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

Contents of the Commission's Permanent Record. Volume 1A.

II. Record of Meetings (continued from Volume 1, cited therein as missing, but subsequently located)

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II. Record of Meetings (continued from Vol. 1)

-- September 18, 1981, transcript.

-- October 26, 1981, transcript.

-- January 8, 1982, transcript.

-- February 12, 1982, transcript.

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UNITED STATES OF AMERICA

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MEETING OF THE GOLD COMMISSION

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Cash Room
Department of the Treasury
Washington, D. C.

Friday, September 18, 1981

1 ATTENDEES:

2 SECRETARY OF THE TREASURY DONALD T. REGAN
Chairman

3 ARTHUR J. COSTAMAGNA, Attorney
4 Mullen and Philippi, Santa Rosa, California

5 HERBERT H. COYNE, Executive Vice President
J. Aron & Company, New York, New York

6 SENATOR ROGER W. JEPSEN, Vice Chairman
7 Joint Economic Committee

8 JERRY L. JORDAN, Member
Council of Economic Advisors

9 LEWIS E. LEHRMAN, President
10 Lehrman Corporation, New York, New York

11 PAUL W. McCRACKEN, Edmund Ezra Day University
Professor of Business Administration
12 University of Michigan

13 CONGRESSMAN STEPHEN L. NEAL, Member
Committee on Banking, Finance and Urban Affairs

14 J. CHARLES PARTEE, Governor
15 Federal Reserve Board

16 CONGRESSMAN RONALD E. PAUL, Member
Committee on Banking, Finance and Urban Affairs

17 CONGRESSMAN HENRY S. REUSS, Chairman
18 Joint Economic Committee

19 EMMETT J. RICE, Governor
Federal Reserve Board

20 SENATOR HARRISON H. SCHMITT, Member
21 Committee on Banking, Housing and Urban Affairs

22 HENRY C. WALLICH, Governor
Federal Reserve Board

23 MURRAY L. WEIDENBAUM, Chairman
24 Council of Economic Advisors

25 CONGRESSMAN CHALMERS P. WYLIE, Member
Joint Economic Committee

1 ATTENDEES: (Continued)

2 DR. ANNA J. SCHWARTZ, Member
Senior Research Staff
3 National Bureau of Economic Research

4 CRAIG ROBERTS, Assistant Secretary
Economic Policy
5

MARC LELAND, Assistant Secretary
6 International Affairs

7 BERYL SPRINKEL, Undersecretary
Monetary Affairs
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1 P R O C E E D I N G S

2 SECRETARY REGAN: I would like to welcome all
3 of the members to the second meeting of the Gold Commission.
4 As you know, the world, the United States and the rest of
5 us are going through a period of very serious economic
6 difficulty that is characterized by accelerating inflation,
7 declining productivity, slow economic growth and high
8 unemployment.

9 Our Administration has adopted a very compre-
10 hensive program to reverse these trends, to restore a
11 vigorous and non-inflationary growth to our economy. And
12 one element of that program is monetary discipline, the
13 achievement of a steady reduction of monetary growth to
14 a rate consistent with price stability and real economic
15 expansion over the long-term.

16 The charge of this Commission, as I see it, is
17 to consider whether our systemic changes in our monetary
18 arrangements that would contribute to the attainment of
19 the objectives of vigorous economic growth and price
20 stability, specifically, to consider whether the re-
21 introduction of a role for gold in the domestic and
22 international monetary systems would contribute to those
23 objectives.

24 We have had one very preliminary discussion
25 of this subject. It is clearly a wide diversity of views

1 and considerable public interest. The difficulties that
2 this economy has faced and faces are serious and complex
3 and the charge of this Commission is an important one.
4 I have circulated a tentative agenda for today's
5 meeting, which outlines a number of procedural issues, as
6 well as substantive questions for consideration by the
7 Commission.
8 We discussed some of those questions at our
9 last meeting and I hope we can move through the procedural
10 issues fairly quickly and get to the substance of the
11 Commission's work.
12 I would like to thank the members of the
13 Commission for responding to the telephone poll on whether
14 to open this meeting. Obviously, the result was that the
15 meeting should be open to the public.
16 I propose at the end of this meeting, the
17 Commission decide whether the next meeting should be open
18 or closed.
19 Finally, though I know we have a lot to cover
20 this morning, I hope that we will reserve time for some
21 discussion of the last item on our proposed agenda, the
22 Commission's future work program and the structure of
23 the Commission's report. It is important that we begin
24 to try to develop a concensus on how to approach this
25 work, in order to organize future meetings and request

1 drafting of report sections for consideration by the
2 Commission.
3 Now, I would like to know whether or not the
4 proposed agenda is acceptable to the Commission as the
5 basis for today's discussion? Do we want to have any
6 comments on that?
7 (No response.)
8 SECRETARY REGAN: All right, we will proceed
9 under that.
10 Now, the first agenda item is the procedural
11 questions on quorums, voting and other parliamentary issues.
12 I think the quorum arrangement is a requirement,
13 need for votes is already arisen in very senses. I think
14 that we have to have some rules under which to proceed.
15 I would suggest Robert's Rules, but I would like to hear
16 from members of the Commission as to what their desires
17 are.
18 CONGRESSMAN WYLIE: Mr. Chairman, since we are
19 a feature of Congress, why don't we adopt the rules that
20 the committees of Congress operate. In other words, take
21 formal action by a majority of the membership?
22 SECRETARY REGAN: The majority of those voting,
23 or a majority of the membership?
24 CONGRESSMAN WYLIE: A majority of the members
25 of the Commission.

1 SECRETARY REGAN: A majority of the members of
2 the Commission. Anyone got any thoughts on that?
3 MR. McCRACKEN: What about people who are not
4 present?
5 CONGRESSMAN WYLIE: Pardon me?
6 MR. McCRACKEN: What happens when people are not
7 present under such an arrangement?
8 CONGRESSMAN WYLIE: Then they cannot vote.
9 I wouldn't suggest that they have a proxy, is that what
10 you are asking?
11 MR. McCRACKEN: I had two questions in mind.
12 One is the possibility that somebody who is not there
13 might want to speak on a substantive issue, or have his
14 view known. But the second one is if you don't have full
15 attentance you might have to have a very high percentage
16 of the vote of the people who are there -- that's just
17 a mechanical matter.
18 CONGRESSMAN WYLIE: I was trying to get it first
19 the first step first and that is if we issue a report or
20 if we take a vote on a position of the Commission, or
21 something like that, we ought to have at least 50 percent
22 or half of those who are members of the Commission present.
23 Now, if we want to have informal discussions,
24 which involve the members of the Commission or if the
25 members of the Commission want to have an informal

1 discussion and there doesn't happen to be -- how many
2 members are there of this Commission?
3 SECRETARY REGAN: Seventeen.
4 CONGRESSMAN WYLIE: That would take at least
5 nine under the present arrangement to do any formal
6 business. But if a meeting of the Commission is called
7 and only eight are able to show up, that would suggest
8 that we not do anything but have a public discussion or
9 private discussion.
10 But if we are going to recommend something for
11 a report later on, then I think we ought to have at least
12 nine present.
13 SECRETARY REGAN: Why can't we say that a quorum
14 would be a majority of the members, and in order to have
15 a vote, we must have a quorum present? And then for some-
16 thing to pass, it must be a majority of those present and
17 voting?
18 CONGRESSMAN WYLIE: Yes.
19 SECRETARY REGAN: Is that agreeable to everybody?
20 MR. LEHRMAN: Don, on matters of procedure that
21 strikes me as the sensible way to do things. But on
22 matters of substance, where the actual recommendation of
23 the Commission might be at stake and made permanent in the
24 record, I am not certain, but I reflect that five people
25 under this arrangement could determine for the seventeen

1 commissioners, all of whom are supposed to be deliberating
2 the role of gold in the international and national
3 monetary system. This is not meant in the form of an
4 objection, it is only that we consider deliberately before
5 we give initative to five people to determine outcomes
6 on such matters when 17 opinions would surely be at stake.
7 SECRETARY REGAN: For the benefit of the two
8 senators that just arrived, what we are trying to do here
9 is to come with some rules to guide ourselves on pro-
10 cedural, the first item on our agenda.
11 The suggestion has been made that we follow the
12 rules of the Congress in that for something to pass we
13 would have to have a quorum, a quorum would be nine.
14 The question now raised by Mr. Lehrman is what
15 happens if a majority of those present, which would be
16 five, could they vote on a substantive matter and
17 thereby five members of the Commission would set a sub-
18 stantive decision for the entire Commission.
19 What do you do in Congress?
20 SENATOR SCHMITT: Usually, if it is really
21 substantive, we will poll the rest of the members.
22 SECRETARY REGAN: Poll the rest of the members?
23 How does that strike you then as a method of
24 procedure for us?
25 All right, let's adopt that.

1 Do you have something?

2 CONGRESSMAN PAUL: I might have something, does

3 this make the assumption that voting -- all voting on all

4 issues will be done by voice vote, or by recorded vote?

5 SECRETARY REGAN: My suggestion would be, let's

6 have it by voice vote, unless someone of the members asks

7 for a recorded vote.

8 CONGRESSMAN PAUL: One member can get a recorded

9 vote?

10 SECRETARY REGAN: One member can get a recorded

11 vote.

12 SENATOR SCHMITT: That's normal procedure.

13 MR. LEHRMAN: Don, with respect to the question

14 of polling the members and with respect to the senator,

15 the Congress is a permanent body that sits in perpetuity,

16 virtually. And the deliberation of it's members are known

17 and they can make their voices heard in the cloakroom

18 and through the polling technique.

19 This is a commission which may only have a

20 short life.

21 SECRETARY REGAN: A little longer than short,

22 I hope.

23 MR. LEHRMAN: You know, I concur with you on

24 that.

25 SENATOR SCHMITT: A bill has been introduced in

1 both houses to extend the life.

2 SECRETARY REGAN: Thank you, Senator.

3 SENATOR SCHMITT: We should be able to find a

4 vehicle to attach it to to compensate it.

5 SECRETARY REGAN: I think we have to have some

6 rules in order to get started, or else we are just going

7 to bog down here forever on rules and procedure. And as

8 all of us want to do, I would like to get to the substance

9 as quickly as possible, but not steamroll anything over

10 any other member of the Commission.

11 But I do think we have to set these rules. And

12 that brings us to my next point, which is Item 1B, which

13 is the date for completion for the Commission's work.

14 CONGRESSMAN REUSS: On that I would like to be

15 heard, Mr. Chairman.

16 SECRETARY REGAN: Yes.

17 CONGRESSMAN REUSS: The basic law which set us

18 up was drafted, I believe, by Senator Helms and directed

19 you, as Secretary of the Treasury, to set up a Gold

20 Commission to make recommendations "with regard to the

21 policy of the United States government concerning the

22 role of gold in domestic and international monetary

23 systems", and to report its recommendations to Congress

24 no later than October 7, 1981.

25 Many months have gone by since then -- I was

1 disturbed last spring that the Gold Commission wasn't
2 operating and I wrote the Chairman a letter last April
3 in which I pointed out the Commission's duty to report
4 by October 7th and urged him to act promptly to complete
5 the appointments to the Commission and to set an early
6 date -- time is short, I said, and there is much to be
7 done. But, unfortunately, much wasn't done and we finally
8 met just before the August recess and this today is our
9 second meeting.
10 There are, unfortunately, the grounds to believe
11 that at least two groups are interested in keeping the
12 Commission alive well beyond the time set for the
13 deliberations by Congress, which would leave the United
14 States without a gold policy and continue to contribute
15 to the uncertainty which now dogs the market. Those
16 two groups are the Gold Block, which hasn't given us any
17 very clear idea of exactly what it means by a return to
18 the Gold Standard, what price gold should be.
19 But as long as the Commission remains in being
20 there is a plausible chance that gold might one day be
21 reinstated and this, of course, would be good new to the
22 gold speculators, for the Russians and the South Africans.
23 Then there are the supply siders who have been
24 telling us all along that the enactment of the present
25 budget and tax proposals would bring economic recovery

1 and an end to high interest rates.

2 Now that program has been enacted, yet interest

3 rates remain outrageously high. On the way into the Cash

4 Room this morning I passed the Treasury Auction Room and

5 I saw what you have to pay for a treasury bill, more than

6 17 percent, it's an outrage and a scandal.

7 The latest proposition of the supply side leaders

8 -- one I must say they forgot to mention when they were

9 making us promises a few months ago, if only we passed

10 the President's economic program, is that what is needed

11 in addition to the President's program is a return to the

12 Gold Standard in order to drive interest rates down.

13 So, as long as the Gold Commission sits it is

14 possible to make this assertion, since nobody is going

15 to act until the Gold Commission makes its recommendations.

16 So, while the Commission sits uncertainty, we will

17 continue to hang over the markets.

18 Now, what should we do?

19 I want a full and fair opportunity for those

20 who believe that gold will be the salvation of this

21 republic to bring in witnesses and to have full hearings.

22 I would be delighted, for instance, if Mr. Lehrman and

23 Dr. Paul would be given the twice the time of those who,

24 like myself, think that gold does not belong in our system.

25 Let those hearings be set down right away, let's not delay,

1 let's not be the Goldbrick Commission, but the Gold
2 Commission.
3 I don't see why this can't be done and the
4 Committee sit down and deliberate fully, agree on a
5 majority report under the excellent rules just adopted,
6 and if there is a minority, have the minority write its
7 views. And why we can't get that program delivered by
8 Chairman Regan to the Congress, not by October 7th, but
9 as soon thereafter as possible.
10 I have discussed this with various leaders on
11 the Hill and I think I can assure you, Mr. Chairman, that
12 if we make an honest effort and don't goldbrick and don't
13 delay, and don't filibuster, we will not be subject to
14 cricitism, if we don't meet the October 7th deadline,
15 but come in a few weeks later, or whatever time it takes
16 for us to thoroughly to deliberate it.
17 What the Congress would not like and what I
18 certainly would not like is to have endless monthly
19 hearings and go on, and on and on, perhaps into the
20 new year. I think that would be a great mistake.
21 So, I hope that we will get right down to setting
22 hearing dates, though I have other duties, as everyone of
23 us has, I am ready to give them up as I have given them
24 up the last time and this time, to participate -- with our
25 excellent staff, Dr. Schwartz, I think we should have no

1 difficulty acting deliberately and promptly.

2 So, I would hope that we could now set about

3 setting dates -- how about next Wednesday? How about

4 Thursday? Friday? Saturday?

5 SECRETARY REGAN: Thank you, Congressman.

6 Other comments?

7 MR. McCRACKEN: Mr. Chairman, I thought I was

8 going to agree with Mr. Reuss, but I found myself dis-

9 embarking as he went along.

10 I think the Congress ought to be much more

11 concerned if we tried to meet anything like the October

12 7th deadline, than if we take enough time to give a

13 serious effort to what has become a serious problem, or

14 issue.

15 The Congress has requested the Commission to

16 explore the role of gold and, if possible, its contribution

17 to our international and domestic monetary problems. I

18 think we have to give this serious attention and I do not

19 think there is anyway this can be done by mid-October, or

20 shortly thereafter.

21 I think we ought to take enough time to do a

22 thorough job.

23 CONGRESSMAN REUSS: If the gentleman would yield,

24 I didn't say mid-October. I said at such time, without

25 goldbricking or filibustering, we may in an orderly way

1 arrive at a conclusion.

2 MR. McCRACKEN: What is reasonable?

3 CONGRESSMAN REUSS: I don't know. I am willing

4 to trust the Chairman to keep us sheparded. And if it

5 goes into November, so be it; and if it goes into December,

6 as a result of conscientious work by this Commission you

7 won't have heard one word of cricitism by me about it.

8 MR. McCRACKEN: If you will just keep going, we

9 might agree.

10 MR. LEHRMAN: Mr. Chairman.

11 SECRETARY REGAN: First Mr. Lehrman and then

12 the Senator.

13 MR. LEHRMAN: I yield to the Senator.

14 SENATOR JEPSEN: I just wanted to point out

15 that the two proposals in Congress to extend this date

16 are to extend it to June 30th of next year.

17 SENATOR SCHMITT: The Senate bill I introduced the

18 other day would extend it to December 20th, 1982. We

19 will revise that date when we attach whatever bill we

20 attach it to, to meet the interests of the majority of

21 the Commission, that is a fairly arbitrary date.

22 SENATOR JEPSEN: Well, it would seem that

23 reasonable men and women would assume that the intent of

24 this Commisson when it was established, the people who

25 drafted and established this was that they would have one

1 year to meet. Of course, for whatever reason, the
2 Commission was not constituted or put together, in fact,
3 it was not started until the year was nearly over with --
4 I don't think any reasonable person would expect you to
5 do anything other than have at least one year from the
6 date we first met, which I believe was the 30th of June.
7 MR. LELAND: July 16.
8 SENATOR JEPSEN: That, I think, would be the
9 minimum that would come out of Congress as far as an
10 extension of this.
11 So, again, I thought for some guidelines --
12 SENATOR SCHMITT: Mr. Secretary, I think whatever
13 this group decides, would be what I would modify the
14 legislation to cover.
15 SECRETARY REGAN: Mr. Lehrman.
16 MR. LEHRMAN: One problem with Congressman
17 Reuss's suggestion is that, in fact, it reached the law.
18 Now, I gather there is no penalty provided in the statute
19 but it would trouble me to be sitting on a Commission
20 and the statutory termination date of which is October
21 7th, 1981, and the sitting thereafter ipso facto, in
22 violation of a law of Congress.
23 This may be a matter of mere form or detail to
24 some, I think the rule of law should prevail here and I
25 think we should go through the process of deciding among

1 the members what is a reasonable date. And then specify
2 and conform to the rule of the statute.
3 SECRETARY REGAN: Have you any suggestions as
4 to what you think would be an appropriate date?
5 MR. LEHRMAN: I am sympathetic to Senator Jepsen's
6 recommendation and the thrust of Paul McCracken's remark,
7 but perhaps somewhere beyond December or January, as has
8 been suggested. And, perhaps, no later than a year from
9 the date of the first meeting.
10 SECRETARY REGAN: Congressman Paul?
11 CONGRESSMAN PAUL: Thank you, Mr. Chairman.
12 I, too, would like to see the subject studied
13 adequately. I am sympathetic towards Congressman Reuss's
14 suggestion that we expedite things and move along quickly.
15 And I think he makes a good point about that because we
16 have been moving slowly up until now.
17 But I feel strongly that it is a very, very
18 important issue. I believe that we got ourselves to where
19 we are today over a long period of time of deliberate type
20 of actions by the Congress and by other agencies in the
21 government, dating from 1913 up to 1981, I would say that
22 we have systematically brought ourselves to this point
23 of crisis.
24 I cannot see that we will resolve this quickly,
25 in a week or two, even though in my own mind I have very

1 definite ideas about what we should do, I, too, would
2 confess that there is a great deal of difficulty overcom-
3 ing all of the problems that we have created in the
4 economy. And I do not think there is a magic wand to
5 wave and tomorrow everything is going to be all right.
6 So, I see this as a major problem that we have
7 to face.
8 Now, as far as time goes and having the
9 Commission in perpetuity, I might just remind you that
10 Congress has been rather careless in what they have done
11 before for less significant events. For instance, it was
12 just within the month that we reappropriated $30,000 or
13 $25,000 for a commission that has been in existence for
14 close to 30 years. And that commission is to study the
15 feasibility of a monument for FDR.
16 Now, somebody suggested that is the best
17 monument we could have.
18 (Laughter.)
19 CONGRESSMAN PAUL: But, again, we are
20 appropriating money that is in perpetuity. It seems
21 if we have that condition, then it would be asking for
22 an extension for a thorough study of six months, rather
23 than the full 12 months would be adequate.
24 I would suggest that maybe we compromise and
25 maybe instead of at the end of the year, or next year,

1 maybe the suggestion that June would be the date -- the
2 end of June. I certainly would be very receptive to that
3 date.
4 SECRETARY REGAN: Are there comments?
5 CONGRESSMAN WYLIE: Mr. Secretary, I would like
6 to associate myself with the date on which our report
7 would be rendered. I think December 20th as the date due
8 is a little too long, it's after the next election, for
9 one thing.
10 And I think the process would be slowed down
11 considerably between September and October. I do think
12 we need a little more time than the January date that
13 was suggested.
14 As Senator Jepsen pointed out, we had our first
15 meeting on July 16th and within the spirit of the law
16 which was passed, I think we were supposed to have at
17 least a year for deliberation. And I think if we did
18 something before July 4th, 1982, which is Independence
19 Day, that maybe the June 30th date might be a good date.
20 SENATOR JEPSEN: Mr. Chairman, is a motion in
21 order to get this on the record, or to get some action
22 on it? I think we have discussed it adequately.
23 SECRETARY REGAN: I was going to make a
24 suggestion, Senator, that we consider that since we have
25 two opinions that have been expressed here, one for a

1 fairly short tether, and another one for a reasonably
2 long one. And since we think that we could proceed with
3 fairly good speed, might I suggest March 31st as a
4 compromise between the two views, with the thought in
5 mind that we could probably come in within that period
6 of time if we really were diligent in what we are doing?
7 I wouldn't suggest April 1st, obviously.
8 (Laughter.)
9 CONGRESSMAN WYLIE: No fool, like an old fool.
10 CONGRESSMAN PAUL: Mr. Chairman, may I make a
11 suggestion?
12 SECRETARY REGAN: Yes.
13 CONGRESSMAN PAUL: Maybe, before we make a
14 motion to make it official, take a show of hands of those
15 who favor March and those who favor June?
16 SECRETARY REGAN: All right, we will do it that
17 way. We will take it informal and then we will take a
18 formal thing for the Senator.
19 MR. PARTEE: I think we should hear from the
20 staff as to what they think a reasonable time schedule
21 is.
22 DR. SCHWARTZ: I have no doubt we would not
23 produce any kind of report by October, or with an in-
24 definite date in prospect. I think we need a firm date
25 when we have met enough times so that everybody's views

1 are clear and a report can be drawn up that reflects
2 faithfully what members believe, with the reasons they
3 have for the positions they have taken, either the end
4 of December or the beginning of January, end of March --
5 would all be feasible, I think. But I would prefer a
6 definite date.
7 And then schedule meetings, so that we know
8 in advance what our commitments are and as we proceed
9 with the discussions of these issues, we will have some
10 sense of what the shape of this report will be like. And
11 then I can begin working on it, passing around drafts
12 and getting responses from members of the Commission.
13 SECRETARY REGAN: All right, I will entertain
14 one comment over here.
15 MR. COYNE: A question, Dr. Schwartz, on the
16 basis of your experience, would you have any idea of how
17 long it might be between the end of this Commission's
18 deliberations and the time that that process of writing
19 and drafting the report might take? Are we talking about
20 a long period of time?
21 DR. SCHWARTZ: No. I would expect that, say,
22 within a month of our last meeting, you would have in
23 your hands a draft of a report that would be final,
24 depending on the revisions you would like to make. It
25 might take another month, but there is just no way I can

1 submit a report to you and each of you have the time to
2 read it over, for the staff to read it over and return it
3 to me with your comments and suggestions for changes.
4 I am sure it is going to take some time.
5 SENATOR SCHMITT: Mr. Chairman, could I try
6 a little bit of charting on this thing, since that's where
7 I grew up in NASA.
8 I think the best time to hold hearings and do
9 things substantive by the Commission would be between now
10 and the end of congressional activities for this year.
11 I hate to be parochial, but several members will then find
12 it necessary not to be in Washington very long. Say, like
13 the first of November, maybe the 15th -- we will know more
14 about that later.
15 But if we could schedule the substantive hear-
16 ings that the Chairman has talked about between now and
17 the first of November, I think you will get the meat of
18 your job done. And then between that time and when we
19 return in January, the staff would have the opportunity
20 to produce a draft document based on those hearings.
21 And then after we come back the circulation
22 process would begin. And I think it is probably going to
23 take at least a month for all of us to read and work on
24 the draft, get together again a time or two to argue out
25 specific points. And you are really approaching it in that

1 kind of context, you are approaching really a March date
2 of some kind before you can logically produce the kind of
3 document that I think you would have.
4 SECRETARY REGAN: Okay. Let's have a showing of
5 hands then, we will take three dates, December 31st,
6 March 31st and June 30th as the three dates --
7 CONGRESSMAN REUSS: How about four, like March 1?
8 SECRETARY REGAN: March 1.
9 SENATOR JEPSEN: Then how about five, the 15th
10 of July?
11 CONGRESSMAN REUSS: When?
12 SENATOR JEPSEN: The 15th of July.
13 CONGRESSMAN REUSS: I am going to split the
14 opposition.
15 SECRETARY REGAN: Let's stick to three, I think
16 three is enough.
17 An informal show of hands, please, December 31st?
18 (A show of hands.)
19 SECRETARY REGAN: March 31st?
20 (A show of hands.)
21 SECRETARY REGAN: June 30th?
22 (A show of hands.)
23 SECRETARY REGAN: What do you get, eight, seven
24 and one?
25 MR. SPRINKEL: Yes.

1 SECRETARY REGAN: Eight for June 30th?

2 SENATOR JEPSEN: Mr. Chairman, it seems to me --
3 I am probably wrong -- but I would like to have a recount.
4 You can only vote once.

5 SECRETARY REGAN: Did somebody vote twice?
6 Please, gentlemen.

7 CONGRESSMAN REUSS: May I make a parliamentary
8 observation before this next vote? That we have a bi-
9 cameral system consisting of not just the Senate, but the
10 House and if we are talking about something that might
11 be passed, I am not so sure that this little device of
12 inserting something in a Senate bill, particularly now
13 that the punch has been telegraphed, will prevail.

14 So, I am not at all sure that we can just decide
15 here what the dates are going to be.

16 SECRETARY REGAN: Well, may I suggest, Mr.
17 Congressman, that what we are trying to do here is indicate
18 to both houses of the Congress the date that the Commission
19 would prefer. Obviously, if the Congress decides other-
20 wise, we would stick to the date that the Congress would
21 set.

22 But the recommendation of the Commission as the
23 sponsors of the bill would have our notation that we would
24 prefer --

25 CONGRESSMAN REUSS: But that has been taken,

1 eight say June 30; seven say March 31. Do we need to do
2 more?
3 MR. WEIDENBAUM: Mr. Chairman, I gather there
4 was a call for a revote, is that the pending business?
5 SECRETARY REGAN: It has been suggested that
6 there was a double count here. So, would you please
7 raise your hands high this time -- December 31st?
8 (No response.)
9 SECRETARY REGAN: March 31st?
10 (A show of hands.)
11 SECRETARY REGAN: June 30th?
12 (A show of hands.)
13 SECRETARY REGAN: That is correct, eight and
14 eight, it's a tie.
15 MR. LEHRMAN: What about June 15th?
16 Congressman Reuss is particularly concerned that
17 we move with deliberate speed and I agree with him. And
18 it strikes me that the Congress initiated this action,
19 they have a vital interest in the report.
20 Now, were we to agree that June were the date,
21 but Congress wished to have an earlier report, they could
22 envoke their privilege to ask for one, indeed, the
23 President himself could ask for an earlier first draft,
24 and it might not necessarily be the official one.
25 SECRETARY REGAN: Well, why don't we do it this

1 way, we have a tie vote here.

2 MR. WEIDENBAUM: Point of order, the Chairman

3 has not cast his vote yet.

4 SECRETARY REGAN: Yes, I did, I was on March

5 31st.

6 MR. WEIDENBAUM: I'm sorry.

7 SECRETARY REGAN: Let's do it this way, we

8 will report to the Congress, to the Senators that we

9 wish an extension and that the Commission is evenly

10 divided as to whether it should be March 31st or June 30th.

11 And the ball is back in the courts of the Congress.

12 SENATOR SCHMITT: I think we can get together.

13 CONGRESSMAN REUSS: Or very simply, I bear the

14 proxy of the absent member, Senator Dodd of Connecticut

15 and if somebody will but call him to verify, I am sure

16 he would be extremely farsighted and would vote for

17 March 31.

18 (Laughter.)

19 CONGRESSMAN REUSS: -- which I think is sort of

20 a waste of time.

21 CONGRESSMAN NEAL: Mr. Chairman?

22 SECRETARY REGAN: Mr. Congressman.

23 CONGRESSMAN NEAL: I urge that we request that

24 the Congress extend the life of the Commission until June

25 15th. I think if you would have a vote on that --

1 SECRETARY REGAN: May I suggest that we are
2 bogging down here on procedural and not getting into sub-
3 stance.
4 Why don't we just suggest to the Congress that
5 we would like to have the life of this commission extended?
6 We took an informal poll, give the results of our poll,
7 and let the Congress decide it.
8 CONGRESSMAN REUSS: Mr. Chairman, let the writer
9 up of this meeting indicate the names of those who voted
10 for March 31 and June 30 respectively and get the opinion
11 of the absent member, Senator Dodd. Not that this matters
12 all that much, but he might as well be heard from.
13 SENATOR JEPSEN: Mr. Chairman, I would
14 respectfully suggest that what we have experienced here in
15 the last 30 minutes is all the more reason we need to go
16 to the 30th of June. We are not going to get anywhere
17 like this.
18 SECRETARY REGAN: Well, we will have a recorded
19 vote.
20 Now, the next item on the agenda is proposals
21 by Senator Helms that the Commission be subject to Federal
22 Advisory Committee Act. Does anyone have an opinion on
23 that?
24 Yes?
25 MR. WEIDENBAUM: I have a question on that, Mr.

1 Chairman. This is a committee advisory, as I understand
2 it, to the Congress, not the Executive Branch. If we
3 were subject to the Federal Advisory Committee Act, would
4 we lose the discretion of, say, that the congressional
5 committees have, having executive sessions as well as
6 open hearings?
7 SECRETARY REGAN: Anyone?
8 A VOICE: There are specific exceptions to the
9 Federal Advisory Committee Act for closing meetings, there
10 is some question as to the extent to which any one of
11 those exemptions would apply. There is one potential
12 exemption to allow you to close a meeting if the dis-
13 cussion would create speculation or adverse impact on the
14 markets.
15 So, you would continue to have some discretion,
16 but certainly it would be more limited if the Act did not
17 apply.
18 SECRETARY REGAN: Any other comments on that?
19 (No response.)
20 SECRETARY REGAN: It is really not up to us to
21 tell Senator Helms of the House of Representatives how
22 to vote on this particular question. I just alert you
23 to this particular item.
24 And there is also a proposal by Senator Helms
25 that a fourth member of the Senate be added to the

1 Commission. This would put the balance back, it was
2 originally proposed, as you know, three and three. And
3 then by a quirk that came out, it is four and three. And
4 this would restore the balance between the houses.
5 Again, that is not up to us, but I merely call
6 it to your attention.
7 The next item concerns public hearings and
8 solicitation of written views. Several Commission members
9 have indicated that they would like to have hearings.
10 And our director has gotten several indications of interest
11 in testifying from private citizens.
12 So the options that we have, actually, are no
13 hearings and no solicitation of written views on the
14 grounds that this Commission already represents a wide
15 diversity of views and expertise.
16 The second option would be that we have written
17 views only, that is Treasury would issue a press release,
18 a Federal Register notice inviting written statements and
19 asking that they be filed with the Commission by a
20 particular date.
21 The third option would be that there be hearings
22 and solicitation of written views. The Commission might
23 schedule one or two days for appearances by witnesses,
24 and also, solicit written views.
25 There is likely to be a problem, of course, in

1 witness selection. And one possible approach would be
2 that each Commission member would name one or two witnesses,
3 or we could draw by lot, or what have you, but try to
4 maintain some impartiality and see that most opinions or
5 sections for opinions are represented.
6 Now, I would like to have some discussion on
7 that.
8 Senator Schmitt?
9 SENATOR SCHMITT: Mr. Chairman, as a matter of
10 course the members of the Congress will receive and must
11 be responsive to written views from the general public,
12 as well as anyone else you may wish to comment.
13 So, I think if you decide not to solicit views
14 those views would still be available to the Commission
15 through our various offices and presentations.
16 I tend -- just speaking off the top of my head
17 on this -- tend to think that the idea of a sequence of
18 public hearings where each member selects some number --
19 certainly not make it more than three, I would prefer
20 maybe one or two -- for presentations at that hearing,
21 would be a very reasonable and equitable way to handle it,
22 plus the knowledge that the written solicitations will,
23 in fact, be available to the Commission, if you want to
24 use them.
25 SECRETARY REGAN: Other opinions?

1 MR. LEHRMAN: The Federal Advisory Act provides
2 for almost all of the contingencies which we might
3 imagine that would be fitting for a Commission to con-
4 sider. And, in particular, this Advisory Act provides
5 for hearings.
6 I don't like to dwell on it but does the
7 Federal Advisory Act apply, or are we deciding that, or
8 is the Congress to opine on that in the future?
9 SECRETARY REGAN: I am informed that the
10 Advisory Act, although we are not under it as yet, this
11 is merely a proposal by Senator Helms, is that the
12 Commission could establish its own rules for hearing
13 witnesses. And that is what I am attempting to do.
14 I don't think we have to go through the formal
15 procedure of the Federal Advisory Act. I think we should
16 be able to establish our own rules as to working under
17 constrictions that we all have other jobs and we don't
18 have an infinite amount of time to hear witnesses, but
19 we do want to get all shades of opinions that we possibly
20 can since this is such a sensitive question.
21 What is the reasonable thing to do, as far as
22 soliciting views of witnesses in public hearings?
23 MR. LEHRMAN: I have one other comment, the
24 statute is a very simple one and the rules that govern it
25 are equally simple in the matter of hearings. Were we

1 to voluntarily think it wise to govern ourselves by the
2 '72 statute, which it might seem that the Congress intended,
3 even for this kind of commission, without putting the
4 Congress through the process of amending it, we would have
5 simplified our decision at this very moment and provided
6 for open hearings simultaneously.
7 SECRETARY REGAN: Any other comments?
8 MR. McCRACKEN: Mr. Chairman, it seems to me
9 we have to be receptive, certainly to written comments.
10 Anyone who wants to address the Commission has got to
11 have the opportunity to do so.
12 I am quite amenable to a limited amount of
13 hearings, as you indicate we all have to make our living
14 in other ways, so we cannot spend an unlimited amount of
15 time.
16 SECRETARY REGAN: Other comments?
17 CONGRESSMAN WYLIE: I can tell from my mail,
18 since I became a member of this Commission, that there
19 is a considerable amount more interest to this subject
20 than I had originally contemplated. And I think, based on
21 what I have been hearing, that we ought to give ample
22 opportunity for hearings, public hearings.
23 How we determine the number of witnesses, who
24 will come in and so forth, I am not sure I know how to
25 make recommendations at the present time. But I do feel

that we need public hearings and we need some written views come in.

T1/S2 CONGRESSMAN PAUL: I feel strongly about the hearings, I have expressed that before. I would suggest maybe a week of hearings, two and a half days for each side to come up with both sides of what we are representing.

SECRETARY REGAN: Congressman Reuss.

CONGRESSMAN REUSS: I would associate myself with Dr. Paul. I think particularly those who follow gold are entitled to hearings.

SECRETARY REGAN: What period, one week?

CONGRESSMAN REUSS: I would say five days. And I would like to suggest that Mr. Lehrman and Dr. Paul be invited to suggest witnesses for three of those five days.

MR. McCRACKEN: You are suggesting both sides be heard. Could you alter that and say all sides?

CONGRESSMAN PAUL: I will do that, too.

SENATOR SCHMITT: Mr. Secretary, I hope that the schedule of hearings would not be such as to occupy a full week. I think if we could set out a schedule of one hearing a week for the next five weeks, or something like that, it would be far better for my schedule of activities, than it would be to try to concentrate it all

1 in one week.

2 And I also think that if each of us were to

3 recommend two witnesses for those public hearings, with

4 an opportunity, I guess, to testify ourselves, if we

5 chose to do so, would probably mean that all sides, all

6 sides -- and I agree with Paul McCracken that there are

7 more sides to this than just two, would be well represented.

8 And, obviously, the hearings should be public.

9 SECRETARY REGAN: Senator Jepsen.

10 SENATOR JEPSEN: I don't know why we are even

11 discussing all sides, this is a commission where the

12 Federal Advisory Act does not apply to the Commission.

13 It does apply -- I think the guidelines that we follow

14 provides, and I quote, "Interested persons shall be per-

15 mitted to attend the hearings or file statements with any

16 advisory committee, subject to such rules and regulations

17 as prescribed" and prescribe the rules and regulations

18 you want to follow and get on with it.

19 It is not a matter of choosing. We are spending

20 too much time on choosing up sides, this is a commission

21 to find out about all sides. And if we are going to hassle

22 among ourselves, we will be here until after the 30th of

23 June.

24 Obviously an open meeting. It is a commission

25 that seeks the truth, it seeks facts.

1 SENATOR SCHMITT: We have to figure out how to
2 do it.
3 SENATOR JEPSEN: Let's just go to it.
4 MR. COSTAMAGNA: Mr. Secretary, I would ask if
5 we do have public meetings, since I come from California,
6 3,000 miles, that we do try to have them all in the same
7 week, otherwise I will be commuting back and forth.
8 If you would give that some consideration, I
9 would appreciate that.
10 SECRETARY REGAN: I understand your problem.
11 Might I suggest this, since, as Senator Schmitt
12 has reminded us, we should try to get most of our work
13 done prior to the Congress's going home, which probably
14 will be sometime in mid-November. Time is very short and
15 several of us have other things that will intervene
16 between now and then -- that we try to speed this up as
17 much as possible.
18 As Chairman, I think that I would like to see
19 only three days of hearings and a lot more written.
20 One, to accommodate, of course, Mr. Costamagna's point
21 of view, but the other that we work in-house. I think
22 the three full days of hearings from nine to five, of
23 that nature -- and I am more than willing to put that
24 kind of time into it -- and those of you who can be
25 present as much as possible, otherwise we will give you

1 parts of the thing. We certainly should be able to --
2 and we will have to limit the time, of course, of witnesses
3 to a reasonable statement, depending upon the number of
4 witnesses.
5 I think that should accomplish what we would
6 want to do and give all sides a chance to be heard, then
7 give Dr. Schwartz a chance to go through the papers, to
8 summarize most of them for us, and to have all of them
9 available for each member of the commission to read in
10 detail.
11 How does that sound?
12 CONGRESSMAN WYLIE: Would you put that in the
13 form of a motion, Mr. Chairman?
14 SECRETARY REGAN: I will put that in the form
15 of a motion.
16 CONGRESSMAN WYLIE: Second.
17 SECRETARY REGAN: All in favor?
18 (A chorus of Ayes.)
19 SECRETARY REGAN: Opposed?
20 (No response.)
21 SECRETARY REGAN: All right, that is carried.
22 DR. SCHWARTZ: May I ask whether it is the
23 intention to publish the hearings, or will the hearings
24 be available to members of the Commission, that would be
25 reported in some summary fashion, and the report, but not

1 verbatim?

2 MR. LEHRMAN: May I move that they be published?

3 SECRETARY REGAN: Before I do that, I have to

4 think through, there are no funds appropriated for this

5 Commission. Unlike the Roosevelt Commission, we didn't

6 get any funds. And all of this comes out of Treasury.

7 And since we are in the process of cutting everybody's

8 budget, including the Treasury budget, could we at least

9 look at the cost of this, versus how many scholars would

10 like to see what everybody has to say?

11 We can certainly make the record available, but

12 whether we publish in detail everything that is submitted

13 to us, and how many volumes, I would like to reserve on

14 that temporarily.

15 SENATOR SCHMITT: Maybe we could charge a

16 testimony fee, or something.

17 MR. WEIDENBAUM: I would suggest, Mr. Chairman,

18 in view of the point you have just made, that the state-

19 ments of the various witnesses and any exhibits be avail-

20 able to the public, but that the scarce funds be devoted

21 to publishing only the report of this Commission.

22 SECRETARY REGAN: Congressman Paul.

23 CONGRESSMAN PAUL: I would strongly urge that

24 we ought to publish the testimony. I have looked around

25 -- we have been publishing the Congress for a good many

1 years and it is quite amazing what we do publish. But
2 because of the importance of the subject, I think we
3 should give serious consideration to publishing what is
4 said.
5 I have on my little list of things to be brought
6 up under parliamentary issues, that funding, since it
7 has been brought up, I would like to comment on it,
8 because it is true the amendment that was offered did not
9 account for direct funding, but did come out with the
10 Treasury budget and, particularly, the National Affairs
11 budget.
12 My understanding is that last year we appro-
13 priated $23,663,000. And as of last accounting Treasury
14 has spent $18,914,000 with $4.7 million remaining.
15 It was suggested earlier that we not have a
16 reporter here because of the expense. I did offer to
17 pay for the reporter and I see we do have somebody here
18 to take minutes today and I think this is very good.
19 But I cannot help but suggest the importance of the
20 discussion mandates that we have accurate minutes kept
21 and publication of those.
22 I am sure for every person who testifies there
23 is going to be maybe 20 people requesting or anxious to
24 testify. So, I would think the importance of what they
25 say is such that it should be made a permanent record.

1 I think the funds are there in order to do it,
2 according to my figures.
3 SECRETARY REGAN: I seriously dispute that, that
4 there are funds available for this, since they were not
5 accounted for in any budget that was submitted to the
6 Congress. What we are doing is robbing Peter to pay Paul.
7 (Laughter.)
8 SENATOR SCHMITT: Mr. Secretary, could I suggest
9 we pass over the issue of publication at this point and
10 make the suggestion that we talk to the chairman of our
11 two banking committee and see if they might not be
12 interested in publishing as part of their permanent record,
13 that's one possibility?
14 SECRETARY REGAN: All right, let's reserve on
15 that question of publishing. We are sensitive to the
16 issue. We will make certain that there is sufficient
17 documentation, so that people understand the background
18 that we went through and to the extent possible, we will,
19 at one of our subsequent meetings, take up this discussion.
20 All right, now, let's see, records of the
21 Commission's meeting. We are taking a permanent record
22 of these. We will be sending the reports of the meetings
23 to the members as quickly as possible after each meeting,
24 and certainly before the next meeting.
25 Now, a schedule of future meetings and a

1 decision on whether or not to keep the meeting open or
2 closed. I think we have decided that we will have open
3 meetings. The question now is when?
4 Why don't I do this, in view of what we have
5 said about the wanting to have three open hearings for
6 witnesses, plus the other strictures that we are under,
7 try as much as possible to circulate to each of the
8 committee members suggested dates, and then see what we
9 can do when you look at your calendars as to how these
10 dates fit in with your schedules. And we will try to
11 accommodate most of them.
12 Obviously, we are never going to get a time
13 at which all of us can appear, -- for each and every
14 meeting, but we will do the best we can.
15 CONGRESSMAN REUSS: Mr. Chairman, I think that
16 is a sensible suggestion. Secondly, I can now report
17 that Senator Dodd has been contacted in Connecticut
18 where he is on official business, and on the matter
19 contained in the procedural question 1B, he votes for
20 March 31 and against June 30th, if you are recording the
21 official vote.
22 SECRETARY REGAN: All right, thank you, Mr.
23 Reuss.
24 Now, that brings us then to the substantive
25 questions. I think the first thing we should do is to

1 ask the four members who did not attend the July -- no,
2 two members who did not attend the July 16th meeting and
3 two who did not speak at the July 16th meeting, if any of
4 the four, or all of them, would like to make statements
5 concerning the Commission's work.
6 And those are Senators Schmitt and Dodd.
7 Obviously, Senator Dodd is not here. Senator Jepsen and
8 Dr. Weidenbaum.
9 Would any of you gentlemen like to speak?
10 SENATOR SCHMITT: Mr. Secretary, very briefly,
11 had I been here July 16th I would have said how interested
12 I have become on this issue since being appointed to the
13 Commission. And I think that is one of the reasons that
14 justifies some longer period of time for the Commission
15 because one doesn't learn a great deal about an issue
16 until you are faced with having to make some decisions and
17 do some thinking about it.
18 In this case it would seem to me that the
19 underlining issue here is not so much gold, but the
20 question of how you stabilize both the domestic kind of
21 currency and the international currency. The suggestion
22 being that if you tie it to gold such stability will occur.
23 The only flaw that I see in that suggestion is
24 that since the industrial revolution currency has been
25 the necessary or seemingly necessary part of our society

1 in order to pay for goods and services.

2 And the increase in the availability of gold

3 does not, obviously, parallel the increase in the capabil-

4 ity or the demand for goods and services.

5 There may be a middle ground, which I have been

6 exploring in my own mind and with a few other individuals,

7 and that is if we could fashion a way in which the price

8 of gold, the value that we set on gold, having tied it

9 to our currency, in turn reflected some average of the

10 value of goods and services within our society. That is

11 -- and it would have to be an average or a value of goods

12 and services that did not fluctuate if we tried to measure

13 the GNP on a weekly or monthly basis -- maybe it is an

14 annualized,running annualized average.

15 But there I think, at least conceptually, there

16 are some interesting possibilities there of having the

17 value of our currency tied to gold, which in turn was

18 tied in a stable way to the value of goods and services

19 circulating within the economy.

20 That might be done by, again, a formula of some

21 kind that would tie that price of gold, or the value that

22 we put on gold to a running 12-month average, objective

23 measurement of the value of goods and services.

24 That is about as far as I have gone in thinking

25 about it. But I can say that I have not yet been able to

1 see how we could make just a simple tie of the value of
2 currency to the value of gold. Maybe my background as a
3 geologist is what is influencing me here, and I just don't
4 see any way to keep the production of gold up with the
5 production of goods and services.
6 SECRETARY REGAN: Interesting.
7 Senator Jepsen, would you like to make any
8 comments?
9 SENATOR JEPSEN: Thank you, Mr. Chairman.
10 Very briefly, I think the basic premise on which
11 the Gold Commission was established was the United States
12 personally has no position on gold, or rather its
13 stated position is contradictory.
14 On the one hand, gold plays no official role
15 in our monetary system and it has not since President
16 Nixon closed the Gold Bill on August 15th, 1971.
17 Yet, on the other hand, the United States still
18 holds over $115 billion worth of gold at the present market
19 prices while continuing to carry it at an official price
20 of $42.22 an ounce.
21 So, it is the role of the Gold Commission to
22 determine whether we should remonetize gold and give it
23 some official standing in our monetary system, or finish
24 the task of demonetizing gold by selling all but that which
25 is necessary for strategic purposes.

1 I respectfully submit a joint committee print
2 of the Gold Standard and its history and record against
3 inflation, a study that is prepared for the use of the
4 subcommittee. And I have had copies of it made available
5 to the folks here today.
6 In it I would also recommend a way of starting --
7 some starting point to get our teeth into something and
8 to talk about what we are charged with here. And I
9 recommend the Commission study the Gold Certificate
10 Reserve Requirement Plan that has been presented in this,
11 which I think has three major virtues and does put a lid
12 on money growth, but it is not a rule -- no sudden jolts
13 to the economy. And, also, gives the Federal Reserve
14 an anchor to write out demands and temptations to renew
15 inflationary money course.
16 A case in point, they can, of course, ask for
17 any law to be changed for the purpose of having some sort
18 of legal anchor, Mr. Chairman, not to make sure we ever
19 change course, but to make sure that we give it some
20 thought before we do.
21 I will say it will make it easier to return to
22 the Gold Standard, but not inevitable. So, I think it
23 will make the possibility and urgency of returning to the
24 Gold Standard unimportant by reducing inflation, but if
25 the problem doesn't go away, there is a plan here that

1 will make it much easier. With that, Jerry Jordan can
2 cover any technical question and Mr. Weidenbaum is here,
3 and some of our staff will be here to answer any questions
4 and so on.
5 And I think we will start to resolve what we
6 are put together for, if not at least we will be working
7 towards the time we will.
8 MR. WEIDENBAUM: Mr. Chairman, I welcome the
9 opportunity to serve on this Commission under your leader-
10 ship. Coming to this Commission from an uncommitted
11 position on the subject of gold, per se, my reflections
12 on the subject to-date lead me to emphasize what I take
13 to be the underlining and truly important concerns of
14 all of the participants in the discussions -- and I
15 mean the discussions, not just before the commission, but
16 nationally. And that is the need for discipline and
17 restraint in monetary affairs, and especially monetary
18 matters.
19 I take it this is an indication of the enduring
20 proposition, a very simple one, that human wants are
21 insatiable. We need to make difficult choices in our
22 future deliberations.
23 I suggest that this leaves us to emphasize the
24 need to obtain greater price stability and sustained
25 economic growth and that be the beacon by which we chart

1 our course. And that the specific mechanism that we
2 consider and propose are viewed properly as means, and that
3 the end be our central concern.
4 And the end, as I take it, is not the instrument
5 of our monetary policy, but the output, the results of
6 economic activity.
7 Thank you.
8 SECRETARY REGAN: Thank you, Dr. Weidenbaum.
9 CONGRESSMAN PAUL: Mr. Chairman, may I make a
10 request? Have we finished those people who were going to
11 express their views?
12 SECRETARY REGAN: I believe so, with the
13 exception of Senator Dodd. If he does come today, or at
14 a later date, we will let him speak.
15 CONGRESSMAN PAUL: I have a request along this
16 line, I see that we will be discussing very briefly the
17 role of gold in the U.S. by Dr. Schwartz, as well as the
18 gold output by Dr. Schwartz. We have a lot of material
19 by Dr. Schwartz and she is playing a very critical and
20 important role in the Commission.
21 And I would like to make the request that she,
22 too, state her position for the record. I see on her
23 second paper that she wrote, she said this review is
24 headed part two because I anticipate it will serve as the
25 second part of the report of the Gold Commission. And I

1 think this is sort of getting the horse before the cart.

