of oil.

Now, you can argue that would not have happened had not the world been off the gold standard and dollars debased. On the other hand it was, as I phrase it in the statement, an act of economic warfare, maybe you would call it a survival act on the part of OPEC.

It caused a great deal of monetarization of those prices increases. It was not something that the Federal Reserve or the Federal Government did through some policy. That was an exogenous event which caused inflation to skyrocket.

One could question what would have happened had we been on the gold standard at that time with the rigidities involved in it.

There is a second and even more important point that I would raise. I have studied several papers recently which raise the possibility that it is not the behavior of the monetary authority of the Federal Reserve that really determines the money supply, but it is the price and wage
procedure of the public sector that ultimately does it, i.e.,
the causalities exactly the reverse from what is generally
accepted.

In other words, consumers and businessmen go to
the bank demanding a loan for their -- to support their
economic behavior, whether it be the takeover of an oil
company or to support higher wages in your company, or to
buy a home, or what have you, the bank makes the loan and
looks to the Reserve in a secondary fashion.

If this is the case, the monetary standard is not
the real problem. The real problem is wage and price
behavior on the part of the public, and I'm not in any way
alluding to a suggestion of controls, I'm just trying to
state what I perceive to be perhaps an economic factor.

If you look at these things, you can see that
there are major problems in trying to solve our economic
problems by focusing on the left side of this quantity
theory of money equation.

My suggestion, and I hate to use a word which is
admittedly overused, is to have an intense focus on productiv-
ity, i.e., increasing the quantity of goods and services.
It's not a simple solution to the problem, but I think it is
the only long-run problem. I think it is the only way out
of the debt-ridden morass that we are involved without
risking substantial deflation and all the attendant economic
problems that go with it.

I refer on Page 13 and Page 13(A) to the famous Laffer curve. I think Dr. Laffer deserves great credit for having directed our attention to the importance of incentives. But I suggest that the height of the Laffer curve is probably as important as its shape.

I suggest that in a high technology, highly productive economy, which hopefully will be more so later in the decade, that revenues will be substantially higher, the Laffer curve would be higher.

In an editorial in the *Wall Street Journal*, not long ago, Dr. Laffer suggested that if we do not return immediately to a gold standard, that we will risk substantial panic and tumult of many types. I am fearful that an immediate return to a gold standard, given all the short term instabilities attendant to it, that the Laffer curve would actually shrink in height, i.e., it would be a great deal of economic trouble, and that the revenues to the government, given the already swelling deficit, would shrink even more and the problem would grow.

In summary, I would say three things. There is merit in discussing return to the gold standard, but we should go very, very slowly.

Secondly, if we are to return, I think it has to be on an international basis and, therefore, a meeting of the
IMF should, indeed, be convened, admitting all the problems that would be attendant to it, but nonetheless to discuss this seriously in a global framework.

And, thirdly, I would suggest that this Commission recommend in its final paper that a productivity commission or something of that type be established to deal with the real basis of our long-term economic problems.

Thank you.

SECRETARY REGAN: Thank you, Mr. Bostian. I might add, parenthetically, a productivity commission was named, although it didn't get much publicity, just the day before yesterday. Former Secretary Simon is the chairman of it.

STATEMENT OF PETER B. KENEN

DR. KENAN: Thank you, Mr. Chairman.

My prepared statement, sir, has four parts. I have distributed it to you. I should like to read only excerpts of the statement to you now covering each of the main themes that I developed there.

Your Commission has received and discussed a number of proposals to give gold a central role in the domestic monetary system. Thos proposals differ widely and so do the arguments advanced on their behalf.

I will comment briefly on four main lines of thought. Some tell us that gold is an honest money. And they
say that money should be costly to produce so that it may have intrinsic value.

Those who bring goods and services to the market could be paid in money containing an equivalent in real resources.

This doctrine appeals to concepts of value and justice handed down for centuries, and it embodies views about the nature of the social contract between the citizen and sovereign. Mr. Benko invoked some of those views earlier today.

Exponents of this argument say that paper money should be fully backed by gold and freely convertible into gold coins. Some go further. They say that demand deposits should be fully backed by gold. In other words, the bank should become a pure service institution.

If the United States Government were required to mint new gold coins from the output of gold mines in the United States, those coins would embody the real resources required to produce them.

But I submit that this is not sufficient reason for us to regard gold as honest money.

The ultimate value of money derives from our ability to use it, to exchange it for goods and services, not from the cost of producing it.

An honest money is one whose purchasing power is
stable over time.

If there were new discoveries of gold in the United States, or dramatic improvements in methods of gold mining, the real resource cost of the gold coin would fall sharply and those who accepted gold coins yesterday would be cheated tomorrow by a rise in the prices of other goods and services.

Now, I'm not saying that these discoveries are likely to take place, but I do use the illustration to identify what seems to me the fallacy underlying the identification of gold with honest money.

This brings me to a second and third argument advanced by the advocates of gold. We are told that the gold standard is in practice the best available way to maintain price stability over the long run. We've also been told that the decision to adopt a gold standard will spell 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 Dr. Schwartz. Edward Bernstein has done so again today.

Looking over that review of our monetary history and examining the histories of other countries, I'm inclined, Mr. Chairman, to agree with the conclusion that one of you drew during that earlier meeting, there are two ways of reading
the historical record.

Some would say that gold gave us comparative price stability. It may be more accurate that we were able to stay on the gold standard during periods that were intrinsically stable and had to abandon gold when those periods ended.

I'll return to the subject of long-term stability in a moment. First, let me deal with the argument that we've been hearing recently that a quick return to gold will dispell uncertainty about the future, help us to bring interest rates down, and insure the success of the economic policies adopted by the present Administration.

This claim, it seems to me, is based on two suppositions. The first is the one I have already examined briefly, that a gold standard will confer long-term price stability, and I am skeptical.

The second is the promise that the elimination of uncertainty would, in fact, bring down interest rates and pave the way for a rapid supply side growth. I am very skeptical.

But let me grant both premises for the sake of analysis. It is still very hard for me to see why a speedy return to gold would eliminate uncertainty.

I submit that it could instead intensify and prolong uncertainty.

Consider, by way of illustration, the legislation
introduced by Senator Helms. Six months after the Congress adopts the Senator's bill, the Federal Reserve banks will start to buy and sell gold freely at a so-called standard price.

This will be the average of the market prices prevailing in the week before the resumption of convertibility.

There is no way to know how passage of this legislation would affect market prices during that critical week.

More importantly, there is no way to know what would happen once the standard price has been adopted. The price might be one at which the public started to sell large quantities of gold to the Federal Reserve banks.

If this happened the legislation mandates an expansion of the monetary base at a rate much faster than any rate we have seen recently. The price might be one at which the public starts to buy large quantities of gold, in which case, of course, the legislation mandates a rapid contraction of the monetary base.

In either case, Mr. Chairman, the Federal Reserve system might have to declare a so-called gold holiday within a year or so after which it could start over again.

It seems to me that this is a proposal for heightening and prolonging uncertainty about the economic future, not a way a way of ending that uncertainty quickly.
Before returning to the problem of long-term stability and its implications for the type of gold standard we would have to adopt, let me say a word about the fourth line of argument advanced on behalf of gold.

This is case for going back to pegged exchange rates. I'm going to say more about the international aspects of the gold standard in just a moment. Let me confine myself here to these three observations.

First, it is not necessary to bring gold back into the monetary system internally or internationally in order to peg exchange rates. Gold did not play an important part in the functioning of Britain woods, a great system.

Second, one must ask whether we should go back to peg rates at all. Those who favor this option believe the floating rates have been a major cause of international disorder since 1973.

Here, again, another interpretation is more plausible. Floating were adopted to insulate national economies and monetary systems from disturbances produced in part by other countries' policies, disturbances that began to afflict us before the adoption of flexible exchange rates.

Third, I would remind those who favor pegged exchange rates that we cannot adopt them unilaterally. To do so de facto we would require the cooperation of the other
countries whose currency we wanted to peg the dollar. To
do so de jure, we would require a formal decision by the
membership of the international monetary fund.

Recalling the events of 1971, moreover, I would
warn emphatically against a move to any pegged rate system
that deprives the United States of a large measure of control
over the exchange rate of the dollar.

Exchange rates cannot be pegged immutably as
gold peg them immutably. The world is changing too
rapidly. We should not have to do what we did in 1971 when
we had to attack the pegged rate system itself in order to
alter our own exchange rate and then had to expend much
political capital in an aborted effort to reconstruct the
pegged rate system.

At one of your sessions, Mr. Chairman, someone
said that he favors the development of a gold standard and
not a return to the gold standard, and I take this distinction
seriously.

If a gold standard is to have any chance of
conferring long-term stability, it must be a very different
gold standard than those we have known historically.

It must be able to prevent the monetary system
from creating or accommodating inflationary pressures. To
this end the supply of gold would have to control completely
the supply of money. It would be necessary, moreover, to
back the currency -- it would be necessary to back the currency by gold and likewise to bank -- back bank deposits by gold or bank notes.

It would not be sufficient, I submit, to restore convertibility at the margin while leaving the supply of money under partial control of an independent central bank.

Even these radical reforms might not go far enough. During the last decade we have been assaulted by a dozen definitions of money. And this barrage reflects uncertainty about the rightness of any single concept. It also reflects the important process of financial innovation.

The attempt to control one monetary aggregate has fostered the creation of substitutes of some of the components of that aggregate.

When the monetary authorities have clamped down on the supply of one monetary asset, the financial system has produced substitutes for that particular aspect.

The very attempt to control a monetary aggregate systematically reduces the relevance of that aggregate. The same thing would happen over time once we tried a particular monetary aggregate to gold.

I have been discussing the case for a gold standard to maintain domestic price stability. Most discussions focus on another purpose. In the vast literature on the theory and history of the gold standard,
it is viewed as a way of imposing balance of payments discipline even when submission to that discipline could destabilize the domestic economy.

In most descriptions of the gold standard, national money supplies are regulated primarily by gold flows between countries and only secondarily by flows between the central bank and the country's own citizens.

In your deliberations, you have concentrated on a return to gold by the United States acting unilaterally. I understand your reasons for doing this. Nevertheless, you should pay close attention to the international ramifications of any unilateral decision.

Under present international monetary arrangements, a foreign government is free to peg the value of its currency to the U. S. dollar.

To this extent the United States cannot decide unilaterally the dollar exchange rate should flow.

Under present arrangements, however, a country that pegged its currency to the dollar can maintain the peg only by purchasing and selling dollars as circumstances dictate.

A number of countries operate this way. Other countries buy and sell dollars too as a way to maintain a fixed peg to some third currency or to limit fluctuations in floating exchange rates.
If the United States restored convertibility between the dollar and gold, there would be one important change. Other countries could still peg their currency directly to the dollar, they could also move to the gold standard which would likewise fix the prices of their currency in terms of the dollar.

More importantly, both groups of countries, those pegging to the dollar and those pegging to gold, might buy gold from or sell gold to the United States.

There is another difficulty. Foreign governments and central banks owe some $167 billion in balances with U.S. banks, Treasury bills and other dollar claims.

In addition, they hold some $80 billion of your dollar deposits.

Private institutions and individuals abroad also hold dollars. These could be used to purchase gold from the United States, and the monetary base would thus be affected significantly by foreign purchases having nothing to do with ongoing balance of payments flows.

A gold standard might not stabilize the money supply in the United States. It might, instead, impose a food sort of balance of payments discipline that would not be imposed symmetrically on all countries. It would be imposed irratically and irregularly on the United States by the gold transactions of foreigners.
Finally, an international gold standard whether put in place by formal agreement or by the sequential decisions of individual governments is utterly incompatible with exchange rate flexibility.

Unless you believe that we should go back to pegged exchange rates, you must ask whether the United States should chart for itself a course that it would not want other countries to follow.

Some of the proposals put before you attempt to rule out these possibilities. Convertibility between gold and the dollar would be available only to citizens of the United States. This limitation would have to be enforced very strictly. I can think of two methods.

First, one could require citizens appearing at the gold window to declare under oath that they are acting for themselves or for other citizens and not for foreigners.

Second, the United States could impose a strict embargo against gold imports and gold exports.

One of those things would have to be done. Those techniques might not work very well. The violators would be rewarded handsomely whenever there was a large gap between the official price of gold in the United States and the price on the international market.

Mr. Chairman, countries which have left the gold standard were sometimes made to do so by international crisis
or by the policy mistakes of other governments.

Great Britain returned to the gold standard in 1925 in an unrealistically high price for the pound. It was forced to leave the gold standard only six years later in 1931, because France had returned to the gold standard at an unrealistically low gold price for the Franc.

The two countries unilateral decisions had created an unsustainable exchange rate relationship between their countries -- currencies.

A repetition of this step-by-step return to the gold standard with each country free to choose the gold price for its currency could produce nonsensical exchange rate relationships.

This is the lesson drawn from the episode involving Britain and France. It was the lesson that inspired the decision taken at Britain Woods to establish the new par value system multilaterally with the aid and advice of the International Monetary Fund.

If we do not domesticate the gold standard completely, by prohibiting the export and import of gold or by some other device, we may wander into the same sort of muddle again.

If the United States does not move to a gold standard, and I hope it will recommend against that course for all the reasons I have been listing, what sense can one
make of the present situation.

The United States holds 264 million ounces of gold worth more than $110 billion at current market prices. If gold is to play no major role in the monetary system, should the United States continue to sit on this huge pile of metal.

If the United States could sell its gold without depressing market prices, the Treasury would have a profit approaching $100 billion, the difference between the current market price and the old official price at which the Treasury would have to redeem gold certificates.

It could use the windfall to solve the problem of the Social Security Trust Funds and halt the upward creep of Social Security taxes.

It could use the windfall to finance the budget deficit and thus spare itself the need to borrow.

I hope you will not take these suggestions seriously. The United States should hold on to its large gold stock even though this may seem illogical.

The United States also has an extensive stock of tanks, aircraft and missiles. It does not want to use them, but it cannot get rid of them.

Would that we could beat our swords into plow shares and sell off the plow shares to finance budget deficits, we would probably be accused of dumping plow
The United States should keep its gold for the same reason that it holds these other stocks, because the future is uncertain and unsafe. One can conceive of circumstances in which gold might be the only acceptable means of payment internationally.

One can likewise conceive of circumstances in which we might want to redeem dollars held by foreign governments or to back them with gold as part of some new sweeping agreement on reform of the international monetary system.

This Commission, sir, should 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."

SECRETARY REGAN: Thank you, doctor. Dr. Rothbard?
STATEMENT OF DR. ROTHBARD
DR. ROTHBARD: Thank you very much.

Mr. Chairman, members of the Commission, I hope my -- the reforms that I will propose today will be radical enough to suit Professor Kenan.

The most important aspect of the gold problem it seems to me is how we answer this seemingly simple but vital question, whom do we trust, the people or the government.

In recent years, the economists and other analysts have come more and more to see the errors and fallacies of
government control in central planning, and the great
importance of maintaining the rights of private property and
of free markets and free enterprise.

But while the economics of free market and property
rights has been extended at least a decade, there is still
one glaring gap, a crucial area of money, why are we ready
to accept freedom and private property, why are we ready,
in short, to trust the people in all their economic affairs
and yet make a glaring exception in the case of money.

Why do we favor freedom in many areas and yet
advocate total control over the supply and lending of money
in the hands of the central government.

If we leave it up to the Federal Government to
control the issue of dollars and demand liabilities to
dollars, which we're doing now, they're granting us this
vital power.

Money is relevant to the lives of every American.
And, yet, we are willing to pledge or to put a pledge, our
lives, and our fortunes, if not, perhaps, our sacred honor,
in the hands of the Federal Reserve, a monopoly creator and
controller of all dollar issues.

In the field of money, we have allowed the U.S.
Government to confiscate everyone's gold in 1933, supposedly
for the duration of the Depression emergency. The
Depression emergency is long gone, the gold is still there.
Here we are nearly half a century later, and the people's gold seized from them still remains buried at Fort Knox.

If we truly believe in free markets, free people and private property, we must proceed, it seems to me, to denationalize gold and let the people take back their gold property which was, in effect, stolen from them in 1933, and never returned.

Let us get back to our central question, do we trust the people or the government.

I'd like to submit, precisely in the area of money, an area nationalized, indeed, throughout the world, where we cannot trust government at all, even less so than other areas of the economy.

The government operation using tax payer money, rather than voluntary investment or payments from consumers, always tends to be unsatisfactory and hopelessly inefficient.

In the area of money, there's another vital factor to that, that is the government tends to be inherently inflationary. Most economists, I think, will concede that the major, if not the sole cause of our chronic and ever accelerating inflation, is the excessive creation of new money.

There's only one institution to blame for this, let's face it. There's only one institution that we all
recognize to be the sole issuer, controller of dollars, the Federal Government, particularly the Federal Reserve.

If, as I maintain, government is inherently inflationary, and putting the Fed or any other government institution in charge of the supply of money is equivalent to letting the proverbial fox guard the chicken coop.

Why do I say that the government is inherently inflationary. Simply because government, like many of the rest of us, if not all, is chronically short of funds, that is it would like to spend more than it can take in taxes without stirring up too much political unrest.

To pay for the remainder, it can borrow from the public, or better yet, from its point view, it can create new money and use it to finance its ever larger deficits.

The point is that economically, if not legally, the Federal Government and now the Federal Reserve enjoys the monopoly of legalized counterfeiting, creating new money out of thin air or out of paper and ink, to be more specific.

I submit that any institution, no matter how noble its possible motive, will use any power that it has, and especially the power to counterfeit, by creating new money, the government can finance its deficits and subsidize favored political and economic groups by supplying cheaper credit than they would otherwise enjoy.
Since the government as the monopoly issuer of money has the power and the ability to counterfeit, it will tend to keep using such power.

If we look at the records of government throughout history we see a dismal story of such counterfeiting amply confirmed. Run-away inflation has wiped out entire classes of people as well as destroying the value of the nation's currency.

There's no economic holocaust, no recession or depression, however, great that can touch the widespread and intense agony of run-away inflation.

And if we continue our present course of trusting government rather than the people or the market, we will have eventually such hyperinflation in America.

Let us not forget that two of the notable run-away inflations -- of course, notable not in the sense of good -- two of the notable run-away inflations in the 20th Century had disastrous political consequences; the German inflation of 1923 destroyed the middle class and paved the way for Hitler; and, the Chinese inflation of the 1940's was instrumental in the loss of China to the Communists.

It is also unassailably true that the Western World enjoyed far greater stability under the gold standard than we have had since.

If we take the period since the founding of the
American Republic, prices were far more stable than they have been since we were taken off gold in 1933.

This is still more true if we extract from that period two of the major inflationary episodes which occurred when the government issued fiat money, in other words, the fiat dollars were inconvertible into gold; namely, the War of 1812 when we did that for the first time and the Civil War, North and South alike issued irredeemable greenbacks.

The situation improved still more, from my point of view, in this comparison, if we take the pre-Federal Reserve era before 1913, compare it with later periods. An unmanaged gold standard which is free or semi-free banking worked much better and more stably than a gold standard managed and therefore distorted and crippled by a central bank such as the Federal Reserve.

It is possible, though not easy, to write off, and it has been done before this Commission, to write off this historical record of the virtues of gold and the vices of fiat paper by attributing it to various coincidence and various special features of the past.

But if we understand that the government as a legalized monopoly counterfeiter is inherently inflationary, then we will see that the historical record is not a problem or a puzzle, but simply confirms and illustrates this basic
If we must denationalize gold, then we must also at the same time denationalize the dollar, taking the issuance of dollars out of the hands of the government or the central bank.

To eliminate and exorcise the spectre of inflation, we must see to it that the gold, dollar and money are in the hands of the people or the free market rather than in the central bank.

How can this be done? How can we establish freedom and private property and money while denationalizing gold and the dollar? Only by restoring the concept of the "dollar" not as an independent entity with a price, but what it was, and what it was supposed to be before 1933, simply a unit of weight of gold. That is what a "gold standard" means.

But in order for the dollar to truly be a certain weight of gold, it must be redeemable on demand at that weight. Only if the average person can redeem his dollars at a fixed weight of gold coin can a true gold standard exist and perform its important functions.

And this means nothing less will do. A return to something like the Britain Wood where the dollar was supposedly fixed in terms of gold, but where only central foreign banks could redeem in gold, would only be a sham and would only
enter the same sort of disaster that Britain was in 1971. The dollar must be redeemable in gold not just to foreign governments, but everyone, Americans and foreign citizens alike.

Only in this way can the dollar be tied firmly to the stable level of gold. Also it is important that gold be redeemable in coin and not merely bullion. Redeemability in bullion, such as existed in England during the 1920's and the United States from 1933 to 1971 might benefit wealthy businessmen and international operators, but deprives the average person of the right to keep his property in gold rather than paper or to deposit dollars.

It is furthermore, it seems to me, important not to introduce escape clauses into the gold standard or to provide for changes in the definition of gold weight.

The gold standard with an escape clause is useless for it simply signals everyone that we don't really mean it. The gold discipline to guard us from inflation won't really be enforced.

Similarly, with changes in definition. Gold standards, unfortunately, are commonly talked of "fixing the price of gold." The gold standard, however, does not fix the price of gold in terms of dollars, rather it defines the dollar in terms of the weight of gold.

Changing that definition makes as little sense
and is even more pernicious than changing the definition of a pound from 16 to 14 ounces.

Just as an ounce or a pound is each a unit of weight, and, therefore, fixed in relation to each other, just as we don't say, by the way, that we fixed the price of ounces in terms of pounds, so should the dollar and the weight of gold.

Just as pounds and ounces are initially arbitrary definitions and once chosen, remain fixed, so the initial definition of a dollar, in terms of gold, is also arbitrary.

No one takes seriously the current statutory definition of the dollar as approximately $42.00 an ounce, because there's no real way in which the dollar and gold are related. We should, therefore, pick the most convenient initial definition and stick to it from then on.

I suggest that the most convenient definition would be one that would truly embody the dollar as a unit of weight of gold. One hundred percent of the reserve of the gold stock to the dollar is paper money and demand deposits outstanding.

This would be approximately, and I think the Commission should study this -- it's something like $1600 an ounce. This high price, or rather low weight of gold, would not be inflationary. If it should be done, reserve requirements are 100 percent from that point on.
In no case should higher value of the gold stock be used to pyramid more inflationary dollars on top of gold.

Furthermore, this sort of 100 percent gold dollar would enable the rapid liquidation of the Federal Reserve system, the establishment of sound, uninflated free banking.

There are several common criticisms of the idea of the return to the gold standard. One is that we would be relying on the fluctuations of the supply of gold production on the market.

If fortunate, however, the gold is such a durable commodity that annual production can only be a small proportion of the total stock. It would, therefore, have little impact on crisis.

This is in contrast to paper money which can be increased at will and nearly costlessly by the central government.

No one says that gold is an abstractly perfect money, whatever that might be. It's far more trustworthy, however, than government.

Secondly, gold has often been blamed for the severity and extent of the Great Depression of 1929 and 1930's. We should turn that charge around and point out that the New Deal could not get us out of the Depression despite taking us off the gold standard in 1933.
But more important, the crash of 1929 was caused not by the gold standard, but by the unsound management of that standard by the Federal Reserve system.

Throughout the 1920's, the Fed unwisely kept pumping inflationary money and credit into the economy in order to help Great Britain to try to get out of a severe economic problem that it had gotten itself into in the 1920's.

As Professor Kenan just mentioned, Britain went back to gold and overvalued the pound in the 1920's and the rest of the economic system -- the world economic system of the 20's was essentially manipulation by Britain to try to get itself out of this mess, inducing us to inflate as a result.

Then at the onset of the crash, President Hoover, later followed by President Roosevelt, prolonged the Depression indefinitely by a host of "New Deal" measures, inducing businesses to keep wage rates at pre-1929 boom levels while prices were falling, vast loans to near bankrupt businesses, public works expenditures, foreign price supports, budget deficits, and the rest of by now familiar apperatus of New Deal measures.

Another criticism of gold is that the two countries most benefiting from the gold standard would be particularly unpalatable politically, South Africa and the Soviet Union,
two leading gold producing countries. But we have never balked, after all, from purchasing oil, minerals or other important goods from politically repellent nations. Why stop at gold.

Furthermore, if the United States becomes healthier economically and defeats inflation by adopting a gold standard, this would help us far more than we would be hurt from Russia's economic gain from the higher price of gold.

The fourth complaint is that while international gold standards might be acceptable, the United States could never successfully go back to gold on its own.

Lengthy international negotiations and numerous conferences would need to be held before the gold standard could return. But I see no reason why the United States could not return to gold immediately on its own, resulting in stability and an end to inflation. It would set a perfect example for foreign nations.

I'm sure that such hard money countries such as Switzerland, France and West Germany, would be delighted to embrace the gold standard should the U.S., now the leading fiant money country, take the lead.

But even if they do not, there's no harm done if the gold dollar, would, like the paper dollar, be truely fluctuating in relation to other fiant paper currencies.

A gold standard in the U.S. alone need provide
no international monetary shock to other nations.

In addition, it has often been said that we cannot
go back to gold unless we first adopt monetary and physical
stability. But if we can do that, why bother about gold in
the first place.

The answer is that governments need a leash, a
tight rein in order to cease their counterfeiting and
inflationary activities.

The same argument after all, the same argument
against gold, could be used against the Bill of Rights,
the Constitution, or any other restraint on government.

The point is we always need a check rein on
government in all areas. In the monetary area, the best
check rein is one wielded not by government itself, but by
the people themselves in being able to redeem their dollars
whenever they wish in gold coin.

This does not mean, I would include by adding,
that gold is a panacea for all of our ills. We must avoid
the danger of overselling gold and thereby raising false
hopes that would soon be dashed.

Gold would not be an instant cure, a quick fix
for recessions, sluggish growth or high interest rates. It
is indispensable for checking inflation. But the Fed could
still inflate or mismanage in the short run even under the
gold standard if it is determined to do so.
But not for long, because it would subject to
gold discipline which it would have to heed.

Eventually, as I have noted, we should consider
liquidating the Federal Reserve system and returning to the
world unmanaged, free banking of the gold standard. Short of
that I would like to see an addition to the gold standard,
a law preventing the Fed from purchasing any further assets
that are not gold and thereby stopping the continual creation
of new reserves at the commercial banks.

But I would urge that if the gold standard is
adopted, it be a genuine gold standard, one where the public
can redeem their dollars at will at a fixed weight in gold.

Even such a gold standard would not be a panacea,
it is indispensable for ending inflation and returning to
sound money. Anything else would merely be a sham and only
wrap the prestige of gold around a program of permanent
inflation.

Such a hoax is bound to fail. It would be worse
than nothing, because the gold standard would be unfairly
discredited along with the ever shrinking dollar. The
American public deserves a gold standard in reality and not
just in name.

Thank you very much.

SECRETARY REGUT: Thank you, Dr. Rothbard.

Dr. Solomon?
DR. SOLOMON: Thank you, Mr. Chairman.

In this abbreviated version of my statement, I shall identify what I regard as the major issues raised by the Committee's assignment and present some observations on these issues.

The broadest issue is what would the United States and the rest of the world gain from giving gold a more important official role up to and including a form of the gold standard.

Of course, the end of inflation, once and for all, is the promised goal of most advocates of linking the dollar to gold, and there can be no quarrel with this objective.

What is open to question is whether linking the dollar and other currencies to gold will achieve that objective.

The most straightforward suggestion is to restore a gold certificate reserve to the Federal Reserve system. The purpose is to impose a monetary rule that would limit growth of the money supply. This is the monetarist approach to the gold standard and you've had a presentation of it.

The objection to that in my view is that it would deprive the Federal Reserve of all discretion in its operation including counter-cyclical policy adaptation.
Some advocates of a return to gold reject monetarism as well as cangianism (phonetic). They believe that the traditional process by which the Federal Reserve tries to regulate the volume of bank reserves and therefore the monetary aggregate is doomed to failure.

What they propose instead is a mechanism by which the supply of money is determined by the demand for money. I have references here to those who made these proposals, one of whom happens to be a member of the Commission.

These proponents believe that if the Federal Reserve is required to supply neither nor more less cash balances than are demanded, inflation will be banished and they would bring this about by making the dollar convertible into gold, or at least for American citizens.

The flaw in this type of proposal in my view is that it fails to distinguish between the textbooks call "money to hold" and "money to use."

Those members of the public who want more money in order to spend it on goods and services will be exercising "a demand for money" indistinguishable from the demand of those who wish to increase their cash balances held on deposit or in the form of currency.

Therefore, letting the demand for money determine the supply will not assure a non-inflationary economy. In fact, it could have just the opposite effect.
In none of the proposals that I have seen is the inflation process addressed in a fundamental way, none of the gold standard proposals that is. In my view, inflation involves a complex interaction of wages and prices and occasional external shocks such as large increases in oil prices.

How a linkage between the dollar and gold would cope with these aspects of inflation is, again, in my view a question that the commission should expect the gold proponents to answer.

More generally, the believe that there is a simple solution to the inflation problem, though seductive, is in my view misleading.

The worsening inflation in the 1970's can in no way be attributed to the breaking of the link between the dollar and gold on August 15th, 1971. That interpretation is, I think, a gross distortion of history.

It is easy to show that for many years before 1971, gold had little if any influence on U.S. monetary policy, just as there is no simple explanation for the acceleration of inflation, there is no simple way to bring inflation back down.

We do not have a magic monetary wand to wave and thereby do away with inflation. Apart from ending inflation I am aware of no other benefits that are supposed to result
from returning to a gold standard, and I find it significant, Mr. Chairman, that most foreign officials and bankers abroad—most foreign officials and bankers show no interest in a return to gold.

The second issue is—refers to the exchange rate system. What changes if any would be made in the exchange rate system under which the world is now operating if we were to return to some form of gold standard. The present exchange rate regime is a harbored one in which countries have freedom of choice among free-floating, pegging to another currency or a basket of currency or establishing a regional system of par values as in the European monetary system where the regional block flows.

In practice a substantial portion of world trade, well over half, is conducted under floating exchange rates. Whatever judgments the Commission arrives at regarding the role of gold, it is important I believe to avoid pushing the world back to the straightjacket of fixed exchange rates. Ample evidence is available to support the proposition that the dollar and other major currencies, such as the Yen or currency areas such as the EMS needs scope for variation as is possible at present.

The present system is far from perfect, but an attempt to restore fixed exchange rates would surely fail.

I shall assume for brevity, Mr. Chairman, that
the question of domestic convertibility is not a major issue
if gold were to be given a -- if we were to move back to a
gold standard. I take it for granted that American citizens
would have the right to convert dollars into gold and I'll
discuss that issue together with the question of the price
of gold at which a gold standard might be re-established.

Is it envisaged that the price of gold would be
fixed in terms of dollars. Now we've been told just a moment
ago by Professor Rothbard that, no, it would be fixed in
terms of a fixed weight of gold.

But as Dr. Schwartz has pointed out to the
Commission in the parts of the transcripts I had a chance
to read, if one fixes the dollar in terms of a certain
weight of gold, one is, in effect, fixing a dollar price of
gold.

The question is how would the price be chosen and
equally important, how would it be maintained in the face
of the sorts of political shocks that have sent the gold
price through such wide gyrations in recent years. And what
are the implications of all this for monetary policy.

Most proposals for a return to gold that I have
seen are rather vague on the price at which the dollar would
be made interconvertible with gold. Yet, it is clear that
the events of recent years -- from the events of recent
years that the market price of gold can change drastically
in response to events that have little to do with the monetary system.

One response to these problems -- I should say just to carry that a little bit further -- if the market -- if we had a fixed -- if we did fix a price and the market price were to rise relative to the official price, gold would be bought from the monetary authorities and sold in the market.

If the market price were to fall, the opposite would happen.

In either case, the impact on gold reserves and therefore on monetary policy could be destabilizing. One response to these problems would be an attempt to peg the market price of gold.

Quite apart from the feasibility of such an effort, as was demonstrated when the gold pool was abandoned in 1968, it would effect monetary policy in an undesirable way.

Imagine a political disturbance in the Middle East and a sharp run-up in the market price of gold, not difficult to imagine.

Sales of gold by monetary authorities designed to peg the price would, under gold standard rules, require a contraction of bank reserves and a general tightening of monetary policy, even though that might not be appropriate
at all to the conditions of the economies of the world.

Another option would be to let the official price move with the market price. While this option might be technically workable, I believe it would not satisfy those who are seeking to restore the discipline of gold.

If the official price moved with the market price, gold buyers and sellers would be indifferent as between the market and undertaking transaction with the monetary authority.

Thus, changes in the quantity of gold reserves would be arbitrary and haphazard. They would not provide the set of guidance to monetary policy that is being sought by gold advocates.

It seems to me that gold advocates face a dilemma regarding the official price of gold. If they use the market price, the discipline of gold disappears, but it is not realistic to select unofficial prices that can be maintained indefinitely.

I go on now to the question of international convertibility, Mr. Chairman.

What sort of international convertibility would be established. What are the implications for U.S. monetary policy and for the operation of the international monetary system of the restoration of international convertibility.

If official convertibility between dollars and
gold were established at home it would be almost impossible to deny it to foreign holders of dollars, as Professor Kenan has pointed out. And as he has also pointed out, foreigners, both official and private hold substantial amounts of dollars.

Banks located in the United States have more than $200 billion of liabilities to foreigners. Branches of American banks abroad have dollar liabilities to foreigners of $275 billion, and non-American banks also have very large dollar deposits.

Potential claims on the U.S. gold stock which is worth about $110 billion at the price of $425 an ounce, these potential claims are huge and these claims could be exercised along with purchases by Americans if an official gold price were established and the market price rose above it.

Finally, let me address the question which Professor Kenan also addressed, what is the significance of the fact that the U.S. Treasury holds more than 260 million ounces of gold. Does this require, as some have suggested, that a choice has to be made between remonetizing gold and selling it off.

In my view this is not a pressing problem. The U.S. gold stock should be regarded as part of the national patrimoney worth a $110 billion at the current market price.
There is no reason to dispose of it just because it does not play an important monetary role. And there is no reason to try to invent a monetary role just because we hold the assets.

The U. S. government owns many non-monetary assets. They have different uses. There may be occasions when, as in the past, it will support U.S. objectives to sell gold on the market or to buy it on the market. But until then gold does not have to burn a hole in our pockets.

We are not forced to decide to do something with our gold assets just because they exist.

Thank you, Mr. Chairman.
SECRETARY REGAN: We will proceed now without questioning in view of the time frame. We'll try to restrict it to the usual five minutes even though there are fewer of us questioning this afternoon. And if there is any time left, we'll go on from there.

Mr. Costamagna, would you start off the questioning, please.

MR. COSTAMAGNA: Thank you, Mr. Secretary.

I just have one question addressed to all of you, possibly each of you can answer in order.

Many years ago I had a experienced professor who was one of the Oxford scholars, and he -- of the question that Shakespeare founded "to be or not to be," had confused scholars for many, many years, and no one was really sure what he meant.

I had at the same time another professor who said what Shakespeare really meant was whether to be good or not to be good. That is the question.

After sitting here all day, I begin to wonder about both of my professors. I think the question beyond the gold standard or not to be on the gold standard, is the question.

And, let's see, all of you gentlemen here, I find one group saying strictly on the gold standard, and another group saying we should not. And giving very good reason to
both positions.

I would like to ask all of you the same question. And that is, let's assume that an international gold system, convertibility in the true sense of the word, is not possible. But that we are faced with the situation where both sides must give a little to save a lot.

What would you propose if you had to develop an idea for strictly a domestic gold system, shedding any thoughts you might have had to the contrary.

How is the effect of a system possible domestically without an international convertibility?

Is anyone willing to start?

Dr. Rothbard.

DR. ROTHBARD: Yes, as I indicated it in my remarks, we are now, more or less, quoting change rate systems in the qualifications. We went back to gold and whatever weight, the price that we want, we'd still be -- the gold dollar would still be in a quoting change rate on the other currency. I don't see any real problem with it.

So, it seems to me to be done fairly easily.

MR. COSTAMAGNA: Dr. Solomon?

DR. SOLOMON: If the domestic gold system that you're inquiring about, Mr. Costamagna, we're to include domestic convertibility. Convertibility for American citizens into gold, then you run into the problems that Peter Kenen
raised earlier. You'd have to have some very, very strict
control to try to keep foreigners from purchasing American
gold. And I think these controls would be completely incon­
sistent with our system and our tradition. It probably would
be unworkable as well.

With that -- I was just going to say, you can
imagine going back to some form of gold system which could
not involve domestic convertibility. You wouldn't run into
those problems, but then I don't want to take too much time.
One has to raise other questions about what would be gained
by somehow or another, introducing gold without domestic con­
vertibility.

That's a partial answer to your question. I'm
going to take more time if it's available.

MR. COSTAMAGNA: Would that be true if the -- I
think the elements Dr. Kenen raised was the fact that foreign­
ers would -- could possibly end up with all the gold. Would
that be subterfuge or otherwise? Would that be true

Would that be true if they -- that other countries
likewise have the similar domestic problem, why would they want
to convert into our American gold if the major countries had
a similar domestic convertibility?

DR. SOLOMON: Well, it depends upon the domestic
price and the foreign price. We're listing all sorts of
assumptions here.
Like, assuming the fixed price domestically. If you are then if you're obviously --

MR. COSTAMAGNA: No, I'm --

DR. SOLOMON: -- it depends if it's advantageous to sell abroad, legally or otherwise.

MR. COSTAMAGNA: Talking of a market price.

DR. SOLOMON: Talking of a market price --

MR. COSTAMAGNA: Yes.

DR. SOLOMON: Then the question is what you gain and what's gained by somehow leaking the dollar to a floating gold price.

MR. BERNSTEIN: You have that --

MR. COSTAMAGNA: Yes.

MR. BERNSTEIN: But what is it suggesting that would be different? The Treasury would then be a major part of the market abroad, you're saying?

MR. COSTAMAGNA: Well, the thought is -- I appreciate what you're saying, Mr. Bernstein, but we cannot buy, one, American gold, and by buying foreign gold we are exporting more dollars, and making our balance of payments more difficult. Eight billion dollars in the last four years, for a total of eighteen million troy ounces were imported.

So, I think there might be a difference.

But, that's getting away from my question. My question was, if you had come up with a solution between the
-- what appears to me to be two extremes, and limiting it to a domestic gold system, what would you suggest?

MR. BOSTIAN: Well, I attempted to address that question, you know, in my favor. And I can think of a lot of possibilities, but I think attempting to see what the free market would do, as I suggested, with a gold backed government issue. I mean, you know, would the interest rate be two or three percent versus twelve or fourteen percent, would be one way to see what reality has to say about a lot of theories without exposing one to a great deal of risk.

And, going back to your concept of Shakespeare, if the meaning of "to be" is "to be good," I think in the current environment my definition of good is to move very prudently and cautiously.

DR. KENEN: Or if not, I think it's what you want to accomplish. If you want to control the monetary system by use of gold, domestic monetary system, then I think you have to go all the way to a sort of program which I described as radical before, and I would have to say that Mr. Rothbard's program is radical enough. It does precisely the sorts of things I was describing.

It, by the way, completely transforms the whole domestic banking system. Banks no longer hold anything but bank notes. They're service institutions. They charge you for checking accounts. And they're simply service transaction
institutions. The entire role of financial system changes on such a system.

I don't see how you can hope to accomplish the domestic objectives of the gold standard advocates, the strong gold standard advocates, without doing something like that.

Now, if you say, "look, why shouldn't Americans be allowed to buy up some of the American gold stock?" Why is it we have to abroad to buy gold? Why is it that the government's sitting on all this gold? Can't we do something about that problem?

Until fairly recently the U.S. Treasury was indeed auctioning gold at -- periodically. Small parts of the U.S. gold stock. And various bidders came in and bought some gold from the U.S. Treasury.

But, I think upon reflection this was a device partly for implementing an earlier -- an earlier objective which actually was to eliminate the monetary use of gold. It wasn't to make the use of gold broader or wider. It was to remove gold from monetary systems. And, to essentially put out gold where our mouth was, and say that we were not interested in holding gold as a monetary asset.

If you think that it's the right of the American citizen to have a crack at that gold, then I would simply resume the Treasury gold auctions. Indeed, there's really no other way in which the Treasury could sell gold at a floating
price, the market price, except by auctioning it. Because if it actually went in and said I'm going to -- this is the market price and I'm going to sell it at this market price, then the moment after the Treasury announced that the market price changed, I'd be in a position to abertrage against the Treasury and the market. And the Treasury would be the loser.

The auction device is the only thing if you wanted to go some distance toward Americans being permitted to hold gold.

I do say, however, that whether that's in having context, or in the different context of the true gold standard, that -- as Rothbard has advocated, you do need the sort of embargo I'm talking about. Both going both ways.

Then for in sales of gold in the United States, which could flood us and increase our money supply, monetizing their goal in effect, and also prevent large gold range. Otherwise the system may be harmfully unstable.

And I find it frankly ironic that people, who in general, advocate a reduced role to the government in our day to day economic life, would propose a system under which customs officers would have to search my pockets every time I left the country to make sure I wasn't holding gold coins. That's what it amounts to.

It's the sort of thing foreigners have had to submit to for years because of currency restrictions, we would
have to submit to them.

I can think of various ways, I said, about making this connection. I can't think of making a serious connection without very drastic domestic financial reforms.

In any case, I don't think you could do it in isolation without the embargo, unless you went to the point of an agreed international price. In all government it's going on, the gold standard together at a consistent set of prices. And that was not the premise of your original question.

MR. BENKO: Mr. Costamagna, I'm not really here speaking for myself. As an attorney, I'm just bringing up the authorities who built this country originally. And I just want to bring out Madison's ideas on this subject, which are once again drawn from his essay entitled "Money." Something which I would be pleased to give the Commissioner a copy of if they don't have one in the record already.

He believed very strongly that the world was the only closed economy. And you can't draw arbitrary lines saying they are different from us. It would sort of be like organizing the United States, breaking it up and Texas has one autonomist unit, and New York is another.

It seems from Madison's theories, which I guess have recently come forth in another -- a new spokesman, Mundell -- I don't want to misrepresent him, but it seems that he accepts this concept too, that if you wish the
efficiencies of the market, then you want to do everything you can to encourage a world market to discourage restraints in trade on an international basis, as well as on domestic basis.

One of the reasons that America has been so economically powerful is because the Commerce Clause of the Constitution forbids any restraints on interstate commerce, thereby permitting vast efficiencies that were denied to Europe.

So, I know this begs your question, what you're saying, "if you really had to make this decision, what would you do?" All I'm doing is, rather than boring you, not to raise that as a live option because I see no good coming from them. Coming from that as a premise.

MR. BERNSTEIN: I'd like to add a point to this.

If you going to have a floating price of gold domestically, but the Treasury is going to -- and any American wants to buy gold, now you have a market in which the price would be up, unless the Treasury should -- to go into the market, but any American can buy gold at the floating price without the pressure, then I can't quite see what you have in mind for the Treasury in a system in which the price of gold is floating, and if the Treasury doesn't care about what the price is, I mean, or simply cares what the price is and (INAUDIBLE) into it?

MR. COSTAMAGNA: I don't have anything in mind for
the Treasury. I have in mind for the American people. If they know that their dollars are represented by gold, and if they wish to convert it to American gold, they can. But they don't have to.

MR. BERNSTEIN: Well, if it's a floating price --

MR. COSTAMAGNA: Yes.

MR. BERNSTEIN: If it's a floating price, and everyone's saying what the difference is between American gold and other gold is -- I've always thought of gold as a --

MR. COSTAMAGNA: Well --

MR. BERNSTEIN: -- as an element. They're all the same.

MR. COSTAMAGNA: That's true.

MR. BERNSTEIN: Or what the Treasury sometimes will identify as Russian gold and other gold by the color. If you know, it is a little redder.

We could identify gold from other places by a little test for elements. But what is the difference if American buys gold?

If it's floating you can get New York market. You buy some gold at the New York market, and if the Treasury decides it doesn't like what the price is, we never can get to the gold and the Treasury doesn't enter into the market.

What are you proposing to the Treasury there?

MR. COSTAMAGNA: I say I'm not proposing anything.
MR. BERNSTEIN: But are you proposing that it should enter into the market, or not enter the market, hold the price up, hold it down?

MR. COSTAMAGNA: No, no, just make it available.

MR. ROTHBARD: It's now available.

MR. BERNSTEIN: I'm not quite -- see, that's what I don't understand. How does the Treasury make it available if you accept by first making the decision --

MR. COSTAMAGNA: Well --

MR. BERNSTEIN: -- if the price is too high?

MR. COSTAMAGNA: Well, it would have to coin -- by coins.

MR. BERNSTEIN: Yeah.

MR. COSTAMAGNA: Coinage is what I'm talking about.

MR. BERNSTEIN: That's right. And that would offer the coins for sale, but it wouldn't offer it for sale unless the thought -- they thought the price was too high. Anyone else could buy coins there already in the market.

There's in here a decision called "The Treasury to Make," that wants to bring the price down from what it is in the market, if it's going to sell gold out of its own holdings. Otherwise, anybody can buy gold right there without the Treasury.

SECRETARY REGAN: Thank you, gentlemen.

Dr. Jordan?
DR. JORDAN: Thank you. I want to ask some questions of Professor Rothbard.

Your proposal is the only thing that we have heard so far that comes close to approaching a true gold standard.

Now, I want to ask some questions to make sure it's quite clear what is involved.

Currently currency issued by -- er, coin purse by the Treasury, it would be appropriate under your proposal that the Treasury still holds some gold to back this -- coins issued by the Treasury.

The federal reserve notes as currency, as long as there is a federal reserve, it would be appropriate that the federal reserve hold as an asset physical gold in order to back the currency.

If we abolish the federal reserve as you propose, then would the federal reserve notes then become a Treasury note, in which case Treasury holds gold to back it? Or would that become a bank liability, a bank note?

DR. ROTHBARD: Well, I think the basic -- my basic view here is the gold version of the Frank Knight plan, so to speak. The reserve plan, where you -- you make the gold price of a weight of gold high enough so that you can have 100 percent reserve the bank -- bank demand upon.

Then, liquidating the federal reserve, giving the banks a gift -- a capital gift, the new gold reserves. At
that point the banks would be -- would be 100 percent --

DR. JORDAN: Would there still be federal reserve notes in your system?

DR. ROTHBARD: Yeah, I didn't mention that. I personally am in favor of bank notes.

DR. JORDAN: Commercial bank notes. Okay.

DR. ROTHBARD: Right.

DR. JORDAN: If the note -- if you abolish the federal reserve note --

DR. ROTHBARD: That's another step, obviously. Going back to the commercial -- the piece of award commercial bank notes is something --

DR. JORDAN: So all money is either paper notes issued by the banks that is backed by gold, or transaction liabilities, demand deposits issued by banks.

So, when you arrive at your price, and you say demand deposits, you include such things as the new interest bearing transaction liabilities, like now accounts, and share draft credit unions, and savings and loans?

DR. ROTHBARD: Well, that's something to really be studied. I think that's -- I would like to see the Commission really study that. Because I was just looking at -- roughly at M-1B basically. I'm open to suggestions on that.

DR. JORDAN: Well, the M-1B does include these interest bearing transaction liabilities, so that I would
think, would be influenced of what price you would want to accept at.

Now, we heard some testimony this morning from Mr. Holtzer, and then I think the testimony of Mr. Banko would be supportive in your early remarks in your statement, that the problem is that the actions of government in the past, or the potential actions of government in the future with regard to this exchange rate between something called dollars, or eagles, or whatever name you want to give to it, money, and gold.

Doesn't this true gold standard involve physically taking the gold out of the Treasury and giving it to the banks and then the banks hold the gold as an asset --

DR. ROTHBARD: Right.

DR. JORDAN: -- physically?

DR. ROTHBARD: Right.

DR. JORDAN: And that the U.S. Treasury -- the only gold held by the government at all would be to back either currency issued by the government, or Treasury or federal reserve notes?

DR. ROTHBARD: Right.

DR. JORDAN: Do you do away with that?

DR. ROTHBARD: Right.

DR. JORDAN: And all the gold is held in private hands physically?
DR. ROTHBARD: Exactly.

DR. JORDAN: Okay. Now, what do you do though about dollar liabilities of foreign banks in the United States? Foreign branches -- branches of foreign banks in the United States? Would they be a part of this system too? Would they also get some of the Treasury's gold?

DR. ROTHBARD: You mean, in holding their own liabilities?

DR. JORDAN: Yes.

DR. ROTHBARD: Yes, I would think so.

DR. JORDAN: What about branches of U.S. banks abroad -- U.S. banks abroad that are denominated in dollars? Would you back dollar liabilities of U.S. foreign branches, would they be backed by gold?

DR. ROTHBARD: I understand that you told me Euro dollars? I understand that those are not really demand upon.

DR. JORDAN: Yes, they are demand --

DR. ROTHBARD: They are?

DR. JORDAN: Yes.

MR. BERNSTEIN: About 30 or 40 percent.

DR. ROTHBARD: So that the 30 or 40 percent literally would be, yes.

DR. JORDAN: Okay. And what about the dollar liability, aside from all of the Euro dollar liabilities, the dollar holdings of foreign government to foreign central banks?
Would they be convertible into gold by the U.S. Treasury?

DR. ROTHBARD: Yes.

DR. JORDAN: Would the Treasury have to hold enough gold to be able to convert those dollar liabilities?

DR. ROTHBARD: Yes.

MR. SOLOMON: May I pursue -- may I?

DR. JORDAN: Sure.

MR. SOLOMON: There are foreign banks that have -- on commercial banks dollar liabilities.

DR. JORDAN: We mentioned that.

MR. SOLOMON: Did you?

DR. JORDAN: Foreign banks that have dollar liabilities both in the U.S. and outside the United States. So-called Euro dollars, which is roughly a trillion dollars in today's. -- without consolidating the banking system.

MR. SOLOMON: I guess I didn't hear that. But, do you give out gold to them too?

DR. JORDAN: No, I wouldn't say give our gold. I wouldn't look at it that way. I look at gold as being a world market money. I think -- in my way, I do not agree with Mr. Kanen. My proposal involves checking and rewrite the custom.

I think every person, foreigner or American citizen, be able to redeem dollars in gold.

MR. BERNSTEIN: Mr. Secretary, (INAUDIBLE).
SECRETARY REGAN: I can't hear you, Mr. Bernstein.

MR. BERNSTEIN: There's a very serious error dipping into this -- into this discussion about the liability of the United States on deposits held by banks abroad.

The banks hold -- have these liabilities. But they also have assets. There's no reason on earth why the United States should give them the gold, gold dollars, unless they got -- the United States got something back. The Treasury has been giving gold to people without getting something back from them.

DR. JORDAN: That's true of the U.S. commercial banks that also have assets equal to their liability. That's true of the elementary bookkeeping system. And some of those assets are liabilities of the U.S. --

The main question I'm trying to get at is if you take all of the gold out of the hands of the Treasury except for what's necessary to back true Treasury money, and you put it into the hands of private banks, then domestic production, or mining of gold, exportation of gold, and I'm sure you wouldn't oppose exporting and --

DR. ROTHBARD: No.

DR. JORDAN: -- deny the freedom of gold, importing of gold, or industrial usage of gold, or artistic use of gold, would determine the quantity of money.

DR. ROTHBARD: That's right.
DR. JORDAN: Okay. Thank you.

DR. ROTHBARD: By the way, I would appreciate -- just repeat that -- it seems to me that many economists, but not most, concede pure gold standards, such as I'm advocating, is better than the mixed gold standards.

Since you have permission, we're studying that, what would happen under this kind of pure gold standard?

MR. BERNSTEIN: I am very confused, Mr. Secretary, by the proposal that was generated.

I can understand that the Treasury or federal reserve turns over to anybody who holds an instrument issued by the Treasury or the federal reserve, equivalent in gold at $1,600 an ounce. I understand that.

Now, I don't understand how the Treasury gives to a bank of gold, or the deposits it holds, unless the bank gives the Treasury something.

But, I can understand that the Treasury could go out and buy the Treasury secured sale by bank, or liability. There's a big gap that this gentleman isn't handling.

And I have the question, why should the Treasury give anybody who holds -- any bank that holds dollar deposits, gold, unless that bank adhere to the privilege. Something that's something that has to be -- Treasury bills or some equivalent.

I have another question though on this. I am much
confused by this suggestion.

$1,600 an ounch, which is all done by arithmetic, it's equal to all the deposits, plus the currency and circulation that by depositing a number of ounces of gold in the Treasury. Now, if this price is that high, I understand that anybody on earth can come into the United States and sell the Treasury new gold and say, "here, would you mind giving us $1,600 for this?" Is that correct?

DR. ROTHBARD: That's right.

MR. BERNSTEIN: Well, I want to tell you something. You are going to have such a inflation, you've never seen anything like it in your lifetime.

DR. ROTHBARD: Not 100 percent reserve, sir.

MR. BERNSTEIN: I'm sorry. These people could -- when they get sick they get $1,600 for the ounces of gold they can sell.

A) They could buy any goods they wanted in the United States.

B) They could buy any securities they wanted in the United States.

C) The dollars aren't going to disappear. They're going to be in there one way or another. They're going to get into the hands of people who sell assets for this or goods for this.

DR. JORDAN: If I may interrupt --
MR. BERNSTEIN: I can't understand this at all.

DR. JORDAN: Mr. Bernstein, your analysis is correct.

I think Professor Rothbard's answer was not correct.

The individual could not -- a foreign individual could not come and sell gold to the U.S. Treasury because the Treasury cannot issue a dollar or something else in exchange for gold. The Treasury would not be allowed to to buy gold. So we get rid of the gold, all of it, and it's not going to be able to issue it except for a bank -- a Treasury note or a Treasury coin to backhold. But it cannot otherwise buy gold. That's in the true gold standard system.

And so you don't have that possibility in a true gold standard system. The answer is not correct.

DR. ROTHBARD: All right. I stand corrected.

MR. BERNSTEIN: I have another question then.

Are you proposing to freeze the amount of currency deposits, or are you going to allow -- you can find gold you brought to the Treasury or the federal reserve and say, "here. Please issue me some notes here on this."

DR. JORDAN: Professor Rothbard's answer to that should be, "no, you cannot." In new government money -- there is no government money in that system.

I'd like to be permitted to comment on that. It would be coinage, presumably gold bunion people could point it -- of course, it would be even more radical, and so far
under our present -- under our system we've had the Treasury, you know, a monopoly of both coins in this case.

Before 1930 something, 1934, '5, something like that, we -- we mostly used foreign coins. Austrian, Spanish, English, etc. So I don't see how we can't have private gold minting. I see no reason why the private minting business should be a government monopoly.

Therefore, to complete the capstone of this system here, I would allow -- I would permit private coining, either abroad or in the United States, but forever the minters are better.

MR. BERNSTEIN: But that's why $1,600 asset --

SECRETARY REGAN: I hate to break this up, gentlemen, but Congressman Paul has been waiting patiently over here. It's his change to ask a question or two, so could you proceed.

MR. PAUL: Thank you. I'd like to first ask Mr. Benko a question regarding the power to admit bills of credit.

What authority can we do that now?

And also, would you advocate an appeal of legal tender, and if so, do you see this as a helpful thing and a constitutionally proper thing?

MR. BENKO: The full address of -- the full testimony that was submitted to the record goes into the entire history of how we got from there to here. Or how we got
from a gold standard to a judiciary standard.

And, I don't want to go into much about, but there was a series of disruptions in our economy. The most important one was the Civil War. And at that time there was a debate in Congress as to whether to stay on gold tender or whether to paper money.

MR. PAUL: Let me quote on this so you don't get into a long answer.

Is it constitutionally correct that we admit bills as credit as we're doing today? I wanted you to emphasize that.

MR. BENKO: Sir, that's not for me to say. That's for the governmental authorities to say. My reading of the constitution says that this is an unconstitutional act. However, it has been approved by the Supreme Court. I analyzed their reasoning in the full paper, and I believe it's a fact that I believe the Supreme Court, if they were to address this question today, it might change their mind as they have changed it before, because their first decision said that paper money was unconstitutional.

Congress has put us in that direction, and the President -- a chain of presidents have put us in that direction.

Up until the Republican platform, in the last election, where as I understand one of the complaints Preside
Reagan went in on was to rule this Board A, standard value in our currency.

There did not appear to be any possibility that we would go back and adhere to what I feel was the original constitutional mandate to both standards.

MR. PAUL: On the legal tender, would you advocate for the legal tender?

MR. BENKO: I'm sorry, sir?

MR. PAUL: Advocate the repeal of legal tender in office?

It says in your paper, you indicate that they came about in contrast to what the founding fathers intended.

MR. BENKO: I would like to say -- I have no objection a fractional reserve system, and I don't believe that would be contrary to the intent of the founders.

From your testimony, the transcripts which I read earlier, I think it's your position that you would like to have 100 percent gold reserves.

I don't know that that is constitutionally required. I think that there's enough room in the constitution to have a fractional reserve as long -- as long as it's accompanied by convertibility.

MR. PAUL: Okay. Dr. Rothbard I'd like to ask a few questions.

It's been frequently said in our meetings and even
today in our hearing that the panics and crash while we're on a so-called gold standard, indicates, and it's proof positive, that gold misperformed.

I would like to ask you of your comments on that. Also your opinion on the advocacy of voalition of bonds precluding a gold standard, as has been indicated on several testimonies today.

DR. ROTHBARD: Well, as I -- catch it in my testimony, the first panic, which I'm -- the world's foremost because I'm the only expert, the panic of 1819, was caused by the fact that the government had gotten off the gold standard, a compliant standard during the War of 1812. Went back to it only by making a deal with the inflated banks to create a simple bank to validate the inflation.

Then the simple bank perpetuated the boom from 1818 until the crash. Those were the first big panics. By the way, a very big one.

Lost of unemployment, ghost towns, prices fell in half, and so on.

The other panics were mostly due to the same sort of thing. Of course, the 1830's there was a state's crisis, a war over that, so that -- and the 1873 as it was not so much of a turning back to gold from the previous prior standards.

What we really have is a -- the panics and crashes
are due to mismanaged gold. Either going off the gold standard altogether, or mismanaged gold standard by a simple bank.