2 I don't particularly think it is a good idea

3 to have a report written before we have discussed this.

4 I would like to ask if other members would be interested

5 to have her view and her position on gold, as we are?

6 DR. SCHWARTZ: It is your votes that will deter-

7 mine the recommendation of the Gold Commission. I am not

8 a voting member.

9 My function here, as I see it, is to present you

10 with evidence so that your recommendations would be

11 informed. That is my only function.

12 If you do not think that the history of the U.S.

13 experience with gold is relevant to a report of the

14 Commission, you are at liberty to vote against the inclusion

15 of such material in the report. I am not writing the

16 report in advance of what the Commission wants to do, but

17 I certainly believe that knowing what U.S. experience with

18 gold has been, since there has been a connection with gold

19 in our monetary system, is relevant. And that is my only

20 interest in presenting it to you.

21 CONGRESSMAN PAUL: So, she chooses really not

22 to answer my question.

23 DR. SCHWARTZ: I don't see what difference my

24 views make because my views have nothing to do with your

25 recommendations. I have lots of views on lots of things,

1 but they are not relevant to my role here.

2 SECRETARY REGAN: From the point of view of

3 Dr. Schwartz, she is a non-voting and staff member to this

4 Commission. I think, in my own opinion, it would not be

5 appropriate for her to express her views the same as the

6 voting members. She is trying to maintain an impartial

7 role here and it is my duty as Chairman, as well as

8 Secretary of the Treasury, to see that the materials that

9 get to you are even handed and that the opinions expressed

10 by my staff, whether from outside staffers, or members of

11 the Treasury, who also have different views here, are

12 even handed, Mr. Paul.

13 And I will assure you that we will try to main-

14 tain impartiality.

15 Now, if we could go on with a review of that

16 historical draft. And the reason for this is I want you

17 to notice what I am trying to do here, I am trying to lay

18 a foundation for our discussions, so that we understand

19 where we are coming from. There are varying degrees of

20 knowledge in this Commission on the subject of gold, some

21 have to run a little faster than others to catch up, to

22 make sure that we are all in the same game. And, according-

23 ly, that is what I am trying to establish here in this

24 type of meeting.

25 And that's why I wanted to get started on just

1 some history and also since this is our first public
2 meeting, to bring members of the press, as well as members
3 of the audience here along with us in our deliberations.
4 So, Dr. Schwartz, would you give us a brief
5 review of your historical draft?
6 DR. SCHWARTZ: Thank you, Mr. Chairman.
7 I have asked that two of the charts that were
8 included in the historical chapter be distributed among
9 you, and I will comment on the various sub-periods which
10 are considered in the chapter in relation to the movements
11 of the wholesale price levels that are shown in Figure 1,
12 from 1800 to 1979; and movement of real per capital income
13 in the United States from 1870 to 1979.
14 We do not have continuous series for real per
15 capital income before the Civil War with the figures. The
16 estimates for the post-Civil War period which is why the
17 chart for real per capita income does not cover as long
18 a period as the wholesale price chart, but which has
19 something about the available estimates for the pre-Civil
20 War period.
21 To begin at the beginning, Alexander Hamilton
22 designed the monetary system for the new republic. He
23 would have preferred to have established a gold standard
24 but there was a scarcity mainly of gold coin and even
25 silver coins that were circulated in the states were of

1 foreign origin and he knew there was no way to establish
2 a gold standard directly. He chose instead a bimetallic.
3 He was aware it was important to establish a
4 ratio between the number of grains of silver in the silver
5 dollar and the number of grains of gold in the gold dollar,
6 so that that ratio at the mint matched the market ratio.
7 At the time of the Coinage Act of 1792, passed
8 in 1792, he did manage to choose the correct ratio, 15 to
9 1; 371.25 grains of fine silver and 24.75 grains of fine
10 gold. That is a ratio of 15 to 1.
11 What normally happens, however, under a bi-
12 metallic standard is that because the net ratio diverges
13 from the market ratio, you end up with a multi-metallic
14 standard, with only one of the metals and this is what
15 happened after the Coinage Act of 1792 was passed; with
16 greater production of silver in Mexico and South America
17 than production of gold worldwide. This increased the
18 market ratio to 15½ to 1. Gold, therefore, was under-
19 valued at the mint. Nobody bought gold to be coined and
20 we were essentially de facto on a silver standard until
21 1834, when Congress passed an act reducing the gold content
22 of the gold dollar, leaving the silver content of the
23 silver dollar unchanged and ended up with a ratio of
24 16.002 to 1.
25 Some believe that this was inadvertent, but

in fact the people in Congress who were responsible for this act knew very well that choosing a ratio of 16.002 to 1, which was in excess of the market ratio of about 15½ to 1, that they would be assured that gold would become the single metal in the U.S. coinage system. And that is, in fact, what happened because silver was now under-valued at the mint, nobody bought it. The silver became a commodity that was used in other uses than monetary uses.

In 1837 there was a minor change in the gold content of the dollar, the amount and the role of the dollar was rectified so that hence forth there was nine-tenths the number of grains of gold, the number of grains was raised to 23.22.

If you will divide 480 which is the number of fine grains in an ounce of metal by 23.22, you will arrive at $20.67 which became the traditional official price of gold with the exception of the period of suspension after the war; briefer suspension of specie payments in other periods that I will refer to,and $20.67 became the official price until it was changed in March 1933.

I might say that sometimes we say that we don't have to set the price of gold, all we have to do is find the weight of gold in a dollar, but it is the equivalent after dividing 480 grains by the amount of grains that

1 you define the dollar to be, that is the price. There is
2 no way of defining the content or weight of gold in a
3 dollar without at the same time setting a price.
4 I want now to say a few words about the period
5 1834 to 1861, to illustrate the kind of conclusions I
6 have come to about how the gold standard operates -- there
7 is short-term instability, there is long-term predictability
8 of the price level.
9 If you will look at the price chart you will see
10 movements above and below the trend line which is a
11 declining trend from 1834 to 1861. Those movements above
12 and below the trend line reflect the kinds of disturbances
13 that occur on the gold standard.
14 From 1834 to 1836 there was an in-flow of this
15 which has supported the expansion of the stock and made
16 possible the kind of growth we had during that period.
17 The Gold Standard is subject to external shocks and
18 internal shocks. The external shock during that period
19 was capital flows from Great Britain -- we were very much
20 like a less developed country, we were a retractor country
21 in which to invest funds and Britain did increase its
22 capital flow to this country during that period.
23 The capital could flow here only if we had a
24 deficit in our balance of payment, that would have made
25 possible the transfer of real goods and commodities in

1 order to permit us to have a deficit in its balance of
2 payments prices in this country it had to be relatively
3 higher than in Britain to make Britain a more attractive
4 place for Americans to buy goods and services than to
5 buy them domestically.
6 This is the essence of the way in which a
7 transfer of capital took place during the whole pre-
8 World War I period of the Gold Standard history.
9 Then, because Britain in 1836 discovered that
10 it was losing gold, the Bank of England then raised the
11 discount rate and moreover declined to discount bids of
12 exchange with the Franco-American trade. Financial pressure
13 in this country was immediately experienced. In 1837
14 there was a banking panic, and one or two failures,
15 frozen loans and suspension of specie payments that are
16 referred to.
17 Banks no longer would sell foreign exchange to
18 traders at the official price, you had to pay a premium
19 to get it. This was a temporary devaluation and it was
20 done in order to avoid the kind of contraction in the
21 price level that would have been required in order to
22 maintain balance in our international payments.
23 The Gold Standard was also subject to internal
24 shocks. What were the internal shocks? In a less
25 complex society than we have currently it is possible to

1 note them on the fingers of one hand. Britain was
2 particularly eager to import cotton from the United States.
3 The enlarged demand for cotton triggered a land movement.
4 The federal government sextupled its sales of land during
5 the period of 1834 to 1836 at a fixed price and found
6 itself with a huge surplus.
7 A decision was then made to distribute this
8 surplus among the states. The states, in turn, embarked
9 on public works projects, issuing bonds which were widely
10 sold in Europe.
11 And in the ensuing financial turmoil they ended
12 up in default on their monetary indebtness. Capital
13 flows to this country ceased during the 10-year period
14 from 1841 to 1851. The sequence of developments can be
15 traced in every cyclical movement,before World War I the
16 details were different but this is the kind of economic
17 development that you will observe.
18 If the figures for real output growth before
19 the Civil War had been plotted, you would have seen they
20 were on a generally upward trend, there were very sub-
21 stantial up and down movements.
22 Now, I describe that as short-term stability.
23 You will then notice on the wholesale price chart the
24 enormous increase in the price level from 1861 to 1865,
25 that of course is the Civil War inflation. We suspended

1 specie payments and it is not hard to understand why our
2 balance of payments was actually in collapse.
3 Normally the south had a surplus in trade with
4 England, the north had the deficit in trade with England,
5 but the south had a deficit in trade with the north and
6 the north had a surplus in trade with the south. Southern
7 cotton disappeared from our exports, our balance of payments
8 -- at the same time, of course, Treasury had to finance
9 all of it.
10 Even if taxes had been increased, it is con-
11 ceivable that they would have been able to have advanced
12 military expenditures only by taxes. So, the answer was
13 to emit intersparing and non-intersparing currency.
14 In 1865, at the end of the war the decision was
15 pretty generally accepted that we would attempt to get back
16 to a pre-war currency. How could that be achieved?
17 The only way to achieve it was to have a price
18 deflation from that peak of 1865 to the draft that you
19 see in 1879, so that our price level would resume the
20 relationship to British prices that had been maintained
21 before the Civil War.
22 How was this great price deflation achieved?
23 Prices fell by about 5½ percent in the year, currency
24 contracted only about 1½ percent, so the big factor that
25 permitted the price level to fall was the enormous increase

1 in real output during that period.

T2/S1 2 You must not think that this was a period of
3 great unrest, there were many sections of the society
4 that objected to the resumption of the old currency.
5 I mentioned at the first meeting that Congress
6 by resolution in 1876 appointed a silver commission. That
7 commission reported a year later that the majority wanted
8 resumption only on the condition that silver was restored
9 as the metallic monetary system. Some of the majority
10 wanted to change to devalue silver below the 371.25 pre-
11 war silver content.
12 A minority wanted to resume, but devalue gold;
13 a second minority did not want to resume unless there
14 was an international agreement to restore silver to the
15 monetary status.
16 After that commission reported a bill was intro-
17 duced in Congress to repeal the resumption act that had
18 been passed in 1875, the bill to repeal failed by one
19 vote. And the resumption was achieved on January 1, 1879.
20 We still didn't see the end of our political
21 troubles because, again, the price level continued to
22 fall beyond the resumption date.
23 Why did it fall? Because this was the period
24 when the rest of the world was moving to the gold
25 standard and gold output was very much restricted. There

1 is no way an increase in the demand for gold and an less
2 than adequate increase in the gold supply could produce
3 a stable price level. So, you have a decline in the
4 price level, again, with the movements up and down to
5 meet the trend line.
6 The period of dissatisfaction in this country
7 with the declining price level came to a head in 1896,
8 and that was the year that William Jennings Bryan, who
9 campaigned "You shall not crucify mankind", the cause of
10 gold was defeated and the gold standard seemed to have
11 won. The real reason was not Bryan's defeat, but the
12 new processes, the cyanide extraction of gold, the
13 discovery and opening of new mines, permitted a large
14 increase in gold output from the mid-1890s on and the
15 price level reversed -- that's the upward movement that
16 you see from 1896 on.
17 The last suspension of payments by the banks,
18 coverting them to gold only by paying a premium occurred
19 in 1927 in the banking crisis. That was what occasioned
20 the creation of the National Monetary Commission to
21 reform the banking system in this country.
22 Am I going on too long?
23 SECRETARY REGAN: I would say about another
24 five or 10 minutes, if you would.
25 DR. SCHWARTZ: Okay.

1 The advantage of my having dwelled on the past,
2 as you probably know, just as well as I do, but anyway
3 the Federal Reserve System was introduced in 1914. The
4 Gold Standard was exemplified by an imposition of gold
5 reserve requirements, Federal Reserve notes, Federal
6 Reserve deposits and it seemed that we were going to operate
7 under the requirements of the Gold Standard.
8 Right off the bat we had enormous inflows of
9 gold from Europe as a result of the outbreak of war there.
10 We had wartime inflation and we also had a post-war in-
11 flation, that was something different. We were losing
12 gold after 1918 but the Federal Reserve continued to
13 expand the money supply, mainly because it was trying to
14 play ball with the Treasury, but did not want to see any
15 increase in the interest rates the Treasury had to pay
16 on federal indebtness.
17 And it was not until the beginning of 1920 when
18 the gold reserve ratio came perilously close to the
19 minimum level that the Federal Reserve contracted. The
20 contraction of debt went on beyond the point it needed to
21 have because the increase in the discount rate in
22 January of 1920 permitted a reversal of the outflow of
23 gold -- gold was flowing into the Federal Reserve system
24 in its contractionary policies.
25 So, you had the first of the three great inter-war

1 depressions, 1920-21; 1929-33 and 1937-38. Again, the
2 1930 experience with the devaluation of the gold dollar,
3 quite different from the kinds of devaluations we had
4 experienced in earlier periods because they had always
5 come after a period of boom in this country, when the
6 country was unwilling to experience a deflation in the
7 price that would have been required in order to maintain
8 the par value of the exchange.
9 In 1933 we had just emerged from a very deep
10 depression, the gold in this country was ample, we had
11 as much gold in 1933 as we had in 1929 and the gold
12 reserve ratio was way above minimum requirements. A
13 deliberate decision was taken to devaluate the dollar
14 in order to increase the price of U.S. exports, returning
15 to gold at a fixed price after a period of flowing exchange
16 rates in January 1934, and that's the year -- well, I
17 think I will stop here.
18 SECRETARY REGAN: Thank you, Doctor, that is
19 very interesting.
20 Any comments on the historical record?
21 CONGRESSMAN PAUL: Are we going to go into a
22 discussion on that, or are we going to go into something
23 else?
24 SECRETARY REGAN: We could have a discussion of
25 that now. What we intend to do -- I think the next item

1 that will come up is a discussion of your paper, then we
2 will briefly review a paper on gold supplies that Dr.
3 Schwartz prepared, and then our final item will be our
4 future work program.
5 And we have approximately two hours in which to
6 do that. So, a discussion of this historical record is
7 in order.
8 DR. ROBERTS: Dr. Schwartz, just one question,
9 when I look at these charts, at least on the surface,
10 there is something here that seems to be out of tune with
11 our present-day ideas.
12 If you look at the period from the end of the
13 Civil War to about the turn of the century one looks like
14 a remarkable deflation and yet the other chart shows it
15 as a period of above-trend growth in real per capita
16 income.
17 We normally associate the periods of deflation
18 with falling output. Here we find a period of unusually
19 high output. How do you account for that?
20 DR. SCHWARTZ: I think the normal assumption of
21 that is false. We find, in fact, that there is a negative
22 relationship between them which has been well born out
23 by our experience in the 1970s.
24 MR. PARTEE: I would though, Dr. Schwartz,
25 direct your attention to the right-hand side of the chart,

1 which seems to me to have the opposite result, that is
2 there is of course a great deal of inflation in those
3 last two decades, but there also is a sustained period
4 well above trend growth.
5 So, I think you can reach distinctively opposite
6 views, depending on whether you are looking at post-Civil
7 War periods or the last 20 years, we can reach distinctly
8 opposite views as to what that relationship might be.
9 But it is a complicated relationship.
10 MR. LEHRMAN: Could I remark?
11 SECRETARY REGAN: Well, Congressman Paul had
12 asked first.
13 CONGRESSMAN PAUL: I would like to speak to
14 the chart, the first chart, because I think it is a
15 remarkable chart and one that someone if they are inclined
16 to give serious consideration, I think it should convince
17 you that gold is a very, very important feature and
18 something that is beneficial.
19 As we take the period from 1834 to 1861, and
20 compare that, also, to the period 1879 to 1913, those are
21 the two periods of time where it was most remarkably
22 stable, even though we have a short-term fluctuation in
23 here.
24 Characteristic, also, of this era, or these
25 two periods is the fact that gold coins did circulate and

1 government had a minimum amount of control over the money
2 system.
3 The government was very much involved in the
4 1860s with the printing of the greenbacks and the
5 depreciation of the currency then is the obvious con-
6 sequence of the higher prices and then, subsequently
7 deflation as they removed the greenbacks.
8 So, I think this is a remarkable chart and
9 one that cannot deny the historic evidence of the
10 tremendous benefit of having a gold standard.
11 Now, this is, in spite of the fact that it was
12 a pseudo gold standard, not a repeal gold standard and
13 not our best gold standard. It was one that still endorsed
14 fractional reserves.
15 Dr. Schwartz makes a good statement on page 15,
16 and I think the third paragraph on page 15 is very
17 important. Monetary disturbances during the period from
18 1879 to 1914 were associated with banking difficulties,
19 '73; '84; '90, '93. This is usually used as evidence to
20 condemn the gold standard. Under a fractional reserve
21 system the public's withdraw of currency from the banks
22 not only reduced the bank's reserve, but caused these
23 problems.
24 Finally she says, "These monetary disturbances,
25 however, were attributable to the U.S. banking structure".

1 And that is so important, rather than the gold standard
2 system. To me that is the key point.
3 So, whenever somebody says to you there are
4 fluctuations of the gold standard on the short-run, it is
5 indeed correct. And it is proper to point out that it
6 is because we were not on the true gold standard, we were
7 on a pseudo gold standard and we had fractional reserve
8 banking which to me is deception and fraud, telling people
9 they had money in the bank and they don't and create it
10 out of thin air and depreciate the currency and prices
11 subsequently go up.
12 So, I see this chart as a beautiful chart for
13 those who advocate a gold currency.
14 Now, I date 1913 as a critical period in our
15 economic line because very quickly that is where the line
16 starts and the line shoots up. We had inflation in the
17 first World War, we had rapid price rises, we had monetary
18 inflation during the 1920s with a 65 percent increase in
19 the gold money supply in the '20s. We had deflation in
20 the '20s and in '29.
21 And we have had nothing but chaos for these
22 past 80 years and we are on an exponential curve right now.
23 I might say that every bit of evidence right here
24 indicts paper, indicts government, defends gold and says
25 money must have something of real value and not something

1 out of our imagination -- if we put blips on paper, or
2 print numbers on paper, then all of a sudden we have
3 money or something of real value.
4 The second chart I would like to comment on as
5 well. We talk about real capital income. I think
6 there is a discrepancy here because I think you would have
7 a difficult time to go to the American people today and
8 tell them for the last 10 years they have had this
9 tremendous increase in real capital income. Ask any-
10 body, ask the kids who are trying to buy a house, or buy
11 a car. Ask the people who are trying to go on a vacation,
12 and they are not going -- their standard of living is
13 down.
14 So, regardless of what the statistics tell you
15 about real capital income, you have to realize that real
16 capital income comes when you add up government spending,
17 dividends, corporate profit, welfare spending -- no wonder
18 it looks good on the chart. But what you really want to
19 look at is this chart (indicating).
20 Now, I don't know whether you can see it, but
21 this line here (indicating) dips down, that is the line
22 that you must be concerned about if we are concerned about
23 the American people. This is the real wage, what people
24 take home after they have been taxed and inflation has
25 eaten away -- it has declined 15 percent since 1977,

1 mainly because there has been a tranfer of wealth through
2 the depreciation of currency, some have gone to welfare
3 and some have gone to very poor.
4 So, the standard of living is going down. The
5 real capital income, per capita income is deceptive
6 because it adds in government spending. And I think this
7 is the chart that is important, this has come about
8 in particular in these past 10 years when we have had
9 totally managed fiat currency.
10 I think it is so important that we look at
11 this historically. And I think most of this reporting
12 here of Dr. Schwartz' is accurate, beneficial, but I
13 do think that the most important thing is to realize here
14 that we had a pseudo gold standard in the past, we have
15 never had a real gold standard. We can have a better
16 gold standard and that everything that is presented, as
17 I see it, is an indictment of paper and an indictment of
18 government management of money.
19 SECRETARY REGAN: Thank you, Mr. Paul.
20 What I have been doing is trying to keep a
21 record of who wishes to speak, so if occasionally if you
22 wish to get on my list -- it's a good list -- would you
23 just sort of signal to me and I will make note of your
24 name.
25 The first one I have down is Mr. Lehrman.

1 MR. LEHRMAN: I will yield to Mr. Jordan. I
2 think he went up at the same time.
3 SECRETARY REGAN: Well, actually Mr. Jordan's
4 boss is ahead of him. Would you like to speak first and
5 then have Mr. Jordan and Mr. Wallich?
6 MR. WEIDENBAUM: I would like to call Dr. Paul's
7 question. You may recall in my opening remarks, I urged
8 the need to pay close attention to both price stability,
9 which has been the focus of most of the discussion and
10 economic growth.
11 And in the spirit of Dr. Paul's concern, I
12 would like to shift the second part of the discussion
13 from the input measures to the output measures to the
14 growth measures and ask Dr. Schwartz what was the
15 experience during the period our country was on the Gold
16 Standard, compared to periods when the economy was off
17 the Gold Standard, in terms of the growth of, say, real
18 per capita for GNP and --
19 DR. SCHWARTZ: Well, if you compare 1879 to
20 1914, or 1947 to 1979, both with respect to their ability
21 and with respect to average rates of growth post-1947,
22 there is not much of a difference. The difference really
23 isn't significant.
24 With respect to the variance, again, there is
25 slightly more variance before 1914 and post-1947,

1 everything favors pre-World War I. Of course those three
2 depressions we experienced in the inter-war period that
3 influenced post-war views and really shaped economic
4 policy, whether the evidence of the inter-war period was
5 misread, but it was because of a direct experience of
6 this country getting into the inter-war period when we were
7 on the Gold Standard that the conclusion was reached that
8 this was not the way -- that we did not need to determine
9 domestic economic policy.
10 MR. WEIDENBAUM: Thank you.
11 SECRETARY REGAN: Jerry.
12 MR. JORDAN: I would like to return to chart
13 one, figure one and focus, first, on the period of the
14 1950s or the late '40s until about the early 1960s. That
15 was a period that interested me in a lot of ways, one,
16 why did it happen at all? And, two, why did it come to
17 an end?
18 We had a period of 15 years or so of very low
19 inflation, I think the average in that period was about
20 1½ to 2 percent annual rate. It came on the heels of
21 great wars and inflation that resulted from war, war
22 being financed the way most wars were, each were followed
23 by large deflations, either to get us back onto a gold
24 standard, or because we were on a gold standard.
25 The inflation of World War I was followed by

1 a collapse of housing prices in the early 1920s and the
2 rate of increase in inflation during World War I is
3 very similar to what we have experienced in the last decade.
4 So, we might want to keep that in mind. And
5 then, thanks to the Great Depression, we got the level of
6 pricing back up where they were before World War I.
7 And then we fought another war by monetary
8 grants, but we didn't follow by a deflation, we followed
9 with a period of price stability. And as far as the long-
10 term price stability there is the question are we satis-
11 fied looking back at what happened at the end of World
12 War II to the early 1960s, or would we have preferred
13 the price levels to go back to where they were before the
14 war? Which view of price stability are we interested in?
15 I am satisfied with what happened at the end
16 of World War II, the price levels and the rate of inflation
17 leveled off -- the price level didn't go back down, but
18 it just stopped going up so rapidly.
19 Then we had another war and the Great Society,
20 the Vietnam War during the '60s, the Great Society, the
21 failure to raise taxes to finance it, as usual during a
22 war, the inflationary finance. And it kicked off a wave
23 of inflation. And, unfortunately, it continued long after
24 the war ended.
25 And now we are faced with the question of do we

1 want to go back to a period like the 1950s and have a
2 leveling off of the rate of inflation from the present
3 level -- that's what I would prefer, just get the rate of
4 increase down to essentially zero, or would we want to
5 see the level of prices go back down to the level of the
6 early 1960s, before this last round of inflation? Would
7 we be willing to commit ourselves to the kind of discipline
8 of a true gold standard that would force the price level
9 back down, not just the rate of inflation back down?
10 SECRETARY REGAN: The next comments, I have
11 Governor Wallich.
12 GOVERNOR WALLICH: Mr. Secretary, my points
13 are of a more technical nature and I can just as well
14 take them up with Dr. Schwartz, without taking the time
15 of the committee. I would appreciate that opportunity
16 later.
17 SECRETARY REGAN: Fine.
18 Senator Schmitt.
19 SENATOR SCHMITT: First of all, I just have a
20 technical question which may help to clarify.
21 Why did you pick a log scale, just to get it
22 on the same page?
23 DR. SCHWARTZ: In economic statistics a log
24 scale that shows equal percentage changes in absolute
25 numbers is pretty much the standard way of presentation.

1 You have a false impression of relationships if you just
2 look at changes in the absolute numbers and the percentage
3 changes.
4 SENATOR SCHMITT: Okay.
5 Sort of relating a little bit to what Jerry
6 Jordan has said, I think we have to be very careful, again,
7 let me emphasize that I don't know what we ought to do on
8 this issue of gold and price stability. But I think we
9 have got to be very careful in the kinds of lessons we
10 try to draw from the past.
11 Let's just remember that in the last several
12 decades the rate of change of our society, because of
13 ability, because of communication and new technologies,
14 has increased phenomenally and we have just got to be very
15 careful what lessons we try to draw.
16 I think there is an interesting lesson that
17 we should use those that are appropriate, but to try to
18 tie the current world into the past in charts like this
19 can get you in trouble.
20 That's about the extent of my remarks, except
21 also to remember that there are -- some of those differ-
22 ences are not only the accelerated rate of change, the
23 ability, the communication and new technology, that I
24 mentioned, but the control of the production of gold has
25 shifted around the world, the nature of gold has altered.

1 That is one of the lessons you get from the past. Every-
2 time you see a change in what happens in the mining
3 business with respect to gold, you see a blip on these
4 curves.
5 So that clearly does influence the situation and
6 must be remembered, today's situation is not the same
7 as it has been in the past.
8 And then further I would associate myself with
9 Dr. Jordan's remarks about remembering that in the more
10 modern context we did a period of extraordinary price
11 stability, extraordinary, when you compare the rest of
12 the nation's history, the period he refers to is truly
13 extraordinary.
14 And we may learn more by examining why, in
15 terms of price stability and what we ought to do in the
16 future. And maybe what we ought to do is include some
17 relationship to gold, as I indicated in my opening remarks
18 earlier, that it is far more stable during that period of
19 time than anything else we have seen in the charts that
20 you have presented us.
21 DR. SCHWARTZ: Senator Schmitt, may I respond
22 briefly?
23 It was not my intention to present this material
24 in the sense that it was the lessons of the past --
25 SENATOR SCHMITT: No, I did not mean to infer

1 that you did, I just think if we use the charts we have
2 to be careful of how we draw our conclusions.
3 DR. SCHWARTZ: I was interested in showing how
4 did we get from where we started out to the point we are
5 at now.
6 I also think, looking at the pre-1914 experience,
7 is something that will prevent you from making a wholesale
8 allegation that that's the way the gold standard, true
9 fractional reserve gold standard operates -- and some,
10 who I don't think stick as closely to the record as they
11 might --
12 SECRETARY REGAN: Governor Rice, would you like
13 to comment?
14 GOVERNOR RICE: Mr. Secretary, I just had a
15 general observation. First, I would like to say that I
16 think Dr. Schwartz' paper is very useful. I found her
17 division of relative periods is especially helpful.
18 I think, to me, the paper demonstrates that
19 whether we are on the gold standard of some variety or
20 whether we are on some form of non-gold standard we have
21 had difficulty in managing money. This experience, I
22 think, has persuaded some that money will not manage
23 itself. And that perhaps some of the problems we have
24 had with money should be looked at from the management
25 side.

1 The weight of evidence clearly suggests that
2 none of the automatic systems or rigid systems have per-
3 formed satisfactorily.
4 Now, in light of this evidence, it seems to me
5 that those who advocate some form of gold standard should
6 -- advocates of the gold standard, in general, should be
7 specific and say exactly what type of gold standard it is
8 that they would like to see, indicating very clearly what
9 the degree of money management would be associated with
10 this particular variety of gold standard.
11 And, secondly, to show why that particular
12 varying gold standard would not subject us to the kinds
13 of adverse experience that we have had in the past.
14 SECRETARY REGAN: Thank you, Governor Rice.
15 Mr. Lehrman.
16 MR. LEHRMAN: Mr. Secretary, just a few remarks
17 on the weight of the evidence which was so systematically
18 presented by this excellent memo on the history.
19 With respect -- I must deny the assertion that
20 Governor Rice made about the weight of the evidence. It
21 is clear from the way that the evidence of the memorandum
22 itself, carefully read, that stability at the price level
23 by -- and its own assertion from the memo, was better under
24 the gold standard, each period of the gold standard,
25 whichever form you choose, then the characteristics of the

1 price level during the last 10 years, subsequent to the
2 suspension of the Gold Standard in 1971 by President Nixon.
3 And in the imperfect world of human affairs,
4 one always has to ask the question compared to what? And
5 what we are doing is comparing the practical results of
6 economic activity and the price level under the Gold
7 Standard with the practical result of economic activity
8 and the price level under the managed paper standard of
9 the last decade.
10 Now, when those two intervals are chosen and
11 those standards are applied, it is clear that the weight
12 of evidence favors the Gold Standard.
13 I would draw your attention, not only to the
14 graphs that Anna has provided, but to the detailed
15 documentation of the monetary history of the United
16 States by Milton Freeman -- now, that I believe is the
17 unequivocal conclusion one must draw from the memorandum
18 she has presented to the Commission.
19 And I just did not want the record to show
20 otherwise than what she herself has argued in that piece.
21 Let us talk also, if we may, about Senator
22 Schmitt's shrewd observations about the period since the
23 late 1940s, until the mid-1960s where, when we look at
24 the graph we observe reasonable stability at the price
25 level. This period was known as the Bretton-Wood System.

1 The linchpin of the Bretton-Woods system was convertibility
2 of a paper dollar into an equivalent weight of gold. It
3 was an international treaty to which we bound ourselves
4 voluntarily and inaugurated in 1944.
5 But as you observe on this graph, you will notice
6 that the price level continued upward from 1944, until
7 about 1948,'49,'50. It was in that year where the
8 Bretton-Woods System became fully or almost fully operable.
9 And it is from that point where we observe the onset of
10 reasonable price stability.
11 That is to say, the convertibility of the
12 currencies among the major industrial powers subsequent
13 to 1950 was insured by the pledge to maintain convertibility
14 whereas before that it was not. I remarked the devalu-
15 ation of sterling in the interval, between World War II
16 in 1945 and 1950, and then the stabilization of sterling
17 thereafter.
18 The extraordinary financial reforms in Germany
19 which occurred in 1948 under the government of Lucius
20 Clay, a glorious general who did much in fact to win the
21 war. Under Lucius Clay and under the Ludwig Erhard, the
22 first post-war Economics Minister of Germany, a complete
23 reform of the German currency was undertaken in the
24 occupation zones. And the German Mark was made convertible
25 into the dollar and, of course, therewith into a specified

1 and assured weight limit of gold.

2 Immediately thereafter stability of the price

3 level returned, not only in Europe, but relatively speak-

4 ing to the world at-large.

5 Now, if you look at the chart during the same

6 period -- I do so because of Senator Schmitt's pointed

7 question -- you will also observe that this period extends

8 until about 1965. Now, between 1959 and 1965, the

9 European Payments Union was integrated into the clearing

10 mechanisms of the Western World, and multi-lateral con-

11 vertibility of currencies into the dollar and into gold

12 was fully established and legally enforced by treaty and

13 general convention among central banks.

14 During that period the price level not only was

15 stable, but as Jerry Jordan has pointed out, only the

16 most modest incipient tendency for a rise in the price

17 level was observed -- less than 1 percent on an average

18 annual rate.

19 The cause of this stability was the willingness

20 of all countries to assure the exchange rate machine

21 which had been ordained by the Bretton-Woods Treaty to

22 which we were thereafter bound by the Constitution.

23 So, it is no accident that the modernized gold

24 standard of Bretton-Woods, otherwise known as the Gold

25 Exchange Standard, gave us the reasonable price level

1 stability which has also been remarked by several of our
2 colleagues around here, of the period 1834 to 1860 and
3 1875 to 1879.
4 I would just like to make one or two antidotal
5 observations, if I may. The value of loaf of bread, a
6 pound loaf of bread was the same under Teddy Roosevelt
7 at the turn of the 20th Century as it was under George
8 Washington at the beginning of the Republic, and that was
9 also not coincidental for the same monetary standard, the
10 same value of the monetary standard that prevailed for
11 more than a century.
12 The observation, it seems to me, that is so
13 striking about this chart which Anna has provided us is
14 that during all periods of the gold standard, without
15 exception, reasonable price level stability was assured
16 the American people. And that is why the gold dollar is,
17 in fact, American money, it was the only authentic American
18 money until very recently.
19 With the suspension of gold convertibility at
20 the time of the War of 1812, with the suspension of the
21 gold convertibility by Abraham Lincoln in January of 1862,
22 which in a public speech he personally deplored and with
23 the suspension of gold convertibility in 1971, by President
24 Nixon, we can observe, as someone remarked, the only
25 exponential rise in the price level during American history.

1 One other comment and I beg you to indulge me --
2 we are not only talking about reasonable price stability,
3 but by the evidence of our distinguished Chief-of-Staff,
4 Anna Schwartz, we are talking about a negative correlation
5 between a rise in the price level and real economic output
6 in certain periods. And we are talking about a positive
7 correlation between a gently falling price level and rising
8 output.
9 That is to say, under periods of the gold standard
10 we had some of the most unparalleled periods of American
11 prosperity. Indeed, the gold standard paralleled the rise
12 of 13 dispirit colonies to the preeminent power of the
13 world. And it was during that period that the United
14 States was on the gold standard, where economic output
15 was steady and rising, real per capita income was not only
16 steady but rising very rapidly. And in the end it was
17 only in 1971, and thereafter, in the last decade where
18 we have observed 10 years of sustained, rising prices,
19 associated with the fall in real average wages.
20 The uniqueness of these correspondences I don't
21 think can be ignored by reasonable men and women.
22 Thank you.
23 SECRETARY REGAN: Yes?
24 MR. WALLICH: Mr. Secretary --
25 SECRETARY REGAN: Dr. McCracken asked that he

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1 be next. We will let him speak.

2 Did you just want to comment on what Mr. Lehrman

3 said?

4 MR. WALLICH: Yes, I think it is pertinent.

5 It seems to me this chart can be interpreted

6 in various ways, it can be taken to show that we have had

7 stability under the gold standard, instability at other

8 times. At the same time if you look at what happens on

9 this chart we can see that we tend to be on the gold

10 standard until something happens, in 1861 when the Civil

11 War broke out and then we go off in 1932 when prices fall

12 sharply when we are in deep depression, after we go off

13 again in 1971, that inflation has become very severe and

14 the gold standard ceases to be sustainable, and so we

15 go off again.

16 What I see in the chart is that we have gone

17 to the gold standard when conditions have more or less

18 settled down, after the 1830s, after the Civil War and

19 that we go off when conditions become difficult.

20 So, I conclude that in some respects you can

21 say that the gold standard is a cause of the stability,

22 but you can also say just as well that it is the con-

23 sequence of stability. We have stability and it works

24 quite well, but then we get unstable for some reason and

25 we go off. You might just as well charge that to the gold

1 standard as to some other events.

2 So, I don't see much cause or significance to

3 be read into the periods of stability and the gold

4 standard and how they relate to each other.

5 MR. McCRACKEN: Mr. Chairman, I think I could

6 use as the title for my remarks a comment which Governor

7 Rice made, that money doesn't manage itself. I think I

8 would add a second suggestion, neither can anyone else

9 do it. At least that is one conclusion one might draw

10 from our material on the past.

11 I do have two specific points to make here,

12 one of them is that as I read the experience-- and here

13 I will not go very far back into history -- as I read

14 the experience of only the 20th Century or to be specific

15 the first two-thirds of the 20th Century, I don't see

16 very much of the evidence which suggests that the U.S.

17 economy was becoming more inflation-prone.

18 As a matter of fact, if you look at the two

19 decades or so, and I think it is quite proper to do so,

20 and eliminate the price level exposion because of World

21 War I, and then take the roughly two decades from 1948

22 to a little before 1968, but it is roughly two decades.

23 I did a quick calculation on this on my calculator, the

24 average annual rate of rise in the price level in those

25 two periods, one at the beginning of the century and the

1 other up until the demise of -- up until the outbreak of
2 inflation again, in the latter part of the '60s, the rates
3 of inflation were almost identical.
4 No evidence, in other words, that the economy
5 up to that point was somehow or other becoming much more
6 inflation-prone.
7 My second basic point is that we may see here
8 historically a rhythm, as it were, that we have had periods,
9 as is indicated by the chart here, we have had periods of
10 the operation of the gold standard in that period, some
11 we didn't have it. I don't see how anyone can look at our
12 experience in the last decade or so without concluding that
13 we do have to explore ways of putting the management of
14 economic policy on a somewhat shorter leash.
15 We can't look back at the record of the last 10
16 to 15 years and say, well, it is clear that nothing needs
17 to be done, we are doing all right.
18 Now, reasonable people can disagree on what this
19 leash might be, but I do, myself, attach some significance
20 to the fact that the rate of inflation -- that there
21 was an outbreak of it worldwide after the breakdown of
22 the Bretton Woods System. Now, I think the Bretton Woods
23 System has come to its end, but nonetheless for close to
24 two decades -- in fact, for almost a quarter of a
25 century it seemed to provide a reasonable degree of price

1 stability. Moreover, as I read the evidence about the
2 relationship between inflation and measures of real
3 welfare, real income or per capita output, they are really
4 the same thing, apart from relatively short periods, I
5 don't see very much in the evidence to suggest that we
6 gained by accepting yet a little more inflation, and as
7 a matter of fact, I see a good deal of evidence that we
8 lose.
9 Therefore, I do think this Commission is
10 entrusted with time to explore ways by which constructively
11 we can -- well, to use my figure of speech provide a
12 little shorter leash in the management of policy or
13 impose a little more discipline on the process without,
14 to quote Bryan, "putting us on the cross of gold".
15 I don't mean by that that I am necessarily
16 voting for the gold standard, I am not committing myself.
17 (Laughter.)
18 SECRETARY REGAN: Congressman Reuss.
19 CONGRESSMAN REUSS: Mr. Chairman, Congressman
20 Paul a few minutes ago referred to the publication "Hard
21 Money News" published by the Committee to Establish the
22 Gold Standard and referred to charts and said that it had
23 caused the publication to be distributed to the members.
24 I would point out that on page 5 it says, "To cite
25 Paul Adolph Volcker as a man whose word is to be trusted

1 is an insult to the intelligence of an economically aware
2 person. He is a proven liar".
3 Also on page 5, "Chairman Fauntroy of the
4 Domestic Monetary Subcommittee is lying". On page 6, this
5 should interest you, Mr. Chairman, "If Secretary Regan
6 does not want to be quoted in this paper, we suggest that
7 he leave public life". On page 8 --
8 (Laughter.)
9 CONGRESSMAN REUSS: On page 8 --
10 SECRETARY REGAN: By the way, Congressman, my
11 wife joins in that.
12 (Laughter.)
13 CONGRESSMAN REUSS: On page 8, we hear about
14 Montagu Norman, head of the Bank of England and Benjamin
15 Strong, of Federal Reserve Bank of New York, and it is
16 said of a meeting of theirs "There are two interpretations
17 of this, one that they had a homosexual relation, which
18 I don't particularly buy; and two, the more compelling,
19 that they were both tools of the J. P. Morgan empire".
20 And so on and so on. I would simply ask members to confine
21 to the absolute minimum the scurrilous matters that we
22 put into the record of this hearing.
23 CONGRESSMAN PAUL: Mr. Chairman, I would like to
24 mention something, I think that it would not be proper
25 for you to make those quotes and associate my name with

1 that because I think to quote statistics, they came from
2 the U.S. Bureau of Labor Statistics. If there is an
3 answer to the statistical analysis, I think that would be
4 a more proper, and more intellectual, academic exercise.
5 CONGRESSMAN REUSS: You passed out the copies
6 consisting of 10 pages of this publication to the
7 committee.
8 CONGRESSMAN PAUL: I did not.
9 CONGRESSMAN REUSS: You did not? Well, who
10 was the passer out?
11 CONGRESSMAN PAUL: You will have to answer that,
12 I don't know.
13 To associate me with that, I think, is an attack
14 on my character and I do resent it. And I think I deserve
15 an apology.
16 CONGRESSMAN REUSS: Let's find out who the
17 inserter into our record of this little bit of scurrility
18 is.
19 SECRETARY REGAN: Would you identify youself,
20 sir?
21 MR. KAPLAN: My name is Howard Kaplan, I passed
22 them out.
23 CONGRESSMAN REUSS: Do you know this man, Dr.
24 Paul?
25 CONGRESSMAN PAUL: I have met him.

1 CONGRESSMAN REUSS: I think we have discussed it
2 enough.
3 CONGRESSMAN PAUL: No, I think I would like to
4 make one more statement. I think it must be very clear
5 to the record that it was an attack on character, rather
6 than an attack on facts. The facts remain, it remains to
7 be seen that if the facts can be reputed, we should deal
8 with it as an intellectual matter and not with attack on
9 character.
10 SECRETARY REGAN: We will notice this.
11 Another comment, Senator?
12 SENATOR SCHMITT: Yes. Mr. Secretary, I was
13 intrigued some years ago, soon after I arrived in the
14 Senate by support of the study that I believe Congressman
15 Reuss, I believe your committee did, and extensive study
16 of the relationship between the rate of growth of the
17 money supply and the rate of growth of the gross national
18 product.
19 If I am not mistaken one of the conclusions of
20 that study was what I hope everybody agrees is true, and
21 that is if you really take a careful look at those two
22 parameters, the rate of growth of the money supply and
23 the rate of growth of the value of goods and services
24 within the economy, that when you have periods of price
25 stability, those two rates of growth are essentially the

1 same. Where you do not, they have diverged and historical-
2 ly, the amount of divergence, that is the amount of
3 inflation or deflation is almost a one-to-one correlation
4 with that divergence. You have to shift the curve by --
5 in moderntime probably by about 18 months and in older times
6 I don't know, but it is not a time correlation, it is a
7 factual correlation that requires a shifting of those
8 curves.
9 And I think it is important as we think about
10 the historical lessons to be learn, and I suspect, Dr.
11 Schwartz, if we went back and looked at those two parameters,
12 the rate of growth of money supply and the rate of growth
13 of goods and services, that we would find a fairly close
14 correlation, no matter what standard we were on.
15 And that inflation or deflation is very clearly
16 the result of that divergence. One of the items that I
17 hope this Commission can be thinking about as it explores
18 whether gold can be a part of our monetary future again,
19 or not, is more basically how do we exert the kind of
20 discipline necessary to keep those two parameters from
21 diverging, at least from diverging on an inflationary
22 trend. Because I suspect that we would find that where
23 such as after the Civil War, where we had a deflationary
24 period, but with high output, and I believe also a high --
25 an increase in real per capita income, that we would not be

1 too dissatisfied with that kind of a situation, could it
2 occur again.
3 DR. SCHWARTZ: Well, I am not so sure about that.
4 I think when the prices are on an upward trend, or on a
5 downward trend, that is a cause for political contention
6 in this country. I don't think we should opt for a known
7 inflationary pact, because I think it creates problems
8 in the same sense that inflation does, but it distributes
9 it differently.
10 SENATOR SCHMITT: I am not suggesting that we do,
11 but certainly I think in terms of creating price stability,
12 it seems to be the general concensus here that that is
13 what we would like to do -- exerting the kinds of dis-
14 cipline necessary to keep those two rates of growth more
15 or less equal, properly spaced. It would be a tremendously
16 worthy aim of this commission.
17 SECRETARY REGAN: Congressman Neal.
18 CONGRESSMAN NEAL: I think Senator Schmitt has
19 begun to make the point that I wanted to make. I think it
20 is important, and I note in the study that I tried to do
21 over the last several years, the charts that have been
22 most impressive to me have been those that demonstrate
23 that during those periods when we have had moderate and
24 slow and predictable growth in the money supply, however
25 it was backed or so on, have been those periods when we

1 have had with a time lag, predictable and stable economy,
2 full employment economy and what has been characterized
3 as a very healthy economy for all of our citizens.
4 And has been, if I understand correctly, the
5 motivation behind the establishment of this commission
6 it is to find the conditions which will most aid us in
7 producing that kind of non-inflationary full employment,
8 predictable economic condition for our country that we
9 have experienced at times in the past. And there are
10 those who think that the return to the gold standard
11 is one way of getting there, there are others who think
12 there are other ways of getting there.
13 And I would just hope the commission would not
14 limit itself to trying to achieve this goal, which I
15 think we all agree on, or limit ourselves to the idea
16 of gold because I think there are some other charts that
17 we could introduce that would be helpful to us in reaching
18 that same goal.
19 SECRETARY REGAN: Thank you, Congressman.
20 Governor Partee.
21 MR. PARTEE: Mr. Chairman, I just wanted to
22 speak to Anna's paper and charts that she distributed.
23 I think that listening to the earlier conversation, I
24 think that I would conclude on the basis of this very
25 sketchy presentation that the last is the best overall

1 performance the economy has had since the chart started
2 in 1800.
3 It is true, I think, that because -- not only
4 because of reasonable price stability, although I must
5 say in the '50s I think many people were very concerned
6 about inflation, but also if you look at the second chart
7 it seems to me that the behavior in per capita income has
8 been on the whole more stable and more satisfactory over
9 this period than any time earlier and this goes back to
10 1870.
11 Let me point out on that second chart you
12 show a decline, a level of decline back toward a trend,
13 that has rather significant implications, that means
14 decline in per capita income year by year. And I see,
15 for example, although it looks like you are just returning
16 to the trend, that 1880 to 1900 was a period where almost
17 continuously per capita income was on the decline, that
18 was a difficult period for the country and I'm sure a
19 very difficult period to get through.
20 I might also say on the first chart I thoroughly
21 agree with the earlier comments made that one has to be
22 somewhat doubtful about the productive results of the
23 declines over the same periods in that price line.
24 The period from 1860 into the Civil War, to
25 1900 when, according to this the price level dropped by

1 more than 50 percent over a sustained period and was one
2 that was marked by many financial panics, wholesale
3 failures, widespread unemployment, great difficulty in the
4 country and I think we should keep that in mind.
5 By comparison, it seems to me that this post-war
6 blocked in section labeled Bretton-Woods is the best
7 performance. But the fact that it is blocked in and
8 labeled Bretton-Woods somehow suggests that Bretton-Woods
9 accounted for it and I don't think that that follows.
10 I have always been concerned with cause and
11 effect and growing cause and effect relationships from
12 very simple comparisons of numbers. That by the way,
13 extends to the comments of the money supply, such as
14 the one Congressman Neal just made. And it seems to me
15 clear, having at least been alive and witnessed and been
16 an analyst of this period that the Bretton-Woods was not
17 a very real consideration.
18 I would think that what we would like to do
19 would be to return to something close to the experience
20 of 1948 to 1965, but I am not at all sure that the return
21 to a Bretton-Woods kind of system, or a return to the
22 gold standard would contribute to that.
23 Nevertheless, I think that that is the subject
24 of the commission, rather than a marginal monetary return
25 of the kind that the Congressman was suggesting.

1 SECRETARY REGAN: Congressman Wylie.

2 CONGRESSMAN WYLIE: Mr. Secretary, I found
3 Dr. Schwartz' historical account very interesting and I
4 might be more inclined to vote for some sort of gold
5 standard if we could fix a price which would remain
6 fairly stable, vis-a-vis the economic situation as we
7 now find it.

8 But in listening to you and others who have
9 commented here it seems to me that we are in a different
10 period right now than anytime in our history. We have
11 a period where the price of gold has gone from $44.20
12 an ounce to over $800 an ounce.

13 And I was particularly interested in her observa-
14 tion about when we went to the gold standard at various
15 times the price of gold was fixed, vis-a-vis the dollar
16 and vis-a-vis silver, so many grains of fine gold per
17 dollar and that ratio was about 15 or 16 to one compared
18 to grains of fine silver per dollar. Today I think that
19 ratio is somewhere in the neighborhood of 45 to 1 or
20 50 to 1.

21 So, we possibly could use that as a guideline,
22 but I renew my anxiety which I expressed at a commission
23 meeting that if we do go to some gold standard, or some
24 convertibility of dollar to gold, that we may have to
25 take other countries along. And given the volatility of

1 the international economic markets as we see them, my
2 guess is that it would be very difficult to arrange some
3 sort of an agreement with the likes of the Soviet Union
4 which has a considerable amount of gold, or South Africa,
5 or Red China, or Brazil, France or the United Kingdom.
6 I would like someone to address that. As I say,
7 I might be inclined to do it and it sounds pretty good on
8 the face of it, except that I cannot get over this big
9 hurdle that I had at the first meeting as to how to fix
10 the price of gold and how we maintain some sort of an
11 agreement for stability.
12 SECRETARY REGAN: Thank you, Congressman.
13 Mr. Costamagna.
14 MR. COSTAMAGNA: Mr. Chairman, I have just a
15 brief comment I would like to make in relationship to
16 this chart. Looking more closely at the period of the
17 '60s again, would appear to be a very stable period. It
18 appears to me that the pressure began to build approxi-
19 mately in '65 or '66 and then by 1968 we were faced with
20 the bill in 1973 that removed the 25 percent coverage
21 that existed at that time.
22 And I would just like to refer to the Congress-
23 ional Record, I would be happy to make a copy of this
24 available later.
25 SECRETARY REGAN: Watch the distribution, will

1 you?