Another problem, and regarding the 19th century, was from 1814 on every panic that occurred, the government, federal, and state, permitted the bank to suspend payments indefinitely. In other words, to stop -- they wouldn't have to pay their debts. They would require the payment of debts from there from their debtors.

That, of course, violates the whole free banking system or any property rights. The combination of that and the payments which came on as a tradition in the United States, in every kind of prices, and the simple bank, I would say caused all these panics.

What was the second question?

MR. PAUL: The other one was regarding the advisability of having gold backed bonds, excluding -- in other words, separate from the gold standard.

DR. ROTHBARD: I think that would be fine. That's obviously not the gold standard, but at least -- the beginning of a gold -- introducing gold to the system. And buy bonds -- a certain amount -- a certain amount of -- assured it's not going to be wiped out. Bond gold isn't wiped out. Up until and including the present.

I think that would be good steps.
MR. BENKO: Congressman, I just had a note yesterday quite properly pointing out that my answer to the previous question was somewhat inresponsive.

In regard to whether federal reserve notes can be made legal tender as opposed to the question of fractional full reserves, I would say that it is constitutionally clear they may not be made legal tender.

MR. PAUL: Thank you.

SECRETARY REGAN: Thank you.

Congressman Wylie, would you like to ask some questions?

MR. WYLIE: Thank you, Mr. Chairman. I'm sorry I was a little late in getting back. There was an accident on the corner. I thought we might have another vote.

I did not have a change to read your statement. I read some of the witnesses that are here this morning. But, I will read them.

Did any of you suggest a reprint of the gold standard?

You did? Did anybody on this panel?

MR. BENKO: No.

MR. WYLIE: Nobody.

MR. BENKO: Sir, I indicated -- I spoke the constitutionality of it. I believe my full address will answer your questions about that.
MR. WYLIE: I assume then, if you tested, Dr. Rothbard, that you return to the gold standard or go to a gold standard of some sort, that you indicated how you would fix the price of gold?

DR. ROTHBARD: Yes.

MR. WYLIE: And what was your suggestion?

DR. ROTHBARD: My suggestion was place 100 percent of the demand -- federal reserve notes to demand of deposits. Possibly $1,600 an ounce or whatever.

MR. WYLIE: $1,600?

DR. ROTHBARD: Approximately, right. It should be approximately to cover 100 percent. The demand deposits and the federal reserve notes.

I must say, I think there's incumbent, unless they -- my fellow gold standard advocates come upon -- come upon some kind of a plan how to fix weight or price, whatever you want to call it.

MR. WYLIE: Why do we have to come up with some kind of plan? That was suggested to me this morning that we need to do something with the gold we have, that it's asset was not earning, and that's a little bit bothersome to me. Why do you find necessity for coming up with something better than what we're doing?

DR. ROTHBARD: That was really my whole testimony, but the basic -- the two basic things.
One is, I think -- one is the federal government stole a heap of gold in 1933 and it's still buried in Fort Knox. It's not been returned to them. It's a clear invasion of property rights.

This is the money -- the best trust -- the market or the people rather than the government, both on money, and it falls on every other aspect of the economy. Especially money, because the government is apparently inflationary.

The government having the power to counter that we use it. Use it to finance deficits. Use it to subsidize favorite economic groups.

It becomes very important to take that power away. Give the money power back to the people. In other words, extend the concept of a free market. If the money's lost, other aspects of the economy, or most people, I think, more or less agree, it's the economist that should be done.

MR. WYLIE: I did get your testimony the other time, Dr. Solomon. And you're basically agreeing with the idea that we do not necessarily have to do something with all this because it's an inactive asset that may even be better to allow it to stay where it is for the moment in case the rainy day gets a little rainier.

Is that basically your bottom line?

DR. SOLOMON: Yes, sir, on that subject, that's my opinion. I said it doesn't have to burn a hole in our
pockets.

MR. WYLIE: Mr. Chairman, I have a feeling that most of the questions that I have -- are going to ask, are probably in the record, but if they aren't, why, I'll submit them for the record a little later on.

SECRETARY REGAN: All right. Fine.

MR. WYLIE: I don't mean to take the time of the commission. I'll submit those a little later today.

SECRETARY REGAN: All right.

Dr. Schwartz?

DR. SCHWARTZ: Mr. Rothbard, I think you could have a bit -- if you describe your plan, I think the price of gold is $1,600 an ounce, does that amount match -- finds the Treasury gold holdings the present outstanding value of M-1B? All M-1B would be retired.

We'd start out with a new money system in which the banks would have 100 percent gold reserve requirements provided to them by the repriced gold Treasury now (INAUDIBLE). And essentially, the -- they would then be empowered to issue a new form of currency or book credit against which they would then be buying loans from the public. Is that --

DR. ROTHBARD: Well, I'm not sure. I think Dr. Jordan put it very well of the -- banks would essentially be issued -- the banks would have the gold.

DR. SCHWARTZ: And they'd be separate institutions
then doing the -- the lending business.

How is the lending business going to be --

DR. ROTHBARD: Well, the lending would be -- it
could either be separate. I mean, it's like asking whether
a firm should be integrated or not. It's really up to the
market to decide.

It could have a lending department in the old,
you know, (INAUDIBLE).

DR. SCHWARTZ: Yes.

DR. ROTHBARD: Or the banks would lend savings.

By the way, I think the current -- the recent developments,
the certificate of deposits, the rates step in that direction.
The certificates are obviously -- and these are three months,
or six months, or whatever; in a loan of the bank it's not
part of the money supply, and a reloan, everybody knows that.
That would be the sort of thing it would advocate.

DR. SCHWARTZ: And the other question that was
raised -- all right. This is what happens to the existing
Treasury gold stock. The rest of the world still holds gold.

May it come to the United States and say, "this
very attractive price that you're offering -- you're willing
to buy gold," to whom will they be selling their gold?

DR. ROTHBARD: Well, as Dr. Jordan corrected me,
anybody, but there's only a minthum -- if the Treasury is to
be at a minthul, then I guess they could be minthimum. What-
ever senior is priced or (INAUDIBLE) is priced to charge.

DR. SCHWARTZ: So that gold could still be expanding --

DR. ROTHBARD: Right.

DR. SCHWARTZ: -- the money system in the United States?

DR. ROTHBARD: That's right.

DR. SCHWARTZ: And why do you say that increasing the money stock at this 100 percent reserve requirements would not produce inflation, that's the point I didn't really catch.

DR. ROTHBARD: There could be no bank credit expansion from then on. The only --

DR. SCHWARTZ: The only thing would be the acquisition of new --

DR. ROTHBARD: Right.

DR. SCHWARTZ: -- gold?

DR. ROTHBARD: Right.

DR. SCHWARTZ: I mean, what's to prevent the acquisition of that gold from having an inflationary effect? That's the point I don't --

DR. ROTHBARD: Well, I think if foreigners use the gold in Europe, it will not be inflationary in the United States. And there would be a certain amount of increase in whole dollars, but it would leave a sort of one shot com-
position. That would be continuing out of inflation.

It wouldn't be the sort of thing where everybody

knows in their heart that inflation would be 10 percent next

year, or 12, or whatever. At worst, it would be a one shot

proposition.

DR. SCHWARTZ: Why wouldn't it be a gold avalanche?

The term that's been applied to what happened in this country

after we raised the price.

DR. ROTHBARD: Well, for one thing, I really think

that the other nations will start following suit. They don't

want to lose all their gold either. They'd go back to the

gold standard.

And so that's one practical reason I don't think

there's going to be a gold avalanche.

Secondly, from my gold mining -- friends in the

gold mining business, it appears that gold was so situated

that you can't have an unlimited -- a very large expansion

of gold even at a very high price. So that the way it's

situated on the rocks or whatever. I'm not an expert on

that.

DR. SCHWARTZ: So, essentially then, you're saying

we're going to have this fixed money stock, never worry, never

mind, there may be some inflows because the price is attrac-
tive, from here on we'll be living with the size of M-1B as

that exists today?
DR. ROTHBARD: No, no, I'm saying there probably will be an increase for those reasons you mentioned. I just think it's better to do that than trust the federal reserve. Just trust paper.

DR. SCHWARTZ: And it doesn't worry you then that the money stock may not grow at the same rate --

DR. ROTHBARD: I'm in favor of zero growth, frankly. I had my brothers at zero growth.

But, by the way, I understand that gold does increase -- the supply of gold does increase by approximately three percent.

DR. SCHWARTZ: Oh, it certainly hasn't in the decade since the 1970's. I don't know what the price -- what with $1,600, wonderful things might happen.

DR. ROTHBARD: At any rate, if I had my brothers, I would have a fixed money stock period.

DR. SCHWARTZ: Okay. That's --

DR. ROTHBARD: That's the falling price.

MR. WYLIE: Chairman, could I have just one more question?

SECRETARY REGAN: Go ahead.

MR. WYLIE: Would Treasury have the option to buy or sell that $1,600 now? Because if somebody proffered gold in the Treasury at $1,600, do we say we don't want it from the Treasury?
DR. ROTHBARD: If somebody gave the dollars -- $1,600 and asked for gold, the Treasury would have to give it.

On the other way around, Dr. Jordan corrected me that the Treasury is not in the business of minting. They wouldn't do it. They're still in business. They would have to mint the gold coins.

MR. WYLIE: I can understand why you still might want to sell some at $1,600 at today's market, but on the other hand, we might want to be able to buy it at $44.20 an ounce. Would we be required -- I mean, we're not required to buy and sell, there is an option, but I don't see how it would work.

DR. ROTHBARD: What do you mean, won't work?

MR. WYLIE: Well, we'd have to have a price in the international market, wouldn't we, in order for the convertibility to go from --

DR. ROTHBARD: Well, we were talking about -- before you came up, about purely domestic, going back domestically in gold standards, all the other nations remain by that standard.

In that situation they'd be fluctuating exchange rates between the gold dollar and the other currency. If everybody goes back on an international agreement or something or simply by following our example, that would be even better. I mean, if a world gold standard goes up --
But, if the Treasury continues to issue -- continues the monopoly to issue cash or --

MR. WYLIE: I just assume that it was within the realm of feasibility to get everybody in the world to agree that the gold they bought and sold at $1,600 an ounce. Do you think that would be in the realm of feasibility?

DR. ROTHBARD: We wouldn't have to do that since we control dollars. So we have to just go back and whatever dollar price we want.

The French go back to franc prices or whatever. In other words, we're not -- other countries have nothing to do -- no control of the dollar prices, the dollar issue on that.

MR. WYLIE: Thank you.

MR. BERNSTEIN: Mr. Secretary?

SECRETARY REGAN: Yes, sir.

MR. BERNSTEIN: If we follow his plan, I want to know -- you will promise all the assets in all the banks that the United States has because you certainly aren't going to give them gold for nothing. And if they're going to get gold put to all their liability, you have to learn all the answers.

SECRETARY REGAN: Thank you, Mr. Bernstein.

DR. ROTHBARD: Can I just -- could I just comment on that, because this --
SECRETARY REGAN: This will be our final comment.

DR. ROTHBARD: Okay. I'm sorry. Because this is -- there's an old controversy. This is not the first time I see something forgotten.

In the late 1930's, it had nothing to do with gold. It was a controversy of how you get back 100 percent, paper money.

I heard different plans. Irving Fisher's plan was the Treasury, or whatever, should buy the assets.

The Frank Knight plan I think was much better. Make a gift to the bank. I don't like a gift to the bank. I mean, think of the situation.

SECRETARY REGAN: Thank you. Well, thank you again, gentlemen, for your attendance this afternoon, and for your papers. They will become part of the record, as will your answers. We appreciate it, and we admire your steadfastness in being able to sit there and answer all these questions. Thank you.

(Whereupon, the hearing was adjourned at 4:10 o'clock p.m., to be reconvened at 9:30 o'clock a.m., the following day at the same location.)
The Gold Commission met on Thursday, November 12 and Friday, November 13, 1981, in the Cash Room of the Main Treasury Building, Washington, D.C. The meetings, open to the public and chaired by Treasury Secretary Donald T. Regan, ran approximately five hours each day. Twenty-three witnesses testified before the Commission on these two days. Attached is the unofficial, uncleared and uncorrected transcript of the Gold Commission Meeting.
The meeting in the above-entitled matter convened at 10:00 o'clock, a.m.
**Commission Members:**

Secretary Regan  
Chairman Weidenbaum  
Mr. Coyn  
Senator Dodd  
Congressman Neal  
Governor Partee  
Congressman Paul  
Congressman Reuss  
Governor Rice  
Senator Schmidt  
Governor Wallich  
Congressman Wylie  
Mr. Costamagna  
Senator Jepson  
Mr. Jordan  
Mr. Lehrman  
Mr. McCracken

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DRS, Inc.
SECRETARY REGAN: Good morning, ladies and gentlemen. I want to welcome the panelists to this public meeting of the Gold Commission and tell them in advance that I appreciate their willingness to testify and to give us the benefits that they are thinking.

The formula that we will follow this morning will be, more or less, the same formula that we used yesterday. I will allow each of you, our panelists, to make an opening statement. Hopefully, for about ten minutes duration.

And then we'll proceed alphabetically to ask questions of the panel allowing approximately five minutes to each of the members of the Commission for questioning. And time permitting, we'll have a second round of questions.

So, with that -- well, I'm not sure that our -- somebody can't spell apparently, because I see that Dr. Greenspan is ahead of Dr. Fellner. In my alphabet that ain't so.

However, if G can go before F temporarily, Alan, would you start the opening statement, please.

STATEMENT BY ALAN GREENSPAN

DR. GREENSPAN: No, we don't care, Your Honor.

In years past, the desire to return to a monetary system based on gold, was perceived as nostalgia for a bygone era when times were simpler and less complex and the world not
threatened with nuclear annihilation.

After a decade of stabilizing inflation and economic stagnation. The restoration of gold standard has become an issue that's clearly rising in the economic policies.

Increasingly numerous performance of a gold standard persuasively argue that large budget deficits and large federal borrowing departments will be difficult to finance under such standard.

Every claim against paper dollars currently cause few technical problems, for the Treasury can legally borrow as many dollars as the Congress offers.

But, with unlimited dollar conversion into gold, the ability to issue dollar claims would be severely limited. Obviously, if you cannot finance federal deficits, you cannot create them. Taxes would then either have to be raised or expenditures lowered.

Restrictions of gold conversions, therefore, profoundly alter the politics of the fiscal policy that have prevailed for a half century.

Even some of those who conclude a return to gold is infeasible remain deeply disturbed by the current alternatives. And yet, even those of us who are attracted to the prospect of gold convertibility, are confronted with a seemingly impossible obstacle, the latent claims to gold represented by the huge world overhang of fired currency, namely
dollars.

The immediate problem of restoring the gold standard is fixing a gold price that is consistent with market forces. Obviously, the offering price by the Treasury -- obviously if the offering price of the Treasury is too low, or subsequently proves to be too low, heavy demand at the offering price could quickly deplete the total government stocks of gold, as well as any gold borrowed to thwart the sold.

At that point, with no additional gold available, the U.S. would be off the gold standard and likely to remain off for decades.

Alternatively, if the bid price is initially set too high, or subsequently becomes too high, the Treasury would be inundated with gold offerings. Payments for gold drawn on the Treasury account, the Federal Reserve would add substantially to commercial bank reserve, and probably act, at least temporarily, to expand the money supply with all the inflationary implications there are on that.

Monetary offsets to neutralize or earmark gold are, of course, possible in the short run. But as the west German monetary authorities soon learn from their past endeavors to support the dollar, there are limits to monetary counter measures.

The only seeming solution is for the United States to create a fiscal and monetary environment, which in effect,
makes the dollar as good as gold. That is, stabilizes the
general price level, and by inference, the gold -- the dollar
price of gold bullion itself.

Then a modest reserve of bullion could reduce the
remaining narrow gold price fluctuations effectively to zero
allowing any changes in gold supply and demand could be ab­
sorbed in fluctuations in the Treasury's inventory.

What the above suggests is that a necessary con­
dition returning to a gold standard is the financial environ­
ment, which the gold standard itself is presumed to create.

But, if we restore financial stability, what pur­
purpose is then served by a return to gold standard. Certainly
a gold based monetary system will not necessarily prevent
fiscal improvements, as 20th century history clearly demon­
strates.

Nonetheless, once achieved, the discipline of the
gold standard would surely reinforce empty inflation policies
and make it far more difficult to resume financial profligacy.

The redemption of dollars for gold in response to
excess federal government induced credit creation would be a
strong political signal. Even after inflation is brought
under control, the extraordinary current political sensitivity
to inflation would surely remain.

Concrete actions to install a gold standard are
premature. Nonetheless, there are certain preparatory policy
actions that could test the eventual feasibility of returning to the gold standard that would have positive short term anti-inflation benefits and little cost if they fail.

The major roadblock to restoring the gold standard is the problem of reentry. With the vast quantity of dollars worldwide laying claim to the U.S. Treasury's 264,000,000 ounces of gold, an overnight transition to gold convertibility would create a major discontinuity for the United States' financial system.

But there is no need for the whole block of current dollar obligations, with it come an immediate claim. Convertibility can be instituted gradually by, in effect, creating a duel currency with a limited issue of dollars convertible into gold.

Initially there could be deferred claims to gold. For example, the five year Treasury notes with interest and principle payable in grams or ounces.

With the passage of time, and several issues of these notes, we would soon have a series of near monies on terms of gold, and eventually demand claims on gold.

The degree of success in restoring long term fiscal confidence would show up clearly in the yield spreads between gold and fired dollar obligations of the same maturities.

Full convertibility would require that the yield spreads for all maturities virtually disappear. If they do
not, convertibility will be very difficult, probably impossible, to implement.

A second advantage of gold notes is that they are likely to reduce the current budget deficit. Treasury gold notes, in today's market, could be sold at interest rates of -- approximating two percent or less. In fact, from today's markets, one can construct the equivalent of a 21 month Treasury gold note yielding less than one percent by arbitraging regular Treasury note yields for August 1983 maturities; that is 13.2 percent, and the forward delivery premiums of gold, 15 percent annual rate, inferred from August 1983 futures contracts.

Presumably, five year note issues reflect a similar relationship. The exchange risk of the Treasury gold notes of course, is the same as that associated with our foreign currency Treasury note series. The U.S. Treasury has over the years, sold significant quantities of both marc and Swiss franc denominated issues and both made and lost money in terms of dollars as exchange rates have fluctuated.

And, indeed, there is a risk of exchange loss with gold notes. However, unless the price of gold rises 84 percent within a five year period, 13 percent compounded annually, interest payments on gold notes in terms of dollars will be less than conventional financing requirements.

The run up to $875 per ounce in early 1980 was
surely an operation reflecting special circumstances in the Middle East which are unlikely to be repeated in the near future.

Hence, anything close to a near doubling of a gold prices in the next five years appears improbable. On the other hand, if gold prices remain stable or rise moderately, savings could be large. Each 10 billion and equivalent gold notes outstanding would under stable gold prices, save one and a quarter billion per year in interest outlays.

A possible side benefit of the existence of gold notes is that they could set a standard in terms of prices in interest rates that could put additional political pressure on the Administration and to Congress, to move expeditiously towards noninflationary policies.

Gold notes could be a case of reversing Gressian's Law. Good money would drive out bad.

Those who advocate a return to a gold standard should be aware that returning our monetary system to gold convertibility is no mere technical financial restructuring. It is a profoundly basic change in our economic processes.

However, considering where the policies of the last 50 years eventually led us, perhaps there are lessons to learn from our more existent gold standard past.

SECRETARY REGAN: Thank you, Dr. Greenspan.

Dr. Fellner?

STATEMENT BY DR. WILLIAM FELLNER
DR. FELLNER: Mr. Secretary, have you thought with summarizing (INAUDIBLE) from considerations which I have submitted.

First, when specific conditions are satisfied, the gold tenders can function efficiently and with its major advantages over the available alternative.

Second, in what I regard as not the foreseeable future, these conditions will not be satisfied, and there is no doubt in my mind the systems, the longing in the gold standard category, would that for malfunction, there's very damaging consequences.

However, the more distant future is unpredictable in this regard, and partly because of this reason, as yield proposed, to have resumption of gold sales by the Treasury.

Last weekend we should not experiment on anything that would give the superficial appearance of restoring a system -- the longing in the gold standard category, that would input it into an element alien to the basic conception of trying the gold standard.

Such construct carries the identical of political arbitrariness which you must learn to overcome in our present monetary system, and by covering up the essence because the matter -- such construct would reduce the likelihood that we should deal with this successfully.

Now, the justification of this conducent, when
specific conditions are satisfied, the gold standard as the significant advantage that in these circumstances gold serves with reasonable efficiency is a proxy for good in general.

And, by the simple and incredible technique of stabilizing the plans for gold with reliance on this, the authorities can in those circumstances can reasonably close and stabilizing at the same time the general price level. Investors and consumers can adhere that expectation, such a behavior of the price level, and the highly damaging uncertainties of earlier inflationary periods and of the recent era, avoid them.

The essential conditions that need to be satisfied for gold to serve as an acceptable proxy for goods in general, is that the real price of gold -- we find this relative price in relation to goods in general, to remain reasonably stable. That is the real price reflecting market preferences and show no disturbingly steep and unpredictable trend.

This is what is needed for assuring that an institutionally fixed nominal price of gold would be associated with a reasonable approximation to the stability of the generalized level.

To what extent and with what qualifications is this condition tended to be satisfied during the aiming of the gold standard, and what could have been done in those days to avoid the occurrence of some disturbed interference. A question of
considerable complexity.

But on the whole -- in a past era, conditions re­
quired the efficient functioning of the gold standard where, 
in my appraisal, well enough satisfied to have made the 
beneficient monetary system, one that was to be superior to 
the available alternative.

I also believe that it would be wrong to take it for granted that in the future -- that in no future era will the essential conditions of the efficient functioning of the gold standard, again be satisfied.

In some future period these conditions might again be met. However, it seems quite clear to me that these conditions are not met in the present circumstances, nor will they be satisfied in any future period near and foreseeable enough to serve as the 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 if -- to which we will return later, the real price of gold -- its price relative to goods in general, would not remain unchanged.

This implies that the fixed current dollar price of gold will not be associated with a reasonably stable general price level.

The reason they said in the present circumstances the gold articles are not responsive to a rising real price
of gold, and since there is no positive outward response that
would the event arise in the real price of gold from becoming
large, and from accumulating, even with significant price
fluctuations, at present the real price of gold in the United
States is structurally past times for the possible ten years
ago, but the non-Communist world has declined from about 40
to about 30 million ounces a year.

And there occurred also a significant decline in
the world of including allowances for the output of too large
communist countries. There's a very large increase in the
real price of gold, and what happened was not an increase in
the world, but a decline in the world of the substantial one
over the last ten years.

This is obviously not a proxy for goods in general
should behave. It may, of course, the objectives of even in
the past, outward responses often came with the substantial
lag. But so far there is no sign suggesting that such an
outward response will be occurring in the foreseeable future.

The sometimes argued that the size of the gold
output does not meet the -- because due to the practical
existence of practical 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 adequately large enough to prevent any upward trend of
the real price of gold besides to try our currency to gold. And thereby made the holding of gold unattractive by private owners.

This argument considered erroneous. At present, approximately 1.7 billion ounces of gold seem to be held by private owners. Much the greater part in jewelry and art objects. Unless the official agencies purchase this gold with severely inflationary results, the privately owned gold would remain where it is, and the only conflict then which the escalated unattractiveness of gold to private owners would have, would be a temporary reduction in the gold price to a level at which the holdings of the stock would again become attractive.

However, the amount of gold the public would want to hold, let's assume, low price, would thereafter be rising, along with the size of the world population and its standard of living.

If the gold art would remain insufficient to accommodate the increasing amount, the real price of gold would be rising from its initial level, and it would be rising at the hard to predict and presumably irregular rate.

With the nominal price of gold at constants, this would express itself in substantial entities serving deflationary pressures on the general class level. Unless the nominal price were raised excessively, our central banks and
unloading gold from their stock.

   One or both of these two things would be very likely to happen. But to be an alleged gold standard system, on political decisions concerning increases of the current dollar price of gold, or to base such a system on gold sales of the official agency for the sake of keeping the price of gold from rising, would introduce into the management of such a system the same kind of political leeway, the misuse of which we must try to overcome, the management of our inconvertible paper money.

   I have so far been concerned with the problem that should arise, the present circumstances if all countries through official agencies who own major amounts of gold, all attempted to cooperate in this during the gold standard.

   If the other countries did not participate in such an effort, then for us there would arise the additional difficulty of becoming exposed to large inflationary gold inflows or deflationary gold art flows, cause bad political decisions abroad. Sell to us or to buy from us gold at a fixed price we would be spending.

   The suspended purchases of sales of gold at the officially set price would be even more alien to the principles underlying the gold standard than would be the adjustment of the official price. But essentially the same basic witticism needs to be made of both these techniques.
Both would require coping with the sameness of political arbitrariness and irresponsibility with which Congress will have to cope successfully under inconvertible paper if they are to restore earthy productivity and employment trends.

In these remarks, there deliberately did not touch on the tradition -- transition difficulties, feeling out the initially correct price of gold.

If the difficulties might also be potential, transition difficulties are unavoidable in any effort to eliminate our inflationary disturbances.

In the present circumstances, and in those not foreseeable, the difficulties tending in the way of the turning to the gold standard, are far deeper than simply the conditions that you made.

However, I will end by referring back to our four conclusions expressed at the beginning of this paper, and will in particular will repeat that that considered the more distant future, unpredictable in this regard, and that that will oppose the resumption of gold sales at the Treasury.

Thank you, Mr. Secretary.

SECRETARY REGAN: Thank you, Dr. Fellner, for that very interesting paper.

Dr. Jastian?

* STATEMENT BY DR. ROY JASTRAM
DR. JASTRAM: I'm before this Commission today to give information I consider pertinent to the objectives of your study, to answer any questions you might care to ask.

I feel it might be useful -- useful to you in evaluating my testimony to know that my interest in the relationship of gold to prices began at Stanford University back in 1936. And I was a very young instructor. But I'm not going to sit here and tell you everything that happened since 1936.

My interest did intensify in 1968 with the conjunction of rising gold prices and soaring inflation, and intensified to the point where I even wrote a book on the subject.

I asked myself at that point, I still do, if something might be learned from the behavior of prices over the centuries under a precious metals discipline that would help solve some of the problems inherent in our crumbling monetary and fiscal system of recent years.

I'm here today as an analyst, not as an advocate of a single point of view. Also, I consider myself a precious metals economist and not a monetary theateratician. We've already questioned some of the invests in the country on the latter score.

I do not believe that a return to a gold standard will be a magic cure for all the economic ills, all of us are repeating that. Nor do I take the opposite extreme of
blaming on the gold standard that when they have it, blaming
upon it every economic ill that humanity was at err to during
this -- its tenure.

Instead, I'd like to take the time to sum up very
briefly the conclusions I have reached based upon years of
research, leading to two books by now, on gold and silver.
Precious metals are so closely interrelated in their economic
effect, consequences, and utilization.

I trust that you, members of the Commission, have
had an opportunity to read by booklet issued by the Joint
Economic Committee, this little thing titled "The Gold Stan-
dard," its history and record against inflation, which was
distributed by Senator Jefferson back in October.

I do not intend to repeat the material in my
study, but I will draw upon it as I go along, and then pre-
pare to answer any questions you may have about its contents.

Unfortunate -- feel fortunate that through the
good offices of Senator Jefferson, you have the Jacobson
booklet, for that will allow me to take a much broader cut
at the primary issue before this Commission rather than get-
ting bogged down in detail.

Let me first state my position on monetary reform.
It seems simplistic but I consider it basic.

One, there must be a discipline over the money
supplies. With respect to that, nearly everyone agrees with
this in the abstract. Disagreement arises with the question of at what levels of the money supply, and how to exercise the discipline.

Point two, attempts of monetary discipline, when managed by men, have not worked. And here I'm not referring solely to the history of the United States. The same observation can be made for England, Germany, France, Italy, Japan. Other countries. The only exceptions were draconian measures ending brief periods of price needs.

Some of these have been man managed, and very well.

Major point three, I there believe there must be management by law, by law, not by man. Now, an example of well, it's not the only one -- an example of what I mean by law is the 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 and selected definitions of money supply, and makes continuing judgements to appropriate open market operations to try to hit those targets.

Now, here I'm certainly not singling out our present Federal Reserve Board. I believe that they have the best record of restraint on this in this country in modern times.

But point four, those monetary laws work best
throughout history, have been based upon the discipline of precious metals. That comes from my historical studies. I'll repeat it for emphasis though it's simple enough.

Those monetary laws work best throughout history have been based upon the discipline of the precious metals.

Now, notice here that I'm not saying -- I'm not so foolish to say 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 are behind that stability.

Point five, the precious metal that has been most successful -- has had the most successful experience in stabilizing price levels was gold.

Based upon everything I said up to now, my conclusion is, in the public and the world at large would be well served by a monetary reform that would include a) some form of gold standard, a discipline based on law, b) arrived at and consultation of our trading partners, c) accompanied by extensive fiscal reforms, including budgetary policies to preclude overspending.

The first of the five points -- I went back to the need for discipline. I think we can take this widely accepted. So I'd like to discuss the other four a little more fully.

I want to give you evidence in history that the rule of law is better than the rule of man. And the ability
of the monetary system to stabilize prices. I will draw from England. The Commission has largely been discussing and properly so, the United States. Let me draw from England.

Please look at the chart which I believe is in place for each of you. The chart entitled "The English Experience." Is that available to you?

The fold out chart. All right.

Chart number one, The English Experience. This illustrates the interesting transition from the rule of law to the rule of man and back again. The concompetent results are pictured statistically.

CP stands for the commodity price index in England over those years. EPG in the label, on the chart, stands for the purchasing power of gold over commodities generally. Gold is line -- in gold on your chart stands for the price of the metal, all on an index basis in 1930, it was 100.

Now, in one form or another, England was on a gold standard from 1717 to 1931. Except for the Napoleonic wars, when she was off between 1797 and 1821, you'll see at a glance what happened with wholesale commodities prices off the gold standard in 1797 and 1821.

In 1717 until 1797 currency convertibility was gold at a steady price of three pounds 17 shillings, 10 1/2 pence. The supply of money adjusted accordingly, and wholesale prices moved along on a level plane. You'll see on the
charts so vividly.

It was a rule that law in monetary affairs.

Then in 1797 England went off the gold standard, largely to the wartime events and the Napoleonic wars. The official money supply was then solely the responsibility of the Board of Directors of the Bank of England. Was a rule of man.

Notice the sharp rise in the wholesale price level, the CP line, at 50 percent.

This so-called bullion committee was formed by the Parliament to investigate this unprecedented inflation that you see there. Nothing remotely like that had happened in the past 150 years. The bullion committee concluded that the central cause was the overissue of Bank of England notes. It did not accuse the Directors of malfeasance, however. The bullion committee had simply in very generous language, simply regarded the Directors as men who had a greater responsibility thrust upon them than anyone could be expected to bear.

As the Directors themselves later publicly stated, the Bank of England did not force its notes on the public. No, it merely supplied the public demand. How, therefore, could the Directors be accused of issuing too much paper. So much for the rule of man.

In 1821 England returned to the rule of law of the old convertibility rate, the historic figure, of 317,10 1/2.
and long run stability returned to the commodity price level.

In 1931 the rule of law was rescinded, and the rule of men returned. The catastrophic result can be seen in the last inch and a half of chart one. That's real impuricism. The last inch and a half there.

To bring it up to date -- that chart comes from one of my books. I haven't revised it. To bring that chart up to date, it might interest you, you can write in the figure to the far right. It's about where January 1981 would be, right in the figure called CP. The wholesale commodity price level in England, 2,235.2, if you will. Two thousand -- on an index basis of 1930 equals 100, January 1981 would be 2,235.2.

A century later the German inflation illustrates the same thing. You see these lessons are not easily learned.

An observation, much closer performed, illustrates .5 about gold as the stabilizer.

In the charts of Dr. Schwartz, has prepared you, you see that during the gold standard years of 1834 to 1861, and 1880 to 1914, wholesale prices moved along on a horizontal plane, rising and falling with changes that finally average out to approximately to zero.

In contrast to this stability, our present inflation has lasted almost 50 years at one rate or another.

The monetary history of England, which I've already
used to underline 24, the rule of law versus man can be used also to prove point five. The price stability disappeared when the gold standard was removed and returned when it was reinstated.

Now, I'd like to turn to an entirely different aspect of the gold controversy that really concerns me as deeply as anything else.

The national controversy over the gold question has come on so rapidly that the ordinary media for exchange of argument, evidence, change of opinion, has been too slow.

For the scholar, these would have been the academic journals in which it now takes up to two years for a manuscript to be published. Instead, in this extremely important matter, instead the written controversy appeared in signed articles and a few major newspapers and magazines and newsletters from consulting firms, where the lead time was much shorter.

By the nature of these publications, editors are not likely to find space for reasoned reputation, serious or faulted positions to which their readers are exposed weeks earlier. Thus, errs and falacies of fact and reason may go unchallenged. And being unchallenged, accepted forever.

I have seven of these falacies in the printed paper before you. But I'm not going to trouble you with reading through them now. They're there available for you to see. At least seven examples of what I consider a very
But let me return -- let me point out on the last page. And I would like to conclude this testimony on a more positive note than the one I have just sounded.

This Commission was certainly aware by now, if it wasn't before, of a tremendous concern in this country of a return of a trustworthy currency. The outpouring of material you have received, collectibly and incursibly, the continuous iteration by the media, all make that point. And lead me to believe that a way will be found.

It's my personal opinion that gold will play an important part in the solution.

SECRETARY REGAN: Thank you very much, Dr. Jastian.

Dr. Miles?

STATEMENT BY DR. MARC MILES

DR. MILES: I'd like to start by saying, what is the reason for supporting a price rule such as the gold standard.

Now, I would submit that the reason for supporting that is that it's the most efficient way, and perhaps the only way, to get us out of the current inflationary mess that we are in.

We all now how President Reagan has spent a lot of trouble trying to get us 23 percent tax cut for years, but while on the one hand the legislation is reducing tax rates,
on the other hand inflation is increasing.

In a calculation that was done last summer by H. C. Wainwright, economist in Boston, showed that over the four year period, using the OMB projections of inflation, with the meaning in taxpayer, tax rates were only likely to fall in that 7 1/2 percent. And if, instead, you use the projections of inflation that exist in the financial market, it turns out that tax rates at the end of President Reagan's term are likely to be higher than at the beginning.

So, that by the time we index in 1985, we'll be indexing higher tax rates.

And, in recent weeks the Reagan Administration has flirted with the concept of shifting the emphasis of policy to balancing the budget.

Again, the problems of budget deficit is a symptom of inflation. It's not a cause.

High interest rates reflect inflationary expectations, and the high interest rates, of course, are creating increasing expenditures. The budget deficit -- debt servicing has risen from 7 percent of the budget in fiscal '76, to almost 10 percent of the budget in fiscal '82. And high inflation rates were also retarding the growth of the economy which leads to slower growth in tax revenue, and slower growth in jobs, and therefore, faster growth in unemployment and other transfer payments.
So, clearly, no matter which way the Administration turns, it runs into the same barrier for success. And that's inflation. And I would submit that today inflation is the problem.

Now, how do we get rid of inflation? Well, listening to the various proposals for gold standards, you quickly realize that there are many ideas parading around as the gold standard. Yesterday Weintraub presented to you a proposal for a gold standard. And I would argue that his proposal is simply a sheet in wolves clothing. It's just another monetary proposal for limiting the growth rate in supply of money that's dressed up to look like a gold standard.

And I would say that proposals like that only opt to scate the issue. The issue is not gold per se. The real debate is over which two approaches will be used to tackle the problem of inflation. Are we going to tackle inflation with the quantity rule. Or are we going to tackle inflation with a price rule.

The adherence of the quantity rule suggests that the source of inflation is a rapid growth in the supply of money. And their proposals here is to give the Federal Reserve more power an incentive to tinker with the money supply. The adherence of the price rule say that it's the value of money that keeps depreciating because the government
refuses to anchor the price of money.

Current inflation reflects current depreciation, the dollar in terms of goods, and high interest rates reflect expectations of future depreciation.

And the cure of the problem, according to the price rule advocates, is to have the government intervene, stabilize the price of money, now and in the future.

Well, it's very interesting to look at the U.S. government policy in the last 20 years and to notice how it's been a steady drift on a price rule policy to a quantity rule policy.

And it's also revealing to observe that this period is also coincided with a steady and dramatic rise, both in the levels of inflation, and the levels of interest. But 20 years ago we were under the Brentwood system, which was a price ruling. The dollar was -- the price of the dollar was increased in terms of gold at $35 per ounce. Then other countries had their priced fixed in terms of the dollars.

If you look between 1937 and 1964, you have the general inflation record using the wholesale price index, where it's less than 1 1/2 percent. In terms of those bills, you have about 2 percent on average.

For a serious break in this price rule was in 1955 with gold over behind the Federal Reserve deposits is removed. The U.S. no longer agreed to fix the price of Federal Reserve
deposits in terms of gold. And in the following two years interest rates jumped up to an average of almost 20 percent, inflation rose to about two percent.

Then in 1968, convertibility of Federal Reserve notes was eliminated though we still had convertibility of foreign dollars, or Central Bank dollars. And with this further reduction in the commitment of the fixed value of money, inflation rose to 3 1/2 percent in the next four years, and Treasury bills rose up to an average yield of almost six percent.

Then in 1971 even convertibility of dollars that were held by foreign banks was eliminated, and inflation in the next year and a half averaged about 6 1/2 percent. And -- while the dollar was no longer fixed in terms of gold, at least we did have one other price rule at this time.

The Smithsonian Agreement still fixed the value of the dollar in terms of other currencies. But that was eliminated in February 1973. You all remember 1973. It was a year of dramatic price rises. That was the year of the Russian wheat deal, the year of the Arab oil embargo. And in the intervening four years, inflation jumped up to an average of about 9 percent and Treasury bills yielded on average over 6 percent.

But there still was one other price rule that lasted. And that was the Federal Reserve -- was attempting
to target at interest rates, which at least targets the value of money today relative to the value of money in the future.

But even that was eliminated in October '79, and following that elimination we had record interest rates of inflation.

Now, this adverse impact of a move towards a quantity rule is not at all surprising. The eminent economist, Robert Mundell, last week made another of his very perceptive comments. He said, "the trouble with the argument about monetary aggregates is that too much of the discussion has been spent on which monetary aggregate to control, rather than on the direct argument which is whether we should control monetary aggregates or have a price rule."

And said, "if we were a small country the choice would be quite obvious. A small country knows it can't control the relevant money aggregates. It knows that it has to control its exchange rate. We, however, continue to dilute ourselves into believing that we can control the quantity of money."

Controlling the quantity of money is a very indirect and imprecise tool for achieving the desired policy.

The policy objective is not the quantity of money. Most of us don't care how fast the quantity of money is growing. What we care about is how fast the dollars in our pockets or our portfolios are depreciating. And even the advocates of
the quantity rule would have to admit that in order to control inflation, you have to control the quantity of money relative to the demand for money. And that immediately creates several problems.

First of all, most economists would agree that our ability to accurately forecast the demand for money is extremely limited. There have been a number of articles detailing how the demand for money in the last ten years has shifted around not only in the United States, but throughout the world.

Second, even if we could control or we could estimate the demand for money, we still have problems estimating what the money supply is. Figures have to be collected from a number of banks and they past through several hands. Then we have to figure out how to direct them for seasonability and trading day variations. And there's tremendous possibilities of substantial error, how, as witnessed a couple of years ago, as well all know one person in one bank in New York went on a vacation and there was a severe -- errors in the money supply statistics for a couple of weeks.

Third, even if we could estimate the supply of money, economists don't even agree on what the correct measure of the money supply is, much less if the Federal Reserve controls it.

There's a growing consensus, however, that these
narrow definitions of money on which policy positions are focused, represent only a small fraction to what constitutes money.

The analogy I'd like to use is that the world money markets are like the world's oceans. And the dollar money market is like the Atlantic Ocean. Very sizeable, but it's only one of many sources of liquidity in the world.

I'm talking about the Federal Reserve lowering the quantity of M-1B is like talking about the Federal Reserve lowering the level of water in the Atlantic Ocean. There are several problems.

Well, imagine that the Federal Reserve construct a depressor large enough to cover the Atlantic Ocean and they tried to lower the level of water. The changes are it would not be able to construct it finally enough as to exactly fit the coastline. And the water would seep around the edges and quickly move up above the depressor.

And the same thing happens with the quantity of money. Any standard monetary textbook will tell you that there are a number of ways, even within the closed economy perspective, for the market to get around the Federal Reserve's actions. It's standard procedure to talk about how the private sector -- changing the quantity of currency to deposits or the composition of deposits, how to get around the Federal Reserve's actions.
But let's assume that the water level could be
lowered. There's still two other problems. As the water
level in the Atlantic Ocean's lowered, large tankers that used
to go in the Atlantic Ocean for commerce, find that they can
no longer use the Atlantic Ocean and start using other water­
ways.

And that water that was in the Atlantic Ocean would
start spilling into other bodies of water around the world.
And the same thing happens with money. In order to control
the quantity of dollars, the Federal Reserve institutes a
number of restrictions which makes financial intermediation
in dollars expensive, enhance commerce and financial trans­
actions which took place in dollars, now move to other areas.
Other currencies. And the demand for money now shifts into
money substitutes and into other banking systems, such as
the Euro currency system.

In short, the money aggregates that have become
subject to so much Federal Reserve policy debate are only a
small part of the relevant world money market. And money
markets have a will of their own, and they develop numerous
successful methods of circumventing the Fed's desire to control
one small sector.

So, the obsession with having the Federal Reserve
control monetary target is a search for mythical formula which
is bound to fail. But even worse, it flies in the face of
the logic that why we have the monetary system in a central bank to begin with.

The goal of an effective monetary system should be to make money useful, not to restrict its use. And the monetarists quantity rule has simply turned the logic of essential 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. And when the value of money is stabilized, the demand for money will rise.

And that's -- will lead to an increase in the supply of money. We saw this in the case of a Swiss franc in the first quarter of 1978, when the turbulence in dollar market sent financial markets scurrying into Swiss francs, the Swiss franc money supply expanded tremendously, but the Swiss didn't experience inflation. Prices continued to fall throughout most of 1978. Whereas, in the United States inflation was running at 9 percent.

Well, suppose we did go back to a price rule. What price rule would we use? There are several possibilities, but they're not equally desirable. As I've said, we could go to a price rule of controlling interest rates, which ties the value of money now to money in the future.

However, this anchors neither the spot price or future price to anything and there's very little to control...
inflation.

A second alternative would be for the Fed to re-establish control over exchange rates. Exchange rates would smooth out inflation rates across country, but per se, does not anchor down the monetary system.

The third alternative which is preferable, is to reestablish control over commodity prices by establishing gold or other commodity based system. By far, this is the superior system. It does what none of the other alternatives do. It stabilizes the spot rate of inflation.

Well, if we were to go to a quantity based system, what should be the -- er, the commodity basis, what should be the commodity behind it.

Theoretically, one might argue that we should stabilize in terms of vase commodities. Plus lower the broad spectrum of goods.

However, the problem with such an index is that it's of human construct and therefore, is subject to political whims, and also to political pressures as we've seen in efforts to change consumer price index in the past and in the present.

So, probably one commodity would be preferable to a basket of commodities. Which commodity? A priority, there's no one way to say. There's no -- on theoretical grounds there's no reason in that gold is preferable to oil.

But, we have to notice that the world is coming
back to commodities such as gold. Now, maybe that there are certain properties of gold which just make gold conducive to being used as a basis of a commodity standard.

Whatever reasons, I think the boot's on the other foot. Those who oppose gold have to show why it should not be gold.

But even if we do go to a gold standard, going to a gold standard is not enough. The source of the system is not as important as the mechanism. Backing gold -- backing dollars to a 40 percent Reserve cover will not lead to an end to inflation. What stabilizes the value of dollars is the government intervening and creating expectations in the value of money in the future will be as stable as in the present.

So, the intervention mechanism is probably more important than what is behind the dollar.

Thank you.

SECRETARY REGAN: Thank you very much, Dr. Miles. Dr. Thompson?

STATEMENT BY DR. EARL THOMPSON

DR. THOMPSON: I found myself agreeing quite a bit with Dr. Fellner and Dr. Miles.

Gold has become much more unstable in its real value than it has or was in the last couple or three centuries. And the problem is that gold, oil, collectibles, all those
assets that are relatively inelastic in supply in the world are being pressed in the -- have been pressed in the 1970's and are probably going to be more pressed as population and world income grows. Because they are an inelastic supply.

So, what's happening in the world in the '70's, and it's probably going to continue happening, is that the value of assets in fixed supply to the world are going to become more and more unstable, highly -- more and more highly invariable as oil prices, as antique prices, silver, gold, diamond prices, all that, what that tells you is that maybe the gold standard worked fairly well 100 years ago, 200 years ago, during peacetime because there -- there was not great pressure on the fixed supplies of that asset to give you a lot of price variability, but we've entered an era, and it's going to afford us in the foreseeable future a very high variability of that kind of asset. Which means that if we went back to the gold standard or anything like that, now we'd be in for gigantic -- I'm sorry. I'll say that again. Gigantic business cycles.

My estimate in one of the little hand-outs I'd had summarizes paper, is that we had gone back on the gold standard in -- if Nixon had gone back on the gold standard in 1971, convertibility at $35 an ounce -- and said that's what we're going to do instead of going off it, right now the price level would be approximately 1/20 of what it is today.
That means like -- are you complaining about buying a pair of shoes for $50 now that cost you $20 then, it would cost you $1 now. The labor required to make that shoe would, of course, sell for 1/20 of its value. That's the biggest depression that we've ever observed, and it would destroy our economy, probably our political system.

So, we're not talking details here. We're not talking fine tuning here when we're talking about going back to a gold standard in the modern world. It's a very dangerous system in the modern world.

The -- and not only that, but even going to a system of convertibility into a market basket of goods, which is what has been long proposed by people saying that the price of gold is too variable, even that in our world would be extremely cycle inducing.

The reason is, just take the '70's. The oil price shots have reduced for periods of time, reduced real wages 15 percent. Okay.

Now, over short periods of time -- now, if that would have -- if we'd of had price level stability, right? Price level stability in that period, what we'd end up with is 15 percent lower money wages. Fifteen percent lower money wage offers.

Well, knowing labors, knowing labored contracts, knowing unions, 15 percent lower wages would have created a
depression in this country. When contracts are geared to 5 percent increases like they were in the late '60's, and you offer 15 percent less instead of 5 percent more, that's like a 20 percent wage reduction. That's going to give you depression conditions, just with price level stability in this country.

One of the best things we've had in this country in the last ten years is inflation, is price level increase. We wouldn't have had that, wages would have fallen substantially because of the oil price increase, and we'd of had a good depression. There's something on the order of magnitude of the Great Depression.

So, we shouldn't be so quick to criticize our existing system. There's no system that I heard yet from anyone that I consider superior to our existing managed paper money supply system.

However, there is a system that is superior to all financial -- all our current financial system, and all systems that I've ever heard of, and I would like to propose that, and let me say what it is.

It's a system of convertibility of money into gold at a variable rate where you get variable amounts of gold, in particular an amount of gold that will enable you to supply a fixed quantity of U.S. labor. Like five minutes of U.S. labor for your dollar.
So that means if the price of gold increases in the market, you get for your dollar less gold because it's going to require less gold to buy human labor.

So the system then would not be dependent on the instability in the price of gold. Price fluctuations in gold would have absolutely no effect on the wage level in that economy. In fact, nothing affects the money wage level -- the money wage level would achieve perfect stability. And it's the fluctuation of the money wage level that's responsible for all economic welfare analyses of business cycles that I'm aware of. It's that fluctuation of the money wage level that's given us our unemployment cycle.

Okay? Stabilize the money wage level and you -- and you've killed the business cycle. Put the money wage level on a gradually increasing trend and you'll create a little bit of wage creep, which people consider fairly healthy. I don't know. And price stability.

Stabilize the wage level of values, we get a little bit of price level decrease. People have praised that.

Anything in that range between wage level stability and price level stability is just fine. The system, however, is not convertibility of the dollar into a basket of goods. It's convertibility of a dollar into gold at a variable rate, at a rate that will enable you to buy a fixed quantity of labor. And that this quantity of labor can take constant
overtime, which would give you wage level stability and gradual price decrease. Or it can be at a gradually decreasing quantity of labor and, therefore, approximate price level stability and a wage level creep, but at a fixed rate.

The point is, that if it's at a fixed known rate so labor would not make the mistakes that they make now, anytime the wage level drops of thinking there's a better deal, or else leaving their employment for a better occupation or for back to school, or for unemployment insurance, or whatever it is, or even leisure in the case of fixed contracts, that causes our business cycle.

So the point is that if we stabilized our money wage, if we made the dollar convertible into gold at a variable rate so as to fix our money wage level, which is extremely easy to do, I've gone through the details of that system in the handout in Title 3, "Banking Under a Labor Standard," and it's an extremely system to administer. If we did that, one, we would kill the business cycle. Okay.

Two, we would end inflation at our will. Okay. One day we just end inflation. Of course, contracts are now set for inflation, so I recommend a gradual decrease over a ten year period in the amount of gold -- amount of the labor you can get for your dollar, which would create a gradual decrease in the inflation rate.

So, anyway, after a few years of adjustment you'd
have knocked out inflation gradually. You'd have killed the
business cycle. And not only that, but since you have done
those things, you no longer need any monetary management at
all. We could go back to free banking institutions, and let the
free market supply money under this convertibility system
with absolutely no money management at all.

So we're getting free banking -- the dramatic
efficiency of free banking, the absence of money management
through a rule, no business cycle, no inflation, okay, we're
making some use of our -- just our gold stock is just sitting
around there. And we're ending the government monopoly on
the creation of money.

This is everything that -- this is almost the
ideal system in terms of the notes that I've read of your
first meeting. Those notes -- I decided those were the ideals
that you had, those were exactly the ideals that I had in
making up the system. And I think it would have been adopted
long ago if economists would have thought of it. Or the
economists would have had -- the old economists would have
had the benefit of the modern theory of unemployment, which
tells them that the thing you want to do is subsidize -- is
stabilize money wage. Okay? Not the price level, but money
wages. Stabilizing the price level doesn't do you that much
good. It does not destroy business cycles because they're
variations in productivity that are substantial at times.
And they will create business cycles.

In addition, during a war, we go off the gold standard and we have gone off our previous standard. I will also recommend going off the labor standard for wartime financing. But going back on the labor standard would not create the dislocations that going back on a gold standard creates.

Going back on a gold standard creates a gradually increasing demand for gold for a gradually decreasing price level. It happens every single time we've gone back on to a gold standard after suspension during a war. Every single time. There's no problem in looking at that history. You can see it in the numbers.

We go on a war, we go off the gold standard, we have our war inflation, which is very good. You got to have that inflationary financed during a war to support emergency measure, emergency expenditures. We got to go off the gold standard during a war.

But we go back on, convertibility and because of the gradually increasing demand for gold in order to finance the standards, we've always had gradually increasing real price of gold, which is identical to, which means gradually decreasing price levels which is always produced in depressions. Every time. It will happen again and again. It's the same process. It's theoretically inevitable.

Now, under a wage standard it would never happen.
Under a labor standard where — what you do at the end of a
war is nothing gradual at all. You say we're going back to
pre-war wage convertibility. We're going back to the pre-war
wage level. And you say, "okay." You now can get, not like
during the war, you now can get --right at the end of the war,
even make it part of the law, you now can get less -- I'm sorry,
More labor for your dollar than you did during the war. Okay?
More labor for your dollar than you did during the war. You
specify the amount.

We're going back, for example, to the pre-war
quantity of labor. What immediately happens is the price
level -- wage level jumps down to the pre-war level. There's
no gradual deflation. There's no unemployment. There's no
post-war depression. Okay?

So you save the post-war depression problem.
All right?

So what I'm saying then is, within all economic
theories with which I'm aware, what we have is an ideal
economic system, okay? And I challenge you to find out what's
-- tell me what's wrong with it.

There's a -- let me just say that there is a his-
tory of these kinds of standards, the idea of a variable
gold standard was invented by an American economist, Simon
Newcomb, in 17 -- I'm sorry, 18 -- the late 1870's, when they
were considering going back to the gold standard.
He suggested inadvisely that we -- that we give
for the dollar a variable amount of gold. An amount that would
enable you to buy a fixed commodity basket of goods, the price
index. And his student, who was Irving Fisher, picked up the
same idea in the 1920's and suggested that we do exactly the
same thing. Let's go back to the variable gold standard.
They didn't have the wage rate, so they had really the kind of
the wrong thing to peg to. They didn't have the advantage of
our 30 million firm BLS wage index. But it's okay. They were
talking about price level stability.

And those systems -- going to those systems at that
time would have prevented the post-war price decrease that
we saw. The post-Civil War price decreases, and would have
prevented the Great Depression. Because we would have had
stable prices.

But those proposals were ignored, and I think they
were ignored because people were too lazy to think of seriously
of a better economic system. Okay?

Now, I'm challenging you, I don't want you all to
be too lazy. I don't want to be ignored. I'm challenging you
to tell me what's wrong with these systems. We would not have
had the depression if we had paid attention to Irving Fisher
seriously.

We would not have had that bout in the 18 -- the
late 19th century if they had just paid attention to Simon
Okay. These are American systems. These are not British systems. Okay. Maybe we don't have the confidence to listen to Americans. We didn't then. We should have the confidence now. We can have wage level stability. That means full employment by every economic measure that we know. As much prive level stability as we want, no monetary management, completely competitive money supply creation. Exactly everything you want very easily.

SECRETARY REGAN: Thank you very much, Dr. Thompson. Dr. Williamson?

STATEMENT BY DR. JOHN WILLIAMSON

DR. WILLIAMSON: Thank you, Mr. Secretary.

After that exortation to listen to American economists, you have as your next guest a Britisher. I hope that I can contribute something to the deliberations of this Commission, although I would say that at this point in intellectual history, American economists have been making a lot of the running, and I don't think there's much danger that you'll be here relying too much on British spirits.

Now, what I do -- in the first of my testimony, is to examine six of the leading proposals that were on the table, as I understand it at this Commission before this morning, there's been a couple more this morning, I examined six of the proposals to see whether they could be expected
to enhance or to threaten monetary stability.

Let me just say that I do agree with Dr. Thompson that when we talk of threatening monetary stability, we are also to include the threat of depression and not just the threat of inflation. Naturally, that's the one that's been dominant in people's minds because that has been the dominant problem in recent years.

But it surely true that if this country had been on a commodity standard or gold standard in the early '70's and had abided by the discipline of that standard which I admit I don't think is very probable, but had that occurred the cost would have been a major depression. Where there was a point, of course, where more discipline could have been done within the system, and that was the late '60's and early '70's when the inflation was getting underway.

But to say that once that happened, it simply -- taking to gold could have been expected to event that inflation without major costs in terms of monetary disruption, seems to me to be totally unrealistic.

The first system that I examine is the classical gold standard, and I argue that there are two fundamental problems with that system.

One is that it rules out the possibility of using exchange rate adjustment as a part of the adjustment process, and that is something that's costly to a large country with
a relatively closed economy like the United States. Especially
given the absence of downward price flexibility, which I think
we have to take as a fact of life.

The second objection is that it's impossible to
maintain a money supply that is 100 percent gold or gold
facts, because there are commercial incentives to substitute
cheap credit money for cost commodity money, and as long as
the gold value becomes -- it looks secure, that's something
which is in the interest of the public to do, but then, of
course, once the gold value falls under suspicion one gets
of an out of currency into gold, and that can produce banking
crises, monetary contraction, and problems which were indeed
familiar in the days of the classical gold standard.

Then I consider the possibility of restoring the
Bettenwood system. Now, there was an extensive literature on
the relative merits of that solution. As against the possibil-
ity of moving forward to a managed international paper currency
in the course of the debate in the 1960's, on international
monetary reform. And I produced in an annex to my paper,
what I wrote trying to summarize the outcome of that debate,
and the book was published four years ago.

It seems to me that there are a whole series of
reasons for arguing that the inclusion of gold would not, in
fact, evade monetary stability.

We had a perfect example -- came up in the course
of evidence this morning, the supply of gold can't be managed. It is subject to a whole series of capricious influences.

Suppose that the world had been on the Bettenwood system with an attempt to depend a fixed price of gold during the course of the Middle East conflicts last year when the price of gold went up to $800 an ounce.

The consequence of that would instead to have been to produce various severe deflation throughout the world under a restored Bettenwood system.

On the other hand, if in the process of introducing this system, one devalued gold to a level which eliminated that threat of mainly running out of gold. Then, of course, the consequence would be an initial inflation of the impetus of quite major proportions.

So my own judgment was, and it remains, that various considerations that were introduced in the debate add up to a conclusive case of believing that giving a monetary world to gold would simply have prejudiced monetary stability.

I then consider the Weintraub proposal, but I think that was adequately dealt with yesterday. So let me go on to the possibility of making the dollar convertible to gold at a fixed price while maintaining a floating exchange rate between the dollar and the currencies of the other major industrial countries.

This proposal would introduce new sources of
variability into the foreign exchange value of the dollar, and
the size of the U.S. money supply.

For example, suppose that people currently holding
marcs wanted to convert it to gold. Under the present system
the bulk of the portfolio ties adjustment which is necessary
to accommodate such a shift occurs in the dollar price of gold.

But if one once linked dollar price -- dollar price
with that of gold, then that source of adjustment would be
eliminated and the consequence would be to increase yet more
the variability of the dollar marc, which certainly some of
us believe is already excessive.

Or else, suppose the foreign dollar profiteers want
to shift into gold. Then that also would have effects on the
U.S. monetary base, and under gold standards goes the money
supply.

So that one would again, aggravate the monetary
stability by attempting to give a monetary -- to gold.

Then I discussed briefly with Mr. Costamagna's
proposal for minting U.S. gold coins and selling them to U.S.
citizens at the market price of gold, and I argued that given
the past variability in the price of gold, it really would not
be attractive to use such gold coins as a medium of exchange
and, therefore, that is not a monetarily relevent proposal.

On the other hand, I do think that it's harmless.
There's a sixth possibility, and that is restoring the usability
of U.S. gold reserves for transactions with foreign central banks, the international level, and that would seem to require agreement among the leading central banks to accept gold for market related prices.

Such an agreement might or might not be accompanied by an attempt to stabilize the gold price by intervention. But in either case it seems to me it's more likely to increase than to decrease monetary stability.

Without price stabilization, you would have the effect that I referred to before that rising in the market price of gold, leading to a surge in the value of international reserves with potentially -- potential inflationary implications. With price stabilization exactly the same event would have deflation implications.

But in either event, one would have a source of instability.

Furthermore, the introduction of an agreement of this sort would surely be inflationary. Something like at the present time, gold in international reserves is really not a liquid asset. It's quite difficult to the central banks to use it on any extensive scale, given that they don't like to press in the market price of gold between the market price of gold. And given that gold is not a liquid asset, but of course, it would again become one under such an agreement.

Now, when one reflects that the Administration has
been resisting the creation of something like 40 billion a year of SDR's because of the potential inflationary implications, to suddenly think of creating another 400 billion dollars of effective international liquidity 100 times as much, really does seem to me to smack at the irresponsible.

The general conclusion that I draw is that re-establishment of the monetary world to gold would be at best irrelevant, and at worse, dangerous threat to monetary stability.

To say that is not to endorse past or present monetary arrangements or policies, but it is to recommend that the Commission condemn the intellectual escapism of searching for simple solutions which claim to offer painless cures to having magical effects on expectations. Let me add, after listening to Dr. Greenspan, through having a profound influence on the politics of the fiscal process, seems to me that such a condemnation would clear the way for resumption of serious debate on the establishment of guides to economic policy that would be capable of assuring more stable policies in the future. Let's not imagine that we're ever going to get the perfect stability.

If the Commission does recommend the rejection of any future monetary goal for gold, then of course, we need to decide what to do with respect to the stock of monetarily redundant gold.
One possibility would be the Treasury -- excuse me, not the Federal Reserve, to maintain the gold in its portfolio and even to use it in transactions of the official level when this was judged likely to be advantageous.

I'm not personally not much enthused by this solution because it's not technically necessary. There is not a shortage of liquidity in the world at the present time, and there are plenty of ways of creating more should that be necessary.

Moreover, this would tend to retain the stock of gold in the hands of the monetary authorities, rather than making constructive use of it. Of course, there are many constructive uses of gold. Gold is not a negligibly important commodity.

The alternative would be to cease any further gold transactions with foreign monetary authorities, which seems to me to be the logical compliment to a recommendation against any future monetary gold.

One would then presumably want to use a part of the gold to place it in a strategic stockpile. I argue that there may also be a moral case to using a pot to supplement IMF gold, another revived trust fund, and the remainder would be sold to the public at a rate calculated to maximize them at present values to U.S. taxpayers.

There is one other question that I would like to
touch on, and that's the question of disposal of the rest of the IMF stock.

I would like to ask the Commission to ponder very carefully whether it would be proper for the United States to press for so-called restitution of IMF gold to man the countries, or as it's been phrased I think, for the U.S. to get back its gold from the IMF.

It's surely relevant to recall that in the 1960's U.S. leaders gave repeated and bipartisan assurance that the determination of the United States to maintain the convertibility of the dollar into gold at $35 an ounce for foreign and official holdings.

Acting at least in part on the supposition that such commitments could be trusted, many government, including most of those poorest countries on earth, headed the pleas of U.S. officials to avoid exposing the Brettonwood system to additional strains by exercising a legal right to convert dollars into gold.

The unilateral renunciation of the gold convertibility of the dollar by the United States in 1971, coupled with the subsequent acquisition in the market value of gold, have exposed those countries, which acted as loyal and practicing friends of the United States, to very large losses in comparison with financial position that they would have enjoyed if they demanded gold.
It's been calculated that if the non-oil developing countries had converted all their foreign exchange reserves which were mostly dollars, into gold at the end of 1969, they would have been some 90 billion dollars better off at the end of 1979, then they actually were.

Since the price of gold is again at roughly the same level, that gives a measure of the extent which countries marketly poured in the United States, suffered for actions which would were influenced by the belief that the U.S. commitments could be trusted.

It seems to me that it would be ignoble to me to make no move towards compensating those countries who lost out beyond the 4.6 billion dollars that has already been realized through the sale of 1/6 of the IMF's gold and paid into the trust fund.

The obvious mechanism to do that would be to use more of the IMF's gold in the same way. In a more generous world than ours, one might have hoped that the major western powers that have made financial gains through the rise in the price of gold might have been prepared to go further than this and make additional donations to the trust fund, with a view to going some way to measuring -- to writing the injustice that has been done. Clearly, there would be no perfect writing of such injustices.

But to go in the opposite direction, to demand
SECRETARY REGAVI: Thank you, Dr. Williamson.

Thank all of you for your opening statements. We now will begin with the questioning. But, before we actually begin, may I ask the panel, if at all possible, and I understand asking a group of distinguished economists such as this, to do this may be asking almost the impossible, but I think it can be achieved -- it something that you might require of your students in an earlier period -- would you please give short and pointed answers so that we can ask more questions.

Remember, you're in the process of educating us or the Commission, and it's through your answers that we'll learn an awful lot, but the longer the answer, the fewer the questions. That is an old game that's played, but I sure as heck would like to avoid it here if it at all possible.

And in our questioning we'll go around the panel in alphabetical order, so we'll start with you, Mr. Costamagna.

MR. COSTAMAGNA: Thank you, Mr. Secretary.

My first question is of Dr. Greenspan. Sir, you point out that the problem of re-entry or fixing the price is a considerable one in terms of establishing Treasury gold notes. Is it possible to do the same type of financing with a non-fixed gold price, reflecting, say, the market price?

DR. GREENSPAN: Well, it doesn't strike me that
further restitution, would, it seems to me, to be dishonorable.

SECRETARY REGAN: Thank you, Dr. Williamson.
working with the market price is in the sense really different from what we're doing now. There's nothing to prevent the Treasury from buying gold at varying prices or holding gold at various prices.

The whole purpose of the exercise is to substitute something which works towards the stabilization the dollar and gold. To merely specify that we're financing in current prices is not to actually change any of the relationships in the system.

MR. COSTAGNA: Thank you.

I have a couple of questions for Dr. Jastram, if I may. Dr. Jastram, concerning the supply of gold from South Africa that we have received, and I think you're aware of the problems that are created by the fact that South Africa does produce substantial percentages of the world's gold, do you consider that the South African Government can be trusted not to interfere with any system that we might create if we were to have a convertible currency?

DR. JASTRAM: Well, you're certainly correct. That's a very important question. South Africa, in 1980, I think, produced 72 percent of the free world's gold supply. What they do is of paramount importance and what they might not do truly is -- I would turn to an historical precedent on that and give you at least a partial answer.

In -- that requires a bit of history, Mr. Chairman,
The gold pool — the Lond Gold Pool, so-called, was founded in 1961, a consortium made by eight of the most powerful central banks which had as its guiding purpose to maintain the buying and selling at the rate of $35.00 an ounce for gold.

In 1968, unable to withstand the demand pressures, the London Gold Pool, in March of that year, disbanded. At that time, the South African authorities, the Reserve Bank, I think it was, entered into an agreement with the IMF, thereafter, to sell at a constant price of $35.00, which had been the Gold Pool's purpose to maintain, thereafter, collapsed the Gold Pool, to continue to sell to South Africa at $35.00 an ounce all of the gold that the IMF requested.

And that was in a two-tier market. The upper tier, which was the free market, was moving along -- later almost soaring away on the $35.00 figure, and, yet, South Africa fulfilled all of those commitments at a very considerable opportunity cost to itself.

That's an historic precedent that I would go on.

The other part of my attempted answer to your significant question is that South Africa has a perennial balance of trade problem, which is well-publicized, well-known. They have many resources, but in the main, they can't eat them, they're gold, of course. Other strategic metals and
The one thing that they have to do and are constantly in a pinch and a bind to do is to settle -- control that balance of trade problem. So, look at the two alternatives. One is that -- well, first of all, we have to ask the question why would they want to destroy the world gold standard.

And that's not just a rhetorical question. We would have to satisfy ourselves that they would have a motive for such an attempt.

All right, granted that, and looking to their own self-interests, for one thing they have to export, because of this balance of trade problem. Gold is one of their -- patrimony is the term that was used yesterday -- one of their resources for doing this.

The other alternative is to withhold gold out of spite or out of an attempt to wreck the world economy. But this, of course, would be cutting their own throats in a colloquial sense, because this would exacerbate their balance of trade problems.

So, as I see it, both on historical precedent and -- on the historical precedent, I think, perhaps, Mr. Volcker could reaffirm what I have just said -- but both on the grounds of historical precedent and on the grounds of, in a sense, economic self-survival. I do think that they can be depended upon as a source of supply for the whole world.
MR. COSTAMAGNA: I have another question of Dr. Jastram.

Your excellent presentation in this pamphlet spurred me to reading your book.

DR. JASTRAM: That's even better.

MR. COSTAMAGNA: The question that I found quite interesting in your description of 1717 and the development of what appeared to be a de facto gold system in England, and as I understand the history, it was -- it developed because of an importation of gold coins and replacing silver coinage that existed at the time rather than a paper currency that we have.

Is there any analogy or similarity to what we may be seeing happening in the United States currently where we are having an influx of gold coin and the possibility -- and that's only been four years -- and according to your history here, it evolved over a period of about 70 years -- but in the last four years we have seen an influx of gold coins -- and projecting ahead for many more years is it a possibility that we are establishing a de facto gold system or gold standard that we may not even be aware of?

DR. JASTRAM: Surreptitiously -- not surreptitiously, but gradually coming up on us without public notice?

MR. COSTAMAGNA: Yes, as it appears to have occurred at that period of time in England.

DR. JASTRAM: Well, that's an interesting thought.

Let me walk along with you on that. True, in England, at that
time, French coins, Belgian coins, Dutch and others, Spanish, circulated freely in England, so you had a mixed coinage by nationality.

The -- first of all -- and I think what you say, my immediate reaction is is that it is theoretically possible, but there would be a good deal of friction before it could take place.

First of all, those foreign coins, the krugera and maple leaf and then the Mexican coins, which are now coming out in smaller and smaller denominations, would have to get down to a gold content where the ordinary trade of the day could be handled by them, down to a gold content representing a dollar or two dollars or something of that kind.

I always have a prototype on a question of this kind or discussion of this sort of my local Safeway and what would happen there, because you're talking about a public acceptance of this, the one thing -- if you did get down to the denomination of -- in gold -- where it was a coin of the day, you'd have something like a $5.00 gold content, then that Safeway is going to have to have sufficient change to give you $4.00 back and you're not going to take paper dollars if you're that frame of mind, to give you $4.00 gold dollars back for the $5.00 with which you buy a $1.00 can of corn.

So, that's going to be a point of friction and equilibrium adjustment.
The Safeway -- well, I could go on. You see the fact of the difficulties. The Safeway clerks have to be taught how to recognize these coins and so on.

But, certainly, it's possible and something like that did happen in England with very pretentious consequences, but ultimately England went on the gold standard through that kind -- that was ancillary to it, but that kind of activity of exchange.

MR. COSTAMAGNA: Is my time up, Sir?

SECRETARY REGAN: It's up for now. We'll try to return to you if at all possible. Dr. Jordan?

DR. JORDAN: Thank you, Mr. Secretary.

My first question is for Professor Jastram also. You emphasized rules versus -- rule of law versus rule of man -- and I have tended to view the problem that way also, but we've heard some very interesting testimony that to say it's a rule involves a statement that the government is still going to be involved in monetary affairs, and whether it's a rule involving fixing the price of gold, exchange rate between dollars in gold, or any other kind of rules, rules can be changed.

Professor Holzer, yesterday, pointed out that until you get government out of the business of fixing rules in monetary affairs involving the quantity of money, you don't have a true gold standard. And Professor Rothbard presented a proposal that I consider to be approaching a true gold standard, where the government neither owns gold, it does not
buy or sell gold, it has no monetary liabilities —

DR. JASTRAM: I'm sorry, did you say appropriate to?

I just missed your word, that you consider appropriate to a
gold standard?

DR. JORDAN: It's a true gold standard.

DR. JASTRAM: Yes.

DR. JORDAN: The gold is held in the private sector
by individuals or by banks, and the monetary liabilities of
those institutions, whether it's bank notes or transaction
deposits, or backed by gold or equivalent to gold, and in a
true gold standard system there are no monetary rules. Is
that correct?

DR. JASTRAM: Well, first of all, I do believe that
various forms of gold standard can exist under operation by
government and by implication, I do not agree with what was
said by the gentleman to whom you refer, yesterday.

There is something, though, that I think is very
much worth considering. I'm reading a manuscript right now
that I'll be commenting upon at a forthcoming meeting, by an
eminent economist, I'm not free to disclose his name because
the paper isn't out yet, in which there would be a free
banking system in which each bank would held convertible for
specie, so that the government would have nothing to do about
it.

I've not yet made up my mind, as a reader of this
manuscript, how I will comment upon this. But these proposals are coming out.

But to get back to what I take to be your original question, do I think that we could have a gold standard and tolerate government intervention, yes, I think that we can.

DR. JORDAN: Then the problem becomes one, if it's a rule involving a gold exchange standard internationally or domestic price of gold, it is a rule that possibly can be changed, and the question becomes one of finding a rule that is most reliable and credible and will be adhered to.

DR. JASTRAM: Right.

DR. JORDAN: O.k. Professor Thompson, I don't know if I understand your proposal or not. I think you understand it very clearly, and I'm still struggling to see if I understand it, let me try. What you're proposing is that we have a rule that says the government fixes wages, some unit per time, in terms of dollars.

MR. THOMPSON: In effect, what you're doing is converting dollars into gold or actually -- gold or --

DR. JORDAN: It doesn't matter whether the money is dollars, gold, eagles or pounds. I'm saying that money per unit is equal to wages per unit of time and it's fixed by law.

MR. THOMPSON: That will be its effect. It's not that, though. It's like a gold standard. Money is going to
be convertible into gold or an asset the government finds even more convenient to deliver. So, whatever is most convenient for the government to deliver, that's what it would deliver.

DR. JORDAN: That's a wage control.
MR. THOMPSON: It's not a wage control at all.
DR. JORDAN: It's a fixed exchange rate between

the --

MR. THOMPSON: There is no market control on any --
in any -- there is no labor market that is being intervened in whatsoever.

All you're doing is telling people what you'll convert their gold into. You're computing a price and wage index from last month, and that's going to be your basis for making your gold payment.

You're going to give them an amount of gold that will enable them to buy a unit of labor by looking at the market price of gold and the wage index and you'll be able to calculate how much gold to give the person who wants to make a conversion.

He will know that his dollar is always worth the unit of labor.

DR. JORDAN: Have you looked at our measures of wage cost, employment cost, hourly wages other than -- and thought about which one you would want to use?

MR. THOMPSON: Yes, I'd use the BLS survey of
As I said, there are 30 million firms that are being surveyed every month and we're not doing anything with that data that's useful, and I'm saying there's a tremendously socially valuable use of that number -- of those numbers, if we will.

DR. JORDAN: I want to ask a question to each panel member, but since I was only supposed to have five minutes and there's six of you and I've used three of them already, these answers have to be very short -- whether or not you think it's desirable and irrespective of the time span of achieving it or method of achieving it, would it be possible for the U.S. maintain a fixed dollar price of gold unilaterally without an international agreement? In other words, if we have floating exchange rates.

DR. GREENSPAN: That's not an economic question, it's a political question, and I would say that probably not as you raised originally, Gerry, the question of the government holding or having some form of rule.

I might add that there is a role for government in the judicial sense in the clean gold standard in that somebody must define what the concept of the dollar means.

In other words, the private sector can have a gold standard providing there is a judicial statement of what the definition of the dollar unit is.
In a technical sense, is it possible to have a domestic gold standard without an international agreement, yes, of course it is. Is it politically feasible, well, if it's politically feasible to do it domestically, it probably is internationally. There are huge problems of which I am certain you are aware of more than I.

MR. FELLNER: If I understand your question correctly, I think it's feasible. It would be exceedingly damaging with very bad consequences. One would be exposed to political decisions of the other gold authorities outside the United States all the time. This might lead to inflationary and deflationary consequences, on a very major scale.

If I understand your question correctly, which means we fix the dollar price of gold, the others do not.

DR. JORDAN: That's correct.

MR. FELLNER: That have a very large amount of gold in their -- their monetary authorities own a very large amount of gold, about three-quarters of the officially held gold.

This I think, in principle, possible. It would be an exceedingly bad idea.

DR. JASTRAM: As a practical matter, no.

MR. MILES: I think we have evidence of other countries such as Switzerland and Germany, which have tended to stabilize the value of their money during the last 10 years much more than the remaining countries. And the result has
been that there's been a growth in the proportion of Swiss francs and Deutchmarks that are used in international markets compared to, say, the dollar.

And I think if we were to stabilize the value of the dollar in terms of gold, that would reverse the trend, increase the demand for the dollar and I don't see that the pressures building on the U.S. gold supply, therefore, to create these problems.

MR. THOMPSON: Yes, you've got to wait a few years for some kind of gold rush on the U.S. Mint and then it would be the moment of truth. We would have to deflate like mad. We would have to tighten banking systems down to where we were back down to this gigantic depression that I talked about.

We could do it, but as the gentleman has been saying, it's very impractical. It's unpolitical. It's damaging, unwise, what else can you say.

MR. WILLIAMSON: Well, I agree that it would be possible in principle. In order to maintain a fixed price of gold, one ultimately has to be prepared to allow monetary policy to be guided by that end, and that does mean that if there were a move out of dollars into gold, one has to be prepared to deflate the money supply by whatever extent is necessary to curtail, to stop that movement and there are circumstances in which I think that would clearly be undesirable.

SECRETARY REGAN: Thank you. Governor Partee?
GOVERNOR PARTEE: Well, I must say we have a very wide diversity of view on our panel this morning that's — I congratulate you, Gerry, for thinking of a question you could address to everyone.

I was thinking of addressing the question -- although I -- Dr. Thompson gives me a little trouble -- I was going to address the question of whether, in very summary form, each panel member would speak to whether they believe that the objective of any mechanism we have should be to stabilize prices as the only and principal -- as the principal and far most important objective of running the system and whether in view of that, if that is the objective, whether they think that the relationship of gold, other commodities and other components as such, that gold could be a transmission mechanism for effectively doing that.

I guess it's really the subject of the Commission and I would like a very brief answer from each of you on that question.

DR. GREENSPAN: Essentially, I think the answer is, yes. And the reason the answer is, yes, is that the purpose of the monetary system is to essentially remove the uncertainties of business decision-making and other actions on the part of economic actors which are affected by changing expectations of the price level.

To the extent that one can remove the uncertainties
attendant upon expectations of price fluctuation, you lower
the risk premium in the system and essentially lower the
hurdle rates of return and in a sense, the real interest rate.
I think that is as much as a monetary system can do considering
that what its basic purpose is after it creates a division of
labor is to remove the risk, essentially, from price fluctuation.

The question is does gold do it. I think any
broadly held or desired luxury good which has many of the
standard old classical characteristics of the medium of
exchange would do it, gold being probably the most likely.

The problem of actual price stabilization which is
what Willy Fellner was referring to with respect to the
supply is not actually necessary in the sense that so long as
the price level doesn't, for example, decline more than the
real interest rate, it should not affect the underlying
investment decision-making process.

So, I would basically say, yes, at root, the basic
purpose of the monetary system, after enabling the division
of labor, is to try to remove the risk premium from unantici-
pated price fluctuations.

MR. FELLNER: I agree with what Alan Greenspan just
said. I believe that it should be the objective of the
monetary authority to create a reasonable degree of
predictability concerning the price level.

Not, that implies, I think, that changes in the
price level should be very gradual and broadly foreseeable. Complete price stability, constancy of the general price level we never have had, and that would be, of course, very ambitious objective and I don't see any reason why we should strive for that.

But changes in the general price level have to be very moderate and gradual and broadly predictable to remove that uncertainty which has developed very largely because these inflationary processes which we have created here have a tendency steepen and if this steepening were a continuously accommodated, this would get out of hand very quickly.

Consequently, occasionally, we have to clamp down on this, at unpredictable times in unpredictable intervals -- and are creating an enormous amount of uncertainty. With an inflationary process that is steepening, occasionally we discontinue the accommodation of that and we have, in the past 15 years, then started again to accommodate at still very high inflation rates and rising inflation rates.

That is the kind of uncertainty, I think, which we really have to eliminate. Now, that doesn't mean literal constancy, but it does mean a broadly predictable miled price trend which is the best we can hope for in this regard and it would, I think, condition market expectations, influence market expectations in such a way that cost trends -- cost trends would adjust to this and consequently there would be
no long-run, adverse consequences because both trends would adjust to a foreseeable price development of this sort.

Now, as for the output limitations, which are really a new -- I wouldn't say, historically, entirely new, but to this extent a new phenomenon, that we have a steep increase in the real price of gold over a period of 10 years.

And the reaction to that is substantial decline in the world output of gold. If that kind of thing were to continue, then I think the difficulty would not be simply that that the price of gold would not stay constant -- I agree that that is not necessarily a requirement of a healthy system -- the consequence of this would be that price, if you keep the nominal price of gold constant, that the price level would be moving to a very substantial extent and the trend would be quite steep and very unpredictable.

So, that is the reason why I think that output limitations do play a role. Not because they mean that there would be some change in the general price of gold, but I think there could be a steep decline unless you start doctoring the gold price, and then you get all the political arbitrariness back into the system which we really try to eliminate.

GOVERNOR PARTEE: If I might just interrupt. It's the mechanism that bothers me, Willy. Just the point you were making that the behavior of the gold price in the last decade suggests to me that as a linkage mechanism, it is not very
good in terms of trying to achieve the general price stability if you agree that the general price stability is the basic objective here.

MR. FELLNER: Yes, precisely. I think that the expression that was used in this discussion that we need price rule, well, the question is which price. I mean, you wouldn't pick for that a price that moves significantly relative to prices in general all the time, because that means you have a price rule which doesn't perform the function which a price rule should.

Price rules should relate to the general price level to things people need not to a specific commodity except if that specific commodity turns out to be a reasonably good proxy for goods in general, which I think, with some qualifications it was in a certain era and it might become in the future.

But that does, I think, involve output responsiveness to the relative price. It might again get to be that. I don't think it has been that over the past period which we are now surveying and I don't think that now there is any sense of its becoming that, because there are no sense of the output responding to this general -- authorizing the specific price of gold.

But the future might -- these output lags were substantial even during the period in which the gold standard
functioned reasonably well. There were lags. These lags were sometimes quite substantial. The reaction of output to the relative prices vary as to new technological innovations and new finds.

But it might happen in the future and that's why I would not start liquidating our gold stock. But I don't see any sense of it in the now foreseeable future.

GOVERNOR PARTEE: I do need to emphasize brevity in the answer, because the Chairman is looking crossly at me.

DR. JASTRAM: Well, for brevity's sake, let me agree with Dr. Greenspan for the same reasons that he gave and without repeating them.

MR. MILES: Well, I agree with Dr. Greenspan that price is certainly an objective, but I would say that the objective is to stabilize the price of money and it's the uncertainty of the value of money that we want to minimize and reduce. And if we can eliminate that, reduce that uncertainty, we reduce the cost of business which would make the economy work better.

GOVERNOR PARTEE: You mean the value of money, I take it, Dr. Miles?

MR. MILES: Yes, the value of money.

GOVERNOR PARTEE: Not the price, but the money?

MR. MILES: Yes. But whether we continue to have a
terms of trade problem, the price of one good in terms of another continues to change over time. That's indicative of a dynamic economy. And, so, we're going to have this problem no matter what standard we choose.

No particular standard is perfect. I mean, if there were a perfect standard that we could all agree upon, there wouldn't be any need for this Commission.

And one thing we've learned in the last 10 years is that simply changing the unit of count in the monetary standard, doesn't influence the terms of trade. So, it isn't stabilizing the unit of count that's going to affect the terms of trade, these are natural forces in the market place.

So, which of the many commodities should we use to stabilize money, I would say that, again reminded you, the market keeps coming back to gold, and I certainly wouldn't want to pretend to be more knowledgeable than the market.

MR. THOMPSON: You thought you'd have a little trouble with me --

GOVERNOR PARTEE: Well, I'm willing to accept stabilization of wages as an equivalent of stabilization of prices.

MR. THOMPSON: But it's not. The stabilization of wages, I think, is what we've missed in the past as the goal we should be looking for, and if we would have been pushing for it, I think it would have flown very well.
I don't think it's wise to stabilize prices, because wages -- real wage does vary quite a bit over important episodes of our history.

And if you could stabilize wage rates, money wage rates, if you could get a variable amount of gold so it stabilized the money wage rate, you could go to free banking and that's the main advantage.

If you go to free banking, you don't have business -- it's a perfect system you're thinking of. You're very close to a perfect system. One that will really sell.

So, I'm extremely for what you've said. I've estimated that increase in the real wealth of our country at around 20 percent from a policy of that kind.

GOVERNOR PARTEE: But is gold a good linkage mechanism for getting what you want?

MR. THOMPSON: Sure. Gold is fine. Gold is -- it's got very nice --

GOVERNOR PARTEE: At a variable price?

MR. THOMPSON: Sure. At a variable price. You could use bonds as far as that goes, but gold is a convenient asset. People like to exchange money for gold. It's not necessary.

MR. WILLIAMSON: Well, I agree that minimizing inflation and especially the availability of inflation is an important objective. I don't think it's the only important
objective and neither do I believe that one has to be a inflationist in the crude 1960's sense of somebody who thinks you buy more unemployment permanently by having less unemployment permanently by having more inflation in order to recognize that the cost of reducing inflation can be very high in terms of unemployment for substantial periods, and that introduces a second set of considerations which should be important in the formulation of monetary policy.

On the question of whether gold would be a good link if one thought that inflation were the only objective, I share the view that it's too narrow to be a particularly efficient link. But if one were trying to stabilize the price level directly through a monetary mechanism then one ought to be operating on a broad basket of commodities, and -- but even that there is an objection to it insofar as the problem is not simply the minimizing of inflation, but insofar as one also believes that the other objectives relating to employment and output in the shorter run are important.

GOVERNOR PARTEE: Thank you very much.

SECRETARY REGAN: Thank you, Governor. Congressman Paul?

MR. PAUL: Thank you, Mr. Chairman.

I would like to direct my first question to Dr. Jastram and follow up on Dr. Jordan's question in dealing with the rule of law versus the rule of man.
Before I state my question, I would like to comment on what happens in the free market when we have a real gold standard, when we do not have a government gold standard. Under these conditions we still would have a rule of law and government would play an important part in that system because the rules against fraud, the rules against counterfeit, the rules against theft would apply and I think they would be more easily achievable under those conditions than they are under the system that we've had in the past whether it's a government gold standard or a government paper standard.

For instance, we've been able to apply the rules of fraud more easily against -- for insurance companies, say, than Social Security. We have been able to be more fraudulent and abusive of that system than we permit in insurance companies to defraud the people with their system.

So, the government would play an important part. It would be there to prevent the fraud and the theft that goes on. Since 1939, I understand, there's been $3.3 trillion transfer in wealth. So, one group lost a lot and another group gained a lot in inflation.

So, this is a moral battle that's going on and having to do with honesty and dishonesty, but to be specific on my question on the rule of law versus the rule of man, assuming that we will have a gold standard probably with the government involved one day and that assuming that they do
not accept my views on the Gold Commission that we will have a
true gold standard, we would have a rule of law that would tell
the authorities what to do with the monetary system -- how
is this superior to the rule that might be written as a
monetarist rule? Why is the rule dealing with the metal
superior? And according to the evidence that you present,
which, by the way, I think was outstanding. I can't quite
understand how anybody could look at what you've done and
do anything but accept a gold standard.

But why would one rule be superior over the other
rule?

DR. JASTRAM: Well, I'm not necessarily of that
opinion, that one is necessarily better than the other. The --
I'm arguing, first of all, in a generic sense, as you grant,
for a rule of law, than I am addressing the Gold Commission.
I'm talking about the rules that have existed with reference
to precious metals, and specifically gold.

But there's a monetary rule. I can't really argue
the merits, but I would admit it to my category of rule by
law. Dr. Schwartz knows this better than I do and perhaps he
can remind me, but I think that Milton Friedman at one time
proposed a Constitutional Amendment for a 3 percent increase
in the monetary supply.

DR. SCHWARTZ: I can't hear you. Would you speak
into your --
DR. JASTRAM: Well, it's my recollection that Milton Friedman once proposed a 3 percent -- a law of 3 percent as a Constitutional Amendment to the monetary supply.

Well, whether or not -- I'm sorry about the digres­sion -- a rule could be applied to other parameters of the monetary supply. What I'm looking for is a rule which will yield predictability and dependability and credibility. And I just don't find that in the affairs of man conducted by man.

This will vary from group to group, it's quite true, but I want to have a built-in, certified, dependable credibility, and that rule can take various forms.

MR. PAUL: Would that include the use of metals in the monetary system?

DR. JASTRAM: Yes, very much so.

MR. PAUL: And you would consider that superior over one that did not include the metals?

DR. JASTRAM: I would.

MR. PAUL: I want to thank Dr. Thompson, particularly, for coming today, because, you know, for so long the debate has been between discretion and monetarism, and those who advocated gold were always the ones seen out on the fringes.

And I would say today with your proposal it makes gold very acceptable, a very reasonable compromise between yours and paper. So, I think you make gold look good.
I would like to ask Dr. Jastram another question relating somewhat to the wages that Dr. Thompson alluded to.

It is my understanding and the statistics show that in the last 10 years that the real wage under this paper standard that we have has gone down 10 percent, and it's been very, very destructive to the working man.

What type of statistics do we have and what evidence do we have to show whether or not the working man benefits under a gold standard? Should our goal be a stable wage or is it possible that under a gold standard the real wage might even go up?

DR. JASTRAM: Well, that's a new one on me, as most questions in this world are. But I've not studied that. The only thing I can say historically is that between 1700 and 1930 real wages in England went up by some 700 percent as I recall.

Now, there were many, many other reasons, of course, for this, but in effect, you're asking does gold standard put a lid upon real wages. Not at all. Not at all, historically.

MR. PAUL: Have you ever known the real wage to go down under a gold standard?

DR. JASTRAM: I can't cite a case, but I don't deny it. I just don't know the record.

MR. PAUL: I'd like to ask Dr. Greenspan if he's familiar with the experience -- I believe it was in the
50's or the 60's that they sold bonds -- gold backed bonds --
are you familiar with that and could tell us whether or not
that was successful or how that would coincide with your
proposal.

DR. GREENSPAN: Are you talking about French sales
of gold bonds?

MR. PAUL: Gold bonds, right.

DR. GREENSPAN: I assume you mean the French
experience, not the United States.

MR. PAUL: Yes, the French experience.

DR. GREENSPAN: Well, I think the French experience
is terribly interesting in the sense that they, as I recall,
bonds which yielded remarkably high interest rates, which
another way of saying that the holders of the bonds didn't
real trust that, in fact, at some point the promise to pay in
gold would, in fact, be unassailed.

The experience that the French have had has been,
insofar as financial is concerned, very substantial. I don't
think that is a terribly relevant consideration. I mean,
that's basically an issue of you sell bonds not for the purpose
of making or losing money, I think you do, at least in my
proposal for the notes, to set up a mechanism for re-entry.
And I would scarcely recommend huge sales merely for the sake
of putting them on the books, because it's quite conceivable
if we continue the type of monetary and fiscal policies which
we have over the last few generations, I will guarantee we will lose a lot of money on gold notes. I don't think that it is a -- there's nothing which specifies that you either lose or gain without reference to what type of policies exist at the time.

Those notes are in -- are outstanding.

MR. PAUL: If we said five year Treasury bonds backed by gold -- and if we had a rapid increase in the price of gold; that is, say, there was a time when gold was $50 an ounce and some who were very concerned about the affairs of state here in Washington that gold would one day go to $500, and they were ridiculed and laughed at -- there are some who say today that at the rate we're going that gold will soon be $5,000 an ounce.

If this be the case, and in five years it were $5,000 an ounce, is there any possibility that our government would do exactly as they did once before and renege on their promises and not produce the gold?

DR. GREENSPAN: Well, that's certainly a possibility. I assume you're referring to the Thomas Amendment in 1933 when we outlawed the gold clause.

I think there's a very good chance of that and that's the reason why I would suspect that as soon as any evidence of that possibility arose, that the yield on gold on such notes would go above the absolute minimal of two or three
percent for the same reason that it rose in France.

MR. PAUL: I believe my five minutes is up.

SECRETARY REGAN: Thank you, Congressman. Governor Rice?

GOVERNOR RICE: Thank you.

Dr. Greenspan, I was not quite sure where you came out with respect to the gold standard. On the one hand, you said that it was probably premature to move to a gold standard, but then you outlined certain tests that could be undertaken which would test the feasibility of going on the gold standard.

Now, would I be right in assuming that those feasibility tests that you outline are policy recommendations for the present situation and would you look forward then to moving toward the gold standard?

DR. GREENSPAN: I have always favored a gold standard as an ideal monetary system. I think that a lot of the analyses of the past about its particular problems, I think, are more problems of a particular period in history than the fact that the gold standard extant.

In other words, I know -- we look at a great deal of price volatility during the gold standard period and, yet, what we were looking at were largely agricultural economies in which we were dealing with tremendous price fluctuations which still occur, of course, in the agricultural area, but it is a very significantly smaller part of our economy.
And during most of the gold standard period, much of industrial price were things like cotton textiles, which obviously also moved very closely to the agricultural system.

I would be disinclined to presume that were we able to institute a gold standard in the latter part of the 20th Century that much of the problems which existed then would continue to exist.

Now, having said that, it's one thing to look at a system in the abstract relative to all others, and I do in that sense consider the gold standard appropriate and a superior system to anything that we've been able to find.

But I think it is inconsistent with our political and social system that now exists, and the transition is something which I'm concerned will occur or somebody will endeavor to impose a gold standard on a system whose social and political institutions are inconsistent with it.

And what my proposal basically is is to specify a set of criteria which are required to be met before you go to convertibility, because if you try convertibility, in my judgment, without those -- something relevant to those spreads between fiat instruments and gold-based instruments converging to zero, you're going to run into a massive financial problem.

So, in summary, I would say that in the abstract, looking at various different types of monetary systems I would much prefer a gold system to what we have today.
I do not, however, think it is appropriate merely to assume we can reverse cause and effect and by imposing a gold standard create the type of non-inflationary environment which has existed under the system in the past.

GOVERNOR RICE: Thank you. Professor Fellner, in your statement, you said that there were certain conditions that had to be satisfied before it would be feasible, practical to go to a gold standard.

And the main one you discussed was the necessity for the real price of gold to remain reasonably stable.

MR. FELLNER: Yes.

GOVERNOR RICE: Are there any other conditions that need to be satisfied in addition to that initial one?

MR. FELLNER: Well, now, quite aside from this transition problem that raises, of course, a number of questions that we have not discussed, but leaving that aside for a moment, I think that the international character of the system needs to be emphasized.

There needs to be participation in this effort by all major -- all countries which the official agent of which hold large amounts of gold. Well, we hold the larger proportion, but nevertheless, no more than I think than 25 percent or a little less than 25 percent. Dr. Schwartz, am I right in that. Of the officially held gold -- the monetary institutions hold -- I think that's right.
I think we have about 265 million ounces, I think. And I think the monetary institutions of the world hold somewhere between 1.1 and 1.2 billion ounces.

So, obviously, there is an important implication as to the behavior of the others and that is another condition I would emphasize.

Now, it is possible to say that if works out well, if the basic conditions are satisfied, maybe one could get some agreement along those lines. And then there is the old transition problem and the problem, of course, also of how one gets back to a reasonable degree of price stability and if one tries to do that all of a sudden, in one step, which would raise a number of complicated problems, perhaps not insoluble ones, but problems which might not be met if one does this gradually.

And the re-entry problem of technical -- technical re-entry problem for gold has to do with that and with other complications.

But I would say that aside from the transitional problems, the main problem is the responsiveness of the gold output and the participation of the other major gold holding countries.

Then it would have the advantage of concentrating on a proxy for goods in general, which is always an easier thing than to deal with goods in general. But that requires that
the real price of gold should be reasonably stable.

GOVERNOR RICE: Thank you. You also, in your
statement, warned us against experimenting with schemes which
give the superficial appearance of being --

MR. FELLNER: Yes, I did.

GOVERNOR RICE: -- in the gold standard category.

But in some ways, including elements which were really foreign
or alien to the gold standard system --

MR. FELLNER: Yes.

GOVERNOR RICE: I was wondering if you were familiar
with the proposal that was presented to the Commission
yesterday by Mr. Weintraub?

MR. FELLNER: I think I know the outline of that,
yes.

GOVERNOR RICE: In which he proposed a gold cover
for currency?

MR. FELLNER: Yes.

GOVERNOR RICE: Would you consider that proposal to
fall in the category of being really foreign to the gold
standard category?

MR. FELLNER: Well, frankly, I would, yes. I'm
a little bit afraid of the following kind of consequences might
have and similar plans, perhaps, which have, for different
reasons; namely, that whether that rate of increase in the
price of gold, which is envisaged, I think, in Dr. Weintraub's
plan, is $X$ percent or two $X$ percent, it still will give the impression that the country has a tie to gold. But the consequences should be entirely different depending on whether that rate of increase in that price is $X$ percent or two $X$ percent.

And somehow it focusses on the fact that there is some sort of tie to gold, but that tie would in essence become very different if those numbers were changed and it would mislead, it would tend to mislead this superficial observer and the public at large to believing that there is there a tie to gold, whereas of the whole content of the defense on those $X$ percent by which the price of gold would be raised.

Now, I think there is little to be said for pretending that -- this system of the gold standard would be introduced by having the gold stock play this variable role and giving the impression that regardless of how you handle that variable role, perhaps the way in which Dr. Weintraub would like to have it handled, perhaps, for political reasons very differently, regardless of how you handle it, we are somehow tied to gold, whereas everything depends on how you handle that.

GOVERNOR RICE: All right, thank you.

Mr. Chairman, I just have one more question which I think could be answered quickly.

SECRETARY REGAN: Go ahead.
GOVERNOR RICE: I think I know where Dr. Jastram, and Dr. Miles, and Dr. Thompson stand. I would like to ask Professor Fellner and Dr. Williamson and Dr. Greenspan, if he feels that he's not made his position clear enough, first, whether you believe a rule is necessary to be adopted in the management of the monetary system; and, if so, should it be a quantity rule or a price rule?

DR. GREENSPAN: Any rule that's adopted is subject to change and I think that's one of the major problems, and that's the reason why I have great sympathy towards the issue that if you go to a gold convertibility standard or a full or pure gold standard, that, in fact, it becomes a private institution in that the -- aside from the legal elements involved in defining the law of contracts and defining the nature of what constitutes the appropriate relationship between the dollar and gold bullion in contract, I would say that I would think the only way to restore gold convertibility in any real and meaningful sense is probably to go to a private system.

So, in that sense, I -- on the issue of gold convertibility, if I gather your question, I'm not in favor of rules. I think the problem I have with rules is that as soon as they become politically unsatisfactory, they get changed which negates their purpose in the first place.

GOVERNOR RICE: Thank you.
MR. FELLNER: Well, I think I would be in favor of the rule. Now, obviously, no rules are here forever. But I would, I think, be strongly in favor of some rules to which expectations can adjust.

And at the present moment, I don't see any price rule that would be -- that would perform its function properly, and what I would try to do work the monetary policy tools in such a way that they should lead to nominal demand creation at a non-inflationary rate.

I would still favor gradualism with, what I call, perceptible speed, and not dramatic, one-step, big measures. I might change my mind on that if gradualism doesn't work.

But I would favor gradualism with perceptible speed and I would work towards the money creation that is compatible with non-inflationary nominal demands over the cycle.

I would favor, therefore, monetary interest and would be aware of the fact of occasionally this money progress needs to be redefined and monetary interest may have to be redefined.

But I would, indeed, be in favor of a rule in the given circumstances, in the present circumstances, that is expressed in terms of money growth targets.

GOVERNOR RICE: Thank you.

MR. WILLIAMSON: Well, I feel that I -- I'm a hopeless
middle-of-the-roader, because when it comes both of these two issues, rules versus discretion, or quantity versus price, I want to pick an answer in between.

In the case of rules versus discretion, it seems to me that what one really wants to establish are presumptions. One does, indeed, want to give some guidance of what can be expected.

On the other hand there are shops that count the anticipated in which the system which policy can react to in a way which is going to be helpful to the private sector and not to mislead it, and I think one does want to leave sufficient discretion to permit that to occur.

So, I would try to establish something called presumptions rather than binding rules, which, of course, have to be changed from time to time as those who have argued for rules have, indeed, conceded.

In the question of quantity versus price rules, I think ideally, I would like a combination of the two. I would like an exchange rate target which is a price rule, not a rigidly fixed exchange rate, but an exchange rate which can be changed for adequate reasons by a process which I've called over the years the crawling peg, and accompanying that, I would have a set of quantitative guidelines for monetary aggregates, but not specifically in the form of national money supply targets, but rather in the form of the level of credit
creations within each country, which would then add up, in the
world as a whole, to something that was consistent with some-
thing as a shorthand we can call non-inflationary full
employment, although there are times when one is not going to
be completely without inflation or completely at full employ-
ment.

But the object would be to create that adequate
level -- appropriate level of monetary growth for the world as
a whole, but not necessarily to rigidly spell out in what
countries it's to occur, because one does in this day and
age have vast shifts of funds between countries. And if
one doesn't have a system which can absorb that, then the
consequence can be to increase the rate of growth of the money
supply for the world as a whole in a way which may not make
any sense.

Well, these are, perhaps, ideas that aren't too
familiar to everyone present, but I feel I really can't go
into to much more detail at this stage.

On the general question, it's a combination of the
two that I would look for.

GOVERNOR RICE: Thank you. Thank you, Mr. Chairman.
SECRETARY REGAN: Thank you. Governor Wallich?
GOVERNOR WALLICH: I'd like to direct a question,
first, to Mr. Greenspan. These gold notes would be payable
in gold, not in indexed dollars? Do I understand that's
correct? If so, would you think they'd -- their issuance would affect the world price of gold the way, say, the sale of gold would?

DR. GREENSPAN: No, because what they are, essentially are gold borrowings, in the sense that the Treasury would borrow gold, effectively. That's, in fact, what the notes are. Now, true enough, it would proceed then to sell the gold if you were, in fact, trying to meet dollar obligations, but there is no basic net change in the supply and demand for gold under those conditions unless the U.S. Treasury starts to increase its gold stock which it could choose to do with or without those notes.

GOVERNOR WALLICH: Well, on maturity and also while interest is being paid, wouldn't there then be an increase in the non-U.S. world gold stock?

DR. GREENSPAN: Not necessarily. It depends on what the Treasury does with the proceeds of the gold involved. Remember, I'm not talking about anything other than what the nature of the transaction is. It doesn't specify whether anybody, U.S. or others, changes their net demand for gold holdings in the asset or storage sense.

GOVERNOR WALLICH: Well, if the U.S. pays out our gold for interest and later on maturity and doesn't change its stock, do you contemplate that the U.S. would buy gold in the
market to replenish its stock?

DR. GREENSPAN: It might. What I'm saying that the amounts of money or amount of gold involved, if we're assuming that the gold interest rate is approximately 2 percent, which at the moment is above where the 18 month or 21 month Arbitron shows, I mean, obviously in that sense there would be to the extent that interest -- gold interest is involved -- there would be a net depletion of gold in the U.S. Treasury stocks.

My suspicion is that the amounts involved are -- considering the volumes I would contemplate in this sort of series of notes is really of a nominal nature and I cannot conceive of it having any material effect on the world gold price.

GOVERNOR WALLICH: Do you see the low price -- interest rate on these gold notes, which presumably reflect the expected appreciation of gold, affect the interest rates in general on non-gold instruments?

DR. GREENSPAN: It shouldn't. It doesn't now.

GOVERNOR WALLICH: Could I ask a question of Dr. Fellner. You said at one point that the gold standard not accompanied worldwide going back to gold would be very difficult to implement.

MR. FELLNER: Yes.

GOVERNOR WALLICH: Now, you also have in your
document a reference to private gold holdings, if I read it correctly, about 50 percent larger in the official holdings; 1.7 billion --

MR. FELLNER: That's my understanding, yes.

GOVERNOR WALLICH: Well, wouldn't one have to suppose with such very large private holdings, even though some of it is in form jewelry, that even if you had all official gold stocks tied down somehow by fixed gold prices nationally that these private holdings could generate just the same disturbances that you see from movements in official gold?

MR. FELLNER: Well, am I not right in perceiving of it this way, that this is part of the question whether the relative price of gold does remain reasonably stable, that is to say the implication of what I meant to say was that private gold holders are satisfied with that price which the official agencies set and are willing to hold this gold at that price.

That, of course, leads into the re-entry problem. We would have to feel out that price at which the private sector is willing to hold this amount of gold, but that was so also during the era in which the gold standard worked as well as it did.

It worked, I think, quite well with the exception of certain sub-periods about which we have had a discussion
It worked reasonably well. And that meant that the private sector was willing to hold whatever gold it had at a price which -- at the price set by the official agency.

If that gets to be violated that, I think, is another way of saying that the real price then could change.

Am I wrong -- am I not answering your question, Governor Wallich?

GOVERNOR WALLICH: Well, I'm concerned with the movement of private gold in the case of a return to a fixed price of gold either by the U.S. alone or the rest of the world.

Would you say that a credible fixing of the price of gold would change the demand for gold in the rest of the world in the private sector?

MR. FELLNER: Well, say, if we coupled that with non-inflationary demand management, then I would say that it's a likelihood that the price of gold at which this private gold stock will further be held by the private sector would adjust. It probably would decline at first.

And, so, then the relative price of the gold, if it remains constant would induce the private sector to hold that same gold at that same price with a general price level reasonably constant.

If the demand of the private sector for gold declines...
or increases, given that official nominal price of gold, then
that is another way of saying that the real price is not what
it should be.

In other words, that the real price is unstable.
Tends to be unstable. Because then you have a fixed nominal
price and if given the demand management of these authorities,
the private sector wants to get rid of this gold or wants to
increase its gold then that is another way of saying, I think,
that with the general price level handled in this fashion,
that gold price gets to be too high or gets to be too low.

So, I think we are really talking about the question
whether the real price of gold, the relative price of gold
remains reasonably stable.

It does remain reasonably stable by market criteria
that is another way of saying that you can keep the general
price level reasonably stable, that demand management can keep
the general price level reasonably stable and the gold --
the nominal gold price is reasonably stable and the private
sector will be satisfied with that stock which it holds
actually.

Any violation of that is another way of saying to
my mind that the real price of gold ceases to be the right
real price by the criteria of the market. Then the market will
either try to get rid of part of its gold or will want to add
a lot of gold.
But if the real price does tend remain relatively
stable, then with the given nominal price of gold and stable
general price levels, the private sector will go on holding
what it has, or will gradually add to that, because it will
gradually add to that in a growing economy, that's why you
need flexibility of the output.

But gradually as the population of the world and
the standard of living of the world rises.

GOVERNOR WALLICH: Could I ask a question of
Dr. Williamson. You probably saw and read and also heard
Professor Fellner's statement that he wouldn't dispose of our
gold stock even though we don't go back on the gold standard.

Now, would you do what you proposed even though
the rest of the world -- that is the official holders -- kept
their gold?

MR. WILLIAMSON: Yes. I don't think I'd be unduly
deterred if the rest of the world wanted to lock up its gold.
It doesn't seem to me that that should dissuade the United
States from doing what it considered to be rational, if that
is, indeed, what it considers to be rational.

GOVERNOR WALLICH: Well, that's what I'm asking,
really. Is it rational under those conditions which are a
little different from assuming that all official holders
disposed of their gold?

MR. WILLIAMSON: Well, I would find it pretty
difficult to visualize an area in which the world returned to the gold standard without the United States taking part in it. And, therefore, it seems to me that one needn't be unduly influenced by a decision of the rest of the world on that issue.

And, perhaps, just in case that were wrong, there's still the strategic stockpile which I'm not quite sure, in my own mind, I must admit, as to what function it would be supposed to serve.

But everyone always says one needs to have some gold for strategic emergencies, so --

GOVERNOR WALLICH: Thank you. Have I used up my time, Mr. Chairman.

SECRETARY REGAN: Just about. If you have one more, Governor Wallich --

GOVERNOR WALLICH: I have one --

SECRETARY REGAN: Well, you've got one more question.

GOVERNOR WALLICH: I'd like to ask Dr. Jastram you've shown us how -- the experience of being off gold associated with rising prices, inflation and of being on gold as associated with stability, but I think you haven't told us much about the transition from one to the other.

Would it have been that countries made these choices if it hadn't have been under some very strong pressure that made the maintenance of the gold standard impossible?
DR. JASTRAM: Going off the gold standard?

GOVERNOR WALLICH: Yes.

DR. JASTRAM: They were, except for sporadic and short-lived periods -- Dr. Schwartz has pointed out to you in a very fine paper she wrote for you -- these have been associated with war time or with such revolutionary changes in the structure in our economy as, of course, the one in 1933 which took us off the gold standard all together.

So, I think that, yes, to accommodate the sort of aberration -- that's too soft a word -- of a war a release is quite appropriate.

GOVERNOR WALLICH: 1971?

DR. JASTRAM: I think that we were wrong in 1971 in going off -- in closing the gold window. I know that there are arguments on either side of that, but that is my overall reaction to that.

GOVERNOR WALLICH: Thank you very much, Mr. Chairman.

SECRETARY REGAN: Congressman Wylie?

MR. WYLIE: Thank you very much. I want to thank the distinguished panel for giving of their valuable time to try to help us with our deliberations on this difficult question. I know that you're breathing a sigh of relief that I'm down to the end here and I'll try to be brief.

May I say that the views of this distinguished
panel point up a problem to me, vis a vis the views of the panels we heard yesterday, because the experts are all over the lot.

I don't pretend to be an expert, but we have a problem of fixing a price if we go to a gold standard.

Mr. Jordan asked the panel if we could fix the price unilaterally and I think the witnesses thought that we probably could not. Although some witnesses we had yesterday thought we could. One witness suggested that we might fix the price of $42.22 an ounce which was the price when we went off the standard, whatever it was in 1971.

Another witness thought that we should fix the price at $1600 an ounce. You'll find that in the record too.

So, that's one problem. Another problem for me and is the short-fall of gold, if you please, more gold was fabricated last year than was mined. So, we would have to use some of our Treasury holdings if we went to a gold standard, it seems to me.

That brings me to my question. Mr. Fellner, you say that you are opposed and Governor Wallich got into this to the resumption of gold sales by Treasury. Is your opposition to all gold sales or would it be all right to, say, sell a small amount up to maybe $4 million an ounce per year?

MR. FELLNER: Well, I don't think I would change that program, which is after all a very small program. I think
we are talking about this medallion gold. I would not change that, because that, I think, is some sort of an announcement effect that I would want to avoid.

MR. WYLIE: That or the possibility of going to a gold coin.

MR. FELLNER: No. In other words, I would not sell more than is in this program, and this is a very small program and I wouldn't go through with it. I would not really, I think, change -- I don't know how much is outstanding there, but I think perhaps, what, three to four million ounces which are not yet sold in the form of this point -- medallions --

MR. WYLIE: Thank you. Mr. Chairman --

MR. FELLNER: But I would not go beyond that. I would not change that because that is an announcement. It would be to drive up the price of gold. There's an ulterior motive about that. And credibility is important in these matters.

But I would not, in addition to that, sell any, not sell any, not continue that program either beyond the plan for which it has been established.

And, of course, there might be emergencies in between in which one has to do all sorts of things. No decision is irrevocable in principal, but I would not plan on selling any gold in any predictable future.

MR. WYLIE: Thank you. Mr. Chairman, Dr. Greenspan
had to leave, and I wanted to ask him a couple of questions, and I wonder if they might be forwarded on to him for the record.

SECRETARY REGAN: Yes, of course, Congressman.

MR. WYLIE: One of them was relating to what some witnesses said yesterday. Dr. Solomon emphasized this point that our future is quite uncertain.

Certain nations have sufficiently higher regard for our goal that we may need our gold at some later date. And Dr. Solomon says he doesn't see any reason why gold should be burning a hole in our pocket that we ought to leave it in stock.

Do you think that we should follow or maintain policies which would maintain rather substantial gold holdings? I might ask you that, Dr. Williamson. You touched on that a little while ago and I want to ask that of Dr. Greenspan.

MR. WILLIAMSON: As to whether it would be appropriate -- I mean, the basic question is whether one sees any future monetary role for gold.

If one answers that question in the negative, then it seems to me that there's really no case for holding substantial stocks of gold, and the question is how can it be made best use of, and I think that the answer to that is essentially that one tells the Treasury to sell in a way which is going to maximize the value to the U.S. taxpayer.
GOVERNOR WALLICH: Are you saying, Dr. Williamson, that regardless of the effect on the U.S. reserve position, if the U.S. were to sell gold for dollars and, therefore, have what it now has in the SDR IMF position and so forth confronting no matter what contingency?

MR. WILLIAMSON: Well, I must admit that I'm having difficulty envisaging what contingencies one is thinking of. Dollars are a pretty acceptable asset to the rest of the world for most purposes.

GOVERNOR WALLICH: Thank you.

MR. WYLIE: I might also ask Dr. Greenspan -- he said also he might favor some sort of a private system, a private gold standard system, and I wanted him to explain that a little bit more in detail for me.

Dr. Miles has mentioned Dr. Weintraub's proposal as not being workable. Dr. Fellner didn't think it was workable. It has been given a considerable amount of credibility in that it was printed as a part of a Joint Economic Committee Report.

I guess, Dr. Williamson, you didn't think it was workable or feasible.

I was going to ask that also of Dr. Greenspan. He hadn't commented on Dr. Weintraub's proposal.

MR. WILLIAMSON: No, I'm sorry, my position is not that Dr. Weintraub's proposal is not feasible, I think it's
perfectly feasible, I don't think it adds anything. I think
the -- I don't think the gold element adds anything. I think
it's purely cosmetic.

And then one has to ask the question, does one
believe that one can influence expectations through cosmetic
devices of that sort.

Now, I cannot swear that that never happens, on the
other hand, it's not a position that I would have to care to
defend, that simply by saying that these dollars are backed
by gold that, thereby, all of a sudden the public is going
to say, wow, inflation is over.

MR. WYLIE: Thank you.

Dr. Jastram, you said you didn't know of a case
when real wages declined under a gold standard or under a gold
system. Would that be true of the period between 1929 and
1933?

DR. JASTRAM: I'm sorry. I wasn't denying that it
ever happened, I just said, in my recollection at the moment,
I couldn't come up with such a period. You may very well be
right.

MR. WYLIE: I think I may be right that there was
a period when that did happen.

DR. JASTRAM: Well, I'm not prepared to argue that.

MR. WYLIE: Mr. Thompson, my visceral reaction that
your proposal was a little bit like Dr. Paul's in that you
I certainly blinded me with footwork with it, I would have to say that, but the Gold Commission was set up to look at the role of gold and not the role of labor in our monetary system. It seems to me as if you have injected a new cross-current here.

I think that we may have enough -- an insufficient time with the challenge given us looking at the problems of the role of gold and that we may not have the time to look at the problems of labor exchanges or labor bartering or a moneyless society, vis a vis labor.

Have I interpreted what you're saying correctly?

MR. THOMPSON: No, not at all.

MR. WAYLIE: Not at all.

MR. THOMPSON: That's my fault. No, I'm saying -- it's a gold standard, o.k., it's a flexible gold standard because you're --

MR. WYLIE: You're proposing a gold standard.

MR. THOMPSON: A flexible gold standard where you vary the amount of gold you give somebody depending on the --

MR. WYLIE: On the amount of labor.

MR. THOMPSON: On the amount labor, yes. So, that the dollar will always buy a fixed amount of labor, but it's still a gold standard. There are standard suggestions that we tie -- if we go back to a gold standard that ties the value of gold to an index of commodities, and I'm arguing that you
don't want to tie to it an index of commodities, because there's a lot of variation of that index of commodities to labor, like price variations.

So, to get around that objection, which has been proposed in very subtle forms by Irving, Fisher and Newcomb -- to get around that you -- say, all right, we're going to have a defectless system here, we can really rely on the free market -- just make the convertibility so that gold convertibility or substitute to gold convertibility so that you can buy a unit of labor. It's an indexing proposal.

Now, the extreme benefit of this -- and that's why I sound extreme -- the extreme benefit of this is that this is a rule that you don't have to change. It's not like the panel has been talking that it's a rule that has to be reviewed, it's going to be strained and all that.

It's not going to be strained. There's no strain in it, because it doesn't create business-cycle problems or inflation problems.

The only problems it creates is a war finance problem and there's no problem with post-war adjustment, so you just go right back on to it automatically.

It's a system that gets rid of the authorities and I believe that's why authorities don't like it. I believe that if you went around and you talked to monetary authorities around this country, they'd say that's a hair
brained scheme without thinking about it for ten minutes.

I'll bet -- you know --

MR. WYLIE: Let me say it's unique and I'll have
to think about it for a little more than 10 minutes.

MR. THOMPSON: It's independent of rule changes and
authorities. That's a very important aspect of the system.

MR. WYLIE: I'll take a look at it.

Dr. Williamson, on Page 6 of your testimony, you
refer to selling gold to the United States public at a rate
calculated to maximize the next present value to the U.S.
taxpayer. Would you elaborate a little on what you have in
mind there, please?
DR. WILLIAMSON: I am not an expert on the gold market. It does seem to me that if one is thinking of selling gold, then the appropriate criterion, given that it's publicly owned gold, is that of the taxpayer.