2 MR. COSTAMAGNA: Pardon me?

3 SECRETARY REGAN: I said just watch distributing

4 that particular publication.

5 (Laughter.)

6 MR. COSTAMAGNA: I would just like to refer

7 to this, especially the remarks that the late Senator

8 Dirksen made at that time in relationship to passage of

9 this bill, it is very fascinating. Many of the things

10 that we have been discussing today appear to me to have

11 been anticipated as early as 1968. In 1968, as I read

12 history and as I read this chart, really gave birth to

13 1971, and that's all I would say.

14 SECRETARY REGAN: I think we have pretty well

15 gotten through the history of gold.

16 We have a couple of other items on the agenda.

17 Should we take a five-minute break and then

18 come back? We have about another hour or so to go. I

19 suggest a five-minute break and then we will come back.

20 (Whereupon, a short recess was taken.)

T3/S1 21 SECRETARY REGAN: The next item on our agenda

22 is a review of recent United States economic experience

23 from 1971 to 1981, a period -- a paper that was presented

24 by Dr. Paul.

25 Would you please take over, Dr. Paul?

1 CONGRESSMAN PAUL: Thank you, very much, Mr.
2 Chairman.
3 The paper is not a complex paper, it is more or
4 less an analysis of what has happened since 1971. This
5 is a special period for us, uncharted waters for the
6 United States of America. We have the currency that we
7 have today, so I believe the events that have occurred are
8 very, very significant and they are worthy of special
9 study.
10 I think it is appropriate in this follow-up
11 study on the past history of our monetary system in
12 this country, but it is today -- the condition that we
13 have today we have essentially managed currency.
14 And the general analysis of what happens when
15 we depreciate a currency and have inflation, we usually
16 analyze this in terms of prices. I, for one do not think
17 this is the best way, but I think it is the conventional
18 way and I describe that in this little article by address-
19 ing the subject of prices, even though that is the
20 secondary problem. The first problem is the money itself.
21 Here I will just go over it very briefly because
22 I think most of you have a copy of this, it essentially
23 shows that during this period of time, of '71 to '81,
24 the consumer price index has seen an increase of 137 per-
25 cent; money supply up 186 percent, but if you take M-3

1 it is even worse than that, M-3 I believe during this
2 period of time was up 2.8 times, so it is much higher
3 if you are inclined to use larger Ms.
4 Interest rates, of course, is a big issue on
5 today's agenda and today's markets, they are very high
6 and if you measure those just in percentage increases
7 there is a 271 percent increase; bankruptcies are up
8 75 percent, unemployment is up 24 percent; savings down.
9 People aren't even trying to save, it is not beneficial
10 to save.
11 And, again, I hesitate to bring up the subject
12 of real wages, real wages are down. And I think this is
13 the key, this is what people are really concerned about,
14 they could care less about M-1s and M-2s, the gold
15 standard and paper, but they care about what they are
16 getting our of life and what they are getting in return
17 for their work and effort. And they are not getting
18 what they deserve, they are getting less now than they
19 have ever gotten.
20 As best I can determine from all these statistics,
21 they are getting less now than they have ever gotten in
22 the history of our country. And I think there is a
23 reason for it, and I think it is very specific and I
24 think this is the proper place to be discussing it
25 because I do believe it is related to real money, which

1 is gold.

2 Even though we address this subject so often in

3 terms of prices, I would like to take a slightly different

4 slant on this because it is said so often in some of the

5 papers that have been circulating that the assumption is

6 that the whole purpose of what we do and what the money

7 is for is to maintain price stability. That seems to be

8 the objective.

9 And I, for one, would like to introduce a

10 challenge to that because in my understanding of money

11 that is not the ultimate objective. The ultimate objective

12 is to have honesty in money, rather than a stable price

13 level. It just happens that honest money gives more

14 stable price levels than paper money, historically proven.

15 But the whole goal is not price stability.

16 The reason why I concern myself about the unit

17 of money being honest is that I think there are a lot of

18 people who stand to benefit when you have honest money,

19 when you grant the power to literally create money and

20 depreciate currency this is literally the power to steal.

21 If I have $500 in the bank and somebody doubles

22 the money supply, I have just lost $50 and that is a

23 moral issue. I have been stolen from and that is why

24 people are concerned because their savings are being

25 stolen from, their insurance policies are being stolen

1 from.

2 So, it becomes the issue of theft and honesty.

3 So, what is the motivation for all this? I think that

4 is important. Why do we depreciate the currency? Is

5 it accidental? It couldn't be accidental, because it

6 has to happen for a reason and there is a very specific

7 reason.

8 I believe there are people who are misinformed,

9 who believe that inflation creates economic growth and

10 it is beneficial to the whole. But I think they tend to

11 be on the small numbers.

12 I believe there are individuals who are

13 able to benefit from inflation. I think government is a

14 great beneficiary as they pay their bills with depreciated

15 currency -- this is a tremendous boom to the politician

16 who can give away and pay for the bills with printed money.

17 To me this is a dishonest method of paying the

18 bills in that the politician is responsible for this

19 destruction of money.

20 I believe the banks have an interest in

21 inflation. I don't have banks come rushing to me and

22 saying, "Please stop the inflation, I want honest money".

23 They know that when we have a deficit and the fed responds

24 and creates dollars to pay the bills, they can take the

25 dollar and make six more out of it. No wonder it is

1 beneficial and no wonder the momentum is so strongly
2 against hard money and for fiat currency.
3 And also any individual who can get hold of the
4 money before it depreciates, whoever, has a reason to
5 benefit, so there is a transfer of wealth.
6 I have to admit that by understanding inflation
7 I can benefit from inflation. And most of us in this
8 room I bet have done it with some respect to inflation.
9 The average man in this country doesn't it, the average
10 man suffers the consequences because if we have a hard
11 asset and it appreciates in dollar terms somebody else
12 lost and it is usually the wage earner. He loses because
13 statistics shows he lost 15 percent last year. That is
14 the important thing about statistics, but the most important
15 thing is that we indict the idea, the idea is that dis-
16 honest money. And the only solution is honest money.
17 SECRETARY REGAN: Thank you, Congressman.
18 Jerry Jordan.
19 MR. JORDAN: A few comments in response, I
20 agree that inflation creates transfers, but inflation
21 does a lot of other things that are very negative. And
22 I feel very strongly that inflation should be eliminated,
23 not merely as a sort of value judgment on my part, but
24 because of what it does to society, both the real standard
25 of living ability and also the potential for social device.

1 So, we have to be careful about terminology.

2 What is being inflated is the quantity of money,
3 not the price level. We measure what is going on by the
4 increase in the price level, a basket of goods going up
5 in price relative to the way we hold our currency, dollars
6 in our case, simply as a way for measuring what is going
7 on.

8 We have to keep in mind the decline in the
9 purchasing power of a nation's currency that is the
10 problem. You can have inflation, a decrease in purchasing
11 power of money that in part does transfer wealth from
12 creditors to debtors when you have an acceleration of
13 inflation, with the government being the biggest debtor
14 around by far. Inflation in this country and historically
15 in a lot of country have been a way of transferring the
16 wealth from the private sector, from the individual, to
17 the government sector.

18 And in that sense you might be able to use the
19 term "theft", it is an unvoted for tax increase. The
20 government has more resources at its command and the
21 private sector, individuals, have less. But there is
22 more to it even than that, Aristotle said that money was
23 veil, it was neutral. I don't believe that. I think
24 that the quality of money, in the sense of the stability
25 of the purchasing power, the medium of exchange function

1 of money serving to help individuals to make better
2 decisions in terms of economizing on the use resources,
3 gathering information and to conduct transactions, and
4 that the more stable the purchasing power of money over
5 time, the less shoe leather that goes to economizing on
6 money, we call it the hyper-inflation in the early '20s.
7 But nowadays it is not shoe leather, it is computer time,
8 it is accountants, it is financial managers of all types
9 to create ways to protect people against inflation, or to
10 get ahead of inflation or even to, as the popular books
11 say now, to profit from inflation.
12 That is socially wasteful to devote resources
13 to that purpose. So, price stability should be an
14 objective. But I think there is a difference here, we
15 are sort of dancing around as to what we mean by price
16 stability.
17 In Congressman Paul's list he had long-run price
18 stability for the last objective. And I guess I would
19 agree with that as long as short-run price stability is
20 the first objective. It is really the variance of the
21 rate of inflation year in and year out that is my
22 objective.
23 If somebody offered me two choices of inflation
24 year in and year out at 2 percent per year, which is about
25 the measure of quality -- improvement of quality of

1 goods and services or the best we can do to measure it
2 with our price indices, versus a period where we would
3 have several years of 4 or 5 percent inflation followed
4 by several years of 4 or 5 percent deflation.
5 And we say that would average out to be zero,
6 five years of plus 5 and five years of minus 5, versus
7 year in and year out, I would take the mild creeping
8 inflation. I believe that it wouldn't esclate, as being
9 preferable to 10 years of zero, if that 10-year had
10 sharp increases and decreases in the price.
11 So, the challenge to us is to find something
12 that works better than in much of our history of this
13 long period that Dr. Schwartz referred to, maybe worked
14 at least as well as what happened in the '50s and early
15 '60s, even though we may not be able to agree why that
16 worked as well.
17 We can, I think, agree as to why it broke down
18 because once the disciplining forces on fiscal policy
19 certainly broke down in the mid-1960s, once the gold
20 cover on currency got in the way, became an inconvenience
21 -- there were problems with the gold pool in London, then
22 there was a problem with the exchange rates and the
23 challenge to our gold standard in the early '70s, we
24 simply weren't willing to be disciplined. So, we abandoned
25 the system and, I guess I would agree with Governor Partee,

1 but I wouldn't say that the period of the '50s and early
2 '60s was necessarily as good as it was because of Bretton-
3 Woods, it was as good as it was because we had relative
4 stability in the monetary growth and because we had a
5 very desirable fiscal policy in that period.
6 We did not have year in and year out massive
7 deficits in the federal budget, but it did break down.
8 And so can we design a system of monetary discipline that
9 will not be abandoned once it gets in our way, but that
10 also does not cause periodic increases in the price levels
11 to be followed by equal periods of decline in price levels,
12 or deflation?
13 I don't think that that would be desirable either.
14 I think it would be possible for us to actually make
15 matters worse than what has been in some of our recent
16 periods of history -- not worse than it has been in the
17 last 10 years, I hope.
18 As far as the wealth losses in the '70s, while
19 I believe that monetary instability and inflation has
20 absorbed resources, it has caused the standard of living
21 not to rise as rapidly as it otherwise would have, it
22 has caused an element of social devisal. We also
23 have to be careful of interpreting that period and when
24 we look at what the oil shocks did, the oil price increases
25 were massive once and for all wealth transfers, away from

1 us and other oil consuming countries to the oil exporting
2 countries. That was a real wealth transfer, they can't
3 be richer unless we are poorer.
4 And we have to separate the effects of our own
5 inflation and what we did to ourselves with our monetary
6 and fiscal policies, from these other elements and not
7 attach it all to our monetary instability.
8 SECRETARY REGAN: Thank you, Jerry.
9 Governor Wallich.
10 MR. WALLICH: Mr. Secretary, I want to agree
11 above all with Congressman Paul in his use of the words
12 "honest money". I think that is a critical distinction
13 whether one thinks of inflation as a moral problem or
14 merely as a financial one. I think it is basically a
15 moral problem, that is why it is so important that we
16 come to grips with it, that it has this moral connotation,
17 it becomes very apparent when you look at the injustices
18 and frauds that are perpetrated by inflation.
19 As I have said on other occasions it is like
20 a country where nobody speaks the truth, we make contracts
21 knowing perfectly well that these contracts are not going
22 to be fulfilled in the literal language of the contract.
23 Now, an economist can talk about anticipating
24 inflation, first you can never be sure that it is
25 correctly anticipated; second, most people cannot

1 adequately defend themselves, certainly not under our
2 tax system where the inflation premium supposedly protects
3 the saver is taxed.
4 So, I think anticipated inflation is really of
5 no help at all, we might just as well recognize it is
6 unfair and unjust and unanticipated.
7 Now, as I come to the paper of Congressman Paul
8 I do begin to see things a little differently, he sees
9 this period of the 10-years under the paper standard as
10 a disaster and differing from what went before. Well, it
11 surely was a very poor period, but let's remember it did
12 not begin perfect stability. We didn't end the gold
13 standard and then launch ourselves the breaks of progress.
14 It was that the gold standard had not prevented the
15 inflation that began in 1965, gaining momentum and
16 finally it was the inflation that killed the gold standard,
17 and forced us off.
18 So, there were much deeper causes than merely
19 the closing of the gold window in 1971.
20 And, finally, I would like to draw your attention
21 to the numbers that Congressman Paul has on page 2, where
22 he shows the monetary base in M-1-A and then on to the
23 other aggregates. What strikes me is that the rate of
24 growth of these aggregates was very different, the base
25 rose from 77 to 163, which is a little more than 100 percent

1 over 10 years, which if I do it right in my head, is like
2 something like 7 percent a year. M-1-A rose from 221
3 to 365, that is a little more than 50 percent and if I
4 do it right in my head, is it somewhere between 4 and 5
5 percent per year.
6 I am not saying that either of these numbers is
7 good, what I am saying is that different monetary targets
8 pursued since 1971 would have produced very different
9 economic effects. Had, for instance we had tried an
10 M-1-A target in 1971, we would have to conduct an only
11 mildly restraining monetary policy in order to stay on
12 that target, granted that 45 percent would have been too
13 high.
14 Had we had a monetary base target, we would
15 have had to pursue a much more restraining policy in order
16 to achieve what one would consider a reasonable rate of
17 growth.
18 I make these points because I want to draw
19 attention to the great difficulty of specifying in advance
20 any rate of growth with any particular monetary aggregate.
21 SECRETARY REGAN: Thank you, Mr. Wallich.
22 Congressman Wylie.
23 CONGRESSMAN WYLIE: Mr. Secretary, I think this
24 might be a good time for me to ask a question, because
25 I notice that Dr. Paul has introduced a bill which provides

1 for gold coins. And for Americans who have an infinity
2 for owning gold, may I ask you, Mr. Secretary, what has
3 been the experience with reference to the so-called
4 one ounce and half ounce gold medallions, are they
5 available?
6 Are Americans buying them?
7 SECRETARY REGAN: Subject to correct by members
8 of my staff, off the top of my head, Congressman, we do
9 have gold medallions for sale. I don't think the sale of
10 them has overwhelmed us, in fact, I think it has under-
11 whelmed us. I think we have quite an inventory of gold
12 coins, they have not sold well.
13 SENATOR SCHMITT: Congressman, if you would
14 yield. We have done a little bit of investigation on
15 this and it turns out to be quite difficult to buy them.
16 Mr. Secretary, we are making some recommendations
17 to you to try to clean up that particular problem.
18 SECRETARY REGAN: For a person who formally
19 thought he knew something about marketing, I would be
20 interested in your suggestions.
21 SENATOR SCHMITT: There is a regulatory overhead
22 that is the problem.
23 CONGRESSMAN WYLIE: You say there is a problem
24 buying them, what do you mean?
25 SENATOR SCHMITT: I am not an expert either,

1 except to know that you don't just walk up to the window
2 and buy a U.S. government gold coin. You have to apply
3 in advance, as I recall, and pay in advance -- you have
4 to do that, too, before you get the coin.
5 SECRETARY REGAN: That is a thing called a
6 cloak.
7 SENATOR SCHMITT: It is easier to buy foreign
8 gold coins than it is to buy U.S. ones.
9 CONGRESSMAN WYLIE: I suggest on the 100th
10 anniversary of George Washington's birthday and the 100th
11 anniversary of Franklin Roosevelt's birthday, maybe we
12 ought to come up with some sort of gold medallion and
13 market it for those people who would like to own gold.
14 SECRETARY REGAN: It is my understanding --
15 again, from the top of my head -- Mr. Wylie, that we
16 are going to have a half dollar, I believe, with George
17 Washington's likeness on it commemorating his 250th
18 birthday and that has been authorized by the Congress.
19 CONGRESSMAN WYLIE: A half dollar gold piece?
20 SECRETARY REGAN: No, no, silver.
21 CONGRESSMAN WYLIE: That is correct, that went
22 through our Banking Committee, we do have a half dollar.
23 Would that satisfy Dr. Paul?
24 SECRETARY REGAN: Let me add one other thing,
25 just for purposes of this discussion. There is a

1 memorandum circulating in Treasury now that the Treasurer
2 of the United States may be counted as the lay person on
3 -- and we have been in discussions with the White House
4 about it -- a proposition has been put to Treasury by
5 the organizing committee for the Olympic Games, a Los
6 Angeles group, this is a private group, no government
7 money involved in it, they are the ones that have the
8 rights to the TV and things of that nature, for putting
9 on the 1984 Olympics in Los Angeles.
10 They have proposed to us a series of coins, some
11 silver, one gold coin, be minted. These be uncirculated
12 coins. They would have a numismatic value for coin
13 collectors and would sell at a premium and that premium
14 be shared by the federal government and by the Los
15 Angeles Olympic Committee on behalf of the olymic athletes,
16 and their training, and for putting on the games.
17 That probably will be introduced in this
18 legislation in the near future.
19 CONGRESSMAN WYLIE: That would be our coin?
20 SECRETARY REGAN: And the proposal as it stands
21 now -- these would be currency. Now, these would be
22 silver and gold coins, $5, $10 denominations in silver,
23 probably $50 and $100 gold pieces, at the current market
24 price with a premium.
25 SENATOR SCHMITT: Mr. Secretary, the only point

1 that I am making and make in the legislation that I have
2 introduced, is that we ought to make it simple. And it
3 shouldn't take six weeks for somebody to buy a gold coin,
4 that is basically what apparently it takes. There are
5 roadblocks that Treasury has introduced into the purchase
6 of these coins and apparently in the legislation you are
7 considering for the olymic medallions there would be
8 additional difficulties in buying gold.
9 And if it is difficult to buy gold in this
10 country, somebody is going to buy it where it is easier,
11 because that's the way people are.
12 The olympic coins would be actual coins, the
13 others are medallions, and obviously don't circulate.
14 SECRETARY REGAN: Mr. Coyne?
15 MR. COYNE: The distinction as I see it, the
16 numismatic coin, which is produced in relatively small
17 quantities at prices that are not in anyway related to
18 the bullion value, as against what is generally called
19 a bullion coin, which is in the same marketing category
20 it would seem as the United States olympic medallion.
21 The interesting thing the commission may wish
22 to note is that foreign countries are marketing these
23 coins in the United States and as a result of which they
24 are selling in the United States millions of ounces of
25 gold, as part of what appears to be a private monetization

1 program on the part of certain people in the United States.

2 CONGRESSMAN WYLIE: Why are so many Krugerrands

3 being sold in this country and not the medallions?

4 MR. COYNE: The Krugerrand is in a sense a one-

5 ounce baby bullion bar in the form of a coin and marketed

6 as such. The U.S. medallion is not sold, it really must

7 be bought. The distinction would really be --

8 CONGRESSMAN WYLIE: It is a question of marketing,

9 they both have gold.

10 MR. COYNE: The Krugerrand is minted by the

11 Royal Canadian Mint and a number of others, banks are in

12 fact marketing these products in the United States in a

13 very substantial way and making them available to American

14 citizens at a very modest premium over the gold bullion

15 price and despite the fact that the U.S. medallion is

16 also available at a very small premium over the price.

17 It is an American coin and will have great antique value

18 at some distant point in the future, we are not talking

19 about 1792.

20 So, from that point it would seem clear that

21 these coins could be sold in very substantial quantities

22 in the United States, if its availability were made on

23 any kind of comparable basis to the way other central

24 banks around the world are marketing their gold in this

25 country and in other European and Far Eastern countries.

1 SECRETARY REGAN: Dr. Schwartz.

2 DR. SCHWARTZ: Mr. Coyne referred to private
3 monetarization of gold, is there any impediment in the
4 way U.S. gold is currently is written that would prevent
5 private monetization of gold? I believe there is a
6 firm that is selling gold coins that it mints itself,
7 but anyone can write contracts specifying payment on
8 gold coins, but you can have the kinds of contracts that
9 would be illegal in 1933 and restore the legality in
10 1977.

11 If there is this great public demand for a
12 gold standard why do we not see evidence of it in private
13 markets?

14 CONGRESSMAN PAUL: I believe there is a very
15 specific reason for that, it is because for the monetary
16 system to remain intact we must use force and that's why
17 you have legal tender laws. You compell people to pay
18 their debts in depreciating federal reserve notes for
19 certain people's benefit, so there is no encouragement
20 to use gold coins. And that is why Chalmers asked me what
21 my opinion was.

22 I think this is a very good idea to allow coins
23 to be made, it should be a coin, not a medallion, it
24 should be official. It should liken not on the compulsion
25 and the prohibitions against paying debt in gold, this is

1 the monopoly that I think has been so detrimental. And
2 also we have a law on the books today which is a disad-
3 vantage to us, and that is that there is a law on the
4 books that says that the gold could be confiscated and
5 taken from the American people -- the same power that was
6 in the hands of the Secretary of the Treasury in 1934 is
7 today. And they could take it in at $400 an ounce and
8 tomorrow sell it for $1,000 -- they took it in in the '30s
9 at $20 and remonetized it at $35 and at a great loss to
10 a great number of American people.
11 So, there are very specific laws that do not
12 permit the development of a real gold standard. We don't
13 want a law that says -- at least I don't -- I don't want
14 a law that says that thou shall use and mandate a gold
15 standard. We want competition, we want fairness and
16 those are the specific laws that I say we need to remove.
17 DR. SCHWARTZ: Are you in favor of national
18 coinage of gold, or are you advocating private coinage
19 of gold?
20 CONGRESSMAN PAUL: I would favor private
21 monetization of gold with the condition that it could
22 be used for the payment of debt. If the proposal was that
23 you needed to relinquish the gold and demonetize the system
24 and return the gold to the American people, the appropriate
25 way is to make quarter ounces, half ounces and ounces so

1 that the American people can have it and have it dumped
2 on the market and sold in the gold bullion form as our
3 Treasury did a few years back, the central banks and large
4 investors buy it.
5 So, I would say that the gold can be returned
6 in small amounts and let it stand on its own merits.
7 CONGRESSMAN NEAL: Didn't we pass legislation
8 just recently that made it clear that there was no pro-
9 hibition against making contracts payable in gold? In
10 fact, not discourage in anyway the use of gold in any
11 particular way, that an individual might use?
12 CONGRESSMAN PAUL: The gold contract is
13 legalized, but if a person comes today under the present
14 understanding of legal tender laws and insisted that you
15 pay so much of your debt in a depreciated federal reserve
16 note they can do it and it can be upheld in the courts.
17 It is a very, very clear constitutional and court opinion
18 that was established in the late 1800s after legal tender
19 laws were written during the Civil War period.
20 We have -- we did in the House pass the
21 confiscation law, but it did not pass in the Senate, so
22 you may recall that we did address that and said that
23 the government should not ever have the power to
24 confiscate gold.
25 SECRETARY REGAN: May I set the record clear

here, the Secretary of the Treasury does not have authority to take people's gold. That was repealled in 1975.

CONGRESSMAN PAUL: I will do some checking, but I will challenge that.

SECRETARY REGAN: That is my understanding and the Secretary has no intentions of doing that.

(Laughter.)

Paul McCracken has sat here very patiently and raised his hand -- Paul, would you like --

MR. McCRACKEN: My comment has nothing to do with what you are talking about.

SECRETARY REGAN: His comments have nothing to do with what we are talking about currently -- maybe we could finish this with Mr. Coyne and Mr. Costamagna.

MR. COYNE: I am hearing what amounts to a clear concensus among us t hat inflation -- I am hearing a clear concensus among everyone at this table that inflation and price instability are bad. And by implication that prosperity and high employment is good.

And I put that in my mind here -- how could the use of gold, I have been asking myself in the monetary system substantially aid us in fighting these evils? How can it help us in fighting inflation and price instability and dishonest money?

I hear the phrase gold standard and I must

1 confess that I really don't understand what it means.
2 And in a profound sense I think the institution of a fixed
3 price between gold and the dollar, institution of fixed
4 gold standards would somehow allow us to achieve price
5 stability and to cure the problems of inflation.
6 I also see that in fact we do not have a fixed
7 price between the U.S. dollar and foreign currencies.
8 And I think it is clear on a common sense basis that the
9 United States is not now in an overwhelming dominant
10 economic industrial position with the rest of the world.
11 I am asking myself what is the question that
12 this commission should be dealing with, how to reconcile
13 those. Do those three facts make sense in any reconcilable
14 way, fixed gold dollar price, number one; a variable dollar
15 for exchange price, number two, and this country's current
16 position as one very strange competitor in the international
17 world in terms of our country's productivity and true
18 economic accounting.
19 SECRETARY REGAN: I might say in answer to those
20 questions you raised, under item 2E, which is the -- we
21 have one more topic and then we will get to that -- that
22 is some of the future work of this commission. We want
23 to address those specific questions that you have just
24 raised in the course of this.
25 Mr. Costamagna.

1 MR. COSTAMAGNA: I have just two comments on
2 the discussion, one is in relationship to this medallion,
3 it ties in with a paper that I am going to submit today
4 for a future agenda, the question of convertibility.
5 Would the Treasury be willing to buy back the
6 medallions? In other words --
7 SECRETARY REGAN: You don't mind if I reserve on
8 that question right now?
9 MR. COSTAMAGNA: The question of convertibility
10 plays a role in coinage, the Krugerrand, the Maple Leaf
11 when a person wants they can convert them back.
12 SECRETARY REGAN: Into what?
13 MR. COSTAMAGNA: Into dollars.
14 SECRETARY REGAN: Is there a secondary market
15 for the medallion?
16 MR. COSTAMAGNA: That I don't know. That would
17 be the true test of a coin, would be its convertibility
18 back and forth.
19 I would inquire whether the medallion is salable
20 once a person has bought it, or is it just a collector's
21 item?
22 The second point, and this is a statistic I
23 came upon in preparing this paper, is that last year, 1980,
24 I would hope this figure can be confirmed or denied,
25 there was $1.9 billions invested in foreign gold coins.

1 And that to me seems to be a significant amount in terms
2 of our balance of payments as well, because Americans
3 apparently can't buy American coins, they have resorted
4 to buying foreign coins.
5 And this has an implication and a contribution
6 to the deficit in our balance of payments, and this
7 is something else to consider.
8 SECRETARY REGAN: Jerry.
9 MR. JORDAN: I am a little confused about the
10 reference to convertibility. In one sense as long as
11 there is a secondary or free market for something, you
12 would in a sense say it was convertible. In the case
13 of Krugerrands or other foreign coins -- Mexican coins,
14 or something -- is what you are referring to that you
15 can always sell them on the market in exchange for dollars?
16 MR. COSTAMAGNA: Yes.
17 MR. JORDAN: The question most people raise
18 about convertibility is that the federal government agencies,
19 the Treasury or the central bank are willing to exchange
20 some sort of paper money at a fixed rate.
21 Now, we didn't have convertibility during
22 the Bretton-Woods System because it was illegal for
23 Americans to hold gold, so we didn't have convertibility
24 for a different reason. But then you could have a system
25 where you have a free market for exchange between dollars

1 and gold, and you can say that is convertibility.

2 And I am not sure what role that has in the

3 monetary system.

4 MR. COSTAMAGNA: Convertibility is a word of

5 art. And I have been exploring this since our last meeting

6 it has developed certain fictions as the lawyers say

7 and those fictions are quite interesting. When we have

8 convertibility internationally -- there is international

9 convertibility and domestic convertibility. When we

10 have international convertibility, as you say, Americans

11 could not convert because it was illegal to own gold.

12 Then we had a period of time -- well, in a

13 sense we have a fiction again, we do have convertibility.

14 I can convert paper into gold today, if I wish, because

15 it is now legal. But internationally we do not have

16 convertibility because foreign currencies cannot be

17 converted into our American gold.

18 So, this is premature in a sense and that is

19 why --

20 SECRETARY REGAN: All right, let me break off

21 this discussion, time is slipping away from us.

22 Paul, would you like to --

23 MR. McCRACKEN: I have this final item, you had

24 better use the time for that.

T3/S2 25 SECRETARY REGAN: Let's go on. Dr. Schwartz,

1 can you briefly review that point for us?

2 DR. SCHWARTZ: I implicitly covered that paper,

3 that the rate of growth of gold output varies with the

4 real price that producers can obtain with an output.

5 There has been very substantial variation in the rate of

6 growth of output, gold output since 1800, periods of

7 declining rates of growth. They are not matched with

8 deflationary episodes in the price level and rapid rates

9 of growth of gold output that are matched with periods

10 of inflation.

11 The output of gold production since 1970 down

12 to the end of the century is that it will be declining

13 and we cannot look forward, given present knowledge of

14 the relation between the price of gold and the cost of

15 gold and present knowledge of the state of the gold

16 reserves of the world; we cannot look forward to gold

17 output except at a flat rate or a declining rate.

18 To me this is a forecast of inflationary effect

19 on the price level should we decide to return to gold.

20 In that regard, that is a very serious problem.

21 SECRETARY REGAN: Any comments on that?

22 (No response.)

23 SECRETARY REGAN: All right, we will pass on

24 to the next topic which is 2E. Now, there what we are

25 trying to do is to stimulate your thinking. We have put

1 down a series of topics, we are wondering whether this is
2 what you would like the staff to develop for you. In
3 other words, to develop papers along -- on these topics.
4 Do you have other topics on which you would like
5 to see us develop papers?
6 This will aid us in setting agendas for future
7 meetings as we go, so as to get through rather quickly.
8 Henry?
9 MR. WALLICH: It seems to me some data, not only
10 on gold production as we have here, but on the stocks
11 is important; and not just the official stocks but private
12 which gold is something like 50 percent, which gives the
13 U.S. something like one-sixth of the total official and
14 private stock.
15 I express this because the movement of gold,
16 the volume of gold -- the U.S. on the gold standard might
17 have to buy would depend of course not on current pro-
18 duction, but on the stock that exists everywhere in the
19 world and the inflation that we could get from having
20 to monetize a vast inflow existing, not merely produce
21 gold to be something which we hold.
22 SECRETARY REGAN: We will get those statistics
23 for you.
24 DR. SCHWARTZ: I am planning to produce a
25 statistical compendium with the report which will show

1 the statistical knowledge of stocks, monetary and non-
2 monetary, output and so on.
3 SECRETARY REGAN: Will you circulate those as
4 quickly as you can get them?
5 DR. SCHWARTZ: Certainly.
6 CONGRESSMAN PAUL: Mr. Chairman, I would like
7 to suggest a study paper on the history of parallel
8 currencies. It would be beneficial, for instance, I
9 believe Dr. Schwartz mentioned in her summary on the
10 history that during the Civil War gold did circulate in
11 the western part of the country, they dealt in the gold
12 currency and this is what prompted the legal tender laws
13 to make sure that debts were paid in greenbacks rather
14 than gold.
15 But it did exist at that time and I believe some
16 silver and some gold circulated through the Revolutionary
17 period and there maybe other examples. And I think that
18 would be worthy to our study because most of us, even
19 we who advocate a gold type of currency, recognize a
20 great deal of trouble from going from where we are to
21 where we would like to go.
22 And it is a possibility that permitting some
23 type of competition and allowing people to use another type
24 of currency might be advantageous and that would satisfy
25 some of us and yet do anything to disrupt and destroy the

1 system that we have.

2 So, I think that information would be of great

3 value to me, personally.

4 DR. SCHWARTZ: That is precisely why I asked

5 whether you would be in favor of private monetization of

6 gold coin, and that would be a dual currency.

7 CONGRESSMAN PAUL: We do have some problems, as

8 I suggested before, with prohibitions and also the fact

9 that if you have depreciating currency that prompts the

10 advantage to hang on to your appreciated currency --

11 it makes us hang on to the good currency and we use the

12 worthless currency. But if we did maximize the freedom

13 that we would like to have, I think it would not only

14 permit us to act freely, but it would be a challenge to

15 the money managers to do a better job.

16 So, I think a study of whenever this happened --

17 I am sure there are other examples in history that might

18 give us some insight into this.

19 SECRETARY REGAN: Paul.

20 MR. McCRACKEN: The suggested outline for the

21 report here strikes me as very good, what we need at this

22 point is some kind of a general road map, I would assume.

23 I would have two comments to make regarding

24 this, without in any sense suggest that I am quibbling

25 with words, the alternative monetary standard, if I were

1 to put that item in, would be something like alternative
2 modification of our monetary system, or something like
3 that.
4 What I had in mind is that the results of this
5 commission could be seen as anywhere along a wide spectrum,
6 ranging all the way from it doesn't need any change, it is
7 okay the way it is; to, I suppose at the other end, we
8 go back to the full fledge gold standard. But there maybe
9 intermediate suggestions that don't quite go to either
10 end of the spectrum, and that is the point of my suggestion.
11 The second suggestion is, I think in all of our
12 deliberations as to any change in our system we ought to
13 be quite explicit with the question of transition of
14 problems.
15 Congressman Wylie alluded to one question,
16 namely, if you were to go back to gold at what price?
17 You lifted the curtain on the stage that has a lot more
18 questions than even that, there are all kinds of problems
19 -- or at least we ought to face the fact that if this is
20 a part of a strategy or a return to price level stability,
21 what are the contemporary experiences, including inter-
22 national experiences suggest about the transition of
23 problems from getting where we are to where we would like
24 to be, you should argue one system versus another, to
25 be sure that you can get from one to the other.

1 SECRETARY REGAN: Thank you, Paul.

2 MR. LEHRMAN: One question that arises from the

3 latter part of this discussion is the use and the purposes

4 to which working people put the monetary standard. To a

5 great extent we allow ourselves to get involved in a lot

6 of academic disputes over the competing theories and

7 hypothesis about how the monetary system might work in

8 the abstract.

9 But it might be important to determine the

10 period, the uses and the purposes that people -- working

11 people have in mind when they accept dollars and when they

12 stipulate contracts with deferred payments in dollars.

13 And what are their expectations with respect to those

14 stipulations?

15 I think it is important because only by deter-

16 mining the uses and the purpose of the monetary standard

17 can we arrive at a conclusion of the appropriate character

18 for the one that would attain the goals that we all have

19 in mind.

20 And I am just reminded that everybody around

21 this room, unlike the early 1960s, agrees that inflation

22 must be ended. That was not true in the academic disputes

23 of the early '60s -- Beryl and Henry are both nodding, both

24 sort of my teachers in one way or another, long distance --

25 remember that period very well indeed. But now Socialists,

1 Communists, monetarists -- it is curious how everybody
2 of all persuasion has now agreed that the end of the
3 inflation is at least as important, if not the preeminent
4 goal that we all affirm.
5 Now, to design a goal without the effective
6 means to attain that goal is to court political disaster.
7 And I would submit with respect, that during the last
8 decade we have been courting political disaster and the
9 American people and their leaders have arrived at the
10 conclusion that we must end inflation.
11 But we have not focused on the important
12 question, we all agree on the goal; then let us navigate
13 the dispute as to what is the optimum technique by which
14 to end it.
15 And in that regard I would ask only as a
16 businessman the following question: Is it more impractical
17 to work out the problems of establishing a monetary
18 standard, to use Dr. Paul's phrase, which has honest and
19 assured value, or in a more academic phrase, the historic
20 record of proven price stability, is it more practical
21 to work out the problems in the discovery process for
22 the transition to a true gold standard, or is it more
23 impractical for the principle financial officers of this
24 country appointed by the President and the senior
25 legislative leaders to live with the impractical conditions

1 which have immobilized the financial markets in New York
2 and around the world today?
3 Now, I ask only that we compare real world
4 situations and, therefore, I would hope you would add to
5 the agenda an examination of the very real question, which
6 is most impractical, living with 20 percent interest
7 rates, variations in the financial markets which have
8 literally paralyzed the American businesses and in
9 fact destroyed large segments of the small business
10 system, or to determine the uses and the purposes of the
11 monetary standard and the likelihood that the gold standard
12 would yield reasonable price stability?
13 Finally, that we abandon the abstract utopian
14 notion that, in fact, there is a perfect monetary system,
15 that there is a perfect monetary standard, that there is
16 an optimum central banking policy, that the Federal
17 Reserve system has it within its power to deliver to the
18 American people -- I believe that is a false and very
19 dangerous hope. And we seek to determine what is the
20 least imperfect of the monetary institutions which has a
21 record of proven and effective results, in the only
22 laboratory which really counts to working people, which
23 is the laboratory of the history, which is very different
24 from the econometric models and the laboratories of the
25 classroom with which you can conduct a lot of experiments.

1 And having made that determination, what is the least
2 imperfect institution, then I think we can live with the
3 fact that we are imperfect people, and that is about the
4 very best that can be expected of us, both in this
5 commission and in the legislature.
6 SECRETARY REGAN: Thank you.
7 Jerry.
8 MR. JORDAN: A suggestion for staff activities,
9 I doubt that as a commission we can discuss every one of
10 the specific proposals that we must ultimately get to, to
11 do something, as a group, each of the 17 of us, might
12 suggest.
13 At the beginning of today Senator Jepsen suggested
14 that we discuss the gold reserve certificate proposal.
15 We are going to get a lot of proposals that some of us
16 might have some interest in, or a lot of unsolicited
17 proposals. But we are not going to have the time, I
18 would be willing for each one of us to make our analysis
19 of whether we should be considering as a group.
20 So, I suggest that the staff serve as a clearing-
21 house to look at all of these proposals, ideas and
22 suggest which ones we should look at as a group.
23 One final comment, of the list of people that
24 Mr. Lehrman mentioned that are now firmly opposed to
25 inflation, I am wondering why you put the monetarists at

1 the end?

2 (Laughter.)

3 MR. LEHRMAN: Let's put them at the head.

4 DR. SCHWARTZ: Incidentally, Jerry, I have already

5 been keeping all proposals that have come across my desk,

6 and I certainly expect there would have to be some kind of

7 an appendix.

8 MR. WEIDENBAUM: I would like to call attention

9 for the great care needed in filling out the draft of the

10 outline. And I specifically look at the section "Alternativ

11 Monetary Standards" and the subsection "Assessment of

12 Strengths and Weaknesses".

13 Given the array of views -- the array of back-

14 grounds on the part of the membership of the commission,

15 this may be an extremely challenging assignment, certainly

16 it is extremely difficult. I hope that filling this out

17 doesn't become another example of forensic economics where

18 the strengths are described by the proponents and the

19 weaknesses by the opponents. I don't find that terribly

20 useful, although very frankly, it characterizes the great

21 mass of material I have read on the subject since being

22 appointed to this commission.

23 I would hope that perhaps at the staff level there

24 would be some give and take among people with a variety

25 of viewpoints, so that this assessment could be much more

1 analytical than those pro forma assessments usually are.
2 I mean this in the constructive way, but when I read
3 some of the staff papers to-date I urge the staff to take
4 this to heart, to the greatest degree possible. And I
5 do mean this is a very constructive way because the
6 staff input can be vital to the effectiveness of this
7 commission.
8 SECRETARY REGAN: Governor Partee.
9 GOVERNOR PARTEE: Well, maybe we are all saying
10 the same thing, but I believe the way I could best
11 express it is to say that I would support the change in
12 emphasis that Paul McCracken has suggested for this
13 important section on alternative monetary standards.
14 I think there is a danger that this could
15 result in useful, but somewhat sterile analysis of
16 alternative systems. I think instead emphasizing the
17 modifications that would be possible, there are pros and
18 cons, there are strengths and weaknesses, but that would
19 be the way to go because I think you do have to deal
20 with the adjustment in the system.
21 And I believe Lew was saying that and I believe
22 you were saying that, also.
23 One possibility, of course, would be to con-
24 sider the kinds of facilities to make possible, let's
25 say a private gold coin. And I think that is an alternative.

1 It might be one thing that ought to be looked into whether
2 there are legal prohibitions or difficulties of one kind
3 or another, whether there should be gold coins with
4 interchangeability with the money with what the current
5 prices of gold are.
6 That's one possibility. And I think if we
7 approached this section in that way, we could accommodate
8 what Congressman Paul said.
9 SECRETARY REGAN: Thank you.
10 Any other comments on the agenda? Mr.
11 Costamagna?
12 MR. COSTAMAGNA: Mr. Secretary, on the selection
13 of speakers, for some reason I am enamored about what
14 happened in 1968 and as it ties into Congressman Paul's
15 analysis of the last 10 years. Apparently there were many
16 people who testified at that particular point in time in
17 favor of eliminating the gold clause as it then existed.
18 I am wondering if some of those same people
19 could not be asked to come before this commission,
20 especially those who sort of ordered it.
21 SECRETARY REGAN: And ask them if they had to
22 do it all over again, would they?
23 MR. COSTAMAGNA: Right. There must be a way
24 of finding out who they were from the Congressional Record.
25 If someone could find out, I would appreciate it. And

1 ask some of them to appear, whoever they were. Not to put
2 them on the spot, but say did the last 12 or 13 years
3 really turn out as you thought it would, when you recom-
4 mended this in 1968.
5 I really think from our standpoint that that is
6 an important question, not that they had any bad intent.
7 SECRETARY REGAN: We will do some research on
8 that, see if we have any volunteers. But I don't think
9 we should subpoena them though.
10 DR. SCHWARTZ: The alternative would have been
11 pay out U.S. gold for the deficit on our balance of
12 payments for so many years. We have not literally been
13 converting outside liability, foreign liabilities that
14 were convertible in gold and that would have been --
15 MR. COSTAMAGNA: No, I am talking about '68.
16 DR. SCHWARTZ: I am talking about '68. In '68
17 we already were not converting freely dollar liability
18 for currency.
19 I was really going to ask, but the moment passed,
20 what was really a gold standard because from '60 on, the
21 U.S. was a most reluctant converter, it took every dodge
22 possible not to convert foreign liabilities into gold.
23 We did many demeaning things in an effort and then we
24 lost because our liabilities kept on growing.
25 And, as I say, if we hadn't eliminated the gold

1 reserve requirement at that point and of course when we
2 eliminated it at that point, it was with the intention of
3 pacifying our foreign creditors, presumably would have
4 available $10 billion in golds that would otherwise have
5 been available to convert to notes, but we didn't pay out
6 that gold either.
7 MR. LEHRMAN: Anna, I thought you did not have
8 a point of view.
9 DR. SCHWARTZ: I answered his questions because
10 Mr. Costamagna wants to ask the people who at that time
11 advocated -- legally there was nothing they could do.
12 SECRETARY REGAN: Well, I think I will bring
13 this discussion to a close. Time has passed.
14 I wish that as you think this over over the next
15 few days, if you have any further suggestions for us for
16 the agendas, that you please get them to us as rapidly as
17 possible, particularly if they need staff work.
18 I want to thank all members of the Commission
19 for coming today. I think it has been a very lively,
20 interesting discussion.
21 We will get you as quickly as possible the next
22 meeting and the next meeting dates. Thank you all very
23 much.
24 (Whereupon, the meeting was adjourned at
25 1:35 p.m.)

CERTIFICATE OF REPORTER

I hereby certify that the proceedings of the meeting of the Gold Commission were held in the Cash Room of the Treasury Department, Washington, D. C., Friday, September 18, 1981, as herein appears, and that this is the original transcript thereof.

PHYLLIS P. YOUNG
Reporter

UNITED STATES DEPARTMENT OF THE TREASURY

MEETING OF THE GOLD COMMISSION

U.S. Department of Treasury
Fifteenth and Pennsylvania Avenue
Cash Room
Washington, D.C.

Monday, October 26, 1981

The meeting in the above-entitled matter convened at 10:40 o'clock, a.m.

APPEARANCES:

Secretary Regan
Assistant Secretary Leland
Assistant Secretary Roberts
Under Secretary Sprinkel
Congressman Wylie
Congressman Paul
Congressman Neal
Congressman Reuss
Governor Wallich
Governer Rice
Governor Partee
Senator Jepsen
Senator Schmitt

Dr. Schwartz
Mr. Lehrman
Mr. Jordan
Mr. Costamagna
Mr. Weidenbaum

P R O C E E D I N G S

(10:40 a.m.)

SECRETARY REGAN: Good morning, ladies and gentlemen.

My apologies for being a little late. I have been up on the Hill and it was a little difficult getting back down here.

From time to time if I leave the Chair momentarily it is because we are keeping a sharp eye on what is happening with the dollar today and a few other things. It may be that I will be in and out.

So far as our agenda is concerned, the first item on it is the International Aspects of Monetary Standards, Dr. Schwartz's paper.

Let us discuss that first and then we will go on with the other items on the agenda.

Dr. Schwartz?

DR. SCHWARTZ: I had planned initially to have a paper on the demand for gold as a companion to the paper on the supply of goal, but decided on the basis of the discussion at the last meeting that it was advisable to interrupt that sequence and to turn instead to a discussion of international aspects of monetary standards.

The reason is this. I feel that the discussion thus far has been unbalanced in the sense that we have looked

only at the role of a monetary system within the United States and not really alluded to the fact that a monetary system has international aspects.

It is not only the purchasing power of the currency within a country that monetary system determines. It also determines the purchasing power of the currency abroad. That has been a very significant element in the U.S. monetary history.

The memorandum I have prepared for today suggests three alternative international monetary systems that the Commission might want to consider.

One would be the international gold standard in which each country that appears to it declares the gold content of its currency, which means that it is a fixed price for gold and that it accepts the conditions that such a standard imposes.

It means that the internal currency will buy whatever the gold holdings of that country permit. Inflows would require an increase in the quantity and the rate of growth of the internal money supply. Outflows would require a decrease in the quantity and the rate of growth of the internal money supply.

Currencies would be linked through gold and the only way to dilute the effect of the international constraint on the monetary standard is to break the link with gold.

1 This, in essence, is the way the gold standard
2 operated in the period before 1914.
3 The fixed rate system that was established under
4 the Bretton Woods system, in essence, required every country
5 to declare a relationship to the dollar. The dollar was the
6 central currency in the system.
7 It was different from the international gold
8 standard of the free world for one period because countries
9 were not really expected to decrease their internal money
10 supply of balance of payment deficits.
11 They were free to adjust it to the dollar. In
12 effect, this was a world where the internal money supply was
13 determined by the fiat of the different national monetary
14 authorities, based on this fixed, but adjustable, link to
15 the dollar.
16 Finally, there is an alternative which is the
17 floating rate system even though the floating rate is subject
18 to management by national monetary authorities or exchange
19 stabilization funds.
20 This system essentially is the demand for the
21 supply of national currencies in foreign exchange markets
22 that determines the price in other currencies.
23 As I indicated especially the last alternative
24 makes possible a choice of an internal system independent of
25 the floating rate system. You have a constraint on the

internal supply of money, either in terms of gold published and in terms of the legislative rules.. Or, you could adopt a parallel code system as members have advocated.

I felt it would be useful if we followed the procedure at the initial meeting and went around the table and more or less got a concensus of what each member regards as his preference with respect to the international aspects of the monetary standard.

SECRETARY REGAN: Thank you, Dr. Schwartz.

Is that suggestion agreeable that we go around and find out how people feel on this international question? Who would like to lead off?

MR. REUSS: Let me start off.

SECRETARY REGAN: We will start with you, then.

MR. REUSS: I don't think that our mandate which is to discuss and make recommendations "concerning the role of gold in domestic and monetary systems," makes it relevant for us to discuss, however interesting it may be and whether the Bretton Woods fixed exchange system was the best or whether the floating rate system is to be preferred.

I am not going to do it and I hope others won't because it does seem to me not within our mandate.

I believe that the present policy concerning the role of gold in the international monetary system as in the domestic is the least bad of the alternatives that we are

confronted with and should not be changed.

SECRETARY REGAN: That is interesting?

Chairman Weidenbaum, do you have an opinion here?

CHAIRMAN WEIDENBAUM: No, at this point I am anxious to hear the evidence and the reviews. Very frankly, what I am anxious to get is evaluations of the actual practice of a different monetary standard, that is, a gold standard as it actually has worked in the United States.

I am very concerned, to be blunt, that we avoid comparing the ugly reality with theoretical perfection. That always biases the decision in favor of any alternative other than the status quo.

I would like to get a "warts and all" evaluation of each of the different monetary standards that we have experienced, and especially some informed speculation -- and that is all it can be -- as to the range of likely results of shifting from the status quo, acknowledging all the shortcomings and limitations of the existing monetary order.

SECRETARY REGAN: Thank you.

Congressman Wylie?

MR. WYLIE: I think I will defer at this point, Mr. Secretary.

SECRETARY REGAN: Mr. Wallich?

GOVERNOR WALLICH: Mr. Secretary, so far as the papers are concerned and the Secretary's description of the

various standards, I would like to think of the Bretton Woods system as being really much closer to the gold standard than, I think, was reflected in her remarks, not because I think that under the Bretton Woods system there was a great deal of rigidity of exchange rates.