I mean if one dumped all the gold on the market immediately, then one would presumably drive down the price a long way in the short run. The taxpayer wouldn't get very much.

On the other hand, if one sells it off at a very, very slow rate, then, once again, that's not likely to be optimal. All I'm saying there is that in deciding where, between those two extremes, would be the appropriate policy, the criterion that one should attempt, that one should regard as relevant, is that of how much the taxpayer is going to be saved rather than trying to play some monetary gimmicks in the process or rather to hurt gold speculators.

Criterion of that sort seem to me to be inappropriate.

CONGRESSMAN WYLIE: Thank you. Thank you very much, Mr. Chairman.

UNDER SECRETARY SPRINKEL: I understand the questioning has gone completely around. Are there other questions of the panel? Yes, Congressman Paul?

CONGRESSMAN PAUL: This I want to direct to Dr. Williamson. It has to do with the IMF gold.
You state pretty strongly that this gold should remain where it is or we should give it to the Third World nations. Of course, I've taken a position contrary to that. The argument you give is that they've been made victims of our inflation. In some ways, we have exported our inflation. There is no doubt about that. You claim in 1969, if the Third World nations, the non-oil developing countries, had converted all of their foreign exchange reserves, they could have done a lot better by hanging onto them.

One thing that I think has to be made perfectly clear is that if not all, most of those dollars, arrived in those Third World nations through give away foreign aid programs that we've had.

I think your supposition is based on a concern that is not justified. The concern that I have as a U.S. Congressman is the concern for the real victims -- the American victims.

There was gold confiscated from them in the 1930's at $20 an ounce. It ended up in the hands of international bankers. Now we distorted it, grant it, by the inflation of the dollar. Some other people suffered some consequences.

The real victim is the American taxpayer. To me, you compound this. I'm just wondering how you can qualify as a non-American who advocates internationalism, how you can
in any way represent what is best for the American citizens and what we should do with American gold.

DR. WILLIAMSON: Well, you had several points. Let me see. The assertion that's being made is that many countries did receive quite distinct pledges and also a certain amount of pressure from the United States in order to adopt certain policies.

Those policies did in fact prove unwise there. Now, that's by no means a unique situation. I absolutely take your point, that one can make the same sort of complaint about those U.S. citizens whose gold was confiscated in the 1930's.

One can make the same sort of complaint about those who have lost out in the process of inflation over the years. One can also say the same thing about other countries who didn't in fact exercise their legal rights of gold conversion in the later years at Batten Woods.

I absolutely would not attempt to deny that. Nevertheless, it does seem to me that when one is discussing questions of income distribution, the distribution affects inflation. We do accept a principle at the national level that those least able to bear the consequences of inflation in general receive some sort of compensation for the hurt that they suffer.

At the international level, the consequence is -- the implication is to try and do the same thing. The
mechanism is there. As for pitching to the United States as to whether that's an appropriate policy or not, I am saying that I think that there is a case to be made on grounds of equity for considering that position.

Of course, I am not in a position to say what should happen at the end of the day. If I sounded as though I were, I apologized.

CONGRESSMAN PAUL: Is it true that the Third World nations got a lot of their dollars through foreign aid programs and give away dollars that came from the American taxpayer?

DR. WILLIAMSON: It is certainly true that many Third World nations have received aid over the year. Had they not received those aid programs from other countries as well as the United States, then their liquidity position would probably have been worse in 1969.

Therefore, they would have -- The figures that come out from this particular type of comparison would not be as big. Of course, once again there is no perfect rendering of what is equitable and what isn't.

It seems to me that the fact that there are no absolute standards here doesn't absolve one from the duty of asking whether some sort of justice may not be possible.

CONGRESSMAN PAUL: I have a short question for Dr. Miles, if I may. In the system that you propose, I am
interested to know whether you mentioned and I missed, possibly, the subject of monetization of debt. Would you eliminate that from the system? Will you still consider to allow us to run up deficits and allowing the Federal Reserve to monetize debt?

Would we have to cancel that out?

DR. MILES: Well, the Federal Reserve would be allowed to monetize debt to the extent that it would not distort the price rule.

The price rule governs the monetization of the debt that the Fed would be able to do. If it overmonetized the debt the price of the dollar would fall, or the value of the dollar would fall. Hence, they would be forced to reverse that operation.

CONGRESSMAN PAUL: Thank you.

UNDER SECRETARY SPRINKEL: Dr. Schwartz, you've been very patient. I understand you have some questions you would like to address to the panel?

DR. SCHWARTZ: I'd like to address my question to Dr. Jastram and at the same time say something to Congressman Paul who has asked a question about real wage rates or real earnings.

What was your question?

CONGRESSMAN PAUL: Real wage.

DR. SCHWARTZ: Real wage.
CONGRESSMAN PAUL: Which has gone down 15 percent in the last year.

DR. SCHWARTZ: Real wages. You're basing that conclusion on what theories?

CONGRESSMAN PAUL: Not on any theories, but a --

DR. SCHWARTZ: Not theories, but what measure?

CONGRESSMAN PAUL: I believe that the chart that was made up and came from statistics from the U.S. Labor Department. I believe it included the loss of purchasing power of inflation plus taxes.

DR. SCHWARTZ: Yes. I would like to call to your attention before I turn to Professor Jastram. The BLS acknowledges that that is a defective theory. It is not based on worker characteristics of a worker with three dependents. That series is constructed from an average of weekly earnings of full-time workers and part-time workers.

The nominal weekly earnings are pooled down by the averaging in of part-time earnings. From that average weekly earnings, the BLS then deducts withholding and Social Security for a worker with three dependents. Then it deflates that series by the consumer price index.

There are articles in the Monthly Labor Review which I call to your attention which point out that there is a very substantial divergence of that series from a real
personal disposal income series. The explanation that BLS offers is that its own series is defective. It does not measure what the title of the series purports to tell you it measures.

I would not conclude, on the basis of that series, what has happened to real earnings.

CONGRESSMAN PAUL: Just in answer to your criticism of that study, I would first claim I am not an economist. I would not want to get into an economic debate. I would certainly need some help to defend this from an economic analysis viewpoint.

As a member of Congress and one who deals in the political world, I think you'd have a hard time selling that story to the American public. Everybody knows their standard of living is going down. The real wage is going down.

Their dollar isn't worth much. They can't buy anything. They can't buy houses. They can't get a car. So, that chart fits my interpretation of what's happening in this country today.

I would say that from that viewpoint, I can defend it very strongly but will work and use those same statistics and answer back. I would not claim to do that right now.

DR. SCHWARTZ: Well, it's not my purpose to dispute that there may be a finding that real earnings have declined, but simply that you cannot base such a conclusion on this series.
To turn to the point that Professor Jastram raises in his prepared statement about some fallacies that have been propagated in the sessions here.

He challenges my use of real per capita income as the measure of economic well being over the period from 1870 to date because he feels that it gives a biased view of what happened under the gold standard. That this measure of economic well being presents a picture too favorable to the post-gold standard period.

It was certainly not the objective in presenting the chart based on this measure. It --

DR. JASTRAM: Of course not. I never meant to imply its --

DR. SCHWARTZ: I know. I know. That's right. But I would certainly disagree that preferable to that measure is manufacturing production.

If there have been structural changes in this country, it has certainly been that the share of manufacturing production in total income produced in this country has declined progressively.

If you wanted to slant the result to favor the gold standard period, that is precisely the series that you would choose. As I say, there may be problems with real per capita income series, but it is not going to be the -- those problems are not going to be solved by substituting for it a
less desirable measure of economic well being.

DR. JASTRAM: May I say there that since you have read my testimony which I did not vocalize, that I might point out that I myself made the very same criticism of manufacturing production.

DR. SCHWARTZ: Yes, I know. It just strikes me that if you are going to say that this series is not a perfect measure and then you suggest an alternative which is also not a perfect measure, then --

DR. JASTRAM: Which I said.

DR. SCHWARTZ: Yes. Then one has to choose. I --

DR. JASTRAM: I also said that unfortunately, there is no perfect measure over such a span of time.

DR. SCHWARTZ: That's right. For Professor Miles to tell us that there are problems in constructing measures of the money stock, you can say that about any economic data that we have.

It has to be collected from lots and lots of sources. There are all sorts of possibilities of error. I mean, this is not really a comment that in any way enables one to form a judgment about the usefulness of the measures that we have.

DR. MILES: Well, we have problems in collecting quantity data. That is absolutely true.

DR. SCHWARTZ: We have what?
DR. MILES: Quantity data. Where we have wealth formulated financial markets, we have no problem at all in collecting data on the price of dollars in terms of gold.

That comes across the ticker tape every instant of the day. It's a much easier source of data with less chance of error to use for policy formulations. All the Central Bank has to do is look at the price in terms of gold.

It knows that it has intervened enough into the market as long as that price is stable. The market knows whether or not the Central Bank is playing by the rules. All it has to do is look at that ticker every minute of the day.

DR. SCHWARTZ: That price index that it's going to be guided by -- I mean, the argument cuts both ways. It's going to be collecting prices which are going to guide it.

DR. MILES: We have well formulated markets for collecting the price of gold or the price of other commodities traded in financial markets.

DR. SCHWARTZ: What is your rule? The price of gold in the private market or is it the price of commodities?

DR. MILES: It could be the price of gold. It could be the price of silver. It could be the price of wheat. Theoretically, we could use any commodity to back the dollar.

I happen to think that gold is the best commodity to use.

DR. SCHWARTZ: I might have missed something in
reading your suggestion to how the Federal Reserve was going to manage this system. What is the dollar price of the standard? Is that the dollar price of gold? Or is that the commodity price index?

DR. MILES: The dollar price of gold. The Fed would pay the dollar to gold at a specified market price.

DR. SCHWARTZ: So that for example, until 1968, when the dollar price was pegged at $35 an ounce, there would have been nothing for the Federal Reserve to do during that interval, during the period of --

DR. MILES: No. Of course the Federal Reserve has to intervene. The Federal Reserve's job is to maintain the stability of the dollar in terms of gold.

It intervenes when the price of gold rises in terms of the dollar, that tells us there is an excess supply of dollars. Then the Fed intervenes to buy back dollars in exchange for gold. Conversely, if the price of dollars falls.

DR. SCHWARTZ: How would that have been a guide to the Federal Reserve up until the closing of the London gold market?

DR. MILES: As long as the price was stable, the Federal Reserve would have known that it had intervened correctly. If the price continues to deviate from the fixed price, then the Fed knows that it has to intervene more.
There is no guess work involved in how much
intervention. It knows when to stop. When the price is back
to the specified value.

GOVERNOR PARTEE: We're looking at the free market
price of gold; is that right?

DR. MILES: That's right. It's a completely
convertible system.

GOVERNOR PARTEE: It's not a fixed exchange rate
system. Your objective is to have a constant price without
the conventions of the definition of gold or dollars in terms
of gold and all that?

DR. MILES: Right.

GOVERNOR PARTEE: Dr. Schwartz' point was that as
long as the original price was $35 or whatever, it didn't
differ from that. You were able to keep it there even with
the gold pool for quite a few years.

In a free market, if you're looking at the free
market price as your index, why one could look at it as an
index of whether to buy or sell.

DR. MILES: The London gold pool, as I understand
it, intervened into the free market to keep the price of gold
stable.

GOVERNOR PARTEE: To keep it stable.

DR. MILES: Yes. I'm sorry, perhaps I'm missing
where we are differing.
DR. SCHWARTZ: I'm missing something, too.

DR. FELLNER: May I ask a question in half a sentence? I'm assuming that the price of gold will remain reasonably stable relative to other prices. Would you be satisfied with the system that stabilizes the price of gold, but brings about steep changes in the general price level all of the time? That, I think, is the essence of the matter.

DR. MILES: Okay. The problem is in terms of the trade problem. The problem isn't the value of the dollar in terms of gold. We can set up a system which can stabilize that. That can be done.

The problem is what happens when the price of one commodity changes in terms of another. You have that problem irregardless of what system you have.

DR. FELLNER: No, no.

DR. MILES: There is, as I said, no perfect system. We're talking about which system has fewer defects. I would say that if we were going to have a quantity system, we can't even measure the quantity of money. How can we have a quantity rule?

We can't measure the demand for money. How could we have a demand rule system? The only thing we can really measure is what we can pick off the markets, which is the value of money. That dictates that we have to have a price rule.
UNDER SECRETARY SPRINKEL: Are there any other questions?

[No response.]

UNDER SECRETARY SPRINKEL: I apologize for missing much of this meeting. Obviously, it was a very interesting one. If all of the questions are ended, we'll take a break of about an hour and ten minutes and resume back here at two p.m. Thank you, very much.

(Whereupon, the meeting was recessed at 12:50 p.m., to reconvene at 2:00 o'clock p.m., at the same location.)
AFTERNOON SESSION

(2:00 p.m.)

UNDER SECRETARY SPRINKEL: We have a panel this afternoon with five gentlemen and a lady. We'll stick to the same ground rules we've had. Each of the testifiers will have an opportunity to present their ideas in summary form. Their total text will be made available in the record of the Commission. Then we will start the questioning after each of the six have presented their testimony.

We are going by alphabetical order, as you may have noticed. Dr. Richard Cooper from Harvard University and recently of Washington is invited to be the first. Dick?

STATEMENT OF DR. RICHARD COOPER

DR. COOPER: Thank you, Mr. Chairman.

The idealized gold standard as it appears in textbooks conveys the sense of automaticity and stability. A self correcting mechanism with minimum human intervention which assures rough stability in prices and balance in the international payments.

The actual historical gold standard could hardly have been further from this characterization. You must first appreciate that the major countries of the world were on the gold standard proper only from the 1870's to 1914 and briefly during the late 1920's and early 1930's.

The first period went down in history as the Great Depression until, that is, the second period came along
to exceed it in depth and severity. In hindsight, the period of the late 19th Century actually looks somewhat better than it did to contemporaries of the period.

The last third of the 19th Century was a period of unprecedented controversy over the monetary standard in the United States. First, over the resumption of gold convertibility at a fixed price for the greenbacks issued during the Civil War. Then over the monetary role of silver.

Legislation was almost constantly before Congress to change monetary relationships. The year 1896 saw the only U.S. Presidential campaign devoted to the issue of the monetary standard.

We know in the light of history that most of the attempts to alter monetary relationships and to dislodge the U.S. from a gold standard failed.

The point I am trying to make is that the issue was a source of continual turmoil and uncertainty, not serene stability. Moreover, even with the gold standard functioning in the United States after 1879, price stability was not assured.

Price movements, as recorded by the Warren and Pearson Index, were substantial during this period. If we take a longer period, we can show price stability in the sense of a return to earlier levels of prices. I've circulated a table called Table 2 which shows price movements...
in four countries — the United States, Britain, Germany and France — during the century 1814 to 1913.

What Table 2 shows is that cumulative price movements from peak to trough and from trough to peak, including the U.S. Civil War, led to first a roughly 50 percent decline in prices from the highs of the post-Napoleonic period to 1849, then a rise of about 50 percent again as a result of the gold discoveries of the -- around 1850.

Then the price declined again, roughly 50 percent, until the mid-1890's and then rose sharply again in the two decades before World War I.

This is hardly a pattern of stability -- even long term stability. Although there were long periods of substantial price declines as well as large increases, the swings are so long in duration that they can hardly have offered much comfort for any but the longest term financial contracts, and then only because of the accidents of war or discovery.

These variations in prices were partly due to swings in new gold supplies. They were also due to changes in the relationship between money and economic activity. Most importantly, they were due to variations in non-metallic sources of money, especially bank deposits which grew enormously in the United States, over 1200 percent, between 1879 and 1913.

The phenomenon was not limited to the United States.
Table 3 shows -- which should also be before you -- shows the growth in various forms of money in the major industrial countries. The three countries are Britain, the U.S. and France and then 11 countries which include all of the industrial countries between 1885 and 1913.

1885 was the first year for which comprehensive data are available. Monetary gold during this period grew 120 percent. Demand deposits, in contrast, grew 400 percent and rose from 39 percent of the money supply at the beginning of the period to 63 percent at the end.

Private banks thus responded to the need for additional means of payment. Let me turn from this very brief historical sketch to the contemporary setting where I think there are, broadly speaking, three kinds of roles that gold might play in the U.S. monetary system.

First, it could be required as backing for some portion of domestic monetary liabilities. For example, currency or currency plus bank deposits with the Federal Reserve Banks as was the case up until 1969.

Second, it could be fully convertible at a known price into dollars for foreign monetary authorities. This was the regime that prevailed from 1935 to 1971. Third, it could be fully convertible into currency or other acceptable means of payment at a fixed price determined by the U.S. government as during the period I was just talking about, 1879.
to 1933. The government would buy the gold offered to it and
sell the gold asked of it against acceptable means of payment.

In the late 20th Century, the rationales for these
alternative monetary roles for gold are very different.
Unfortunately, they are in conflict.

The first role, some kind of gold backing for the
money, would serve the dual purpose of giving part of the
public confidence in the currency that they know lack and to
exercise restraint on the growth of the money supply or at
least that portion of it that is linked to gold.

To serve this objective requires a binding link to
gold and a steady, predictable accretion of monetary gold to
permit secular growth in the supply of money.

Such growth would presumably best be provided by
purchases of new gold by the monetary authorities. Such
purchases would evidently have to be at fluctuating market
prices for gold, thus creating a problem for the valuation of
the existing and steadily rising gold stocks.

It would be possible, although somewhat cumbersome
and artificial, to create a buffer account between the
periodic purchases of gold and the formal monetarization of
gold in order to insulate the latter from erratic market
price fluctuations.

A link to market gold, in short on this use of
gold, would have to be attenuated in some way in order to
provide the steady monetary discipline that provides the rationale for gold backing.

Moreover, unless the link to markets is completely severed, as it is at present, revaluation of monetary gold could bring it into closer adjustment with market prices and would greatly expand the value of monetary gold which unless carefully and persuasively handled, could provide so much room for monetary maneuver that the desired discipline would be entirely lost.

The second kind of role for gold, convertibility into dollars held by foreign monetary authorities, operates on a quite different principle.

Monetary discipline would be imposed in the United States through its balance of payments and the willingness of foreign central banks to accumulate dollars.

If in their judgment foreign authorities had accumulated excessive dollar holdings, they would convert the excess into gold. The U.S. would have to take whatever steps were necessary to reduce the rate of accumulation to acceptable levels or alternatively, suspend convertibility, as it did in 1971.

The difficulty with this commitment for the United States is at the end of 1980, there were already around $250 billion in the hands of foreign monetary authorities. An additional $790 billion, give or take several tens
of billions, in dollar deposits outside the United States. If present U.S. gold reserves were valued at current market prices, they would come to $110 billion, a sum that might be deemed adequate to cover possible gold conversions from existing official dollar holdings but would be totally inadequate to cover conversions of dollars held outside the United States that might end up in the hands of foreign monetary authorities as a result either of their own policies or other events external to the United States.

For example, a decision by OPEC to invoice oil in currencies other than the U.S. dollar. This contingency could of course be handled by placing a much higher value on the monetary gold held by the United States.

If it were to do so, the United States would have to decide whether it was willing to buy gold from other monetary authorities at the much higher price. Also, whether monetary authorities -- in this instance -- would include those of the major gold producing countries.

If the gold were valued at a price high enough to cover the contingency of massive conversions into dollars, it would be so abundant as to fail to provide any monetary discipline at all.

Moreover, a much higher than market price would require close policing to prevent nonmonetary gold from entering the monetary system or, alternatively, nonmonetary
gold would be taken in in such abundance as to undermine monetary discipline.

The same problems as arise in the second role for gold arise with even greater force in the third type of role for gold. That is convertibility into dollars at a fixed price for all parties, private as well as official.

In periods of political and economic calm around the world, the conveniences of paper money and deposits would dominate behavior. In periods of uncertainty and political turmoil, many would convert to gold at the expense of official gold holdings an incredible re-establishment of gold in the monetary role -- in this monetary role.

It would therefore require ample gold reserves to cover the contingency of large scale conversion. But, as before, gold reserves valued at a price high enough to provide this assurance would by the same token exercise no effective restraint on monetary policy in the short and medium run.

Monetary policy, to be disciplined, would have to be discretionary as it is today. There is another disadvantage with reinstituting gold in a monetary role that is in any way linked to the market for gold directly or indirectly.

The principal producers of gold in the world, together accounting for nearly 80 percent of world production are the Soviet Union and the Union of South Africa. Both
countries exercise considerable discretion in the amount of gold they actually put onto the market rather than allowing competitive market incentives to prevail.

Both are, although to be sure in very different ways, at political odds with other members of the community of nations. To restore an important monetary role for gold in any form with links to the gold market, it would simultaneously provide a windfall of considerable magnitude to those two countries.

Every $100 per ounce of the price is worth about $1.2 billion to the Soviet Union and $2.2 billion to South Africa on current output.

Equally important or perhaps more important would also place the monetary system of the United States and the West at large hostage to political decisions in one or both of these countries.

For the reasons given above, a credible regime of gold convertibility would require a substantial increase in price above the current level.

In sum, the choice of a price of gold plays a central role in the viability of any restoration of gold to the monetary role. Yet the choice of a price, while crucial, is arbitrary and is known to be arbitrary.

So long as this is so, a rule based on the supposedly fixed price of gold cannot be a credible rule by
virtue of the link to gold. The situation gets economically or politically difficult. The price can be changed. That is widely known. Indeed, it is intrinsic in the process of setting the price of gold in the first place.

In this respect, the situation now is fundamentally different from what it was in the 19th and early 20th Centuries. Then, the dollar price of gold was a historic given and not generally open to question except for minor adjustments on several occasions to preserve a relationship to silver.

The price was not conceived as a policy variable. Now, it is a policy variable and indeed has to be. A monetary role for gold loses its disciplinary function if its price can be varied.

So long as the price of gold is a policy variable, the gold standard cannot be a credible disciplinarian. It provides no escape, therefore, from human management.

Thank you, Mr. Chairman.

SECRETARY REGAN: Thank you, Doctor. Mr. Davies?

STATEMENT OF MR. RICHARD DAVIES

MR. DAVIES: Secretary and Members of the Commission, the subject of my presentation is Facilitating the Options of Using Gold as an Auxilliary Currency.

The Gold Institute, l'Institut de l'Or, is the developmental, technical and industrial information 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 advantageously 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". I would like to add my great appreciation for the devotion shown by the members of this Commission to the important problem before the country and before the world.

I am sure that your colleagues and your families often inquire, "Have you made progress?" I can give you an answer that you can say, "Yes, we have."

In fact, you can illustrate it by the story of the two hunters who went to the remote lake in Canada reachable by a small airplane. When they got there, they told the pilot to come back in three days after their hunting.

So, he did. Meanwhile, they had shot a moose. So, they said to the pilot, "Help us get the moose into the small airplane." He said, "No way. I can take you or I can take the moose, but there's no room in this small airplane for both."

The hunters said, "Well, the pilot we had last
year was willing to take us and the moose." So the new pilot said, "Well, if he was, I'll try."

So, they got into the airplane, including the moose. The pilot took off, bumped along, cleared the low underbrush and got as far as the tops of the pine trees at which point, the small airplane stalled. All tumbled to the ground among the trees.

One of the hunters, dazed, said, "Do you know where we are?" The other hunter said, "I think we're about 250 yards farther than the pilot got us last year."

[Laughter]

MR. DAVIES: So that progress is something that you can report on. It seems to me that in the monetary situation, we have to begin with where we are, which is in the middle of the woods.

My very dear friend, Dewie Dane, who was Henry Wallich's predecessor in a key point of the Board of the Federal Reserve, has explained to me the errors that could have been avoided and the situation that could be better now if they had, 14 years ago, done it differently.

We've heard in this room not one but many descriptions of the errors that have been made in the past. Nevertheless, we must start where we are and get out of the woods. The excellent historic summaries of previous monetary systems which have been researched and presented by
Dr. Schwartz and by the Secretariat of this Gold Commission are of great value in developing recommendations for what should be done now with respect to gold, beginning with the situation as we find it today.

For this, I suggest that we must recognize that each nation of the world has sovereign responsibility for its own economic and governmental activities, for issuing its own currency and for determining the characteristics of that currency.

Trade and financial relationships between the nations require exchange rates between the various currencies. At present, these exchange rates are generally of a floating nature with only modest and temporary interventions to interfere with their free movement.

It is recognized that sometimes economic and governmental policies of one nation result in a currency becoming nearly constant in its purchasing power; whereas, another nation, either contually or temporarily, follows economic and governmental policies which result in its currency having a steadily declining purchasing power.

In such cases, the value of this second currency must decrease in relation to that of the first. Also, in relation to gold as an independent currency.

The real change in these relative values is inexorable. If a government or even a whole group of
governments attempts to deny this change by regulations or legislation to set up an arbitrary value for the depreciating currency, the real exchange rates insist on expressing themselves even if through black markets inside a country of the more rapidly depreciating currency or through free markets in other countries.

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. An example of this in Brazil, which is our friend and almost as large as some of the nations that we're dealing with in Europe.

For half a century, the purchasing power of the Brazil units of currency has been continually decreasing by 20 percent to more than 50 percent each year. The value of today's Brazilian cruzeiro expressed in Swiss francs or dollars or gold is less than one-thousandth of what it was 30 years ago.

Our Brazilian friends tell us that at the present rate, it will be about one-thousandth of its present value about 30 years from now.
The Brazilians have survived for many decades with a traditionally depreciating national currency, just as the United States did survive 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. 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 currency is useful.

In Brazil, the auxiliary currency for two generations was the United States dollar, equivalent to one thirty-fifth ounce of gold. In the United States greenback 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 bullion bars, bullion coins, medallions, and other gold pieces of precisely marked purity and weight.

Just as the overwhelming proportion of transactions in the United States in the years following the Civil War were carried out in greenback dollars and in Brazil most transactions have always been in cruzeiros, so in the United States at present the overwhelming proportion of transactions are, and will be, carried out in current dollars.

However, while the United States is in this period of depreciating value of its national currency, gold is most useful as an auxiliary currency for some governmental transactions and for some private transactions.

With regard to gold for governmental use, it should be noted that gold at its present market value represents well over half the foreign reserves which the governments of the world hold in readiness for transactions among themselves.

The United States is in the fortunate position of holding more gold than any other government. Residents of the United States, recently estimated at eight million individuals and companies, have large amounts of gold bullion, coins, medallions and precisely marked pieces in what might
be called their private reserves. These are available for various transactions in which the payer and the receiver wish to use gold as an auxiliary currency.

An example of the 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 that is, quarter ounces of gold, the then auxiliary currency for both the United States and Denmark.

Likewise, in Brazil, as many of us know, there are many productive operations which have been made possible by dollar financing with corresponding repayments in dollars. During the Bretton Woods agreement period in Brazil, there were times when the annual interest rate for dollars was six percent, while the annual interest rate for cruzeiros was 40 percent. Today, a typical cruzeiro interest rate is 65 percent per year.

Examples of the use of gold as an auxiliary currency in the private sector in 1981 include the payment of dividends in the form of metallic gold by Ranchers Exploration and Development Corporation, Albuquerque, New Mexico, RefineMet International Company, Woonsocket, Rhode Island; and Peregrine Petroleum Limited in Calgara, Canada;
and a 3-1/4 percent, 15 year bond issue with both principal and annual interest payable in metallic gold.

This is an issue of the RefineMet Corporation. These RefineMet bonds are traded now at prices related to current gold bullion prices with a yield of about 3-1/4 percent. The trustee is Continental Illinois National Bank and Trust Company of Chicago.

The securities firms involved included Drexel Burnham Lambert, 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.

For the further convenience of those who wish to use gold as an auxiliary currency, international bullion dealers such as J. Aron and Company, Inc., Mocatta Metals Corporation, Sharps, Pixley Incorporated, Bache Halsey Stuart Metal Company, Gerald Metals, Samuel Montagu Limited, Tanaka Kikinzoku Kogyo, will hold gold for a customer in the form of bullion or coins and transfer it as directed.

An important means of transfer, perhaps of interest to Secretary Regan and Under Secretary Sprinkel in their visit tomorrow toward China, is that one of the most useful means of transfer of gold is the Chinese Gold and Silver Exchange Society based in Hong Kong, which together with the European and American gold markets, maintain a 24 hour a day constant market in gold. This Chinese activity is
one of the most important in the world of gold today.

Also, leading banks provide customers with certificates of gold deposited with them. Among these are Citicorp, Rhode Island Hospital Trust National Bank, the Bank of Nova Scotia and Canadian Imperial Bank of Commerce.

For example, when a customer deposits metallic gold with Citicorp, he receives a certificate showing the amount in thousandths of a troy ounce.

If he wishes to pay a specific amount of the gold to someone else, he so directs on the back of the certificate. Citicorp issues a new certificate for the amount transferred to the payee and another new certificate to the original holder for the remainder.

The United States 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 United States private citizens and corporations to use gold as an auxiliary currency.

One helpful step to be taken now for this is to streamline the method by which the current one ounce and half ounce gold medallions are being made available to United States citizens and corporations in return for dollars at prices related to the daily world market exchange rate between gold and the dollar.

An important supplement to this might be for the
government to make similarly convenient arrangements to pay
dollars for any of the medallions turned in at prices
related to the dollar versus gold exchange rate on the day
of that transaction.

Some post offices which regularly handle postal
money orders or some Federal Reserve member banks which
regularly handle foreign exchange might most readily provide
either or both of these services.

Special attention should also be given to the
minting of gold coins, in addition to the medallions already
authorized, as is now being proposed by Senators Symms,
Goldwater, Helms and McClure, and by Congressman Crane, in
bills which are before Congressional Committees represented
in this Gold Commission.

Encouragement could also be given to financing
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 examples of the beneficial uses of
auxiliary currency to accomplish this in other countries.

We appreciate the opportunity of presenting our
observations, and continue to be at the disposition of the
Gold Commission.

SECRETARY REGAN: Thank you, Mr. Davies, an
interesting presentation. Dr. Dornbusch.

STATEMENT OF DR. RUDIGER DORNBUSCH

DR. DORNBUSCH: Mr. Secretary. Lack of fiscal discipline, high real interest rates and persistently high inflation, all draw attention to disarray in our macro-economic policies.

The present Enquiry on the Resumption of Specie Payments is an important opportunity to look for more coherent policies and for institutions that might protect this target.

In my remarks, I will argue three points. First, that the historical experience in no way warrants the belief that a gold based currency would give us macroeconomic stability. Second, that if there is no monetary role for gold, we should denationalize the federal gold stock and use the proceeds to retire debt.

Thirdly, that it is a good time to adopt a formal monetary rule which, in conjunction with other measures, can promote stability.

If I may direct your attention to my statement, on page 2 I present some evidence on the gold standard. The common belief, which Dr. Schwartz has already criticized in her paper is that the 19th Century gold standard was a period of unrivaled stability.

It is true that inflation averaged in very low numbers, less than one percent. It is also true that there
was substantial short run instability. In my paper, I show that average growth was less during the gold standard than in the last 20 years.

More interestingly, unemployment had more than three times the variability than it has now. Inflation had higher variability then than it has now. Money growth had more than three times the variability. The real interest rate was four times as variable then as it is now.

I'd like in particular to draw your attention to the real interest rate. On page three in my statement, I show averages of real interest rates. This is the ten year average, not short run fluctuations.

The ten year real interest rate in the 1880's was more than seven percent. We have had seven percent real interest rates recently and find it unbelievable that it was the ten year average in the 1880's.

If you will look at page 3(a) in my statement, I show the series of monthly real interest rates. It is obvious that they go up and down a lot. If you look at the scale -- the scale is plus-minus 60 percent.

There was an absolutely extraordinary variability in real interest rates which, if we had it today, we'd probably change policy makers.

Ultimately, the belief in the gold standard does rest on price stability. I quote Keynes, who looked back
over his shoulders in the 1920's to observe that there was a lot of stability. I think one must have been in the 1920's to have seen price stability in the 19th Century only by looking at the German hyperinflation in 1921 with 50 percent collapse in prices.

On page four(a) in my statement, I show the wholesale price level in the U.S. from 1879 to 1913. You do observe a very substantial fluctuation. You will note in the very year of the resumption of specie payments in 1879, inflation was in excess of ten percent.

I come back to that point, that prices were falling until 1895 and they were rising afterwards. There was certainly accidental price stability, if you look at 30 year periods.

Surely, starting in 1890, you had no right to believe that South African mines would be discovered or Canadian gold mines or all of the other things that ultimately led to the inflation that would get prices back up to where they had been in 1880.

So, I conclude from the experience of the gold standard, we really can't believe that it is a good system even in terms of short run price stability for people that contract labor for a year and wonder whether prices will be up or down ten percent or from the perspective of people that make long-term plans and have to worry whether there
will be trouble in Australian gold mines or whether Russia
will or will not sell gold.

There are more arguments against gold that are
important. The first is that there will be a substantial
resource cost. I present calculations in my paper that
argue that the resource cost per year would be of the order
of one-third of one percent of GNP. That currently is $10
billion, so that would be a substantial number.

The second problem to which I don't see any
solution whatsoever is the transition problem of deciding at
what price to resume specie payments. If the price is too
high, we would have an inflation as we had in 1879.

If the price is too low, the Treasury in this
very Cash Room would be cleaned out by speculators. There is
no simple theoretical answer to that question as research
in the last few years has shown.

Lastly, I think there are important international
complications. If the U.S. alone were to go on a gold
standard and foreign countries wait, then we have to ask
ourselves what price to pick, given the possibility that they
might ultimately join and thereby substantially raise the
world demand for gold.

If they don't join, we'll have an entirely
different price. This is important if you think of 1925 in
Britain, the question of at what price to go back on gold.
They had to ask if the U.S. would stay on gold, or will France join or not. The whole discussion of the resumption price at that period should warn us today.

Lastly, I think all the evidence reflects exchange rates in the U.S. indicates that we substantially benefited from that regime. The very last thing we would want to do at a time of substantial shifts in competitive advantage is to freeze exchange rates and shift the burdens of adjustment back to commercial policy.

I note, in that context, that the gold standard was a period of very severe tariffs, of very high protection. In the U.S., the average tariff rate was 70 percent during the gold standard. It wasn't a period of free trade.

If we conclude that gold can play a sensible role in the monetary system, we'd have to ask what to do with it. I would suggest that the federal holdings of gold be auctioned off.

If that was decided, it can be shown that the present value of the proceeds is higher the sooner the sale takes place. So we should do it fast.

The proceeds would sensibly serve for debt retirement. At the current gold holdings, that's $100 billion or one-sixth of the federal debt outstanding in the hands of the public. That would represent a very important reduction in interest payments and in recorded deficits.
There is really no reason why we should incur any real interest costs having debt outstanding simply to hold gold that we never propose to use.

I would also argue that there is no ceremonial role for gold that we should perpetuate either in the form of revaluation of gold certificates in the Federal Reserve as a disguise for an outright monetary role or as in the form of getting the government on a bigger scale into coinage, where coins are issued to particularly eligible groups.

I think one should go beyond these considerations in looking at monetary and financial institutions. If gold can serve a purpose, we do have to take seriously the people that have raised the issue of price stability and macroeconomic instability.

I think it is widely recognized now that accommodating monetary policies and independent fiscal policies over the last ten years have brought us to a point where we believe that the very accommodating policies we have pursued may not in fact be worth it anymore.

I think it is a good time to think about explicit monetary rules that restrict the Federal Reserve to pursuing a given path of prices, not rate of inflation, with explicit feedback roles.

What I have in mind is that we take all of the advantages of the gold standard. One, long-term belief in
price stability. Second, an explicit feedback role that gears the rate of money creation to deviations from the target path of prices. At the same time, we have the advantages of the paper standard that we separate out fewer gold problems and let them be gold problems by having a paper standard.

Under the gold standard, trouble in South Africa becomes a macroeconomic problem. Under a monetary rule, that is certainly not the case.

I believe it is a good time to have a monetary rule because it is apparent that we have to think of income policy as a way to fight inflation and a less costly way that is totally unacceptable unless there be a monetary rule that guarantees that we don't make the earlier mistakes of 1973.

Thank you very much.

SECRETARY REGAN: Thank you very much, Doctor.

Ms. Junz?

STATEMENT OF HELEN JUNZ

MS. JUNZ: Mr. Secretary, Members of the Commission. Rather than repeat a lot of what you've heard over the past several days, I thought I would focus primarily on the international aspects of some of the gold link proposals before you.

These can be grouped into three sets in 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 any such objective rule stems from the belief that the authorities, are too often 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 keep to the undertaking to remain within the gold cover constraint when they were before unable to stick to other promises.

A gold cover commit is no different from a legislative debt ceiling in the fiscal respect. 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 the 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 represents a more binding commitment 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 clearly is fraught with practical problems. Limiting convertibility in this way requires the imposition of exchange in capital controls.

Enforcements of such controls in a world with capital markets so meshed as they are today 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 world gold convertibility at a fixed official price. This is what people usually mean when they talk about the gold standard.

Under ideal circumstances, the gold standard will indeed work to stabilize the domestic press level. For that to happen, the supply of gold needs to expand in line with the growth of the real demand for money.

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. Primarily, because decisions about new supply are concentrated among a very small number of gold producers -- South Africa and the Soviet Union -- there can be no assurance of a continuous smooth flow of new supply.

I imagine that since 1973, '74, we do not need to be reminded of the consequences of having supply decisions for a core commodity concentrated in the hands of a small number
of producers. A more serious problem regarding the operation of a gold standard system springs from the fact that any addition to or decrease of the Treasury's gold stock triggers an offsetting change in the money supply.

Where such an offset is fully appropriate when the change in gold holdings stems from portfolio decisions by U.S. residents, this cannot be taken as a 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 monetary action. That, however, means 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 market.

A harvest failure in the Soviet Union triggers gold sales. These, in turn, exert downward pressure on the world price of gold, making it profitable under a gold standard to sell gold to the Treasury.

This inflow of gold then would cause an increase in the money supply and in turn, eventually, in the domestic price level.
Conversely, any increase in political tensions tends to raise demand for gold and triggers 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.

Thus, Colonel Quadafi, for example, could successfully help destabilize the U.S. economy by demanding gold for his accumulated stock of dollar assets. Given the relative volatility both economically and politically that appears to be characterizing this decade, 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 just such influences. 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 affected.

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 cost associated with failure could be tremendous.

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.

In this room dominated by men, perhaps I may tell you what any woman would know. You cannot, under any circumstances, fit a size 18 body into a size 8 dress, no matter what corset you put on.

The basic will to slim down must be there.

Imposition of outside discipline can help an over eater to shed a few pounds, but without a change in basic attitudes, this discipline will eventually give way to another eating binge.

However, one's attitudes have changed and discipline has become a part of the behavior pattern, outside constraints appear unnecessary. Thank you.

SECRETARY REGAN: Thank you, Ms. Junz.

Mr. Reynolds?

STATEMENT OF ALAN REYNOLDS
MR. REYNOLDS: For the past ten years, I've been
an active publicist of monetarist solutions for inflation. As recently as 1978, I was openly skeptical of a gold standard. I was wrong. I appreciate this opportunity to set the record straight.

My disillusion over the recent years is not unique to me. For example, Bob Janidsky (phonetic) at Harris Trust has recently been converted also, and Bob Barro at the University of Rochester and a number of the younger monetarists. I think it follows from three basic things.

One is experience. Basically, the tripling of bond yields over the past ten years. Basically, I think ten years is enough — enough trial and error. Secondly, practical problems in deciding how much of what kinds of money are appropriate for cyclical, secular or seasonal needs.

The proliferation of money substitutes — money market funds, overnight Eurodollars, overnight RPs and so on ad infinitum and the consequent acceleration of M-1-B velocity — that worries us.

Finally, the role of ideas — I don't think the gold standard was destroyed by events. It was destroyed by ideas. The ideas of economists and particularly the notion that we could, if we would simply end all of these restraints, we could manage the money by scientific methods and so manipulate it as to achieve an optimal trade off between inflation and unemployment. Particularly, that if
we were to let the dollar sink, that would do us all kinds of good.

For example, it would convince the Arabs to trade more oil for less wheat. These ideas have been made obsolete by experience once again and yet they are the overriding ideas that operate monetary policy today.

As I've listened to the objections, and I've been here since yesterday. The objections to the gold standard sound very familiar because they are about where I was in 1978.

The first is, of course, that any rules may be bent. Therefore, we should skip the rules and proceed directly to the bending, or simply institutionalize bending. The other is, of course, that any standard has to be managed. Therefore, we should not have a standard but just proceed to pure management.

The third is that we have to get rid of inflation first before we introduce any mechanism to deal with it. The fourth is best expressed by Professor Kenen yesterday when he said, don't just do something, stand there.

That is to say the economic profession is immobilized. They are telling us that everything is just fine in monetary policy. There is no need for change. They are fearful of change.

I think we have leaned too hard on history in this
exercise. After all, we are doing better with fiat money today than we did in the previous two experiments -- the greenback era and the continental dollar. Actually, I'm not sure if we're doing better than the greenback era, but it's close.

The relevant comparison, however, is not between the post-war period in, say, 1879 to 1914. However, most of the post-war period was a gold standard. It was Bretton Woods. The relevant comparison is what's happened after 1968.

The relevant comparison is not between the actual gold standard and some hypothetical ideal, a system managed by an omniscient incorruptible elite. The comparison is between post-1968 and either Bretton Woods or the earlier gold standard.

When you compare the 1879 to 1914 gold standard with the CPI, you find that the average inflation rate was zero and the standard deviation was 2.2. In the post '68 period, the average inflation was seven percent. The standard deviation was 3.1.

On that measure, we not only achieve less price stability, we also achieve more volatility of inflation. You can't really compare wholesale indices for the reason that Alan Greenspan pointed out. The old indices were dominated by farm products. The current one is very diversified and it's an unfair comparison.
We have, after all, advantages today over the 19th Century that need to be brought out. We have a larger service sector which is more stable. We have better inventory control systems. We have much better information and data and communications technology.

We have deposit insurance, better regulation of financial institutions. With all of those advantages, I should think the comparisons would make us humble and not smug about how well we're doing.

We have, from the historical records prepared by Dr. Schwartz, learned that the big contractions in 1921 and '29 and '30, insofar as the gold standard was involved, it was due to failure to abide by the gold standard rules and not the other way around.

Professor Rothbard suggested this was also true of the earlier episodes. Victor Zarnowitz of the University of Chicago recently looked at the recessions of the late 19th Century. He reclassified the National Bureau data and he found that four of those recessions weren't recessions at all. They were simply pauses in the growth rate.

By the same standard, we've been in a recession since the first quarter of '79. We don't use that standard anymore. When you take those out of there, the average expansion was 37 months. That's about the same as it's been in the post-war period -- not 25 as Ed Bernstein suggested.
Another comparison is Art Oaken's discomfort index. If you look at the past two -- where you have the inflation rate and the unemployment rate. If you look at the past two administrations, you find that the discomfort index was around 16 percent.

That is worse than Roosevelt's first term. The only one that was only worse was Wilson's second in World War I. So I don't think we fair too well historically on that record.

Of course, the overriding one -- for 200 years, with the exception of the Civil War, long-term bonds were in the range of three to five percent in this country. That reflected long-term confidence in the purchasing power of the dollar that we've lost.

We are losing it by leaps and bounds. That is a very important measure by which to judge our performance.

I have in my paper an extended discussion of an item of foreign history, France in 1926, which deviates from that of Tom Sargent. I suggest that it was primarily a monetary problem.

There was a proliferating note issue that was stopped by a gold cover in August '07 and was even better stopped by convertibility at the end of 1926. The note issue was 27 percent ending July 26. It went to a seven percent decline under the cover which was too tight.
Then they went to convertibility. The stock market proceeded to increase twice as rapidly as it did in the United States, which was a pretty good performance because we had a boom at that time.

The question of what is a gold standard, you know the purists say all or nothing. They get nothing. A real gold standard to me means convertibility at a fixed price. It means a legal definition of the dollar in terms of the fixed weight of gold.

A pseudo-gold standard is a cover or backing. A pseudo-gold standard is also coinage without convertibility. This is essentially the opposite of Milton Friedman's definition.

There is no need to have enough gold on hand to replace every dollar out there, as some people have suggested. After all, if all of the dollars were to be replaced, that would imply a massive deflation and the value of those remaining dollars would approach infinity. So this obviously isn't going to happen.

Indeed, a large horde is undesirable because it facilitates procrastination as it did in the Sixties. You can just run down your inventory. It's much better to run it on a thin stock, as Britain always did.

Robert Hall suggested zero as an appropriate inventory. It could indeed be done if you managed your
monetary policy very properly. There is no need to eliminate the fractional reserve system. No need to eliminate the Federal Reserve. The Federal Reserve's tools remain exactly the same as they are today, only the targets change. They'd use a price rule instead of a quantity rule.

If there is an inflow of gold, as there was in '29 and '30, that tells you you are in an incipient deflation and that you should, indeed, increase the money supply. If, on the other hand, there is an outflow as we experienced from '58 to '68, that tells you you are in incipient inflation and it's time not to deflate, but to stop inflating.

People always talk as if the alternatives are inflate or deflate. The alternative is price stability. The key question is gold a good proxy. Earl Thompson and others have suggested that after we stopped stabilizing the gold-dollar ratio, the gold-dollar ratio was unstable as was the wheat-dollar ratio and the oil-dollar ratio.

This is not a very good argument for not returning to a stabilizing program. That evidence is irrelevant. A gold is very good proxy under a gold standard. It's a very poor proxy under a fiat money standard because it becomes a hedge, of course.

If you look at five year intervals from 1880 to 1914, you'll find that the relative price of gold vis-a-vis the wholesale price index -- again, a tough test. The
wholesale index is volatile. It never deviated by more than about two or three percent a year. So, I would conclude that yes, gold is an extremely good proxy. After all, the wholesale indices are probably subject to that much error in those days.

Compare that with the post-1968 paper yardstick and you'll find that the wholesale price index has doubled against that kind of a unit of account.

Questions of gold supply -- there is no rigid link either in theory or fact between the world output or the Treasury stock and some price level. No such evidence has been presented. Nor is there any reason to suppose it would be true unless you had 100 percent reserve and 100 percent cover, which I suggest to you aren't necessary.

It is true that if you had a large rise in productivity and production and you had no increase in velocity and you had no increase in gold output, that you'd have a mild deflationary trend.

I would suggest this is the least of our worries, because if you have that large increase in productivity, that means living standards are going up, not down. A rise in living standards with falling prices are the least of our worries.

The slow down in gold production since 1970 is what one expects from the theory of exhaustible resources.
Gold in the ground is a hedge against inflation of paper money. You would expect people to horde more of it, both buyers and suppliers. The same analysis applies to oil.

People who hold oil in the ground view it as a hedge against inflation of the dollar. Why trade that oil for a dollar asset? As soon as you fix commodities in terms of the dollar, that incentive disappears and production will resume two or three percent of annual rate.

The worries about -- there is, incidentally, no evidence that I am aware of that more money means more real output. All of these worries about whether there would be enough money, somebody needs to explain what that means.

The worries about Soviet and South African supplies and all that sort of thing, I think this is mostly a red herring. The notion that someone could corner either the gold market or the dollar market, I don't think even the Huns could pull that one off.

International concerns -- there is no reason at all to impose fixed exchange rates on other countries. If, after all, managed money is better, and a lot of people tell us it is, then it would be responsible for them to float against a gold dollar.

The fact that no one believes that's going to happen tells you something about what we all really believe about gold money vis-a-vis inconvertible paper money. In
other words, those countries would indeed fix to the dollar, but that's none of our business. If you want to do it on an IMF system, terrific.

There have been suggestions that any restraint on the ability to create money would hamper us in our ability to offset bad wheat crops or Iran-Iraq wars and that sort of thing. You can't get more wheat by printing more money. That is just a silly kind of an argument to me.

There have been suggestions that the monetary system can somehow be isolated against the rest of the world. I can't see how that is either possible or desirable. A dollar is a dollar, regardless of where it is held.

If there was some foreign raid, there is enough flexibility in my system to offset erratic gold output or anything of that sort.

My interest in the gold standard is not a matter of disciplining anybody, either in monetary or fiscal sense. It is a matter of efficiency in using a price rule rather than a quantity rule.

It is quite incorrect to translate a price rule into a quantity rule as a number of people have done. There is no interest in what the growth of sum "M" is under a price rule. We're simply trying to stabilize the price.

The growth of money was, in fact, faster from 1879 to 1914 than it was in the post-war period. That was
was not inflationary because people trusted the money and, therefore, held more of it.

When inflation is expected, as it is today, the gold standard doesn't make it harder to finance budget deficits as Alan Greenspan suggested. Indeed, it makes it much much easier, because what it does is it brings bond rates down to where they were historically. It allows the government as well as private business to fund long ones again at a reasonable rate.

It does limit monetarization of the debt, but there is a very severe question as to whether monetarization of the debt is in anyone's interest, even the Treasury's. I harken back to Wessley Claire Mitchell who decided that the greenback era cost the Treasury money because it raised interest rates so much that it nullified the effect of not having to borrow the amount of the greenback issue.

The questions of disinflation -- if we're going to reduce inflation, the alternative system is of course some quantity system. You basically have two ways of doing it. If you can figure out what M you're trying to achieve, you either bring it down gradually -- that's a real problem. That probably takes about ten years and a few changes of administration, a few changes of Federal Reserve staff. Therefore, it will not be believed. People will not change their wage setting behavior, labor contracts, long...
term borrowing costs continue to rise. In the meantime, you
are trying to squeeze down on final prices and all you get
is a squeeze on profit margins, declining employment -- the
British situation. So, that doesn't work because eventually
the policy is going to get reversed.

If you were to have a rapid and sustained
reduction in the supply of M, that might indeed be believed.
If it was believed, we'd have another problem. Then you
have a dramatic decline in interest rates, squeezing out the
inflation premium.

That, in turn, implies a decline in velocity, and
increase in the demand for cash balances. No quantity rule
can cope with that. If you have a fall in velocity, the
quantity rule says you've just got to increase M at a good
fixed rate. You can't cope with it.

Consider the magnitude of the problem or the
potential. Back in '64, a dollar of M-1-B would support
$4 in nominal GNP. Today, it supports about seven. Well, I
don't think we could go back to four, but even if we went
back to six, the potential deflation would be horrendous.

This is not a problem under a gold standard. A
gold standard will supply whatever amount of money is desired
relative to demand. It can easily adapt to the major change
in expected inflation. That is indeed required if we're
ever going to make any progress on this issue.
The gold standard supplies the money needed to match the drop in velocity with no risk of inflation or deflation. If you risk inflation, people will trade the dollars for gold. If you risk deflation, this goes the other way around. So you have a very nice clean efficient system for bringing inflation down.

I conclude that a gold standard would stabilize both output and purchasing power, both in the long run and short run, better than any observed or hypothetical alternative.

The supply of long-term financing at low interest rates -- historically, that means five percent long term -- would vastly expand, restoring health to both corporate and federal budgets without which we cannot get off the ground.

In my judgment, a gold standard is quite inevitable, because neither the status quo nor any known alternatives are viable. The only question is whether we will put it together carefully in a considered manner before we reach the crisis stage or whether we'll just do the best we can after even more damage is done.

Money is, as we all know, a unit of account, a store of value and a medium of exchange and a source of anxiety. I suggest that we maximize the last function. We need to work a little harder on the other three.

Thank you.
SECRETARY REGAN: Thank you, Dr. Reynolds.

Dr. Sennholz?

STATEMENT OF DR. HANS F. SENNHOLZ

DR. SENNHOLZ: Mr. Secretary, I think by now after
two days of exhausting hearings, you should be very tired and
probably very confused.

I think it is my function as the last speaker to
try to wake you up or permit you to wake up. I am not going
to read my paper. I just would like to comment on it.

In the first part of my paper, I am making the point
that actually, the system we are having today is really
appropriate for the economic order and the system of deficit
spending we have today.

In fact, the United States government, given thes
deficits of some $60 billion a year in regular deficits,
another $30 billion of deficits in off-budget operations;
another $60 billion or $70 billion in credit operations.

There is no way that we can have the gold standard,
the classical gold standard. We need today an elastic
currency and we've got it. An elastic currency that can be
made to expand to cover all of these deficits.

Therefore, I think we have the appropriate
system we need today to cover these deficits. Before we
can talk about the gold standard, the classical gold standard,
the federal government has to put its financial house in
order.
We must balance the budget. There is no way to restore the gold standard, no way to return to a fixed exchange rate between the paper money and gold. Therefore, I believe that the elastic system of today is the appropriate system given the deficit spending we have.

However, this raises one question. This is the question of gold in Fort Knox. What are we going to do with it? It is my belief that it doesn't make any sense to impose the gold standard in any form and at the same time want to hold onto this gold in Fort Knox. I don't think that is logical.

If gold is useless and barren and whatever you may call it, then let's use it. Let's employ it. That's the basic proposition in my paper. Let's employ the gold in Fort Knox productively.

I fail to comprehend why we should hold onto this gold in Fort Knox. We know how it got there, but I think in this age of social need and financial crisis and economic crisis, it is time to use those assets.

I am making the point here that it is essential for the federal government to free itself from this idle horde of gold and put it to productive use. In fact, I am saying that there can be no better use for this gold than to use it as a medium of payment for these deficits, these $95 or $96 billion of deficits we are having.
In fact, my favor measure of the deficit is the growth in the gross debt of the United States. If you look at the figures, just this week they are mounting to $96 billion over last year.

Instead of financing all of these deficits through the sale of bills, notes and bonds in the capital markets, draining and exhausting the capital markets, let's use the gold. We don't need a national mint, either.

Let's use the gold to cover the deficit. Put the gold to productive use. I am saying that the idle horde of Fort Knox gold would be converted to productive capital, meeting the urgent needs of government.

I am saying that there need not be a federal mint at all. It would only delay the disposal of the gold. In the long run, it could prevent it entirely. It's essential that the payees of this federal gold should have ready access to a number of private mints, if they so desire, or to the free gold market.

Surely, the disposal of this gold would somehow depress the dollar price of gold. Then since the gold is being used to finance the deficits, I think the sale would precede all the faster the lower the price of gold would be, which then would be desirable.

It is my belief that the disposal of the gold in the federal horde would strengthen the United States dollar
immeasurably because it would permit the Federal Reserve to be inactive. It would not have to facilitate the financing of deficits. Instead, we inject some liquidity. This is what we are needing right now.

In other words, the inflation discount, which springs from the present anticipation of higher prices, the depreciation of the money, would come down. This would give new purchasing power to the American dollar.

Then I am making the point that the disposal of the gold in Fort Knox -- the greatest beneficiary would be the United States government, as it would bring instant relief to the depressed capital markets and lower interest rates immediately.

This then would permit the United States government to refinance some of its bills and longer term obligations at much lower interest rates. In the long run, there would be a sizable saving in interest costs as a result of this capitalization.

I am talking here about a savings of some $50 or $60 billion as the interest rates would come down. It would permit the Treasury to facilitate to refund this massive short-term debt, the short-term bill and note obligations with long-term bonds.

In other words, it would for the first time reserve this ominous trend toward short-term financing.
Finally, I am making the point that the American people would reap immeasurable benefits from the gold disposal.

In fact, I can think of no other policy and no other supply side policy as stimulating and energizing as the disposal of the gold. My belief is that it is difficult to imagine the impact of rapidly falling interest rates on the bond market, the stock market, the commodities market and real estate market and even the labor market.

There would be an explosion of economic activity the world may have never seen before as a result of this disposal of gold and the injection of new liquidity. The gold would provide instant liquidity and bring welcome relief to financial institutions.

The savings and loan associations and others, it would breathe new life. It would breathe new life into the suffering institutions which would permit them to render the vital services for which they were meant.

The housing industry may come back to life as a result of this injection of new liquidity. I am talking here about the stock market, reviving the real estate market and stock market and surely for the first time in some 15 years, there might be a recovery there.

Also, I believe that perhaps real income which has been declining so substantially and consistently over the last few years, may rise again.
Finally, as I mentioned, the supply side economists should approve of this, too. Without it, I am afraid their ship will run aground -- the budget deficit, most of which were inherited from previous administrations.

The tax cut is designed to release productive energy is partially negated by massive deficits that consume productive capital. Moreover, whenever they talk about some cuts in spending, surely, there are the pressure groups demanding more spending.

I am afraid that they are discouraged now and may be discredited before long, because the American economy is declining. The ship is sinking in a deep recession.

Therefore, I believe that the best policy would be to put the federal gold to productive use. Surely, no one today can defend the present state of affairs -- rampant inflation, record interest rates, economic stagnation, rising unemployment and falling levels of living.

Nevertheless, there may be some objections here and at the end of my paper, I am dealing with a few objections which I anticipate. For instance, the first objection here raised by my friends, the goldphiles.

They would say, "Well, gold will drop in price." Surely, that's a possibility. I believe, given the gold supplies, -- in fact, I believe that given the gold supplies with a massive diffusion all over the world. Usually, any
quantity of gold can be sold at rather stable prices. That is the peculiarity of gold. Whether it's a small quantity or a large quantity, gold can always be sold at free market prices. Given the supplies of gold diffused all over the world, one can sell large quantities or smaller quantities.

In fact, the given production and consumption idea is rather unimportant. It is irrelevant because of those huge supplies and the cash holdings of hundreds of millions of people. It is the commodity which has the greatest marketability. That's why it became money in centuries past.

Then I am talking of one other objection I anticipate. It is the objection by the advocates of the classical gold standard who believe that they need a certain quantity of gold in order some day to return to the gold standard.

My answer is no, that's not necessary. A small quantity of gold is needed if ever there is a return to the gold standard. We surely don't need Fort Knox when the massive supply is amounting to some 20 percent of the world monetary gold in order some day to redeem the American paper currency.

These huge stockpiles are not needed. Whatever is needed at that time can be bought on the open market. We don't need Fort Knox in order to return to the classical gold standard.
Finally, the last argument here I am coping with and dealing with is the one of those who are concerned about the national defense. They'd say we need a strategic gold pile in case of an emergency in order to be able to defend the United States.

Again, my argument is that we don't need these huge supplies. After all, the defense of the United States does not depend on the vaults of Fort Knox. It depends on the willingness and the ability of the American people for self defense, not on the gold of Fort Knox.

At any rate, I think it is time to give thought to this massive horde of wealth in Fort Knox in this age of social need and economic crisis and inflation. What are we going to do with it? It does not make any sense to denounce gold and at the same time always wanting to defend it -- holding onto it.

In my belief, the sale or the liquidation of gold would release a vast amount of productive energy at a moment of time when it is urgently needed. Above all, the gold disposal would buy the federal government the time needed to bring its financial house in order.

It is a time that must be used to bring its financial house in order. If that cannot be done, of course ultimately, the old evils, the ailments, will continue. We don't know how the federal government will act in the coming years.
Nevertheless, the benefits, the beneficial effect of the gold disposal will endure for a long time to come.

Thank you.

SECRETARY REGAN: Thank you very much, Doctor.

We will now begin our questioning period by members of the panel. We will observe the usual rules and will start in alphabetical order. Mr. Costamagna?

MR. COSTAMAGNA: Thank you. I have a question for both Dr. Cooper and Dr. Dornbusch. It's the same question, Gentlemen. I believe both of you related the same historical facts regarding the lack of stability that you saw in the gold standard in the period of the 19th and early 20th Century.

This morning, we had a presentation by Dr. Jastram who wrote a very interesting book called The Golden Constant. He presented us with a chart, an extract from that book, which narrates a history of the English experience with gold from 1710, primarily, to 1930, although it goes on in this chart.

Taking that same period of time in England, it shows a considerable stability versus the history of instability as you related to us in American experience.

I would like to ask both of you if you could explain why, in the United States in your interpretation of the history of the 19th and 20th Century, we had instability whereas the English experience appeared to have stability.
Either of you can go first.

DR. COOPER: Maybe I can take that. I think we have to be somewhat more precise when we use these words. What did characterize the 19th Century was prolonged periods of decline in price as well as long periods of rise in price.

That means that by choosing one's period or by choosing this scale on a graph that's sufficiently small, you can show a price line that has no trend. That is correct.

What I suggested and what Professor Dornbusch also suggested was that within that no trend price line over the course of the century, in fact you got not just substantial short run swings, cyclical swings, but substantial long run swings.

If you look at Table 2, which you should have before you, it does give, side by side with the U.S. data, the British and the German and the French data. It shows that while the British data were somewhat less pronounced than the swings in the American data, still you've got in Britain over the same Century -- I didn't take it back to 1715.

But over the 19th Century, you've got the same major swings -- down 49 percent in price from 1814 to 1849 with the gold discoveries, up 39 percent in price through the early '70s when Germany and the other European countries went on to gold; down 39 percent in the last two decades of the century and then up 32 percent before World War I.
Those numbers are somewhat smaller than the American numbers, but they show basically the same pattern. The point that I was trying to establish is that it's not merely the high short-run variability which Professor Dornbusch emphasized, but even over longer periods of time.

You've got substantial price movements of such a nature that, since a lot of emphasis has been put on the consequences for long-term financial markets of inflation, this casts doubt on the reliability of a piece of paper denominated in nominal terms over this period of time.

After the fact, we can identify the reasons for these turning points. Gold discoveries, in some cases; new countries going onto the gold standard and so forth. Of course, the bond buyer in any particular year couldn't be sure what things were going to be like 30 years hence.

DR. DORNBUSCH: I can add some remarks of the same nature in the table on page two in my paper. I have much the same evidence Dick has discussed.

In Britain, in the 19th Century from 1870 to 1913, inflation was nearly twice as variable as it was in the period, the very disturbed period in Britain since 1960.

I have a chart here published in the paper of the Federal Reserve Bank of St. Louis looking at the historical evidence in the 19th Century. The great deflation from 1870 to 1896, just as in the U.S., then a very sharp
increase in prices. Of course, under the gold standard, everybody was getting the inflation of South African discoveries.

If you look at what happened after the resumption of specie payments in 1925, very substantial fall in prices with very great macroeconomic problems. As you remember the Great Strike in 1926, there was much more instability by any means than we have now.

I tried an experiment, because I asked myself -- I used wholesale prices, because I have monthly observations. What would a businessman do under monetary regime and what does he or she prefer?

I tried to use forecasting models of prices the way we use them now. I used the data in the 19th Century for subperiods to make forecasts five years ahead. I made six months ahead forecasts.

The forecast errors were five times larger than for the last 20 years. So, there was a lot of instability, by all means.

What is being said repeatedly is that in 1800, the price level was the same as in 1900. In between, it went up and down in an extremely unpredictable way. Unpredictable because you wouldn’t know which country would go on or off gold, adding or subtracting from the world monetary demand for gold.
You wouldn't know which country would find gold
or whether there was going to be a war in South Africa and
they wouldn't produce for two years or there wouldn't be a
war. That is macroeconomic instability from using gold
rather than controlled paper as the medium.

I think that is the argument against interpreting
the 19th Century as offering evidence for gold serving a good
purpose. If anything, perhaps gold was particularly unstable
then because discovery was there on a vast scale. Discovery
has been going on in Brazil in the last two years. They
found four and a half tons very recently.

So, that certainly is not at an end yet.

MR. COSTAMAGNA: Thank you. I find it contra-
dictory sometimes on what we hear in terms of historical
perspectives. I appreciate your thoughts on that question.

Dr. Sennholz, I'd like to ask you the next
question, if I may, sir.

DR. SENNHOLZ: I'd be delighted. I'm listening
here and I am amazed about this interpretation. You know,
we are talking about the period of the Civil War, rapid
expansion of greenbacks.

We're talking about the Resumption Act of 1875
which was effective 1879, there's going to be a return to
gold payments. We are talking about the Silver Purchase Act,
the Bland Ellison Act of 1878 which forced the United States
government to buy massive supplies of silver and then print silver certificates.

We are talking about the time of 1890, the Sherman Silver Purchase Act. One Act after the other of government intervention in money. Certainly, mentioning the Civil War and mentioning all of these acts and purchase acts and expansion, contraction, rejection and greenbacks -- that is not being mentioned.

The fault is laid on the doorsteps of gold. I am really amazed about this interpretation of history.

DR. COOPER: Excuse me, if I may say so, all of the examples he's mentioned are from the United States. The interesting point of this period, while there was all of those developments in the United States, and I excluded the Civil War.

You see the same pattern of prices. The numbers in detail are different. The same general pattern of prices exist also for Germany, for France, which did not have the Bland Ellison Act. They did not have the Civil War. They had their own problems, but they came at different times -- and for the United Kingdom.

So what I think has to overlay the particular historical experience of the United States against the general world wide pattern.

DR. SENNHOLZ: Again, referring to European
history, then I am mindful of the French Revolution of 1848
and then the three wars fought in Central Europe, 1864 with
Denmark; 1866, Austria; and Germany 1875-'71, and then
finally 1875, the change of central European currency from
silver to gold which was the decision on the part of
government.

DR. COOPER: That's right.

DR. SENNHOLZ: By that time, central Europe still
had been on the silver standard. Then trying to imitate
Great Britain and France, which were quite advanced
industrially and in trying to imitate Great Britain, Germany
in 1875 decided to turn to the gold standard.

This again was a political act. Such an action,
the dumping of silver and then buying the gold, would have
an impact on the price of gold. It's obvious. But once
again, it's a political decision.

MR. COSTAMAGNA: I have one other question, sir.

SECRETARY REGAN: Go ahead.

MR. COSTAMAGNA: Dr. Sennholz, again, if I may
ask you --

DR. SENNHOLZ: Do you like my answers?

MR. COSTAMAGNA: I do. I like them very much, sir.
You see the problem we have in making a decision, when we
get various interpretations of history constantly.

The other question I have of you, Dr. Sennholz, is
the disposing of our bullion, our gold. You mention in your paper in terms of coins. Are you thinking of other means as well -- in just the raw bullion, in bonds, gold backed bonds, any means available?

DR. SENNHOLZ: Definitely, I am very skeptical about depending on the national mint, which would be a very slow and painful process to make coins available.

I don't think a national mint will ever be able to mint all of the gold in Fort Knox. There has to be another method of disposal. My proposal was to help the Secretary of the Treasury to cover those deficits.

Give him the gold. Let him make the payments with that gold.

MR. COSTAMAGNA: He'd become a national hero.

DR. SENNHOLZ: Not personally, of course.

SECRETARY REGAN: That would only last for two years.

DR. SENNHOLZ: Did I answer your question?

MR. COSTAMAGNA: But besides coinage, just sell --

DR. SENNHOLZ: Just make payments. After all, he needs about $96 billion right now a year of deficits, off budget and regular deficits. Instead of going into the Federal Reserve and always demanding accomodation by the Federal Reserve which is draining and straining the capital market, let's help them. Let's help both by using these
idle hordes in Fort Knox.

MR. COSTAMAGNA: Thank you.

SECRETARY REGAN: Governor Partee?

GOVERNOR PARTEE: Well, Mr. Chairman, the day is late. The testimony was quite clear. I thought I had just two questions, but now I have three questions.

The first is that the function of this Commission is to recommend something as to the role of gold, since we have large stocks of it. A number of you could not see any near term possibilities for the use of gold in the monetary sense, at least officially.

You did not specify what we ought to do or how we ought to look at our present gold stock. Professor Sennholz was quite clear about it and so was Professor Dornbusch. I guess I would have to say that Mr. Reynolds, since he wants a convertible gold system, is clear about it, too. We would hold it and then use it in a monetary sense.

The others of you haven't been clear. Starting with Dick Cooper, what should we say about the official stock of gold that we now have?

DR. COOPER: I find myself in considerable sympathy with the positions that both Dornbusch and Sennholz took, that it's an asset which we should put to productive uses. I think the question, therefore, in my mind is the timing of that. The amount of gold that the U.S.
is sufficiently large that I don't see a realistic prospect of, for example, paying off a substantial fraction of the public debt in short order.

The gold market is thin. If we were to try to sell it all very quickly, I think that the price would be depressed albeit perhaps temporarily. So, I -- to answer your question, I think I would resume gold sales, to use it in that direction. I would pay attention to the elasticity of demand for gold and not deliberately try to push the price down in a way that diminished the value of the gold that we had.

How far one were to continue that process on a policy of gradual sales is not something that you have to face right away. I don't accept entirely Sennholz's total dismissal of the notion of gold as a reserve for emergency use of some kind.

I think that for those purposes, we hold much more than is necessary. One could contemplate very substantial sales spread over a period of time and still not jeopardize any possible strategic use of gold.

GOVERNOR PARTEE: How would you feel about a gold coin that is by weight of the kind that Mr. Costamagna has spoken of? Should we be prepared to mint such a thing?

DR. COOPER: I like to look at cost-benefit analyses. I don't have any idea how much mint costs are.
I don't see any special value to doing that. My first inclination would be to sell it in the form that it now is, gold bricks.

GOVERNOR PARTEE: Mr. Davies?

MR. DAVIES: I was greatly impressed by the merit of Bob Solomon's remarks yesterday. After his 30 years struggling with this, he considers that gold is an important part of our patrimony and should not be dumped.

As to the changing of gold into currencies, for some time now the Gold Institute has been providing a service to treasurers of multinational corporations and to central banks which must of necessity hold currencies, many currencies as well as gold.

For their convenience, we report the value of the currencies in terms of ounces of gold. In that term, the countries that are members of the International Monetary Fund hold, as of July 31, which is the last final figure I have, 952,000,000 ounces of gold as physical gold.

They also hold other reserves of 754,000,000 or a total of 1.7 billion ounces of gold equivalent in their reserves. Of those, the United States holds 298, which is not unusual amount of reserve for the United States to hold.

However, note that whereas the reserves of the other countries are, as Mr. Partee and Mr. Wallich well know. The reserves of the other countries are in the form
of dollars. The reserves of the United States, in the form of foreign currencies, amount to only the equivalent of 34,000,000 ounces of gold compared to the 264 ounces of physical gold.

To change our 264,000,000 ounces into dollars would mean, of course, that we would give up our foreign exchange. Foreign exchange can't be your own currency. To change it in other currencies might be possible.

My answer to you, Mr. Partee, is that I think that the United States should hold onto its patrimony of gold, but there are things to do to make it much more valuable.

The first step is to encourage what is already going on. That is, making gold a real currency in the world, an interest bearing currency, a liquid currency, as it is in the private markets.

It is beginning to be in the private markings. Then Mr. Greenspan's suggestion this morning that there might be some bonds, some low interest bonds issued with gold as a backing also has merit.

My suggestion is that that could best be done a little later, once the private market, the private sector market for gold bonds is developed a bit more. Once the private market for gold bonds, which is now pretty small, is developed further, then the Treasury could explore using that market for bonds. The specifics that we had suggested or
that I would suggest for that, are that because any relationships between governments and central banks are best carried on privately, that specifically the international divisions of the U.S. Treasury, the Federal Reserve Board and the Federal Reserve Bank of New York, be asked as of now to actively explore ways in which the 264 million ounces of gold now in the hands of the Treasury could best be mobilized.

I have the impression that there are some good ideas within those three international divisions for things that could be done now. With regard to the issuance of coinage, by all means it would help to develop this private market for gold.

To do as I think Secretary Regan had implied a few days ago -- to streamline the issuance of the medallions, the current medallions, and perhaps to add this additional thing to have a redeeming facility for medallions dealing with a relatively small number of ounces of gold, of course.

Look very carefully and positively at the proposals that have been made for the issuance of gold coinage that Mr. Costamagna suggested. That is now -- that are now in bills before the Congress.

Again, this is all leading to a situation in which, if the Secretary of the Treasury and the Federal Reserve wish to issue some new bonds at two percent or three percent, payable in gold, there will be already at least some
private market there to begin with.

GOVERNOR PARTEE: I see. Helen?

MS. JUNZ: I wish I could come to some meeting some time where I could disagree violently with Dick Cooper. I am in almost complete agreement with what he is saying. I'd like to add a couple of things to that, though. If we do sell gold, then I do not think any need is there for coinage, largely because I think the major reason for coinage would be a balance of payments.

If people in this country wish to buy gold coins, why should we import them if we are sitting on a large stock of gold ourselves for which we do not have complete use. I do also agree with those who have been saying that gold will remain in the international financial system.

We have not been able to phase it out during the Seventies. I think the attempts at demonetarization have not been successful. Most of the other industrial countries and certainly the developing world do not understand what we mean by demonetarization and have never really been on board on that proposal.

So, it is pragmatically, I think, part of the system. For that reason, we should not get rid of our entire gold stock. You do need it as part of your reserve assets. Thank you.

GOVERNOR PARTEE: Do you want to answer that?
MR. REYNOLDS: Yes.

GOVERNOR PARTEE: My second question was for you, but go ahead.

MR. REYNOLDS: Okay. Let me anticipate it because I don't think I was at all clear about that. I have no trouble at all disagreeing with Richard Cooper or with anybody who says that bond buyers couldn't be sure about future inflation under a gold standard, but they can today.

I would have the Treasury sell one ounce coins when the gold price hits, say, $450. I'd have them buy bullion when the price hits, say, $400. Adjust those ranges a few times by trial and error.

Eventually, set the price and make the convertible. The coins obviously would facilitate the domestic convertibility in reasonably small amounts, say, $10,000.

As far as the idea of issuing a new gold backed bond, I think that's a good idea. I'd also like to make old bonds gold backed and also old bills and also old notes and also Federal Reserve notes. Of course, that's a gold standard.

GOVERNOR PARTEE: That is very closely related to my question to you, Mr. Reynolds. I had understood that you wanted a pure, convertible standard. You just now have expressed that. You spoke of a Federal Reserve-central bank function in connection with a convertible standard -- world
wide, desirably, but in this country at least where we have
the authority to do so.

It would seem to me that assuming we got through
the re-entry problem, why, if we had a credible price for
gold, that would be the price. Therefore, I assume that you
visualize central bank intervention as being the intervention
that would keep the official domestic stock from varying too
widely or beyond a particular range or something like that.

You would intervene to acquire gold and to take
counterveiling contractive steps when you needed, when the
gold stock was declining and vice versa when it was rising.

Is that your view of how the central bank would
operate?

MR. REYNOLDS: Precisely. You would use a
discount rate, open market operations, reserve acquirements
of your choice to accomplish that result. If you notice a
sustained inflow of gold, that tells you something. If you
notice a sustained outflow of gold, as we certainly did in the
Sixties and chose to ignore it, that tells you something, too.

In retrospect, it's quite clear what those two
episodes in '29 and '30 and the Sixties told us. In '29 and
'30, it told us we were worrying about a stock market boom
when we should have been worried about the stock market
collapse and --

GOVERNOR PARTEE: You would, of course, be subject
to shocks. Just to take an example that comes to mind, we obtained an awful lot of gold in the latter half of the Thirties. Partly perhaps because the price was too high but partly because of the fear of war.

I assume in a case like that where gold was flying under the country, you would want us to inflate domestically in order to stop it from coming in; is that right?

MR. REYNOLDS: Well, we hiked the price 70 percent as I recall, the equivalent of raising it to $800 today. If you do that, that's a deliberately inflationary policy. As you know, it was and it had deliberately inflationary consequences, much like the deflations we're talking about.

They were quite deliberate. The post-Civil War deflation and the retirement of greenbacks was deliberate. The 1925 British situation was deliberate.

Now, in retrospect we would think that's kind of a strange thing to do. You let bygones be bygones and you stabilize. You don't try to deflate, but you stabilize at the existing level.

So my answer is sure, if you hike the price up to $800 or $1,000, you would almost be forced with that extreme of price to inflate. I don't suggest that you set the price that high, though.

GOVERNOR PARTEE: You would take the view that you would adjust, regardless of the source of the --
MR. REYNOLDS: Well, if you know that somebody is playing games with the gold stock -- you know, these hypothetical scenarios that keep some people playing. The Soviets are dumping for the sheer joy of acquiring dollars is something I find strange.

Then you have the power and authority to deal with that. It's a discretionary system. The only difference is -- it's no different than the system we have now. Instead of chasing elusive quantities of Ms, you chase one very simple, very quick single and that's the gold window.

GOVERNOR PARTEE: The gold stock, really.

MR. REYNOLDS: The gold stock.

GOVERNOR PARTEE: Dr. Sennholz, in his provocative way, provoked a third question on my part. That is, in speaking of the great benefits as you were of selling the gold, you seemed to imply that you could have the purchasing power that had resulted from mobilizing or activating the gold stock in selling it to private holders.

Also, the same amount of monetary expansion that was being carried on by the central bank in any event. Don't you think that the two are substitutes for one another? That is, wouldn't there need to be a counterveiling Federal Reserve policy if, in fact, the Treasury was getting this kind of funding?

DR. SENNHOLZ: Well, in my paper, I state and in
fact, I refer to this. The Federal Reserve at that time has
to be inactive. It must not permit the financing or the sale
of the gold.

As a matter of fact, I didn't call it the sale
of gold at all, because that would assume you take the gold
to the gold market. I didn't say that.

I said we should use the gold in lieu of cash
and make payments. This would be an injection of liquidity
in a starving, depressed capital market.

GOVERNOR PARTEE: Except that I would think that
we were injection, oh what, $110 billion worth of liquidity
at the given current market prices that the central bank
would not just need to stay inactive. It would need to
subtract from the residual stock by some considerable amount.

DR. SENNHLÖZ: I would just request an inactivity
on the part of the Federal Reserve. I think that would do it.

GOVERNOR PARTEE: Fine. Thank you.

SECRETARY REGAN: Governor Wallich, do you have
some questions?

GOVERNOR WALLICH: Thank you, Mr. Chairman. I
think all of the important questions have been raised. We
know where everybody stands anyway. I would like to ask a
couple of very technical ones.

Mr. Cooper has changes in the wholesale price
indices for a number of periods. As I look at these, I have
the impression that even though the increases and declines seem large, on an annual basis they are not very large.

Would you say that we are talking about something like two or three percent per year in most of these jumps?

I take it you've taken periods that are extremes.

DR. COOPER: The figures that are reported in Table 2 go from peaks to troughs to peaks to troughs, excluding the Civil War.

GOVERNOR WALLICH: Yes.

DR. COOPER: That was done deliberately in order to demonstrate how much cumulative price movement there was over periods of time and to make the point, which I did make, that in this period, one cannot count on the long run stability for any given period.

Within these periods, there were typically ups and downs. I think, as far as I'm aware, again leaving aside war time periods, the maximum change over a business cycle from trough to trough was about six and a half percent per annum. The maximum annual change.

Of course, if you average the ups and downs within these periods over the 20 or 30 year periods, you get smaller annual changes.

GOVERNOR WALLICH: I have a similar question for Professor Dornbusch. You've got the variability of various things on page two.
It doesn't seem to say anywhere what the period is over which this variability was measured. For instance, you have the rate of inflation, money growth and so forth. Is this annually or monthly?

DR. DORNBUSCH: The first two -- the inflation and employment, are monthly data. Money growth and real interest rates, which only are there for the U.S., are monthly data. The first two, annual and the next two, monthly.

GOVERNOR WALLICH: I look at the standard deviation for real interest rates as 14 percent.

DR. DORNBUSCH: If you have a look at chart 3(a), you'll see where it comes from, the series of the real interest rates in the period. Four to six months commercial papers --

GOVERNOR WALLICH: You've taken a very short term rate there. The bond rate, surely you would have nothing like this in --

DR. DORNBUSCH: We don't know what the real interest rate on a 20 year bond is.

GOVERNOR WALLICH: I think this reflects more the condition of the New York Money Market, which in those days was indeed a market in which banks evened out their position. So you've got very wide fluctuations in rates, somewhat like the day's federal funds rates.

DR. DORBUSH: Is that a question?
GOVERNOR WALLICH: I just wanted to know how you specified this. When you take these numbers by themselves, they look very damaging to people who believed that under the gold standard, there could be greater stability.

They also look strange in relation to today's conditions which surely are not very desirable. So, I find it hard to believe that things under the gold standard in a meaningful sense were more unstable.

Let me ask Mr. Davies, do you see any significant evidence of gold contracts being made -- that is, contracting so many ounces of gold instead of so many dollars?

MR. DAVIES: It's just beginning. The fact that between five and ten million people, individuals and corporations, and the last estimate is eight million in the United States, are now holders of gold coins.

The fact that by our monthly records during the first eight months of this year, 2.5 million ounces of gold in the form of coins came into the United States, indicates that there is a growing, a substantial and a growing holding of gold in the form of an auxiliary currency.

The use of gold as a means of payment has not yet emerged as much as we think that it is going to emerge in the next -- during the next year. I've mentioned the three companies that have paid dividends in the form of gold, which is one form of payment.
I think the most important is this new concept --
new, recently -- of the true gold bond. As far as means of
payment, a suggestion has been made that mortgages either as
individual mortgages or as groups of mortgages, could be
handled at a very much lower than the current rate if gold
were involved.

GOVERNOR WALLICH: Could I ask you, would that
assume a fixed price for gold at the time these contracts
were made or would it have to do with a variable price of
gold which may go up or may not go up?

MR. DAVIES: It would definitely not assume a
fixed price of gold with relation to any currency. It would
continue with the present situation whereby each currency and
gold remain floating with each other.

GOVERNOR WALLICH: Since there are many people,
as you say, who are prepared to own gold, why should on a gold
bond any interest at all be paid, since it would be something
in the nature of a warehouse certificate for gold bullion or
gold coin?

MR. DAVIES: I indicated there are two gold bonds
that are now -- as the Secretary knows, that are on the
market now and being traded daily.

One is the RefineMet $50 million gold bond which
is being traded at about a three and a quarter percent yield.
The other is the French gold bond which is being traded at
about a five and a half percent yield. The latter, the
case of the three and a quarter percent is because RefineMet
even with a good trustee, Continental Illinois Bank, is still
a small company. Three and a quarter percent represents
that it's not the telephone company.

In the case of the French, the reason why that's
five and a half instead of the two percent that Alan Greenspan
was saying was probably the right level is that there is
constant talk in the Parliament in Paris that the French
government may abandon its commitment. Therefore, that is
taken into account.

I think that it isn't at zero percent. Alan
Greenspan was right. If you take the international monetary
market quotations on so-called gold futures, which could also
be properly called dollar futures in gold if you're
denominating your money in gold, gold ounces.

As of yesterday, the annual rate at which you can
buy dollar futures with gold is -- for March, 11.4 percent
and then it goes to 12.8 and finally, in December '82, 12.4
percent. Eleven or 12 percent is what the market says you
can -- It in effect says the difference between that and the
dollar interest rate is how much gold is worth to be lent.

GOVERNOR WALLICH: That's the same condition as
you have for any currency that the forward rate of the
currency reflects the interest differential on the two.
Let me go on, since you mentioned the French bonds. Do you know what price they will reach?

MR. DAVIES: In terms of -- I know only in terms of yield.

GOVERNOR WALLICH: The yield is not what I'm asking. I am asking you or I can tell you, that it rose as high as 1,000. That is to say, an increase of 1000 percent and they are now selling roughly around 500.

MR. DAVIES: Yes.

GOVERNOR WALLICH: I hesitate when I hear a recommendation that our government issue a gold bond in the light of the history of these French bonds.

Could I ask Mr. Reynolds a question? Then I'll be through, Mr. Chairman. You made a statement about the failure of gold production to respond to the higher price, which plays a large role in Professor Fellner's analyses.

You said the reason is that people treat gold as an inflation hedge. Now, I've been told that the reason why South African gold isn't expanding is that as soon as the price rises, they move to lower grades or ore.

That, of course, reflects an expectation precisely of the opposite kind. Maybe the price will fall again and all will then be forever unrecoverable, barring new techniques.

Do you have a judgment as to between these two?

MR. REYNOLDS: That's a luxury that the current
arrangement gives them, of hedging against upward and downward movements in the relative price of gold and dollars.

I am simply suggesting that when you are trading a tangible asset for a claim against future dollars, the weakness of that claim which is reflected by the high bond yield today is a measure of why it's a pretty good idea to horde gold and also oil.

Much for the same reason that Americans and other people move from financial assets to tangible assets, those who own those assets have precisely that same incentive. It is a theoretical statement, but it is the accepted theory of exhaustible resources, that you manage them in such a way as to maximize your long run wealth.

Now, you can always argue that they are not subject to rational calculations of that sort. Since we know that both the South Africans and the Russians have a very high demand for an exchange in order to purchase wheat and the like, I suggest that's probably not true.

I really don't think these technical questions about the depletion of known reserves, which is the same argument used for oil. Known reserves are irrelevant. What is relevant is how much exploration occurs and the rate at which you attempt to exploit your resources.

They don't attempt to exploit them very rapidly. They go ahead and deplete their weakest, most expensive...
resources at the present time. All of these kinds of things are managerial decisions. The economic incentive would change if you fixed the price of gold in terms of dollars.

They know, from that point on, at least for the foreseeable future, that they are not going to get more dollars in the future per ounce of gold. That's all.

GOVERNOR WALLICH: Thank you, Mr. Secretary.

SECRETARY REGAN: Thank you, Governor Wallich.

Dr. Weidenbaum, you have arrived in the nick of time. Alphabetically, you are next to ask questions, if you so desire.

DR. WEIDENBAUM: I would like to thank the witnesses for preparing the papers, which I look forward to reading carefully on another occasion.

I do want to apologize to the Chair for my late arrival. I will make amends by keeping my inquiry unusually short. Thank you, sir.

SECRETARY REGAN: Thank you, Dr. Weidenbaum.

Dr. Schwartz?

DR. SCHWARTZ: I know the hour is late. I shall limit myself to asking Alan Reynolds two questions.

First, let's grant your assumption that we're going to go back to a convertible gold standard. We'll do it alone and never mind the rest of the world.

MR. REYNOLDS: The rest of the world will join us.
DR. SCHWARTZ: Okay. Now, you've acknowledged that the Federal Reserve made mistakes in 1919, '21, '29, '30, 1958, '65. What's going to be different? How are you going to be sure that the adjustment will be made that the gold standard discipline requires?

What in the record gives you that confidence?

MR. REYNOLDS: That's a very good question against any monetary rule, as much a good question for a quantity rule obviously, as for a price rule.

What is the effective mechanism by which you are sure that the rule is obeyed?

DR. SCHWARTZ: Yes.

MR. REYNOLDS: It is also true of the private money. How can you be sure that they are not going to nationalize the private money and invalidate gold clause contracts.

The only answer I can give you is that I don't think these are men of ill will around the table or women.

DR. SCHWARTZ: No. Whatever they did was never done with ill will.

MR. REYNOLDS: Sometimes with some very bad advice from economists. So, I'm suggesting that it times to get some good advice from a new crop and we'll hope for the best we can do. Really, you are making without intending to make it, Anna, an argument in favor of -- excuse me, Dr. Schwartz,
for discretion. If you say that any rule is going to break
down, then what is the option except to say well, why even
try a rule? Why even try to establish any kind of a rule?

DR. SCHWARTZ: You can impose a rule with
sanctions, as somebody offered.

MR. REYNOLDS: I wouldn't mind working with some
sanctions -- the same kinds of sanctions one could use on a
quantity rule such as the kind the market committee suggests
could be imposed in this case, too.

I note that at the last meeting of the Shadow
Committee, they suggested that in addition to considering
convertibility, you do the following things. Well, if you
do convertibility, I'll take all of the other things. I am
a reasonable man.

SECRETARY REGAN: Okay? Well, thank you, ladies
and gentlemen. Mr. Costamagna, do you have a final question?

MR. COSTAMAGNA: I have a very brief one.

SECRETARY REGAN: A very brief one? Please proceed.
I want the record to be complete.

MR. COSTAMAGNA: Mr. Davies, I would just like to
ask you, sir, and I asked the same question this morning of
others. You narrate various friends of payments in gold,
gold dividends. We have gold futures, gold bonds, gold
certificates, foreign gold coins.

Do you see this as some evidence of a de facto as
distinguished from de juris gold standard developing in the United States right under our noses, so to speak?

MR. DAVIES: I think it is correct that to the extent that eight million Americans are holding gold and some of them are using it to make payments. In the minds of the payer and the payee, gold is a standard in that case.

I think that it will be good and strengthening for us, as the largest governmental holder of gold in the world, if we can encourage the use of gold as a means of payment and an auxiliary currency.

That unsterilizes the 264 million and it makes it a real asset, a real live asset, to the good of all concerned.

MR. COSTAMAGNA: Thank you.

SECRETARY REGAN: Thank you. Again, I repeat. I appreciate the panel's appearance here. I think it's been a very interesting set of papers that you've given. I enjoy the differences of opinion.

Please be sure that your answers as well as your papers will all become part of the record. This has been a long session. We started at 9:30. It's been a good two days of hearings.

I appreciate the members of the panel being here and sharing the interest and I declare the meeting adjourned. (Whereupon, the meeting was thereby adjourned at 4:12 o'clock p.m.)
MEETING OF THE GOLD COMMISSION

The Gold Commission met on Friday, December 11, 1981, in the Cash Room of the Main Treasury building, Washington, D.C. The meeting, open to the public and chaired by Treasury Secretary Donald T. Regan, ran approximately four hours. Attached is the unofficial, uncleared and uncorrected transcript of the Gold Commission Meeting.
UNITED STATES DEPARTMENT OF THE TREASURY

MEETING OF THE GOLD COMMISSION

U.S. Department of the Treasury
15th and Pennsylvania
Cash Room
Washington, D.C.

Friday, December 11, 1981

The meeting in the above-entitled matter convened

at 10:15 o'clock, a.m.
COMMISSION MEMBERS

Secretary Donald T. Regan
Congressman Neal
Dr. McCracken
Mr. Jordan
Senator Dodd
Mr. Coyne
Mr. Costamagna
Governor Partee
Congressman Paul
Congressman Reuss
Governor Rice
Senator Schmitt
Governor Wallich
Mr. Weidenbaum
Congressman Wylie
Mr. Lehrman
Senator Jepsen
UNDER SECRETARY SPRINKEL: Why don't we start at the top. I know that the first three items have been circulated. If it's agreeable with you, we'll ask Dr. Schwartz to summarize as briefly as possible the major points made by those that testified November 12 and 13. And insure that you will not go into all the details because it did go on two days, but you can extract the essence from that testimony would be very useful.

DR. SCHWARTZ: The tabulous summary that was circulated with a recommendation of the witnesses that we proposed in which we're dealing is a range according to the outline of -- that Dr. Wallich circulated in October, and the scope of the change is possible use on gold that the Commission would publish.

There were three broad categories. No change in the role of gold, an increased role of gold, and the decrease of the role of gold. And that's the basic change in the present role of gold.

With respect to a possible increase in the role of gold, it is again a wide variety of dealings of the possible roles that would increase the -- the influence of gold on our monetary system.

The first that I list is the gold reserve against...
government reserve notes without convertibility that Dr. Weintraub presented to you. Dr. Bernstein and a gold reserve without convertibility, a recommendation that is like the Weintraub recommendation, he made this turning over all reserve assets of the U.S., including gold, foreign currencies plus gold, would be transferred to a higher amount, and that reserved asset account will provide for the U.S. domestic liabilities, like convertibility.

Three witnesses favored the primary issue, either gold back notes or bonds.

Two witnesses favored restoring the use of gold into national transaction by raising the official price from what it is to the market price.

Then there were a number of suggestions with respect to restoration of a gold bank.

Two witnesses favored a domestic 100 percent gold coin standard with floating foreign exchange rates.

Four witnesses favored essentially a return to the type of gold standard that we've had in the past; international gold standard, the fractional reserves held, domestic financial institutions against monetary liability.

With respect to the final category, I deeply -- the role of gold, leave reviews of those to dismiss any future role of gold in the U.S. monetary system, and therefore, argue in favor of the disposal of the gold reserve.
Three, preferred to do it by auction as was the practice in the '70's.

One favored sale of the gold as a means of covering Treasury expenditures. The Treasury, as long as the gold reserve at market rates would pay for Treasury expenditures there would be no borrowing by the Treasury.

And, finally, there was one recommendation that the Treasury sell part of its gold stock in the form of coins at market price.

UNDER SECRETARY SPRINKEL: Are there any on the evidence?

Mr. Costamagna?

MR. COSTAMAGNA: I don't know if this is appropriate but just to — since we're discussing these 10 things, and this is in the form of discussion, I may just ask this question on the --

UNDER SECRETARY SPRINKEL: If I could just interrupt one moment. We now have a form, and the fact that officially opened the meeting, then I'll call on Mr. Costamagna to make his comments on the summary.

MR. COSTAMAGNA: On the question of the gold coins, I'm wondering why that is considered a decrease in the role of gold. I could understand that label if we take the position that the Treasury would just be selling coins as medalions. I could understand that as a decrease in the role of gold.
But if we get into the -- have coins as money and the Treasury is buying and selling coins, I don't quite understand that as a decrease in the role of gold. I just question that label. I don't know if that's appropriate to discuss that this time, but since it's part of this asset --

DR. SCHWARTZ: Well, it is in relation to Mr. Davies recommendation, I quite agree that if someone opposed Treasury issue of coins that would be a legal tender, that could be used in payment in transactions that would be of a very different -- very different item, and would not be appropriately included in there.

UNDER SECRETARY SPRINKEL: What was the specific recommendation?

DR. SCHWARTZ: Essentially that the Treasury would mint coins and sell them at the market price.

GOVERNOR RICE: Would it be legal tender?

DR. SCHWARTZ: No, it wasn't proposed that --

UNDER SECRETARY SPRINKEL: He was not proposing the coins as legal tender.

MR. COYNE: I understood him to say that he endorsed the bill that is in the Senate, which I have a copy of, the Senate bill 1704, which is the pre-market gold coin act, and I believe that particular act does provide for

DR. SCHWARTZ: Legal tender?

MR. COYNE: -- legal tender.

DR. SCHWARTZ: Well, it may be, but I have mis-
classified these views as I read them. I believe that they were properly signed.

MR. COSTAMAGNA: That is not really the point. I still am concerned that in saying that coinage is a reduction of the role of gold. All right. You understand, that is to say, Dr. Schwartz, if gold coins were to be legal tender, then of course, that label would change.

DR. SCHWARTZ: I agree.

MR. COSTAMAGNA: But -- that answers the question. Thank you.

UNDER SECRETARY SPRINKEL: Dr. Wallich?

GOVERNOR PARTEE: I just want to observe that if the gold coins are to be legal tender they would have to be at the fixed price for gold. In the absence of fixed price the law provide might provide that gold coins as legal tender at the price of gold of today's, the coin typically sells at the small premium. It would always be deeper to sell the coin and get greenbacks and use those for whatever payment is to be made.

So it's really a mute point under floating rate or floating price regime.

UNDER SECRETARY SPRINKEL: Are there any other recommendations to be made on this first point on the agenda?

Jack? Governor Partee?

GOVERNOR PARTEE: As so far as I can recall,
in either of the classifications to Dr. Schwartz observance or the - the difficulty with a analysis like this which as the occurrence of the -- is that each -- each witnes was not asked to take a position on each of the ten headings. I don't know what the ten headings are here.

If you were to write a mutual letter and say, well these are the ten headings we have and put these under headings, it seems to me conceivable they might indicate that they also have a feeling for example.

The in-coin of market rates, the very last column is here, just didn't -- it wasn't a feature of the discussion, except for Mr. Davies who was talking in terms of the interest, and the fact that they are putting out coins.

I do recall, for example, just this given example of this, that I asked the question in the panel that -- to Dr. Weintraub on whether there was any support for Dr. Weintraub because no one -- no other member of the panel supported it. But then I wouldn't do that on other days and other panels, so I don't know whether there was more support for Weintraub on Weintraub, or not, in the group. But that is one of the problems, and perhaps -- I guess there's no particular reason to think that this is a -- an especially well established professional group of experts. But if we really wanted to know what these experts, between
them was, these ten possibilities, I think we'd almost have to address the question.

UNDER SECRETARY SPRINKEL: There certainly are other ways of summarizing the testimony that occurred over the two days. And one occurs to many of you that you would prefer, we certainly will be very pleased to hear it, or have it submitted to the other members of the Commission.

GOVERNOR PARTEE: Now, if I might, just one other comment on this legal tender thing, and I'm not a lawyer at all, but it's my understanding that these gold coins that are minted abroad do -- are declared to be legal tender in those countries even though they don't have a specific value in terms of the unit of account of the country unless done for some reason, having to do with imports and exports, and that kind of thing. But it does seem to me conceivable that you could have legal tender coins that don't have a dollar -- a fixed dollar value.

I would agree with Henry that they probably wouldn't in fact, often circulate because there would be some premium, but the technical feature of having legal tender, I think, has some legal attributes that one would want to explore if one were thinking of proposing that there be a gold weight coin.

DR. SCHWARTZ: On the subject of legal tender, I have read that a private transactions, legal tender is not
an essential feature of the use of such coins in transactions
That legal tender properly applies only to government. The
government says it's a legal tender to pay taxes, pay customs,
pay excises, and certain forms of currency. But that so far
as private transactions are concerned, the private sector can
agree in its own contract about what it accepts within.

UNDER SECRETARY SPRINKEL: Dr. Paul?

CONGRESSMAN PAUL: Thank you. I'd just like to point out
the legal tender on coins, I disagree with Dr. Wallich. I
don't think it's a mute point. It's a critical point. And
I also disagree that legal tender is limited to government
-- payment of government bills, in that it's very important
in all private transactions as well, if I understand that
legal tender court rulings during the Civil War period.
But even without the court rulings, I think it's been estab­
lished, and this is reason why we would like to see if there
is a coin, that it has legal tender status that will never
be challenged, that we can pay a debt privately. But in the
Coinage Act of 1792, it says the money of the care in the
United States shall be expressed in dollars, or units dimes,
or ten cents, or hundreds, and nills of thousands. The dimes
being the ten cents, or hundreds and nills of thousands. The
dime being a tenth part of a dollar. A cent, a hundredth part
of a dollar. Everything is dollar.

And all accounts in the public offices and all the
proceedings in the courts shall be kept ahead — in the form of these regulations. If you have a court contest and it's settled, the judge is always going to say, "you don't pay in ten ounces of gold, you pay in the equivalent amount in dollars, and that is legal." And that's the legal tender understanding.

So it's a critical point, and it's one if we want to allow some little bit of freedom in the money system, and a little bit of competition, that we must concentrate and at least permit us the opportunity to be competent we can pay the debt in gold and not be forced to use a dollar.

UNDER SECRETARY SPRINKEL: Mr. Costamagna?

MR. COSTAMAGNA: Mr. Sprinkel, this bill S-1704 provides in one section here, that the competitive market price of gold as determined under the section, shall be the official conversion rate between dollars and gold, and then goes on to specify how the Secretary of the Treasury set that price daily.

As I read this bill, that's exactly what is being provided at the market price. Not at a fixed price.

GOVERNOR PARTEE: Which bill are you speaking of?

MR. COSTAMAGNA: S-1704.

GOVERNOR PARTEE: What is the bill?

MR. COSTAMAGNA: It's the -- it's called the Free Market Gold Coinage Act. That is for the Senate, I
believe.

UNDER SECRETARY SPRINKER: Mr. Coyne?

MR. COYNE: The subject of the definition of the various legal tender is an interesting one which I've been looking at for a number of years, and it's perfectly clear to me that it's perfectly unclear to everybody, and it seems to have no meaning anyplace other than the meaning that whoever chooses to use that phrase, if there are countries in which there are legal tenders. gold coins, which are not usable by the citizens of that country within the country, and in fact, it is illegal for the citizens of that country to physically hold any of these coins which are, in fact, legal tender coins. Why are they legal tender coins? Because in one country the central bank said so. In another country they passed a law saying that such and such a coin was illegal tender.

I haven't found any commonality of meaning whatsoever. The idea that illegal tender coins necessarily implies that it can be used for the payment of debt, for private debts, is simply not internationally so in terms of any of the bullion coins that exist in the world today.

If the United States doesn't decide to mint a bullion coin and to make that coin a legal tender coin, it will say what legal tender means. And it should mean lots and lots of different things.
It could mean that there is a gold coin containing one fine ounce of gold with a face value of $200, and that it should be treated as a circulating coin both for purposes of sales tax, and for purposes of capital gains tax, or you could decide that it is a coin with a face value of one fine ounce of gold, which at least one country has done -- two countries, two major gold minting countries have done.

Why is one fine ounce of gold a legitimate designation of the internal currency of that country? Because they said so, that's why. And they put it into effect as law in that country, and therefore, that is it. And then they ship those coins to other countries because it is a law in the country in which the coin has been minted. We'll accept those coins according to the definition of legal tender in the country to which it has been shipped, so that there aren't -- it seems to us, I should say, that there simply is no internationally underscored definition of that grade whatsoever.

And as I said at the beginning of this comment, the most extraordinary example is a situation in which there is legal tender coin minted which it is illegal for the citizens of that country themself to own it.

UNDER SECRETARY SPRIINKEL: Yes, Dr. Wallich?

GOVERNOR WALLICH: I would just like to point out that what we've been talking here, I think in the presumption that
a gold coin is full bodied, and that its value is at least that which is represented. But a gold coin could be legal tender for an amount larger than its market value, and that value happens to have risen very substantially.

I'm reminded of a case of some U.S. travelers who received a gold coin as a souvenir in a country that has minted such a coin, and when they came back to the U.S., they immediately turned the coin over to the government so that they wouldn't be receiving a gift. But they said that as a souvenir, "may we buy it back at the market price?"

It turned out that they couldn't do so because the coin was legal tender and of a larger amount than the market price at the time. So there would have been an advantage to them, but they weren't allowed this to have. This distinction one has to know.

MR. COYNE: If a legal tender gold coin were minted, which could not be used for -- which could not necessarily be used for the payment of private debt. I realize that the comments on all those things would be quite different, but that should be one of the confusions of using this term because it means different things to different persons, but if a government issues a coin with the face value of $200, containing one fine ounce of gold, then any rational holder of that coin would be able to sell that coin, sell it as gold, the coin would be sold for our gold in a
$400 gold market, and it would be sold for our legal tender
back to the United States government in $190 gold coins.

And the -- if the United States government were
to say, to issue a coin for a one ounce -- buying it and
certainly not -- an important example of saying that if you
issue a gold coin for, let's say, the eagle, and the eagle
definition of this new currency that we've created that the
Congress and the President would create, was one fine ounce
of gold, or its value in other U.S. currency, then that coin
would be interchanged, go into any bank or in any bank and
go back to the Federal Reserve Bank, and exchange eagles,
or whatever the gold dollar price was at the particular
moment of redemption. You can now take a $20 bill and get
ten singles for it at any bank because everybody knows that
ten singles would -- 20 singles equals one twenty.

I'm talking in terms of real dollars. The -- and
the -- and one would take a coin which was denominated, say,
with a name, and redeem it at whatever the daily rate was
between gold and the dollar price. It's certainly not a
suggestion, but then there are just literally dozens and
dozens of possibilities, and it's simply a matter of which,
if any of them, one would want to do.

It seems to me that the key question relating to
a gold legal tender bullion coin is whether the United States
government would wish to mint such a coin and define it as
legal tender and give it as many of the characteristics of circulating money as possible, because if you chose to do such a thing, people could be doing something very, very significant. I'm not sure exactly how this relates to the basic question before the Gold Commission, but it would -- it would become extraordinarily popular item of gold investment because it would not, by definition, of having the characteristics of circulating money. It would not be subject to state sales tax. It would not be subject to capital gains status, and it could be redeemed. That is to say, it could be totally liquid in one of the objects of the store value, obviously is the ability to convert that stored value back into expendable funds in time of need. And I think I've said enough on that.

UNDER SECRETARY SPRINKLE: If the Commission members are agreeable, I suspect we're not going to settle these nuances this morning, and I'd like to go on to the points on the agenda, if that's agreeable with you. But we will take into consideration whether or not that particular proposal was misallocated in our device for summarizing it.

Dr. Paul presented a proposal at the last meeting, that the U.S. seat to reacquire gold from the IMF, and papers were presented on his proposal. And our staff did some research on what was doable and not doable.

Dr. Paul, if you would like briefly make your
proposal, and then I will ask Mr. Thomas Leddy to summarize, if you'd like. The results of our research on this issue.

And we want to move along as quickly as possible to get down to point number 4 on the agenda, which is the heart of what we're going to be worrying about between now and the end of March.

Dr. Paul?

CONGRESSMAN PAUL: Thank you, Dr. Sprinkel.

First I would like to ask a little bit about procedure.

What is the intention of the Commission on how we deal with subjects like this? We've discussed this subject once. We're going to discuss it again. In order to take a position on this and decide whether or not this will in our report, are we going to follow with the vote today, or will we vote on this at a later time to take a position on this? What is the intention of the Commission?

UNDER SECRETARY SPRINKEL: Well, I would assume that we would vote on it at a later time when we get it into a proposed report of this Commission, because we'll either sign on or sign off of the various proposals so there will be ample opportunity to take such a vote.

This is just information to make sure that we have the information that the Commission members think they need
in order to respond to that proposal at the subsequent time.

CONGRESSMAN PUL: Okay. This is to clarify the proposal that I have made.

My suggestion is that, we as a Commission, recommend to the Congress that we take a position and resolve and recommend to the IMF that this -- the amount of gold that remains in the IMF that is -- that the United States has contributed, and therefore, entitled to, that recommend that it be returned. And I base this on the public policy that we have.

In 1976, when we passed the IMF Bill, it was confirmed at that time that we would demonitize gold. At that time there were 150 million ounces of gold in the IMF, and it was agreed on at that time that 25 million ounces could be sold at market price. They did this over, I believe a 4 year period, and these funds were turned over to the third world nation. The fund was set up and the monies accumulated were distributed.

Another 25 million were returned to the post countries at 35 SDR's, or $40.86 per ounce, and at that time I think we received 5.7 million ounces of gold, were returned to our Treasury.

And it is my contention that the majority of people in the government has accepted the position that internationally gold is no longer money. That it is to be
demonitized, and it just happens that demonitizing gold internationally -- I happen to believe, is a vehicle to return the money to the people, and if they're allowed to use it freely in a voluntary way, we can once again monitize gold in a very orderly convenient slow manner, rather than trying to mandate it overnight.

I would like to just state points made in the IMF report that we have in 1976 to support the contention that gold would no longer be important in the IMF. The report said, and this is quoting, "in 1971 the United States abolished convertibility of the dollar into gold. Since then it has been the objective of the United States that the support of this committee to hasten the demonitization of gold so as to reduce its role in the world monetary system, it became evidence that given the nature of modern economics in the evolution of international monetary relations, a system in which gold is an important reserve note component in which major countries attempt to preserve the gold convertibility of the currencies at stable par values, is no longer viable. Such a system under modern conditions would be erratic, crisis prone, and unmanageable.

The extent that the international monetary system needs a reserve asset is growth, and management is under rational control. This Committee feels that SDR offer an alternative to gold."
That's our official policy. We followed that up with the elimination of one-third of the IMF gold, and I think and believe sincerely, that consistent policies which uphold this would be to recommend to the IMF.

Now, I read the opinion given on the return of gold, and with reading that and it was my understanding, I believe, a vote of 85% of the IMF, this gold could be returned in exactly the same manner as we have already received a portion of the gold. And if you've done this for one-third of the gold, there's no reason why we can't continue.

So, I believe the burden of proof, and the burden of defense against this proposal is on the shoulders of those who disapprove of gold in the monetary system. Gold is not money, therefore, it is very clear to be -- it should be returned. And I think that it seems so clear to me, I cannot understand why we have not done this sooner. I think if the argument is used that we need a reserve asset, well, if they insist that we have gold, gold must be money.

If they do not -- if they just want any reserve asset, why don't they use pork pellets. Why don't they use some other. Gold is either money or it isn't money. IMF either needs it or they don't need it.

The official position is that we do not need it as money, internationally. I happen to agree if a true gold standard -- you do not need international gold manipulation,
and therefore, I think it is very logical to recommend that we proceed along, that our official policy on internationally held gold in the IMF be that, if we worked for the day that that gold would be turned to the United States so that it will be returned to its true owners. This gold represents -- some of the gold that was removed by force from the American taxpayer in the 1930's at $20 an ounce, and that gold finally found its way into the IMF, I think, imorally, and logically, economically in a position that we take today -- indicate very strongly that what we should do is recommend that this gold be returned.

UNDER SECRETARY SPRINJUL: Our research, of course, was not designed to answer whether that should be supported or not supported. It was to determine under what circumstances, if any, it, in fact, could be achieved. And I've asked Tom Leddy to briefly summarize the facts as we see them.

MR. LEDDY: Well, this is a memorandum basically on the legal positions relating to this position of IMF gold in response to your question you have on part P.

In one point, first of all, the U.S. does not have a legal entitlement to the gold, so that a request for the gold would have to be operated under the IMF's legal provisions of the IMF's articles in relating to keeping the position of IMF gold.

There are essentially two operating divisions.
There are divisions relating to gold in terms of gold, in terms of control, for membership, and liquidation. But in terms of operation, there are two provisions.

One is that the party can sell gold to members at a price based on the market price. And the second is that it can sell gold at the old official price. That is, $35 an ounce to all members in proportion to their quotas in August 1975, which was when the gold agreement was reached.

That is the provision, I think, Dr. Paul was talking about. That is a relevant one.

Any decision on disposition of IMF gold does require an 85% majority vote and the -- how much membership. The U.S. vote at present is about 19.66%, so those are the basic legal provisions relating to this, and we have not tried to invest the policy as such.

UNDER SECRETARY SPRINKEL: 'There will be an opportunity at some point, as I promised, for the members to state their views as to whether there should be such an attempt. We should recognize that it can only be done within those constraints. That is, 85% of the IMF votes.

Dr. Paul.

CONGRESSMAN PAUL: There is nothing that you would see that would constrain us from making a recommendation though, is there?

UNDER SECRETARY SPRINKEL: No.

CONGRESSMAN PAUL: I mean, there's a technicality, and we
deal with these --

UNDER SECRETARY SPRINKEL: This does not bear on whether or not the proposal should be adopted by this Commission. It merely points out the contraints, if they decide to move in that direction.

Dr. Wallich?

GOVERNOR WALLICH: I would like to point out, Mr. Chairman, it takes a great deal of difference whether that proposal, assuming it could be carried out at all, was carried out at the old efficient price of $35 per SDR, or at the market price. The first time the gold was restituted to members, or was done at $35 SDR, now that means, of course, that the fund gets back, as it were, to the value that was put in, but it also suffers to various substantial reductions in its actual resources, which are based on the value of gold at the present price.

That would interfere, for instance, in the funds ability to borrow in the private capital market. It would then weaken the fund, and would slow down what one surmises is its long-term -- very long-term solution for the bigger role as the world's central bank.

UNDER SECRETARY SPRINKEL: Are there anymore comments on this subject before we move on?

Governor Partee?

GOVERNOR PARTEE: Well, I just wanted to say, Mr.
Chairman, that I thought was a useful memo. I think there are some rather obscure points that are hard to find, but to make use of the memo that I have, this all set out for us, and I think it would also be useful to the public. Therefore, perhaps a matter of an appendix to our report, at least a matter of record, an attempt to the public.

UNDER SECRETARY SPRINKEL: We'll certainly take that into consideration.

Is there any other comments on this issue?

Yes, sir, Mr. Costamagna?

MR. COSTAMAGNA: Secretary Sprinkel, in regards to the IMF, this is a somewhat essential issue, but while we're discussing the IMF, I'd like to bring something to everyone's attention that I just personally learned, that through a paper written by a Dr. Heller from San Francisco, who's an international economist, and who previously worked for the IMF, he indicates in this paper called, *A Flexible Gold Standard*, as follows:

There's a second amendment, the articles of agreement of the international monetary fund explicitly prohibits the maintenance of the value of the currency in terms of gold. The United States has ratified these agreements, and is therefore bound not to institute a gold standard.

That makes me wonder sometimes, if we have these agreements, be in an exercise of futility --
UNDER SECRETARY SPRINKEL: I hope not.

MR. COSTAMAGNA: I would like to ask -- maybe get a legal opinion of that for future --

UNDER SECRETARY SPRINKEL: You can certainly do that.

MR. COSTAMAGNA: I know this is going to keep your legal staff busy, but I think, as I read that, that would be very, very important up here.

UNDER SECRETARY SPRINKEL: We would be pleased to look into that and report it at the next meeting.

MR. COSTAMAGNA: Thank you.

UNDER SECRETARY SPRINKEL: Could we move to a brief summary of -- by Mr. Coyne of this proposal, and then invite any comments, particularly of Mr. Wallich -- had some comments.

And then finally we want to get to the draft in the introductory section so that we can get moving on our report.

Yes, Mr. Coyne?

MR. COYNE: I have two housekeeping questions to ask. I'm wondering what the appropriate time during this meeting would be to refer to that? Now, or a later time?

UNDER SECRETARY SPRINKEL: I'd bring them up now, but I --

MR. COYNE: I can tell you -- I can tell you in
one sentence what they are.

One is the February meeting of the Gold Commission happens to conflict with the international meeting on the gold, at which I would be a speaker, and I know that there is at least one other member at this Commission who also will be a speaker, Governor Wallich and I.

I'm wondering whether we consider, in view of the ultimate nature of that meeting, to consider an alternative?

And the second question, I wish to add during the course of this meeting, refers to the letter of--by Senator Helms to Secretary Regan, dated November 12, which I think we've all got copies of, which asks, I believe, two very important questions, especially as he and certain other people see it. I would be very interested to hear how that letter has been--has been dealt with? In what way it has been responded to in order to preserve the sense of fair and thorough hearing, which we also pretty much wish to accompany.

UNDER SECRETARY SPRINKEL: Would the Commission members like to consider those two issues at this point, or would you prefer to delay them until later in the meeting?

MR. COYNE: I would be very happy to delay them. I only wish to ask when they could be--

UNDER SECRETARY SPRINKEL: Well, they certainly will be considered, you've raised them. I would like to get through as much as we can of 4, and if we could agree to bring
it up immediately after 4, I would appreciate it.

MR. COYNE: Thank you.

UNDER SECRETARY SPRINKEL: Now, if you will give
us a brief summary of your proposal, we'd like to have a little
discussion on that.

MR. COYNE: Thank you. I wish the inclusion of
the work brief had been conveyed to me before now, because I
have -- I have slightly more than a brief comment to make,
but here I am.

I'm very glad to be back here in the Treasury Cash
Room with my fellow members of the Gold Commission. I take
off my jacket in response to the humidity and the temperature,
and not with the intention of fighting.

I want to apologize once again for not being with
you at our last two sessions due to what, at least for me,
were two force majeure circumstances.

As you may know, my firms merger discussions
reached a cresendo at precisely that moment in time, and I
was compelled to divert my attention briefly from the Gold
Commission to the Goldman/Sacks Commission.

Although not present in our late October meeting,
I did send each of you a copy of the speech which I intended
to deliver at that time outlining in a preliminary way my
response to the principle questions, which I felt faced this
Gold Commission.

Since then I've received many interesting reactions from members of the Gold Commission and from a few economists to whom I proposed, directly and indirectly, these ideas, and presented my still unpolished notions. Some of my ideas are perhaps new and unfamiliar, and not surprisingly, have stirred a mixture of interests in perceptive questioning and adverse criticism and other kinds of criticism.

By and large, the comments which I received, even the more critical ones, have seemed well conceived and helpful to me. I'm trying to take these comments into account in finding and modifying my initial proposals, and I plan to present to you as soon as possible a pair of going position papers in reviewing all of these questions in serious detail.

In the speech which I sent to you outlining my gold views and suggestions, I began with some rather difficult and controversial ideas, especially a proposal for gold cover rule. And an automatic mechanism for triggering government purchases in the sales of gold.

I then proceeded to other proposals, which were on more familiar ground, and perhaps more likely to win some element of general acceptance.

In my statement today I intend to reverse that procedure. I'll begin by outlining those ideas and proposals which may be compatible with the true consensus, or more likely
to be so. And then to proceed with more difficult issues, which evoke more criticism in this.

I'd like to outline for you a series of statements and proposals which I believe could become part of a majority opinion, including the final Gold Commission report. I'd like to begin with points which seem to be most likely to win unanimous or at least near unanimous rule, and then I'll proceed to other statements which, although apt to encounter dissenting opinion, I think would nevertheless acquire a majority support after further study, consideration.

Here then is my list of gold use proposal, beginning with those which seem, as I've said, to have the most likely chance for ready appeal.