That was the distinguishing mark, that exchange rates could be changes in the gold standard. There was no legal provision for that.

Under the gold standard there was no very close tie of money to the gold stock either. Only when countries reached their reserve limits, if they had individual requirements for their central banks, money and the gold stock were tied together.

The same happened under Bretton Woods. If the country had reserve requirements, those might be expressed in terms not of gold only, but gold plus dollars, or gold plus foreign exchange in the IMF position.

Only then was there any link between money and reserves. I perceive Bretton Woods as being pretty close to a gold standard reggime.

So far as what we would want to do hereafter, it seems to me at the present time it is hardly a matter that we could reasonably discuss. There is no good way of going back to the old system even though there are plenty of countries that would like to do it, if there were a way of

doing it.

The only thing one could talk about, I think, is whether in the long run it is possible and if so, desirable. My conclusion would be that it is less desirable for the U.S. and for most other countries.

SECRETARY REGAN: Thank you, Governor.

Governor Rice?

GOVERNOR RICE: Mr. Chairman, it is difficult to look at the international monetary regime and exchange rates apart from your domestic monetary system.

It would seem to me that the preferred international regime would depend on your domestic monetary standard and since I have not yet been persuaded that the role of gold ought to be increased, I would tend to go along with the present system of floating exchange rates.

SECRETARY REGAN: Thank you.

Congressman Paul?

MR. PAUL: Thank you, Mr. Chairman.

I do have an opinion and some comments to make on this general outline. I would like to start by first recalling the events of 1968 when we were in a severe crisis.

Internationally the gold was trying to be maintained at $35 an ounce. There was not enough gold and gold was being sold to the tune of five to six tons per day.

Legislation came to the House Floor to remove the gold cover in order to have enough gold to support the dollar overseas.

I would, if I may, like to quote from the opposition because sometimes the opposition builds your case as well as anybody. My colleague from Wisconsin on that particular date, February 20, 1968, I think builds a pretty good case for the importance of gold.

He states that "removing the gold reserve requirement against the Federal Reserve notes will also disclose to other nations of the world that our entire gold supply of $12 billion is available to ensure the continued free international convertibility between the dollar and gold at the fixed price of $35 an ounce.

"Our policy of maintaining this fixed ratio between gold and the American dollar at $35 an ounce is one of the most important reasons people and nations throughout the world have such confidence in our currency."

I happen to agree with most of that statement. That is one of the reasons why we did have, that is, why the world did have confidence in our currency. This is a statement made by one who does not strictly adhere to a gold standard.

More specifically on the paper, I did not feel comfortable with any one of the three choices even though

one of the choices provides me the vehicle to at least advocate a position for an international position.

I think it's important that we recognize that throughout many of our papers and even in this one we still see the terms of the price of gold. Under the true gold standard we do not think of terms of prices. We think in terms of definition of the dollar in the weight of gold or the gold itself becomes the money.

So, again, I would like to make this point that we who believe in a true, honest, 100 percent gold standard do not talk about price of gold.

Also it was mentioned in the article the possibility of a return to the gold standard. Certainly this suggestion, number one, is a return to something we have had in the past. Many of us who advocate a true gold standard are not talking so much about a return to the gold standard.

At least in parenthesis we should ask that the words "development of a gold standard" be put next to the return of the gold standard because we certainly do not have to live in the past. Man is capable of furthering his thoughts and refining his thoughts.

So, the development of a true gold standard, I think, is a very likely possibility and something we must do because obviously there were some shortcomings in the past.

I would like to emphasize rejection of the term "return."

There was mention also in the article about the need for an international conference, or at least the assumption that an international conference would be necessary to have an international gold standard. I don't believe that is necessarily true.

The Austrian economist, Mises, has a statement about international conferences. I would like to quote Meese from Human Action.

He says: "What governments call international monetary cooperation is concerted action for the sake of credit expansion."

He claims that everytime you talk about international cooperation, it is more or less getting together and setting up rules for a concerted effort that all countries will then inflate at some rate.

The first position of the international gold standard, I think, fits pretty well the more or less classical standard that we have had in the past. The assumption was made that "the intention of all monetary standards is to ensure price rigidity or price stability."

Even though I will strongly argue that the gold standard provided the best price stability of any of the standards and at least the discretionary standard of the last

1 ten years has been very poor and that even that with the
2 rule I think the price rigidity or stability is not likely
3 to come.
4 This is not the main reason why we have a gold
5 standard or advocate a gold standard. The number one reason
6 is to establish a trustworthy and dependable medium of
7 exchange and one that people will believe will retain its
8 value and has retained its value and cannot be distorted and
9 cannot be abused and it cannot be a political football.
10 This why we asked for a gold standard, not seeking
11 out rigid prices. Some have argued quite the opposite that
12 there is more flexibility in the gold standard than in the
13 monetary rule of discretion.
14 Back in 1925 the economist, Benjamin Anderson,
15 in the case of the Economic Bulletin was arguing about the
16 need to return to an international gold standard. I think
17 at that particular time England was contemplating going back
18 on the gold standard.
19 I would just like to quote a short sentence from
20 his paper. He said:
21 "One of the great advantages to the restoration
22 of the gold standard through the main commercial countries
23 of the world would be the restoration of elasticity to the
24 currencies which are now less elastic than it is desirable.
25 An elastic currency has meant a currency which will contract

1 and expand with the needs of the trade."

2 This he was saying in spite of the fact that,

3 of course, the main reason we created the Federal Reserve

4 System was to give us an elastic currency. Here he is

5 advocating gold because it does allow an adjustment to market

6 conditions much better and much smoother than the monetary

7 managers.

8 I believe this was the same argument used by the

9 economist, Art Laffer, just recently in the Wall Street

10 Journal that there was more elasticity and that the money

11 supply could adjust upward if necessary.

12 So far as the Bretton Woods agreement is concerned,

13 it is hard for me to see too many people advocating that

14 concerning the problems that we have.

15 During that time I believe there were more than

16 500 major and minor devaluations that occurred in that

17 period of time. It was a major problem. Of course, up until

18 the bitter end we were able to main $35, but only with a

19 precipitious halt to it. We finally did create enough

20 inflation that we could not honor this.

21 I think it is also important to realize that

22 even though with that agreement one of the strongest currencies

23 survived without the use of the IMB and the Bretton Woods

24 agreement and that was Switzerland.

25 They never joined the IMF and they had a currency

1 which was more closely linked to gold than the other
2 currency and I would suspect probably the strongest currency
3 in that period of time.
4 So far as the type that I would probably opt for
5 most would be in number three where we have floating rates.
6 Under the conditions today and under the conditions that we
7 can anticipate in the near future, the odds of countries
8 not inflating or the odds of all countries getting together
9 and inflating at the same rate are virtually nil.
10 Therefore, you have to hve a market mechanism
11 for adjusting the discrepancies in the values of these
12 currencies.
13 So, the floating rate under anticipated conditions
14 I think is necessary. But we have to realize that if a
15 gold standard existed, there would be no price fixing and
16 no rate concerns.
17 It merely would be the comparison of two yardsticks.
18 It would be the comparison of the Kruger rand to the maple leaf
19 to the Mexican ounce to the U.S. ounce. It is all the same.
20 You do not ever have to have a conference. You don't ever
21 have to get people together and to agree that the yardstick
22 is three feet long and 36 inches long.
23 People just have an understanding that there is
24 fair trade. Under the gold standard we do not sit down and
25 contemplate or worry about the balance of payments. It becomes

unnecessary because the gold standard makes the adjustment necessary. If the gold leaves the country the price is adjusted. We do not have to be concerned.

We are no more concerned about the balance of payments and international agreements on the gold standard than we would be about an agreement between New York and Texas of the use of the dollar.

Who cares about the trade balance and the balance of payments between Texas and New York. There is absolutely no concern whatsoever whether we have imported more or less from New York or vice versa.

That is what would happen under an international gold standard because as true value would leave and money supply would go down in one country, prices would adjust and the money supply would adjust through the market mechanisms.

Internationally we do not need any international agreements.

It wouldn't hurt to sit down and talk about it and maybe have a consensus. That wouldn't hurt anything. But to have the idea that you have to sit down and fix prices, I think is detrimental to the ideas of a true gold standard.

I would like to finish there. Before we leave this particular subject I would like to make a proposal on something very concrete on what we should do with gold in

the international system since that is part of our responsibility on the Commission. Perhaps at a later time I can be recognized for that, I would like to.

SENATOR REGAN: Fine; certainly.

DR. SCHWARTZ: If the Secretary will yield; may I ask a question of Congressman Paul?

SECRETARY REGAN: Ask him now; if you wish.

DR. SCHWARTZ: Congressman Paul, I don't really understand the point that you are not setting a price; you are just defining the weight.

When you define the weight you set the price. There is no way to escape that. An ounce of gold is defined as a certain number of grains.

If you tell me that the dollar is going to be defined as equivalent to so many grains, that tells me the price. If the English pound would be defined as so many grains, that will tell me the price of an ounce of gold.

Under the gold standard where each country defines the weight of gold and its unit, you knew what the exchange rate was between currencies.

I am missing something here that you must have in your mind and have not explained to me so that I can understand it.

MR. PAUL: Under the conditions, you have a definition of the dollar and the weight of gold.

1 DR. SCHWARTZ: Yes.

2 MR. PAUL: The dollar becomes gold and that means
3 it is not arbitrary. It is fixed in that sense. If you have
4 the price of gold at $35 an ounce and you set the price and
5 you participated in price setting of money, you still have
6 somebody back there with a printing press and creating credit,
7 that means that you have the arbitrary authority to raise
8 the price to $38 or $42.

9 That is what happened. You did not have the
10 rigid link and say that there is a specific weight. You should
11 have the weight of gold. Gold should be money and if the
12 paper circulates, it should be a certificate which is a
13 substitute for the gold. There should be no definition of the
14 price of gold.

15 DR. SCHWARTZ: Why couldn't you then change the
16 weight, which is exactly what happened when --

17 MR. PAUL: We still have that fear, too, that the
18 Government --

19 DR. SCHWARTZ: I don't see what the fixation on
20 not naming a price is?

21 MR. PAUL: Why do you fix yourself on naming a
22 price? Why don't you just accept --

23 DR. SCHWARTZ: All I am trying to find out is the
24 way a gold system would operate under the conditions that
25 you described. I don't see how saying "I don't want to name

1 the price" means that there is no price. There is a price.
2 When you fix the --
3 CHAIRMAN WEIDENBAUM: Mr. Chairman, may I ask a
4 few questions for clarification here?
5 Assuming we were on the gold standard right now
6 and that the Treasury issued currency back as fully as you
7 specified by gold for a given number of grains of gold, what
8 denomination would Treasury issue?
9 MR. PAUL: I am not sure. I understand the
10 question completely, but let me say that my concept is that
11 if we have a hundred -- for every ounce of gold you will
12 have a fixed number of circulating substitutes for money.
13 CHAIRMAN WEIDENBAUM: What denomination would
14 appear on those pieces of currency for one ounce of gold?
15 MR. PAUL: Preferably if you had one ounce of gold
16 you would have a piece of paper that would say "Redeemable
17 in one ounce of gold."
18 CHAIRMAN WEIDENBAUM: But it wouldn't say "one
19 dollar," "ten dollars," or "fifty dollars"?
20 MR. PAUL: Not in a true gold standard. I think
21 psychologically and by tradition and the desire to live in
22 the past means that a lot of people want to hang on to the
23 dollar.
24 In order to think of it in the true gold standard,
25 you should have an ounce of gold and piece of paper that

1 says that if you put it to the Treasury or to your bank you
2 will have it redeemed for an ounce of gold.
3 Then you do not have to worry about dollars sitting
4 over here which can arbitrarily be increased by politicians
5 versus gold which can only be increased by people putting
6 out effort.
7 GOVERNOR WALLICH: If I may, Mr. Chairman?
8 Does this mean that the prices then would be quoted
9 in terms of multiples of the weight of gold? For instance,
10 a car would cost ten ounces of gold?
11 MR. PAUL: This would be the best way. I am not
12 anticipating that this will happen in the next six months.
13 This would be the ideal way for the true gold standard.
14 The real purchasing power today is measured in
15 terms of the real wealth of gold or silver because we still
16 think in terms of dollars but we have to take into account
17 they are being appreciated at a very rapid rate. That is
18 why we have to have so many.
19 But in terms of real purchasing power of real
20 wealth and retention of purchasing power if you have gold
21 the purchasing power is going up at a rapid rate because of
22 what is happening to the dollar.
23 MR. WYLIE: How do I go about getting my
24 share of the gold in a system like that? I would like to
25 buy an automobile.

1 MR. PAUL: I think one of the ways -- how would
2 you get a share of the gold?
3 MR. WYLIE: Yes, so I can buy an automobile.
4 MR. PAUL: The first think is this. If we
5 develop the parallel standard first, what you do is follow up
6 on the discussion we had at the last meeting of the suggestion
7 that the gold get out of the hands of the bankers, in the
8 central bank, in the treasury, and put it in the hands of the
9 people where it was taken from.
10 It was taken from the people at $20 an ounce and
11 then revalued upwards. I would say that we should make the
12 effort to put it back in the hands of the people. The first
13 step would be the mintage of coins and make them available to
14 the people and allowing them to use them when they choose to
15 since the change may be difficult from today and tomorrow
16 to go the idea.
17 We should at least consider the right of the
18 competition to allow us to think of terms of real terms.
19 MR. WYLIE: But I want to buy the coins with
20 dollars.
21 MR. PAUL: That is right. Under today's
22 circumstances; yes, you would have to.
23 SECRETARY REGAN: Dr. Jordan?
24 DR. JORDAN: So long as we do have dollars in
25 the system, I think you will agree that it makes little

1 difference whether we define a dolllar as worth 1/500th
2 of an ounce of gold or to say gold costs $500 an ounce and
3 you fix the price.
4 If you had warehouse receipts or gold certificates
5 circulating as money, paper money and deposit money --
6 electronic transactions -- suppose we called them golden
7 eagles, we still would have the same problem of whether you
8 define an eagle as being a certain number of grains or a
9 certain fraction of an ounce of gold, or a price of gold, it
10 makes little difference.
11 You still can have that possibility of simply
12 changing that definition. That is going to be true of any
13 system that has any kind of deposit money or paper receipts
14 or certificates.
15 Whatever you call those, the name of dollar or
16 eagle or pound, is not the key thing.
17 MR. PAUL: It is the key thing. There is a big
18 difference. If we have so many ounces of gold here and so
19 many certificates here that are redeemable in that amount of
20 gold, that is one thing.
21 But if you have them redeemable in dollars and
22 dollars are arbitrary and there is nothing controlling its
23 supply and somebody is increasing it at three percent, or
24 five percent, or eight percent per year, in terms of dollars
25 the price will have to alter the value of those coins.

But if you have certificates then the weight tells you how many certificates you are allowed to have. It won't permit the expansion of the money supply by those who benefit by the expansion.

DR. JORDAN: I understand so far as the money supply is concerned so long as it is just currency, say the Federal Reserve notes that are in circulation and how many of those there are in this country or where they are.

But suppose those pieces of paper were called eagles instead of dollars. That part of it doesn't change. But once the money includes deposit money and you have fractional reserve accounting and this kind of banking system with a deposit form of money, then you do have a little different problem.

It is not a matter of the name.

MR. PAUL: Okay. This is probably where we are coming up with some difficulty. In a real gold standard you wouldn't be permitted to do fractional reserve banking. This in a way is fraudulent because you are saying that you have that you don't have.

In a gold standard, when you put money in a bank you are supposed to keep your money there. If they can't use it twice, they can't benefit by having a fractional reserve.

You said: "What would that do to the money supply?"

It is going to curtail the money supply. You will say: "Well, isn't it going to be disastrous?" The prices will adjust themselves.

Instead of a loaf of bread being $1.00 with a 25 percent reserve, a loaf of bread is going to be 25 cents with 100 percent reserve. It will restore the trust that you need. It will curtail the manufacturer of paper dollars.

GOVERNOR PARTEE: There would be no credit in the economy; is that right, Congressman?

MR. PAUL: There would be a lot of credit of that which one person would extend to another. There would be no Government credit.

DR. JORDAN: And no bank credit.

MR. PAUL: There would be no bank credit. There would only be the credit that you extend when you give a product to a consumer.

But to create credit out of thin air -- this is positively baffling to think that a bank has literally the power to create money. This is something very hard for me to understand in moral terms.

Why don't I have the right to do it? Unless I get a license from the Government and become a bank, then I have the license to create money out of thin air.

DR. JORDAN: But if you constrain the creation of

money where the money is literally coined and circulated by the Congress directly under the Constitution, or by a central bank that is created by the Congress to fulfill its function for them, or the central bank working through a private banking system with the fractional reserve system that constraints the creation in a fairly close and precise way, then does it really matter who is doing the creating?

It is the rate at which money is created and it is the confidence in that money. It is the stability and the purchasing power of that money that we are concerned about.

MR. PAUL: I think it is who that is important. I think if Government can create money at the rate of ten pecent versus money entering circulation at the rate of ten percent, and it is something of real value, such as a coin, I think there is a big difference.

DR. JORDAN: I do, too. Ten percent is too fast.

MR. PAUL: Yes; let us say that five percent increase in the supply of money by gold or by creating a credit by the Government; I think there is a big difference.

In the moral sense one has something of real value and the people are in charge versus the Government's distributing this to pay for deficits of politicians.

So there is quite a bit of difference in the moral sense of who creates it.

The concern about there is not going to be any

1 credit and how are we going to get growth, this comes from
2 our savings.
3 We reduce taxes and we do not tax savings and then
4 there is an incentive to save because there is a belief that
5 it is going to be worthwhile to put $100 worth of gold in
6 the bank and in ten years I will earn three percent on it.
7 The only reason that credit creation acts as
8 capital is because it steals from people who save. Since
9 1939, because of credit creation, $3.8 trillon was stolen from
10 people who save; the people who put money in savings accounts.
11 There was $3.8 trillion of transfer of wealth.
12 So that is what I object to. I say there should be
13 no transfer of wealth. The all capital should come from
14 savings. Money should increase at the rate of something of
15 true value.
16 DR. JORDAN: But there is a transfer of wealth.
17 Your system of 100 percent reserve requirement, which is
18 what you are suggesting for the banking system -- 100 percent
19 backing -- says that all of the creation of money at whatever
20 rate -- and people are going to want to hold this form of
21 money and use it the slower the rate that it is created
22 and the more confidence that they have it and the quality
23 aspect of money -- but it operates as a part of the tax
24 system.
25 Other things are the same. The higher the reserve

1 requirement, the more the transfer to the Government from
2 the process of money creation.
3 SECRETARY REGAN: Gentlemen, I would like to
4 have this go on, but we are a little bit off the immediate
5 subject.
6 MR. REUSS: A parliamentary inquiry; if I may?
7 SECRETARY REGAN: Yes?
8 MR. REUSS: Since the purpose of this go around
9 -- and I think it is an excellent purpose -- is to elicit
10 from members their views on the role of gold in international
11 monetary systems, and since Dr. Paul has said that he
12 has views and will give them to us at some future time,
13 I think it would be entirely in order for Dr. Paul to proceed
14 now to give us his views on the role of gold in the internationa
15 monetary system.
16 That time should now be made available to him
17 as much as I would like to hear from Mr. Neal and Mr. Lehrman.
18 SECRETARY REGAN: Do you have anything further
19 to say?
20 MR. PAU: I think maybe Congressman Reuss mis-
21 understood me. I did have a view that said that the third
22 system where we had a variable floating rate of currency
23 -- I might not have been clear enough -- with a domestic
24 gold coin standard without international agreements was
25 the best that I could come up with here.

1 But even here the third one would have been
2 entirely satisfactory because it said it was subject to an
3 intervention. The floats were subject to intervention by
4 monetary authorities.
5 I would have to exclude that and ask that we have
6 a domestic gold standard with fluctuating rates.
7 The part that I think you are suggesting that I
8 bring up now and I would be glad to, is that I have a proposal
9 and a recommendation. I would like to get the opinion of
10 the committee on what to do with gold in the international
11 system.
12 Would you want me to make that proposal now?
13 SECRETARY REGAN: Much as I would like to at
14 this point, I think we should hear from the other four or
15 five who have not spoken on the initial point. Then we will
16 come back to that.
17 Congressman Neal?
18 MR. NEAL: Mr. Chairman, for a variety of reasons
19 as yet unconvinced that we can better restore trust in money
20 by either returning or going to a gold standard domestically,
21 it is hard for me to conceive of a different role than for
22 gold in the international monetary system either.
23 It does seem to me that we could do a better job
24 of providing trust in our money and it seems to me that if
25 we would pursue a predictable course of growth in the money

1 supply over a period of years -- a level of growth that
2 approximates the growth in the economy -- and if there was
3 a commitment from all branches of Government, a consistent
4 commitment to that over some period of time, then we could
5 very well restore trust in our system of money without
6 entering into what seems to me to be some very uncertain
7 and possibly very damaging possibilities by returning or going
8 to a gold standard.
9 Whether this is possible or not, I have come to
10 think that it probably is, but recent political history
11 would suggest that it may not be without some sort of
12 legislation.
13 I say that because often those who are great
14 proponents of this, at the least sign of any difficulties,
15 start attacking the idea of maintaing consistency in money
16 growth and so on.
17 My own preference would be, as I said on the
18 first day, legislation to require that money grow at about
19 the rate that the economy is growing. Even with that, I
20 would like to see some kind of escape clause to accommodate
21 external shocks to the economy.
22 I am thinking of things such as this. I would
23 think that a mechanism for that would be a vote of a
24 super majority on the Open Market Committee of the Federal
25 Reserve Board.

1 I am thinking of shocks like the dramatic increase
2 in oil prices, the oil embargo. Some sort of temporary
3 adjustment might need to be made.
4 I think this again is a good argument for not
5 going to some sort of rigid gold standard. I think it would
6 either -- since we would make a political decision to go to
7 a gold standard, that decision could be referesed and since
8 we are perfectly capable of reversing ourselves in public
9 policy, I imagine it would be reserved at the time of some
10 grave difficulty.
11 I think we might anticipate that we might face
12 some difficult times in the future from time to time and
13 provide a mechanism for making some adjustment to those
14 difficult times and make sure that it is a temporary sort of
15 adjustment to accommodate those conditions only and not a
16 permanent change.
17 I would remain convinced at this time, although
18 I certainly want to keep an open mind on this subject, that
19 that system, if we would make a commitment to it, would be
20 better than going to a gold standard domestically.
21 For that reason I cannot see an important role
22 for gold in the international economy.
23 SECRETARY REGAN: Thank you very much.
24 Mr. Lehrman?
25 MR. LEHRMAN: The question of: Do you favor the

1 present floating rate system?, the answer is: I do not.
2 The floating rate system was inaugurated in 1973 and the
3 consequences are everywhere to behold.
4 We have the highest real interest rates as
5 Mr. Schmidt said at Ottawa, since the birth of Christ.
6 Indeed, the average rate of unemployment since 1973 exceeds
7 by some measures the average rate of unemployment in any
8 decade since the birth of the Republic up to the Great
9 Depression.
10 The floating exchange rate system was established
11 by theorists, economists, policy makers with the belief that
12 it would bring equilibrium in the world market where balance
13 of payments were not adjusted properly under the Bretton
14 Woods system.
15 It was established with good intentions and those
16 good intentions have brought about a disaster.
17 The question goes on: Is there a role for gold
18 in the system of floating exchange rates? Under floating
19 exchange rates there is no role for gold. Gold is a commodity,
20 the price of which varies according to the production of
21 paper and credit currency by the central banks or monetary
22 authorities of the individual nations who chose the floating
23 exchange rate system in order to free their monetary policies
24 to have the license financed deficits which would otherwise
25 never be financed in a free and open market.

1 The next question was: Do you favor return to the
2 Bretton Woods system of internationally agreed fixed exchange
3 rates? The Bretton Woods agreement of 1944 was also inaugurated
4 with the hope that we would avoid the "beggar your neighbor"
5 policies and the exchange rate wars of the late 1920s and
6 the 1930s.
7 It was a great hope and it was appropriate that
8 Americans should have given the world a hope for real money.
9 Unfortunately, the outcome of the Bretton Woods agreement was
10 precisely as Anna described it, namely, that the balance of
11 payments deficits were perennial through the 1960s and they
12 gave rise to a financial crises in every year which lead to
13 ever more luncheons in Bonn and Rome and Zurich and London,
14 among the central bankers who participated in them without
15 ever a remedy for the fundamental defect of Bretton Woods.
16 The next question is: How would discipline be
17 imposed on members so that par values would not become
18 misaligned?
19 The discipline which was missing in the Bretton
20 Woods system was the requirement, as Arthur Costamagna pointed
21 out in his brief, but compelling three page piece on
22 convertibility, the discipline missing was the rule of
23 convertibility.
24 Though it was contemplated for Bretton Woods,
25 indeed by John Maynard Cains in his recommenation at Bretton

1 Woods, it was never fully implemented nor universalized
2 under the Bretton Woods agreement.
3 What, in fact, happened under Bretton Woods was
4 that the balance of payments adjusted mechanism under a
5 fixed exchange rate regime was immobilized as in any
6 dependency case, even a welfare dependency where often you
7 put someone on the dole and his whole adjustment process
8 in life is somewhat immobilized.
9 So, we immobilized the balance of payment adjustment
10 mechanism. We jammed the adjustment mechanism by forbidding
11 convertibility under the Bretton Woods agreement.
12 They were forbidden to convert their paper and
13 credit currency until the par value which, by law, the
14 dollar was defined, namely, a weight unit of gold, 13.71
15 grams.
16 That is the way the discipline to restore the
17 discipline that was absent in the Bretton Woods agreement
18 of convertibility and to make it at least reasonably workable
19 was.
20 What would be the role of gold in the system?
21 The role of gold would be that of the monetary standard.
22 The monetary standard is the yardstick and as a yardstick
23 it has a specified value.
24 Who would give to a board of governors of uniform
25 weights and measures the authority to appreciate the yardstick

1 on a yearly basis to 18 inches, or to augment it to 42 inches?

2 The monetary standard -- a weight unit of gold

3 under the Bretton Woods sytem -- would also provide, upon

4 demand of those who desired it, a medium of exchange, a form

5 of payment, though they need not rule out Federal Reserve

6 notes, or hand-to-hand payments in currency or the use of

7 checking deposits to make payments in the supermarket.

8 It would, in fact, provide for a currency for those

9 who desired it and who turned in their paper currency.

10 Finally, it would provide, as all real monies have,

11 a store value, which is missing in every one of the pure

12 paper currencies that we have today.

13 To my knowledge, scholars suggest that at no time

14 in the last 1,500 years has the world had no single currency

15 backed in any form by a monetary standard which required

16 real work and capital to produce it. At no time in the last

17 1,500 years has the discretion of nations, states, or powers

18 be so unlimited as to produce at varying rates a paper

19 currency linked to nothing but the whim of the politicians

20 who presently control the system.

21 How would the price of gold in the system be

22 determined under a Bretton Woods system? The price of gold

23 would be determined under present conditions by the

24 determination to establish a steady monetary policy at the

25 Federal Reserve during a stabilization period in which the

1 equilibrium long-run price for gold would be emerging.

2 Secondarily, among the financial officers of the

3 land -- primarily the Secretary of the Treasury -- informed

4 by the legislative leaders whose responsibility to establish

5 the statute that it would be, that the standard would be

6 set at a weight unit where the price of gold, as Anna

7 prefers, set at the average level where nominal wages could

8 not fall.

9 With these two indicators we could be sure that

10 interest rates would fall immediately in the market. Those

11 are the two techniques by which you determine the price which

12 seems to have caused so much confusion.

13 The equilibrium price emerges in the market during

14 the period of stabilization because of the pledge to establish

15 the monetary standard say, two years hence, and a steady

16 monetary policy at the Federal Reserve which is a pledge,

17 which I gather was undertaken on October 6, 1979, in any

18 event.

19 Secondly, the rate unit will be established and

20 the statute for price will be established in the statute such

21 that according to the financial officers of the land, duly

22 appointed by the President, that the average level of nominal

23 wages will not fall.

24 The next question was: Do you favor return to an

25 international gold standard? I do favor going forward to an

1 international gold standard. I also believe you cannot
2 go back in history.
3 Do you recommend a convenient international monetary
4 conference to obtain an agreement of three-fifths of the
5 members of the IMF with 85 percent of the votes to restore
6 a fixed price for gold and the definition of each currency
7 at a fixed gold rate?
8 I recommend that we attempt to gain the agreement
9 of three-fifths of the members of the IMF with 85 percent of
10 the votes. In the absence of it, we should establish the
11 monetary standard of the United States as a way to go for it
12 is the only authentic American money.
13 I believe that the entire free would would adhere
14 to that standard as they did in the past because all the
15 world desires a stable money. The dollar is our trademark.
16 There seems to have been some confusion before. Murray
17 Weidenbaum pointed it out so clearly.
18 The dollar is our trademark and we should not
19 abandon it. Our dollar should be a monetary standard which
20 all would respect as an honest measure of the value of
21 commercial transactions.
22 How would the fixed price of gold be determined?
23 That is the same question that was asked in part two, and
24 I would answer it similarly.
25 Will gold coinage be restored? Indeed, gold

1 coinage will be restorage. A free coinage act will be
2 passed not unlike that established by Alexander Hamilton,
3 George Washington, and the founders of this Nation in 1972.
4 Those who desire to hold their currency in coin
5 in a free and open society should have the power to do so
6 and those who desire to hold their currency in the form of
7 Federal Reserve notes or in bank credit, demand deposits,
8 convertible, as promissory notes into the monetary standards,
9 should have the freedom to do so.
10 I would like one more word, if you would permit
11 me, Mr. Secretary.
12 The monetary standard is no more than the word
13 implies. It is a standard of the value of economic transactions
14 Under our Constitution there are two articles which pertain
15 to the monetary standard. They are compelling and decisive.
16 The first clause is that the Congress has the
17 power to coin money. It is clear and explicit. So what
18 one recommends in the form of a gold standard is not only
19 reasonable and I think established by the test of history
20 as the least imperfect of the monetary standards for it,
21 as Murray pointed out, we cannot expect utopia, and we must
22 repudiate that very idea or it will bring about the same
23 disaster as the floating exchange rates did.
24 But the second article in the Constitution denies
25 to the 50 States the power to make legal tender of anything

1 but gold and silver. That is to say, the monetary standard,
2 trademarked the dollar, shall be a real article of wealth,
3 the anchor, for the paper currency or bills of exchange or
4 demand deposits issued by the banking system or the
5 Government authorities.
6 Therefore, the argument for a Nation which lives
7 under laws and not under the discretion of politicians,
8 originates in the Constitution. I believe that argument, if
9 it is not sufficient, is certainly necessary to justify any
10 argument.
11 Congress is given the power to determine in the
12 Constitution uniform weights and measures. It is by that
13 authority that the Congress establishes the yardstick equal
14 to three feet, or 36 inches, and would never defy reason or
15 logic by augmenting the length of the yardstick next year
16 or depreciating it.
17 SECRETARY REGAN: How about 39 inches and calling
18 it a meter?
19 MR. LEHRMAN: I have no knowledge that we have
20 ever gone to a 39 inch yardstick. It so defies common sense
21 that to use the analogy it speaks of the importance of having
22 amonetary standard which is a just and honest measure which
23 people can have faith in.
24 The monetary standard in the United States from
25 1792 until 1971 was, except for brief internals, established

as a weight of gold or silver, that is to say, a real article of wealth required to produce it.

We have lived during the last ten years through what is nothing less than a unique period. I agree with Murray. We do not want to compare a theoretical ideal to a practical program. We want to compare how the gold standard actually worked in practice with all of its warts and imperfections with how the floating exchange rate system and the manipulated paper money system of the past decade has worked in practice. One is found wanting to choose the least imperfect of the two.

Similarly, we want to compare theory with theory and historical argument with historical argument. My view is that when we do that and when we consider the Constitution and when we consider plain common sense, the monetary standard of the United States cannot be other than the weight of gold which it was when we inaugurated the Republic.

Secondly, there are benefits to be gained. To establish the monetary standard, to anchor the dollar as a real article of wealth is the only way to bring down long-term and short-term interest rates in world markets today.

We are living through a permanent financial crisis which is bringing the small business community of this Nation to its knees.

These interest rates today are twice as high as

1 they were during the Civil War when our Nation was going
2 through dissolution. The economic program to which I am
3 profoundly committed -- not to mention the leadership of
4 President Reagan -- is going to work. We will have to establish
5 the monetary standard, for it is the only way to give working
6 people a six percent mortage and businessmen who want to
7 establish new products and retool their plants and compete with
8 the Germans and the Japanese abroad, a rate of interest in
9 the capital money markets which is consistent with a reasonable
10 rate of return.
11 SECRETARY REGAN: Thank you very much.
12 Mr. Costamagna?
13 MR. COSTAMAGNA: On the domestic basis I would
14 agree with what Mr. Lehrman just had to say. However, as
15 I view it, it is a question of timing when I consider the
16 international aspects.
17 I would feel we must learn to walk once again
18 before we run.
19 The development I have seen in the last several
20 years of foreign gold coins coming into our country indicates
21 to me there are several major countries throughout the world
22 that are proceeding with domestic coinage.
23 It would seem that if we proceeded to do the same,
24 that would be the beginning of the locking. I have to believ
25 that if we proceed along these lines, the international

1 might take care of itself or if every major country in the
2 world were to proceed along these lines of having internal
3 convertibility or redeemability, whichever term you wish to
4 use, ultimately the international conference of 85 people
5 might just flow automatically and the international
6 convertibility desired at the end of the road might be much
7 easier to accomplish.
8 What I am saying is it is a question of timing.
9 I believe currently that I would view the alternatives on
10 an international basis, retaining the status quo, of the
11 floating rate system.
12 But domestically I share with Mr. Lehrman his
13 many fine points.
14 SECRETARY REGAN: Thank you very much.
15 Dr. Jordan?
16 DR. JORDAN: Thank you.
17 In international affairs I think Gresham's Law
18 is backwards. It is that high-confidence monies drive out
19 low-confidence monies. The experience of the past, especially
20 the last decade after Bretton Woods broke down, and even
21 before, is that the world turns to the currencies that they
22 perceive as having the greatest stability on the purchasing
23 power.
24 The dollar at one point was totally dominant.
25 When inflation became a major problem in the United States,

1 the erosion of confidence in the stability of our purchasing
2 power of our money -- and it may also be in our political
3 institutions, our will to deal with this problem -- the world
4 started looking for substitutes. Whether it was Swiss francs
5 or German marcs or yen or creating something new -- the SDR,
6 the so-called paper gold -- it was the idea of having something
7 that had greater stability and something the world could have
8 more confidence in as an international reserve.
9 It always has been a paradox to me that it was
10 excessive creation of dollars that caused people to lose
11 confidence, but the advocates of SDR worried that if SDRs were
12 not created fast enough, it could never become an international
13 reserve.
14 The world tried to create a common currency in
15 Europe, an alternative. If the United States restores
16 stability to its economic policies broadly and brings down
17 the rate of inflation very sharply, then I have no doubt that
18 the dollar will be the international reserve currency. It
19 will be the enumerator of the world.
20 The strength of the dollar in 1981 I think is a
21 reflection of this increasing confidence in what we are doing
22 here.
23 I do not believe that the United States in any
24 case should think in terms of fixing the exchange rate between
25 its currency and any other currency. The idea that the

Treasury and the central bank combined should try to influence the value of the dollar relative to the Swiss franc or the marc or any other currency I think is wrong.

I do not think that we should try to peg our currency to somebody else.

On the other hand, if other currencies want to peg the value of their currency to us, we should not tell them that they cannot do that. During this period of so-called floating exchange rates, other currencies have chosen sometimes to simply peg the dollar for long periods of times and other times to intervene in such a way to influence the way of their currency relative to our currency. I think that is their right.

In a world of, as economists like to say it, "N minus one" we are the nth currency and we are the one that cannot engage in that practice.

So whether there is fixed exchange rates or it is floating is up to the other people. The United States should not take actions to influence relative values of currency.

But we could not fix the dollar price of gold unilaterally without having an international agreement. It would be impossible, as a practical matter, for the United States to say: "We are going to have a gold standard, a fixed dollar price.", and really mean it to be fixed, without

1 some sort of cooperation among all the other countries. I
2 think that is very unrealistic.
3 I think that we should move towards a set of
4 institutional arrangements that will eliminate inflation and
5 guarantee that it will stay eliminated. If you have a stable
6 dollar and stable purchasing power, the rest of the world
7 will adopt a system tying themselves to us. But we should
8 not tie ourselves to them.
9 SECRETARY REGAN: Thank you very much.
10 Governor Partee?
11 GOVERNOR PARTEE: I agree with a lot of what Mr.
12 Jordan said. As we have gone around the table there has been,
13 it seems to me, more talk about the domestic role of gold than
14 there has of the international role of gold.
15 People have said provocative things such as it
16 would bring down interest rates rapidly to very nominal
17 levels and that we can define money and that kind of thing.
18 I do not want to comment on them.
19 But it does seem to me that in a modern society
20 you have to have a unit of account. If you have a unit of
21 account and have a gold standard, that means you have to
22 define the account in terms of gold content that is established
23 as the unit of accounts price, the gold's price in terms of
24 the unit of account.
25 To have an international standard would mean that

1 each country would have to do the same thing. Therefore, it
2 is impossible for us to say we should have an international
3 gold standard. It involves a great many partners in doing
4 that and in agreeing to defining their currencies and terms
5 and their units of accounts in terms of the content of gold.
6 Obviously it would require an international
7 conference and it would be extremely difficult, I think, to
8 obtain. Therefore, I do not think it is a practical question
9 of: Should we have an international gold standard for this
10 Commission or even this Government or even this Nation?
11 It is something that would require a great deal
12 of cooperation around the world.
13 The reason we have a floating rate, changing the
14 exchange rate relationships, it seems to me, is because
15 conditions vary so much for one country to another around the
16 world.
17 Even if every country in the world were to define
18 their currencies in terms of gold, the situation basically
19 and inherently would be unstable unless they all agreed to
20 establish the same conditions of all the economic and
21 financial and social conditions that would make it possible
22 to maintain this, which is the rule of gold as Anna has put
23 it together here.
24 It seems to me there is no chance that the countries
25 at large would do that. Therefore, if we did have any kind

of an international system, there would have to be some basis for changing the rate relationships from time to time. If there were such a thing it would have to be of necessity a Bretton Woods system, that is, there would have to be some kind of an agreement as to how the rate relationships, the exchange relationships would be changed when conditions changed in the relative countries.

So here again if there were anything to be done here it would have to be done with some give, some flexibility of the kind that was established initially with Bretton Woods.

There can be currency unions. It seems to me that a currency union essentially is just an agreement to let the same conditions prevail in all the countries that belong to the currency union.

I really do not understand Jerry's comment that it is wrong for us to have an objective in terms of some other country, but right for the other country to have an objective in terms of us.

We could have a currency union with Canada if we and the Canadians agreed to the same conditions. We could have a currency union with Germany if Germany and the United States agreed to have exactly the same conditions that would exist within those countries.

That is why New York is like Texas is like

California. There is a currency union for the individual States of the United States.

This could be done world-wide or it could be done partially. In that case it seems to me that gold might have a role to play.

I have one final comment. It seems to me that very few people -- and certainly I don't -- have any need for the use of gold in my daily activities. Therefore, it doesn't seem to me that the yardstick is gold. The yardstick is the goods and services that can be bought with a unit of account.

Therefore, the objective is not gold price stability but goods and services price stability that was contemplated by the founders of the country, although I am not read, I am sure, the history of the country as carefully as Mr. Lehrman has.

So in ending all I am saying is that all we have the power to do is to determine what our system will be like. It would be desirable to have less fluctuation in exchange relationships than we have had in the last several years, since 1973.

This would mean that conditions would have to be changed; would have to be stabilized and matched among the countries which is not so much the role of gold as it is the role of responses to economies and social pressure and oil shortages and things like that.

1 That, I think, gets beyond our purview. So,
2 of necessity I guess I would say that today we have no
3 alternative but to think in terms of the floating exchange
4 rate much like the present system that we have.
5 MR. LEHRMAN: Mr. Secretary, may I make a brief
6 comment?
7 SECRETARY REGAN: Certainly.
8 MR. LEHRMAN: With full respect to Chuck, I want
9 to make the point as a businessman that when you have a unit
10 of account, it is an establish unit of account that no one
11 ever anticipates that a political authority can change.
12 Working people, business people, and I am not
13 now talking about economists, trade goods and services in the
14 market -- ball point pens in the United States for beer in
15 Germany or stocks in Wall Street for shares of stock in
16 Germany, using a unit of account.
17 The very phrase "unit of account" means a specified
18 value which no one arbitrarily under a contract has the lawful
19 privilege to alter. Any other definition of the unit of
20 account is a phrase without meaning and eviscerates the
21 whole purpose of the accounting system in business
22 transactions.
23 The reason why that is important -- and no one
24 knows this better than the Secretary himself when he was
25 the Chairman of Merrill Lynch, is that in the last decade we

1 have created such chaos in our business and accounting
2 systems by the mutation and the unit of account that we now
3 have the SEC and the Accounting Board and the United States
4 warring with each other in the courts over what, in fact,
5 is a unit of account.
6 Is it the historical unit of account in which we
7 maintain our books? Or is it a current account? The FRB
8 says one thing and the SEC another.
9 All of the guardian elite, these regulators, are
10 now trying to tell businessmen and working people from
11 all walks of life four or five definitions established in
12 far-away places like New York or Washington of what, in fact,
13 is the local unit of account. No one can agree upon it.
14 What are the consequences? The SEC suggests that
15 businessmen now under the laws of disclosure are fraudulently
16 reporting their earnings when they under-depreciate their
17 capital assets or when they improperly account for their
18 working capital because of the variations in the values of
19 inventories during the market interval.
20 The unit of account has been wrecked and the
21 historical or current cost of accounting system is not only
22 no substitute but is breeding the very chaos which it was
23 brought about to cure.
24 The other reason why this question of the unit of
25 account to business people and working people is so important

1 and why any alteration in it arbitrarily violates contracts
2 voluntarily arrived at is equally important is that this
3 distinction which we learned in academic departments of
4 economics etween the national economy and the international
5 economy is inane.
6 Any person who has ever worked in financial or
7 economic markets knows there is only one economy. It is
8 the world economy. It is a unified economy wholly arbitraged
9 by prices, production, and shipping.
10 As a result of that, the unit of account in the
11 United States is inextricably linked to the unit of account
12 in Germany. As a result, to distinguish between the monetary
13 standard in the United States and separated as if we have
14 the privilege in an integrated world of establishing a unit
15 of account entirely separated from the unit of accounts in
16 the rest of the world, and that we could move it and value it
17 as we please arbitrarily, is equally inane.
18 It produces the very chaos in the financial markets
19 we presently enjoy.
20 If we are unwilling to accept the notion that the
21 world economy is an integrated economy, then we will continue
22 to make the distinction between national economic policy and
23 international monetary policy to our everlasting disadvantage.
24 SECRETARY REGAN: May I interrupt at this moment
25 for a technical point of view?

1 Chairman Weidenbaum and I have to go to a Cabinet
2 meeting which is scheduled at 12 o'clock with the President.
3 We will be back when we reassemble here at two o'clock.
4 As I understand it, this meeting will continue
5 on until one o'clock and then a luncheon break.
6 I will ask Dr. Sprinkel to chair the meeting in
7 my absence. I want to welcome Senator Jepsen here to the
8 meeting. I didn't have a chance to say hello to him earlier.
9 We will see you at two o'clock.
10 GOVERNOR PARTEE: I really think I ought to be
11 permitted to respond to that.
12 SECRETARY SPRINKEL: Yes.
13 GOVERNOR PARTEE: Thatis pretty much the speech
14 you gave at our first meeting and afterwards I told him and
15 I still think that he gave a fine speech in opposition to
16 inflation.
17 MR. LEHRMAN: Thank you again.
18 GOVERNOR PARTEE: I agree that inflation has been
19 a very evil thing. But the point I want to make is that
20 inflation, the thing that concerns him, me, or anybody else
21 or any consumer as a practitioner is maintaining a stable
22 value for the goods and services you buy.
23 Gold is not the goods and services we buy.
24 Therefore, that is not the proxy for goods and services
25 generally that is contemplated when one talks about price

stability.

I also would point out that I agree that we have an international economic system, but we cannot control the other countries of the world.

Indeed, I would say that business of course might have many things that it would like to do, but business does not run the world.

I think it is necessary that businessmen and economists and for this Commission to realize that and to adjust for this where practical and possible in a political system with 200 countries that have their own authorities and their own beliefs.

That must be recognized when we talk about what kind of a goal or commodity or monetary standard we wish the world to have. We have very limited authority in regard to that.

MR. WYLIE: Mr. Chairman?

SECRETARY SPRINKEL: Yes, sir?

MR. WYLIE: Whatever we do, vis-a-vis the goal, of course will have some impact so far as the international monetary system is concerned.

Up until 1933, American citizens were able to hold gold privately. Then we went off the domestic gold standard, if I may use that phrase, that continued on the international convertibility until 1971.

1 There have been periods where we have had
2 international convertibility.
3 My question is: Have there been any extended
4 periods in the history when we have had domestic convertibility
5 but not international convertibility?
6 SECRETARY SPRINKEL: Would you repeat that question?
7 MR. WYLIE: The question is: Have there been any
8 extended periods in the history -- and it seems to me that
9 the discussion was leading in that direction among certain
10 members of the panel here this morning -- when there has been
11 domestic convertibility to gold?
12 In other words, American citizens could convert
13 whatever their holdings were, their money or whatever, into
14 gold and that we would not say to foreign banks or central
15 banks of foreign countries that they could convert their
16 dollars into gold?
17 DR. SCHWARTZ? I think during World War I, around
18 1917 to 1919 when you could export gold only under license
19 from the Treasury, that technically it was possible for
20 domestic holders of non-gold money to obtain gold from the
21 Treasury, but for export it was necessary to obtain a
22 license.
23 So, in that limited sense you could say there
24 was domestic convertibility, but limited international
25 convertibility.

MR. WYLIE: Have there been periods in history when other countries have allowed domestic convertibility to hold? Offhand was there international convertibility?

DR. JORDAN: May I comment? You can do that only if you have very strict exchange controls or capital controls. It is not what we view as being basically a free system so far as the rights of individuals. You have to have rules and regulations and police powers that are quite onerous compared to what we view as part of a free society.

1 DR. SCHWARTZ: I think it is conceivable that
2 you could run a system that way without permitting inter-
3 national convertibility without setting up a fixed exchange
4 rate system which is what international convertibility
5 would involve. I don't think of any historical example
6 which would fit that description.
7 You know, under the pre-World War I gold standard,
8 the Bank of England manipulated the price of gold. It
9 wasn't strictly 84 shillings, ten and a half ounces. They
10 shaded the price sometimes, and they raised the price some-
11 times in an effort either to bring in gold that otherwise
12 would not have flowed to England or to deter export of
13 gold.
14 During that whole pre-World War I period, techni-
15 cally gold was convertible for domestic holders, but I
16 don't really believe that that fits exactly the description
17 of a floating rate international system and internal gold
18 convertibility. I don't really think that's --
19 UNDER SECRETARY SPRINKEL: Congressman Paul?
20 CONGRESSMAN PAUL: In answer to Congressman's
21 Wylie's comment, I think maybe I could ask that same question
22 another way, and maybe the history could confirm this,
23 whether it was true or not.
24 Isn't it true that when we had a domestic gold
25 standard and there was redeemability that when other

1 countries had redeemability and there was an interchange
2 between gold standards, we did not have international agree-
3 ments. Is that true in the 19th Century that we did not
4 have an IMF type of an agreement?
5 DR. SCHWARTZ: Oh, no, there was no international
6 monetary authority comparable to the -- but that's why
7 you need it under the Bretton Woods system, simply because
8 it was not the type of fixed --
9 CONGRESSMAN PAUL: That's the important point
10 then, that we have a domestic gold standard, and it is
11 a better gold standard than we had under the IMF and the
12 Bretton Woods. The importance of the international agreement
13 was downgraded. You didn't need it, because there wasn't
14 interchange of currency.
15 The other end of the question you asked, can
16 you have domestic redeemability without an international.
17 Yes, in the First World War, we probably could go to the
18 bank and get -- but there was one year, I don't think we
19 could do that. I think there was one year where they --
20 DR SCHWARTZ: '15 through '17 -- no, '17 through
21 '19, from the time we entered the war in April 1917 until
22 June 1919 --
23 CONGRESSMAN PAUL: They suspended it.
24 DR. SCHWARTZ: -- they suspended it.
25 CONGRESSMAN PAUL: So I think my point is that

1 when you have a good gold standard, you don't need your
2 international agreements.
3 UNDER SECRETARY SPRINKEL: Senator Jepsen, other
4 present members of the Commission have had an opportunity
5 to respond to Anna Schwartz' paper, and with special emphasis
6 on the preferred role of gold in the monetary system, and
7 we'd like to have your comments before we proceed to other
8 items on the agenda if you want to give them.
9 SENATOR JEPSEN: I have not had a chance to review
10 this yet. Later on in the day I will.
11 UNDER SECRETARY SPRINKEL: You would then submit
12 them, if you prefer to do so, and we'll see that they get
13 on the record.
14 Yes, Mr. Lehrman?
15 MR. LEHRMAN: Congressman Wylie's question, I
16 think, goes to the center of the problem. He asked whether
17 or not a national monetary system can exist independently
18 on the gold standard of the international relations of
19 foreign currencies, and we do have, and I think you wanted
20 an historical example.
21 UNDER SECRETARY SPRINKEL: Has it ever happened
22 before?
23 MR. LEHRMAN: Has it ever happened, and I think
24 that that's the first question. We have only the laboratory
25 of human history by which to test some of these

1 propositions. Indeed, that did happen. In fact, all of
2 the 19th Century provides the data from the subject. At
3 the end of the Napoleonic Wars, at the Congress of Vienna
4 and subsequent thereto, the United Kingdom, England,
5 established the monetary standard as a weight of gold.
6 In fact, English money was known as gold money throughout
7 the world.
8 In 1817, the Parliament in England decided to
9 re-establish the monetary standard which had been suspended
10 in 1795 in order to prosecute the war through the issue
11 of paper money and bank credit which would have, of course,
12 destroyed the pre-war parity.
13 Twenty-two years later in 1817 after the war
14 was over, England decided to re-establish the pre-war parity.
15 Now leaving aside whether or not that was a wise decision
16 to establish the pre-war parity, they did nevertheless
17 in 1817 pass a statute to attain that goal, and it became
18 effective in 1821.
19 It's known as the Ricardian Restoration, largely
20 as a result of the role played by David Ricardo, and from
21 1821 through the remainder of the century terminating as
22 Anna pointed out with the First World War, gradually every
23 country in the integrated free world economy of the 19th
24 Century linked systematically its currency directly with
25 the pound sterling or defined in statute domestically without
an international agreement to a weight unit of gold.