One, this is a widely supported proposal though not a critical policy significance at all. That the U.S. issue a new rule bullion coin priced near the market value, offering Americans an alternative for similar coins produced abroad.

In order for this coin to be successful, it must be effectively designed and marketed. Each crucial, that like some foreign competing coins, a new U.S. issue could be designated as legal tender, whatever that means, and as coin of the realm bearing the great seas of the United States, and the motto "In God We Trust."

My second proposal, perhaps not very controversial,
or highly significant to U.S. economic policy either.

There's a simple businesslike, namely, that the
U.S. utilize its gold stocks, via swaps, leases, or other
commercial arrangements, and generate a modest revenue flow,
which otherwise would be nonexistence.

Governor Wallich has said that there is no harm
in simple banks making a profit, even though that's not their
primary concern. I think that the same thing is true for the
U.S. government and Treasury with respect to using our gold
stock commercially to generate modest revenues.

My third, perhaps more significant proposal, and
one which I hope most of the Commission members will be able
to endorse, is that the U.S. Treasury should take it on itself
to prevent any appreciable depletion of our gold holdings
on the premise that these gold stocks are an important strategic
and monetary resource. However, it does not make sense to
assume that our existing stock level is automatically the
right one, and will continue to be the right one into any
set of future circumstances.

I believe the Commission should set rules or
guidelines where targeting gold stocks relative to the size
of the economy, and its monetary requirements.

My own specific suggestions, although still
preliminary in this respect, are incorporated in proposals
I was getting to later in this paper.
My fourth proposal relates also to the management of our gold stocks. The proceeds from the assumption that moderate variations in Treasury gold holdings can and should be permitted, thus allowing scope for use of our gold stocks as implements of economic policy.

I think that most members of this Commission will agree that it makes no sense to keep a very large immobile monetary reserve if this reserve can be employed constructively to our purposes. I have suggested that within prescribed limits our gold stocks would be used by the Federal Reserve as an alternative intervention medium to support the value of the dollar at home or abroad, and also that gold purchase and sales might be used as a temporary bridging device to help finance budget or payment deficits, or to offset surpluses, if that day occurs.

At some of my friendly -- as some of my friendly critics have said, a great deal of technical work may be necessary to determine which of these uses of gold is likely to be significant and effective. And also whether there are alternative uses which may be available also, or to be preferred.

I believe that this Commission should recommend that the Federal Reserve initiate appropriate steps to evaluate the benefits and costs of employing gold for various policy purposes.

I always say, as I have said in my original paper,
the actual implementation of the policy which would use gold in addition to other instruments of foreign currencies, would always be intended to be highly discretionary on the thought of Federal Reserve uses.

My fifth proposal, again, one which I think most Commission members may endorse, is that the U.S. begins to value its gold stock at market based prices, rather than at an outdated fixed price, which is no longer relevant. The logic of valuing of gold stocks, and those of other countries, and the IMF, as I understood Governor Wallich a few moments ago, it is clear that the only realistic way to value these stocks, it ends the practice of formally valuing of gold reserves at an artificially low price, thus minimizing their true significance. It means that the relative gold asset position and the strength of the United States and other countries will be accurately recognized and presented in official statistics.

The counter argument that valuing official gold stock near market levels will greatly expand world liquidity and prove inflationary as has been challenged by IMF specialists and by other respected economists, including Robert Solomon and Richard Aliber.

Your two further studies surely would be helpful. I suggest that this Commission recommend that the U.S. Treasury conduct a study of the valuation of the official
gold stocks, and report its findings to the Congress along with any formulas which might be appropriate for valuing gold at market based prices.

My sixth proposal is valuing gold at the market will eliminate one arbitrary barrier to use of this monetary metal as an accepted international medium for payment of finance.

As a further step in this direction, I propose that the U.S. sponsor an agreement with other countries to define rules governing the use of gold in transactions between simple banks, and otherwise seek to expedite the use of this metal in any government transaction.

That market value, as we all know, that gold represents the major share of international money.

Seven, I believe that this Commission should also expressly acknowledge and endorse one basic monetary function of gold, namely its usefulness as backing for money.

Despite gold demonitization efforts in the recent years, most countries still cling tenaciously to the gold stocks. And that reflects, in part, on an unstated conviction that their gold reserves still measure -- instill a measure of international competence in the value of their monetary unit. I believe that this implicit function of gold as backing for money should be made explicit by establishing the specific gold cover requirement.
I suggest that the U.S. maintain gold stocks valued at market faced prices of not less than 20% of the money supply in its widely used M-1B definition.

However, it's entirely possible that an alternative monetary aggregate could and should be used. And then a different gold cover percentage ratio would be appropriate.

That is the purpose of my example that 20% -- 40% measured against M-1B is intended to be indicative of the sort of thing I had in mind and clearly not the result of a -- the type of study that was required before actually putting inflation -- particular figures as used in such a particular monetary aggregate is into implementation.

The core of my proposal is to move toward a loose link between gold and money, recognizing that further study is necessary to evaluate alternatives and their ramifications, and to establish the precise parameter.

However, I do not think that this gold cover issue should be connected as it is under the Weintraub proposal to a separate major question outside the scope of this Commission: The desire ability of legislating restrictions on the annual growth of the money supply.

Eighth, as my previous written position paper indicates, I believe that it might be useful to make this gold cover requirement a symmetrical one. That is, to set forth both maximum and a minimum level of gold stock holdings...
relative to money supply because it does not make sense to
either deplete our gold stocks, or build them beyond some
plausible target.

There are two principle reasons why this symmetrical
gold cover requirement might be advantageous.

First, it provides a rule of rationally managing
the size of our gold stock rather than yearly fixing an
arbitrary level of gold holdings.

Second, establishing minimum and maximum gold
stocks, also tends to create a mechanism by which the govern­
ment can purchase gold when its price drops to very low levels
and to sell gold when this metal's prices rises to extraordinary
heights.

The result, although I emphasize indirect, a
tendency toward gold stabilization would I think also con­
tribute to a somewhat more stable climate upon exchange
markets. It would expedite the use of gold as an international
settlements payment medium, and in general, by assigning gold
from a more clear cut position. It would give greater
recognition to gold significance and usefulness in interna­
tional monetary systems.

One of our goals should be to define a more useful
role for gold in the monetary system today, even if we are
not sure just how that monetary status will evolve in future
years. That further evolution will certainly depend more on
the success of our nation's anti-inflation efforts than on any recommendations of this gold position.

I might observe that if increases in the price of gold tend to parallel increases in the money supply, then the value of the gold stock will tend to rise in a similar fashion to the increase in the money supply. And the gold cover ratio would remain in the required range, or tend to remain within the required range without necessarily any government gold purchases or sales. Thus, the required money gold bank would to some significant extent tend to be maintained by gold value changes, as opposed to quantity changes.

Ninth, and I'm sure you'll be glad it's the last, is that the Gold Commission acknowledge that many of the issues that we are exploring here have not been fully resolved by this group and are not likely to be. And that further serious study is required.

Accordingly, this Commission should recommend, I suppose, that gold's monetary role be given further consideration by a reconstituted U.S. Gold Commission, perhaps now, perhaps a few years from now, and perhaps also there should be instituted an international Gold Commission established, say, under the egis of the IMF.

I believe this brings me to the end of my reordered list of gold proposals, based mostly on my own thoughts, but also including a sprinkling of other people's views. I have
tried to present these ideas in a positive fashion, emphasizing
the quest for areas of agreement, possible agreement, or
conclusions which a majority of the members of this Gold
Commission may be able to endorse.

I'd like to point out that as I see it, one
reason for criticisms of the gold money link proposal is that
it does not create a mechanism which fully controls the mone­
tary expansion and contraction. It does not constitute, or
propose to constitute an automatic answer to the problems of
inflation as one might attempt to achieve with even a rule
limiting the rate of money growth, overrule the fixing of
the price of gold.

My gold link proposal is a loose link and far
more modest in character and intent. It is to establish
within our monetary system flexible gold boundaries which
provide warning signals which indicate the need for policy
review, and even for corrective action.

It is intended to create a flashing light to
policy makers, and to the public, and not to provide an
ultimate answer as to how to control inflation.

Finally, I'd like to express my appreciation for
both the friendly response and criticism which I've received
from any of you on this Commission. Several people have told
me they welcome my proposal because they introduce a new
range of gold ideas, and to some extent help avoid polarizing
the discussion between the advocates of managed paper money, and the gold standard.

I also particularly want to thank Governor Wallich for including along with his criticisms, a cordial acknowledgement that my proposals present a consistent and technical viable concept which has aided the process of our deliberations.

May I say in conclusion that my proposals are directed above all to developing significant economic use of our most important monetary reserve assets. I hope that we shall agree that all of this country's gold should not merely be buried, but should be employed for useful economic purposes.

Accordingly, according to an old maximum, people are often so busy doing what's urgent that they don't have time to do what's important. Perhaps this Commission cannot solve or even invest the urgent question, such as meeting inflation.

However, it can, and I believe it should help to resolve the important question involved in using gold as a property value monetary asset instrument of economic policy. In so doing, I believe that this Commission will provide the administration of the Congress with a new gold policy framework which enables this metal to be actively and effectively employed as a servant of public policy, and as one implement in the nation's battle against chronic inflation.
Thank you.

UNDER SECRETARY SPRINKEL: Thank you, Mr. Coyne. Are there any comments on Mr. Coyne's observations? I know -- yes. Then we will have an opportunity to react before it goes into the Commission report, but Chairman Weidenbaum would like to say something at the moment.

MR. WEIDENBAUM: Thank you, Mr. Chairman.

I did read, and I also reread Mr. Coyne's submission for the previous meetings of the Gold Commission. I want to compliment him on one of the most thoughtful presentations that I have seen on this subject in some time.

Without indicating -- now, I'll do that on the subsequent occasion, that my own views on this subject, I thought that some of Mr. Coyne's brief completions was one that we might very well follow in writing our Commission report. It had so little of the ideological horentory, etc., etc., so much of the weighing carefully of questions underlined from minuses on both sides, or on various sides of the question: I think there's a good deal we can learn just in terms of open-mindedness, attitude, from Mr. Coyne's statement in this, and Harold, I certainly thank you for it.

UNDER SECRETARY SPRINKEL: Thank you, Chairman Weidenbaum.

Yes, Governor Partee?

GOVERNOR PARTEE: Well, I agree with that. It's a
very nice improvement in the paper. And furthermore, it does
suggest to me that -- a way on which the Commission might
see. I guess I see significant -- we prefer the way you have
put the proposition in the paper today, to the way we have put
it before, because I think as we view the bank in terms of
possible recommendations, which we constantly begin to have,
that's it best to start in areas that where we might have
considerable agreement that perhaps aren't earthshaking or
fundamental to the system, that we'll proceed sort of in a
simple, but becoming more and more difficult now.

I don't know that I can proceed all the way along
your list with you, but I do think that the idea of a list
of propositions that the Commission could react to is a very
good way of organizing our work.

SECRETARY REGAN: Anyone else with to comment on
Mr. Coyne's statement?

MR. COSTAMAGNA: Mr. Secretary, I too would like
to extend congratulations to Mr. Coyne in presenting some very
challenging ideas.

One of the suggestions that he has made, I think,
clarifies something that troubled me a bit several meetings
ago. In the discussion of minting coins, the idea that -- I
suggested with some controversy about limiting it to U.S.
citizens, and his idea of constantly replenishing the gold
store would solve that problem in my own mind. The reasons
my for original thought were that I felt that over the years we had seen our gold storage depleted to other than Americans. And that -- I would hope that there would be a way, if we did have the minting of coins, somehow give Americans the first crack at them, so to speak. But Mr. Coyne's proposal to replenish that supply, I do believe, solves the problem that IMF created. I want to thank you for adding considerable thought to that idea.

SECRETARY REGAN: Yes?

GOVERNOR RICE: I wonder if I could ask a question?

SECRETARY REGAN: Certainly.

GOVERNOR RICE: The question is why do you consider it crucial?

MR. COYNE: Well, I probably could write and probably will write a 30 or 40 page paper on this subject, so I -- there are a terrific number of -- it seems to me as a technician -- technical question, but in a nutshell, it would -- I think a couple of the key points, are one, that nobody's going to buy them if they're not legal tender. And that seems to be a pretty good reason all by itself, but if, in fact, they were made legal tender and we defined legal tender to mean that it would have the status of circulating American currencies for tax purposes, vis a vis state sales tax and capital gain and income tax purposes, then the market for these coins would be my professional opinion simply saw
out of all proportion to the level of imports of foreign
coins to date, and would probably replace the imports of
foreign coins almost entirely and almost immediately because
the competitive advantage would simply be so overwhelmingly
everlending.

SECRETARY REGAN: Congressman Paul?

CONGRESSMAN PAUL: Thank you, Mr. Chairman.

I have one question. Mr. Coyne, on page 5 in
your item #4, you state that our stocks be used by the Federal
Reserve as an alternative invention medium to support the
values of the dollar.

I have a little trouble with that, and I was
wondering if -- how you could distinguish that from the buying
and selling of gold for the manipulation of the price of
gold, turning it around. You know, we more or less did this
in 1945 to '71, we sold gold and we handed out gold in order
to maintain an artificial level. So to me it seems like
it might be opening up the door to something that we might
not want.

MR. COYNE: I must start by saying that this
simply is not -- I wish I could, but I can't present to you
a proposal or serious proposal which, in fact, has dealt
with such possible ramifications of that. That is why I
urge further serious economic study.

On the other hand, I would still like to respond
to your question.

The greatest danger to the proposals to that particular proposal is that in some future -- at some future time, in some future administration, the Treasury, the Federal Reserve will -- whatever the right combination of elements would be involved in such a decision, that such a loophole would allow the completion of the government's gold stock, and if there were even the possibility that the final language was written in such a way that that loophole remained open, then everything else I say should certainly not be accepted, because it would -- because the overriding consideration is that we should not allow the definition of our gold -- of our gold stocks in any serious way, because even though we may be able to finance budget deficits over the relative year term, it will have nothing to do with the problem of combating inflation, and we will wind up without any reserves whatsoever.

The way I've tried to deal with this is by suggesting that as an indicative example, that we establish a gold cover basis whereby, say, using the monetary at root for M-1B, that a minimum of 20% backing in gold, and maximum of 40% backing in gold, and at 20% -- 40% against the M-1B is not correct. Perhaps it could be 50% of the monetary base and 100% of the monetary base for whatever a serious economic study would show it to be if, in fact, it showed it to be
valid at all.

In other words, by having, say, such a thing as a minimum of 20% gold cover against M-1B, such a thing as you suggest, except in a very temporary and not significant way, could not by definition of the gold cover rule exist.

SECRETARY REGAN: Governor Wallich, would you like to say anything at this point regarding the Coyne paper?

GOVERNOR WALLICH: Mr. Chairman, I have put down my thoughts about Mr. Coyne's find in a letter. He correctly cited me. I think we've -- he's put forward a sensible proposal.

I've asked for the letter to be circulated, and I think it was so that there is reason for me to repeat the points.

Following the presentation by Mr. Coyne right now, I would like to note two things.

One, I agree with Part B, who says this is a category workable as a list, and in an ascending order of acceptability, is a feasible technique.

And I agree with Chairman Weidenbaum that we have a goal here of an conciliatory and thoughtful tone, which would very well become a final report.

As for the particular proposals that haven't been made before, Mr. Coyne's plan. First I would say that I very much welcome the idea of not depleting our gold stock
because I see this as a kind of a possible reserve for the future: For the future one doesn't know what may happen, what state the world might find itself in someday, and it would certainly be better for the United States to confront whatever conditions might arise with gold, and without a gold stock.

Beside -- from that I would not that inadvertently when you add up all the proposals, with the exception of one or two, they all lead to an increase in the demands for gold, which in the long run I think would have the effect of raising the price. Whether or not this has inflationary effects is something we could debate, but I think is a practical matter, having a -- avoiding depletion of the gold stock. Having a minimum relationship of gold to money supply, which necessarily with the growth of the economy, would grow over time, and encouraging other uses, such as the minting of coins, all add up to increases in the aggregate demand for gold, and therefore, probably the price, unless something happens to discourage private holdings as a result of the reduction in inflation. That's not the first part of the -- what we're able to deal with, and with agreeing with that is really the main problem we face, but that's not the problem of this Commission.

Thank you, Mr. Chairman.

SECRETARY REGAN: Thank you, Governor.

Are there anything else on this particular point?
Well, then why don't we move on to item 4, which is the review of the draft introductory section of the Commissioner report posing discussion of possible recommendation.

Dr. Schwartz, would you take us through that?

DR. SCHWARTZ: Yes. You have all seen this draft of what I regard as the introduction for the Commission report, and my proposed conclusion of four chapters following the introduction, which would reflect the issues that are being discussed in the meetings of the Commission.

I can read the draft introduction, and you will see it stops at the point where the report would be presenting your recommendation. And that, of course, is the big stumbling block in presenting you even a draft that will have to be subsequently revised because the Commission has not really dealt with the subject that was accepted as the outline for the main chapter of the report, with possible recommendation with regard to gold. And if we could, after I present this draft introduction, we go around the table, even though the full membership isn't here, and get some sense of what your views will be on these questions. No change in the role of gold, increase the role of gold, reduce the role of gold.

Now, Mr. Coyne has certainly presented us with a very full menu of possible ways of increasing that role of
gold, so I presume—we have some sense where he is having even -- we don't know which of these specific recommendations will ultimately be presented as the votes by the Commission. But the rest is just this very uncertain stand of the Commission on the questions of what have to be decided before the report can be prepared.

Okay. Let me just read this. The first paragraph talks about the establishment of a Commission. We, the members of the Gold Commission were appointed by Secretary of the Treasury, Donald T. Regan, on June 21, 1981. Pursuant to Section 10(b) Public Law 96380, to conduct a study to address and make recommendations with regard to the policy of the U.S. government concerning the role of gold in domestic and international monetary -- domestic and international monetary systems.

The Commission has directed to transmit its report to Congress no later than October 7, 1981, one year after the date of enactment.

Due to the change in administration, and the delay in appointment of members, it was not until July 16, 1981 that we met for the first time. We were in general agreement that a satisfactory report could not be prepared by the October 7 date.

Accordingly, we requested an extension of the Commission's life. Legislation to that end were introduced
in the Congress in September 1981, and enacted on -- I don't really know the date.

MR. WEIDENBAUM: Is there someone here who could supply that vital information?

DR. SCHWARTZ: The date for the report of the Commission was thereby arranged March 31, 1982.

Hearings on the role of gold. We held nine meetings. That's an assumed number now, based on the number that we've already -- the Commission has already met, the prospective meetings. And two of which we heard testimony concerning gold from 23 witnesses.

They commented on the use and effectiveness of gold, and passed domestic and international monetary systems, and offered variant proposals for a restored role for gold, or favored the continuation of the present system with no role for gold.

In addition to arranging the hearings, the Treasury Department invited written statements on the role of gold from organizations and individuals. In an appendix to the report the testimony we heard, and statements submitted to us, are introduced.

GOVERNOR RICE: How substantial is this?

DR. SCHWARTZ: I don't know. I think that is a question that the Commission should confront. There is an enormous transcript that you all have seen, and an enormous
additional body of written statements that were submitted.

MR. WEIDENBAUM: Can we comment on that at this point?

Unless, and I'm not suggesting it, in view of the effort that might be involved, unless that transcript is edited having attempted to read part of it, I don't see the value of introducing, that is, publishing it in its present form.

Perhaps copies should be just available in the file to anyone who inquires. I think that upon our merits in publishing the written carefully prepared statements, than the transcript in its present condition.

SECRETARY REGAN: Well, first of all, I'm going to ask Congressman Paul because he, as I recall, I had some suggestions on this earlier about the -- what the record should contain.

CONGRESSMAN PAUL: I certainly would think that the written statements which are the prepared statements, should be part of the record. I really haven't given too much thought about the transcript, and this is the discussion period that we had.

DR. SCHWARTZ: Well, actually each witness read a good part of the witness statement, and then was subject to questions.

CONGRESSMAN PAUL: My initial reaction is not to be adversely opposed to limiting it to the written state-
ments, and making all those other statements available, you
know, if somebody so desires.

DR. SCHWARTZ: In which case the Treasury really
should ask the witnesses to edit the transcript.

SECRETARY REGAN: Do we have a --

All right. I'm inclined to think that the pur­poses of having any impact on what we have to say, that the
reports are the most important thing and the record itself,
you know, is more or less secondary, that students or others
can go into the record for back-up material. I think the
report itself is not as important as the documents.

At this particular point I'd just as soon make
that available in detail here at Treasury and include excerpts
from the most pertinent excerpts, asking the witnesses
themselves, or the writers of the paper, to try to cut down
the size of their paper and give us just a general outline
of it, and include that along with our report.

CONGRESSMAN PAUL: It is my understanding that
you agree with what Dr. Weidenbaum said?

SECRETARY REGAN: No, I think we're on the same
wavelength here.

CONGRESSMAN PAUL: If the printed material that
they gave in with their official report would be a part of
the report.

SECRETARY REGAN: You mean not part of the report?
CONGRESSMAN PAUL: No, I would -- what I'm suggesting, and this is merely a suggestion, at this point, that -- let's suppose that a witness came in with 20 pages. That we'd asked him to boil that down to two, have a two page report, the gist of what he said, but have the 20 pages available as the complete record here at Treasury, sufficient amounts that anyone who wanted to come in could actually read the 20 pages. That's what I'm suggesting.

MR. WEIDENBAUM: If I can elaborate, Mr. Chairman. I suggest that we publish our reports as the report. A separate appendix could have the abstract of those statements as determined -- suggests, with the notes, of course, that the full paper is available for inspection in the office.

SECRETARY REGAN: Now Governor Rice.

GOVERNOR RICE: I agree with (INAUDIBLE), but in case you do decide to publish the abstracts from the report, you might consider separating the appendix from the main body of the report. In other words, two bodies. One volume of the report, and an additional thick volume of excerpts from this.

SECRETARY REGAN: May I ask somewhat facetiously also, I think that there's somewhat a forecasting mold. Suppose that we have three or more reports to issue. You would make them all, I assume, part of Volume I, and then Volume II would be the back-up material for any or
GOVERNOR RICE: That's right. And I would make that suggestion because most people wouldn't be interested in the appendix for the first thing. And you wouldn't need to print it in view of that -- the main report. There's no reason to clutter that or make it different by including the appendix.

SECRETARY REGAN: First, Governor Partee, and then I'll come to you.

GOVERNOR PARTEE: Well, I am getting a little confused here in reference to the material on oral reports and the back-up material.

I interrupted because I'm not sure it's with respect to the very simple sentence in the forward here that says, "we have written statements on the role of gold from organizations and individuals, as well as the testimony that was provided." My thought was this might run into 1,000 pages, and if we really want to publish 1,000 pages. I thought that the way the discussion was on, Mr. Secretary, was that -- instead of publishing, stand and ready to publish any amount, we would ask for some material that had been given. Now, this is the material that might be accepted by you now.

SECRETARY REGAN: Well, I tell you, what I was forecasting was referring to what Governor Rice had said,
that he thought the first volume should be the conclusion, allow the report itself. And then the second volume and appendix, giving this record boiling of 1,000 pages down to more. And I said that I was saying somewhat facetiously, but in sort of a forecasting mold, that we probably would have more than one report emanating from this Committee suggesting maybe a majority report or minority report, or maybe two minority reports. And I just wanted to make sure that we published all of that volume I, all of those reports, and then Volume II would be the appendix, which would be the 1,000 pages boiled down.

GOVERNOR PARTEE: Well, I view the report of hers being more than a recommendation. We'll get to that. But we have staff material that is unprepared. There's other material that I think might well appear in the appendix of the report, such as the account of our -- that we had this morning of our account of our position, using the IMF control.

There's another excellent report that has -- that you received that isn't on the agenda this morning on the audit of the gold standard.

There might be some things like that even in the first volume.

DR. SCHWARTZ: Yes, because -- all these papers of the Treasury as prepared, are really germaine to what the body of that report is, and I agree with you -- the first
volume, and see that there's going to be a second volume.
The second volume of what outside witnesses and outside contributors.

SECRETARY REGAN: Now, Mr. Coyne.

MR. COYNE: Mr. Secretary, I am concerned not with the question of whether there is a hearing, which I am convinced there is, but rather with perception that this is the case. And I sense that there is -- that there is a very keen interest in understanding the different nuances as used, and suggestions, and that the House is not -- that that is not somehow or other stacked in one direction or another. And one -- I don't wish to bring this up prematurely, but we seem to have got into part of the subject that I mentioned earlier, and that is the letter from Senator Helms which refers to the importance of publishing the full hearing transcripts and documents.

It would seem to me that we could consider this view, and whether we are satisfying it, or choosing not to, and if this theory is a -- if there is a serious body of opinion that would be valuable to have this as part of the -- I don't know what the right word is, but it would be equivalent of legislative history. I don't even know why I'm using such a word -- creates directly the -- so that one can have -- can demonstrate the fact that these hearings, in fact, did consider an enormously wide range of use, and they are on
the record, and that they have been made available in a prompt and timely way to encourage and permit -- permit and encourage, I guess, appropriate responses. If this is, in fact, a serious legitimate view, should we not concur on the side of being responsive to it.

SECRETARY REGAN: Well, I have the same adverse response to that very quickly, that our funds of Treasury are limited and they're being even more limited as we go through the current budget process. And I'm wondering about the commercial viability of publishing all of this, and how many sets we would sell of these to be our costs. So that from that point of view as to having the record here available and summaries of what was said, actually published, we're going to have to weigh that quite carefully. Unless, of course, a member of Congress wishes to publish the whole thing on the record, which they are free to do. But we are not.

MR. WEIDENBAUM: You just make the point.

SECRETARY REGAN: Thank you. Well, we will keep that in consideration.

DR. SCHWARTZ: There's also a technical problem here. I assume that this is not going to be printed, that any material I submit will be clean type script which is -- having ready, is that right? That it would just be photographed and bound? I'm not so sure that the condition
of the witness statements that the witnesses prepared, that they're really camera ready topics. And who is going to get that material in shape to be included in the volume. That's a big undertaking.

SECRETARY REGAN: First, Mr. Coyne and then Mr. Costamagna.

MR. COYNE: With respect, I must say that I cannot deal with the question of whether we can afford to do it, for the moment can't afford to do it, then we won't do it.

But it seems to me that just, for instance, the summary of recommendations of witnesses table, to me, as I read it, is not necessarily a fair and descriptive expression of what really happens, and I'm not "looking for trouble." And not to make the underlying documentation available, and to draw and to give statistical expression, if that's the right word, it does not, perhaps in the eyes of reasonable people, reflect the underlying substance of the presentation themselves. I believe maybe when we're all finished, seeing it as the wrong thing to have done. I think that perhaps you should separate the issue of whether we can afford it to whether it must -- whether it ought to be done, and to have to deal with them as separate issues.

GOVERNOR PARTEE: I think you're overlooking the proposal that there be a summary of each presentation. That is, within some kind of a reasonable length. That would
in fact, be a document readily available -- would be put in cameradic copy, and would be Volume II of this material.

Now, anyone who would like to look back further of the full statement that was given, or the full amount of material that was given, can get it from the Treasury. They can either come in and read it, or they can get it under the Freedom of Information Act for so much a page. And I think that's what the proposal is, if I understand it.

DR. SCHWARTZ: I didn't prepare the tabular summary with the thought that that was going to replace the witnesses statements. I thought that this was merely a convenience for the members of the Commission, who had presumably read the testimony of the witnesses.

SECRETARY REGAN: Okay. Any other comments?

MR. COSTAMAGNA: Just to dramatize a bit, we -- this is just the result of the last two days meeting. Those are the papers and minutes and other discussions, and not included in there are all of the other written papers that were submitted at the last -- subsequent to the last two day meeting.

I would have to agree that expenses should not only be considered, but by the time we're through I would have to go back and beg, and publish that as part of the report, would possibly detract from anyone wanting to ever read the report. And I would certainly agree with the expressions that
it be an appendix supplement there for availability.

SECRETARY REGAN: I think what we'll probably do is recontacting the witnesses and ask them if they would like to submit a brief summary of what they have already said, assuring them that they have full and complete statements to be available in the record already.

CONGRESSMAN PAUL: I would just add one comment. I don't have a strong objection to what you say, but I think Mr. Coyne makes a good case when I think about the many subcommittee hearings I've sat on over the years, some are very, very esoteric subjects, and all this material gets printed up. It seems like a field hearing on political activities, have court reporters and things get printed up. It to me, more or less, is a revaluation on our priorities and our values when we see the billions and billions being spent frequently not even in our own country, and on projects that seem to have, to me at least, have no redeeming value whatsoever at the thousands of dollars that this probably involves. I would say this demonstrates, you know, a relative perspective that we put on this, but I'm also very sympathetic to the immediate concern and the massive volume, and I don't think this is something that I feel like getting on a soapbox for, but I do think in comparison that we have printed an awful lot of nonsense out of Washington, and since this subject -- I happen to feel is rather important, I think that we are relegating
this to a lesser of -- lesser importance, and this just may be the way it is.

SECRETARY REGAN: Well, I am not going to go through a discussion at this point of the nonsense that's printed in Washington although I happen to agree with you on that. But unfortunately the Congress didn't appropriate any money for this. It has to come out of the Treasury budget. You know and I know that we're under pretty strict strictures here as far as what we can or cannot do with monies. We'll go as far as we can in getting the record, and I think that's -- we'll just have to have the remainder of the record here for those who wish to come in to get it.

All right. Dr. Schwartz. Would you proceed.

DR. SCHWARTZ: Let me go on to the contents of the report.

The body of our report reflects range of issues we discussed during our deliberation.

Chapter 1 surveys economic developments of recent years that were the background of the establishment of the Gold Commission. The forthcomings of economic performance since the the mid-1960's occasined the move by the Congress to provide for a study of the possible link between that outcome and the diminished role of gold of similar date in the domestic and international monetary system.

Let me finish reading through and then if you
will have comments or objections or suggestions about what I outlined here, we can go on to that.

Chapter 2 examines the historical evidence on the experience of the United States with gold. In 1834 the legally on the bi-metallic standards, the factor the United States adopted a gold standard. A chapter deals with success changes since then in the character of our country's monetary system down to the most recent decade of inconvertible paper money, and attempts to account for the changes.

In Chapter 3 we explore the strengths and weaknesses of alternative monetary standards, including different versions of a gold standard, commodity standard other than gold, and the present inconvertible paper system, and I will definitely include suggestions that Congressman Paul made about competitive private money issue system, and a gold standard system in which links the coins which we believe the unit of circulation.

International aspects of the alternative standards receive attention. It's Chapter 4 that's going to be the hard one.

In Chapter 4 we considered eight possible recommendations regarding the role of gold in our country's monetary system. The first one would make no essential change in the present role of gold, but would provide for administrative matters such as validating the public accounting for
the gold stock, explaining the relationship between gold certificates held as an asset at the Federal Reserve system, and the gold held by the Treasury. And include in the program of Treasury medallion sales.

The recommendation would be consistent with the belief that an increase in the monetary role of gold is not now timely. That the stock should be held as a reserve of possible future use. Should they restore gold for gold? That appears feasible. Or against other contingencies.

The second recommendation would reduce the role of gold. An example of the reduction would be a program of sales of official stock, either now held by the Treasury, or restore to it a part of a general distribution of gold to members of the international monetary system.

Sales would be in the form of bullion directed to the market as in the case of the Treasury's auction sales in 1975, in 1977, '79, or in the form of coin sales at variable market prices.

This gets back again to the initial rate before, in relation to the -- where coin sales at variable market prices are an induction in the role of gold, or increased in the role of gold.

The criterion I used in this case was that anything that reduced stock held by the Treasury is a reduction. Now, that may not be what you would like the role.
We can talk about it when I've gotten through with this presentation.

The third possible recommendation would be an increase in the role of gold. Much an increase might take different forms.

One would be the restoration of a gold reserve requirement without convertibility, to limit Federal Reserve issue of notes or bank reserves.

Another form would be the restoration of a gold cover requirement with convertibility. In both forms, a foreign exchange value of the dollar would float, determined by the demands for and supply of dollars to settle international payments and balances.

The final form which we consider would be the establishment of a possible gold standard.

In a possible gold standard the government would be committed to purchase gold from the public on demand at a fixed price and convert it to gold coins. Similarly, the government would be committed to sell gold to the public at a fixed price, and buying and selling prices to bring on a cost -- cost certifying the minting of coins.

The United States could establish a new parody for the dollar in terms of gold in U.S. monetary liabilities which would link the changes in the U.S. gold over produced by domestic and international factors.
Each — in the role of cold describes the main elements in the recommendation, transitional problems, if any, potential legal and international implications and assess the advantages or disadvantages. But each form providing for a gold reserve, with or without the convertibility feature, the price of gold at which the value of the reserve would need to be determined.

The section concludes with a discussion of the problems raised and the choice of a price of gold.

Any recommendation of an increase in the role of gold must take account of the element of the free market of gold that has existed since 1968.

In an appendix to Chapter 4, we discuss several aspects of the demand for and supply of gold in the current market. In addition, the appendix provides a retrospective view on the record of gold production over past centuries, its relation to trend movements and commodity prices and the allocation of the stock of gold between monetary and non-monetary uses.

You also got this morning a copy of a statistical appendix that I've proposed to include with a list of the series that I suggest for inclusion and again, would like your suggestions for change, improvement, anything.

And then the finally part of this draft says "Majority and Minority Recommendations." Given the size of
the Commission that Congress mandated and the diversity of our views, it became apparent to us during our deliberations that we would not be able to achieve a unanimous set of recommendations.

It was gratifying, however, that common ground existed for a majority of us. We first set out a recommendation of those of us who formed the majority and then of the minority.

The sense in the body of the report reflects the divisions among those. That sentence alludes to the privilege each member will have in reviewing the body of the report to dissent from any statement that is included in it by a footnote at the bottom of the page where a statement is made saying whoever disagrees with this -- my preferred version would be something like that.

With the final paragraph, even with respect to the majority, not every member, if he had been reporting singly, would have expressed himself in precisely the way the recommendations are presented.

Differences and wording, emphasis and perceptions would have been evident. For the sake of the representation of the presentation of a collective view, those of us forming the majority have muted our personal preferences.

And as I say, the report -- this draft of the introduction -- should then go on with what the recommendations
are and that's obvious that this is the part that I cannot complete until we really have some votes.

So, one possibility would be to vote on the outline that you accepted at the October 26th meeting. Obviously, also, the array of ways of increasing the role of gold that I present here does not include the detailed recommendation that Mr. Coyne has presented this morning since I drafted this before Mr. Coyne's initial paper reached me.

And I will certainly expand that paragraph to give full representation to the proposals that he has made.

SECRETARY REGAN: Any comments on Dr. Schwartz' outline? Yes, Congressman Paul?

DR. PAUL: Dr. Schwartz, on the last page you say we first set out the recommendations of those of the majority and then of the minority. Does this reflect your -- an impression on you that you will write the majority report and you will write the minority report?

DR. SCHWARTZ: My assumption is that I will draft something and it will be submitted to each of you and you have a perfect privilege to change everything, to disagree with the way I put it.

I think I can understand what a majority recommendation will be when it is made and I think I can put it in English that will fairly represent their views.
But if it doesn't meet the views of the minority, or if anything report will contain doesn't satisfy you as a fair statement of what you want included in the report, needless to say, the report will be changed.

My role here is not to represent myself, it's to represent you, each of you.

DR. PAUL: Then it is your idea to have a majority report, a minority report and then, in addition, there will be dissents from that.

DR. SCHWARTZ: Right. That's exactly the way I think this thing would work.

DR. PAUL: And who would -- would the individual, himself, be writing a dissent?

DR. SCHWARTZ: Exactly. Each of you will have --

DR. PAUL: But not a minority report.

DR. SCHWARTZ: And you will say, I do not agree with this statement on such and such a page, and that dissent would appear at the foot of the page.

Apart from what you want to do with this introductory chapter and the --

MR. WEIDENBAUM: Can I follow-up, Dr. Schwartz, with a question? Not knowing whether I will be with the majority or minority, let me ask, both -- if there is, say, to be a majority in one or more minority reports, will
staff assistants be available to all of us or will it just be with the majority?

DR. SCHWARTZ: I think I can understand what a majority recommendation will be and I think I can understand what a minority recommendation will be and it will be my intention to present, in English, what those recommendations are in a way that is faithful to what those views are, not in any way to -- I don't know.

You're quite at liberty to draft these yourselves and I will incorporate them if I haven't done it to suit you.

MR. WEIDENBAUM: Fine.

DR. PAUL: Well, I'm still hoping that I'm in the majority, but just in case --

(Laughter)

Just in case I'm not in the majority, and I happen to be rather expert in writing minority reports -- I've written a few of those.

(Laughter)

But, I guess I, you know, have a habit of writing these for myself.

DR. SCHWARTZ: Well, you're at liberty to do so.

DR. PAUL: This happens all the time on the Committees that we work on.

DR. SCHWARTZ: It's quite conceivable to me that
I will draft a report that will be very substantially altered as a result of your examination of what I presented to you. And I'm not going to object. I'm not going to say you have no right to change it. It's your report.

So, again, I say, if you would prefer to draft a minority view assuming there would be a case where you would be in a minority and wanted to make a statement yourself, there would be no reason why you couldn't do it.

There would be no reason why each of you couldn't draft one of these chapters yourselves and hand it to me.

DR. SPRINKLE: We do have to have a report finished by the end of March.

DR. SCHWARTZ: Right.

DR. SPRINKLE: Governor Wallich?

GOVERNOR WALLICH: I have two questions, one on the substance of your outline.

DR. SCHWARTZ: Yes.

GOVERNOR WALLICH: At the point where you say the three possible ways to go, no change, decrease-increase, and at the end of the section on the increase, I think it's -- looks like page 4 --

DR. SCHWARTZ: Yes.

GOVERNOR WALLICH: You say, any recommendation of an increase must be based upon the elements of the free market. Before that you say, for each form of an increase
in the role of gold, we describe the main elements of the --

DR. SCHWARTZ: Yes, I said that.

GOVERNOR WALLICH: Don't you think that applies to some extent also to the other two types of recommendations. There are pros and cons, there are technical aspects you might want to extend that idea to these other two possibilities.

DR. SCHWARTZ: I would be delighted if each of you returned to me a copy of this introductory statement with any revisions that you would suggest, any improvements.

GOVERNOR WALLICH: You mean of the outline?

DR. SCHWARTZ: Of this -- yeah. Needless to say, I already am balked on the preparation of this report, but if I know in advance what I should not do, what you particularly want me to do, there'll be a lot of wasted effort that will be avoided.

GOVERNOR WALLICH: Well, this is just a minor organizational point, but it will add a little to the amount that you'd have to be writing and going over the technicalities involved and no change -- because that doesn't necessarily mean no action of any sort.

DR. SCHWARTZ: Incidentally, in relation to that first option with respect to recommendations that the material the Treasury has circulated will become part of the record for the first part of the report.
I presume I will have in parentheses, see Treasury statement on the gold audit as a statement to ask of the -- directing the reader to -- in this first point, such as validating the public accounting for the gold stock.

And then I would presumably have some parenthetical statement that the Treasury statement about audit is available in -- I don't know, but there are going to be an awful lot of appendices the way this is at present constituted -- but that's my present --

GOVERNOR WALLICH: I have one other -- the dissents. Do you visualize these in the form of dissenting statements printed at the end as is customary in Congressional hearing reports or in the form of footnotes in the text as there is a difference of substance, because the footnotes necessarily have to be quite short not to disrupt the text and the dissenting opinions sometimes run rather long?

And I would like to know how far one could let oneself go then.

DR. SCHWARTZ: I would say there are two aspects to this thing. If a dissent is a challenge to what I've written in terms of accuracy, comprehension, I presumably would make a change in the text myself and the dissent would not become necessary.
There could be a case where there's some dispute about the way the point is made, but the point would be acceptable, but somebody on the Commission would word it rather differently and I would then leave that as a dissenting statement at the foot of the -- everything that will be submitted to you will be subject to your approval.

If the initial presentation doesn't meet with what you expect the report to be like, well it will have to be changed. That's all.

GOVERNOR WALLICH: Do you envisage a sort of a session of going through the document word-by-word and --

DR. SCHWARTZ: Well, no, I would hope that each of you will do that privately before we meet, that you -- I don't really know, I haven't thought this through -- usually when you send out a paper for comment, you get back comments from people who have taken the trouble to read them, and you take them into account in your revision.

Maybe that would be the way to deal with it. There may be some broader questions that would have to be brought up at a meeting where everybody is present.

I would hope that at the January 8th meeting that I will have or submit to you at least the first two chapters, possibly a third one as well, so that you could get going on this, that there won't be this terrible pile-up at the very end when I'll be frantic and you won't have the
time to devote to making sure that the report is just what you want it to be.

So, as I say, I would prefer to be able to feed this to you as we go along, to have maybe one-half of the body of the report in your hands by the January 8th meeting, and by the February meeting, have the balance of the two chapters, and the -- as I say, to me the culmination is really going to be chapter 4 on the possible role of the gold.

And that must be the one that you've got to examine with -- I'm sure, here, and the feeling that I properly executed the assignment.

SECRETARY REGAN: Mr. Coyne.

MR. COYNE: Mr. Secretary, may I ask Dr. Schwartz or, in fact, really, the members of the Commission, on the most primitive basis, I say, I don't have any sense whatsoever as to what the process is going to be for you to express what the majority and minority and intermediary and the -- what the opinions are.

I've been sitting around this table on a number of occasions and I've read a lot of documentation. I don't have any idea what the majority opinion is. I don't know even whether we have agreed to specify what the issues are.

We're -- my fear is to have -- fear isn't the right word, my anxiety is that there will be sprung, fully
clothed from — is the ear of Athena — of Zeuss, rather,
that the -- a document that will set things out like or
like that and we'll be voting for or against the wrong two
different things.

I don't --

DR. SCHWARTZ: Well, as I understand what the
Commission's decision was, it was the outline that was
presented at the October 26th meeting that was to form the
basis of the members' recommendations.

Those three alternatives -- no change in the role
of gold, increase the role of gold and/or reduce the role
of gold.

And it seems to me -- you have to express your
views. This is the outline you adopted. You have to
express your views on this question, and make me understand
what your views are.

If there is a majority, we'll be able to see
from a vote on the question.

MR. COYNE: I don't -- I can't my head to think
of that as the question, increase the role of gold or
not change the role of gold or decrease the role of gold.

What I care -- I ask myself, naively --

DR. SCHWARTZ: But that was the outline that was
accepted.

MR. COYNE: But one of the funny things that
happens is that one begins to deal with a group of very smart and thoughtful people and one's views change over a period of time.

I'm just saying that as it seems to me now, as I see it, that doesn't seem to be the question to me. Maybe it is, but it doesn't seem to be.

It seems to be, what should we do, not whether to increase or decrease --

DR. SCHWARTZ: Well, yes, but then each of these broad categories -- there are specific sorts of recommendations.

MR. COYNE: Well, I probably am not seeing it right, so I'll shut up for a while.

SECRETARY REGAN: Congressman Paul, then Dr. Jordan, then Governor Partee, then Congressman Wylie.

DR. PAUL: I, too, am somewhat confused on exactly how this is going to evolve, but let's make it a concrete question. We've had a Weintraub proposal and we've had a Coyne proposal.

At the very moment you don't know what to write. How are we going to arrive at the point -- let us say those are the only two proposals.

DR. SCHWARTZ: Okay.

DR. PAUL: Do you foresee that in January we will have the meeting and then we're going to have a vote.
DR. SCHWARTZ: I would be happy if you had a vote today. There just aren't enough people here for us to have a -- we have a quorum --

DR. PAUL: And I think that's the key to the question is how to -- and there aren't only two, there might be five concrete proposals.

DR. SCHWARTZ: That's right.

DR. PAUL: And we have to -- it seems to me that we have to make a real effort to get as many people here as possible and to resolve this so that the direction is more definite.

Again, I have to decide whether I'm in the majority or minority, and if I'm in the minority, I have to start thinking about what I'm going to do.

So, I see that as a problem. It seems like that's a very important thing that we have to decide today.

But another minor point here, in Chapter 1, you state -- the emphasis on Chapter 1 will be emphasizing the shortcomings of the past economic performance of the Mid-60's up til now. And I certainly think that's a very important point to make and it was that subject that prompted me to write that one paper 10 years -- now, do you intend, maybe, to incorporate that into a chapter and mention those points?

DR. SCHWARTZ: I will certainly --
MR. WYLIE: Will the gentleman yield on that?

DR. SCHWARTZ: Excuse me, Mr. Congressman?

MR. WYLIE: Will the gentleman yield on that point?

DR. PAUL: Yes, I would be glad to.

MR. WYLIE: You sent these -- this outline around and you said you hoped we would take the trouble to read it which I did last night. And I would vehemently object to putting that particular sentence in there.

I don't think that how we got here or why we got here, shortcomings of economic performance in the Mid-60's occasions moves by Congress. That's not what occasioned the move by Congress at all.

What occasioned the move by Congress was that, with due respect to the gentleman, he has taken the position with reference to gold and convertibility to gold on several occasions.

The International Development Association bill was on the Floor in the House and in an effort to get your vote and the vote of Congressman Crane and some others, it was agreed that there would be no objection to offering an amendment to establish this Gold Commission.

So, I don't think that this shortcomings of --

DR. PAUL: Well, you never got my vote.

(Laughter.)
MR. WYLIE: Well, we got Phil Crane's.

(Laughter.)

MR. WYLIE: So, I would think that that sentence there, myself, should read something like, Congress provided for a study of a possible role for gold in the domestic and international monetary system, and not attempt to indicate how we got here. Just state the plain fact that that's what we did.

DR. SCHWARTZ: Except that the Congressional Record suggests that the -- those who proposed the bill did make -- this was the basis for my description.

MR. WYLIE: Those are just statements from members. Those are just opinions from members, but that isn't what the report says.

MR. WEIDENBAUM: I don't see what we lose by adopting Congressman Wylie's point.

SECRETARY REGAN: I didn't hear that.

MR. WEIDENBAUM: I don't see what we lose by adopting Congressman Wylie's point other than some verbiage and maybe that's a benefit.

DR. SCHWARTZ: What you would say surveys -- economic developments of recent years was the background for the establishment of the Gold Commission, period.

Cut out --

MR. WYLIE: Well, then, if you want to put something
else in, I have -- Congress provided for a study of a possible role for gold in the domestic and international monetary system, which we did.

DR. PAUL: May I reclaim my time? If we're going to follow those rules --

(Laughter.)

DR. PAUL: I would suggest that if it was not the shortcomings of the economic performance since at least '68 on, I think the alternative is to put in that the Commission was set up to buy a few votes. And I don't think that would sound very good in the report.

(Laughter.)

DR. PAUL: So, I think that you have one choice or the other. It's really that the system isn't working well. It's the reason that we really have been able to achieve this discussion.

So, I think we'd have difficulty denying these economic realities.

DR. SCHWARTZ: Well, if each of you, as I indicated before, would write me a line about how you would like any detail in this introductory draft changed, that will help me.

And it isn't necessary for you to do it on the spot here, but if you let me know what you don't like in the way I've presented initial draft, I'll fix it.
SECRETARY REGAN: Thank you, Jerry?

MR. JORDAN: I agree with what concerns Mr. Coyne has raised and some of the earlier statements by Mr. Costanagna. And I find the whole -- the more I thought about -- the so-called alternative draft outline that was sprung on us on October 26th is irrelevant.

It does not provide a useful framework for discussing the issues. We heard testimony from 23 people and I was actually here and heard almost all that testimony.

And I don't think it was done in this framework. I think that there were some people that talked about the Treasury either selling all of the gold or giving it away as a way to establish a real gold standard and return to a gold standard.

And the idea that selling gold coin, gold bullion or doing anything else is a demonitization of gold that's contrary to the testimony we heard.

And I do agree that the basic objective -- the sentiment behind setting up the Commission, the interest that it has received, the public attention to it, is based on the dissatisfaction with the past and with inflation.

SECRETARY REGAN: Next, Governor Partee.

GOVERNOR PARTEE: Well, I have one substantive comment on the outline.

On page -- the top of page 4, it seems to me that
a discussion of a gold cover implies a fixed price for the
gold and I think that isn't necessarily true, because we've
just had a presentation by Mr. Coyne that it doesn't involve
a fixed price for gold on the cover and that needs to be --
it's those first four or five lines on page 4 that seem to
be -- it's not quite right.

DR. SCHWARTZ: I drafted this before --

GOVERNOR PARTEE: I realize that. It does add
another dimension that we didn't -- this whole question of
gold cover that we haven't had before and I think it needs
to be in there.

I would agree with Congressman Wylie, by the way,
that the word occasioned is incorrect, although I have no
difficulty with starting off the discussion with short-
comings in economic performance.

DR. SCHWARTZ: Well, this is going to be a neutral
chapter. Nobody's going to be blamed. It's going to be
letting out what happened. That's all.

GOVERNOR PARTEE: When we write such a chapter,
you know, I don't think we want to -- we have to consider
the Breton Woods system. But I don't think that should be
of central -- a central feature, because I can't believe it
was a central feature in the experience of the decade. And
in this respect, I think, we differ.

And I think also one ought to point out the
shortcomings in terms of structural imbalance, unemployment, shortfall in economic output as well as price, as you discuss in the thing, but I have no problem with that.

My broader organizational question -- I didn't really understand what the Secretary was talking about before, but now I do. It seems to me that the concept of a majority and a minority report almost maximizes the devisiveness that one can come out with in this thing.

In fact, there may not be a majority report, which is your point. If one conceives of a majority and a minority report, one has to have a general sense of the construct in which we're working and I think the outline was useful for that purpose.

But it may well be that we could get a good deal more agreement by having a series of propositions. And that's what I found useful about Mr. Coyne's paper today.

Now, you know, one proposition would be in general, do you think the role of gold is about right or should be increased or decreased, but I mean much more specific propositions.

DR. SCHWARTZ: Well, yes, there is no reason why each of these broad --

GOVERNOR PARTEE: Couldn't have propositions --

DR. SCHWARTZ: Yeah.

GOVERNOR PARTEE: Well, I'm just not sure whether
that comes to a majority or minority report. You may have
13 propositions on which the majority of the Commission can
agree and then another 15 on which there is not a majority
view. And getting down to the point where the Congressman
is the only supporter of a proposition.

You could have a list like that, you see.

SECRETARY REGAN: Congressman Wylie, would you like
your regular turn here?

MR. WYLIE: Yes, I would, please. Thank you.

Thank you, Mr. Chairman, I want to revisit this
for just a minute and then I want to get on to something else.

But I don't think that the shortcomings of
economic performance since the mid-1930's occasioned the
move by Congress or got us here today. I don't think it
would have mattered if it had been shortcomings or long-
comings.

The people who are for convertibility or some
role for gold would have found a way to get into a
discussion like this, I think.

You say this outline should at least be factual
and I don't think it's factual if it has that particular
language in it.

Having said that I would like to submit, if I may,
a paper, and I think you've already suggested this -- I
stated my visceral basic feeling about the role of gold and
my position at the first meeting. And I might say that it hasn't changed. If anything, during the course of the hearings, it has been re-affirmed.

And while I was thinking through my position, I was jotting down some notes and making an outline and I have written a brief in support of my position. And I'd like to submit that to you, maybe next week, along with a couple of issue briefs which you may or may not have, which were prepared by the Library of Congress, which I found very helpful.

One of them is an economic brief which had already been prepared but was updated based on what we have done here at this Gold Commission.

The other is a political brief, and I haven't had any witness talk about the politics of the situation with reference to gold and I think it's very well done.

It's an objective and balanced review of some of the political considerations which I would submit to you and they can be incorporated in the record or they can just be referenced by you, or however you see fit to use them.

But as I say, in this memorandum, I asked the question about the possible consequences, and one of those, it seems to me, would be a considerable amount of loss of flexibility by our political leaders in times of international stress or crisis if we went to a gold standard and that's
expanded on in this brief. So, if there's no objection I
will submit that to you next week.

SECRETARY REGAN: I'd encourage you to do that,
as a matter of fact, Congressman Wylie.

MR. WYLIE: Thank you, Mr. Chairman.

SECRETARY REGAN: Now, Dr. Jordan, you next and
then Congressman Paul.

MR. JORDAN: As a way to proceed, I would suggest
that you take Mr. Coyne's approach and you extend it as
necessary to cover the range of different capsulized positions
or views and to circulate that to all members of the
Commission including the seven who aren't today, and ask
that each of us either indicate our agreement, our lack of
disagreement or comment, modification on it, and you may
find out that there are certain propositions or proposals
that you can get a majority agreement on such as issuing
gold coins or maybe a majority would agree you can't
immediately re-fix the dollar price of gold or something and
you have can have a majority or minority on specific
propositions, but I really doubt that you can put together
a comprehensive, integrated statement if you get a majority
agreement.

And that that might be the most efficient to
proceed at this point.

DR. SCHWARTZ: If that were the case, that on
particular propositions you would have a floating majority,
would you then indicated in parentheses the names of the
members who adopted a favorable view on some proposition and
another proposition -- give another list of members.

I just don't visualize how this is going to be
presented. If there isn't a majority view that agrees on
a given set of propositions, and then a minority view that
agrees on another set of propositions, what -- that for
each proposition there will be one -- you see what I've
indicated?

MR. JORDAN: I would list who agrees and who
disagrees. And, remember, that the purpose of this report
is an input to Congress for them -- to serve as a background
to them -- and whether we recommend that they then proceed
and hold Congressional hearings or whatever on some of these
issues.

The only thing that comes out of this is advice
to Congress on our views and the views that we have heard.
And I think that would be --

DR. SCHWARTZ: That's what my directions are.

SECRETARY REGAN: Okay, Congressman Paul.

DR. PAUL: I tend to agree with Dr. Jordan that
this would be a way to proceed, that if we did that and
indicated it -- and you even could have the final version
approved or disapproved by as many -- but we could still
arrive at a report by taking these individualized votes on each item.

And I think the earlier point you made, Dr. Jordan, on the outline versus what you had heard at the hearings, I think, is well taken, because, for instance, Dr. Senholtz (phonetic) was our last individual to testify and I happen to know that he's a very strong gold standard person.

But his presentation that day did lead one to believe that -- well, I could see why one would be led to believe that he would be opposed to gold, because he was advocating some gold sales, but that didn't put him in the category.

Now, he's put in the category of decreasing the role of gold, and, yet, I don't think he fits that and this doesn't adequately reflect those intricacies.

The other quick point I would like to make is that wondering about how we will come to arrive at that, whether we do anything today, or at the next meeting, or through the mail, it is my understanding that with a quorum present, you do have the right to take votes, but I think it would be a much better report if everybody participated in it.

SECRETARY REGAN: Mr. Coyne.

MR. COYNE: Mr. Secretary, we -- the thing I'm concerned about, and the reason I ask about the process, is to create an environment in which it is possible for people
to accept -- for us to accept the best of all possible worlds rather than what we would wish to have in abstract.

And, therefore, to pigeon-hole us, each of us, too soon, will preclude a useful result to this Commission's deliberations.

And, just curiously, we -- just to see what it looked like -- I was not even intending to bring this up at this meeting -- we made up, actually, a survey, just to see what it would look like.

A proposed survey of Gold Commission members, which I would like to read -- I mean, I would like to read only the first paragraph, just to indicate what we had in mind:

(Reading)

"With regard to the establishment of a new gold dollar link, please indicate your response to the following alternatives: for, against, neutral.

A. No gold dollar link, the continuation of a managed paper money standard: for, against, neutral.

B. Gradually increase gold cover requirement combined with a rule restricting money growth --"

That's the Weintraub proposal.

" -- for, against, neutral.

C. A gold cover requirement as a confidence measure without restricting money growth: for, against, neutral."
D. A minimum-maximum limit on gold stocks tied
growth of the money supply —"

That's kind of what I talked about this
morning.

" -- for, against, neutral.

E. Establishment of a broad, official stabili-
ization range for gold prices: for, against, neutral.

F. The restoration of a fixed price for gold
and a form of gold standard: for, against, neutral."

I also, that is to say, in addition to the question
of the establishment of the gold dollar link, the question
could be asked, should our gold stocks be used as a
bridging device to help finance budget deficits or help
reduce the cost of that financing operation by one of the
following measures -- and there were five or six alternatives
to that.

And there are, let me see, on this particular
list that we made up, we have a total of nine questions. It
was -- we were not intending to use it, only trying to see
what we can do to start the process.

I am thinking, would, let's say -- excuse me,
Congressman Paul, if I use you as an example, would your
vote on the question of the establishment of a gold dollar
link, for example, be -- I'm asking this question rhetorically,
not for an answer -- would your vote be influenced by what
the composition of the rest of this Commission was regarding
the various eight choices that I gave, or perhaps it should
be ten choices that you would reformulate -- once we saw
where we stood in terms of the eight or nine or ten alterna-
tive answers to each of the key questions, could we not then
reformulate those questions in terms of what's practical.

I recall in -- in gest -- I recall what
Congressman Reuss once said at one of these meetings -- in
gest -- that he would -- when we were talking about how
long these Commissions should continue to deliberate -- some-
one suggested still another long period of time in addition
to the other longer period of time, and he said, "Of course,
I would agree to that addition, because I would never
object to dividing the opposition."

I'm saying that if we understood what the main
thrusts were, could you, I ask rhetorically, could you not
associated yourself with something in a final proposal which
might in fact be different than you would propose as your
first desired proposal yourself.

If we could understand, if we could clarify what
the key issues are and then to stipulate what the five or
ten -- if those are the right numbers -- major alternatives
are to each of those issues, and we could then understand
where our people are on each of those various nuances, would
we not at least have a chance of understanding that on this
kind of issue, we really could reach a solution.

   And this kind of issue we really can't, there is
3   no consensus, and, in fact, it's not even a matter of there
4   being a majority or minority. There's a great diversity of
5   views.
6   And we can express, in fact, a meaningful final
7   understanding of what -- in conclusion -- of what this
8   Commission's mission is.
9   By the way, if anybody would be interested in
10  seeing this very rough draft of that survey --
11  SECRETARY REGAN: I think Dr. Schwartz would.
12  DR. SCHWARTZ: Yes.
13  SECRETARY REGAN: Governor Rice?
14  GOVERNOR RICE: Well, Mr. Chairman, I would
15  simply like to support Dr. Schwartz' outline, proposed out-
16  line and the general logical framework which she offers.
17   It seems to me that you have to have some kind of
18  organizing principle, and I can't think of anything worse
19  than a report which consists of a list of propositions on
20  which people are classified as to whether they agree or
21  disagree.
22   Not only would it make for very boring reading
23  it would, I think, confuse the readers and give them very
24  little with which to interpret the difficult issues that
25  we're looking at.
I think we have to have an organizing principle and
I think the one we have before us is as good as any. If
there are others that members would like to suggest, I would
certainly be very happy to look at them and compare.

In the absence of a better organizing framework, I
think this is a good one.

I think almost all views will end up classifiable
into whether it would result in an increase, decrease or
maintenance -- no change in the role of gold.

And I think the proposition could very well be
introduced within the framework of these different categories.
And I would support maintaining the outline as proposed by
Dr. Schwartz.

SECRETARY REGAN: Thank you. Mr. Costamagna.

MR. COSTAMAGNA: Mr. Chairman, just as a matter of
form rather than substance, and maybe Dr. Schwartz anticipated
doing this or inviting in the opening chapter, it seems to
me that there were many areas of agreement that we had in
many of our discussions.

I can recall, for example, Dr. Paul and Governor
Wallich both talking about the need for honest money. It
would set a favorable tone in my mind if we could have, maybe,
a preamble of areas where we all stem from a common agreement,
and included in that area some definitions of the terms we
used.
For example, when one of us says inflation, in the mind of somebody else, it may have a different definition. The same would go for the words of gold standard and convertibility and similar words. I find us using them differently. So, that if we could set out some definitions, hopefully we could agree on the definitions.

DR. PAUL: Would the gentleman yield on that for a moment?

MR. COSTAMAGNA: Yes.

DR. PAUL: I would like to know if you would agree that we also tried to define the dollar while we're at it?

MR. COSTAMAGNA: The dollar and legal tender as Mr. Kline, this morning -- and similar terms. Possibly this could be part of a preamble. The areas of agreement, first, as I say, form rather than substance, but it was just a thought.

SECRETARY REGAN: Does somebody else wish to comment at this point? Governor Wallich?

GOVERNOR WALLICH: I would like to support Governor Rice in going with the original outline. I do see the attractiveness of an outline along the lines of "Mr. Coyne, but I'd like to remind this group, a distinguished American economist won a Nobel Prize, he had shown that the procedure adopted by Mr. Coyne, to decide issue-by-issue,
rather than as a majority, you can arrive at the situation of there's a majority preferring Issue B over Issue A and C over B and A over C.

And we might find ourselves with a majority for everything, but they might be inconsistent.

(Laughter.)

MR. COYNE: I understand what Governor Wallich says and I was really giving Governor Wallich and -- is a Yale man, from the Economics Department, I was also at Yale, but I studied music and I wanted to make it perfectly clear that everything I say is my musical opinion.

(Laughter.)

MR. COYNE: I really was thinking not in terms of formulating a final report, but in terms of having a basis of understanding of what our ideas are so that perhaps there could be what amounts to a discussion of the entire overall issue in terms of having some idea as to how each of the other of us feel about each of the crucial issues, rather than, of course, the -- as a basis for the final report itself.

DR. SCHWARTZ: Well, there's nothing incompatible between outlining different propositions under the heading of increase, decrease or unchanged.

I don't see any conflict at all in that respect.

And I -- I'm not quite sure why you object to that overall
division. I say, you can flush out what the possible
alternatives are within each subhead and --

SECRETARY REGAN: Governor Partee, you had your
hand up next.

GOVERNOR PARTEE: Well, I was going to -- it's
a hard question. There has to be an organizing principle.
I think we all would agree with that.

The trouble is we don't really know where the
Committee stands -- the members of the Commission stand on
almost any subject.

The -- but if you were to do as Dr. Schwartz
proposes, it seems to me that just the very fact that you
have item under increase, decrease or leave unchanged is
going to bias the results, because there's somebody who is
going to be so distrustful of the general category increase,
say, they're going to be inclined to vote against whatever
the proposition is.

It really is a question of finding out where the
Commission members stand before you, then, within an
organizing principle, frame the thrust of the report.

It's work really that we should have done
already, but we haven't, and we haven't done it because we
haven't had very good attendance, we've had infrequent
meetings, and we've had some difficulty even communicating,
I think, at these meetings.
DR. SCHWARTZ: I certainly think that the survey that Mr. Coyne proposes is an excellent idea and I hope we can get that circulated after I've had a chance to look over what Mr. Coyne has already done and get some expression of views from the members before the next meeting.

SECRETARY REGAN: Congressman Wylie, you're next.

MR. WYLIE: I was just going to say, I read the outline last night and I liked it the way it is, and would associate myself with the remarks of Governors Rice and Wallich except for the exception I've noted.

But it seems to me as if our Committee might be divided almost along the same lines as my constituents. I wanted a little help on this, or at least I thought I did, so I put on my recent questionnaire, should U.S. dollars be converted to gold.

I've now gotten over 16,000 responses back and 31 percent says, yes, 33 percent said, no, and 31 percent were undecided, so --

(Laughter.)

MR. WYLIE: I guess I'm on my own again.

(Laughter.)

SECRETARY REGAN: Congressman Paul?

DR. PAUL: Thank you. I'm sure -- that it's any clearer in my mind what we're doing yet.
If we follow your outline and we have several proposals again, like the Coyne proposal versus the Weintraub proposal, what is your understanding? Would both of these be written up --

DR. SCHWARTZ: Oh, yes.

DR. PAUL: Or would there have to be --

DR. SCHWARTZ: The point would be, in Chapter 4, each one would be explained, it's advantages and disadvantages as I said, described, and that would be the reference in the introductory chapter to support whatever recommendation --

DR. PAUL: Okay, this is before. I'm talking about the recommendation part. How are you going to arrive at the recommendation?

Let's say those are the only two choices, Coyne versus Weintraub, how would you arrive at the point -- how do you foresee this?

DR. SCHWARTZ: There would be a vote by the Commission -- there will be a vote by the Commission on any proposal -- any recommendation.

DR. PAUL: Was the consensus that this would occur through the mail or would it be --

DR. SCHWARTZ: Well, this survey, it seems to me, like an excellent idea. The only trouble is, of course, it cannot be anonymous. You will have to let us know who's voting for what.
MR. COYNE: What's wrong -- why wouldn't we all be happy to do that?

DR. SCHWARTZ: Well, I -- just sitting here and observing what's been going on, I have the impression that people have been holding back, people have not been willing to express views and possibly they're not well-developed enough for the people to be able to express them.

We have one sterling exception -- if sterling is the right word.

SECRETARY REGAN: Well, we're getting close to 1:00 o'clock. I think, maybe, I'll sum this up as to where we stand at this moment, discuss a little bit what we should do when we return from luncheon and see where we stand on the matter of adjournment.

From the point of view of what we're going to have to do -- we have only two more meetings before we look at the final report on March 31st, so time is starting to close in on us.

We're all going to be scattered for the Holidays and our next meeting is tentatively scheduled for January 3th. That means that we're going to have to do some rather quick work.

And the time is now coming when each of us has got to fish or cut bait. We have to start making up our minds on these various items and we have to start being
forthcoming with those so that we can start to draw up the 
reports for you.

The -- so, I would suggest that we reach some
conclusion when we return with instructions to Dr. Schwartz
to start trying to formulate opinions or at least setting
the stage for opinion voting sessions on January 3th.

Then the February meeting, whatever its date might
be, and I hope it would be early in February, we would then
come back and sort of take, what would you call it, semi-
final votes, if I could use that expression, on most of
the major issues involved in the role of gold in the United
States' monetary policies.

And then as a result of those, Dr. Schwartz would
draw up the final report, and we would then vote on the
final report and submit it in March.

That's the schedule that I see us being on
over the next three months. It's going to be a tight
schedule, but it is going to require that we now start
actually concentrating on what are the main issues here,
and having heard from all our witnesses, having looked at
the records, read papers and things of that nature, we
should be able at this point -- I'm talking here now,
January the 3th, to be able to vote on the majority of the
opinions of issues, so that Dr. Schwartz can start getting
into some type of order.
MR. WYLIE: Mr. Chairman?

SECRETARY REGAN: Yes?

MR. WYLIE: Could I submit just one more thought.

Mr. Coyne objects to the outline that Ms. Schwartz gave us because it isn't detailed enough.

In her summary of recommendations of witnesses of Gold Committee meetings, she has a three-stage outline:
one, no change in the role of gold, increase the role of gold, decrease the role of gold.

But under the increase in the role of gold, you have one, two, three, four, five -- six different positions.

Now, it seems to me as if that's specific enough that almost any member of the Commission could make a determination along those lines, whether they support the testimony given by Aliber, for instance, or Holtzer, or Meltzer (phonic), and may I suggest that you might want to incorporate something like that in your outline which would get more specific along the lines that Mr. Kline has suggested.

SECRETARY REGAN: All right, well, why don't we adjourn now and return at 2:00 o'clock or shortly thereafter. I shall try to be prompt, but we have another meeting and -- I have another luncheon meeting -- and then we'll discuss this final draft.

(The hearing recessed for lunch at 1:00 o'clock.)
SECRETARY REGAN: If we could get started. We
do not have a quorum currently, but I am assured -- the
Chair is always assured, if nothing else, that we can
proceed because we are merely adjourning the morning session,
at which we did have a quorum.

Accordingly, we can proceed with our discussions,
however, I am sure that we want to come to much of a vote
on any particular matters until such time as at least another
couple of members show up.

I suppose if we could take a vote, we could settle
the whole issue here and now --

GOVERNOR PARTEE: Mr. Chairman, we could take a
vote as to whether the members not present should be --

SECRETARY REGAN: Eligible to vote.

GOVERNOR PARTEE: Yeah, or eliminated from the
Commission.

SECRETARY REGAN: When we did adjourn our morning
session, we were at the point where we were giving some
advice -- and I'm not sure how much consent -- to Dr. Schwartz
about her report, her draft report and what we should be
doing for the January meeting.

And if I recall what we have more or less agreed
on and I'll set it up this way -- and if that's not the
understanding, then we'll come back to it -- that under the broad headings that she established earlier of her three main points, we would have sub-points below that.

These would be circulated to the members as quickly as possible and they asked to indicate their opinion on these subjects and they would also be urged as Congressman Wylie has suggested he's going to do, that they put in writing their general opinions on these subjects so at least we see where we're going.

And, then, Dr. Schwartz could report the results of all of this to us on a non-binding sort of way in January and that would, at least, give people an indication of which way this Commission is apt to head.

And then they could start firming up their final opinions on some of the outstanding issues which she would then indicate are the ones that we should concentrate on for settling by the February meeting, and then we could start writing the report.

Welcome, back, gentlemen. That makes a quorum.

Now, does anybody have any additional thoughts that they would like to express or questions they would like to ask since we adjourned?

Yes, Mr. Costamagna?

MR. COSTAMAGNA: Mr. Secretary, the question of this tabulation of the speakers who presented papers, there were
papers that were presented by non-speakers as well. And I was of the impression, originally, when we entertained the idea of having speakers that the effect of those who were not able to speak would be considered as equals even though they did not speak, but did present -- although, once they did present papers, we would consider those papers as well.

And the second thought is -- and I know we must have all received similar letters from the general public -- and I was curious to ask to what extent will our report reflect the opinions that we have received from the general public.

Those are two bodies of information that I do not believe we should neglect.

DR. SCHWARTZ: Well, the draft that I prepared of the introduction to the report indicates that the statements that non-witnesses submitted would be reproduced.

Now, if we're going to request witnesses to reduce the size of their submissions, I don't know.

Are we also going to ask those who responded to the call for statements to reduce the size of their statements?

MR. WEIDENBAUM: Can I comment?

SECRETARY REGAN: Yes, go ahead.

MR. WEIDENBAUM: On this discussion, in my mind, I make a distinction between the report of this Commission,
which is what I presume the Congress intended when it established this Commission, and the serious manner in which each of the Commissioners -- and I say this from personal observation -- the serious manner which each of the Commissioners in our own separate ways are undergoing a very intensive course of reading on the economics and financial aspects of gold.

And I think, frankly, all we need -- although maybe it's a good idea to put it in -- is a statement reporting to the public that we have done just this, that this literal mountain of material that has been submitted to each of us has been considered in the appropriate form -- that is, by each individual Commissioner, so that it influences to the extent that it does, our views and our views are incorporated into the report.

And, therefore, acknowledgement that the Secretariate has been very careful to distribute to each member of the Commission this wide array of materials, in addition to which many people have taken liberty of -- and why not -- to submit materials directly to each of us.

And, frankly, I don't think it's appropriate to burden the record -- certainly not our report or even the appendix of the report -- to this very substantial array of material, but to indicate that it was submitted to and drawn by each of the Commissioners in their work on the Commission.
DR. SCHWARTZ: We can certainly list the names of everybody who submitted --

MR. WEIDENBAUM: I really -- I would let it go at that. I guess, if you push me real hard, I feel very strongly -- I'm on this Commission to present my views, and if it was intended that some other person be on the Commission, that would have been done.

And, therefore, the views of the people on the Commission are important as they affect our views. But this is going to be our report.

SECRETARY REGAN: Congressman Wylie?

MR. WYLIE: I want to associate myself with the remarks of Mr. Weidenbaum. I think, too, if we make a listing of people who submitted material, it may be just one sentence of the position they took or something like that, that's more than adequate.

I don't think we should burden the record with all these reports. I've gotten, myself, from all over the United States and abroad -- there's no possible way that we could afford to have a report that voluminous, so I would go along with the Chairman of the Economic Advisors.

DR. SCHWARTZ: The question is what did the Treasury to the people who submitted these statements when the Treasury invited them?

SECRETARY REGAN: There are a lot of unsolicited
statements that each of us has gotten, mounds of correspondence. We'll check that.

DR. SCHWARTZ: In answer to Mr. Costamagna's second point about privately received proposals, I have kept a file of any proposal with respect to the role of gold, and I could summarize those.

SECRETARY REGAN: Other comments? We're checking the record to see exactly what we promised to people who wrote to us as a Commission -- we would do with their testimony.

MR. WYLIE: But there is a distinction between invited witnesses, though, and those who voluntarily submitted statements.

SECRETARY REGAN: Yes. When I say testimony -- both written and oral.

Yes, Mr. Costamagna?

MR. COSTAMAGNA: The reason for bringing this up is if the tabulated result of the 23 who did speak becomes part of the record --

DR. SCHWARTZ: No, I did not --

MR. COSTAMAGNA: You did not intend that to be, okay. But as I -- I was of the impression that if that was to become part of the record, I think it might be a neglect not to reflect that there were other sources of input.

I'm not in favor of making a voluminous report,
because the more voluminous, the less possibility of anyone ever reviewing it.

SECRETARY REGAN: Any other comments on this?

(No response.)

SECRETARY REGAN: Well, why don't we, in the meantime, while they're searching the record to find out exactly what we did -- let's see if we can focus in on Item 5 which are the dates of our next meetings.

Now, tentatively, we have set January 8th and February 5th --

DR. SCHWARTZ: February 5th is apparently --

SECRETARY REGAN: But I understand that someone has trouble with February 5.

I think that it's -- we -- I was going to make a smart crack, but with two Congressmen present, I better not -- even though Congress will not be in session on January 8th, nevertheless, I think we should be, at least right around that date, because we have to have a meeting early on in January and early on in February, if we're ever going to make the record, and make our deadline.

So, we would hope that if the Congressmen could make it here, they would. If not, that they would at least make their views known to us in writing on some of these issues.

MR. WYLIE: Are any of the members of the Commission...
involved in the European Parliament meeting. That happens
to occur on that date.

SECRETARY REGAN: On the 8th?

MR. WYLIE: Yes, sir.

SECRETARY REGAN: January 8th -- I am not. Any
of the other of you in the European Parliamentary Session?

MR. WYLIE: I think Henry Reuss might be and I'm
thinking of going as a delegate.

SECRETARY REGAN: Congress gets back on the
25th of January and that's much too late, much too late,
so I would rather hold earlier on rather than later so that
we could then gather up whatever material we have and
submit it and then ask everybody to please try to make the
February date, whatever that might be.

Now, who's having trouble with February 5?

Henry? You are?

DR. SCHWARTZ: Mr. Coyne.

SECRETARY REGAN: Mr. Costamagna. And

Mr. Coyne also?

What other date early on in February is suitable
to you?

GOVERNOR WALLICH: Wednesday, the 3rd and then
beginning Wednesday, the 10th again.

SECRETARY REGAN: May I ask the Congressman, when
do you go out for the traditional Lincoln's Day --
Washington's Birthday Recess? Do you have that in any of your papers that you have with you? Do any of your aides have it?

I know there's a date in that period, there, the middle of February when traditionally Congress goes out for a week or ten days.

MR. WYLIE: It's usually just in advance of Washington's Birthday and right after Lincoln's now.

SECRETARY REGAN: What about the 8th, Monday, the 8th? How does that strike -- Henry, how does that hit you?

GOVERNOR WALLICH: That is the day I am supposed to abroad on.

SECRETARY REGAN: Mr. Costamagna, how does that hit you?

MR. COSTAMAGNA: That weekend, the 5th, 6th, 7th and 8th, is a bad one. I could be here the 5th, if need be, but I'd be very pressed on --

SECRETARY REGAN: We understand Mr. Coyne also has a problem with that date, February 5th. We're trying to settle on a date for February.

Is the 12th a Holiday, Jerry?

MR. COYNE: The 14th might imply a massacre.

SECRETARY REGAN: How about February 12th, then?

Assuming that it's not a legal holiday and assuming that the
Congress is in session.

(No objections.)

SECRETARY REGAN: February 12th it is.

MR. WYLIE: January 8th is --

SECRETARY REGAN: January 3th is fixed.

MR. WYLIE: Is there a March date?

SECRETARY REGAN: It's toward the end of March that we're talking about now, because that's our final for the report itself.

MR. WYLIE: The 26th, I'm in New York.

SECRETARY REGAN: The 26th of what?

MR. WYLIE: Of March.

SECRETARY REGAN: While we're checking on the 12th -- it looks like the 12th will probably be all right -- one other item here that we haven't disposed of, perhaps to Mr. Coyne's satisfaction and it is something that we should at least answer, Senator Helms has written to us protesting our selection of witnesses as being a stacked deck -- or words to that effect --

MR. WYLIE: Which way?

SECRETARY REGAN: I think he thought it was anti-gold, and that being the case, we tried to carefully point out to him, in a follow-up letter, as we have to others, that we went to all of you as members and asked for suggestions.
You came up with some 40-odd names. We contacted all of those names. We got an original list of witnesses, then some had to drop out, and we finally came up with some 23 — was it — witnesses.

And we thought that we had a fairly careful blend of points of view, and we went with that list and we spent two days on it.

Now, you can see the difficulty that we're having with getting dates for this Commission to meet, and time is growing short -- I'll give you my opinion first and seek yours secondly.

My opinion — we have covered the waterfront very well on getting a spectrum of points of view, but is there a need in the opinion of the majority of those present here today that we should have additional days of open hearings and seek additional public witnesses?

Murray?

MR. WEIDENBAUM: I share the Chair's view that the witness list was extremely — generously representative of the widest array of serious writings on this subject of every shape, size and variety, and I would suggest having come to know the members of the Commission, we're all fairly independent, tough minded thinkers and the exact number of witnesses representing a particular viewpoint I don't think is going to be a significant factor in the deliberations
And the Senator's genuine concern that we be apprised of the variety of important views on this subject -- I think that concern has been fully met.

SECRETARY REGAN: Mr. Coyne, do you want to speak on this?

MR. WEIDENBAUM: I see no additional need for hearings.

MR. COYNE: Sir, I simply was referring to the letter itself rather than to my independent -- to any independent opinion I have as to the issue itself.

I am deeply concerned by the proposition that "these hearings invite the perception of there having been stacked" and the statement "I do believe that the Commission has a responsibility to give a full and fair hearing to the issue."

And I am -- my question was simply, how have we answered this very relevant letter? It would seem to me that the issue of perception is important if, in fact, the final conclusions of this Commission would be expected to be meaningful in a future action.

It must be seen as having been fair and open and if we're being told that it does not seem as such, I am simply asking for discussion among this Commission as to whether this, in fact, is valid or not.
SECRETARY REGAN: Well, I would -- in answer to your anxiety on this, I would point out that in addition, we received 39 written communications which we sought, so that anyone who wished to communicate with the Commission certainly has had ample opportunity to communicate.

The 23 who were actual oral submissions got a full and fair hearing, I think. We tried to be as generous with our time as we possibly could. We could point to Dr. Schwartz' analysis of what was said there that could indicate the wide variety of views, and that certainly we tried to be as fair as we could in seeking witnesses.

And I would reply to the Senator, if it is indeed the sense of this Commission, in this meeting, that they have had in their collective judgment enough of a judgment to arrive at their own thinking.

MR. COYNE: Mr. Secretary, inasmuch as statistical inferences are being drawn from the suggestions of the witnesses such as the table prepared in Dr. Schwartz' material, the question of perception of stacking becomes especially relevant.

And I notice in Senator Helms' letter that he says, "I proposed the names of 40 individuals with
substantial reputations in economics."

Now, I don't know who of the witnesses on
Dr. Schwartz -- who appeared and, therefore, are on the
tabular matrix that has been prepared or economists who have
been suggested in this particular instance by Senator
Helms, but only saying -- but I presume that if they all had
been asked and they all accepted, that the tabular
deductions would have been different.

I don't know how to answer the question, because
I don't know who was asked and who wasn't asked, and who
agreed to come and who didn't agree to come. I'm only
asking for a sense of this Commission as to whether we
have, in fact, offered a fair and reasonable opportunity
for the diversity of views to be expressed that are
appropriate and, if anything, have erred on the side of a
little bit more rather than a little bit less.

And if the sense of this Committee -- I don't
know enough about it to have an opinion of my own. I'm
only concerned about the fact that there is a letter
dated November 12th, and I was concerned about whether that
letter has been satisfactorily responded to -- that is to
say, has been responded to in such a way to satisfy
Senator Helms' anxiety.

SECRETARY REGAN: Mr. Jordan?

MR. JORDAN: I wouldn't give too much weight
to the people who came to give oral testimony as representative of the input we have had to consider.

We have all the written testimony of those who were invited, a tremendous amount of other materials sent to us. I probably have a two-foot high stack of material related to this, including entire books, and most of the material that we have received, especially -- almost all of the unsolicited material has been in favor of some return to a gold standard and linkage to gold.

And it's a enormous amount of material and I don't think we're lacking from input, especially if you consider that the representation of some of the members of the Commission are here to hear oral testimony.

It is suggested that they are more exposed to pro-gold material if they're doing their reading than the contrary.

SECRETARY REGAN: Congressman Wylie?

MR. WYLIE: I think we've more than covered the waterfront and I would associate with that observation that not only did we have 23 witnesses, but we have this voluminous material and anybody who wants to read it can.

I don't see how we can get any other position by additional hearings. Frankly, I think every position has been very well presented.

And while I'm speaking, we just checked with the
House Republican Cloakroom and they said there is a tentative scheduled recess for February 10th through February 17th, which involves the 12th of course.

SECRETARY REGAN: Congressman Paul, I'll come back in just a moment. Do you want to talk on this date?

DR. PAUL: No.

SECRETARY REGAN: If it's not on the date, let's interrupt here for a moment and go back to the dates and settle those.

My own calendar is clear, so I'm good for February 12th. Does this change the mind of the Congressman, and perhaps would it change the minds of the Senators were they here as to their availability on February 12th?

MR. WYLIE: I can -- I'll fly in for the meeting. I'm close enough, though, so that it wouldn't be an inconvenience.

SECRETARY REGAN: Well, I'd just as soon fix on that date, if it's all the same to you, because I think no matter what date we select, at least one, if not two, among us is going to be not available. I've found that from past experience.

When you get a large group like this, there's no way you're going to find a date that everybody can be there.

MR. WYLIE: You had asked if Congress was going to be in recess during that period and I just wanted to let you
Secretary Regan: I appreciate that, but I think we'll just go with it any way, February 12th.

All right, now, one other point of business and then to you, Mr. Costamagna, we told people submitting things to this Commission, under date of October 2nd, 1981, at which we said we would hold public hearings and invite written views.

The public is invited to submit written statements on matters being considered by the Commission, and we told them who to address it to.

And we said, 20 copies should be provided for circulation.

And then, this is the key sentence, "such submissions may be included in the Commission's report or other publications relating to the Commission's work."

We did not promise they would be, we did not say they would not be. We said they may be included.

Congressman Paul.

Dr. Paul: Just out of curiosity, how many did we receive outside our 23 that attended. How many other ones?

Secretary Regan: Thirty-nine.

Dr. Paul: 39 others. Okay, all I can do is recall the request made, by, I believe, Mr. Lehrman, at the time that we would have a precise date and that they would be --
and they would receive equal weight, whether they came in
and gave their report or whether they submitted in writing.

And to me the consensus was, as I recall, was that
it would receive equal weight and that to me would mean that
if we do combine these into a book, even if in a summary
form, they would be included as well?

SECRETARY REGAN: Yes.

And we gave them until November 30th to submit
and that's what we have received.

DR. PAUL: One more question, did all of us
receive all 39 of those copies? I don't recall receiving
some that I thought I should and I'm just curious if they've
all been sent out.

SECRETARY REGAN: They've all been circulated.
Do you want to ask one of your staff to check with our
people on the files to make sure you have each and every
copy.

And the same thing goes for each of you, if you
want to go through a check of your own files to find out
if you have all 39, we'd be more than happy to submit
additional copies to you of any that are missing.

SECRETARY REGAN: Okay, that's all the housekeeping.

Now, Mr. Costamagna, we're back to you on this question of
Senator Helms and the witnesses.

MR. COSTAMAGNA: Well, I think that was the
question that I asked when we didn't have a quorum, a few minutes ago, whether the tabular survey that was taken of the 23 would give equal weight to the 39 who submitted papers, and that could possibly be the answer to Senator Helms.

And I see we have this list of written submissions of the 39 papers, this list that we received from you, Dr. Schwartz --

DR. SCHWARTZ: As I indicated before when I prepared the tabular summary for the witnesses, it was not my intention that this would be part of the record. It was simply what I hoped to be of benefit to you.

You may not have heard all these witnesses and may not have had an opportunity to read the transcript.

But there's no reason why I couldn't prepare a summary for the 39 and maybe revise the summary for the 23, and not distinguish the non-witnesses from the witnesses, just maybe have an alphabetical listing that would --

MR. JORDAN: Mr. Chairman, I didn't find the tabular summary at all interesting so I think it'd be no harm at all to add the other 39 to it.

(Laughter.)

MR. COSTAMAGNA: I do recall the original letter that we received from Senator Helms. And it had attached to it a list of many names that he suggested -- excuse me --
SECRETARY REGAN: I can enlighten you a little bit on that.

He suggested the names. Then, we as a Commission, decided that the way to select the witnesses was for each of the Commission members to submit names rather than just pile up lists from interested parties.

As it turned out, without having the precise figures here, four or five, or ten percent of the names that were on Senator Helms' list actually did appear.

So, I do think that there was adequate representation from among his.

MR. COSTAMAGNA: I would presume that some of the others are on this list.

SECRETARY REGAN: It's possible that they're in the 39. We haven't done that, but we can do that, to check to see how -- from among the 62, how many of his 40 we've heard from.

MR. COSTAMAGNA: Thank you.

SECRETARY REGAN: Okay, what else do we have then? We've settled on dates. We've settled on how to reply to Senator Helms. We've made many suggestions to Dr. Schwartz as to how she should communicate with us between now and the 8th.

We know that we're meeting on the 8th, and we know that we're meeting on February 12th.
DR. SCHWARTZ: Just one final -- excuse me, Congressman Paul -- I -- what was circulated this morning was an appendix -- a proposed appendix of statistical material for the report with a table of contents and a sample series.

And I would appreciate hearing from you if there are additional series that you believe that should be included in this compendium, if there are some that you think I should omit.

If there's anything about the presentation that bothers you or that you like, and if you'll let me know, that'll also be of help to me in preparing this part of the report.

The idea is that this report should enable the reader to be able to become familiar with a very comprehensive body of material relating to gold, historical, analytical, current, and so on.

SECRETARY REGAN: Thank you. Congressman Paul?

DR. PAUL: Mr. Secretary, I have no desire to bring these subjects up, but I'm a little bit interested in why -- one time I saw on an agenda the possible discussion of the gold audit and the Olympic gold coins, but I see they're not on the agenda now.

Was there a specific reason why they were once on and then off again?
SECRETARY REGAN: I think that's my fault.

We got caught up in the Congressional process here, and the current status of the Olympic coins is that the Senate has passed a bill, yesterday, or the day before, calling for some 25 gold coins to be struck by the Mint honoring the Olympics.

These are to be coins of the realm. These are to be of such quality not designed generally for circulation, but mainly for collectors.

The proceeds of this to go to the -- over and above the Mint's costs -- to go to the Los Angeles Olympic Committee and any proceeds or any profits that they make to be passed on to the United States Olympic Commission.

The Treasury objected to the amount of the designs of that saying that 25 different designs of coins was, we thought, a bit much to put it mildly.

And, we, instead, suggested 17. We understand the House now will hold hearings on that in January, and they will come to grips with the subject.

So, since this was going through the Congressional process, we decided we wouldn't bring up the subject here. But for your information, the -- I know that any one who wishes to appear as a witness before the House might be welcome.

But the -- as far as gold coins are concerned, they called in the Senate Bill for four $50 and four $100 gold
pieces of separate design.

The House we understand will have a bill that will call for two $50 and two $100 gold coins, each of separate design. And the House bill also calls for some eight $10 silver pieces and one $1 silver piece.

The Senate bill calls for 16 $10 coins, silver coins. That's the main difference between the two. And then there's some type of bidding procedures and the like.

Yes?

MR. COYNE: Mr. Secretary, without wishing to ask what will certainly sound like an absurd question, but just for curiosity sake, and technically, will these coins which will have dollar face values become part of the monetary aggregate?

SECRETARY REGAN: They will have to be. They're coins here, and if a collector were to break up his collection and circulate these, certainly.

MR. COYNE: And, therefore, the United States Government is, in effect, putting in a bid for gold based on $103 an ounce.

SECRETARY REGAN: They have to take gold out of the gold stock and actually strike these coins if the Congress goes this way and the President signs that bill.

MR. COYNE: Right. And --

SECRETARY REGAN: This would call for the --
I think the issuance of these coins, one set early on in '33 and another late in '33 and another early on in '84.

MR. COYNE: I see. Technically, just for curiosity and humor's sake, in effect, therefore, to the extent that a $100 gold coin containing once ounce of gold -- I don't even know whether that's the case -- would be in circulation.

And to that extent, the Government would become a buyer of gold at $100 an ounce? To the extent that any one chose to --

SECRETARY REGAN: We're issuing at that. I'm not sure we'll buy it at that. I'm not sure where the secondary market will exist --

MR. COYNE: But buy it in the sense that it is legal tender -- whatever that means -- a holder of a one ounce gold coin with a face value of $100 an ounce --

SECRETARY REGAN: Could get $100 in greenbacks, yes.

MR. COYNE: Even if the price of gold at the time were $30 an ounce?

SECRETARY REGAN!: Or $600.

MR. COYNE: Well, yes, but in that case you wouldn't exercise the option.

SECRETARY REGAN: Perhaps.

GOVERNOR PARTEE: I have a description of this in
my material and I have the impression that it will be the opposite, that is, the coin -- you'll pay about $800 for $400 worth of gold.

SECRETARY REGAN: Well, by the time the market -- I'm just answering your specific question.

What the marketing people who market this -- and this will not be the Treasury of the United States that will be marketing these -- it'll be a private organization, after competitive bids, who will be marketing these -- what they will charge for these --

MR. COYNE: Only on the fact that, in fact, there is an obligation as legal tender to take back the coin for U. S. currency at a fixed relationship between the dollar and the coin.

And even though it would seem unlikely that the price of gold -- you say $100 an ounce -- all of our lives have been filled with unlikely events in recent decades.

SECRETARY REGAN: We don't know the content of the gold coin yet, though.

If the content were 1/10th of an ounce, it would be something else again.

MR. COYNE: All right. I'm not suggesting the likelihood of gold going to $100 an ounce, I was only asking the question for intellectual curiosity and humor.

SECRETARY REGAN: Congressman Paul, does that
satisfy you?

DR. PAUL: Yes, I think that explains why the subject came up and why it was removed. I didn't really expect to get into a discussion --

SECRETARY REGAN: I don't think that this is the proper forum to discuss that when the Congress was holding hearings on the subject.

DR. PAUL: And on the gold audit, I believe, one time was on the agenda, too.

SECRETARY REGAN: Well, a paper describing that gold audit was circulated and we heard nothing from any of the Commission members asking that it put on for discussion, they accepted the report as issued.

We could put it on for discussion if you so desire.

DR. PAUL: I think it would be worthwhile.

SECRETARY REGAN: Okay? Anything else?

(No response.)

Well, then, since we do have a quorum I'll entertain a motion to adjourn.

MR. WEIDENBAUM: Well, Mr. Chairman?

SECRETARY REGAN: Yes?

MR. WEIDENBAUM: Is there something the staff could do to insure the prompt attendance of a quorum at the start of the next meeting --
SECRETARY REGAN: Absolutely nothing.

We have very independent Commission members. And short of dragooning them -- and heavens, I would never think of dragooning a member of the Federal Reserve or otherwise.

(Laughter.)

SECRETARY REGAN: The meeting is adjourned. Thank you very much, gentlemen.

(The meeting was adjourned at 2:50 p.m.)
The meeting in the above-entitled matter was convened at 10:00 a.m.
Commission Members:

Secretary Regan

Congressman Neal
Dr. McCracken
Mr. Lehrman
Dr. Jordan
Senator Jepsen
Senator Dodd
Mr. Coyne
Mr. Costamagna
Governor Partee
Congressman Paul
Congressman Reuss
Governor Rice
Senator Schmitt
Governor Wallich
Chairman Weidenbaum
Congressman Wylie
SECRETARY REGAN: I am assured a quorum is present, so I want to welcome everybody to the Seventh Meeting of this Gold Commission. I thought we made very good progress at our last meeting, with an agreement on quite a set of recommendations.

Today, we have three items to consider. First of all, Congressman Paul's proposed recommendations regarding emergency powers with respect to private gold holding, which we agreed at the last meeting we would discuss today. You have a Treasury Legal Memoranda on this.

Secondly, a draft of our report -- we know have a complete draft including revisions to all chapters except Chapter 4; and then, how to proceed after this meeting.

We'll need to decide whether a further meeting will be needed to approve final changes; and, in any case, we'll need to have a definite schedule for the final revisions and approval.

As you know, our report is due on the 31st of the month. We have to be certain to get it there on time, which would mean that sometime around the 26th or so would be probably the final sign-off date in order to have it printed and to the Congress on the due date. So, we will have to be very careful on that.

I think what we should do on that is just to keep
that in mind, see how much progress we can make this morning on various items and then, at the start of our afternoon session, decide how we will proceed; whether to have another meeting or whether we can do it by correspondence or what.

If that's agreeable with everybody, I propose that we get on with our agenda. All right, now the first item on the agenda is Congressman Paul's proposal that the Commission recommend repeal of the authority to compel delivery of gold to the Treasury under economic emergency conditions.

Congressman Paul, would you open the discussion?

CONGRESSMAN PAUL: Thank you, Mr. Chairman.

It has been my understanding that the power of the Secretary of the Treasury to take in gold or require its delivery to the Treasury has not been explicitly repealed.

I have felt that it would be wise for us as a Commission to at least make the recommendation that this be the case, since several times it has been implicitly repealed in that the government has no longer deemed it necessary to have this power.

This would require changes, I believe, in three different areas: the Gold Reserve Act; the Federal Reserve Act; as well as the Trading with the Enemy Act.

I would just like to get the Commission to commit themselves one way or the other on it.

SECRETARY REGAN: Does anyone want to speak to that?
DR. McCracken: May I ask a question?

Secretary Regan: Certainly.

DR. McCracken: What would be the status of this kind of thing in case of, for example, some kind of military emergency even if these actions were taken, would the President still have, under the War Powers Act or something, the capability to do this, if for some reason it were necessary?

Congressman Paul: My understanding is that if you repealed the power in all three, including the Trading with the Enemy Act, that this would eliminate the power of the President to do so, which would be my intention. I would think it would be unnecessary for a government to have this power and I think it should be repealed.

I think that those who have come to the conclusion that gold is no longer money should definitely agree with this, as well as those of us who believe gold is money.

DR. McCracken: Thank you.

Governor Rice: Mr. Chairman, I would just speak briefly against the proposed additional recommendation.

Secretary Regan: All right.

Governor Rice: It seems to me that that part of the President's war power is a handy thing to have. One remembers that gold was useful in a row-boat off the harbor of Algiers when we were engaged in a conflict.
If the Treasury and the Federal Reserve, pursuant to other action, had depleted its gold stock, I wouldn't want President Reagan, in time of war, to be without that power.

So, I'll have to vote no.

SECRETARY REGAN: Do you have any opinion, Congressman Reuss, regarding the 1933 and '34 provisions? The Treasury brief -- as I read it, it seemed to indicate those had already been repealed by practice and overtaken by other things. I didn't know whether you had any view on that.

CONGRESSMAN REUSS: As I read the Treasury Legal Memo, and that's all the law I know on this, they -- that memorandum suggested that the power of the President in time of war or emergency to compel the delivery of gold so that it can be used in the public interest in the war, is still on the law books.

Indeed, I gather from Dr. Paul that he agrees with that. That's why he's proposing that that be amended. My position is that that would not be a good amendment and we should vote not.

SECRETARY REGAN: Governor Partee?

GOVERNOR PARTEE: Well, my understanding, Mr. Chairman, from the Legal Memo is that -- perhaps we ought to talk about it in terms of the three citations in the Legal Memo, if that would be acceptable to you.

The first one, 12 U.S.C. 248(m) is still there, but
it's not enforced because of the overriding law changes. The second one, 31 U.S.C. 315(b) has been repealed; and the third one is the War Powers Act.

I don't have any feeling about the first. If it's still on the books and it's been overturned by a subsequent law, why it seems to me we could take it off; we could strike it with no difficulty.

But, I would certainly be opposed to doing away with the authority of the President under the War Powers Act because even as a commodity, it seems to me that the -- in the extremity of a war, the President ought to have the opportunity to mobilize any commodity in the country, including gold.

CONGRESSMAN PAUL: Mr. Chairman, I understand the argument for this, but also I understand that the basic reason for this is that gold is the universal money and that this represents power and it represents the ability of government to transact, especially under emergency conditions.

But, I think this contradicts every argument against gold as being money. If this is the case, that it's a war powers issue or a special commodity, why don't we worry about the other commodities?

It seems to me that every businessman must deliver to the Treasury uranium in a time of war as well as tin or silver or aluminum or whatever. I think that it's totally
unnecessary; I see that if we truly live in a free country,
even under the conditions of war, the free market and the
privilege of dealing with gold, then gold should be something
that should be protected then as well.

I think that we sort of counter ourselves if in
one breath we say that the American people have some freedom,
but we can suspend it, you know, there are times -- and
unfortunately, there are times when we do the same thing
with the First Amendment. We suspend those privileges, too.

That's not the intention of the Constitution. The
right to speak out and use freedom of speech in a time of war
is still as sacred as it is in a time of peace.

The right to own gold and the right to retain this;
if there's always a threat in a time of war, we're just really
not delivering to the people the amount of freedom and
protecting that freedom that I think they deserve.

SECRETARY REGAN: Does anyone else wish to speak?

CONGRESSMAN WYLIE: Yes.

SECRETARY REGAN: Congressman Wylie.

CONGRESSMAN WYLIE: My initial reaction is that
this may indeed be beyond the charge which Congress gave us
as the Gold Commission, to get into this issue as to whether
the statute should be repealed.

But over and beyond that, Mr. Secretary, I have a
lot of confidence in your judgment in emergency situations.
It seems to me as if Governor Partee made a good argument, that we may need to marshall all of our resources in a time of an emergency. Gold is not just another commodity as evidenced by the meetings that we have had here and the fact that Congress has decided it's not just another commodity.

So, I think that we ought to leave it pretty much where it is. Thank you.

SECRETARY REGAN: Thank you. Incidentally, would you talk to a point for just a few moments for my edification again, about these '33 and '34 provisions as to whether they have already been repealed and whether or not, if this Commission wished to specifically repeal '33 and '34, or recommend that '33 and '34 be repealed, we could do that and split that off from the War Powers?

LEGAL COUNSEL: Yes. The two provisions that were enacted as part of the overall legislation to terminate the domestic gold standard for the United States; the first one was part of the Emergency Banking Relief Act of 1933.

That essentially provided that the Secretary of the Treasury, in his discretion, can withdraw gold coin, gold bullion, other forms of gold, from circulation and pay other forms of legal tender in exchange for the gold that was delivered to the Treasury.

In 1934, as part of the Gold Reserve Act of 1934, a provision was included that mandated that all gold coin be
withdrawn from circulation. The 1933 statute, in our view, has been repealed implicitly by the statute that was enacted in 1974 to again permit American citizens to own and hold gold.

In our view, the two statutes would be totally inconsistent and therefore, the latter statute impliedly repealed the former. That view is also consistent with the opinion of the Law Revision Council of the House of Representatives that presently is reviewing all of Title 31 of the United States Code in order to simplify it and recodify it.

There is presently a bill pending that would codify Title 31 and this provision would be deleted as having been already repealed by the 1974 legislation.

Similarly, the 1934 provision, which appears at 31 U.S.C. 315(b) which said all gold coin is withdrawn from circulation, in our view was a one-time provision and applied only to such gold coins as remained outstanding on January 30, 1934, and no longer has any legal effect.

That conclusion is also supported by the Office of the Law Revision Council and 315(b) is deleted from their revision of Title 31 of the Code as it's proposed to be codified.

These two issues are very separate and distinct from the question of the President's war emergency powers that
are contained in the Trading with the Enemy Act. Those provisions were reviewed in 1977 by the Congress in their -- I think it was more than three-year review of the War Emergency Powers of the President.

It was retained solely with respect to circumstances where there was a war declared by the Congress, limited to the specific provisions; that is, the importing, exporting, hording, melting or earmarking of gold coin or bullion.

In other words, it's not a categorical authority to withdraw gold from circulation, but only the authority to withdraw it in order to investigate, regulate, prohibit any transactions in foreign exchange transfers of credit or payment between, by, through or to any banking institution and the importing, exporting, hording, melting or earmarking of gold or silver coin or bullion, currency or securities.

So, it's a very limited power that is retained for the President in times of war.

SECRETARY REGAN: Thank you. Which came first here; the granting the citizens the right to hold gold again and then looking over the President's emergency war powers?

LEGAL COUNSEL: That's correct. In 19 --

SECRETARY REGAN: In other words, the Congress had passed one rule first and then had that in mind at the time that it passed the second one?

LEGAL COUNSEL: At the time that they reviewed and
then retained the pre-existing wartime authority.

SECRETARY REGAN: Thank you. Chairman Weidenbaum, did you have your hand up?

CHAIRMAN WEIDENBAUM: Yes, Mr. Chairman.

I'd like to underscore Congressman Wylie's point. As I look at this esoteric provision, in light of all of the urgent policy questions facing the United States, this doesn't strike me as having the kind of priority that warrants a Commission's recommendation.

Under the circumstances, I would oppose and vote in the negative, should a formal motion be made.

GOVERNOR RICE: Question, Mr. Chairman?

SECRETARY REGAN: I would ask for a role call.

Let's see if we can phrase the question. Congressman Paul, since this was your proposal, do you want to phrase or frame the proposal for us?

CONGRESSMAN PAUL: That the Commission repeal all laws that grant the authority to require the delivery of gold to the President.

GOVERNOR RICE: Roll call, Mr. Chairman.

SECRETARY REGAN: Would you call the roll, please?

GOVERNOR RICE: Mr. Castamagna?

MR. COSTAMAGNA: No.

GOVERNOR RICE: No?

MR. COSTAMAGNA: No.
GOVERNOR RICE: Mr. Jordan?

DR. JORDAN: I have Senator Dodd's proxy which I send to the Chairman. Senator Dodd votes no.

SECRETARY REGAN: Did Mr. Coyne give his proxy to anyone?

DR. McCracken: No.

SECRETARY REGAN: He did not; okay. Senator Jepsen?

DR. JORDAN: No.

SECRETARY REGAN: I take it, Dr. Jordan, you have Senator Jepsen's proxy?

DR. JORDAN: Yes, I do.

SECRETARY REGAN: Mr. Lehrman? Dr. McCracken?

DR. McCracken: No.

SECRETARY REGAN: Congressman Neal? Governor Partee.

GOVERNOR PARTEE: No.

SECRETARY REGAN: Congressman Paul?

CONGRESSMAN PAUL: No.

SECRETARY REGAN: Congressman Reuss?

CONGRESSMAN REUSS: No.

SECRETARY REGAN: Governor Rice?

GOVERNOR RICE: No.

SECRETARY REGAN: Senator Schmitt?

DR. JORDAN: No.

SECRETARY REGAN: Governor Wallich?

GOVERNOR PARTEE: No.

SECRETARY REGAN: Governor Wallich's proxy has been
given to Governor Partee.

CONGRESSIONAL REUSS: What about Senator Schmitt?

DR. JORDAN: I have his proxy also; I have a letter.

SECRETARY REGAN: You have his proxy also?

DR. JORDAN: Yes.

SECRETARY REGAN: Okay. Chairman Weidenbaum?

CHAIRMAN WEIDENBAUM: No.

SECRETARY REGAN: Congressman Wylie?

CONGRESSIONAL WYLIE: No.

SECRETARY REGAN: Did I get your own vote, Dr. Jordan?

DR. JORDAN: No.

SECRETARY REGAN: And the Chairman votes no.

Now, does anyone want to propose a split-off here? That is, that we positively revoke '33 and '34 if it hasn't already been superceded and the wartime powers kept?

CONGRESSIONAL REUSS: Mr. Chairman, I think the matter has been exhaustively researched by Treasury Counsel and the House Counsel.

Why don't we simply note that those are dead horses, and it's not necessary to kill them again?

SECRETARY REGAN: '33 and '34?

CONGRESSIONAL REUSS: Yes, sir.

SECRETARY REGAN: Congressman Paul?

CONGRESSIONAL PAUL: I propose that we have a vote on
the repeal of '33 and '34 provisions to call in the gold.

CONGRESSMAN REUSS: I ask for a roll call vote on the motion that we have a vote on killing the already dead horse. I ask that the Clerk call the roll.

SECRETARY REGAN: The vote will be on whether or not we should have a vote on whether or not to repeal the '33 and '34. Mr. Costamagna, are you ready to vote?

MR. COSTAMAGNA: Yes, sir.

SECRETARY REGAN: How do you vote?

MR. COSTAMAGNA: No.

SECRETARY REGAN: Mr. Coyne is absent. Senator Dodd?

CONGRESSMAN REUSS: Senator Dodd votes no.

SECRETARY REGAN: Senator Jepsen?

DR. JORDAN: Yes.

SECRETARY REGAN: Dr. Jordan?

DR. JORDAN: Yes.

SECRETARY REGAN: Mr. Lehrman.

(No response.)

SECRETARY REGAN: Dr. McCracken.

DR. MCCRACKEN: No.

SECRETARY REGAN: Congressman Neal.

(No response.)

SECRETARY REGAN: Governor Partee?

GOVERNOR PARTEE: Yes.
SECRETARY REGAN: Dr. Paul?

CONGRESSMAN PAUL: Yes.

SECRETARY REGAN: Congressman Reuss?

CONGRESSMAN REUSS: No.

SECRETARY REGAN: Governor Rice?

GOVERNOR RICE: No.

SECRETARY REGAN: Senator Schmitt?

DR. JORDAN: Yes.

SECRETARY REGAN: Governor Wallich?

GOVERNOR PARTEE: No.

SECRETARY REGAN: Chairman Weidenbaum?

CHAIRMAN WEIDENBAUM: Yes.

SECRETARY REGAN: Congressman Wylie?

CONGRESSMAN WYLIE: No.

SECRETARY REGAN: The Chair votes yes.

We have a tie -- seven to seven.

CONGRESSMAN REUSS: I suggest we now move on to the next item on the agenda.

SECRETARY REGAN: Since there is a tie, the motion is automatically defeated and we will go on to the next item, the next item being a review of the Commission report.

Now, we circulated this morning a revision of Chapter 2 on historical experiences with gold. It reflects comments Dr. Schwartz received from the Commission members.

Now, with this chapter, the Commission has received drafts of
the entire report, including revisions of the introduction and recommendations and Chapters 1 through 3.

This will be the first opportunity for comments on Chapter 4, dealing with existing gold arrangements, proposals for change in the gold market. I suggest we proceed section by section, to see whether there are major comments or problems with the report.

As we've done earlier, I think detailed or technical drafting suggestions can be conveyed directly to Dr. Schwartz or to the Treasury Staff. This will have to be done very quickly following this meeting.

So, let's start with the prefatory material and the annex describing the Gold Commission's permanent record. This material contains a draft transmittal letter from me as the Chairman; a title page which we plan to have printed dark blue or light blue; and a list of Commission Members and an acknowledgement of Dr. Schwartz's contributions to the Commission's work and a table of contents.

CONGRESSMAN REUSS: It's all good stuff. I suggest we approve it.

SECRETARY REGAN: My goodness. This is the first time we've had to vote by voice. Any objections to any of this material?

(No response.)

SECRETARY REGAN: All right. I'll assume, then --
GOVERNOR PARTEE: I almost hesitate to bring this up, Mr. Chairman, but in your transmittal letter, the last paragraph refers to the historic role of gold in the United States -- relating to the monetary use of gold, the economic use of gold. That is not my view of the principal affair. I think the economic use of gold would be a better use and I think that's important enough to bring it to the attention of the Commission.

SECRETARY REGAN: I think that's an improvement. What word would you suggest?

GOVERNOR PARTEE: Economic stability.

SECRETARY REGAN: Economic stability?

GOVERNOR PARTEE: Yes, economic stability.

DR. MCCracken: Mr. Chairman?

SECRETARY REGAN: Yes, Dr. McCracken?

DR. MCCracken: I think I would not object to adding economic instability or something like that, but I think our representatives at the Federal Reserve are a little unduly touchy. I would retain it.

SECRETARY REGAN: Does anyone else wish to comment?

CONGRESSMAN REUSS: There's the best suggestion of all -- let's go with that.

GOVERNOR PARTEE: I would accept the monetary and economic stability.
SECRETARY REGAN: Monetary and economic stability.

All right, with that addenda, we'll then assume that all of those things have been accepted.

We will then go on. I've got the annex in there and I think that's sufficient and so forth. Now, for the Introduction and Recommendations, Dr. Schwartz has prepared a revision incorporating all of the recommendations agreed to at our last meeting.

Before I ask for comment on this, I would remind the Commission that Governor Partee has circulated a note suggesting that Members may want to identify their individual points of view by means of footnotes for their views on some individual points, pointing out that some of the recommendations represent the views of only one or two members.

We've had some discussion of these questions at earlier meetings and we do now have to decide how to proceed on this. So, I'd like the Members to comment on Governor Partee's suggestions as well as the substance of this section of the report.

Chairman Weidenbaum?

CHAIRMAN WEIDENBAUM: I saw some merit in Governor Partee's memorandum to the Commission, because on reflection, I don't think we made a sufficient distinction between the recommendations of the Commission and dissenting votes. In other words, calling majority and minority
recommendations elevates the dissenting votes and, if anything, denigrates the recommendation of the Commission.

In retrospect, we now frankly have the benefit of hindsight. In retrospect, I would think it would have been -- and it might not be too late to make the modifications, I'm not sure. It might have been better to focus on recommenda-
tions of the Commission with the understanding that any Member of the Commission jointly or individually write a dissenting note to that recommendation.

CONGRESSMAN REUSS: I would associate myself with Chairman Weidenbaum and Governor Partee on that.

SECRETARY REGAN: You associate with that?

CONGRESSMAN REUSS: Yes.

CONGRESSMAN WYLIE: So would I, Mr. Chairman.

SECRETARY REGAN: And so would you?

CONGRESSMAN WYLIE: Yes, sir.

SECRETARY REGAN: I think then that there is a general consensus that where an individual wishes to insert a personal footnote, that they be done; but remember that Governor Partee also said he'd qualify those footnotes within reasonable bounds.

He proposes that our comments be fifty words per recommendation or less as one would have it. I would just have that as an admonition from Governor Partee to the rest of us.
GOVERNOR PARTEE: I would think, Mr. Chairman, that there would be goodly footnotes on which it's conceivable to me that a number of Members might be prepared to join. So, if we can have --

SECRETARY REGAN: Again, I think Dr. Schwartz would have to be the coordinator of that type of thing.

DR. SCHWARTZ: The thing is you would have to do this immediately; you couldn't put this off until sometime next week.

It would have to be in my hands, at the latest, by next Monday. So, if you are going to have some joint statements of dissent, you'd better get together immediately.

SECRETARY REGAN: May I suggest this also, Dr. Schwartz, that if you have two or more Members submitting the same minority footnote, that you contact them and suggest that they join.

DR. SCHWARTZ: Yes. That would be possible also. This means that we will no longer describe what's now called a "majority recommendation" in those terms; it will be the recommendation. Then there would be a footnote attached to it which will identify those who dissent.

CHAIRMAN WEIDENBAUM: A motion to that effect needs to be introduced.

DR. SCHWARTZ: That's right.

GOVERNOR PARTEE: I so move.
SECRETARY REGAN: You so move. Would you please frame whatever motion it is that you're introducing so that we all know what the motion is?

GOVERNOR PARTEE: The motion would be that the format of the Commission's chapter on recommendations be revised to show not majority and minority recommendations, but simply the Commission's recommendation on a matter with then the capability for any Member to footnote the recommendation and to show dissent from that recommendation and reasons why the dissent is cast in a reasonable length of space, say, around fifty words.

SECRETARY REGAN: Did you all hear that?

DR. McCracken: I second that.

SECRETARY REGAN: Dr. McCracken seconds it. I'll call for a show of hands. All in favor?

(Show of hands.)

SECRETARY REGAN: Opposed?

(Show of hands.)

SECRETARY REGAN: That's carried unanimously.

CONGRESSMAN REUSS: Mr. Chairman, we now come, I believe, to the Introduction and Recommendations and I have --

SECRETARY REGAN: Yes.

CONGRESSMAN REUSS: -- some suggestions on that if they are in order.

SECRETARY REGAN: Please proceed.
CONGRESSMAN REUSS: The first one would be on Page 10 of Recommendation Number 2, on which I would like a little debate and vote.

The tentative recommendation says, "We favor Treasury issue of gold bullion coins of specified weights and without dollar denomination or legal tender status to be manufactured from its existing stock of gold and to be sold at a small mark-up over the market value of the gold content and recommends that the Congress implement this proposal.

"Furthermore, we recommend that the coin shall be exempt from capital gains taxes and that the coins shall be exempt from sales taxes."

In my view, Mr. Chairman, that is not a wise recommendation and it should be deleted.

DR. McCracken: You're talking about the final sentence or are you talking about the whole thing?

SECRETARY REGAN: Or the whole recommendation?

CONGRESSMAN REUSS: Well, the whole recommendation, although I would intend, in the event that the whole recommendation is not stricken, to ask that the capital gains tax and the sales tax exemption be the subject of an additional vote.

I'll be very brief. My view is that the whole thing taken together sets up a competitive coinage, as Dr. Schwartz' report indicates. A great many people view this as
money, as a competitive coin with the dollar. The Members of
the House Banking Committee, who have studied the proposal,
are appalled at the suggestion that this be freed from the
capital gains tax.

They point out, as do editorials in most of
America's leading newspapers, that you could hardly deal a
sharper blow to the market and stock equities than to say that
he who invests in a productive investment has to pay a twenty
percent capital gains tax, but he who speculates in gold,
denominated as the gold bullion coin, is home free.

Equally, at a time when the government is imposing
more and more fiscal duties upon the states to prevent them
from levying a sales tax on a gold bullion coin is to deplete
the one tax which they have which might conceivably enable
them to bridge the gap.

On February 25, Mr. Chairman, Congressman Wylie
and I wrote you, saying we submit the enclosed statement by
thirty members of the House Committee on Banking, Finance,
and Urban Affairs on the recommendation we're talking about.
We shall appreciate your making it available to all Gold
Commission Members.

I'm not angry, Mr. Chairman, but a little hurt that
you didn't do that; that the Gold Commission staff, on March 1,
four days later, saw fit to distribute by weight of several
pounds of gold block material circulated by our friend,
Mr. Lehrman. But, the two little pages signed by the overwhelming majority of the members of the House Banking Committee who must act on this legislation was disregarded.

I ask my staff now to make available on this day of March 8th, the statement by the thirty good men and true saying "Out with it. We wouldn't consider this recommendation. We oppose the Gold Commission's recommendation", say the members who are bipartisan, who include the leadership on both sides of the aisle, and who end up strongly urging the Gold Commission to repair the damage it is causing.

I personally believe that the sell-off on Wall Street is, in part, due to that improvident recommendation of February 12th. Withdraw it, they say, while there is still time to do it.

They go on to point out that the effects of the sales tax prohibition on the states will be devastating. The effects on monetary management of a new coin without legal tender status can lead only to confusion.

They ask why, at this time, should we do further damage to the nation's already weakened securities markets by doing in the capitals gains tax?

In short, say the great majority of members of the House Banking Committee, no purpose is served by the Gold Commission's recommendation other than to appease the gold lobby.
Now, let me just talk very frankly about that.