1 There you have a perfect example of what happens
2 when the leading country of the world, as it was, without
3 peer in 1817 decides to establish an honest monetary standard
4 which all the world can depend upon.
5 It drew to its banner, to its standard all other
6 countries which then wanted a confident money for their
7 people to save in, to hold their pensions in, and ultimately
8 to stipulate for payments, that is to say long-term bond
9 contracts, and gradually through the 19th Century the gold
10 standard through certain trials and tribulations became
11 the adopted monetary standard of the entire world, not
12 because England determined unilaterally what would be the
13 monetary standard of the world, but because all the world
14 voluntarily and freely chose a monetary standard which
15 working people from all walks of life could understand
16 and have faith in.
17 UNDER SECRETARY SPRINKEL: If it's agreeable
18 with the members, I would like to have Dr. Schwartz sum-
19 marize the range of views that have been expressed around
20 this table, and then we would like to go onto the next
21 agenda item.
22 GOVERNOR RICE: Could I just ask one question
23 of Congressman Paul?
24 UNDER SECRETARY SPRINKEL: Yes, sir.
25 GOVERNOR RICE: In your concept of the gold

standard, as I understand it, the paper money, all paper money would simply be a warehouse receipt for gold. How then would you provide for the need for increases in the quantity of money as goods and services grew in the economy?

CONGRESSMAN PAUL: The first thing that I would point out is that I would de-emphasize a real need to increase the money supply as the rate of goods and services are increased. This is not a corollary as far as I'm concerned, but historically what has happened is that money supply did increase. As a matter of fact, this is where they get the notion of a rule, is that money did increase at a particular rate of two percent approximately a year, and this was done by entering the market by individuals bringing gold to the bank and coining it, so it entered through market forces.

But, I would emphasize that the importance of this is a lot less to me than to others, that the most important thing is that we have a dependable currency in which people can save in, and that from savings we obtain our capital rather than money's creation, assuming that we're going to have a growth rate of three or four percent, and we have an increase in pieces of paper that says that the money supply is at that rate in order to satisfy this so-called need to have the money supply going up at the rate of economic growth.

1 I see no need for that, and yet under the gold
2 standards, that's essentially what has happened is that
3 the money supply does increase essentially at the rate
4 of economic growth.
5 Dr. Sprinkel, if you move onto the next subject,
6 I want to remind you of my request.
7 UNDER SECRETARY SPRINKEL: Would you prefer to
8 do it now or subsequently?
9 CONGRESSMAN PAUL: Well, it's dealing with this
10 subject. Are we going to go to another subject?
11 UNDER SECRETARY SPRINKEL: Yes. Why don't you
12 do it now?
13 CONGRESSMAN PAUL: Okay. I have a specific pro-
14 posal having to do with what we should do with gold in
15 the international system that I would like to hear comments
16 on from the Commission.
17 I would think that both the people who believed
18 in the gold standard as well as those who claim that gold
19 has no role in the monetary system should agree with this,
20 and my proposal or my request is that we advise the Congress
21 that the gold, the American gold, held in the IMF be returned
22 to America, to the American citizen. That is, come back
23 to the Treasury, and then get to the American people once
24 again in the form of coins, and I would think this would
25 satisfy those individuals who say that gold has no role

1 in the domestic or in the monetary system, and it would
2 satisfy us who believe that gold should stand on its own,
3 it should stand in the marketplace, we should get it where
4 it belongs, it's a free country, and people ought to have
5 gold, and I've discussed this with the different factions
6 in the monetary spectrum and several in each faction seems
7 to think that there is no pressing need to hold gold in
8 the IMF.
9 I think this is a consistent belief that we must
10 not hold gold in the IMF. This has been the official policy.
11 I believe it's an official policy today, certainly under
12 the Bretton Woods agreement, the law that was passed in
13 1976, our bill, from the report it says 1971 -- this comes
14 from the report of the House in 1976 dealing with the IMF
15 Bill.
16 In 1971, the IMF abolished convertibility of
17 the dollar into gold. Since then, it has been the objective
18 of the United States with the support of this committee
19 to hasten the demonetization of gold so as to reduce its
20 role in the world monetary system. So it seems like that
21 was the intention and the policy of our government, and
22 still there's no official policy today that says otherwise.
23 Now what has happened since '76? Well, at the
24 time, there was approximately 150 million ounces of gold
25 in the IMF, and the decision was made at that time to remove

1 a third of it, to follow up on this deliberate policy.
2 25 million ounces were sold, and the funds, revenues, were
3 given away, and 25 million ounces of gold were returned
4 to the host nation. At that particular time, 5.7 million
5 ounces were returned to the United States according to
6 my records.
7 It is my estimation the IMF now holds 42 million
8 ounces of gold which the United States is entitled to,
9 and I think that it would be wise for us who believe in
10 gold to have the gold returned to the people, and it would
11 be wise for those who don't believe in gold to make sure
12 that gold is demonetized, and I would like to get as many
13 comments as possible on this proposal, because this is
14 something very, very concrete that we can deal with and
15 make a recommendation one way or the other.
16 I might suggest that I think it's so important
17 that if gold is something that the speculators are dealing
18 with, and that we must be very cautious in that we should
19 do anything to benefit the South Africans, that the very
20 best thing we could do to hurt those terrible speculators
21 and to injure South Africa is to get the gold out, and,
22 as a matter of fact, just as quickly as possible, take
23 100 million ounces of gold away from the IMF and put it
24 in the marketplace.
25 UNDER SECRETARY SPRINKEL: Do the members of

1 the Commission want to comment on that proposal now, or
2 should it be deferred until the other proposals that have
3 been made and will be made are considered in detail?
4 CONGRESSMAN REUSS: Mr. Chairman, I would like
5 to ask just one question of Dr. Paul. Has Dr. Paul now
6 tabled before the Gold Commission the totality of his recom-
7 mendations concerning gold in the international monetary
8 system?
9 CONGRESSMAN PAUL: Have I what? Please repeat
10 that.
11 CONGRESSMAN REUSS: In the proposal that you
12 just placed before the Gold Commission, is that your total
13 proposal for the role of gold in international monetary
14 systems?
15 CONGRESSMAN PAUL: No, for the moment, this is
16 one --
17 CONGRESSMAN REUSS: Well, can we have the rest
18 of the package?
19 CONGRESSMAN PAUL: I have no other one -- because,
20 as Dr. Sprinkel, I guess, advised there would be another
21 period of time that specific proposals may be brought up
22 later, so, no, I have not decided this was my only proposal.
23 CONGRESSMAN REUSS: Well, Dr. Sprinkel, Mr. Chair-
24 man, I thought that Chairman Regan's request to members
25 of the Commission was that each one of us place before

1 the Commission his views under the statute concerning the
2 appropriate role of gold in international monetary systems.
3 I think it is now nearing the end of October.
4 If members are holding back and have some other views,
5 it's going to make our completion of our statutory tasks
6 very difficult, so I would ask the chair's indulgence in
7 giving Dr. Paul whatever time he needs now to divest himself
8 totally of his proposals for the role of gold in the inter-
9 national monetary systems.
10 UNDER SECRETARY SPRINKEL: I understood him to
11 say he had no further proposals at this time.
12 CONGRESSMAN PAUL: No, I did not, and I would
13 suggest that this might be the very first and the only
14 concrete proposal made so far in all our meetings, so I
15 would suggest that maybe that's not an appropriate request.
16 Why don't we make that request to everybody
17 including yourself?
18 CONGRESSMAN REUSS: Well, I've given my views --
19 CONGRESSMAN PAUL: I reserve the right to have
20 another proposal. This is a proposal today which I have,
21 and it may be that I'll have no other proposal. I think
22 my indication that I don't think too much of international
23 agreements, that they develop rather naturally with sound
24 monetary systems and in the early part of the session,
25 I gave my position so it's unlikely that I will have another

1 suggestion, but I don't see that as the reason to preclude
2 me from having another one. I might have another thought
3 from what is being discussed here. I don't understand
4 the request to tell you the truth.
5 UNDER SECRETARY SPRINKEL: What I would like
6 to do is ask Dr. Schwartz to briefly summarize from her
7 point of view the variation that she heard in terms of
8 recommendations for the role of gold in the international
9 monetary system.
10 This is not the final word; it's just a summary
11 and then I'd like to go to the next item on the agenda
12 if that's agreeable. Dr. Schwartz, could you respond to
13 that please?
14 DR. SCHWARTZ: The majority view by a very large
15 majority favors continuance of a floating exchange rate
16 system under present conditions. Some specified without
17 any government intervention. Some specified that at some
18 future date they would be ready to consider an alternative,
19 such as a return or adoption of an international gold stan-
20 dard.
21 Only one member indicated a strong preference
22 for an international gold standard, some kind of fixed
23 exchange rate system. The role of gold under a floating
24 rate system was not really clearly defined by most speakers.
25 Some indicated that a domestic convertibility of non-gold

1 money would be an attribute of a floating rate system.
2 This was not the majority view of those who favored continu-
3 ance under a floating rate system.
4 UNDER SECRETARY SPRINKEL: As you gentlemen know,
5 the Commission has the duty of providing a report to the
6 Congress a few months from now, and from our point of view,
7 it's important that we agree on an outline of the main
8 substantive portion of this report, and there has been
9 a suggested set of proposals, and you may want to add to
10 or subtract from that suggested.
11 In the materials sent to you, it was suggested
12 that we should consider and analyze five different possible
13 systems: one, the discretionary system for monetary growth;
14 secondly, a rule for monetary growth without reference
15 to gold; third, a monetary rule related to gold, but not
16 involving convertibility; four, a gold reserve requirement
17 combined with convertibility; and, five, a pure gold stan-
18 dard.
19 Now this listing of categories is simply one
20 possibility, and you may want to change it. What is
21 important, I think, is that the Commission decide on the
22 range of possibilities that it wants to examine so that
23 we can discuss the proposals in an orderly way. The dis-
24 cussion to date, as you're well aware, has been diffuse,
25 interesting, but not especially organized in a form that

1 we can put into the report that you all want to sign off
2 on at some point in time.
3 What I would like, I would like a reaction from
4 the Commission members as to whether or not this is an
5 appropriate way to proceed and whether you want to accept
6 this particular listing or change it, and in what way would
7 you like to change it, if it is the latter. Yes, sir.
8 Dr. Wallich?
9 GOVERNOR WALLICH: Mr. Chairman, I have taken
10 the liberty of supplying to members a variant of Ms. Schwartz'
11 proposal which I've circulated, and I hope you all have
12 it. It's entitled, "Alternative Outlines of Report of
13 Gold Commision," and my reason for doing this --
14 CONGRESSMAN NEAL: Mr. Chairman, excuse me, I
15 did not get a copy, and Mr. Lehrman said he hadn't gotten
16 a copy.
17 GOVERNOR WALLICH: Who doesn't have a copy?
18 UNDER SECRETARY SPRINKEL: Are there copies avail-
19 able for the members so that we know what Governor Wallich
20 is talking about?
21 GOVERNOR WALLICH: Yes, there are.
22 UNDER SECRETARY SPRINKEL: Is there anyone that
23 does not have a copy? I believe they have it now, Governor
24 Wallich.
25 GOVERNOR WALLICH: Well, the point I wanted to

1 make is a very simple one. I think this five-part structure
2 is helpful and a feasible one, but the first two items
3 on it really get us away from the subject of gold, and
4 instead of talking about the role of gold which is the
5 function of the Commission, it gets us into, in effect,
6 the conduct of monetary policy and the monetary system
7 in general.
8 So that's not what the Commission, was I under-
9 stand it, was intended to do. Moreover, the conduct of
10 monetary policy, of course, is discussed in other fora,
11 is before the Congress, is discussed under the Humphrey-
12 Hawkins Act periodically. There is a vast amount of litera-
13 ture on it. A great deal of research work has been done
14 on it. The Federal Reserve has done a great deal which
15 we have neither looked at nor, I think, in the amount of
16 time available could really look at, and if we did try
17 to encompass all this, I think our problem of arriving
18 at as much agreement as we can would be greatly exacerbated,
19 because we know, of course, that the techniques and princi-
20 ples of the monetary system, the conduct of monetary policy
21 are not agreed and are very hotly debated.
22 So hopefully we can stay with gold, and in order
23 to do that, I've changed the first two items where the
24 Secretary's proposal reads, "No change in the present dis-
25 cretionary system for monetary growth." I've simply said

1 no change in the present role of gold in the monetary system
2 with some minor qualifications such as public accounting
3 for the gold stock and improving the program for medallions
4 and for coin sales, and then the next item which refers
5 to establishment of a rule for monetary growth, a legislation
6 but without reference to gold, I simply said what is implicit
7 in that proposal, namely to reduce the role of gold.
8 Then come the three last proposal that Mrs. Schwartz
9 has made which it seems to me all reflect the growing role
10 of gold in ascending order. It seems to me that that is
11 analytically well taken.
12 UNDER SECRETARY SPRINKEL: You've heard Governor
13 Wallich's proposal that the discussion reflect on gold
14 only, and the reason for the broader approach was that
15 we have heard from various members of the Commission that
16 the efforts should be gold versus what, how can we encourage
17 monetary discipline, and I would like some instruction
18 from the members of the Commission which direction you
19 want to go.
20 CONGRESSMAN NEAL: Mr. Chairman?
21 UNDER SECRETARY SPRINKEL: Congressman Neal?
22 CONGRESSMAN NEAL: Well, I can't imagine the
23 value of a discussion of the role of gold in our domestic
24 economy in a vacuum or without a consideration, a broader
25 consideration, of monetary policy, so I would much prefer

1 the outline that is offered by Dr. Schwartz. I hope we
2 will leave this option open for discussion. It simply doesn't
3 make any sense at all to be discussing gold unrelated to
4 other aspects of our economy.
5 UNDER SECRETARY SPRINKEL: Congressman Paul?
6 CONGRESSMAN PAUL: Thank you, Mr. Chairman. I
7 believe I lean in the direction of supporting Governor
8 Wallich. I think he makes some good points. I think it's
9 hard to talk about gold without at least the inference
10 without dissecting each system out, such as the discretionary
11 system and the established rule for monetary growth.
12 I would be quite pleased to drop the first two.
13 The one thing I would like to compliment the Governor,
14 in the number one, he includes validating public accounting
15 for the gold stock. I think we've seen enough in the news
16 to suggest that we could reassure the people about that,
17 and I am glad that he concluded that.
18 I would like to emphasize two words that he stuck
19 on at the end, coin sales, because I wanted to make this
20 a separate proposal, and I hope it deserves that, and that
21 is the minting of U.S. gold coins and the removal of legal
22 impediments to their circulation. I would like to see
23 that studied in depth and reported on, and also in number
24 two, it seems like that would be an appropriate place for
25 me to have my suggestion included for debate, and that

1 is the reduction of the role of gold and the sale of gold,
2 including IMF gold.
3 UNDER SECRETARY SPRINKEL: Mr. Jordan?
4 MR. JORDAN: I do not favor the alternative.
5 I think the original five is the proper outline or set
6 of alternatives. Number two under the alternative is quite
7 different than number two under Mrs. Schwartz' proposal,
8 and I prefer to stick with the original.
9 UNDER SECRETARY SPRINKEL: Mr. Lehrman, you had
10 your hand up at one point.
11 MR. LEHRMAN: The clarify of Governor Wallich's
12 draft is for me, at least, unmistakable, and I like it
13 because it focuses the attention of our research group
14 on the issue which was defined in the statute. With respect
15 to Steve Neal's comment which I think are important, the
16 proposal does provide, as I see it, in its final paragraph
17 for the necessary comparisons that Steve suggested, and,
18 therefore, I would endorse the alternative.
19 UNDER SECRETARY SPRINKEL: So you're proposing
20 to leave out any consideration of a rule for monetary growth,
21 is that correct?
22 MR. LEHRMAN: No, I say that in Governor Wallich's
23 final paragraph, he provides for the condition whereby
24 one might wish to analyze any of the strengths and weaknesses
25 of the gold standard by comparison. In other words, there's

1 no exclusion in Governor Wallich's outline. Rather what
2 it does is to focus the issue on the pluses and minuses
3 of the gold standard, but it doesn't exclude other con-
4 siderations.
5 UNDER SECRETARY SPRINKEL: Governor Partee?
6 GOVERNOR PARTEE: Well, I think that's right.
7 When you read 3A, it seems to me 3A, and particularly the
8 Weintraub proposal could lead to some discussion of the
9 alternative of doing the same thing without gold which
10 would be the equivalent of the rule, but, to me, the merit
11 of this outline is that it focuses on the subject that
12 the Commission was established by Congress to focus on,
13 namely the role of gold in the domestic and international
14 monetary system, and I do think that, in particular, point
15 one, and I don't care much whether improving the program
16 of medallion or coin sales appears under one or under two,
17 it could be either. The question is, as a matter of fact,
18 that we have sales, so you would think that a real program
19 of having coins would be more something that would transfer
20 from the gold stock from public ownership to private owner-
21 ship or might have that effect over time, so that could
22 go in number two.
23 But, I think the great advantage is that it does
24 focus on the question that the Commission was asked to
25 study rather than some other question that some members

1 in their private roles would like to look at.

2 CONGRESSMAN WYLIE: Can I ask a question in that

3 regard? I'm without as much background in this as some

4 of the other members of the committee as to opt in favor

5 of the alternative draft based on the reasoning which Governor

6 Partee whih just listed, which says that -- which relates

7 to our charge here, shall transmit to Congress reports

8 on the role of gold in domestic and international monetary

9 systems, but I would have a question of Dr. Schwartz.

10 How does your number two, the establishment of

11 a rule for monetary growth, perhaps through legislation with-

12 out reference to gold would relate to the charge, Dr.Schwartz?

13 DR. SCHWARTZ: Would relate to?

14 CONGRESSMAN WYLIE: To the charge that we have

15 in the statute of coming up with recommendations with refer-

16 ence -- concerning the role of gold in domestic and inter-

17 national monetary systems. Now I know there will be some

18 impact that whatever we do as far as gold is concerned

19 on the international monetary system, and I said that before,

20 but it says here without reference to gold. Establishment

21 of rule for monetary growth, perhaps through legislation,

22 without reference to gold.

23 DR. SCHWARTZ: Sure. Then you'd be asking the

24 question why --

25 CONGRESSMAN WYLIE: If we exclude gold, this

1 whole Commission is set up on the role of gold in the inter-
2 national monetary system.
3 DR. SCHWARTZ: All right, and you're asking what
4 is the object of assigning to gold a role in the monetary
5 system, and then you can answer the question, you can do
6 with a rule what you could do with gold. If there are
7 disadvantages that attach to the use of gold, these should
8 also be considered, and then you do have an alternative,
9 so you're not ruling out discussion of gold by saying there
10 is an alternative to the use of gold, but you're considering
11 the role of gold in a very full sense.
12 UNDER SECRETARY SPRINKEL: That is in comparison
13 to other alternatives.
14 CONGRESSMAN WYLIE: You wouldn't want --
15 CONGRESSMAN REUSS: Mr. Chairman, I think --
16 CONGRESSMAN WYLIE: -- without reference to gold
17 then, would you? You would say with not using gold.
18 CONGRESSMAN REUSS: I think skilled parlimentarians
19 with whom this Commission abounds will be well able to
20 talk about discretionary and the rules for money creation,
21 lag reserves, the composition of M2B, and other witty diver-
22 sities ad infinitum, possibly ad nauseum, but I think in
23 our agenda, it is well to act as if we were obeying the
24 statute, and the statute says that we are set up to conduct
25 an inquiry with respect to the role of gold, so why not

1 look legal and go with Wallich and then all are at liberty
2 to wangle under the Wallich rubrics whatever they want
3 to talk about.
4 I will vote for Wallich.
5 UNDER SECRETARY SPRINKEL: Are there any other
6 observations?
7 GOVERNOR WALLICH: Mr. Chairman?
8 UNDER SECRETARY SPRINKEL: Yes, sir.
9 GOVERNOR WALLICH: It happened that I talked
10 to a Dr. McCracken on another subject, and he said he wasn't
11 going to be here, but he authorized me to mention that
12 he agreed we should stick to the subject of gold.
13 UNDER SECRETARY SPRINKEL: Yes, Mr. Lehrman?
14 MR. LEHRMAN: May I move that we adopt the rule
15 according to Wallich?
16 CONGRESSMAN NEAL: Will the gentleman withhold
17 just for a minute and let me raise one other point?
18 UNDER SECRETARY SPRINKEL: Congressman Neal.
19 CONGRESSMAN NEAL: Obviously part of our skill
20 is supposed to be counting, and it looks like I can count
21 votes in the majority for the Wallich proposal, but I still
22 see nothing in the Wallich proposal which would preclude
23 the discussion of some other alternatives, am I correct
24 in that reading of the Wallich proposal?
25 GOVERNOR WALLICH: As I listened to the voice,

1 I realized there's no way you can stop a Commission member
2 from talking about all these technical matters except that
3 there may be a shortage of time.
4 CONGRESSMAN NEAL: It doesn't look like it to
5 me, but as long as there is a clear understanding that
6 discussion of other alternatives which may work to achieve
7 the same results desired by those who are proponents of
8 returning to a gold standard or others who are opponents
9 of that also, as long as there's no prohibition against
10 the discussion of other alternatives, then I would see
11 no objection to adopting the Wallich proposal.
12 Is that the Chairman's understanding?
13 UNDER SECRETARY SPRINKEL: Well, there have been
14 several observations to that effect including what I thought
15 was Congressman Reuss' observation and I gather Governor
16 Wallich's observation. Are there other observations on
17 that very issue?
18 GOVERNOR WALLICH: Let me just clarify that I
19 think the discussion is in the nature of this group going
20 to be far-ranging, but I think whatever the group recommends
21 in the end, if it is a single recommendation, should deal
22 with gold and should not deal with the techniques of a
23 monetary policy.
24 UNDER SECRETARY SPRINKEL: Yes, Congressman Paul?
25 CONGRESSMAN PAUL: Mr. Chairman, before we approve

1 the Wallich recommendation, can I assume that the two addi-
2 tions were included in there as well, the IMF recommendation
3 and the minting of gold coins? Is that okay with the Com-
4 mission that we will also discuss that?
5 UNDER SECRETARY SPRINKEL: Is there agreement
6 that we should include the minting of gold coins and the
7 IMF recommendation concerning gold ownership to the range
8 that has been suggested? It's not quite the same animal,
9 but it certainly could be considered there. Anna?
10 DR. SCHWARTZ: Well, I want to ask Congressman
11 Paul a question that I asked him at the last meeting too.
12 We're talking about government minting of coins, or are
13 we talking about private minting of coins?
14 CONGRESSMAN PAUL: This would be both.
15 DR. SCHWARTZ: This would be both?
16 CONGRESSMAN PAUL: Because the government has
17 the gold. The government has taken the gold.
18 DR. SCHWARTZ: But anybody could go into the
19 market now and buy gold and mint it. I mean there's --
20 CONGRESSMAN PAUL: Yes, but the government has
21 all the gold. They have the 266 million ounces of gold.
22 How do you propose that we handle that gold? We're supposed
23 to recommend what to do with it, and I'm coming up with
24 the recommendation that we mint coins and we allow them
25 to circulate and get rid of the legal impediments to

1 their circulation.

2 DR. SCHWARTZ: Both government and private minting

3 of gold coins?

4 CONGRESSMAN PAUL: Sure, I'd be pleased with

5 both.

6 GOVERNOR PARTEE: But with a variable press,

7 is that right?

8 CONGRESSMAN PAUL: Pardon me?

9 GOVERNOR PARTEE: But with a variable press,

10 that is the price would be --

11 CONGRESSMAN PAUL: Oh, yes, that would be my

12 impression that we certainly wouldn't be doing it for $100

13 an ounce. I mean it would be as other nations are selling

14 coins like South Africa.

15 DR. SCHWARTZ: And with respect to the return

16 by the IMF of gold of the United States, that will be re-

17 turned to the Treasury?

18 CONGRESSMAN PAUL: That would be the issue that

19 we would debate. Yes, that's my proposal, that we follow

20 through with the position that was taken in 1971 by our

21 government to demonetize goal internationally and that

22 the SDR would be the unit of account and that the gold

23 would come back to the United States and to other nations,

24 because they've done one-third. I would follow with the

25 rest.

1 What I'm asking now is just to debate it, not
2 to, you know, solve that problem.
3 DR. SCHWARTZ: And the ultimate object of the
4 return of gold by the Treasury to the public is that there
5 would be private circulation of gold.
6 CONGRESSMAN PAUL: This would be the intention,
7 to let it stand on its own merits, since I'm realistic,
8 and I don't believe that we will have the real gold standard
9 tomorrow. I think that allowing it to get into a position
10 where it may compete, I think, would neither challenge
11 the status quo, and yet it would satisfy many of us who
12 believe in the free market.
13 DR. SCHWARTZ: But at the same time, this would
14 preclude an ultimate adoption of an international gold
15 standard by the United States. We would have no gold reserve.
16 There would be no convertibility in that.
17 CONGRESSMAN PAUL: Well, that would be one of
18 the -- if some people believe in a mandated international
19 gold standard, yes, that would be the argument to be posed
20 at the time -- I'm interested in getting it on the agenda,
21 of course, and it seems like it deserves the attention.
22 There are a lot of questions.
23 UNDER SECRETARY SPRINKEL: These fit under two
24 really, I think, Anna.
25 DR. SCHWARTZ: Excuse me?

1 UNDER SECRETARY SPRINKEL: Both these proposals
2 would be subsets under number two.
3 DR. SCHWARTZ: I just wanted to be sure I under-
4 stood.
5 UNDER SECRETARY SPRINKEL: Mr. Lehrman?
6 MR. LEHRMAN: Governor Wallich's proposal is
7 clear on both those recommendations of Congressman Paul.
8 It first provides for coin sales and consideration thereof,
9 and the second point provides for the consideration of
10 the disposition of IMF gold inasmuch as he refers to a
11 program of sales of official stocks to the markets. Official
12 stocks must include those not only of national official
13 stocks, but those of international official stocks, so
14 I find one of the virtues of Governor Wallich's proposal
15 is that it is inclusive.
16 DR. SCHWARTZ: But is that a proposal that you
17 would support?
18 MR. LEHRMAN: No, I have moved that we adopt
19 Governor Wallich's proposal, and I think that Secretary
20 Sprinkel has asked us first the substantive questions so
21 that we can take care of Governor Wallich's proposal.
22 UNDER SECRETARY SPRINKEL: Are we ready to vote
23 on Governor Wallich's proposal with, if I understand the
24 sense correctly, the understanding that other alternatives
25 can be discussed during the period, but the recommendation

1 to the Congress will be focussed on gold. All in favor
2 of adopting his proposed agenda, say aye?
3 (A chorus of ayes.)
4 Against, raise your hands?
5 (No response.)
6 The ayes have carried, so let's go to the next
7 item if that's agreeable.
8 We have some administrative issues that we would
9 like to take care of. As you know, we have scheduled two
10 full days of hearings beginning at 10 a.m. on November
11 12, and at 9:30 a.m. on November 13 here in this room.
12 As of October 19, we have received the name of 36 suggested
13 witnesses from Commission members. I don't know whether
14 there have been additional ones coming in since that time
15 or not. I can find out.
16 In the time available on those two days which
17 we think will be about 13 hours in total after deducting
18 time for lunch, we're planning testimony for no more than
19 24 witnesses. This would allow slightly over 30 minutes
20 per witness, and we would hope that at least half of that
21 time would be devoted to responding to questions placed
22 to the witnesses rather than just a 30-minute paper they
23 might present.
24 In our initial witness selections, we're planning
25 for no more than two witnesses suggested by any one

1 individual Commission member, and to issue invitations
2 to all witnesses that have been suggested by two or more
3 Commission members and to include witnesses that have been
4 suggested by each Commission member that has given us sug-
5 gestions.
6 If an initial invitee declines to testify, we
7 would invite additional names that have been suggested.
8 We'll plan to distribute an update on plans for hearings
9 at the October 26th Gold Commission meeting, and we hope
10 to be able to provide a definitive list of witnesses at
11 that time.
12 Now are there any observations that you have
13 about these tentative plans, anything you would like to
14 suggest in the way of changes? Yes, sir?
15 MR. LEHRMAN: The time being scarce, Beryl, and
16 there being so many qualified people who wish to testify,
17 I would recommend that we exclude no testimony, but that
18 we recognize that in two days we can only hear a limited
19 number of people.
20 The remedy for that defect might be that all
21 who wish to submit for the record testimony in whatever
22 form or amplitude might do so, and that it be equally con-
23 sidered by the Commission staff as if it were presented
24 in person for the Commission as a whole.
25 That would reduce the burden on those of us

1 who know so many qualified laymen and economists who have
2 an opinion on this, that in the end, all these opinions
3 would have equal opportunity to be heard.
4 UNDER SECRETARY SPRINKEL: Is everyone agreeable
5 that we should take papers that are presented by anyone
6 who wants to present it and that those papers be available
7 for study by the staff and the individual Commission members?
8 Yes, sir, Congressman Neal?
9 CONGRESSMAN NEAL: Just to elaborate on that
10 a bit, it would seem to me then to be a good idea to not
11 only take all papers submitted, but then to try to have
12 staff somehow sort out among the witnesses so that we have
13 some sort of balance in the presentations that are made
14 so that we hear all points of view and so on, which I'm
15 sure we do anyway.
16 GOVERNOR PARTEE: I should think also that we
17 would want to have a staff analysis of the comments received,
18 because there may be hundreds, and I --
19 DR. SCHWARTZ: I have already about 25.
20 UNDER SECRETARY SPRINKEL: Are there any other
21 comments? Yes, Congressman Paul?
22 CONGRESSMAN PAUL: I am somewhat disappointed
23 that I couldn't have had more of my recommendations approved,
24 but I also understand the limitations of time, and I also
25 know how to compare things, and compared to not having

1 hearings, I guess I can't complain too much. I would like
2 to ask though that one name in particular be held, because
3 it was high on my list of recommendations. I see it was
4 not included, and this is an attorney from Brooklyn Law
5 School, Henry Holzer.
6 If it is at all possible to work him in, or if
7 we have a cancellation or something like that, I would
8 appreciate that.
9 UNDER SECRETARY SPRINKEL: Would you make that
10 note? If it becomes possible, we will certainly do so.
11 Yes, sir? Mr. Costamagna?
12 MR. COSTAMAGNA: Do I understand that there is
13 the possibility of additional days of speakers?
14 UNDER SECRETARY SPRINKEL: Well, it's upto the
15 Commission. At the present time, we've planned the sche-
16 duled two days. We must get on with this Commission's
17 work, and it can't go on indefinitely, but if there is
18 strong feeling that it's useful and that additional ones
19 should be held, obviously the Commission has the authority
20 to consider that.
21 MR. COSTAMAGNA: As you know at the last meeting,
22 I requested some information in terms of the 1968
23 Congressional hearings on the bills that were before the
24 Congress at that time, and I did thank you very much, re-
25 ceive from your office the material that I requested, and

1 I do have the names of significant people who testified
2 at that particular time before both the Senate and the
3 House of Representatives, and if you recall, I did express
4 the desire that some of these folks be invited, if they
5 wished to appear 13 years later, and a quick glance at
6 this list of people that are scheduled to testify, I don't
7 recognize any who did testify 13 years ago, and I believe
8 that some of them, and I trust most of them, are still
9 alive.
10 UNDER SECRETARY SPRINKEL: I think your comments
11 earlier suggested they might not be too happy with their
12 testimony looking backwards, and they might choose not
13 to testify.
14 MR. COSTAMAGNA: Well, there were some who were
15 pro and there were some who were con. We could possibly
16 have --
17 UNDER SECRETARY SPRINKEL: In any event, there's
18 no reason why they couldn't be invited to submit testimony
19 whether or not we can get them on.
20 MR. COSTAMAGNA: If we could leave that open,
21 I would appreciate something along those lines.
22 UNDER SECRETARY SPRINKEL: Is there agreement
23 that this is the next way to approach this issue, that
24 we will schedule two days of hearings under the ground
25 rules we've set up, and we'll leave open the possibility

1 that the Commission may want to extend the hearings?

2 MR. LEHRMAN: Is it clear though, Mr. Secretary,

3 that with this provision that those who submit written

4 testimony will have equal standing in its consideration

5 by the Commission and its staff?

6 UNDER SECRETARY SPRINKEL: That was my understand-

7 ing. That was your proposal, and I thought everybody was

8 agreed to that, that the information will be made available

9 to the staff and to the Commission members.

10 MR. LEHRMAN: There are many in California, indeed

11 in Europe, who may wish to submit reports who might find

12 it impossible to attend even were we to open the hearings

13 for a longer period.

14 UNDER SECRETARY SPRINKEL: Well, we will proceed

15 then in getting -- we have done some work, but we'll continue

16 to proceed to arrange for these hearings.

17 GOVERNOR PARTEE: I would hope that any request

18 for commentary would emphasize brevity, because you may

19 just get thousands and thousands of pages. Let's ask them

20 to be brief and to give their opinions.

21 UNDER SECRETARY SPRINKEL: I certainly agree

22 with that.

23 DR. SCHWARTZ: Will I be permitted to question

24 witnesses after Commission members?

25 UNDER SECRETARY SPRINKEL: I would think you

1 could. You have to help draft a report so certainly to
2 make sure that the testimony is clear.
3 We had some problem, as you know, in terms of
4 scheduling today's meeting, and I think it would be useful
5 if we could look ahead and agree upon subsequent dates,
6 dates for subsequent meetings. On the agenda circulated,
7 we've suggested consideration of Friday, December 11, Friday,
8 January 8, Friday, February 5 as dates for the next three
9 meetings, and everyone here is busy, and we know that,
10 but if we can get it out a ways, it might make your sche-
11 dule easier.
12 We have checked this, I believe, with both Secre-
13 tary Regan's schedule and my own, and we can make them.
14 Are those dates as agreeable as any other three dates that
15 we might find?
16 MR. LEHRMAN: Could you repeat them?
17 UNDER SECRETARY SPRINKEL: The dates that we
18 proposed were Friday, December 11, Friday, January 8, and
19 Friday, February 5, as the dates for the next three meetings.
20 CONGRESSMAN REUSS: Mr. Chairman?
21 UNDER SECRETARY SPRINKEL: Yes, sir.
22 CONGRESSMAN REUSS: I think those are, as you
23 say, as good dates as any other, and I think we would want
24 to go with them.
25 I would like to ask about the procedure and

1 timetable with regard to the preparation of the report,
2 and I would hope that the Chairman of the Commission aided,
3 of course, by the staff would prepare at some appropriate
4 time, and I'll come to that in a minute, a proposed draft
5 report which is generally congenial to him, and then submit
6 it to members, and it can then be debated and whatever
7 report a majority of us agree on then becomes the Commission
8 report with full opportunity to others to get in additional
9 dissenting and supplemental views.
10 I would think that it would be good for the Chair-
11 man to be able to present such a draft report to us at
12 least shortly before the December 11 meeting, because that
13 leaves three meetings, and there will be debate.
14 I saw Ms. Schwartz --
15 DR. SCHWARTZ: I would prefer the January 8th
16 meeting when I hope I will have a draft of a report ready,
17 and that should leave nearly three months for the Commission
18 to study the draft, recommend changes, for me to make
19 changes.
20 I don't see how I can do it be December 11. By
21 December 11, I hope to have a memo on the demand for gold.
22 I think we need something on the gold market in this report,
23 but --
24 CONGRESSMAN REUSS: Well, I certainly want to
25 accommodate my suggestion to your human needs, but I do

1 point out that we're talking about three months from January
2 8, it to live dangerously.
3 DR. SCHWARTZ: Well, there will be a report,
4 a draft.
5 CONGRESSMAN REUSS: The legislative record on
6 the extension was quite clear on both sides of the aisle
7 that Congress wanted that deadline well met.
8 DR. SCHWARTZ: Well, that deadline, if there
9 is a draft in your hands, it will have to be by the end
10 of the year. You will have to see the thing before the
11 meeting on January 8, and then I would hope to get detailed
12 comments from each of you.
13 CONGRESSMAN REUSS: That is certainly reasonable,
14 but I would ask then why do we need a meeting on December
15 11?
16 UNDER SECRETARY SPRINKEL: Well, hopefully to
17 discuss some of the issues that we just agreed upon that
18 should be considered by this Commission.
19 MR. JORDAN: The Commission has hearings for
20 the public on the 12th and 13th of November, and I think
21 that we will need the December 11th meeting to discuss
22 among the Commission members what we have heard before
23 it would be possible to start drafting a report.
24 UNDER SECRETARY SPRINKEL: I would agree with
25 that.

1 CONGRESSMAN REUSS: Fair enough.

2 DR. SCHWARTZ: And I really need a more detailed
3 statement from each of you about precisely how this report
4 will reflect your views. I have a pretty fair understanding
5 of where each of you stand on the issues we've talked about,
6 but as this outline suggests, you'll want to go onto that.

7 UNDER SECRETARY SPRINKEL: Are there any other
8 observations? Yes?

9 MR. LEHRMAN: I would like to formulate
10 this as a question. Given that the hearing dates had to
11 be set without consulting all the Commission members, and
12 I yield to that necessity, it may not be that all of us
13 can be there for both days or some of us who would wish
14 to be that we have fixed dates for other things that we
15 can't change.

16 How does a congressional committee provide for
17 the questioning of witnesses by a principal, in this particu-
18 lar case a principal Commissioner in his absence? Does
19 a Commissioner have the authority to request from the Secre-
20 tary or from the Commission as a whole the privilege of
21 recommending that someone sit in his stead and question
22 and hear the witnesses in a way that might conform most
23 to what he thinks he would have asked himself, or is that
24 too much to ask?

25 UNDER SECRETARY SPRINKEL: There are several

1 Congressman here, and you asked what are the congressional
2 rules on that, I believe.
3 MR. LEHRMAN: And then also what is a reasonable
4 rule that we might adopt, if any?
5 UNDER SECRETARY SPRINKEL: Congressman Wylie?
6 CONGRESSMAN WYLIE: We have the privilege of
7 asking questions for the record. If we don't happen to
8 be there, we ask permission in advance, and that's usually
9 granted, but we don't have surrogates who sit in for us
10 and ask questions. I don't sense that that would be a
11 workable scheme to follow.
12 UNDER SECRETARY SPRINKEL: So you would propose
13 to do as the Congress does, the right to leave questions
14 to be directed in their absence.
15 Yes, sir?
16 CONGRESSMAN NEAL: Well, normally what we do
17 is to leave those questions in writing.
18 UNDER SECRETARY SPRINKEL: Yes, in writing, so
19 that they would be asked of the witness.
20 CONGRESSMAN WYLIE: I would agree that I think
21 it would be very difficult if we tried to appoint surro-
22 gates.
23 UNDER SECRETARY SPRINKEL: Is that an agreeable
24 ground rule for other members of the Commission? It's
25 worked in the Congress so let's assume that it will work

1 here.

2 CONGRESSMAN WYLIE: I think we adopted the rules

3 of Congress anyhow.

4 UNDER SECRETARY SPRINKEL: Yes, that's correct.

5 There's was a suggestion made that individual Commission

6 members try to present at the next meeting papers describing

7 the main characteristics and operation of proposals in

8 each category, a statement of the objectives of the proposal,

9 description of the main elements of the proposal, analysis

10 of how the proposal would be expected to operate, and a

11 discussion of the transitional problems, a touch on inter-

12 national implications and an assessment of strengths and

13 weaknesses as you see it.

14 Is this something that would be -- it would be

15 useful from my point of view if each of the members could

16 address their proposals in this arena and touch upon those

17 particular aspects, and I think that was in your paper.

18 Is this something that you would like to do that would

19 be agreeable to do? We must prepare the report ultimately,

20 and if you could do it, it would make it much easier. Yes,

21 sir?

22 CONGRESSMAN PAUL: I'm a little bit confused

23 on what the attention is on the report. Is it to include

24 everybody's views and a description of what we believe

25 in, or is it to get a concensus of a recommendation? I

1 had the impression that we were, you know, to try to get
2 a concensus and recommendation versus a listing.
3 I don't see the tremendous benefit for me to
4 list my views, you know, if it's not being given serious
5 consideration as a concensus.
6 UNDER SECRETARY SPRINKEL: The purpose is to try
7 to get a concensus. Now it may or may not be possible,
8 but we should strive to achieve that obviously.
9 CONGRESSMAN PAUL: I have no objection. I'd
10 be delighted to.
11 UNDER SECRETARY SPRINKEL: Those of you that
12 would like to do that, it will make certain that we can
13 present fairly the views held so that there is no doubt
14 about the extent to which there is overlap of views and
15 hence a concensus emerging. Otherwise, there may be some
16 difficulty of distinguishing between one view and a different
17 one.
18 MR. LEHRMAN: Mr. Secretary?
19 UNDER SECRETARY SPRINKEL: Yes, sir.
20 MR. LEHRMAN: I know Anna's prodigious capacity
21 for scholarship. I've observed it in other places. I
22 just wonder whether such a report can adequately represent
23 the individual points of views no matter how explicitly
24 they're laid down. My view was, at least what I thought
25 was going to be the case, was that the Commission would

1 make an advisory opinion to the Congress as the statute
2 requires, and that would require a report of the staff
3 appointed by the Secretary perhaps in the form of a majority
4 report, and that would be given in good faith even if it
5 were to diverge from the opinions of individual members
6 of the Commission.
7 I certainly had every expectation that that was
8 the case. I would worry about trying to include every
9 person's view fairly and definitively in a report sub-
10 mitted to the Congress.
11 UNDER SECRETARY SPRINKEL: Dr. Schwartz?
12 DR. SCHWARTZ: I certainly expect that there
13 will be a majority view from this Commission. There will
14 be minorities views, so if the minority doesn't propose
15 to have a full statement of the views that minority holds,
16 that's an option that you will have to decide.
17 It's my expectation that minority would want
18 to have a full presentation of its views and why it is
19 not willing to accept the majority's views, so from that
20 point of view, it's useful to know the extent to which
21 anybody diverges from the majority view and the reasons
22 for it.
23 MR. LEHRMAN: And with respect, my understanding
24 of a Congressional procedure is that one must know what
25 the majority opinion will be in its written form

1 definitively before a minority view can dissent or endorse
2 parts thereof and express incidental opinions as well,
3 so it would seem to me that the majority view in good faith
4 has to be represented before any minority view can emerge.
5 UNDER SECRETARY SPRINKEL: Dr. Schwartz, would
6 it be possible to attempt the first draft of majority view
7 in early January, as you indicate, or by the end of the
8 year so that it will be available, and subsequent to that
9 point, if we can agree upon the majority view, then urge
10 the dissenting members to try to get a concensus on the
11 dissenting minority viewpoint.
12 That seems to be the way in which the argument
13 is going here.
14 MR. LEHRMAN: Yes, sir.
15 UNDER SECRETARY SPRINKEL: Is everyone -- yes,
16 sir?
17 GOVERNOR WALLICH: Wouldn't the Secretary write
18 the minority view also?
19 DR. SCHWARTZ: Well, I'm prepared to express
20 fully and with complete fidelity any view that I hear here.
21 I'm not trying to present any view except the views of
22 the members of the Commission.
23 UNDER SECRETARY SPRINKEL: That was the purpose
24 of the initial request that each of you submit it, but
25 you're suggesting we should go the other route, and

1 we want to make absolutely certain that both the majority
2 and the minority views are presented fairly.
3 MR. LEHRMAN: It strikes me we can only decide
4 what is a minority view fairly expressed once we have the
5 majority view.
6 UNDER SECRETARY SPRINKEL: Let's try to bring
7 this subject up for reconsideration at the January -- no
8 later than the January meeting where hopefully we will
9 have the beginning draft of a majority view.
10 MR. LEHRMAN: We will then have the majority
11 report in its preliminary form in January?
12 UNDER SECRETARY SPRINKEL: Yes.
13 DR. SCHWARTZ: And the only problem then is the
14 views of Senator Dodd who's not appeared at any of the
15 meetings, and we really have no clue to --
16 GOVERNOR PARTEE: It would seem to be that there
17 would be elements that we would agree to and elements that
18 we might disagree to when one is getting a concensus, and
19 it might be that we would have common ground on items A
20 through E and disagreement on items F through H or some-
21 thing like that.
22 DR. SCHWARTZ: It's possible to write a report
23 in such a way that this is clear.
24 UNDER SECRETARY SPRINKEL: I think we're making
25 very good progress on our agenda, and the proposal was

1 to break at 1:00. We're only three minutes late for lunch.
2 When we return, we will consider agreeable to Commission
3 the proposal establishing a fuel reserve requirement against
4 Federal Reserve note liabilities, and also Mr. Costamagna's
5 proposal concerning convertibility.
6 The meeting is adjourned for the moment.
7 (Whereupon, the meeting adjourned for luncheon
8 recess at 1:03 p.m., to resume this same day.)
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1 A F T E R N O O N S E S S I O N

2 (2:07 p.m.)

3 SECRETARY REGAN: If we could just get started,
4 Ladies and Gentlemen. It is my understanding that in the
5 absence of Murray Weidenbaum and myself, you accomplished
6 quite a bit. I'm not sure if that's cause and effect but
7 nonetheless, we'll call a spade a shovel.
8 As I understand it, we're pretty well down to Item 4
9 on our agenda, which is the establishment of the gold reserve
10 requirements against federal reserve note liabilities. So,
11 Dr. Schwart, why don't you describe Bob Weintraub's position in
12 general and then let's have a discussion of it.
13 DR. SCHWARTZ: All right.
14 SENATOR JEPSEN: Mr. Chairman?
15 SECRETARY REGAN: Yes?
16 SENATOR JEPSEN: Respectfully, Bob Weintraub is here.
17 SECRETARY REGAN: Is he here?
18 SENATOR JEPSEN: Yes, he's right back here.
19 SECRETARY REGAN: All right. Well, why don't you
20 describe it yourself? Come up here and describe your position.
21 MR. WEINTRAUB: Thank you, Mr. Secretary. I'll be
22 as brief as possible. Basically, what my proposal does is to
23 put a lid on money growth and to do so by tying the growth of
24 the currency component of the money supply to the price of gold,
25 the official price of gold.

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1 This allows the official price of gold to rise by a set amount
2 each year, or a set percentage each year. I could go through
3 the prototype proposal so that you could see a little bit
4 about the arithmetic that is involved. Let me do that, because
5 I think it will help to clarify it for most people.
6 Keep in mind that the prototype proposal is not the
7 final proposal. It's just kind of a springboard for a further
8 dive. In December of 1980, the Federal Reserve held nine
9 cents in gold certificate reserves valued at their legal value
10 which was $42.22 behind each dollar of their note liabilities.
11 If we passed a law which said that the Federal
12 Reserve had to hold nine cents in gold certificate reserves
13 and kept the value of gold, the legal value of gold at $42.22
14 per ounce in perpetuity, that would not allow for any money
15 growth unless the Treasury bought gold, which would be highly
16 unlikely since it would have to pay the market price. It
17 would receive from the Federal Reserve a credit of only
18 $42.22 when it sent the gold certificate over to the Federal
19 Reserve.
20 So, basically, that's a little bit tight. One would
21 rather allow for some growth in the money supply. To do that,
22 we have only to allow for a rise in the official price of gold
23 One could allow that rise at any percentage one wants.
24 Let me, to simplify matters, indicate that my
25 proposal calls for allowing the price of gold, the official

1 price, to rise by seven and a half percent this year, 1981;
2 six percent in 1982; four and a half percent in 1983; three
3 percent in 1984 and in all subsequent years.
4 This would basically limit money growth, limit
5 currency growth, at least, to those percentages. It would
6 also limit money growth if there were no change in the deposit
7 to currency ratio. Of course, we have to allow for changes in
8 the deposit to currency ratio.
9 That is not a terribly difficult thing to do. I
10 don't want to get too involved in the algebra, but basically
11 what it would come down to is this. The legislation that I
12 would have in mind and would hope this Commission would
13 recommend would operate to put a ceiling on the growth of the
14 exchanged media measure of money, which is commonly called
15 today M-I-B.
16 I don't want to give all of my reasons for selecting
17 M-1-B, because you're going to have to listen to me again on
18 November 12 and I want to be brief now.
19 CHAIRMAN WEIDENBAUM: You can be brief then, too.
20 MR. WEINTRAUB: Well, I'll try to be brief then,
21 too. It's not a bad idea.
22 It's important that we extend the recommendation to
23 cover the exchanged media money in order to allow the Federal
24 Reserve to prevent a monetary contraction from occurring in
25 the event of a currency drain and to assure that currency

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1 reflows would not lead to explosions of money growth. If not
2 compensated for, conversions of checking deposits into curren-
3 cy will drain bank reserves and cause multiple contractions of
4 reservable checking deposits in the sum of those deposits and
5 currency -- that is an M-1-B. Currency reflows would produce
6 multiple increases.