This whole Commission was set up because of the leadership among the gold group, such as our friend Senator Helms of North Carolina. No doubt about it -- he introduced it in the Senate and, as the manager of the IMF legislation for which the Treasury was duly grateful, I as manager had to accept the Gold Commission in order to get the International Monetary Fund legislation through.

Last October, Senator Helms co-sponsored the bill S-1.704 with Senators McClure, Goldwater and Sims, which is the precise model of this February 12th recommendation. It is for a gold bullion coin exempt from capital gains taxes and exempt from sales taxes.

After the books, a fact unknown to me was printed in the press; namely, that the largest political contribution in the history of politics -- $4.6 million -- was made by Senator Helms' National Congressional Club to the campaign of Mr. Reagan. It's perfectly legal, but it indeed suggests, as the great majority of the members of the Banking Committee have suggested -- that this recommendation is simply an effort to appease the gold lobby.

For all of these reasons, I ask for a vote on whether to adopt this proposal. I was heartened, incidentally, by the fact that the caster of his own and several other crucial votes in favor of this mischievous provision at the
February 12th meeting, our friend, Mr. Jordan, in his testimony six days later before the Joint Economic Committee, indicated that he perhaps didn't know what he was voting on, because he said repeatedly before the Joint Economic Committee that he felt that all that that recommendation was doing was to ask Congress to consider whether to get out this kind of a tax exempt gold coin.

In fact, the recommendation says, "We favor it and we recommend that Congress implement this proposal and further we recommend that the coin shall be tax exempt", et cetera.

So, I would hope that Mr. Jordan would take the opportunity that I'm now making available to vote against the proposal. I think there's a good opportunity now for us to improve the report so that we don't do something that we would regret and which, in any event, doesn't have the slightest chance of being considered by the Congress.

Thank you.

SECRETARY REGAN: First of all, I want to apologize to you, Congressman Reuss. Apparently, that happened somewhere in the Office of the Secretary that this was not distributed. We are unable to ask you at this moment; it was purely unintentional. I think it's one of the few things that we haven't picked up and circulated.

CONGRESSMAN REUSS: That's clearly accepted and that will be the last you hear of it. It is now before us
and, as I say, there is the 75 percent of the House Banking Committee. Now, 75 percent of the House Banking Committee can be wrong, but I ask Members to look at the merits of this.

I hope that Members, on second thought, will agree that this is indeed a mischievous recommendation and should not be honored.

SECRETARY REGAN: Dr. McCracken, you are first; then Congressman Wylie; and then Dr. Jordan.

DR. McCRACKEN: Well, Mr. Chairman, it seems to me I asked Congressman Reuss initially whether his comments were directed at the final sentence of this recommendation or at all of it.

Your response was all of it, as I understand it; however, --

CONGRESSMAN REUSS: I would intend to get at the second sentence, because that's the worst of it.

DR. McCRACKEN: Well, it does seem to me that in this reconsideration, we ought to think not in terms of the two sentences as a block but focus specifically on this question of exemption from taxes.

As I read the statement here which Congressman Reuss has now circulated, rather quickly, it seems to me a reasonable interpretation that the major concern has to do with the tax issue and, indeed, the basic question of whether there should be such medallions or whatever they are called,
is largely disposed of by a rhetorical question at the top of page two. The substance of the statement, in other words, is directed at the exemption from taxes.

I think that's a reasonable interpretation of this statement.

CONGRESSMAN REUSS: Reasonably reasonable, but I have to say that that rhetorical question on the top of page two is for real.

We do not see the wisdom of getting out a coin called at this time, in lieu of two things -- the difficulties which our nation is now undergoing and the definition of money. I know my colleague, Congressman Wylie, would speak on this point; and he feels deeply about it.

Secondly, that which Treasury Secretary Miller warned against a year and a half ago when I suggested -- Look, why not have the Treasury make a little seignorage money and beat the Kreugerrands and the Maple Leafs.

I sent that up for the Treasury to comment on and the Treasury, after pondering the matter for several months, did comment saying, "Well, in a perfect world that wouldn't be a bad idea, Ruess; but, would the undercurrents of the gold bugs, if you put into effect that kind of a coin, they would say that this constitutes a great victory and is the first step toward re-enthroning gold.

Indeed, Secretary Regan's excellent predecessor,
Secretary Miller, was right, because that's exactly what's happened. As Dr. Schwartz's exegesis well shows, the gold block is already claiming victory. It turns out that this little gold coin proposition was what they really wanted all the time.

They didn't come in here with any serious proposal of a return to the gold standard. So, all I'm saying, Paul, is that while I agree that the exemption from the capital gains tax and the exemption from the sales taxes -- this is the most mischievous of proposals. Really, the whole thing should be voted on and I hope voted down.

But, if it isn't, I'll return to just the points that you talked about.

DR. McCracken: May I respond to that? My point was simply that as I read the statement, it seemed to me a reasonable interpretation of anyone reading the statement is that the concern, really, and most of the discussion here is concerned with the tax issue, not the substantive question as to whether there should be that kind of — this kind of medallion.

My own reaction is that I would support the recommendation, excluding the final statement; that's why I raised the question as to what you were objecting to.

CHAIRMAN REUSS: Let me say that particularly in the light of your position, I'll make sure that you get an
opportunity to be recorded on both of those propositions.

SECRETARY REGAN: Congressman Wylie?

CONGRESSMAN WYLIE: Thank you.

Mr. Chairman, I would not want to imply that the purpose of this recommendation was necessarily to appease the gold lobby and wouldn't attribute any such motive to this.

This statement has been signed by several members of the Committee already and whether to get into a discussion as to whether that should be deleted, why, we went ahead with it.

I think that what, in fact, has happened to recommendations like this is that that may be an appraisal of the situation, although I do not think that that was the reason that this recommendation was adopted by members of this Commission.

I am opposed to the recommendation, as I stated in the last meeting, and I think was one of only three who voted against the full recommendation, for several reasons. One, which Congressman Reuss and Dr. McCracken already mentioned is the capital gains issue.

At a time when we're trying to get whatever financial resources are available into productive investment, it seems to me wrong to suggest that if there is money out there for saving that we put it into a gold coin or whatever this is so that it can be put in a can in a backyard for some future
date and brought out and then if it's more valuable sold, there wouldn't be any capital gain on it.

I objected to it also -- and I think that's been touched on adequately. I objected to it also because we were issuing a gold bullion coin, Dr. McCracken, which was without legal tender status.

During the course of the discussion the last time, I said that I didn't think that other countries issued gold coins which did not have a legal tender status. I suggested that we delete the word coin if we're going to do this, and call it a gold bullion piece or a gold bullion medallion and recognize it for what it is.

It would be the first time that we would have a separate so-called non-legal status coin minted by the United States. I do think that the record ought to be corrected at this point, because I asked the question as to whether there was any other country which issued gold bullion pieces which did not have legal tender status such as the Maple Leaf or the Kreugerrand.

Mr. Coyne responded that indeed the Maple Leaf and the Kreugerrand and others did not have legal tender status or could not be used, as his words put it, for the payment of private debt.

So, we went to the Library of Congress and found out that in the case of Canada, there is a specific law which
says that it can be used for the payment of private debt. We are also told by the Library of Congress that that's also true in the case of the Kreugerrand. They are getting some supporting data on that.

So, as I say, I do think that the record should be clarified from that standpoint. I will vote with Mr. Reuss' motion for a couple of reasons.

One, I don't think we should issue a so-called gold bullion coin without legal tender status; we ought to call it what it is if we want to do it. I don't think we should do it, so we're going to get into a discussion a little later on before the Subcommittee on Coins in the House as to whether or not we should issue a gold medallion to finance the Olympics. How far are we going in this?

We have issued already gold medallions which are in the safe and are not being purchased by the American public. If they really wanted to buy gold, they could buy those medallions which are already, as I say, in the safe.

To call it a gold bullion coin without legal status, I think just confuses the whole thing. If we do it, we ought to have a gold bullion coin with legal status or not call it a gold bullion coin. We certainly oughtn't to say that it will be exempt from capital gains taxes or exempt from sales taxes.

Thank you, Mr. Chairman.
SECRETARY REGAN: Thank you, Congressman Wylie.

Dr. Jordan?

DR. JORDAN: Thank you, Mr. Chairman.

I am tempted to simply read the transcript of a month ago when we had this same debate, but that might take too long, so let me just read parts of it.

My own comment was — we had had distributed to us at that time what we all agreed at that time was an excellent paper by Treasury on the issue of capital gains taxation and how, in fact, the current treatment means that people deduct their losses but frequently not their gains.

Repeal of capital gains taxation might actually raise revenue to the Treasury. The point I made last time was, "My main point is that I found the paper very educational. I learned a lot by reading it. This is an issue that has received some public attention; it's been in The Wall Street Journal and other places.

"I don't think that we should indicate we have closed this issue, that we have settled the debate, and that the public also wouldn't learn by the debate being continued.

"Let's not close it off, and we should indicate that it should be discussed further. It may be beneficial in informing the public of some very important issues; however, they ultimately come out on it."

In the JEC hearings that Congressman Reuss referred
to, I again made the point that the subject should not be presumed to be settled at this time. It was a useful paper by Treasury; the issue should be somewhat further discussed. We are recommending to Congress that it be discussed further.

On investment and whether or not this would have an adverse effect on investment, of course not. When someone buys a coin, someone else sells the coin. The dollars that are exchanged for the coin do not go down the proverbial rat hole; they are in somebody's hands.

The price of the coin may be influenced by these transactions, but there is no loss of investible funds. Now, on the other hand, if Americans choose to hold gold coins and are purchasing foreign coins, there may be a balance of payments effect. There may be some international flows involved, not just where the domestic coin is produced.

That particular aspect would not be present.

As far as generally on taxation, it's my impression that House Ways and Means and Senate Finance deal with the question of what is taxable and what is not taxable, not the banking committees.

If those committees want to hold hearings on this issue, I would be happy to testify and maybe we should repeal all capital gains taxation if we're concerned about unfair treatment of common stocks versus coins. I would be happy to testify on that. But, I think that a recommendation for
exempting these coins from capital gains taxes should stand.

SECRETARY REGAN: Thank you, Dr. Jordan.

Congressman Paul?

CONGRESSMAN PAUL: Thank you, Mr. Chairman. I would like to suggest that we make a point of order on whether or not a vote of this sort is even in order; considering the fact that we have followed an agenda; we have had our plans at our last meeting. We went over this and proxies were delivered for that specific purpose. This has not been on the agenda.

The question is, if we revote this, do we revote everything else that anybody wants to do? Are we back to square one and start all over? I really question whether or not this is in order.

I think the appropriate way for this to be handled is with a footnote. We took a preliminary vote; we took another vote; and it was planned, it was set up and it has passed.

I know Mr. Reuss is very frustrated; at times, he's had to throw things and at times, he has walked out of the room. But, I do not see why we have to accommodate and take up a new vote and do it again.

I think that particular vote is out of order and it should be put in a foot-note.

Now, I would like to address the subject of the
recommendation from the Congress. The Commission is set up to recommend to the Congress; the Congress doesn't recommend to the Commission what they should recommend to the Congress. It's the craziest thing I've ever heard of.

Now, the other thing is I went over and talked to some of the people who signed that. One man said that he had one objection; it was the taxes. So, we'll settle that in the Congress when we pass the law.

Why do we have to come back and accommodate thirty members of the Banking Committee? Besides, there were two occasions where I was the only member of the Banking Committee who objected to a piece of legislation and by the time it got to the House floor, it was defeated.

So, I think the way a committee is run versus the way people look at things on the House floor completely differ. So, I think that we should totally ignore the recommendations of the Congress to recommend to the Commission what they should recommend to the Congress, or we'll get into a foolhardy position which is just totally redundant and makes no sense whatsoever.

The fact that Mr. Reuss is so anxious to undo this contradicts everything that he has said or a lot of what he has said. I have his release here, strongly endorsing a gold coin a year or two ago. He voted in the preliminary vote endorsing this gold coin.
His main objection now is the fact that there might be some competition. That, I cannot believe -- no, I can believe it; it's just that it's an outrage to think that a little bit of competition for the American people should be condemned. I think if we are that fearful of a little bit of competition, that big government has to be so big and so tyrannical that we can't have a smidgeon of freedom, then I think we're in a sad state of affairs.

I think it should be not voted on. I think if Mr. Reuss has his opinion, he ought to put it in the footnote and it should be handled that way.

I have one question as far as the definition goes. I would like this to be clarified, because I assume that we are not going back and revoting every recommendation.

That has to do with the definition of legal tender. Maybe legal counsel can help us to put a statement in to clarify this. It says, "We favor Treasury issue of gold bullion coins of specified weights and without dollar denomination or legal tender..."

Now, when we refer to it, do we mean that as legal tender, it is not acceptable at all in the payment of taxes? Are we limiting it to that or does this mean that there could be no acceptance of the coin in debt settlements?

I think there is quite a bit of difference, because if there is a coin and there's a contract, we certainly don't...
want to assume that there could not be an acceptance of debt settlement.

SECRETARY REGAN: Thank you. Governor Partee?

GOVERNOR PARTEE: Mr. Chairman, I do think we have a serious procedural question here that we need to determine. This matter, as all other matters, was voted on last time. There were several members of the Commission at the last meeting that aren't here re-casting their votes now. It could well change the outcome and could well be objected to, or perhaps objected to, by those who weren't here.

I, as you know, didn't care for the capital gains aspect of this. The way you put the question, I didn't have the opportunity to vote against the capital gains part of it which may have been a procedural difficulty at the last meeting; I'm not sure.

I also note that although we have had very much discussion on this subject, the material leading up to the recommendation on capital gains is almost nonexistent. I would hope that Dr. Schwartz would expand that section, (d), on page nine, which just asks three questions about capital gains and makes no other comment about it.

We do have material from the paper and elsewhere, I think, to expand that and properly indicate that it was very much the subject of the Commission. If it would be possible to have small modifications in the recommendation,
and I do believe you're going to have to make a ruling on what we do here, if that would be possible, I would note to you that the recommendation having to do with capital gains taxes is stated as strongly as the recommendation having to do with the issuance of a gold coin.

It doesn't say that we recommend that this be studied or that we recommend that consideration be given or anything like that. It just says we recommend that it should be exempt from capital gains taxes. That, too, -- I mean, if we were to make modifications, it seems to me even in the sense of a majority vote, you might want to modify that to make it more of a recommendation for study rather than an outright recommendation.

SECRETARY REGAN: Mr. Costamagna?

MR. COSTAMAGNA: Thank you, Mr. Secretary.

I first became aware of the statement of the House Committee on Banking as reported in the Reuter's News Service, and was considerably taken aback by the fact that the ink wasn't even dry on our recommendation and it was already being -- what appeared to me -- being set up for defeat in Congress.

I may be naive on what happens here in Washington, being so far away, but I must point out that there is great support for what was done here in terms of the gold coin out West. I'd like to read to you a couple of paragraphs from The
San Francisco Chronicle dated February 19, 1982, which was subsequent to our last meeting.

"There are a number of plusses about the proposed Eagle. One is that it will be easily available. The gold medallion that went on sale in July of 1980 was unpopular, and no wonder. It had to be ordered through the Post Office and delivery took six weeks.

"Another advantage to the Eagle is that any profits from its sale will be free of capital gains taxes. Americans now actively buy and sell the gold coins of several other nations -- the South African Krugerrand being a highly successful offering. Americans purchased five to seven million Krugerrands in 1980.

"The year gold reached its peak at a price of $875 an ounce; they have purchased 33 million of them since the coin was introduced in '67. We like the idea of these Eagles. They won't, of course, be like those dollar denomination gold pieces of cherished memory, but it seems eminently sensible to have them available for gold bugs thereby keeping American dollars at home that might otherwise go, for instance, to South Africa for Krugerrands."

This past weekend, I also had occasion to spend several days at the Conference of Bankers out West. These are bankers primarily from the West, the mid-West and the Southwest. I believe there were approximately twenty to 25
I found great support for the idea of a gold coin amongst these bankers. They were very interested in the workings of the Commission; they were interested in the fact that this was even a subject of discussion here in Washington; and that these proceedings had been taking place.

They were greatly interested in the idea of a gold coin. I found the majority of people that stopped and talked to me about it were very enthusiastic about the idea. I might add that some of them even wondered why it wouldn't be legal tender, but that's another question we have not voted on.

I would also like to add, in conjunction with Congressman Paul, that I thought we had resolved all of the issues at the last meeting. I know of other little nuances here and there that I would like to bring up again, but I don't think we have the time, nor would I think it proper to do so.

I would just prefer to accept the recommendations as they are presented to us here and get on with making our report complete and complete it. Thank you.

SECRETARY REGAN: Thank you, Mr. Costamagna.

Dr. Jordan, do you wish to speak again?

DR. JORDAN: Mr. Chairman, I move that we table the motion.

SECRETARY REGAN: Governor Rice?

GOVERNOR RICE: I just wanted to say a brief word,
Mr. Chairman. I voted for this recommendation at the last meeting, but with a great deal of unease; largely because I favored issuing the coin but at the same time did not like the tax aspects of the recommendation.

On balance, I was persuaded by the argument that Dr. Jordan presented, both last time and here, and presented in the Treasury paper, that the Treasury revenue situation would be improved by the capital gains aspect.

I would myself be much more comfortable if we could separate these two aspects; one, issuing the coin; and two, the tax aspects. I would, therefore, welcome the opportunity to vote on both.

So, I would end up associating myself with Professor McCracken and Governor Partee.

CONGRESSMAN PAUL: Mr. Chairman, a motion to table, I think, takes precedence, and I think we have to go ahead and vote on that.

CONGRESSMAN REUSS: In a Parliamentary inquiry, Mr. Chairman, there is before us Mr. Jordan's motion to table.

CONGRESSMAN PAUL: I believe it is not debatable. A motion to table is not debatable.

CONGRESSMAN REUSS: That's what's in the regular order and if the Chairman will gavel down those who are trying to -- by asking for a Parliamentary inquiry, which is in order.

SECRETARY REGAN: You may --
CONGRESSMAN REUSS: As I understand the motion to table, it is not debatable; it leads to an immediate vote on the proposition I put; namely, the vote on the two sentences.

If the motion to table carries, it will be in order, will it not, for me to ask for a separate vote on the second sentence, that having to do with capital gains taxes and sales taxes.

SECRETARY REGAN: Let's get this straight as far as the Chair is concerned, with aid and assistance from Counsel.

As I understand it, if we wish to re-open any of these agreed upon recommendations, it will take a majority of those present to recommend that we re-open everything.

I warn you, though, that if we re-open one, we must thereby re-open all. I don't see how we could re-open one and not all of them. Then we will have to proceed as we did last time, through the entire process again with modifications.

The time is growing very short, Gentlemen, as to when we have to come to a conclusion. Last time, I know that a lot of us didn't get what we wanted; many did get in part what they wanted and so forth.

In the true spirit of a Commission, we came up with a majority view and then this morning, we have now said that when the views are expressed, they will be expressed as the views of this Commission with ample opportunity for those who oppose it to put into the footnotes that they do oppose it and
this type of a thing.

So, what I shall do now then is to have a vote on whether to table this motion. Then, if we wish to split this one and just talk about the gains portion, we'll have to have first a vote as to whether or not we wish to re-open it.

CONGRESSMAN REUSS: Let me, Mr. Chairman, express my strong objection to the conduct of the Gold Commission. In the agenda before us, Item One, put on there by the managers of the Gold Commission and yourself, gave the leader of the gold block, Congressman Paul, a chance to bring up a recommendation for gold.

Then we passed to Item 2, which says, "Review of the Commission report, prefatory material" -- we voted on that. We could have voted it down; I thought it was good and we voted for it. Introduction and recommendations -- that's what we're on now.

Certainly, we have a right to vote. What is this -- the Golden Rule Commission? Those who have the gold make the rules? I think it's preposterous and I hope the Chair will not press this gag rule which he's about to invoke.

Anyway, the motion is nondebatable; let's vote on the motion to table and I ask for a roll call.

SECRETARY REGAN: The motion before us is a motion by Dr. Jordan to table any -- as I understand it, Dr. Jordan, the motion that you're tabling is the motion that would change
the majority recommendation, item number two on page 010 of the introductory material of the Commission, including the Commission's recommendations; is that correct?

DR. JORDAN: That is correct.

SECRETARY REGAN: I'll ask for a show of hands.

CONGRESSMAN REUSS: Roll call, Mr. Chairman.

SECRETARY REGAN: A roll call. We'll have a roll call on whether or not we should table this amendment.

Mr. Costamagna?

MR. COSTAMAGNA: Yes.

SECRETARY REGAN: Mr. Coyne is absence. Senator Dodd?

CONGRESSMAN REUSS: No.

SECRETARY REGAN: Senator Jepsen.

DR. JORDAN: Yes.

SECRETARY REGAN: Dr. Jordan?

DR. JORDAN: Yes.

SECRETARY REGAN: Mr. Lehrman is absent. Dr. McCracken?

DR. MCCracken: Yes.

SECRETARY REGAN: Congressman Neal is absent.

Governor Partee?

GOVERNOR PARTEE: Yes.

SECRETARY REGAN: Congressman Paul?

CONGRESSMAN PAUL: Yes.
SECRETARY REGAN: Congressman Reuss?
CONGRESSMAN REUSS: No.
SECRETARY REGAN: Governor Rice?
GOVERNOR RICE: No.
SECRETARY REGAN: Senator Schmitt is absent.
DR. JORDAN: Yes.
SECRETARY REGAN: Governor Wallich.
GOVERNOR PARTEE: No.
SECRETARY REGAN: Chairman Weidenbaum?
CHAIRMAN WEIDENBAUM: Yes.
SECRETARY REGAN: Congressman Wylie?
CONGRESSMAN WYLIE: No.
SECRETARY REGAN: The Chair votes yes.
Nine to five, it carries. The motion is tabled.
CONGRESSMAN REUSS: Mr. Chairman, I move that we now vote by roll call on the second sentence; namely, whether we recommend that the coin shall be exempt from capital gains taxes and that the coin shall be exempt from sales taxes.
CONGRESSMAN PAUL: Mr. Chairman --
SECRETARY REGAN: Congressman Paul?
CONGRESSMAN PAUL: I would suggest that this is identical to all of the arguments we just gave for the prior vote and for the tabling. It is exactly the same.
When we spent at least two to three hours on this recommendation, we voted on capital gains separately from
sales taxes. I believe we did.

SECRETARY REGAN: Let's check the record.

DR. SCHWARTZ: I think we voted separately; it was a majority vote.

SECRETARY REGAN: We'll have the record checked.

GOVERNOR RICE: Yes we did; there's no doubt about it.

CONGRESSMAN PAUL: Yes, we did. We voted separately on this. By having already voted separately on this, I think the Commission has made their statement and that I move to table this motion as well, for the same reason that we tabled the previous motion.

SECRETARY REGAN: The amendment on capital gains was an amendment by Congressman Paul. "The coin shall be exempt from capital gains taxes"—vote: eight, yes; six, no; on a roll call.

Dr. McCracken?

DR. MCCracken: Mr. Chairman, it seems to me the key question here is this procedural question as to whether we're going to reopen.

On the specific issue of this final sentence in this recommendation, to start de novo, I would oppose it. I think there is a much more fundamental question which two or three have alluded to, including Chuck Partee, as to whether we start in now -- I believe the Council indicated
the same thing. Are we going to reopen things that have been
voted before? I must say I would question that as a procedure,
even though on this specific issue, the recommendation isn't
quite what I would propose; and I'll take care of that in the
footnote.

SECRETARY REGAN: There is a motion here to table
this second recommendation that the coins shall be exempt from
capital gains taxes.

We'll proceed by a roll call vote. Mr. Costamagna?

MR. COSTAMAGNA: This is a vote?

SECRETARY REGAN: This is a vote now on whether to
table the second -- The motion is that the second sentence
therein, "Furthermore, we recommend..." would be deleted from
our recommendation.

CONGRESSMAN PAUL: This is the motion to table.

CONGRESSMAN REUSS: No, I proposed that there be a
vote and Mr. Paul moved to table it so the motion is to be
tabled.

SECRETARY REGAN: The motion to be tabled.

MR. COSTAMAGNA: Yes.

SECRETARY REGAN: Senator Dodd?

CONGRESSMAN REUSS: No.

SECRETARY REGAN: Senator Jepsen?

DR. JORDAN: Yes.

SECRETARY REGAN: Dr. Jordan?
DR. JORDAN: Yes.
SECRETARY REGAN: Dr. McCracken?
DR. McCRACKEN: Yes.
SECRETARY REGAN: Governor Partee?
GOVERNOR PARTEE: Yes.
SECRETARY REGAN: Congressman Paul?
CONGRESSMAN PAUL: Yes.
SECRETARY REGAN: Congressman Reuss?
CONGRESSMAN REUSS: No.
SECRETARY REGAN: Governor Rice?
GOVERNOR RICE: No.
SECRETARY REGAN: Senator Schmitt?
DR. JORDAN: Yes.
SECRETARY REGAN: Governor Wallich?
GOVERNOR PARTEE: No.
SECRETARY REGAN: Dr. Weidenbaum?
CHAIRMAN WEIDENBAUM: Yes.
SECRETARY REGAN: Congressman Wylie?
CONGRESSMAN WYLIE: No.
SECRETARY REGAN: The Chair votes yes.

Congressman Neal —

CONGRESSMAN REUSS: The same Congressman Neal who was one of the glorious six who voted against the capital gains outrage is not in a position to cast a roll vote.

SECRETARY REGAN: There will be no politicizing of
the issue, if you don't mind.

(Laughter)

SECRETARY REGAN: Congressman Neal, let me apprise you of what has happened here. We have gotten to looking at the second recommendation on the suggestion of Congressman Reuss that there were members of the Senate Banking Committee, to wit, thirty of them, who opposed this.

He thought the subject should be reconsidered by the Commission. Governor Partee brought up the question of can we now reconsider all of these new -- all of the previously voted upon issues and should we reopen them at this point.

Whereupon, there came amotion from Dr. Jordan to table this suggestion of Congressman Reuss', and a vote was taken to table it. Whereupon, Congressman Reuss then asked that the second part of the recommendation which is on page 010 -- the recommendation that the coin shall be exempt from capital gains taxes and that the coin shall be exempt from sales taxes be voted on.

Congressman Paul brought up the same point that this, too, was out of order and should be tabled in order not to reopen all of these individual items that we voted on last time. We have just completed the first roll call on the second portion of this; the first part was voted to be tabled.

The second part, we're voting on whether to table or not. You can vote if you so desire; either yes to table or
CONGRESSMAN NEAL: Thank you, Mr. Chairman, for reviewing this for me and I apologize for being late; it was unavoidable. Could you tell me how the vote has gone so far?

(Laughter)

SECRETARY REGAN: Congressman Neal, the vote has gone as it did previously -- nine to five to table; nine yes and five no.

CONGRESSMAN NEAL: Please, let me ask one other question. In voting to table, we are saying that we're not going to reopen the previous considerations?

SECRETARY REGAN: That is correct.

CONGRESSMAN NEAL: On this or any other issue?

SECRETARY REGAN: Specifically on this. If someone else made a move to reopen another one of these items, then we'd have to have a similar vote.

DR. SCHWARTZ: You should also apprise Congressman Neal about the decision to give everybody a chance to --

SECRETARY REGAN: Oh, yes. We did decide early on that in accordance with Governor Partee's suggestion that the recommendations would be the recommendations of the Commission, not specifying majority or minority.

However, any minority person or persons, collectively or individually, could express in a footnote objections to any one of the recommendations; hopefully,
they would explain their reasons in fifty words or less in
the report.

CONGRESSMAN NEAL: Thank you, Mr. Chairman. I will
vote to table it.

SECRETARY REGAN: Table it. All right, now having
disposed of that, we should now proceed with the rest of the
Introduction. Any other comments?

CONGRESSMAN REUSS: Yes, Mr. Chairman.

On Arabic IV on the majority recommendation on
page 018, the second sentence, we favor continued study of
the role of gold in the monetary system and recommend that
Congress hold hearings on the subject.

I thought that the purpose of this Commission was
to lay to rest the question of gold and here, we recommend
that Congress keep it open forever by holding hearings.

In the light of the action of the Commission just
now to, in effect, throw out the agenda which led -- or would
have led a reasonable person to believe that we were going to
have votes on this and weren't locked in, I'm probably not
going to be successful, but I move to strike that sentence
on page 018.

CHAIRMAN WEIDENBAUM: Just the second sentence in
the majority recommendation; is that it?

CONGRESSMAN REUSS: Yes, but I won't prolong the
matter, because the Commission's views are obviously quite
fixed, so let's just have a vote on it.

CHAIRMAN WEIDENBAUM: Is there a second to that motion?

CONGRESSMAN REUSS: Pardon?

CHAIRMAN WEIDENBAUM: Is there a second to that motion?

SECRETARY REGAN: Is there a second to that motion?

(No response.)

SECRETARY REGAN: No. I think that probably disposes of it, then.

CONGRESSMAN REUSS: We proceed then to Arabic V on page --

SECRETARY REGAN: Excuse me, Congressman Reuss, before you get started on that. Governor Partee, you had your hand up?

GOVERNOR PARTEE: No, it was not relevant to this.

SECRETARY REGAN: Go ahead.

CONGRESSMAN REUSS: There, the majority recommendation says, "The Commission recommends that Congress and the Federal Reserve study the merits of establishing a rule specifying that the growth of the nation's money supply be maintained at a steady rate which ensures long-run price stability. In addition, the Commission concludes that under present circumstances, restoring a gold standard does not appear to be a method for dealing with the continuing problem
of inflation. The Congress and the Federal Reserve can study ways to improve the conduct of monetary policy, including such alternatives as adopting a monetary rule."

I would move to reform that section, which is redundant, repetitive and topological -- the third sentence says about the same thing that the first sentence does.

Again, I'm defending against the "everything is engraved in marble" rule which for some reason known but to God, Mr. Chairman, you have imposed on this Commission.

So, can we have a vote on that?

SECRETARY REGAN: Does anyone want to second that motion?

GOVERNOR PARTEE: I'll second that.

SECRETARY REGAN: You'll second that.

GOVERNOR PARTEE: I think, Mr. Chairman, that Congressman Reuss makes a very good point; that it's impossible to change anything if we don't reopen in some degree these recommendations. He's quite correct that this is a very odd recommendation just structurally, the way it appears. It seems to say the same thing twice in the first sentence and in the third sentence.

SECRETARY REGAN: I'd like to remind both of you gentlemen that the Chair did not rule that none of these could be reopened. The Chair ruled that if a motion were tabled, then it could not be then debated. But, if the group
decided, the Commission decided by a majority vote, that it wished to reopen any one of these things, it could so do.

Dr. Jordan?

DR. JORDAN: In line with your earlier remarks, the decision to reopen any, whether this is redundant or bad grammar or any other objection to it, the decision to reopen on this one question raises a concern about reopening on all questions.

So, I will oppose reopening on this, just on that ground that I don't want to open it all up.

CONGRESSMAN REUSS: I asked for a vote on my motion to reopen the issue. A show of hands will do for the moment.

SECRETARY REGAN: Are you specifying -- what is it?

CONGRESSMAN REUSS: My motion is to reopen Arabic V.

DR. JORDAN: Do I understand that a motion to reopen on V is a motion to reopen on all questions?

CONGRESSMAN REUSS: No, not at all.

SECRETARY REGAN: But, if you open that question, if you have opened V, why not VI, VII, VIII, IX, X? Then, we'd have to have a vote of the majority of the Commission as to whether we wished to reopen all of those others or not. We could do one, but not do all, but certainly leave open that question for a vote.

I think I would have to ask that you then decide what you wanted to do.
CONGRESSMAN WYLIE: Mr. Chairman?

SECRETARY REGAN: Congressman Wylie?

CONGRESSMAN WYLIE: Just for clarification, you would strike out the language on page 020; is that it?

CONGRESSMAN REUSS: My motion is simply to reopen the Arabic V recommendation, which overlaps pages 020 and 021. If that motion prevails, I would then of course -- I must be honest -- feel emboldened to make similar motions as to recommendations which are infinitely sillier than this one.

So, be aware -- I asked for a vote.

SECRETARY REGAN: Do we all understand what we are now voting on? Do you, Mr. Costamagna, understand what we would be voting on? As to whether we should reopen Item V for a change in language and a yes vote would suggest that you do not wish to reopen; a no vote would say you do want it open.

CONGRESSMAN REUSS: No, it's the other way around.

SECRETARY REGAN: It's the other way around; all right. A yes vote, you want to reopen it; a no vote, you do not want to reopen it.

CHAIRMAN WEIDENBAUM: Mr. Chairman?

SECRETARY REGAN: Yes?

CHAIRMAN WEIDENBAUM: I was about to cast a yes vote to reopen, but Congressman Reuss, in his usual eloquence, has convinced me that I should not open the proverbial
Pandora's box. I'm going to vote no.

CONGRESSMAN REUSS: All right; Pandora votes no.

Now, let's get on with it.

SECRETARY REGAN: Mr. Costamagna, how do you vote?

CONGRESSMAN REUSS: I don't ask for a roll call.

SECRETARY REGAN: All right; you don't ask for a roll call. All in favor of reopening, raise their hands.

(Showing of hands.)

SECRETARY REGAN: Two.

LEGAL COUNSEL: Do you have a proxy as well, Congressman?

CONGRESSMAN REUSS: Yes, Dodd.

SECRETARY REGAN: All right; opposed?

(Showing of hands.)

SECRETARY REGAN: Nine to six opposed to reopening.

CONGRESSMAN REUSS: Mr. Chairman, and this will be my last hurrah, the recommendation number six --

SECRETARY REGAN: I would assume only on this subject.

CONGRESSMAN REUSS: On recommendation number VI, pages 023 and 024, the first sentence of the recommendation says, "We favor no change in the flexible exchange rate system."

Now, I happen -- as I've said many times -- to be quite satisfied with the flexible exchange rate system and I don't favor any change in it, but the Gold Commission's duties
were not to make pronouncements on flexible exchange rates.

They were to, and I quote, "To make recommendations concerning the role of gold in domestic and international monetary systems", and I therefore find this exceeds our jurisdiction.

And, as before, I move that we reopen Recommendation number VI.

SECRETARY REGAN: All of recommendation number VI or just recommendation number I?

CONGRESSMAN REUSS: You are quite right, number I.

SECRETARY REGAN: Majority recommendation number I?

CONGRESSMAN REUSS: Yes; right.

SECRETARY REGAN: Again, we'll have a show of hands on this.

DR. JORDAN: Mr. Chairman, is there a second on that motion?

SECRETARY REGAN: Is there a second on that?

CONGRESSMAN WYLIE: Mr. Chairman, I'll second it, because I think I made a point of order against this recommendation just on the same grounds that Mr. Reuss has stated during the deliberations.

SECRETARY REGAN: All right. There is a second. Now, a yes vote would recommend that we reopen Majority Recommendation Number I under all recommendations, Arabic VI, International Monetary Policy Arrangements. A no vote would be that we not reopen it.
All in favor, please raise your hand?

(Showing of hands.)

CONGRESSMAN REUSS: Plus Dodd.

SECRETARY REGAN: All opposed?

(Showing of hands.)

SECRETARY REGAN: Nine to five. It sounds like working hours. Nine to five, not to reopen.

All right. Is there anything else on this introductory portion and the recommendations?

(No response.)

SECRETARY REGAN: All right, I guess we now go to the chapters themselves. Here again, I would ask that when we get into discussions regarding the wording in the chapters, that if they are of a technical drafting suggestions or they are detailed or things that are of that nature, that we get the recommendations to Dr. Schwartz.

If it's something of substance, then I think we should have a discussion of it. Governor Partee?

GOVERNOR PARTEE: Mr. Chairman, I had a number of comments on the text of the section surrounding the recommendations. I view that that will have to be considerably rewritten, anyhow, because of the change in form that we're going to take. So, I would be just prepared to hand my comments to Dr. Schwartz. I'm not even sure if the comments are all that appropriate because of the change in format, but
that will mean a considerable --

SECRETARY REGAN: May I suggest, Dr. Schwartz, you contact Governor Partee and see what he has to say?

DR. SCHWARTZ: I presume you will submit the footnote dissents?

GOVERNOR PARTEE: Oh, yes; that also.

DR. SCHWARTZ: And any suggestions you've got for the change in accompanying text. I should also add with respect to the revised chapters one and three, that the comments that the Federal Reserve staff sent with a covering letter from Governor Partee came after I had already sent the chapters back to Treasury. So, I'll take care of that.

SECRETARY REGAN: I have a criticism if I might, as Chair.

On Figure 1.1, I cannot read that and I would suggest that quite a few of these charts and --

DR. SCHWARTZ: Yes. They are not professionally drawn and they will be --

CONGRESSMAN REUSS: It's too bad, Mr. Chairman, nothing can be touched and I'm sorry you can't read it, but that's the way it --

SECRETARY REGAN: No, no, no. We're not on the recommendations here.

DR. SCHWARTZ: Just the body of the report.

(Laughter)
SECRETARY REGAN: Any other suggestions on Chapter 1? Dr. Jordan, did I see your hand up?

DR. JORDAN: No.

SECRETARY REGAN: Okay. Chapter 2?

CONGRESSMAN REUSS: Mr. Chairman, can't we save a good deal of time? This is all perfunctory -- we can't change anything; we can send in our comments.

SECRETARY REGAN: No. What I'm trying to get at is there anything of substance now in Chapters 1 through 4 that we should discuss, because we are trying to finalize here. In all seriousness, I want to button up anything of substance, if at all possible today, so that Dr. Schwartz can get on with any substantive changes in these first three chapters. The fourth chapter has just been issued.

Congressman Wylie?

CONGRESSMAN WYLIE: It's hard for me to say whether this is a substantive recommendation or a change or not, but I made this point a little earlier.

I think that the suggestion that we are here because the Gold Commission is to study the growing concern about monetary policy does not really reflect the reason for how we got here.

In the developmental process of establishing the or of passing the law which got us here, I think more than anything else, it was because of the debate at the time. I
made this suggestion a little earlier -- on the international monetary funds appropriations and more specifically, IDA, that we were attempting to get them some suggestions as to how we might get them some extra votes on that.

To say that the Gold Commission was enacted because of a growing concern over persistent and accelerated inflation and then relate it more specifically to monetary policy, which I think it does a little later on, I don't think that accurately states how we got there; that's my opinion of it.

Plus, I think that there is too much emphasis on suggesting that inflation is related to monetary policy. I think, myself, that the record of inflation is more directly related to huge budget deficits which require government financing and has the effect of crowding out. That is mentioned, but I thought that maybe a little more discretion ought to be made on that.

There ought to be more emphasis on the fact that inflation is geared to budget deficits over this period rather than on monetary policy. I don't necessarily have any suggested language at the moment, but I did think that I would be remiss if I didn't make that point from my own standpoint for the record.

SECRETARY REGAN: Congressman Neal?

CONGRESSMAN NEAL: Mr. Chairman, I just wanted to say that my recollection of how we got here was somewhat different.
Just to have that as a part of the record, I recall very clearly that we accept that this Amendment establishing this Commission was added as a non-germaine amendment in the Senate to the International Monetary Fund bill and when it was debated, I was managing the bill, the International Monetary Fund bill.

I don't recall the exact discussion surrounding this debate, but it seems to me very clear that everyone that had anything to say and that those voting at that time were most interested in the problem of inflation.

This is the concern about inflation and the idea that possibly the use of gold in our monetary system might have some beneficial impact on the rate of impact -- this was clearly the motivation behind establishing this Commission.

Now that the Commission has, in its wisdom and I think very correctly, after its study of history and hearing witnesses and so on, come to the conclusion that gold or returning or going to some sort of gold standard is probably not a -- is quite clearly not a wise move, but that if historians or history pays any attention whatsoever to what we are doing here, I would hope that it would reflect that we have looked at this question of inflation with serious intent and our recommendations indicate that we think inflation is essentially a monetary phenomenon and that we
are urging the Congress to take that seriously and deal with that seriously. I just hope that that's how the overall record of this hearing is read.

I wouldn't want to -- I don't think it should be -- the impression should be left that the concern that inspired the establishment of this Commission was anything but a concern to try to do something about the problem of inflation.

Those that first proposed, thought that the solution would be to tie our money to gold or to use gold as our money or some other motivation. But, underlying that, was a sincere desire to do something about inflation.

I just wish myself that we could go a little bit further in making a clearer recommendation. It seems to me we have gone a long way and I thank you.

SECRETARY REGAN: Thank you. Mr. Costamagna?

MR. COSTAMAGNA: I would just like to say I would concur in those remarks very emphatically, concur with Congressman Neal.

SECRETARY REGAN: Congressman Neal's remarks?

MR. COSTAMAGNA: Yes, sir; I do.

SECRETARY REGAN: Do you want to say anything at this point, Dr. Schwartz?

DR. SCHWARTZ: I think in Chapter 1, we've given full recognition to the role of fiscal policy and I do not believe that, in the current version of that chapter, that in
any way we have slighted the role of fiscal policy.

SECRETARY REGAN: Anything else to come up on Chapter 1?

CONGRESSMAN NEAL: Mr. Chairman, do I understand correctly that if we have recommendations concerning changes in language and syntax and so on that we might submit those to Dr. Schwartz?

SECRETARY REGAN: Yes, but necessarily, because of time constraints, those must be in no later than next Monday in her hands so that she can make them. We are operating under the time frame where we have to have this whole thing set in type on or about March 26th if we're going to get it to the Congress by March 31st.

Accordingly, we cannot go along now with any feeling that we have plenty of time to get things in.

DR. SCHWARTZ: There are two types of things that you can put in my hands. One, if you have any dissents in the introductory chapter with respect to recommendations; two, any changes that you would like to see made in the body of the report, Chapters 1 through 4.

So, there are two types of --

SECRETARY REGAN: The minority report?

DR. SCHWARTZ: Yes.

SECRETARY REGAN: The minority comments. Yes, Dr. McCracken?
DR. McCracken: Congressman Neal was not here when we talked about adding the footnotes.

DR. Schwartz: Yes, I know.

Congressman Reuss: Just so I may understand this, footnotes have to be in by next Monday, March 15; suggestions for other changes have to be in by Monday, March 15; and additional supplemental or dissenting views have to be in by Monday, March 15th?

DR. Schwartz: That's right, because basically, I will have only the balance of that week to get the changes --

Congressman Reuss: I'm glad that we're making clear the timetable. Then, as of next Monday, March 15th, that effectively discharges the Commission; doesn't it? From then on, it is printing and mechanical.

Secretary Regan: No, not quite. I think that each of us has to go over what the others' suggestions are. We don't know what one or more members of the Commission might be saying to Dr. Schwartz, so we have to have a final reading of it.

Now, that can be done either privately or in a meeting such as this. By privately, I mean just by sending in further written comments. We could, in effect, have either one more meeting to go over everything, not to reopen the recommendations of the Commission, but to see if somebody feels that their footnote has been slighted or if it wasn't
put in or something of that nature. I would want to make
absolutely sure that every member of the Commission has a
chance to see the text before signing off on it.

CONGRESSMAN REUSS: If we can pursue this a moment,
because I think it would be well to get it absolutely straight.

SECRETARY REGAN: Yes.

CONGRESSMAN REUSS: Everything -- all pieces of
paper -- have to be in to Dr. Schwartz by the close of
business next Monday, March 15th. That's clear.

How about her then circulating --

DR. SCHWARTZ: Exactly.

CONGRESSMAN REUSS: -- that which she proposes to do
by way of additions or subtractions from the report.

DR. SCHWARTZ: The whole thing --

CONGRESSMAN REUSS: The whole thing; indicating
what the changes are, if any.

DR. SCHWARTZ: That's right, exactly.

CONGRESSMAN REUSS: And then, giving a few days or
a week from receipt of that to members to object to
Dr. Schwartz, if they don't like any of the changes.

DR. SCHWARTZ: Right.

CONGRESSMAN REUSS: If she is incapable of resolving
those mini-disputes, then there would have to be a final
meeting. But, I would venture to say that there really doesn't
have to be a final meeting and since time is precious for

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everyone here, if we can avoid it, it is good.

SECRETARY REGAN: I'm with you on that; if we can
avoid another meeting, I'd just as soon do it. But, frankly,
I don't want to shut it off so that if someone feels he
didn't have another opportunity to come forth with something —
but, if that's agreeable to all of you, we could actually
adjourn this meeting right now and come back in writing with
anything we have unless somebody has a major point that they
would like to make at this point.

We could adjourn; prepare our written comments;
get them into Dr. Schwartz; and then, after we have seen —
after you've all had a chance to reread what she will get
back to you, and we'll try to have a fast turn-around time
on that, whether or not one more meeting is needed.

CONGRESSMAN REUSS: Mr. Chairman, I move we now
adjourn.

CONGRESSMAN PAUL: Mr. Chairman --

SECRETARY REGAN: Congressman Paul first.

CONGRESSMAN REUSS: A point of order -- my motion
was made.

CONGRESSMAN PAUL: All I'm asking for is a few
minutes. I think we can sustain --

CONGRESSMAN REUSS: I do ask for a vote on my
motion, Mr. Chairman.

CHAIRMAN WEIDENBAUM: Mr. Chairman, there is a
point of order here on a motion to adjourn. Mr. Chairman,

had you recognized Mr. Reuss when he made his motion?

SECRETARY REGAN: Yes, Mr. Reuss did have the floor

at that moment. I think, since we have time, Mr. Reuss

wouldn't mind his associate having a few minutes.

CONGRESSMAN REUSS: Two minutes.

SECRETARY REGAN: Yes, two minutes, we'll hear from

Congressman Paul.

CONGRESSMAN REUSS: I yield the two minutes.

CONGRESSMAN PAUL: Is he giving me the time or are

you giving me the time? I don't feel like we need to play

these games much longer.

I wanted to inquire about a date in that I am

interested in submitting an additional view that takes a

slightly different slant than the majority view. Now, would

that be the 15th or the 19th or the latter date that you would

need that by?

DR. SCHWARTZ: I want it by the 15th. By the 19th,

I hope to be able to resubmit to the Treasury the revised --
every part of this report that includes any kind of revisions

that you people have suggested to me.

If it gets to the Treasury by the 19th, you may

have it on the 20th.

CONGRESSMAN PAUL: Even though what I'm talking

about doesn't change the majority point, this is something

in addition.
DR. SCHWARTZ: In addition, you want --

CONGRESSMAN PAUL: Okay, so you would still like that by the 15th?

DR. SCHWARTZ: Right.

CONGRESSMAN PAUL: Then the only thing I would like to do before we close, and I know people are getting to anxious to leave, is that I would like to thank the Treasury and the Secretary and Dr. Sprinkel for having run, I think, very fair meetings.

I have to confess, at the very beginning I expressed some concerns and I think they were unfounded. I want you to know that, because I think everything has been run very well. I am very satisfied and I thank you for it.

I think Dr. Schwartz certainly deserves a compliment for her efforts and her ability to take a group like this and try to make some sense out of it. I think that you've done an exceptionally good job.

I would like to also state that even though my views are certainly not the majority views of this Commission, I think I have come to respect the views of others, especially those who recognize, as I do, that limiting the supply of money is a very important issue. I think that I have learned to understand that viewpoint, even though they would not make the use of gold as I would. I think that I understand that view better. I appreciate the
information I have gained from the Commission. I think this has been an important thing for me and I hope some others have benefited by this.

I would like to state, though, that I still do believe strongly that ultimately gold is the money. I think two votes, even though they were overwhelming in opposition to my suggestion, is more or less proof that gold is really money.

When the chance to eliminate gold from the monetary system -- nobody really wants to do it. In a symbolic way, I wanted to see that the gold would be returned from the IMF and in a similar way, to reject the notion that the government can take ownership of the gold again.

But, when that time comes when we reject gold completely, those who disbelieve in gold realize that there's a great need to hang onto the gold in order for it to serve that emergency function, because everybody knows by studying history that paper is a very precarious thing and they must resort once again to something that has served the people throughout the world for 6,000 years as true money -- not because I say so or not because a certain economist said so, but because history says so.

For this reason, I do think that in due time, possibly even in this decade, we will be in need of another serious discussion for the acceptance of gold in the monetary
standard. But, again, I'd like to thank you and express my pleasure at having served on the Commission.

SECRETARY REGAN: Thank you, Congressman Paul. Does anyone else have a clarifying question? Governor Partee?

GOVERNOR PARTEE: I hate to follow up a speech like that with a technical, substantive question, and I'm sure that most of the members of the Commission really haven't had much of an opportunity to read these chapters, especially the later ones; chapter four arrived just late last week.

As I read chapter four, though, it struck me that there is a difference between the first part of the chapter and the second part of the chapter.

DR. SCHWARTZ: There sure is.

GOVERNOR PARTEE: I can see the Commission reviewing and determining that these are adequate points; they are characterizing different kinds of gold treatment in the first part.

The second part on the gold market is a self-standing highly technical separate subject. I'm wondering, in fact, whether the Gold Commission really wishes to include this material on the gold market as a part of a chapter that it has read and approved and stands by and behind; or whether, instead, it would rather have that material which is quite interesting, on the gold market as a technical note, as a matter of fact, with Dr. Schwartz's name on it.
DR. SCHWARTZ: I would have originally --

CONGRESSMAN REUSS: The six minutes of the two

minutes that I yielded have now expired.

DR. SCHWARTZ: May I say that I originally thought

of that as an appendix, and then I recast it as part of the
chapter. I admit it's not really related to the initial part
of the chapter; it might be advisable to --

SECRETARY REGAN: I would suggest that each of us
then, take a look and re-read or for the first time, Chapter 4,
as to whether or not the first portion of that should become
a separate paper.

DR. SCHWARTZ: I would like to make one final point.

You have not yet obtained from me the statistical compendium.
That will reach you by the end of this week; that is strictly
a collection of time series related to gold that I think
completes the coverage of the subject.

SECRETARY REGAN: May I say in concluding this
meeting that I may not have a chance to speak to each of you
and may not have another change apparently to speak to you
collectively. I do want to thank the members of this
Commission for having served on the Commission.

I know this has been a lot of work, unlike many
Commissions where the Chair did most of the work and the
Commission members merely went along for the ride; in this
particular one, the members did the work and the Chair went along for the ride. I certainly do appreciate all of the thought that you gave to the papers you submitted; for having participated in the lively discussions that we had, although each of us may feel that his point was not the one that prevailed.

Nonetheless, I think and I hope each of you can say at least your opinions got a thorough airing. I admit that Roberts Rules were fractured; I hope not beyond the ability to restore them in any other Parliamentary area.

Nonetheless, I recall to your mind that at our first meeting, we decided we would have our own rules. So, the "Golden" Commission rules did prevail.

While I hope no one is every going to put them as a subject for future Commissions, nonetheless, there is a precedent that we've now established in having done this.

With that, I thank each of you for your services. I am not discharging the Commission; I am merely saying that this meeting is adjourned and probably, I will have to communicate with you once more as to whether we have another meeting or not. We'll let you know that as promptly as possible.

Thank you all.

(Whereupon, the meeting was concluded at 12:00 p.m.) o - - - o
III. Press Releases


-- July 6, 1981, press release announcing that Dr. Anna Schwartz will assist in the work of the Gold Commission.

-- October 22, 1981, press release announcing that Gold Commission will hold public hearings and invite written views.

-- November 4, 1981, press release announcing that Gold Commission will hold public hearings and providing names of witnesses.
Regan Establishes Gold Commission

Secretary of the Treasury Donald T. Regan announced today the establishment of a Congressionally mandated "Gold Commission" to assess the role of gold in the domestic and international monetary systems.

The Commission will study U.S. policies related to gold and will transmit to the Congress a report containing its findings and recommendations.

Secretary Regan will chair the Commission, which will include seven members of Congress, three members of the Board of Governors of the Federal Reserve system, two members of the Council of Economic Advisors and four distinguished private citizens.

The Commission members are:

Arthur J. Costamagna, Attorney, Mullen and Philippi, Santa Rosa, Calif.
Herbert J. Coyne, Executive Vice President, J. Aron & Company, New York, NY
Senator Christopher J. Dodd, Member, Committee on Banking, Housing and Urban Affairs
Senator Roger W. Jepsen, Vice Chairman, Joint Economic Committee
Jerry L. Jordan, Member, Council of Economic Advisors
Lewis E. Lehrman, President, Lehrman Corporation, New York, NY
Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration, University of Michigan, and former Chairman, Council of Economic Advisors
Congressman Stephen L. Neal, Member, Committee on Banking, Finance and Urban Affairs
J. Charles Partee, Governor, Federal Reserve Board
Congressman Ronald E. Paul, Member, Committee on Banking, Finance and Urban Affairs
Congressman Henry S. Reuss, Chairman, Joint Economic Committee
Emmett J. Rice, Governor, Federal Reserve Board
Senator Harrison H. Schmitt, Member, Committee on Banking, Housing and Urban Affairs
Henry C. Wallich, Governor, Federal Reserve Board
Murray L. Weidenbaum, Chairman, Council of Economic Advisors
Congressman Chalmers P. Wylie, Member, Joint Economic Committee

The Commission will hold its first meeting shortly and is expected to meet subsequently on an approximately monthly basis.

Congress authorized the Commission in P.L. 96-389.
ANNA SCHWARTZ TO WORK WITH GOLD COMMISSION

Secretary of the Treasury Donald T. Regan announced on June 22 the establishment of a Congressionally-mandated "Gold Commission" to assess the role of gold in the domestic and international monetary systems.

Today the Secretary announced that Dr. Anna J. Schwartz, Member, Senior Research Staff, National Bureau of Economic Research, has been selected to assist in the work of the Commission, including the preparation of a final draft report, with recommendations, for approval by the Commission.

It is expected that the first meeting of the Commission will be held about the middle of July.

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FOR IMMEDIATE RELEASE
July 6, 1981

Contact: Marlin Fitzwater
(202) 566-5252
FOR IMMEDIATE RELEASE
October 22, 1981

Contact: Mary Boswell Watkins
566-2041

GOLD COMMISSION TO HOLD
PUBLIC HEARINGS AND INVITE WRITTEN VIEWS

The Gold Commission, established by Congress to study U.S. policy with respect to the role of gold in the domestic and international monetary systems, will hold hearings on Thursday, November 12, and Friday, November 13, 1981.

The hearings will be open to the public and will begin at 10:00 a.m. on November 12 and 9:30 a.m. on November 13 in the Cash Room of the Main Treasury Department Building in Washington, D.C. The public is advised to use the Pennsylvania Avenue entrance to the Treasury Department. The list of witnesses invited to testify before the Commission will be announced in the next few days.

The public is invited to submit written statements on the matters being considered by the Commission. Submissions should be addressed to:

Gold Commission
c/o Mr. Ralph V. Korp
Director, Office of International Monetary Affairs
Room 5050
Treasury Department
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Twenty copies of each submission should be provided for circulation to Commission members. Such submissions may be included in the Commission's report or other publications relating to the Commission's work. Written submissions should be received at the Treasury not later than November 30, 1981.
GOLD COMMISSION TO HOLD PUBLIC HEARINGS

The Gold Commission will hold hearings on Thursday, November 12, and Friday, November 13, 1981. The hearings will be open to the public and will begin at 10:00 a.m. on November 12 and 9:30 a.m. on November 13 in the Cash Room of the Main Treasury Department Building in Washington, D.C. The public is advised to use the Pennsylvania Avenue entrance to the Treasury Department.

The following witnesses are scheduled to testify before the Commission.

1. Panel 1 — Thursday, November 12, 10:00 a.m. - 1:00 p.m.

Dr. Robert Aliber  
Professor of International Economics and Finance  
University of Chicago  
Chicago, Illinois

Dr. Henry Mark Holtzer  
Brooklyn Law School  
Brooklyn, New York

Dr. Allan H. Meltzer  
Maurice Falk Professor of Economics and Social Science  
Graduate School of Industrial Administration  
Carnegie-Mellon University  
Pittsburgh, Pennsylvania

Mr. Andrew G. E. Racz  
President & Chief Executive Officer  
A. Racz & Co., Inc.  
New York, New York

Mr. Robert E. Weintraub  
Senior Economist  
Joint Economic Committee  
United States Congress  
Washington, D.C.

2. Panel 2 — Thursday, November 12, 2:00 p.m. - 5:30 p.m.

Mr. Ralph Benko, Esquire  
Attorney at Law  
Pattison, Sampson, Ginsberg & Griffin, P.C.  
Troy, New York
Mr. Edward M. Bernstein  
President  
EMB (Ltd) Research Economists  
Washington, D.C.

Mr. David Bostian  
President  
Bostian Research Associates  
New York, New York

Dr. Peter Kenen  
Director, International Finance Section  
Princeton University  
Princeton, New Jersey

Dr. Murray Rothbard  
Professor of Economics  
Polytechnic Institute of New York  
Brooklyn, New York

Dr. Robert Solomon  
Guest Scholar  
Brookings Institution  
Washington, D.C.

Panel 3 -- Friday, November 13, 9:30 a.m. - 1:00 p.m.

Dr. William Fellner  
Resident Scholar  
American Enterprise Institute  
Washington, D.C.

Dr. Alan Greenspan  
President  
Townsend-Greenspan, Inc.  
New York, New York

Dr. Roy Jastram  
School of Business Administration  
University of California, Berkeley  
Berkeley, California

Dr. Marc Miles  
Associate Professor  
Department of Economics  
Rutgers University, New Brunswick  
New Brunswick, New Jersey

Dr. Earl A. Thompson  
Professor of Economics  
University of California, Los Angeles  
Los Angeles, California
4. Panel 4 — Friday, November 13, 2:00 p.m. - 5:30 p.m.

Dr. Richard Cooper
Maurits Boas Professor of International Economics
Harvard University
Cambridge, Massachusetts

Mr. Richard Davies
Managing Director
The Gold Institute
Washington, D.C.

Dr. Rudiger Dornbusch
Department of Economics
Massachusetts Institute of Technology
Cambridge, Massachusetts

Ms. Helen Junz
Vice President
International Economics
Townsend-Greenspan, Inc.
New York, New York

Mr. Alan Reynolds
Vice President and Chief Economist
Poyconomics
Morristown, New Jersey

Dr. Hans F. Sennholz
Chairman, Department of Economics
Grove City College
Grove City, Pennsylvania