7 To convert the prototype plan into a lid on M-1-B
8 growth and at the same time, to provide a safeguard against
9 the currency drain triggering a multiple contraction of M-1-B,
10 all that is necessary, if we ignore the very small differences
11 between the Federal Reserve's note liabilities and the total
12 of currency and coin. That is easily ignored.

13 All that is necessary is that the schedule of
14 maximum percentage note growth of, let us say, three percent
15 a year and the corrolary increase in the price of gold, be
16 increased in the event of decreases in the ratio of checkable
17 deposits to currency and be decreased in the event of
18 increases. That's all that is necessary.

19 There is some arithmetic that I've worked out in
20 the proposal that will be circulated. It could be circulated
21 now, if I had enough Xeroxed copies.

22 The essence of it is simply that the maximum M-1-B
23 growth can be limited legislatively by setting the maximum
24 percentage change in note liabilities equal to the maximum
25 percentage change in the M-1-B that is desired minus the

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1 observed percentage change in an expression that would be
2 one plus the deposit to currency ratio. I won't give you the
3 exact formula. It's in the paper and there is no reason to go
4 into the algebra, I don't think.
5 Take my word for it, at least at this point, that
6 this would limit money growth. It would put a limit on it,
7 a lid on it, successfully. Then one has to ask whether or not
8 this is a wise thing to do.
9 I believe that it is a wise thing to do. I think if
10 you go back and look at our recent history, I think you'll
11 find that when we removed this constraint on money growth in
12 1968, we permitted much faster money growth than the economy
13 could tolerate.
14 I have some very interesting numbers to demonstrate
15 this. Since removing the gold certificate reserve require-
16 ment for Federal Reserve note liabilities in 1968, M-1-B money
17 growth has accelerated from a yearly average of 2.4 percent in
18 the 1956 to 1967 period to 6.4 percent in the '68 to 1980
19 period and 7.5 percent in the 1977 to 1980 period.
20 Faster money growth was accompanied by faster
21 inflation. The numbers are rather startling. The yearly
22 rate of rise of the GNP deflator averaged 2.2 percent from
23 '56 to '67 versus 2.4 for money growth; 6.4 percent in infla-
24 tion from '68 to 1980 versus 6.4 percent in money growth; and
25 7.7 percent from 1970 to 1980 versus 7.5 percent in money

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growth for the same period. Well, there isn't any question in my mind at least that by releasing the lid on money growth in 1968, we allowed inflation to escape from the box we had put it in so painfully after World War II and after the Korean War. That was a mistake. Restoring the gold certificate reserve would put a lid on money growth.

It would thereby stop inflation. Inflation cannot proceed if you don't validate it with increased money growth. In turn, I think stopping inflation will promote economic stability, growth of employment and reasonable interest rates. With that, I'll stop at this point.

SECRETARY REGAN: Thank you, Bob.

Well, who would like to lead off the discussion -- Murray?

CHAIRMAN WEIDENBAUM: I have a question for Bob. How does this proposal vary in its effect from a monetary rule? That is, how would monetary policy -- what would be different than adopting a rule if money suply must rise more than "x" percent a year?

MR. WEINTRAUB: Well, it's only a maximum. It doesn't have a minimum on it. So money growth could actually fall under this rule. It would simply prevent money growth from rising above whatever the desired --

CHAIRMAN WEIDENBAUM: So how different would it be from a monetary rule that said the money supply must not rise

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more than "x" percent a year without specifying any --

MR. WEINTRAUB: It would only differ insofar as it was linked to the price of gold. That might be a welcome link. As a matter of fact, it might give greater confidence in our willingness to stay the course.

CHAIRMAN WEIDENBAUM: Well, what I'm trying to explore as seriously as I can, is what is the economic effect of the link to gold?

MR. WEINTRAUB: The only economic effect of the link to gold would be that you might have less volatility in changes in the rate of rise of money's velocity.

You may get a quicker adjustment of interest rates downward. It may bring some expectational changes that would be welcome. This is what I would argue. In a general kind of an equilibrium situation, I would see that over the long term, it should not have any different effects than a maximum growth rule.

CHAIRMAN WEINTRAUB: All right.

SECRETARY REGAN: Chuck?

GOVERNOR PARTEE: The proposal, as I first saw it, that Mr. Weintraub put out, would have limited the rule to currency. That's the way he presented it at first, though you can make a modification. I would point out to this Commission that the Federal Reserve was organized in 1913 for the purpose of providing a flexible, elastic currency.

1 As an arithmatic matter, if for some reason or
2 another people desire to hold more of their balances in
3 currency and less of their balance in deposits, one can have
4 an uncontrollable financial panic.
5 It would seem to me that certainly anything that
6 severely -- that would make it impossible for financial
7 institutions to meet their depositors' claims because there
8 simply was not currency available would be a bad thing.
9 It would be a backward step for the country. I would make
10 that comment on it.
11 The other comment I would like to make, though, is
12 that he's expanded it now so that it includes a current -- as
13 he said -- today's definition of money, M-1-B. Let me just
14 point out that today's definition of money is not yesterday's
15 definition of money.
16 We have expanded the concept to include the interest
17 accounts and the thrift institutions. Today's definition of
18 money may not be tomorrow's definition of money. For example,
19 today's definition does not include the cash management
20 accounts of Merrill Lynch. One may, in fact, do a fair amount
21 of transacting through those accounts.
22 So I would say that one of the great problems, and
23 a problem that we have when we talk about this around the
24 table, is that the definition of money is a changeable one.
25 Any kind of a rule, it seems to me, would need to take into

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account the fact that the definition of money in practice -- By practice of the people of the nation, it does change over time. It would have to accomodate to that in some way.

One other comment I would make is that it does seem to me, although I understand the great desire to have a rule to have firm monetary discipline, it does seem to me that it is a basically dangerous thing to set up a system that, under no emergency that anyone can contemplate -- war, famine, fire, earthquake, financial collapse -- can be violated.

So it would seem to me that in any event, there would need to be some kind of an escape valve that under proper procedures could be used in any kind of a rule or else one is just asking for the Congress, under the pressure of reality, to do away with whatever program is set up as a result of any recommendation that might be made.

SECRETARY REGAN: Thank you, Jack. Henry Wallich is next.

GOVERNOR WALLICH: Thank you. I think that this is an extremely ingenious plan and well thought out. It is truly a rule that has nothing to do with gold. You could write the same rules for, let's say, the government's stock of paper clips -- freeze the stock, raise the value each year by three percent and tie the volume of currency to circulation to that. You could have the same restraint.

I think to mislead people as to the degree of backing

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1 that is really implied in such a thing is not a happy thing.
2 If it isn't a gold standard device, then people will be very
3 disappointed if some day it becomes apparent that they haven't
4 bought this thing on its proper terms.
5 Now, as far as the effectiveness of the rule is
6 concerned, Bob says that since '68, the money supply has
7 grown faster and that is undoubtedly true. The question is
8 how much did that have to do with the abandonment of the
9 reserve against currency and how much on the contrary did the
10 abandonment of that limitation have to do with the fact that
11 the money supply was growing faster.
12 You will recall that during the war, it went away
13 for the first time from the 40 percent against currency and
14 35 percent against deposits rule simply because it stood in
15 the way of normal war finance. It went to 25 and 25.
16 Then when that reckoned to become binding, we went
17 to 25 against a currency only and I am ashamed to say I went
18 to Mr. Martin in those days from the Council of Economic
19 Advisors proposing just that. I said, "Here is that stupid
20 limitation. It has no meaning. It ought to be removed."
21 Mr. Martin said, "Certainly not." But a few years
22 later or even months later, it was removed anyway. Now, we
23 have an example of how these mandated ceilings work in our own
24 government. We have the Federal Debt Ceiling. Does that
25 restrain government spending? Each year that we get close to

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it, we do the obvious thing to lift the ceiling. I suspect if we found that this rule became binding just as its predecessors and analogs, there'd be the suspension or new legislation or re-interpretation.

There is no way in which you can commit the future other than instituting good policy -- not by having a rule. Finally, on the rule itself, I agree very much with Chuck. If you take any definition of money and trace it to the present, subject to some rule, you will find that whatever you had anticipated setting it up in 1970 or 1960, it wouldn't have happened that way.

For instance, if you'd established M-1 in 1970, we would then have chosen M-1-A because the "B" component didn't exist at that time in our accounts. M-1-A, of course, is much below the target now. If we had to keep that on track, we would have to inflate drastically.

Now, Bob guards against that by saying this is only a maximum. It's not a minimum. I think that's a wise feature. But it would then be a matter of discretion for the one that followed the rule or stayed well below the rule, so it would be a formality. Then there might be debate on whether we shouldn't get our aggregates up to snuff.

So I would be hesitant there. Finally, one more thing. To provide for the use of the gold profit to the Federal Reserve held debt. Now, of all the uses that can be

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1 made with this, that is probably the least damaging. All
2 other uses are a little more explosive, politically sensitive,
3 and so forth.
4 There still is the fact that you reduce the debt.
5 Therefore, you reduce the deficit. Therefore, you generate
6 some leeway for traditional government spending without
7 increasing the debt.
8 As I looked in the numbers, it seemed to me that in
9 the last year, '88, there would be a debt reduction of $26
10 billion. If that were to lead to a commensurate budget
11 expansion, it would be quite an amount, too. Well, these are
12 my concerns about the proposal.
13 SECRETARY REGAN: Thank you, Henry. Jerry?
14 MR. JORDAN: Currently, the U.S. has a gold policy
15 of neither buying nor selling gold at $42.22 an ounce, which
16 translates into about $11 billion worth of gold and, therefore,
17 gold certificates, that are held as an asset by the Central
18 Bank.
19 We got to that $42.22 an ounce in two steps. First,
20 to $38 with the first devaluation and then the second devalu-
21 ation in '73, I believe. On both occasions, as the price of
22 gold was officially changed, the Treasury wound up with $1.2
23 billion more to spend than it otherwise had, and did so,
24 of course.
25 SECRETARY REGAN: Wait a minute. Did the Treasury

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1 spend that?

2 MR. JORDAN: You betcha.

3 SECRETARY REGAN: Was that at the request of the

4 Congress?

5 MR. JORDAN: It was put into the Treasury's account

6 and it spent it. It borrowed that much less than it otherwise

7 would have borrowed.

8 In order to return gold into the system in any way

9 at any time, you have to contemplate moving the official price

10 of gold more towards something that represents a market type

11 price. You have a problem of the transition and how you

12 translate that.

13 The discipline was not there before when the

14 official price was changed. We have to worry about whether

15 the discipline would be there or not in the future. In this

16 kind of a proposal, one of the interesting things about it,

17 it gives a mechanism for insuring that as you move the

18 official price of gold towards the market -- if that were a

19 decision to be made.

20 On the asset side of the Central Bank's balance

21 sheet, you do substitute for securities. Currently, it's

22 something like $130 or $135 billion worth of securities.

23 The fed earns interest, probably this year $13 billion or so.

24 It spends ten percent of it, up twelve percent from last year.

25 It gives the rest back to the Treasury.

13

The Treasury counts that as other income. You could, through this device, raise the official price of gold; reduce the securities held by the Central Bank to back reserves and currency.

The two liabilities -- reserve plus currency -- do not bear interest. Those are the two liabilities that you want to constrain the growth of. You can do this without any argument over which measure of money is best, whether it's Merrill Lynch's money market mutual funds or NOW accounts or M-1 or M-2 or anything.

You back reserves plus currency with gold certificates, eventually at the market price.

SECRETARY REGAN: Interesting. Yes?

CONGRESSMAN WYLIE: Secretary, I'd like to ask a couple of questions. They are probably elementary questions, but I need to understand this, too.

In your proposal, you would fix the price of gold at about $43 by the end of 1981 and $45.39 -- why not fix it at the market rate of $430 an ounce?

MR. WEINTRAUB: One could do that, Mr. Wylie.

CONGRESSMAN WYLIE: I beg your pardon?

MR. WEINTRAUB: One could do that and then start from that point.

CONGRESSMAN WYLIE: How did you happen to pick this figure? That's going back to an unrealistic figure for

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gold to start off with.

MR. WEINTRAUB: That is the official price now, at which the gold certificates are carried on the Federal Reserve books, at $42.22. This is why I picked that. I'm just saying that what we want to do is to raise that somewhat each year.

You could raise it a lot. Indeed, in my one refinement of the proposal, I have it rising by a lot more than 7.5 percent in 1981 and 6 percent in 1982 and so on. This is to get us to the point where the official price of gold would equal the market price in about eight or nine years.

At that point, one could go to convertability if we wanted to do that. That would certainly be something we would want to review at that point.

CONGRESSMAN WYLIE: Do you mean the certificates at that point would be --

MR. WEINTRAUB: At that point, the price of gold would be carried at the market price. Each time, as the certificate prices rise, then the official price of gold is rising commensurately.

CONGRESSMAN WYLIE: You would have a gold certificate printed which indicates that each dollar would have some backing -- 25? What would be the percentage? In 1968, 25 percent of each $35 gold certificate was backed -- 25 percent

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1 of each dollar was backed with a gold certificate.

2 MR. WEINTRAUB: Today, it is nine percent at the

3 official price of $42.22. We had 11.161 billion dollars in

4 gold certificates carried as assets by the Federal Reserve

5 banks in December 1981 held as backing behind $124.251 billion

6 of Federal Reserve notes outstanding.

7 That makes just about nine percent. It's 8.98 per

8 cent, to be exact. My proposal would envision either -- you

9 could keep that nine cents in perpetuity or you could raise it

10 each year by, let's say, 33 percent, and then on top of that

11 33 percent rise, you'd have another three percent.

12 The first 33 percent, you'd match. You'd go from

13 nine cents to twelve cents, for example, in the certificate

14 reserve requirement. Then allow the price of gold to rise

15 by 33 percent to $42.22 and then by another "x" percent to

16 allow for growth in the money supply.

17 The first 33 percent would be just offsetting --

18 DR. SCHWARTZ: This is not a proposal to give

19 convertability to notes.

20 MR. WEINTRAUB: Not immediately; no. All I could

21 say is that when you finally get to the point where the legal

22 price of gold is equal to the market price, somebody might

23 want to review this proposal. You can't rule that out at

24 this time.

25 DR. SCHWARTZ: Yes.

16

CONGRESSMAN WYLIE: Who prints the gold certificate-- the Federal Reserve or Treasury?

MR. WEINTRAUB: Let me explain how the gold certificates came into being as I understand it. Perhaps Governer Wallich or Governor Rice or Governor Partee will correct me.

When the Treasury bought gold in the past at, let's say, $35 an ounce and shipped it to Fort Knox, they simultaneously sent to the Federal Reserve a gold certificate for which they received -- let's say it was for 100 ounces of gold.

So the gold certificate would be for $3500. Then the federal reserve bank gave the Treasury a $3500 deposit, credited to the Treasury deposit, $3500. So the gold certificate came into being at that time when the Treasury bought the gold.

Now, basically what that means today is that the 264,000,000 ounces of gold that we hold in Fort Knox, the first $42.22 of each and every ounce is, in fact, owned by the Federal Reserve banks. The residual belongs to the Treasury. That's what that means.

There is a gold certificate which would attest to the first $42.22. If the Treasury sold an ounce of gold tomorrow on the open market for $442.22, then the way I understand it, they would have to retire the gold certificate by giving $42.22 to the Federal Reserve banks. In return,

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1 they'd have the $400 to spend pretty much as they'd wish.

2 MR. JORDAN: May I interject? The idea that the

3 Federal Reserve owns that is not correct. That is a fiction

4 under the idea that the Central Bank or the Reserve Banks as

5 a group -- since all of the assets and the earnings of the

6 Central Bank belong to the federal government and to the

7 Treasury, the Treasury in fact owns all of its gold.

8 GOVERNOR WALLICH: There is no question that --

9 MR. JORDAN: There is no question about that.

10 GOVERNOR WALLICH: -- the Treasury owns the gold.

11 MR. JORDAN: One hundred percent. The $42.22 goir

12 to the Fed, in no sense could keep, and in that sense, that

13 also would revert to the Treasury.

14 MR. WEINTRAUB: It does own the gold certificate.

15 Unless the Federal Reserve were liquidated, in liquidation,

16 I think it would belong to --

17 MR. JORDAN: But the earnings of the Treasury and

18 the Fed go to the Treasury every year.

19 MR. WEINTRAUB: I understand that, but I think the

20 way they keep the books, which is not necessarily the way I

21 would want the books kept --

22 MR. JORDAN: There is no question that the Treasury

23 owns the gold.

24 SECRETARY SPRINKEL: Are there any other observatio

25 yes, Henry? Congressman Paul, and then we'll go back to Henry

Wallich.

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CONGRESSMAN PAUL: I would like to ask Bob one question, a little bit along the lines of Mr. Wylie, about pricing the gold.

If we move the decimal one place, to 453, it's close to the market price of gold today, and then introduce the redeemability, is this something that would cause a great deal of alarm?

What would be the technical problems with moving the decimal and having redeemability?

MR. WEINTRAUB: I wouldn't want to go there so fast, Dr. Paul. I think that it would be much better to take those questions up after we have a period of price level stability in the United States.

This proposal of mine is designed to produce such a price level stability. Then I think redeemability might actually be productive. I don't think you'd want to go there next year. That would be my own judgment.

CONGRESSMAN PAUL: Would you propose that a penalty be levied with those who are managing the money supply? If you wanted them to increase it to 4.5 percent and it went up to seven percent? How do we get the managers to do what we want?

MR. WEINTRAUB: I think the same way we get Secretaries of the Treasury and UnderSecretaries and Members of the Council of Economic Advisors to obey the law. In the

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same way, we get the Federal Reserve to write Regulations when they get a truth in lending law.

There are, as I understand it, three ways in which a law is enforced without imposing criminal penalties. One of them is that if, for example, we had a three percent lid and money were to grow ten percent, I would presume the President could remove the Governors for cause. That would be cause.

Two, you and Congressman Neal and Senator Jepsen, hopefully joined by all of your colleagues, could move to impeach these fellows -- who would not, of course, include any of the ones here.

Three, I as a citizen, and I should have included Congressman Wylie in that, too --

CONGRESSMAN WYLIE: I'm not ready for impeachment, yet.

(Laughter)

MR. WEINTRAUB: Not even under those circumstances. Well, okay. I as a citizen could go into a court and get a writ of mandamus requiring performance. So there are, in my opinion, adequate safeguards to make sure that public officials who take an oath of office will obey the law.

I think, by and large, we appoint people who will obey it, anyway.

CONGRESSMAN PAUL: So the assumption is made that

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there is no technical problem. That there is no technical consideration about money supply going up four percent if we mandate a three percent. I don't understand all of the technicalities there, but that is not a problem?

MR. WEINTRAUB: It would not really be a problem as I would see it.

GOVERNOR PARTEE: I think, over a period of time, if Mr. Weintraub is right, we could do it. That would, of course, be the defined money. Money that is not defined as money would be going up much more rapidly. Defined money would go within whatever constraint you wanted to specify. We would simply let the financial institutions collapse or anything happen they wanted to happen.

(Laughter)

MR. WEINTRAUB: It is kind of an interesting thing, if I could engage in a debate with my very good friend, Governor Partee, for a moment. One can always postulate a nightmare. One doesn't want to make public policy based on the possibility of a nightmare coming into being.

I would like to respond to some of the points that Governor Partee made before. First off, I think he recognizes the currency drain problem. In my original proposal, I wanted to deal with it by payment of interest on reserves, which still is probably a pretty good idea. I know my very good friend, Jerry Jordan, doesn't like it very much.

It is something which is now dealt with in the revised proposal and dealt with adequately. There would be no problem with a currency drain. The Federal Reserve could still furnish an elastic currency because of the adjustment that is made in the current proposal.

GOVERNOR PARTEE: Excuse me, Bob. That assumes that the M-1-B is going up at the desired rate. If, in fact, for some reason it goes up at a faster rate, technically, your program could still result in a currency shortage.

MR. WEINTRAUB: It's not allowed to go up at a faster rate. That's the whole point. You couldn't get it to go up at a faster rate.

Indeed, the only way it would go at a faster rate is if the deposit to currency ratio changes in a way which is opposite of a currency drain. If there were a currency reflow in which case you have all of your present powers to protect against that. Plus, the fact that the adjustment would be made to the maximum currency growth allowed. It would be dropping in such a case.

I do want to make a point on this question of the definition of M. I think it's a very important point to make this. The definition of money is both -- there is both a conceptual problem and a measurement problem.

Conceptually, there really are two definitions of money that people have used. One is the exchange media

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1 definition of money and the other is the temporary abode of
2 purchasing power definition. I've always used the former.
3 My one time mentor and person I admire almost most in the
4 world, Milt Friedman, uses the latter.
5 In this regard, I think he is mistaken. I think
6 that one has to define money as the exchange media. If you
7 do that, you would never have any trouble recognizing that
8 NOW accounts were money. As soon as the consumer saving
9 bank of Worcester, Massachusetts, issued NOW accounts back a
10 few years ago, I knew that those were checkable deposits in a
11 depository institution and knew that they should have been
12 included in money, in the definition of the M-1 measure of
13 money.
14 I don't have any trouble there at all. Also, I
15 would like to point out to the members of the Commission that
16 I think it is terribly important to do so -- People continual-
17 ly talk about new financial innovations, new financial instru-
18 ments, as having some important destructive effect on the
19 reliability of M-1-B, of the exchange media measure of money
20 as a useful and reliable indicator of the thrust of monetary
21 policy.
22 If this were true, I would point out, you would
23 have to see some breakdown in the relationship between
24 percentage changes in M-1-B and percentage changes in nominal
25 GNP growth. You don't see that.

23

The best bet that you can make today about the percentage change in any given year or any given two years or three year period for the percentage change in nominal GNP growth is to take 3.3 percent and add to it the percentage change in M-1-B growth in the same period.

That is a very good bet to make. It was also the best bet you could have made in the early 1950's and in the early 1960's. That relationship hasn't changed. The rate of rise with M-1-B's velocity is extremely stable. I would want to make that point very very much.

Finally, I am sympathetic to you, Chuck, in the sense of the emergency clause. I think that by having worked with Congress for a long enough time, I know that if this ever got to be a legislative proposal, some Congressman would wisely propose that there be an emergency clause.

The emergency clause could be written that if ten members of the Open Market Committee wanted to vote to suspend the rule for a three month or a six month period, then that could be done, with an explanation to the Congress. That's the way laws are usually written.

I would have my own definition of how that should come into being. I look at it this way. If, in fact, the rate of rise of M-1-B's velocity is going to go off trend in an upward direction. That is, if the future rate of rise of velocity is greater than the past rate of rise has been, this

24 1 maximum lid presents no problem whatever, because you'd want
2 to be under it. It's only if, in fact, the rate of rise of
3 M-1-B's velocity fell far below its recent trend, which is,
4 as I say, about 3½ percent a year.
5 If it fell to minus 3½ percent a year, then you
6 might want to make an adjustment. But the likelihood of that
7 is really very very small. It's infinitesimal in my opinion
8 that the secular trend of velocity should fall to minus 3½
9 percent.
10 However, it might occur. If it were to occur, one
11 would want to amend this law or suspend it.
12 SECRETARY SPRINKEL: Governor Wallich, I believe you
13 had a comment.
14 GOVERNOR WALLICH: I have a comment on this
15 question of the stability of M-1-B and its relationship to
16 GNP. I don't know how you arrived at this, but we have
17 observed shifts of a very large order in that relationship in
18 '76, '77, I believe, on the order of $40 billion, in other
19 words, at 10, 12, 13 percent by which velocity grew faster
20 than could be anticipated.
21 Again, in '79, '80, '81, there's been a massive
22 shift. That is one of the reasons why pursuit of seemingly
23 modest money supply targets has been, has resulted in
24 inflationary -- so, I would caution very much against assuming
25 that there's any reliance on a stable relationship between

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money and GNP. The most you can usually say is that more money means more inflation.

MR. WEINTRAUB: Well, this is a factual question, I guess, Governor. I'll bring my evidence to show you another time. I don't have it with me.

SECRETARY SPRINKEL: Senator Jepsen?

SENATOR JEPSEN: If I may just sort of give a point-counterpoint sort of thing here. It's not original to me, but some of my wise counsel gathered around me here plus a comment of my own with regard to the Weintraub proposal.

From one standpoing, the Weintraub proposal does not embrace a guaranteed dollar-gold price which is the only thing that will restore the public confidence in the money. Weidenbaum's question goes to the heart of the problem.

The Fed this year has kept the M-1-B growth within the monetary target range and interest rates have not come down. Mr. Weintraub's proposal does not change a thing. It is, as has been pointed out, monetarism in guilt garb. We do not have to limit the supply of money if we guarantee its price. Now, that's one point.

On a counterpoint view, this all may be true, but we have to realize that people do not yet have confidence that the Fed will stick to its guns. Capping money growth lesig-latively via the gold cover might restore that confidence. Moreover, Mr. Weintraub's proposal is a transition, ultimately

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1 to gold convertability, since at some point, the official
2 price of gold will equal the market price. I think in
3 commenting on this very thing we call confidence and we're
4 hearing a lot about it with the struggle we're having with
5 high interest rates now about the inflationary expectancy --
6 the bracket of points or number of points that's built into
7 the interest rates that's giving us fits. We talked about
8 this a little bit at noon while we were having lunch.
9 Again, I would remind, for the record, you of the
10 history which I think supports Mr. Weintraub's proposal or
11 at least the philosophy behind it in gaining confidence. In
12 '67 and '68, we had huge deficits for whatever reason.
13 Politics did get involved. The Administration then
14 wanted the federal government to increase the amount of money
15 in circulation to decrease these interest rates. The federal
16 government couldn't do it because they were tied to a gold
17 standard.
18 So they just did away with it. We all know what's
19 happened ever since. We are in deep trouble now. So, the
20 people in politics that got involved -- it's the same thing
21 that frankly is not making for a lot of confidence right now.
22 People declaring something isn't so when in fact there isn't
23 anything to point to and say, "Here is the formula. Here is
24 where it is."
25 We've taken it out of the people and politics area.

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1 We've got something that in the past has always worked.
2 We're going to look at it in a very modified form. That's,
3 I think, the key, Mr. Weintraub, very modified -- very
4 modified. We've done all kinds of things since last fall
5 in this new Administration.
6 The interest rates in May were just as high as the
7 interest rates were in September. I should reverse that.
8 In September, they were just as high as they were in May.
9 That's after we had drastic cuts in the budget, a drastic
10 overhaul or quite a good overhaul, depending on how you look
11 at, and a restructuring of the tax laws.
12 It didn't affect interest rates at all. Granted,
13 the time wasn't very long. There's supposed to be some
14 relationship there or something that that shows to me and to
15 a lot of the rest of us, some of us who are meeting again at
16 4:00 o'clock this afternoon for the eighth time in the last
17 ten days.
18 It's that confidence that people have or don't
19 have. They don't have it right now. What's going to happen.
20 They've already got the President's program of economic
21 recovery failing before it got started.
22 We have these economic shark infested waters that
23 we're in now with the high interest rates, which is what
24 politically has agitated this thing. You can take five or
25 six points of the interest rate and point to it. It all has

1 to do with this lack of confidence. I believe that whatever
2 we might try on a limited scale, that's always advocated here.
3 To get ahold of this economy of hours, I think if we got
4 interest rates down, for example, right now to a 12 or 13
5 percent ratio, you'd find we'd have the greatest boon economi-
6 cally this country has ever had.
7 People are ready to do business at interest rates
8 that they used to wouldn't think about doing business at.
9 SECRETARY SPRINKEL: Are there any further comments
10 on Dr. Weintraub's proposal?
11 GOVERNOR PARTEE: I would just like to make the
12 comment that we -- until Senator Jepsen spoke, we got farther
13 and farther away from the discussion of gold and closer and
14 closer to a discussion of what the workings of the monetary
15 rule would be.
16 This indicates, I think, as Murray said at the
17 beginning, that this is not a gold proposal. This is a mone-
18 tary rule proposal that we're dealing with. We all recognize
19 that. So that if the Commission wants to consider proceeding
20 on the thing, it seems to me necessarily in order to fit into
21 the gold mandate of the Commission, it should be thought of as
22 a transition period which leads to a reevaluation, taking
23 care about not using the profits in an improper way.
24 It should be something that leads to a situation
25 where gold is more important a part of the monetary system

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1 than now. I agree with the Senator. It can only be looked at
2 favorably if it is a transition to something.
3 SECRETARY SPRINKEL: Senator Schmitt?
4 SENATOR SCHMITT: Mr. Chairman, if I may take a
5 few minutes --
6 SECRETARY SPRINKEL: Yes, sir.
7 SENATOR SCHMITT: -- I'd like to provide an analysis
8 that -- at the conclusion of which, I will say we ought to
9 look very carefully at the proposal of Mr. Weintraub as put
10 forward by Senator Jepsen.
11 Gentlemen, I can't help thinking that sometimes at
12 least human affairs swing to and fro like a pendulum. It was
13 only a decade ago, in fact, that President Nixon suspended the
14 conversion of dollars held by foreign central banks and other
15 official institutions into gold.
16 Actually, our foreign friends had agreed informally
17 not to convert in 1968. That same year, Congress, at the
18 request of President Johnson, repealed the law requiring
19 fractional gold backing behind Federal Reserve notes.
20 These actions were assumed at the time to settle
21 forever the role of gold in our domestic and international
22 monetary systems. Neither gold backing nor the domestic
23 issue of currency nor gold sales to settle international
24 dollar claims were assumed to be needed.
25 Here we are today, less than a generation later.

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1 The members and staff of a Presidential gold commission
2 are studying the role that gold should play in our domestic
3 and international monetary systems.
4 There is no secret about why we are here. Congress
5 established this Commission because ever since we cut the
6 ties of our monetary systems to gold, money growth has been
7 too fast. At least partly, as a result, we have suffered
8 increasingly virulent waves of inflation.
9 Whether there is any correlation between these facts
10 is one question that we are here to ponder. It could be pure
11 coincidence. I think we all objectively must recognize that.
12 The American people recognize that inflation, which
13 has resulted from whatever has happened, is unfair to most
14 low and mid income persons--in fact, unfair to all. Most of
15 these persons in particular cannot afford to invest in
16 antiques, rare metals, stamps, land, other inflation hedges.
17 The public also knows that inflation is a tax on
18 savings and that it creates uncertainty. As a result, it
19 holds down productivity growth and promotes recession should
20 other tendencies be present and maybe even if they are not
21 present.
22 Few today, in the United States at least, would
23 urge inflation as a cure for our economic problems. That
24 time is past. Most recognize it as the number one cause of
25 these problems. A great deal of progress may already have

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been made.

The Gold Commission is a manifestation of the public's concern about inflation and its belief or at least its suspicion that removing the constraints on gold placed on money growth just a few years ago opened the doors to inflation.

The relationship between inflation and money growth is widely known and well established. I am sure that most members of this Commission have known this longer than I have. The current Chairman of the Federal Reserve Board put it this way in testimony before the Joint Economic Committee in February 1980.

"The inflationary process is ultimately related to excessive growth in money and credit. This relationship is, of course, a complex one. There are many variables. But in spite of all the nuances, it is clear that inflation cannot persist over the long run in the absence of excessive monetary growth."

I think we would agree with that. The relationship between money growth and inflation is neither instantaneous nor perfect. It is not instantaneous or perfect first because spending does not adjust to changes in money growth instantly or perfectly. Second, because not all prices adjust to changes in spending immediately or proportionately.

There definitely is a relationship, albeit imperfect,

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1 that is spread out through time, which is sufficiently close
2 and reliable to bring to the attention of this Commission,
3 upon which I believe we must base our future decisions.
4 Studies issued by the Subcommittee on Domestic
5 Monetary Policy of the House Banking Committee in 1976 under
6 the chairmanship of our colleague Steve Neal, and in 1980,
7 under Parren Mitchell's chairmanship, show that the rate of
8 inflation tracks the two year earlier growth of the M-1-B or
9 exchange media measure of money.
10 The chart I have passed out pictures the relation-
11 ship between percentage changes and the gross national product
12 deflator which is our most comprehensive price index and
13 percentage changes in M-1-B two years earlier.
14 This is the subject about which I spoke briefly at
15 our last session. The chart maps percentage increases
16 between the same calendar quarters from one year to the
17 next. The solid line maps the rate of rise of the deflator.
18 The dash line maps M-1-B growth.
19 To capture the average lag between changes in money
20 growth and changes in the rate of inflation, the four quarter
21 or yearly growth of M-1-B which is represented by the height
22 of any point on the dash line, refers to the percentage growth
23 that occurred during the four quarters ending in the quarter
24 two years before the one directly below it on the horizontal
25 axis.

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Simply, if you had the two charts on transparent paper and moved them two years, you would have the correlation that is printed there. It is easier to say in chart form than it is in words.

The percentage rate of inflation which is represented by the height of any point on the sold line refers to the percentage change in the GNP deflator during the four quarters ending in the quarter indicated by the date directly below it on the horizontal axis.

By the way, Gentlemen and Ladies, if I had my way, we would never issue a weekly money supply or inflation figure. We would only issue the annualized or four quarter average of those same figures. I think you'd see a lot less volatility in the marketplace if we could somehow or another do that.

Inspection of the solid and dash lines mapped in the chart show that yearly or four quarter percentage increase of the GNP deflator for 1956 to the present closely track yearly percentage increases in the quantity of M-1-B two years earlier.

Recognizing the relationship between M-1-B growth and inflation is an essential first step for this Commission to take if it is to respond successfully to our raison d'etre which is to design a policy, a workable and credible policy, to stop inflation and keep it in check permanently.

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1 I would say that if a geologist, which I used to be
2 and I hope still am, saw that kind of correlation in certain
3 natural phenomena, he would write a paper and come as close to
4 a Nobel prize as a geologist is ever going to get.
5 I do not pretend to fully understand the transmission
6 process that converts changes in money growth into changes in
7 inflation rates, but I am sure that it happens just as I am
8 sure that sun spots stimulate rain in Southwestern New Mexico
9 on an 11-year cycle, even though I do not fully comprehend the
10 why.
11 Chairman Volcker put it, once again, "In spite of
12 all the nuances, it is clear that inflation cannot persist
13 over the long run in the absence of excessive monetary growth."
14 This chart, I think, illustrates what he is saying in the
15 reverse sense.
16 That, together with the evidence assembled on the
17 chart I distributed, is enough to make the case for our
18 purposes. The great attraction of the gold standard is that
19 it is a virtually foolproof way of keeping money growth non-
20 inflationary over the long run provided there is no increase
21 in the supply of gold available, as Spain and Europe found
22 out back after the discovery of the New World.
23 At the present time, with a fairly constant,
24 relatively constant and low production of gold, people I
25 think sense that this is true. Investment horizons and long

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1 term interest rates reflect it. Thus, the appeal of the gold
2 standard. The gold standard also has its drawbacks. Coin,
3 currency and checking accounts would still comprise our
4 exchange media and money could be defined, as many do now, as
5 exchange media.

6 Some gold might be used as coins, but the bulk would
7 be used industrially, ornamentally and as monetary reserves.
8 One problem with the gold standard is that under it, money
9 growth increases if the Treasury buys gold, regardless of
10 whether the sellers and buyers respectively are foreigners or
11 U.S. residents.

12 As I understand it, domestic economic stability
13 requires different responses to Treasury gold purchases and
14 sales originated with foreigners than to those originating
15 with U.S. residents.

16 For example, if U.S. residents design to hold less
17 paper and deposit money and, therefore, buy gold from the
18 Treasury, economic stability requires that the growth of money
19 defined as exchange media be decreased.

20 Slower money growth indeed is needed to counteract
21 the rise of its velocity which holding less money implies.
22 Compensatory decrease in money growth is assured by the
23 Treasury's gold sales to the public.

24 Sales reduce the monetary base and thereby the
25 growth of the money supply and in this case, the gold standard

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1 works very well. However, if foreigners buy gold for any
2 reason, including in response to fear that their other
3 property is going to be confiscated, there is no reason why
4 domestic money growth should change.
5 Nonetheless, the gold standard also produces slower
6 money growth in this case. That, in turn, will cause an
7 unnecessary recessionary or deflationary tendency in the
8 United States. In this case, the gold standard can be
9 considered destabilized.
10 It is also destabilizing if, for example, foreigners
11 suffer poor harvests and our grain exports increase. In this
12 case, gold will flow into the United States, increasing our
13 money growth and prices. It makes little sense to me that we
14 should undergo a burst of inflation, however, short, because
15 the Soviets for example suffer a poor agricultural harvest.
16 Historically, disturbances in the supply and demand
17 for gold originated abroad, which occurred while we were
18 in the gold exchange standard, cause substantial and long
19 cyclical movement in the U.S. production and prices between
20 1879 and when we resumed species payments in 1934 when we
21 suspended them.
22 The years of the gold standard were not always
23 golden, although once again, they were years characterized by
24 very long term price level stability. That in itself was a
25 considerable plus.

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A related problem with the gold standard is that domestic disturbances spill over abroad. For example, a fall in the U.S. public's demands for goods other than gold, or alternatively, a rise in demand for gold for ornamental purposes, will cause U.S. prices and output to fall and thereby, make the United States a relatively cheap place in which to buy and invest.

This, in turn, will attract capital as well as gold from abroad and thus require foreign countries to suffer recession and deflation as well as the U.S. The natural instinct of nations is to try to insulate domestic economic trends from foreign disturbances which would prove unwelcome.

In the years when the gold exchange standard was the world's monetary system, nations did not always play by its rules, as we discussed in the last meeting. The drawbacks to the gold standard are formidable.

Thus it seems to me that we should seek to design a monetary system that will provide for long-term price stability with the advantages of gold and do it as well as the gold standard did while at the same time insulate us from foreign gold supply and demand disturbances and changes in the demand for gold for ornamental purposes, which the gold standard fails to do in and of itself.

If we can, we should link this system to gold. That would meet our charge "to make recommendations concerning the

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1 role of gold in our domestic and international monetary
2 systems". Beyond that, take into account the psychological
3 advantages that gold does supply to us. I think we all have
4 recognized this.
5 It also would meet the goal of designing a workable
6 credible policy to stop inflation and keep it in check
7 permanently. Thus, in closing, I want to recommend that we
8 study Robert Weintraub's gold certificate reserve plan which
9 has been circulated by Senator Jepsen and study it very
10 carefully.
11 Within it may lie at least a kernel of a proposal
12 that we all could support. This plan has been discussed.
13 I'll not discuss it further. My reading of the plan is that
14 it would fill the bill of particulars that I have previously
15 outlined.
16 One, it links money creation to gold. Although it
17 does not require convertability, it does provide the psycho-
18 logical advantage of so doing. Secondly, it prevents exces-
19 sive money creation and thereby provides for long term price
20 stability. Third, it allows us to manage the creation of
21 money here independent of foreign disturbances or fluctuations
22 in the rate of gold production.
23 Whatever we decide to do, the problem to be solved
24 is clear. Eliminate the cycles in money supply growth as so
25 obviously illustrated by the chart that I have supplied which

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was produced earlier. If we cannot accomplish this, much of the inflation problem -- if we can accomplish this, much of the inflation problem will be solved automatically. Thank you, Mr. Secretary.

SECRETARY REGAN: Thank you, Senator. Sorry I was out of my chair at the time you arrived. Would anybody else like to be heard on this topic?

(No response.)

SECRETARY REGAN: I think that it is apparent that it is something that we should study further, and take a look at it. It seems, in going around the room, that you have struck a nerve here. We thank you for your paper and your thoughtfulness. We'll see you again on the 12th.

MR. WEINTRAUB: Thank you, Mr. Secretary.

CONGRESSMAN NEAL: Before you go, just one thing, if I can. We're going to have a chicken stew down at the Stouck's (phonetic) County Fair, and I wish you'd come down and explain that technical change that would be necessary to get from here to there.

(Laughter)

SECRETARY REGAN: I think we should now turn to the --

CONGRESSMAN NEAL: Excuse me. I'd just like to say that we're going to vote on it.

SECRETARY REGAN: Take a poll.

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MR. WEINTRAUB: I'll try.

SECRETARY REGAN: Mr. Costmagna has a proposal on the restoration of domestic convertability into gold. I'd like him to explain a little more his proposition and then have a discussion of that as the last item on our agenda.

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MR. COSTAMAGNA: Thank you, Mr. Secretary.

Prior to the July 16 meeting, the initial meeting of the Gold Commission, you will recall we were provided with a paper by Dr. Schwartz concerning the various options of monetary standards which were available for our consideration. There were seven in number that were presented to us.

We were also given the option of adding other alternatives. At the -- we were also given that option today in anticipation of each of us presenting our ideas for the final report.

At the July 16 meeting, I did not commit to any one of the seven options, although I did express an opinion in favor of gold backing for currency. The thoughts which I have expressed in this brief paper entitled "Convertability" is, as I view it, an eighth alternative.

The direction in which I am heading at this time is akin to the number one option presented in Dr. Schwartz's paper. It is different in that it does assume a central bank. There are four elements in this proposal. Most of you, I believe, have received a copy.

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To summarize, the elements are first of all, the American gold coins -- there would be production of American gold coins into which Federal Reserve notes would be convertible. By this, I mean newly minted gold coins.

Two, the conversion price would be the daily market price under this proposal, the daily market price for gold -- no fixed price. Three -- this of course would be somewhat controversial -- that only United States citizens could redeem Federal Reserve notes.

Fourth, as I expressed this morning, internationally, we would retain the status quo in that the dollar would be exchangeable for our productivity rather than for gold.

This paper is merely a skeletal proposal or another option. In the weeks to come, I will -- or I should say we -- will endeavor to put some flesh on the bones with the help of some of you, hopefully.

I would like to point out that there are two other elements that this proposal is based on. One is that according to the U.S. Bureau of Mines Publication, "Minerals and Materials", gold coin imports from 1974 through August of 1981 totalled 18,000,535 ounces, which at $450 an ounce, would be $8,340,000,750 in value. That is in the form of coins.

You saw the latest advertisement in a paper which circulated earlier about the Mexican peso coin, which is just

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apparently, newly arrived on the market.

The second element that this is based on is that according to Federal Reserve figures of last week, the currency outstanding was $139 billion and that our gold of approximately 270 million ounces, is valued at $120 billion. There is almost an equal relationship between the currency figure and the present gold bouillon figure.

This is an eighth alternative, as I expressed earlier. It is strictly for a domestic convertibility, if you would, or redeemability. It would not be a part of an international convertibility.

As I indicated earlier this morning, I believe that with other nations in the world adopting -- and many have already proceeded to do so, the coinage of gold. In time, as the leading nations who do produce coins and if they are circulated domestically, we may have the beginnings of an international system taking effect de facto rather than de jure.

I am sure you all have many questions on this. The idea of limiting it to United States citizens I think I have expressed in the paper briefly and possibly out of an over-abundance of patriotism, and also concern that in the past we did sell a considerable amount of our gold to foreigners. I understand the reason why. It was part of the system.

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I do believe that this is putting our money into the hands of the people, as Congressman Paul has expressed earlier. The alternative to limiting it to just United States citizens, of course, would be to allow anyone to redeem their Federal Reserve notes into gold coinage.

Then you might have to consider the possibility of limiting the exportation thereof. That's why I came to the conclusion of the former rather than the latter. I do realize that could be somewhat controversial.

SECRETARY REGAN: How many nations' gold coins now circulate in the United States?

MR. COSTAMAGNA: The information I have, Mr. Secretary, includes just these figures -- we're including just South Africa, Mexico, Switzerland and Canada.

SECRETARY REGAN: Any idea of the amounts?

MR. COSTAMAGNA: Yes. Oh, circulating?

SECRETARY REGAN: I mean that have been purchased by Americans that are circulating.

MR. COSTAMAGNA: Yes. There are 18,535,000.

SECRETARY REGAN: Coins or dollars?

MR. COSTAMAGNA: Coins.

DR. SCHWARTZ: That's gold.

MR. COSTAMAGNA: Well, I have assumed that --

SECRETARY REGAN: Each coin is one ounce?

MR. COSTAMAGNA: -- they were ounces. This table I

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1 have here says thousand troy ounces. This is taken from the
2 journal I cited earlier.
3 DR. SCHWARTZ: Yes.
4 MR. COSTAMAGNA: So there are 18,535,000 coins that
5 were purchased by U.S. citizens or imported into this country
6 since 1974.
7 SECRETARY REGAN: What sort of premiums have they
8 been paying?
9 MR. COSTAMAGNA: In anticipation of that question,
10 on Friday, I called Denver, Colorado, and got a recent quote
11 on Krugerrands. I thought it was quite interesting.
12 The spot market price was $433 an ounce on Friday.
13 That's what they call the unmanufactured price of gold coins.
14 The bid in ask on Krugerrands was $444, $447. If one wished
15 to purchase those, you'd pay plus a three percent commission
16 and a delivery charge of $12.50. On the sale side, you'd
17 pay a one to two percent commission.
18 Now, as I understand it, the difference between the
19 $433 and the $444 is the cost of minting that coin above the
20 spot price. These are coins that have milled edges as
21 compared to medallions, which it is my understanding, do not
22 have milled edges.
23 I don't mean to deprive brokers of their commis-
24 sions, sir, but -- having been one myself many years ago --
25 but I do believe that if coins were sold directly through

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banks, there would not have to be a bid in ask because the coin itself would be money. For example, take Friday's price of $444, $447, one would merely pay the $447 to buy one ounce of a double eagle or whatever it is called, or a half ounce or a quarter ounce if such is possible.

The advantage of that, as I see it, would encourage Americans to sell their gold when they are in need of cash, back to the bank rather than to allow it to go out of the country.

In other words, if a Hong Kong merchant were selling suits in San Francisco and I wanted to buy a $447 suit, I might give him a gold coin. That would -- that ability to purchase goods on the market is not what I have suggested in limiting the redemption. Merely, the initial redemption, not the transferability or the negotiatability of that coin. If an American wished to buy a Hong Kong suit, he could do so.

But if the Hong Kong suit cost $447, the individual might think of just redeeming it at the bank and giving the merchant the paper rather than the gold coin.

SECRETARY REGAN: I follow. We have another situation here which the Treasury is involved in. I wonder if you have any comment or if you have any knowledge of it.

As you know, there has been a proposal that the United States issue coins in connection with the U.S. Olympics. A bill has been introduced into the Senate. As a matter of

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fact, I think it has passed the Banking Committee, regarding the coinage of these. These would be actually coins -- both silver and gold.

The gold coins, while it's not final, might be a one, a ten, a fifty or $100 gold piece to be issued. It's supposedly not to be circulated -- sold mainly for collections and things of that nature.

What effect, if any, does that have on your thinking about what the United States is doing regarding gold coinage?

MR. COSTAMAGNA: Well, I would think it is much like the medallions. I can't believe that there will be much of a market for them. I went to the post office recently and picked up this gold medallion circular and I had to go to two post offices, by the way, before I could find one.

SECRETARY REGAN: Well, it's a lousy marketing job that's being done by the Treasury on that.

MR. COSTAMAGNA: I really would not have too much of an opinion on the Olympic coin. I just would not believe it's money. I would feel that it would be a -- my understanding of the coins as a way of helping to finance the Olympics.

SECRETARY REGAN: That's the idea behind it, yes, to finance the Olympics.

MR. COSTAMAGNA: I think that is a very noble idea. The basic question which you suggest about whether -- how it

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1 would affect, I really wouldn't have an opinion.

2 SECRETARY REGAN: Thank you. Jerry Jordan had his

3 hand up.

4 MR. JORDAN: Pass.

5 SECRETARY REGAN: Pass? Chuck?

6 GOVERNOR PARTEE: Well, I was just going to ask

7 Mr. Costamagna -- what we're really talking about here is

8 something like the Mexican situation. I take it we would

9 issue an ounce, a half ounce and probably a quarter ounce.

10 We would mill the edges and guarantee the fineness and weight

11 of the gold.

12 MR. COSTAMAGNA: Yes.

13 GOVERNOR PARTEE: This, however, would be at

14 whatever the gold's market price is plus, I suppose, a small

15 markup for the cost of coinage or anything that the Treasury

16 would like to have, as long as it's not large.

17 I think if it's large, it would have quite an

18 effect on what I'm going to ask. This would seem, on the

19 face of it, to run exactly opposite to Mr. Weintraub's pro-

20 posal, for example, if in fact you would visualize that a

21 large number of such coins would be demanded by the public

22 because they would come, of course, from the Treasury gold

23 stock. Then the Treasury gold stock would decline.

24 Now, do you -- 18 million, although it sounds like

25 a large number, isn't that many compared with the Treasury

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1 gold stock. Do you anticipate that there would be a very
2 very much larger demand for such coins than there are for
3 Krugerrands and the Mexican and the Canadian and so forth?
4 MR. COSTAMAGNA: I think the answer to that
5 depends -- now we get back to the question of money supply.
6 I have to believe that given today, if we said a
7 gold coin was worth $450 and we all had the right to redeem
8 that. If we believed that our monetary authorities were
9 curtailing the money supply, we probably would not redeem.
10 Those dollars, in the meantime, would be earning
11 interest. Gold, being sterile, would not earn interest.
12 Therefore, we would think it to our advantage to hold the
13 paper.
14 However, if the opposite were true, that the money
15 supply were being increased beyond the average -- six, seven
16 or eight percent -- then the person would be wise to redeem
17 some as currency. Invariably, I believe under those conditions,
18 from the experience of the last five or six years, that it
19 would force the price of gold upwards.
20 So in answer to your question, I believe that what
21 the American people would do under the circumstances, would
22 be to evaluate what are the monetary authorities doing, at
23 least those who understood that. If they did not like what
24 was being done, they would then have the option to redeem their
25 paper into gold coins.

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If they, in turn, liked what was being done, they could retain the paper. So, in answer to your question, I would say it very much depends on what the monetary authorities would be doing. This would determine the demand for gold coins.

1 GOVERNOR PARTEE: Well, would you have in mind
2 some kind of a discipline?
3 MS. COSTAMAGNA: Well, that would be --
4 GOVERNOR PARTEE: But that is essentially --
5 MR. COSTAMAGNA: Well, I would find it hard to
6 believe that all of the dollars would be redeemed because
7 of the number of views that people have. Some people would
8 like it --
9 GOVERNOR PARTEE: But you have to recognize that
10 you can't just look at the currency total. You can cash
11 in your demand deposits. You can cash in your Treasury
12 Bills for demand deposits which you, in turn, can buy gold
13 with. The potential is probably several trillion dollars
14 of demand for gold.
15 MR. COSTAMAGNA: Then that would be a problem
16 if all of that were allowed to be redeemed, but I don't --
17 GOVERNOR PARTEE: Yeah, I mean, there is no way
18 to stop it.
19 SECRETARY REGAN: Dr. Schwartz is next.
20 DR. SCHWARTZ: My question relates, first of
21 all, is what is happening to the Federal Reserve note issue?
22 Once a note has been redeemed, retired, doesn't exist anymore,
23 that is not allowed to issue another one in its place,
24 is that right? I mean, that's crucial because then the
25 Federal Reserve note issue is declining along with the

1 transfer of gold to the public that has redeemed Federal
2 Reserve notes, is that right?
3 MR. COSTAMAGNA: When that gold is turned in,
4 then a new federal note is created, is it not?
5 DR. SCHWARTZ: So that you visualize this as
6 responding to a public demand for gold?
7 MR. COSTAMAGNA: Yeah, I --
8 DR. SCHWARTZ: My trouble -- I mean, I've seen
9 a number of proposals along these lines, and what I don't
10 understand, there is now a free market for gold. Okay,
11 you cannot buy gold -- American gold coins, but if you mis-
12 trust the American currency, you can go out and buy
13 gold and hold it.
14 MR. COSTAMAGNA: That's right.
15 DR. SCHWARTZ: But there does not seem to be
16 an overwhelming demand for gold given the instability of
17 a price level. What, in your proposal, would be responding
18 to some public need or demand for it?
19 MR. COSTAMAGNA: I think a great deal of it is
20 psychological. If the public has the ability to redeem
21 its dollars, it may probably in most respects would not
22 do it but knowing that it's available and able to do so,
23 a psychological element.
24 DR. SCHWARTZ: But it's now got a free gold market,
25 if you take Federal Reserve notes to the free gold market

1 and buy gold.

2 MR. COSTAMAGNA: But when we do that, we're dis-

3 turbing our balance of payments because all we're buying

4 is foreign coins.

5 DR. SCHWARTZ: But they don't have to buy foreign

6 coins. They can buy foreign bullion. So that the object

7 of your proposal is to protect the balance of payments

8 when gold is treated as --

9 MR. COSTAMAGNA: Well, I would say that is one

10 of the elements, that if we bought in the last six years

11 a total of over $8 billion worth of foreign gold coin,

12 I have to believe that's a significant amount. It's certainly

13 something that we shouldn't ignore. That money is going

14 out of the country. I have to believe that the advertisement

15 there for the Mexican pesos was certainly attracted by

16 the American market for gold coins.

17 SECRETARY REGAN: Thank you. The next question

18 was Governor Rice.

19 GOVERNOR RICE: Chuck asked the same question

20 I wanted to ask. Just a minor question: How would --

21 where would you get the price, the daily price for your

22 gold coins?

23 MR. COSTAMAGNA: Well --

24 GOVERNOR RICE: London gold market?

25 MR. COSTAMAGNA: It was just as I received that

price on Friday when I phoned Denver that happened to be a coin dealer, and he knew the spot price for gold that particular day. I would imagine the banks would have to do the same thing by getting that spot price most likely based either on New York or London; and it would be just as each day the Dow Jones' Industrial Average is in the paper, the price of gold would be in the paper.

It is now in the commodity markets as the price of General Motors or the price of anything. When an individual went to the bank to redeem paper or gold, he would know what the exact price was on any given day.

GOVERNOR RICE: Well, the thing I was concerned about is the possibility that the price of converting notes into coin in the United States might be lower on any particular day than, say, the price in certain places abroad, in which case there would be an incentive to arbitrage gold outside the United States in quite large -- in quite large quantities. And, of course, if this happens often enough, we will see a substantial diminution in the quantity of our -- in the size of our gold stock.

MR. COSTAMAGNA: Well, I think that's -- well --

GOVERNOR RICE: It's a risk.

MR. COSTAMAGNA: Yes, but, again, I would have to say that the reason I suggested that this be limited to U.S. citizens would be on the basis of an appeal to

1 some patriotism. I think if the average person who is
2 going to redeem some dollars and old gold, just as they
3 are doing today, they are not necessarily ready to sell
4 them just based on an arbitrage figure; at least, I don't
5 believe so. And if it were done in great quantities, just,
6 in fact, this booklet, our medalian says, that purchase
7 of significant quantities is not permissible or, at least,
8 is restricted.
9 Maybe that's an answer. And, besides, I believe
10 that people who are going to be arbitragers in large quanti-
11 ties are going to deal in bullion rather than coins.
12 SECRETARY REGAN: Congressman Neal and then Congress-
13 man Paul.
14 CONGRESSMAN NEAL: I had the opportunity to dis-
15 cuss this idea with Mr. Costamagna. We ended up on the
16 same airplane one day, and I was quite taken by it because,
17 as I understood part of what he was trying to accomplish,
18 it was to help -- help Americans restore trust in their
19 money, give them the opportunity to do what they thought
20 might help restore some trust. And it just occurred to
21 me, though, a few minutes ago that it might be possible
22 that we would, in fact, create some distrust if, in fact,
23 the monetary authorities did their job very well and we
24 got inflation well under control and the price of gold
25 went down considerably, there might be -- have been a lot

1 of Americans who had bought gold at the market price of
2 $4.50 or so and find that it's only worth $2-300 and then
3 feel that they had been somehow betrayed by their government.
4 And I don't know if that's all that likely or not. I don't
5 know if the first part of that equation is all that likely.
6 History doesn't suggest so but it's certainly very possible
7 and I don't know what kind of risk that might be, even
8 though there might be one. It might be worth thinking
9 about.
10 MR. COSTAMAGNA: I have given that some thought
11 and it seems to me that it will cut both ways: Those who
12 will hold paper will have to take the same risks as those
13 who wish to hold gold just as in the past, it has actually
14 been a risk to hold paper because the purchasing power
15 for paper has gone down so it will --
16 Yes, if you have a fluctuating price, that's
17 one of the risks.
18 CONGRESSMAN NEAL: I just think that if we ever
19 were to do something like this, that we would certainly
20 want to make it clear that there was the -- there was a
21 risk involved, that we make it clear that there was that
22 kind of risk.
23 And let me just ask one other question, if I
24 can.
25 MR. COSTAMAGNA: Yes, sir.

1 CONGRESSMAN NEAL: Would there be any prohibition
2 under law now from some entrepreneur coining some gold
3 coins and selling them at a market price?
4 DR. SCHWARTZ: There is a firm in Kansas City,
5 I believe, that coins gold coins, and you can go there
6 and buy them.
7 SECRETARY REGAN: Let's have an understanding,
8 though, of the gold coin, not coin of the realm. That
9 has to be Treasury.
10 DR. SCHWARTZ: That's right.
11 SECRETARY REGAN: But there is nothing to stop
12 a private mint from coining one ounce gold, whatever.
13 CONGRESSMAN NEAL: I wonder why it's not done.
14 It would seem to me that that someone might -- you say
15 it is done?
16 DR. SCHWARTZ: It is done, and you can arrange
17 contracts in which you stipulate that payment will be in
18 these gold coins.
19 CONGRESSMAN NEAL: I guess this outfit, though,
20 doesn't advertise as effectively as the South Africans
21 and the Canadians and the Mexicans and so on.
22 DR. SCHWARTZ: I don't know, but --
23 CONGRESSMAN NEAL: The other concern of Mr.
24 Costamagna's was this outflow of currency primarily.
25 DR. SCHWARTZ: There would have to be some kind

1 of exchange control in order to limit this convertibility
2 to --
3 MR. COSTAMAGNA: Well, I'm sure there are problems.
4 I'm just proposing this as the embryo of an idea, the skeletal
5 outline, as I call it. I trust that in the next months
6 as we develop ideas, we can add a little flesh to the bones,
7 so to speak. As I said, it's just, as I see it, is an
8 eighth alternative to the seven that Dr. Schwartz presented
9 to us, and there may be well a ninth, a tenth, and an
10 eleventh. It's just something I felt a desire to put down
11 in writing.
12 SECRETARY REGAN: Congressman Paul?
13 CONGRESSMAN PAUL: Mr. Chairman, I'd like to
14 compliment the gentleman for his presentation because I
15 think it deserves a lot of serious consideration. It has
16 some things in it I have proposed, and some new things,
17 as well, and it is my understanding that banks or the govern-
18 ment would buy and sell coins as well as just sell coins,
19 which I think was more like my proposal.
20 I think the point you make about Americans buying
21 is important. I probably have a few questions about whether
22 that is best thing or whether it is very effective if we
23 limit only the purchase of coins to American citizens as
24 a practical thing.
25 I would assume that a foreigner, if he wanted

1 them, it wouldn't take too much for him to have an emissary
2 to come and buy the coins. But I think your point is so
3 well taken when you think that when Americans weren't allowed
4 to own gold, when gold was taken from them at 20 and quickly
5 made -- equated to a value of $35, and then it was sold
6 for many, many years up until 1971 at $35 an ounce to a
7 foreigner, I can certainly sympathize with what you're
8 saying, as well as seeing now that many of our dollars
9 go over to South Africa, to Mexico to buy another coin.
10 My concern only would be that if we always advocate
11 maximum amount of freedom, individuals -- regardless of
12 what their citizenship is -- they would probably be allowed
13 to buy, but I certainly understand your concern.
14 And the other question of whether it's very practi-
15 cal or not, I think the question brought by Governor Partee
16 about what would happen if all of a sudden we sold a
17 lot of gold, and the gold reserves were complete dissipated.
18 Of course, I think the implication is that that is the
19 vote of the public saying, you know, there is something
20 wrong, you know, with the value of the dollar. Everybody
21 is leaving the dollar and they're going into these gold
22 coins which are now American gold coins rather than the
23 Mexican gold coins.
24 It does raise the question -- and I believe it's
25 been raised by some in the Administration -- about what

1 the policy of gold should be, and this is not my position
2 but it does raise the question: If gold were being sold
3 and there was a good market for it, whether the government
4 actually should make a purchase of gold, and that raises
5 that possibility. I'm not necessarily advocating that.
6 But back to the -- back to the discussion about
7 why this private mint in Kansas City isn't more successful.
8 I think there is a limitation on the success of even
9 Hrugerrands in Mexican coins. They do better mainly because
10 it's government coin. I think that's the main reason.
11 But if we want to allow a little bit of competition --
12 and this is what it is. This is the market place being
13 permitted to vote on the value of the currency. But if
14 we really wanted to allow this, there is a very specific
15 reason why more coins aren't bought and more coins -- or
16 coins might not even be used, because there have been
17 obstacles put in the place of the usage of gold coins.
18 For instance, if we go to the mint or if we buy
19 Mexican coin, we pay a tax to buy it. We have a sales
20 tax. That's a little bit of a disadvantage compared to
21 using a Federal Reserve note. There is a premium attached
22 to it.
23 And also if there is a depreciation of value
24 of that coin when it is reused again to buy a $500 suit
25 instead of a $400 suit, we'd better be prepared to talk

1 to the Federal Reserve agent or the IRS agent to pay a
2 tax on that. So there are several things that impede us
3 from encouraging that.
4 But I think the outstanding part of the proposal
5 is that it says something about the benefits of gold because
6 I think no matter who talks about it, there is a certain
7 recognition that there is something beneficial about gold.
8 But the magnificant part about this is, there is so much
9 less disruption with this. This is not an attack on current
10 policy, and this is not an insistence that we change immediate-
11 ly tomorrow the whole international banking structure.
12 And yet, it is so demonstrative of our belief that competi-
13 tion exists in this country and that currency should stand
14 on its merit, and I think it's a very wise consideration
15 and would be a worthwhile step, something along these lines.
16 SECRETARY REGAN: Thank you. Governor Wallich?
17 GOVERNOR WALLICH: Well, I think, Mr. Chairman,
18 the principal points have been raised. One is which --
19 that Mrs. Schwartz raised, is the money that goes into
20 the Treasury and this gold that goes in and their currency
21 is redeemed, is that sterilized or not? Presumably, the
22 Treasury has to give the Fed at least $42.42 because a
23 gold certificate must now be redeemed since the gold has
24 gone out of the Treasury. What does the Treasury do with
25 the other $00 and some? Does it spend it or does it sterilize

1 it somewhat? How -- if it were to sterilize this by holding
2 it in an active account, say, the money supplies reduced,
3 therefore, by $450 per ounce sold, is the Federal Reserve
4 allowed to make up for that by buying government securities
5 and restoring bank reserves with the money supply back
6 to their original level?
7 If the Fed could do that, then this would be
8 a bottomless pit. The money supply would never change,
9 and the desired discipline that you have in mind, I think,
10 would not really be exerpt. So it's really the decisions
11 that are made with respect to these subsequent moves that
12 are important.
13 And as for the -- how the coin is purchased by
14 citizens, presumably we'd buy it from dealers and banks
15 because not everybody could go to the Treasury and deal
16 directly. The dealer, being the American citizen, presumably
17 can buy as much as he likes. What the dealer doesn't have,
18 he buys it from the Treasury or buys it in the market.
19 He'll buy whatever is cheapest. So the Treasury becomes
20 just one more source of gold in competition with every
21 other source for gold, and the issue then really is, are
22 we wise in liquidating our gold holdings or are we not?
23 I would strongly feel that we would not be wise
24 in liquidating our holdings.
25 DR. SCHWARTZ: Now, I would like to suggest that

1 that -- the proposal that Mr. Costamagna made could very
2 well be subsumed under Governor Wallich's point: Reduce
3 the role of gold, for example, through a program of sales
4 of official stocks to the market.
5 This would be a way of denuding the Treasury
6 of its gold holdings and, although you can argue that you're
7 providing an alternative to currency issues for holding
8 by the public, the effect of the program is just point
9 two in Governor Wallich's draft outline. And, in fact,
10 you might ask the question, if you really want what's held
11 by the Treasury transferred in some way to the public,
12 you could do it more effectively by the auction sales method,
13 just as the Treasury was selling gold from '76 to '78.
14 That would put it in the hands of the citizens
15 of this country.
16 MR. COSTAMAGNA: I think possibly the difference
17 is that what I'm looking at is gold as money.
18 DR. SCHWARTZ: Yes.
19 MR. COSTAMAGNA: Not just a commodity, and that
20 that coin would be money, and that you would go to a bank,
21 not necessarily -- not a broker or not a dealer, but you
22 would go to the bank just as we go now to cash a check
23 and get cash. It would be part of the banking system.
24 The problems that you raised, Dr. Wallich,
25 certainly are highly important problems, and I'm sure the

1 expertise of your offices and yourselves, members of the
2 Federal Reserve, would certainly have to play a role if
3 this is to become a plan to determine how it can be done
4 effectively without creating a bottomless pit.
5 But what I think I've tried to express is that
6 as I view convertibility and we may have misused the word
7 technically, but -- and it has been a fiction in many respects
8 over the last many years, and, in essence, what I've really
9 done is to perpetuate the fiction, but in favor of American
10 citizens.
11 GOVERNOR PARTEE: I think, Mr. Chairman, that
12 it's not really fair to characterize this as a denuding
13 of the Treasury, a word you used. That that could be more
14 effectively accomplished by the sale of bullion to foreigners,
15 say. I mean, you know, there is something here, and the
16 kinds of problems that Henry mentions can be dealt with.
17 You can count this as part of the money supply, and why
18 not?
19 If we have 130 -- whatever it was, 140 billion
20 in currency outstanding which doesn't draw interest, far
21 from all of that circulates. Yet we count as a part of
22 money supply. Why not count the gold coins? I don't see
23 any reason, and I think we could, in fact, neutralize the
24 fiscal effect of the receipts without too much difficulty.
25 So that I don't --I really think there is something

1 a little more substantial here than just a way of getting
2 rid of the gold stock.
3 SECRETARY REGAN: Congressman Wylie had his hand
4 up.
5 CONGRESSMAN WYLIE: Thank you. Well, Governor
6 Partee is making a point that I thought that I might want
7 to make, too. If we make it a gold coin, doesn't it become
8 a part of the money supply rather than if we just sell
9 the gold in the market place as was previously suggested?
10 I might say that I earlier expressed myself
11 as having some sympathy with the idea of the gold coin,
12 and when you brought up the Olympic gold coin, that had
13 some appeal to me.
14 The problem that I had with that, as I reflected
15 on it, was that I think you said that the Olympic gold
16 coin would be a collectors item. It would not be legal
17 tender or would be --
18 SECRETARY REGAN: The proposal -- the proposal
19 is that they would be sold in sets with numismatic value,
20 and would be sold at a considerable mark-up. So I would
21 doubt, although technically they could be used as a coin
22 and payment at that, because of the high mark-up, it really
23 wouldn't be an effective way to pay off one's debts.
24 CONGRESSMAN WYLIE: Does the Senate -- does the
25 Senate bill have an indication as to how much the mark-up

1 will be or is that left to the discretion of Treasury?

2 SECRETARY REGAN: As I understand it -- and this

3 is strictly from memory now -- it will be somewhere in

4 the neighborhood of at least -- well, I know that they

5 have promised us the cost plus 20 percent in Treasury,

6 and then they want to raise these additional funds for

7 the Olympics themselves so it has to be at least 50 percent,

8 if not more.

9 CONGRESSMAN WYLIE: Fifty percent, so at today's

10 gold prices of $430 an ounce, it would have to go up another

11 couple hundred dollars an ounce before it would be worth-

12 while as a medium of exchange.

13 In the case of the Krugerrand, I think that --

14 if I've figured up correctly here -- the premium is some-

15 where around seven to eight percent, which is within the

16 realm of feasibility as far as its ability to circulate.

17 I don't know. As I say, I want to hear arguments

18 the other way, but I look at the benefit of a gold coin

19 here perhaps as twofold: One, that it might satisfy to

20 some extent the desire of Americans to buy gold and to

21 own gold, which we hear so much about, but I think it could

22 serve as a kind of a mechanism if we get the Fed to take

23 back some of its -- some of its money. How much, I don't

24 know -- some of its paper money which had some salutary

25 effect, too.

1 The problem that I have with it is how many of
2 these gold coins would we mint? Who would have the discre-
3 tion of many, the number? And in what denominations?
4 But, as I say, if we can get ourselves over those
5 hurdles, why, I think that the idea of minting an American
6 gold coin has some appeal.
7 SECRETARY REGAN: Well, I think that that's some-
8 thing that we will be working on. I know Mr. Costamagna
9 said that this is merely his initial proposal. He wanted
10 to see what reaction was, and he'd try to flesh it out
11 so all the time's ahead.
12 Does anybody else wnat to be heard on this item?
13 If not, just prior to adjourning, let me remind you now
14 of what's -- as I understand it, what's going to happen
15 at our next meeting. We will be meeting on November 12
16 and November 13. We have panels of 24 witnesses. Each
17 panel will have a half hour or so. There will be -- we'll
18 have to ask them to be brief in their openint remarks and
19 submit things for the record, and we'll have to limit the
20 questions as we go around the table, or else we'll never
21 get finished during that period of time.
22 So I will ask, rather than lecture to you, when
23 we open those public hearings that you try to keep your
24 questions down to about -- the question period down to
25 five minutes; again, of course, depending upon the length

1 and the type of answer that you get from the witness to
2 your question.
3 Anybody have any other comments they wish to
4 make on that? Yes, Chuck?
5 GOVERNOR PARTEE: I had something on unfinished
6 business.
7 SECRETARY REGAN: Oh.
8 GOVERNOR PARTEE: Sorry.
9 SECRETARY REGAN: And as far as the witnesses
10 themselves, as you know, we're trying to accomodate as
11 many of the witnesses as were suggested by members of this
12 panel as we possibly can. We're trying to be imminantly
13 fair about it in the way that we've done it to get various
14 shades of opinion represented, and others who wish to speak
15 but who cannot be accomodated obviously can submit papers
16 for the record.
17 Okay, Chuck, what is it?
18 GOVERNOR PARTEE: Well, while you were gone this
19 morning, Mr. Secretary, the group adopted the alternative
20 outline for presentation of a report along the lines that
21 Governor Wallich had suggested, and I just wanted to point
22 out that there are a few things that need to be researched
23 in connection with that report.
24 First, it occurs to me, in point one, it was
25 suggested that we might want to see whether the Commission

1 could serve a constructive purpose by validating or authenti-
2 cating the existence of the gold stock. That's a technical
3 question, and what's involved in the technical work that
4 would have to be done to make it possible for us to do
5 that I think is something that I would like to see explored,
6 and I really don't know quite what's involved.
7 It would presumably involve some kind of an auditor
8 from outside the Treasury or the Federal Reserve Control
9 that would be used by the Commission.
10 SECRETARY REGAN: In that connection, would you
11 suggest that perhaps this Gold Commission should meet at
12 Fort Knox?
13 GOVERNOR PARTEE: Well, perhaps there could be
14 a committee of the Gold Commission. I don't know. I --
15 you know, it's a highly technical question in how you assay
16 it.
17 CONGRESSMAN WYLIE: Mr. Secretary, I suggested
18 that at lunch. I think that would have a very salutary
19 effect.
20 SECRETARY REGAN: We'd have to pay our own pay.
21 I'm not sure the Treasury could spring for it.
22 GOVERNOR PARTEE: Sell some gold. The second
23 suggestion, we know there is an ongoing accounting for
24 the gold stock.
25 SECRETARY REGAN: Then perhaps we ought to have

1 a report as to what that is, and whether that would be
2 enough of a --
3 GOVERNOR PARTEE: That's where it started, under
4 Secretary Simon.
5 SECRETARY REGAN: Yes.
6 GOVERNOR PARTEE: And there is an ongoing --
7 by GAO, I believe, and it may be that they can do a more
8 complete job, and we might be able to accept it.
9 In any event, it needs to be explored. The second
10 point is -- well, closely related to Mr. Costamagna's point
11 but also to the fact that we do have a medallion, improving
12 the methodology for use of the medallion or gold coin,
13 and I think some work needs to be done there.
14 For example, Congressman Paul, I think, mentioned
15 that you had to pay sales tax on the purchase of these
16 things.
17 Well, that's a -- and that that seems wrong if,
18 in fact, it's part of the money supply. If it's just a
19 little piece of jewelry, why, it seems right, but, you
20 know, one would have to have a view on that.
21 And thirdly, it was suggested by Congressman
22 Paul that added to the outline would be a consideration
23 of whether or not the Commission should suggest to the
24 Congress that we ask for our gold back from the IMF, and
25 that was accepted by the group, and I think we need a legal

1 paper on that because I don't know whether we have the
2 authority to ask for the gold back or not. So that I think
3 that the Secretariat ought to take a look at the new outline,
4 and think in terms of fleshing it out and the various aspects
5 that are involved.
6 SECRETARY REGAN: We will undertake that. Anybody
7 have anything else that they wish to bring up?
8 All right, well, thank you very much. A very
9 orderly meeting. We will meet on the 12th.
10 (Whereupon, the meeting was hereby adjourned
11 at 3:55 p.m., to be reconvened on November 12, 1981.)
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MEETING OF THE GOLD COMMISSION

The Gold Commission met on Friday, January 8, 1982, 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.

U.S. DEPARTMENT OF THE TREASURY

Fifth Meeting

of the

Gold Commission

Friday, January 8, 1982

Department of the Treasury
15th and Pennsylvania, N.W.
Cash Room
Washington, D.C.

The meeting in the above-entitled matter was convened, pursuant to notice, on Friday, January 8, 1982, at 10:15 o'clock a.m.

1 APPEARANCES:

2 Members

3 Secretary Regan

4

5 Mr. Costamagna
Mr. Coyne
6 Senator Dodd
Senator Jepsen
7 Mr. Jordan
Mr. Lehrman
8 Dr. McCracken
Mr. Neal
9 Governor Partee
Congressman Paul
10 Mr. Reuss
Governor Rice
11 Senator Schmitt
Governor Wallich
12 Dr. Weidenbaum
Mr. Wylie

13

Also Present:

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15 Under Secretary Sprinkel
Assistant Secretary Leland
16 Assistant Secretary Roberts
Dr. Anna Schwartz
17 Nancy Jacklin, Esq.

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I N D E X

1 P R O C E E D I N G S

2 (10:15 a.m.)

3 DR. SPRINKEL: Good morning, ladies and gentlemen.
4 We still do not have a quorum. I understand one is en route
5 and another one will be here in 25 or 30 minutes. I suggest
6 if it is agreeable that we begin our informal discussion and
7 try to avoid any vote until a quorum does arrive.
8 Welcome to this meeting. This is the fifth meeting
9 of the Gold Commission. Secretary Regan has again been
10 called to the White House. He asked me to convey his apologies
11 for his absence. He expects to be with us in about an hour.
12 We have circulated two staff papers on questions
13 raised at the last meeting; one, discussing the implication
14 of U.S. IMF obligations for the establishment of a gold
15 standard and the second, discussing the implications of legal
16 tender status.
17 We had hoped also to have a paper responding to
18 Mr. Neal's question on abolition of the capital gains tax on
19 gold. It is in process, but unfortunately is not completed.
20 We will circulate it to the Commission as soon as possible,
21 hopefully next week.
22 So, I suggest we proceed with the proposed agenda.
23 At earlier meetings, discussions of specific issues, such as
24 audit of the gold stock and issuance of gold coins has been
25 suggested . Our suggested agenda item two is intended to

1 provide the opportunity for a discussion of these and other
2 specific questions.
3 Dr. Schwartz has prepared a tabular summary of
4 responses to her questionnaire which we have made available
5 to each member at the table. I want to thank each of you for
6 responding.
7 The point of the questionnaire was not to record
8 votes in a final way, but to provide a clearer basis for our
9 discussion of specific issues and possible recommendations,
10 and to identify where there may be areas of agreement.
11 I understand the difficulty of trying to deal with
12 complex issues with a check-mark. The questions obviously
13 could not be fully answered in that form. A number of members
14 did include general comments and various marginal notations
15 in their responses.
16 I will now ask Dr. Schwartz to give us an oral
17 summary of the responses, including the general comments she
18 received. Mr. Coyne, I might add, asked that his own
19 questionnaire be circulated to members.
20 In the time available, we have not nearly as full a
21 response as to Dr. Schwartz's questionnaire, but we will
22 circulate a summary of that as well when the responses are
23 received.
24 Dr. Schwartz, would you give us a summary of the
25 reply of the members of the Commission?

1 DR. SCHWARTZ: Yes. Since you have the summary
2 tabulation in front of you, it isn't really essential for me
3 to read each question and give you the tally of support or
4 nonsupport for each of the issues that are posed in this
5 questionnaire.
6 As Secretary Sprinkel indicated, some of you
7 responded by revising the language of some of the questions.
8 I will keep that in mind in any subsequent use that I make of
9 these responses.
10 Some of you qualified your answers. Some of the
11 qualifications are noted on the tally sheet, but I have even
12 a fuller record of qualifications than is listed here.
13 You can run your eye down each of the columns and
14 see where substantial majorities exist in support of one of
15 the issues where the very mixed feelings are evident on the
16 basis of the vote.
17 What I propose to do during the week ahead is to
18 see if I can formulate some recommendations on the basis of
19 your responses, then submit them to you to see if they really
20 express the views which you entertain on these issues. In
21 that way, try to complete the introductory chapter to the
22 report that was submitted to you at the meeting before last.
23 Then have that in a version which you can then
24 review in the same kind of detail that I hope you will review
25 Chapters One and Two that have already been sent to you.

1 Until I get the recommendations in some kind of
2 orderly way, it will be difficult for me to prepare the final
3 chapter, which is going to be the role of gold in which I
4 hope to review all of the proposals that have been made to the
5 members on how the role of gold might be incorporated in the
6 domestic or international monetary arrangements of the United
7 States.
8 It is my belief that the way the report is
9 structured will permit a reference to something in Chapter
10 Four as support for a recommendation that will appear in the
11 introductory chapter.
12 That is why I would like to get the recommendations
13 as firmly in hand as possible, as quickly as possible, so
14 that I can go ahead then with the preparation of this
15 Chapter Four which I regard as the key chapter of the report
16 and the one that will be the culminating chapter of the report.
17 I don't know, apart from that, how we should
18 proceed with respect to the responses that you have made to
19 these questions. If anybody would like to take up a specific
20 question to express his own views in greater detail than is
21 possible, as Secretary Sprinkel said, to denote by simply
22 checking a column. Perhaps that would be the most useful
23 way to proceed.
24 DR. SPRINKEL: For the second item on the agenda,
25 it was my intent to go through each specific question and

1 solicit observations from the Commission members. Do you
2 have anymore more general comments to make on the question-
3 naire?
4 DR. SCHWARTZ: No, I don't.
5 DR. SPRINKEL: Well, then I suggest, if it is
6 agreeable, that we begin to go through each of the questions
7 and try to identify points where agreements or differences
8 exist, and also identify areas where you may want further
9 study.
10 I think we should regard this as a tentative
11 discussion. It will be our first detailed discussion of a
12 number of issues. I am sure we will want time to reflect
13 on what is said before coming to final conclusions or
14 casting definitive votes.
15 It is important, as I am sure you realize, that we
16 make progress on this matter today, because this discussion
17 will be the basis on which Dr. Schwartz will begin to draft
18 the policy part of your report.
19 So, I suggest we start off in the order the
20 questions were posed in the questionnaire. Clearly, there
21 are great differences in policy importance among these
22 questions and various overlaps, both between the questions
23 and the questions that Mr. Coyne has submitted.
24 But I think this is the most orderly way to
25 proceed, so if it is agreeable let us ask you to read the

first question and solicit comments from the members.

DR. SCHWARTZ: As you are aware, I organized the questions in two sets. One relating to domestic monetary arrangements, the other relating to international monetary arrangements.

Under domestic monetary arrangements, I grouped the questions according to whether the consequences would affect Treasury operations, Federal Reserve operations or private sector operations.

We begin, then, with the questions that might have an effect on Treasury operations. The first question is, "Are you satisfied with the current Treasury continuing audit of the gold stock?"

Of the 13 responses that were submitted, 12 were affirmative and one was negative. Is there -- yes?

DR. PAUL: Yes, I would like to address this.

DR. SPRINKEL: Yes, Congressman Paul?

DR. PAUL: I was the individual who voted no, that I was not satisfied with it, not because I think it is not satisfactory but I really don't know.

I have drawn up a short memo. I would like to pass it out to the members so that they would have it, raising a few questions about the audit. Let me just go over this briefly, at least for the record, since the majority certainly is in favor of continuing with the current audit.

1 The current audit started in 1975. I understand
2 it will end in 1984. It will take ten years. A 1974 partial
3 audit by the GAO also occurred. The Federal Reserve is
4 auditing the gold it holds.
5 So far, 212 million fine Troy ounces have been
6 audited, according to Treasury. In 1974, the audit covered
7 only 21 percent of gold bars at Fort Knox, one of the five
8 depositories.
9 Only ten percent of the gold is audited annually on
10 the average. Treasury says it would be feasible to complete
11 a 100 percent audit -- it would not be feasible to complete
12 an audit in a single year without seriously impairing the
13 audit of other vital Treasury operations.
14 The Department also says that the continuing audit
15 when completed will have required 26 man years. That means
16 only 26 men could audit the entire Reserve in one year,
17 something Treasury says is not feasible.
18 Stretching it out over ten years means that two men
19 on the average are doing the audit each year. 31 U.S. Code
20 354 appears to require annual audits of our entire coin and
21 bullion stock "Once at least in every year, there shall be an
22 accurate and full settlement of the accounts of the Super-
23 intendant of Coining Department and the Superintendant of
24 Melting and Refining Department at which time those officers
25 shall deliver up to the Superintendant all of the coins,

clippings and other bullion in their possession, respectively, accompanied by statements of all the bullion delivered to them since the last annual statement and all of the bullion returned by them during the same period."

It is the interpretation of many that this would mean that on an annual basis legally we should audit the gold. This understanding of the law is corroborated by a letter written by John Klausner, Acting Secretary, Office of Domestic Gold and Silver Operations, Department of the Treasury, on August 27, 1974.

Mr. Klausner wrote that, "Title 31 U.S.C. provides that at the Mint and Assay Office, there shall be made annually a general settlement of accounts with a physical inventory of all bullion, coin, currency, et cetera."

On a related matter, in a letter received from Angela Buchanan, Treasury of the U.S., she writes, "Some months ago, Treasury determined that for reasons of security, the refined gold bullion should be removed from the Assay Office to the West Point Bullion Depository."

I would like to know what the reasons are that we are moving the gold and for what security reasons. A few years ago, the press reported that there was $1 million worth of gold missing from the New York office. I am curious to know whether there may have been some more gold that turned up missing. I think the specific reasons for moving

1 the gold would be wise to find out.

2 DR. SCHWARTZ: Let me add that one other member who

3 voted in the affirmative on this question also had a note to

4 the effect that the audit should be speeded up.

5 Question two is in four parts. First --

6 DR. SPRINKEL: Could I add one point, Congressman

7 Paul? We will get a legal opinion from the Mint on the

8 interpretation of that statute which you read.

9 DR. SCHWARTZ: Part A asks, "Are you in favor of

10 the Treasury's marketing a gold bullion coin of specified

11 weight and selling it at a mark-up over the market price of

12 the gold content?"

13 There were eleven favorable answers, one of which

14 qualified by saying "not a gold bullion coin, but gold

15 bullion coins". There were two negative responses.

16 DR. SPRINKEL: Are there any comments by members of

17 the Commission on this question? Yes, Mr. Costamagna?

18 MR. COSTAMAGNA: The use of the word "marketing"

19 disturbs me a little bit, as I expressed in the questionnaire

20 If we decide that a gold coin is money, I have a problem with

21 the idea of having to market money.

22 I don't know that we market paper money. I just

23 would like us to reflect on the use of that word "marketing"

24 for a moment.

25 DR. SPRINKEL: Well, we have a well-defined

1 procedure, of course, for getting paper money into distribution
2 and replacing it as it wears out. In this case, there have
3 been no gold coins minted by the United States Government for
4 a long period of time.
5 I presume that since the --
6 MR. COSTAMAGNA: Since the year I was born; 1933.
7 DR. SPRINKEL: So, we've got at least, at a minimum,
8 to inform the public that they are available since there is
9 no procedure for distribution at the moment. I don't think
10 that implies we're going to put on a heavy --
11 MR. COSTAMAGNA: Campaign.
12 DR. SPRINKEL: -- advertising campaign to get them
13 distributed. If we go this route, we want to give it a fair
14 shot, as an alternative.
15 MR. COSTAMAGNA: Yes, absolutely. I agree. The
16 only thing that concerns me is the fact that what I see in
17 terms of marketing by other countries of their coins and even
18 the marketing that I've seen of the facsimile of the coin
19 that is proposed in the current Senate bill, has all the
20 earmarks of a promotion.
21 I think that might detract. It is similar to what
22 is happening, say, with the gold medallions. As you know,
23 I mentioned earlier at other meetings, that I had to go to
24 several post offices before even being able to find a brochure
25 let alone being able to purchase the coins.

1 If that is considered marketing, that would be
2 something I would question. I think if we go the route of
3 a gold coin and it is determined to be money with legal
4 tender status, it should be just readily available at a bank.
5 That should be made known to the public and that way of
6 obtaining it promulgated.
7 That, to me, would be the sufficient marketing.
8 I don't think it would have to be glossy promotional type
9 literature and that type of marketing. That is why I'm just
10 asking if we could discuss that word a little bit.
11 DR. SPRINKEL: Is there any observations by other
12 members? Yes, Congressman Paul?
13 DR. PAUL: I would like to reiterate what
14 Mr. Costamagna says. I think if marketing is misconstrued,
15 it could be detrimental. If marketing means an announcement,
16 that is fine.
17 I think if it is a medallion type coin and we need
18 to market it and sell it, we don't need that kind of activity
19 in the U.S. Treasury or we would have additional expenses
20 and everything. I don't think that has been the intentions
21 of those of us who have been promoting a gold coin.
22 So, I would like to emphasize that marketing would
23 be unnecessary and really detrimental and there is no need to.
24 There is one other word in the sentence that I would like
25 to call attention to.

1 That is the word "markup". Possibly, we could
2 clarify that. I don't think there is any intention that this
3 markup is to be ten or 15 or 20 percent. I think the general
4 understanding has been that there would be a markup to cover
5 the cost of minting. I would like to make sure the record is
6 clear on that.
7 DR. SCHWARTZ: Yes, in fact, that was a qualification
8 that was stated.
9 DR. SPRINKEL: Governor Wallich?
10 GOVERNOR WALLICH: I would like to say that in my
11 mind, markup didn't mean the cost of minting. I thought it
12 was something that was customary in the trade and to be about
13 the same as the markup at which other countries or dealers
14 sell coins.
15 However, the Treasury shouldn't become the
16 cheapest supplier. It should become a supplier of last
17 resort rather than the first resort. That was my interpre-
18 tation of this.
19 DR. SPRINKEL: Yes, Mr. Coyne?
20 MR. COYNE: Just to refer back to Mr. Costamagna's
21 and Congressman Paul's comment about marketing, I just want
22 to -- I don't really understand what you meant. There is a
23 difference between the gold bullion coin as I understand what
24 this means, and money in the ordinary common usage of that
25 word.

1 A bullion coin is a coin which may or may not have
2 a face value on it in U.S. currency, but which is, in fact,
3 denominated in weight on a pure ounce of gold basis, which
4 means that the coin will always be bought and sold on the
5 basis of an always changing gold price.
6 Therefore, the price of the gold coins must be
7 available for sale at any moment at whatever that minute's
8 gold price is. You can't have the gold sold, let's say, over
9 the counter of an ordinary bank without having a substantial
10 time lag between the real price of gold at the moment and the
11 last price at which a teller in a retail banking establish-
12 ment would have available to him.
13 Therefore, one would have, it seems to me, excessive
14 transactions of what I think would be called an arbitrage
15 nature, where people would be buying and selling these items
16 and the risk at the level of the bank or from the Treasury's
17 point of view, if the Treasury were the buyer and seller of
18 last resorts would be substantial.
19 I wonder whether -- is there something that I am
20 not understanding here? It appears that unless the Treasury
21 itself were to be a minute-to-minute seller and a minute-to-
22 minute repurchaser of these coins that in order for the coins
23 to have liquidity, they would have to have what amounts to
24 a secondary market, comparable, say, to the secondary market
25 that exists in Treasury securities.

1 DR. SPRINKEL: Well, it does suggest that the
2 possibility of arbitrage will keep the price close to the
3 quoted price of gold coins the day before.
4 Now, whether you can do it minute-by-minute, I
5 don't know. It depends on the volume you've got, I suppose,
6 whether it's worth it.
7 MR. COYNE: Well, I am simply saying that in a
8 commodity such as gold, with the premium of two or three
9 percent for the coin, and assuming the coin is a liquid
10 investment object --
11 DR. SPRINKEL: Yes.
12 MR. COYNE: -- which would be required for it to be
13 a value for the buyer. The buyer would have to be able to
14 sell it; otherwise, it wouldn't be useful. This commodity
15 could move in price $5 and $10 and often does in a period of
16 one minute or five minutes or ten minutes.
17 Therefore, one would be inviting -- I don't know
18 what the right expression is -- operators into transactions
19 where people would be standing with transistor radios outside
20 of banks, running in to buy 10,000 coins on the basis of a
21 price movement. A $3 variation in the price on 10,000 coins
22 would be $30,000 and that would amortize the transistor radio.
23 DR. SPRINKEL: Mr. Costamagna?
24 MR. COSTAMAGNA: I think part of that problem is
25 addressed in this Bill that I refered to at the last meeting,

1 Senate 17-04 which is the bill that's pending before the
2 Senate currently.
3 It says, "In accordance with the regulations, it
4 shall be proscribed by the Secretary", meaning the Secretary
5 of the Treasury. "The Secretary shall establish a formula
6 for determining on an hourly basis the official conversion
7 rate of gold."
8 It then goes on, in several other paragraphs, to
9 define how that needs to be done. I agree that that doesn't
10 take care of the minute-to-minute problem, but it does seem
11 to anticipate that problem to some degree.
12 I would trust that after a period of time that if
13 gold coinage becomes a reality and is in common usage, that
14 the price will eventually stabilize.
15 DR. SCHWARTZ: May I say something?
16 DR. SPRINKEL: Yes.
17 DR. SCHWARTZ: I think there is a distinction
18 between what Mr. Coyne has referred to as the gold bullion
19 cold as a store of value. What I believe other advocates of
20 gold bullion coin have in mind is that it will become a
21 customary use in settling transactions between private
22 individuals.
23 That is a subject that has not really been
24 thoroughly discussed here, because the fact of the changing
25 market price makes it difficult for me to see how people will

1 readily engage in the use of coin, even by weight. You are
2 going to have a contract that you will pay in a certain
3 weight of coin, but you will know that the market price for
4 that weight of coin is liable to change from the date the
5 contract was signed until it's fulfilled.
6 Well, you are going to have to make all kinds of
7 arrangements then to protect yourself against changes in the
8 price of gold. That is something that I don't believe has
9 been discussed here by those who advocate the use of the
10 minting of the gold coin with the expectation that it will
11 come into general use for settlement of transactions, not
12 strictly as an investment holding.
13 DR. SPRINKEL: Governor Partee?
14 GOVERNOR PARTEE: I am sorry to be late. I take
15 it that I still haven't --
16 DR. SPRINKEL: We are still --
17 GOVERNOR PARTEE: Still on the informal discussion?
18 DR. SPRINKEL: That is correct.
19 GOVERNOR PARTEE: I don't know that I caught it all,
20 but it would seem to me on this question of market, what I
21 had in mind in favoring the gold bullion coin is that there
22 would be a seigniorage charge of maybe seven percent or
23 something like that.
24 If the Treasury or its agent made a markup for the
25 coin in purchasing they were purchased at less the seigniorage

1 so that there would be, in effect, a spread of seven percent
2 or thereabouts between the sale price of the coin and the bu
3 price of the coin.
4 If that is so, I don't think that the kinds of
5 variations that you're talking about, Mr. Coyne, would
6 probably be an important issue.
7 MR. COYNE: Of course, if the Treasury's agents
8 comparable to the primary dealers that are used in Treasury
9 securities make a markup for the coin, this would not -- the
10 situation I referred to would not exist.
11 I was referring to the distinction that Dr. Schwartz
12 I think quite rightly made which is that if this is being,
13 if gold bullion coins are being minted in anticipation
14 of its being used by the public to settle personal debts,
15 private debts, in a serious and major way, that that is an
16 expectation which I think has no great basis as an appropriate
17 one. That would mean that people were making contracts to
18 settle their debts on the basis of the gold speculation.
19 I cannot imagine that that is likely to happen in
20 a stable system such as we have in this country. It would
21 imply an agreement by both the buyer and the seller of a
22 commodity to settle their future obligation in terms of the
23 gold price at a future date when the future gold price is
24 not known. The idea of finding such a complex agreement
25 would strike me as being highly unlikely.

1 Even though it could occur, the idea of minting
2 a gold bullion coin in expectation of that occurring in the
3 reasonable future --
4 GOVERNOR PARTEE: I would suppose most of the
5 people who answered the question this way considered it more
6 likely that it would be a store value and not used actively.
7 I agree with you that it is unlikely, but I see no reason to
8 prohibit it.
9 MR. COYNE: No, I wasn't suggesting to prohibit it.
10 It just doesn't seem that that would be likely to occur, nor
11 would one really need a gold bullion coin to accomplish that
12 effect.
13 If I wanted to sell you my house for delivery in
14 five years at so many ounces of gold, I could legally do that
15 now. The essential point, I think, about having a successful
16 distribution of the gold bullion coin would be establishing
17 a basis whereby that coin could be resold by the holder at
18 any time.
19 Of course, by phrasing it that way, I realize also
20 I am talking about -- when I use the word "resell", that
21 implies that I am talking about a commodity rather than a
22 unit of currency.
23 I think that at this point in time, that is a
24 reasonable position in that the unit of currency in this
25 country is the dollar. Despite the fact that this coin might

1 have a face value expressed in dollars, it would in fact be
2 bought and sold in terms of the constantly fluctuating price
3 of gold, presumably a value which would be higher than the
4 face on the coin.
5 DR. SPRINKEL: Congressman Paul?
6 DR. PAUL: First, to your last point, I don't
7 think there are too many of us who are anticipating that
8 there will be the face value of the dollar on there.
9 This specifically says, "a coin with a specified
10 weight", so I would hope that we continue to think of a coin
11 with a specified weight associated with it.
12 It seems like the buying and selling of Kruegerans.
13 Wouldn't this address the concern that you have? It seems
14 like the differential in the buying and selling of Kruegerans,
15 nobody seems to be concerned about that.
16 These coins would trade back and forth, too, in
17 that we wouldn't have to anticipate what the price would be
18 tomorrow. I would like to take a minute, though, and address
19 Dr. Schwartz's point about the lack of feasibility or the
20 unlikelihood of coins being used in transactions.
21 I think that for the moment this point is well
22 taken, but you referred to the problems being that we can't
23 tell what the price of gold will be tomorrow, so therefore
24 nobody is going to have a transaction in gold.
25 We live in a period of time of monetary turmoil and

1 financial turmoil. I see that that same statement can be
2 thrown right back and say well, it isn't the price of gold
3 that's the problem, it's the value of the dollar.
4 It is precisely because we cannot anticipate the
5 value of the dollar that the long-term contracts have
6 totally disintegrated. We can't get our mortgages and we
7 can't get our bonds precisely for that reason.
8 So, therefore we are in a transition. Most every-
9 body here agrees and understands the value of the gold bond,
10 the fact that they are going to be guaranteed a precise
11 weight in gold, that that interest rate would be much lower
12 than it would be with one that you have to discount the
13 depreciation of the dollar.
14 I think as time goes on, if there is a choice it
15 will be up to the people in society to choose which is the
16 most precarious to deal with -- the depreciation of the
17 dollar or the stability of gold.
18 As long as that's available, I think that we'll
19 let the market decide as to exactly when they will so choose
20 to use it. In a way, this is a very indirect monitor of what
21 the monitary authorities do.
22 If they see that there is no bond market and no
23 mortgage market, that somebody is achieving a market in gold,
24 then obviously the monetary policy is wrong. This will be a
25 market mechanism of telling the authorities that something

1 else has to be done. I think as long as we can legitimatize
2 and legalize it and permit it, that's the key to what we are
3 trying to achieve.
4 DR. SCHWARTZ: That is right. I agree that the
5 public will decide whether these coins will be used in
6 transactions. It isn't anything that can be determined in
7 advance.
8 DR. SPRINKEL: Mr. Coyne?
9 MR. COYNE: I really completely agree with what
10 Congressman Paul just said, even though it may not seem so.
11 I was simply saying that if such a coin were minted tomorrow,
12 in fact, it would appear to be highly likely that it would not
13 be so used.
14 Maybe eventually it would be. I certainly hope not,
15 but maybe eventually it would be. Therefore, in the near
16 term, one is talking it would seem to me about a coin that
17 would be sold and marketed as you suggest, as in the analogy
18 that you suggest such as the Kruegerand or the Maple Leaf or
19 any one of the other gold bullion coins which in fact are
20 bought as investment items rather than for the purpose of
21 using it as a payment of debt.
22 DR. SPRINKEL: Are there anymore comments on two?
23 Mr. Costamagna?
24 MR. COSTAMAGNA: On the second issue that was
25 raised here on the word "markup", Governor Partee's mentioning

1 of a seven percent spread as a markup. That certainly
2 wouldn't be my idea of a gold coin that was to be used as
3 money. That might be what is being done with Kreugerands.
4 I don't believe the spread is that wide or --
5 GOVERNOR PARTEE: I don't know what the spread
6 ought to be.
7 MR. COSTAMAGNA: I think the time I checked a
8 couple of meetings ago, it was approximately three percent.
9 That might be fine for foreign coins, because those are not
10 legal tender in the United States.
11 I don't see where an American coin should have that
12 kind of a spread if it's going to be considered legal tender.
13 I certainly can appreciate the fact that there should be some
14 charge or premium for the cost of producing, minting, and
15 distributing.
16 Certainly, seven percent would render it useless
17 in terms of what I think we are voting on here in having it
18 become a coin that would be used as money. I would anticipate
19 that these coins, at least as reflected in this Senate bill,
20 again. There are four different coins of different weights --
21 one ounce, half ounce, quarter ounce.
22 It's a one Troy ounce, one ounce, one-half ounce
23 and a quarter-ounce. The quarter-ounce would be at current
24 market prices of about a $40 coin, which I think is something
25 that possibly could be seen used in daily commerce.

1 This spread or this markup is something that I
2 think should be further clarified.
3 DR. SPRINKEL: Is there any further discussion of
4 this issue? Did you say $40 for a quarter ounce?
5 DR. SCHWARTZ: That would be $100.
6 DR. SPRINKEL: I thought it would be $100.
7 MR. COSTAMAGNA: No, I'm sorry. I think it's a
8 one-tenth ounce.
9 DR. SPRINKEL: Oh, okay.
10 MR. COSTAMAGNA: I have the glossy brochure that
11 has already manufactured them, as a matter of fact. I will
12 pass this around. You might find this of interest. It
13 is a gold Troy ounce, an ounce, a gold ten gram and a gold
14 five gram.
15 DR. SPRINKEL: Dr. Schwartz, do you want to read
16 2-B, please?
17 DR. SCHWARTZ: 2-B. Of those in favor of issue of
18 gold coins, six were in favor of making the coin convertible
19 by the Treasury at the market price on the day of redemption.
20 Five were opposed.
21 DR. SPRINKEL: I might note that we now have a
22 quorum, so we are convened officially. Governor Wallich?
23 GOVERNOR WALLICH: I would note that making the
24 coin redeemable at the market price would conflict with
25 what I thought was the margin around, above and below the

1 market price that this coin should have. Now, whether it's
2 seven percent or three percent is something one could discuss.
3 If the Treasury buys coins at market, it leaves no room for
4 that margin as I see it unless that term is so construed that
5 it means at the market plus that normal margin.
6 If it did buy it without the normal margin at the
7 market, it would for one thing, of course, eliminate the
8 dealers who must make some profit from the transaction. It
9 would also create a pegged price for gold at least to the
10 extent that the market price didn't move.
11 So that larger amounts could be disposed of by
12 the total market, taking coins and bullions together, than
13 would otherwise have been possible. I think this kind of
14 pegging, even of the coin in a limited sense, would be very
15 undesirable.
16 DR. SPRINKEL: Yes, Mr. Coyne.
17 MR. COYNE: If I just may offer a possible point
18 for clarity and semantics, the term "three percent" would be,
19 I think, called a seigniorage -- or seven percent or whatever
20 the government of issue charges over the bullion price for
21 the coin.
22 If, for example, a coin were minted which was sold
23 by the Treasury at three percent over the gold price of the
24 day, that three percent would be a seigniorage. The spread
25 would be the difference between the buying and selling price

at the moment in the marketplace. That would typically be inside of one quarter of one percent. In fact, that would almost be an outrageously wide spread.

The seigniorage or the premium very often in the secondary marketplace will itself fluctuate. The Kruegerand, for example, which is issued by the government of South Africa at three percent will frequently get up to three and a half percent and frequently decline to two and a half percen

But all during that secondary fluctuation of seigniorage, there is typically a maximum of a quarter percent spread between the price at which primary market makers will buy and sell that coin in volume.

DR. SPRINKEL: Are there other comments? Yes, Congressman Reuss.

MR. REUSS: I don't know whether the polls are closed or not, but I note that 13 have replied and 17 is the number. In order that I may make a little internal prediction can I have the names of the four who are not included?

DR. SPRINKEL: We can get them for you.

DR. SCHWARTZ: Well, I can tell you Senator Schmitt and his staff person informs me that the reply will be shortly at hand. Senator Jepsen, Mr. Lehrman and our Chairman.

MR. REUSS: Senator Jepsen and Mr. Lehrman?

DR. SCHWARTZ: Mr. Lehrman and Senator Schmitt.

MR. REUSS: That's three.

1 DR. SPRINKEL: And Secretary Regan.

2 MR. REUSS: And Secretary Regan. Thank you.

3 DR. SPRINKEL: One question that occurs to me on
4 2-B is what option is available to the public that wants to
5 get rid of their coin by asking the Treasury to buy it if it
6 isn't available, they can sell it in the open market. Could
7 you comment on that, Mr. Coyne? Unless there is a monopsony
8 out there where a large holder might depress the price --

9 MR. COYNE: I am not proposing anything specific
10 and this would certainly warrant study, but I would offer
11 that there is an exact and appropriate analogy in the U.S.
12 Government Securities market. That is, there are primary
13 dealers who buy and, in volume, and are obliged to maintain
14 a secondary market.

15 That is, in fact, the way the gold market works
16 in practice. It would seem the logical way to, in fact,
17 create the liquidity and market penetration that one may wish
18 if one chooses to go the route of issuing a gold bullion coin
19 by the United States.

20 DR. SPRINKEL: But, with the Treasury debt there is
21 a maturity and therefore, we must, we the Treasury must pay
22 off the maturity. With the gold coin, there is no similar
23 maturity. The option would be up to the owner, I presume,
24 to either sell it on the market or turn it back into the
25 Treasury, if that happens to be the rule.

1 MR. COYNE: Well, the coin, of course, could be --
2 either the Treasury either could or could not have the
3 ultimate obligation to repurchase the gold coin at the gold
4 market of the day.
5 It would not be necessary to do such a thing. One
6 may choose to do it, but many nations which produce gold
7 bullion coins in fact put a low face value on the coin, which
8 is far below the gold content.
9 They are obliged, in fact, to redeem the coin at
10 the face value. The Canadian government, for example, does
11 this with the Maple Leaf coin. Obviously, no rational
12 person would redeem a $50 one ounce gold coin at $50 and
13 therefore, will sell it in the secondary market.
14 The Royal Canadian Mint sells Maple Leaf coins to
15 a series of primary dealers, to a group of primarily dealers
16 who are obliged to maintain a secondary market in that coin.
17 In fact, the Canadian government is not the buyer of last
18 resort at the gold price. They would only redeem it on the
19 face value of the coin basis.
20 DR. SPRINKEL: Could I ask the question a little
21 differently? A majority of those voting, or at least six,
22 were in favor of the Treasury converting at the market price.
23 I just wondered why those voting in favor of the
24 Treasury converting those coins at the market price believe
25 that would be an advantage to the coin or to the holder of

1 the coin.

2 MR. COYNE: Well, whether the Treasury should do it

3 or not is a different kind of question, but in terms of

4 whether it would be an advantage, it certainly would be an

5 enormous competitive advantage.

6 Again, I apologize for that word, because it --

7 DR. SPRINKEL: It says "at the market", however,

8 whatever the market is.

9 MR. COYNE: At the market, because that would mean

10 that there would in fact be a buyer of last resort for all of

11 the outstanding gold coins, which would mean that the

12 secondary market would be even more aggressive in its desire

13 and need to repurchase coins in the marketplace.

14 It would, therefore, make these coins, once it got

15 out into the final owners across teh country, it would make

16 these coins more desirable because they were more liquid.

17 That is to say it would be much more easily

18 resaleable if everyone along the channel of distribution had

19 complete confidence that the coins could be converted back

20 into normal U.S. currency at any moment of the day or night

21 at whatever the market price is.

22 That would obviously put the Treasury in the

23 position of selling gold at the price it happened to sell it

24 at and being obliged to repurchase it at whatever price the

25 ultimate buyer wished to resell it at, so that if we had been

1 issuing a bullion coin during 1979, it would have been
2 possible for the government to have issued gold coins at $400
3 an ounce and later to have been obliged to repurchase those
4 coins at $800 an ounce.
5 DR. SPRINKEL: Governor Partee?
6 GOVERNOR PARTEE: I voted for this. My theory was
7 that there is not much to be lost, as I see it, from the point
8 of view of the government in providing this redemption privileg
9 assuming the redemption privilege is at the bullion price.
10 I would assume that it would be very possible to
11 cover right away in the market. It just provides a place where
12 you can do that. I had in mind that the sale would be at a
13 coin price in excess of the bullion price.
14 I don't know what the right number is, but it would
15 be large enough so that there wouldn't be a lot of movement in
16 and out just on that basis. Ordinarily, I would think there
17 would be a secondary market that would be above the bullion
18 price, so that not much would, in fact, come back.
19 I can see no particular exposure from the government
20 to it and I did it in the spirit of regarding this as rather a
21 sponsored market. That is, not just that we are getting rid of
22 our gold, which might be part of the practical effect from the
23 point of view of the government accounts, but rather that we
24 are putting out a coin -- and I agree with the Congressman --
25 that would be stated in terms of gold content rather than

1 dollars that would have a degree of sponsorship behind it by
2 the government.
3 It seems to me if you sponsor, and in view of the
4 fact that there is no maturity as you say, and in view of the
5 fact that anybody could melt the coin and get the bullion
6 price anyway, why, part of that sponsorship would be to have ,
7 for example, the Federal Reserve Banks standing ready to buy
8 it across the window at the bullion price, at the quoted price,
9 however that is determined based on the bullion market, hour
10 by hour or day by day.
11 That might take a certain amount of business away
12 from the dealers like Mr. Coyne, but I don't think so in the
13 ordinary circumstance, because you have to recognize that
14 probably the coin would have some value over and above bullion
15 because of its character, its easy character.
16 I think that's been true generally of coins, hasn't
17 it? They run at more --
18 MR. COYNE: Yes, absolutely.
19 GOVERNOR PARTEE: -- than bullion price?
20 MR. COYNE: Absolutely. By the way, if such a
21 thing were in fact to happen, it would have quite the opposite
22 effect on a professional bullion dealer's business, because it
23 would in fact create a reflow and a recycling of these items.
24 If there were -- as a generality, there is a
25 premium for bullion coins. It is extremely rare, if ever, that

1 coins are remelted. Therefore, the secondary market will, in
2 fact, repurchase these coins at a premium of only a fraction of
3 a percent below the price at which it is sold.
4 If the coin has sufficient liquidity, the reason
5 that the primary dealer will do this is because of the
6 readiness with which he, in fact, can resell it at the full
7 price.
8 DR. SPRINKEL: Congressman Ruess?
9 MR. REUSS: Thank you, Mr. Chairman. I am surprised
10 to find my friend, Governor Partee, for whom I have the
11 highest regard, among the six on this. I would ask him a
12 question about it.
13 Isn't there a danger if you do this that -- I was
14 among the eleven. I think a gold coin is a perfectly good
15 idea, but to make it convertible by the Treasury, suppose we
16 do have a gold coin and it is widely distributed as it well
17 might be.
18 Suppose the Soviet Union, up to God knows what kind
19 of tricks, by withholding gold from the market, has driven the
20 price to a juicy $1,000 an ounce, let us say. Must the
21 Treasury then subsidize that practice?
22 It seems to me that could happen. I don't know,
23 I don't see any case at all for convertibility.
24 GOVERNOR PARTEE: Well, my thought --
25 MR. REUSS: Set my mind at rest.

1 GOVERNOR PARTEE: Well, my thought, Congressman,
2 is that the Treasury -- I presume there would be an office in
3 the Treasury that would manage this system. The Treasury
4 might very well decide to cover any purchases of gold coin.
5 That is, if the price were quite high and if they
6 found gold coin coming back, there could be a very good
7 information system on this so that you would know every day
8 what your net position was.
9 If the price were quite high, they could opt to
10 cover in the spot market for gold bullion. If they were buying
11 at the bullion price and if they were then selling gold
12 bullion equal to the amount that they had received, there
13 would be no particular exposure for the Treasury.
14 MR. REUSS: But, why put the Treasury up to such
15 fancy Dan tricks? Have you no mercy on them? What is the
16 good of it all?
17 GOVERNOR PARTEE: Again, I did this just simply in
18 the spirit of regarding this as a rather sponsored market.
19 That is, in the sense of the Gold Commission to find a use for
20 gold, there are a good many people including a lot of very
21 little people, who might want to hold some gold as a store of
22 value. I think it would set their minds at rest if they knew
23 they could convert it any day through an official channel
24 rather than depending on a dealer market or something of that
25 sort.

1 Therefore, it would give it an attribute that would
2 be rather popular among the general public without, as I say,
3 a particular exposure for the Treasury. That is simply why I
4 supported it.
5 DR. SPRINKEL: Governor Rice?
6 GOVERNOR RICE: Mr. Chairman, unlike Congressman
7 Reuss, I am quite accustomed to disagreeing with my colleague,
8 Governor Partee. I voted differently on this, too. I was in
9 the majority with the eleven, and I voted against this.
10 I would like to raise a question. Despite what
11 Mr. Aaron said, maybe I'm confused. I still don't see why
12 this would be an advantage to members of the public who are
13 using these coins as a store of value.
14 They can depreciate in value. The market can go
15 down. They can lose money. It seems to me they'd be much
16 better off, holding them as a store value if the price were
17 fixed. Even if they knew they would forfeit the seigniorage
18 by giving them back to the Treasury or selling them back to the
19 Treasury at a fixed price, they would know.
20 There would be a floor under this price and they
21 would know what they would get. They would be protected to
22 that extent. On the other hand, they would be in a position
23 of, in case the price of gold rose substantially, they would
24 be in a position to sell at a profit.
25 So, they would -- it seems to me that the members

1 of the public would be in a much better position if they
2 faced a fixed price for gold. That is, the willingness of the
3 Treasury to buy back gold at a fixed price, although lower
4 than the price at which they sold the coin.
5 DR. SPRINKEL: Yes, Congressman Paul?
6 DR. PAUL: Thank you, Mr. Chairman.
7 I would like to address the question that my
8 colleague raised about the threat of Russia maybe doing some
9 disastrous things that would change the dollar price of gold.
10 I think I can reassure him that his concerns are unfounded.
11 If Russia made a deliberate attempt to interfere
12 with the market, I think they'd have a great deal of difficulty.
13 If you take the year that they have had their maximum amount
14 of production of gold, it is one-half of one percent of the
15 total gold reserves.
16 So, whether they withheld it for a year or dumped
17 it on one day, it could not affect the market. Today, we know
18 that the Russians are dumping and selling gold very rapidly.
19 We see a calm gold market.
20 We've seen gold at around $400 for several months.
21 They have been dumping into this market. They have not been
22 able to affect it. I will concede one point. I am one of the
23 six that voted yes.
24 It is one of the points that I do not feel real
25 strong about. To me, who believes in freedom and competition,

1 I don't think my system that I desire depends on this. It
2 depends on legalizing the freedom to transact in gold, to
3 allow those gold coins whether they are government minted or
4 privately minted to have legal tender status. That is the
5 important thing.
6 Whether or not the government guarantees that they
7 buy that back, if my system depended on that, I would say it
8 is a weak system. It is not dependent on that. I think that
9 there is somewhat of a plus for it, and I voted yes on that.
10 It is not a real strong yes.
11 So, if I truly believed it would jeopardize the
12 Treasury in some way, I would vote no. I happen to disagree
13 with the argument that the Treasury is jeopardized by the
14 threat of Russia or South Africa. That to me is a fallacious
15 argument.
16 DR. SPRINKEL: Mr. Costamagna?
17 MR. COSTAMAGNA: Dr. Sprinkel, I also voted yes on
18 that question. I feel very strongly on the point of converti-
19 bility on the market as distinguished from Dr. Rice for
20 several reasons.
21 It would seem to me that everything we have read
22 and reviewed here in the last six months indicates that the
23 fixing of the price of gold is probably one of the most
24 difficult things that we could possibly attempt.
25 I have come to the conclusion that there is no one

1 wise enough to determine what that particular price should be.
2 I would believe that the market, in its wisdom, would reflect
3 that price most adequately every single day, because it would
4 be the judgment of millions of people not only in this country
5 but throughout the entire world.
6 The other point in having this convertible at the
7 market is the idea that -- the idea just escaped me. I'd like
8 to get back to that later, if I may.
9 DR. SPRINKEL: All right. Congressman Neal.
10 MR. NEAL: Mr. Chairman, there was an article in
11 The Washington Post yesterday indicating that over the last
12 year or so, the Soviet Union and South Africa had been selling
13 large amounts of gold on the market, thus depressing the price
14 of gold. That seemed quite reasonable to me when I read the
15 article.
16 I wonder if some of my more learned colleagues
17 in this area would tell me if that is the case or not. I
18 noticed Governor Partee nodding. Is that a true account?
19 GOVERNOR PARTEE: I don't know whether they've been
20 selling gold or not, but if they've been selling gold, it has
21 tended to depress the market.
22 MR. NEAL: As a matter of fact, the price of gold
23 has come down rather dramatically over the last couple of
24 years.
25 DR. SPRINKEL: Some would argue that is because we

1 are getting the inflation under control.

2 MR. NEAL: May I continue, just for a moment.

3 DR. SPRINKEL: It does seem unlikely, Congressman,

4 that they could have been selling enough to have dropped it

5 from $650 to $400. That's a lot of a drop.

6 MR. NEAL: One of the questions, though, that has

7 been on my mind since the beginning of these discussions has

8 been this very question of the ability of the Soviets, the

9 South Africans, or them working in concert, to have some

10 affect on our monetary system, our rates of inflation,

11 recession and so on.

12 That has troubled me from the beginning. It

13 continues to trouble me. I would think that if this article

14 is correct that it's significant that we look into it. The

15 whole concern isn't related to their annual production.

16 It's related to their storehouse of this particular

17 asset.

18 DR. SPRINKEL: Congressman Paul?

19 DR. PAUL: I would like to respond again. I do not

20 believe they have the power to do that. I think they can, on

21 a day to day basis, have some effect on it. But, overall it

22 is inconsequential because of the small amount that they can

23 product.

24 So, if they produce at their maximum rate for one

25 year and can come up with only one-half percent of the full

1 gold stock, it is not enough to affect the market. I would
2 like to suggest that Dr. Sprinkel is exactly right. There is
3 a disinflationary psychology existing today.
4 For this reason, a lot of people have backed off.
5 There are a lot of people in this country right now that are
6 very frightened about serious deflation. For this reason,
7 people have backed off.
8 That is a much more significant event. The
9 inflation rate is lower. So, the so-called dollar price of
10 gold is subjectively set by those people in the community and
11 throughout the country, depending on what they anticipate in
12 inflation. That is the number one reason.
13 That is 99 percent of the reason you have a dollar
14 price of gold going down today. What the South Africans and the
15 Russians do I think is inconsequential. There is no real sound
16 evidence to show that they can, because the Russians, as I
17 understand it, it's been two or three months since the Russians
18 as well as South Africa have been selling a lot in the last
19 several months.
20 We are in a very very calm market right now,
21 compared to when there was a severe inflationary psychology
22 and it was skyrocketing at 850. That had nothing to do with
23 withholding of sales when it went to 850.
24 When it crashed down, it had nothing to do with
25 the supply and demand of the gold. It had to do all with the

1 psychology of the people anticipating inflation versus
2 deflation. So, I think this is a small event.
3 DR. SPRINKEL: Dr. Schwartz?
4 DR. SCHWARTZ: On the other hand, those who argue
5 that the sales by the Russians have had a depressing effect
6 on the price of gold argue from the premise that political
7 uncertainty has heightened during this period.
8 In times past when political uncertainty with
9 regard to the Polish situation, for example, there has been
10 an increase in the price of gold which we haven't observed
11 currently. They relate these two developments -- the fact
12 that there has been an increase in political uncertainty and
13 that the price of gold has not responded as it has in the past
14 and at the same time, there has been an increase in sales of
15 gold by the Russians and South Africans. When you measure it
16 quantitatively, I don't know.
17 DR. SPRINKEL: Mr. Neal?
18 MR. NEAL: I'd like to know also, if there is such
19 a wonderful deflationary expectation or if we've ended
20 inflationary expectations, why are interest rates continuing
21 at such high levels?
22 DR. SPRINKEL: I am not a member of the Commission.
23 This is not an appropriate time to discuss it.
24 MR. NEAL: I am just not convinced that that's not
25 the case, as a matter of fact.

1 GOVERNOR PARTEE: Congressman, I would, but I don't
2 really agree with Congressman Paul all together. I think the
3 interest rates themselves tend to put the price of gold down.
4 What you've got is no return on gold and you can get 15 to 17
5 percent on the market for your money.
6 You have to reach a view as to whether gold is
7 likely to appreciate by more than that or whether you'd be
8 better off in an interest bearing estimate.
9 DR. SPRINKEL: Mr. Costamagna?
10 MR. COSTAMAGNA: The second point I wish to make,
11 to return to my train of thought. Again, in addressing
12 Governor Rice's point that this should be a fixed price, as
13 distinguished from a market price, it seems to me that the --
14 For example, I appreciate you might have an
15 individual buying a gold coin at $400 and a year from now,
16 it's $300. But, I don't see that as any different from the
17 man who in 1966 bought Detroit Edison 6's of 96 at par and
18 today they are 40 cents on the dollar. That's the risk --
19 and that's an actual price, by the way.
20 That is the risk that an individual takes, whether
21 he holds paper or gold. The possibility of those sixes of
22 96 returning to par plus a premium is possible, hopefully,
23 as the price of gold going up or down.
24 So, it would be treating gold and paper equally
25 so that the individual who holds gold takes the same risk as

1 the individual who has held paper. Thank you.

2 DR. SPRINKEL: Did our gold market expert, Mr. Coyne

3 have something to say about these discussions?

4 MR. COYNE: I'm hardly an expert, but I was simply

5 going to say that as I've always seen it, the Soviet Union

6 and South Africa have held the same general position on gold

7 as say the United States has had on, say, wheat in that it is

8 for them a principal export and production item for each of

9 those nations -- certainly, South Africa and with more

10 variability but still generally the same, the Soviet Union.

11 They have mined gold each year and have, on a

12 reasonably regular basis, sold and exported that gold to the

13 industrial consumption markets in the world in the same normal

14 commercial way in which other commodities appear to be exported

15 I've never seen an instance in my experience in

16 recent years where I've seen something that I could have

17 considered dumping. Nor have I seen periods of withholding

18 gold from the market.

19 That is not to say that it couldn't happen in the

20 future, but that is simply not their day to day and week to

21 week and month to month and year to year method of operations.

22 DR. SPRINKEL: Yes, Dr. Weidenbaum?

23 Statement by Dr. Murray L. Weidenbaum

24 DR. WEIDENBAUM: First of all, I would like to

25 apologize to the members of the Commission, but the Chairman

1 and I were invited to a meeting at the White House by a
2 gentleman whose invitation we could not refuse. The Chairman
3 asked me to say he will be with us in just a few moments.
4 I would like to have the Chair's indulgence to
5 read, in connection with the questionnaire, a very short
6 statement of my views. The members do not need to take notes.
7 I have copies here if they are so interested.
8 The deliberations of the Commission have served
9 the useful function of underscoring the continued need to
10 fight inflation and to promote policies of economic restraint.
11 Although many of the members and witnesses were
12 persuasive in critiquing historical experience, I was not
13 convinced that any of the suggested major changes in our mone-
14 tary system would be superior in both theory and practice to
15 the existing system with all its imperfections.
16 Surely, we always should remain open-minded in
17 evaluating proposals for policy changes. Indeed, I find myself
18 supporting some of the specific suggestions made to the
19 Commission, notably to allow Treasury circulation of gold coins.
20 But I remain unconvinced that we should institute
21 price controls over commodities and that includes precious
22 metals, such as gold and silver. Thank you, Mr. Chairman.
23 DR. SPRINKEL: Are there any further comments on
24 this issue? If not, we'll move to the next question,
25 Dr. Schwartz.

1 DR. SCHWARTZ: Yes, of the six members who favored
2 making the coin convertible by the Treasury, five said that
3 they were indifferent. One said he was aware of the fact that
4 such conversion would produce profits or losses for the
5 Treasury. One answered in the negative who was not indifferent
6 DR. SPRINKEL: So, most of them don't care.
7 DR. SCHWARTZ: Most of them don't care.
8 DR. SPRINKEL: Are there any observations on that
9 particular question?
10 GOVERNOR PARTEE: Yes. It's a very small issue.
11 I think that all you're talking about, really, is the
12 seigniorage on whatever the volume is compared with the cost
13 of running the operation efficiently.
14 DR. SPRINKEL: Are there some comments? Yes,
15 Mr. Costamagna?
16 MR. COSTAMAGNA: Yes. I was just going to say that
17 it would seem to me that the don't cares and the yesses
18 would be the same.
19 (Laughter)
20 MR. COSTAMAGNA: It is a distinction without a
21 difference, as the lawyers would say.
22 DR. SPRINKEL: Any further comments? We'll move
23 onto the next question, Dr. Schwartz.
24 DR. SCHWARTZ: The final question in two is since
25 the existing statute prohibits the minting of gold coins for

1 circulation, will you propose repeal or modification of the
2 statute. Eight said they would favor repeal and three said
3 they did not. I assume that the three who said they did not
4 were convinced that the coins would circulate.
5 I am not sure how to interpret that fact that
6 eleven voted in favor of the coin, but then three would not
7 vote to propose repeal or modification of the statute
8 prohibiting the minting of gold coins for circulation.
9 DR. SPRINKEL: Are there any comments on this
10 question?
11 (No response.)
12 DR. SPRINKEL: No comments. Shall we move on to
13 three?
14 DR. SCHWARTZ: Yes. As you undoubtedly aware, I
15 framed these questions in response to issues that had been
16 raised in previous meetings. One of the issues that had been
17 raised is this question, three.
18 Are you in favor of Treasury purchases of gold to
19 replace gold it has coined and sold. The majority voted no
20 on that question.
21 (Secretary Regan enters room.)
22 DR. SPRINKEL: Are there any responses to question
23 three?
24 MR. COYNE: That question in abstract is really
25 almost an impossible one to answer, I think, because if in fact

1 a total of 2 million ounces of gold coins were sold a year,
2 then the idea of requiring cover in bullion would hardly be
3 worth talking about.
4 If, in fact, 20 million coins a year were sold and
5 distributed, then after five years we would have lost 100
6 million ounces of our Treasury stock. This question has this
7 point. It has ramifications to certain of the other questions
8 befitting our indifference to profit and loss.
9 Questions such as the capital gains text treatment
10 regarding profits on such items, if one were to -- if the
11 government were to determine to mint and market a two or three
12 percent seigniorage gold coin and agreed to repurchase at the
13 market and make that item free of state sales tax and
14 compensating use tax and free of capital gains, I would say
15 that 20 million ounces a year would be a reasonable objective.
16 I am not very good with decimal points, but I
17 think that even the three percent seigniorage on that would
18 be a number that the Congress would wish to take into account
19 in its budget.
20 Because we're talking about serious money just on
21 seigniorage on that score --
22 GOVERNOR PARTEE: That is $240 million at three
23 percent in dollars. That is $240 million at $400 an ounce.
24 MR. COYNE: That is correct.
25 GOVERNOR PARTEE: That is not a giant item, but it

1 would be a significant amount of money; yes.

2 MR. COYNE: Therefore, if one were talking of a

3 total package of that nature, I don't think one could

4 casually make the decision not to cover.

5 I now see with a fresh clarity the pertinence of

6 Governor Wallich's comment at the last minute that a series

7 of questions such as this could lead us to "A" is greater

8 than "B" is greater than "C" is greater than "A".

9 The question becomes more complex and one would

10 have to, I believe, take into account the answers to all of

11 these coin-related questions before determining an answer to

12 each one individually.

13 MR. COSTAMAGNA: I voted yes for this particular

14 question, but if I may take the liberty of just rephrasing

15 that a little bit. Are you in favor of Treasury purchases of

16 gold to replace gold it has coined and sold if the quantity

17 of gold diminishes below 200 million ounces.

18 I think you might have a different response. I

19 would suspect that there would be no one in this room that

20 would want to see our entire gold store depleted. I think we

21 would, if that question were rephrased as I suggested, it is

22 possible that we would get a different answer.

23 There might be some point at which we would not want

24 to see the gold store go below, as strong as I am in favor of

25 minting gold coints, I do not want to see that done at the

1 expense of depleting our entire gold store.

2 SECRETARY REGAN: Thank you. Governor Partee?

3 GOVERNOR PARTEE: Well, Mr. Chairman, I answered no

4 on this. I must say I did it in anticipation that there

5 wouldn't be just a very substantial use of Treasury gold.

6 I think probably that our gold stock is larger than

7 we need. I don't know how much larger, but it is significantly

8 larger than we need. So, if we were to lose in the process

9 here ten or 20 percent of our gold, I wouldn't mind.

10 I guess I would join Mr. Coyne in saying that there

11 is a point. I mean I suppose there would be a range that one

12 would have in mind of permissable losses of gold before one

13 would consider covering with bullion purchases the use of

14 bullion to issue coins.

15 SECRETARY REGAN: Congressman Paul?

16 DR. PAUL: Thank you, Mr. Chairman. I just wonder

17 whether or not the Treasury doesn't already have the authority

18 to make a decision like this if this is the case.

19 I think that if we did, once again, sell or

20 distribute gold coins and then the level got to such a level

21 that the Secretary of Treasury or the Treasury Department and

22 the Administration felt that the purchase of gold was wise,

23 I believe it is legal to do that now.

24 If that's the case, we might not have to be as

25 concerned about this as we seem to be. I don't think there is

1 anything wrong with us taking the position, because that is
2 certainly part of our responsibility, to at least make a
3 statement. But, if legally we could purchase the gold this
4 might not be as serious a question as we have right now.
5 Does anybody know if we do have the legal authority
6 to purchase gold?
7 MR. LELAND: We have the legal authority to purchase
8 gold. We don't have the legal authority to mint gold coins.
9 SECRETARY REGAN: Governor Wallich?
10 GOVERNOR WALLICH: Mr. Chairman, I was surprised by
11 the estimate of Mr. Coyne as to the volume of coins that might
12 result. To me, that would not be a reason why the Treasury
13 should go in the market and replace it.
14 If that estimate -- which, as I say surprises me,
15 but you are the expert -- were to reflect the way the market
16 would work, I would say we'd have to raise the seigniorage
17 and arrive at a margin that puts the Treasury at least as high
18 as competing coins and maybe a little higher.
19 SECRETARY REGAN: Thank you. Anything else on this?
20 Any other comments?
21 (No response.)
22 SECRETARY REGAN: All right. Why don't we proceed
23 on, Dr. Schwartz?
24 DR. SCHWARTZ: The next question regarding the
25 exemption from capital gains taxation of the profits or losses

1 when changes in the market values of private holdings of gold
2 bullions or coins was answered in the affirmative by seven, of
3 whom two restricted the exemption to coin only. I believe
4 Congressman Neal circulated a statement about all of the
5 questions that would need to be examined very carefully before
6 a statement about the implications of such exemption.
7 Somebody else had a note about also sales tax
8 exemption, but since sales taxes are at the state level or at
9 the city level, I didn't regard that qualification as applicable
10 to this Commission's responsibility.
11 MR. NEAL: Why not?
12 SECRETARY REGAN: Congressman Neal, do you want to
13 speak to that?
14 MR. NEAL: Well, I was intrigued by an idea that
15 appeared in a Wall Street Journal article written by a Mr.
16 Richard Ron, who suggested that if we were to exempt gold under
17 certain circumstances. That is, if we were -- gold, after a
18 certain date.
19 If we were to exempt gold from capital gains taxes,
20 then we would allow gold to compete with paper currency without
21 prejudice. If people preferred to hold gold, then there would
22 be no government impediment to their holding and training in
23 gold. It seems to me it ought to satisfy those who think
24 gold is a superior currency.
25 If people would prefer to trade, make purchases,

1 contracts and so on in the coin of the realm, then those
2 people would be permitted to do so. Both would compete on an
3 equal level. It is just a very intriguing idea to me.
4 There is no essential cost involved to government
5 as I see it, no impact on monetary policy that I can see at
6 this moment. There are some questions, as Dr. Schwartz
7 indicated, we raised and we asked about the tax consequences
8 of this. We list several questions. There may be some others
9 that would need to be asked.
10 I just think it is an idea that has a certain
11 appeal. I would like to explore the idea a little bit further.
12 SECRETARY REGAN: Do you have a comment,
13 Congressman Reuss?
14 MR. REUSS: Thank you, Mr. Chairman. I must speak
15 out with some heat on this one question, four.
16 In the first place, methodologically, I can't see
17 listing a majority as being in favor of this. According to
18 the record, only five really answered yes. Two of the
19 so-called seven majority said coin only.
20 Well, that is, Mr. Chairman, as if somebody asked
21 the question do you favor the death penalty for murder and
22 traffic violations and seven said for murder yes, but not for
23 traffic violations and you put yes as the answer.
24 So, tut-tut on the methodology, but much more
25 important, what a preposterous thing after we've already

1 disgraced ourselves by putting all of these new loopholes in
2 the tax laws. Now we are supposed to give gold speculators
3 a free live? This is the Bunker-Hunt Amendment here. I not
4 only want no part of it but I shall fight it in the
5 Commission, beyond the Commission, wherever it appears.
6 Finally, since when is it our business and our
7 mandate to comment on tax laws? We are supposed to comment on
8 the role of gold in the domestic and international monetary
9 system, not about whether states may impose a property tax on
10 gold, cities may impose a sales tax on the sale of gold or
11 whether we should put a Bunker-Hunt loophole.
12 So I would hope that this would fall between the
13 cracks. The sooner, the better.
14 MR. NEAL: Mr. Chairman?
15 SECRETARY REGAN: Yes?
16 MR. NEAL: The suggestion was that the capital gains
17 tax be removed beginning as of a date certain in the future
18 sometime so that there would be no benefit to those already
19 holding gold.
20 In other words, there would be no particular benefit
21 to any gold speculator now in the business of speculating in
22 gold.
23 MR. REUSS: What Bunker-Hunt is getting out of
24 silver and he'll have several billions to put into gold the
25 day you take off the capital gains tax.

1 MR. NEAL: Let me pursue this. As I understand
2 the proposal, there would be no particular advantage to a
3 speculator in holding, that would trade in gold, that would not
4 be there for a speculator that would hold dollars.
5 I mean you or I can speculate today in dollars if
6 we want to. We can choose to hold dollars as opposed to real
7 estate or something else. There is no particular capital gains
8 tax applied to those dollars.
9 MR. REUSS: But when we sell the real estate, there
10 is a --
11 MR. NEAL: No, no, but if you've sold the dollar,
12 there is no capital gains tax. If you happen to hold dollars
13 and our government is successful in --
14 MR. REUSS: There is no capital gain because like
15 it says on your paper currency, this is redeemable at the
16 Treasury by Mr. Regan or it's exactly what you paid for it.
17 It's a wash.
18 MR. NEAL: In dollars.
19 MR. REUSS: No gain, no loss.
20 MR. NEAL: Exactly. What I'm trying to understand
21 is how you see this as different from the situation that would
22 exist if the same treatment were given gold. I have no desire,
23 let me just make it very clear, if benefiting any particular
24 group of speculators.
25 In fact, what I think would happen if we were to do

1 something like this or suggest something like this that
2 essentially nothing would happen. There would still be no way
3 of a person earning interest on gold. A person can earn
4 interest on dollars, and I can't see what possible benefit
5 there would be to anyone in holding gold unless they just
6 happened to want to bet as they can now, by the way, that we
7 are going to inflate our economy or other international events
8 will raise the price of gold.
9 I just don't see the basis of your charge that this
10 is somehow of benefit to speculators.
11 MR. REUSS: It enables him to buy gold at $600 and
12 sell it at $1,000 and not pay a long-term capital gain on the
13 $400.
14 MR. NEAL: But you can buy $600 worth of dollars
15 and sell them at $1,000 worth of dollars and not pay a capital
16 gains tax.
17 MR. REUSS: I don't know how you sell $600 for
18 $1,000. If you'll tell me, I'll be rich.
19 (Laughter)
20 MR. NEAL: I'm just saying that if you owned gold
21 last year at $800 and it is now $400, you don't become very
22 rich doing that either, do you?
23 MR. REUSS: No, but that's an unrealized capital
24 gain. If you realize the capital gain by selling it, then,
25 says the tax laws, you pay a tax.

1 MR. NEAL: No, that's a capital loss.

2 MR. REUSS: Now, it's suggested that we put in the
3 Bunker Hunt Amendment saying that however you realize your
4 gain in gold, you don't have to pay a tax. I cannot join in
5 that Commission recommendation.

6 SECRETARY REGAN: Congressman Paul?

7 DR. PAUL: Thank you, Mr. Chairman. I think
8 Congressman Ruess might have this a bit misinterpreted. I
9 understand that Bunker Hunt did not make a whole lot of money
10 on silver.

11 (Laughter)

12 DR. PAUL: I understand he had a little trouble and
13 if he gets into the gold market and loses, what we've done is
14 we've cut out his capital loss. So, he's going to get stuck.
15 He won't be able to declare his capital loss. Think of the
16 capital losses he's going to have with the silver.

17 MR. REUSS: I presume Bunker Hunt goes into these
18 transactions with the thought in his mind that he's going to
19 make a capital gain.

20 DR. PAUL: I know, but he lost money in silver.
21 That is the whole point. He's benefited tremendously from the
22 general tax code, because he's taken it as a capital loss.

23 What we're saying is we shouldn't have capital
24 gains or capital losses. They should balance out. Besides,
25 I think there will be a greater gain for the government because

1 those individuals who buy gold tend to hold it right now.
2 There are capital gains. They don't trade them in and take
3 them, so they are not paying a lot of taxes.
4 I would suspect if you'd do an analysis from the
5 Treasury you would find that there were more capital losses
6 declared last year on the metals than capital gains. I think
7 that we're really sticking it to the speculator by taking away
8 his capital loss.
9 MR. REUSS: Why don't you just take away his capital
10 loss, but tax him on his capital gains?
11 (Laughter)
12 DR. PAUL: Because I happen to think about a free
13 society and I'd like to treat him fairly. That would be
14 totally unfair and sort of ridiculous when you think about it
15 MR. NEAL: That is your suggestion, right, Henry?
16 DR. PAUL: He's serious, I guess.
17 (Laughter)
18 MR. REUSS: No, no. I bleed for Bunker Hunt.
19 DR. PAUL: I would like to follow up on this on the
20 taxes. I think this is a very specific important area that we
21 address, because we are talking about gold being used as money.
22 If there is any way that gold can compete, you have
23 to get it somewhere on an equal status. For that reason, I
24 think the subject of state tax and sales tax is a proper
25 subject. If we walk into our bank today and we write a check

1 and take out three $100 bills, nobody charges us a sales tax
2 on it. So, if we walk into the bank and ask for three ounces
3 of gold, the subject of a sales tax is very critical. It is
4 less likely that we would go in and buy three ounces of gold
5 if we are going to have a premium of three percent or six
6 percent. It leads to chaotic conditions.
7 Even today, we realize that some states charge
8 sales tax on gold; others don't. Those who want gold buy gold
9 through the mail and skip the sales tax. Some states would
10 exempt and others wouldn't.
11 So, I think it would be very important, if we're
12 serious about allowing some freedom and some competition that
13 we might not have the legislative and Constitutional authority
14 to say anything, but we might have a recommendation that we
15 could make.
16 SECRETARY REGAN: Governor Wallich, you are next.
17 GOVERNOR WALLICH: I voted against it, Mr.
18 Chairman, not because I think the capital gains tax is a good
19 tax. I think it's a very bad one. It is a triple taxation
20 of savings -- once when the income is earned; once when the
21 income produces dividends after being invested; and finally,
22 when it's sold if there is a profit.
23 It is harmful to productivity and growth. During
24 inflation, of course, it is worse because it becomes a tax on
25 very often a real loss, even though there is a nominal gain.

1 It becomes a tax on capital. Nevertheless, so long as we
2 have this tax in the system, then it seems to me that we shoul
3 not discriminate in favor of an unproductive investment, such
4 as the ownership of gold and existing assets which, as we know
5 doesn't influence production in any particular way and against
6 productive investments such as common stocks or real estate,
7 productive assets.
8 I would think we would want to treat all capital
9 gains alike.
10 SECRETARY REGAN: Thank you very much, Governor.
11 Mr. Costamagna, you are next and then Governor Partee.
12 MR. COSTAMAGNA: Thank you. I was one of the two
13 that made a distinction between gold coins and bullion. I
14 think that that may solve the debate that I hear going on here.
15 If we can look at it for a moment again with the
16 idea Congressman Paul just said. We are looking at gold coins
17 as money. Now, there are no American gold coins in existence
18 today. All of those people who currently own foreign gold
19 coins or who have gold bullion, if you make a distinction
20 between newly minted gold coins that are to be produced
21 sometime in the future as U.S. gold currency or coins, gold
22 legal tender, money.
23 There will be known from the past who has gold
24 bullion or gold coins. That will be exempt from the capital
25 gains or losses. Only those in the future who purchase newly

minted gold coins that will be treated as money will be exempt from the capital gains and losses provisions.

That is why I made the distinction and crossed out the word bullion in that question. If you do so, I believe that you might come to a different conclusion in your vote. The fact that this is a compound question from a legal standpoint, I would object to it.

I think it raises too many issues when you have a question such as this. It talks about gold bullion and coins, and in my mind they are two entirely different things. I would agree with Congressman Reuss, that the speculators would find some advantage in this if we included bullion.

I see no need to do so if we have newly minted gold coins which don't exist presently. An exemption from capital gains for those coins --

SECRETARY REGAN: Thank you.

DR. PAUL: May I ask him a question, please?

SECRETARY REGAN: Go ahead.

DR. PAUL: I would just like to ask, Mr. Costamagna, are you thinking about only the American coin or would you exempt the private coin as well as the foreign coin?

MR. COSTAMAGNA: No, I would just think the American coin, period, because I would view that as money. I don't see how you could put a capital gains or loss on money, American U.S. money. But, if you put the word bullion in there, then

complicate the whole issue.

SECRETARY REGAN: Governor Partee, you are next.

GOVERNOR PARTEE: Well, then I'm the other one that voted for coins only. I must admit I did it somewhat with tongue in cheek. But, on the grounds, as I said before, I would consider this a sponsored market.

A sponsored market can have advantages. I particularly wanted our gold coins to have an advantage over the Krueqerand and the Maple Leaf and the Mexican coins so far as American residents are concerned, which I think this would bestow.

Also, I would point out that there is no possibility of interest return on holding gold coins so that just as would be the case with currency, there is no possibility of an interest return. There is no capital gains on currency, so there shouldn't be a capital gain on gold coins.

Now, having said all of this, I am inclined to think that this is too much for us to bite off. My problem is it is difficult to know how much conversion there would be for speculative purposes from bullion to coin, to this coin, that would result from this particular advantage.

I would be concerned, as concerned as Congressman Reuss about giving undue advantages to speculators in commodities. They could use this as a proxy for a commodity; that is, the sponsored coin that the United States Government

is putting out. So, in order to relieve Congressman Reuss' mind, I am prepared to shift my vote to no, making it six to six. Now, it's clearly not the majority anymore.

SECRETARY REGAN: Mr. Coyne?

MR. COYNE: I see that I misread that question in my vote. It said gold bullion or coins. I thought that meant either one. I am now going into your vacated column, Governor Partee.

(Laughter)

MR. COYNE: In that I really was thinking of that in terms of coins and not bullion. I agree with Congressman Reuss' comment regarding giving an advantage to speculators. I was thinking of this, the logic of this, Congressman Reuss. Whether it should be done or not is a different question.

The logic is that a legal tender U.S. mintage which would be used as an alternative way to store value as against the ordinary way of investing one's dollar denominated assets would not be subject to a disadvantage against other types of legal tender.

This dollar bill currently buys two loaves of bread. If I don't --

A PARTICIPANT: One loaf.

MR. COYNE: One loaf of bread, you see? I first used that example about three years ago.

(Laughter)

1 MR. COYNE: My God, I hope you're kidding me.
2 But, if this dollar bill buys one loaf of bread and I do not
3 now need a loaf of bread, but I may when I retire at the age
4 of 65, what I wish to do is to store this in such a form as I
5 get back the equivalent of one loaf of bread, not a dollar.
6 I don't care if I get back 50 cents and 50 cents buys a loaf
7 of bread. I don't care if I get back $5 if $5 buys a loaf
8 of bread.
9 If we are intending to create a legal tender in
10 gold coin as store of value for the citizens of this country,
11 then to tax that store of value in a discriminatory way against
12 other American legal tender would not serve the purpose of
13 creating a legal tender alternative to ordinary American
14 currency.
15 If that's what one's philosophical thinking would
16 be, one would presumably not wish to mint a legal tender U.S.
17 gold coin.
18 SECRETARY REGAN: Congressman Neal?
19 MR. NEAL: Well, the point of the article was not
20 that the gold coin would be legal tender, number one. Number
21 two, the point was that it would be used primarily for -- it
22 would allow the use of gold for long-term contracts.
23 I think you raise an interesting point about the
24 advantage given speculators if it were in bullion. It had
25 not occurred to me. Maybe it's the same point with the coin,

1 I'm not quite sure. But, I think the idea as presented is
2 to allow gold coin and paper to compete. If you bet that the
3 chunk of gold that you own is going to buy you the loaf of
4 bread -- if you'd rather bet that way than to bet on the
5 dollar you own -- it's an interesting question as to whether
6 or not you ought to be allowed to do that, ought to exercise
7 that judgment.
8 I have a feeling that not many people would make
9 that judgment, but why discriminate against those who would
10 want to make that judgment? I said a minute ago that it had
11 no direct impact on monetary policy, and I think that is
12 correct.
13 It would seem to me that if there were somehow a
14 run on gold coin, if people were trading dollar bills for gold
15 coin right and left, that that might send some sort of a
16 message to the Federal Reserve and the Congress that there was
17 something amiss and that we might want to do something to
18 reverse that trend.
19 GOVERNOR PARTEE: I think the logic of that is
20 clear. It was stated by both Costamagna and Coyne.
21 The thing that bothers me, assuming it is three
22 percent seigniorage, say. You might have a man or a wealthy
23 corporation or somebody who said, "Well, I want to make a
24 plunge in gold and so I'm going to buy 100 million. But,
25 since I expect to make a profit, I'd like to avoid capital

gains taxes." If, for example, Mr. Hunt buys 100 million in gold, to use the Congressman's example, that's not sending any message -- and does it in coin in order to avoid the capital gains tax, that's not sending any message. As a matter of fact, that is false information that the Federal Reserve would receive.

So, that is the other side of the argument that I hadn't really considered when I answered yes here for coin. I just think the exposure is too great. At least, it would need much further study as to what the exposure would be.

SECRETARY REGAN: Governor Wallich?

GOVERNOR WALLICH: Mr. Chairman, I was not aware of the legal tender implications that seem to be inherent in the decision of whether or not the coin would be legal tender. I may have overlooked it, but I didn't think I --

DR. SCHWARTZ: It is in the private sector section.

GOVERNOR WALLICH: It comes later?

DR. SCHWARTZ: Yes, in the private sector.

GOVERNOR WALLICH: I just want to go on record that in view of these very far reaching implications and the possible logical conclusions that might be drawn from the fact that something is legal tender instead of a commodity, then I would be against the legal tender.

MR. NEAL: The suggestion wasn't that it be legal tender. The suggestion was that it would not be legal tender,

very clearly.

SECRETARY REGAN: Congressman Reuss?

MR. REUSS: Before we leave the subject, I would want those who say no capital gains will be recognized on coins but they will be recognized on bullion, who make that distinction rather than to say as I do that gold, like any other commodity, should be subject to regular taxation.

If you are going to exempt coins, gold coins, from the capital gains tax, but not exempt bullions, be sure you have sufficiently evaluated the effect on markets. I should think people would be dumping gold bullion fast and buying coins like crazy. Let whoever wants to set up this dichotomy have that in mind.

DR. SPRINKEL: That is one of the issues that has held up the distribution of our paper on whether or not we should eliminate a capital gains tax on gold or gold bullion. We hope to think that through, in response to your request. I believe you were not here when I made that announcement earlier.

MR. REUSS: Thank you.

SECRETARY REGAN: Mr. Costamagna?

MR. COSTAMAGNA: Just in response to Congressman Reuss that it would, in view of Governor Partee's suggestion that there be this seigniorage, everyone deciding to buy gold coins would mean quite a windfall profit to the Treasury.

MR. REUSS: Yes, that is a factor to be considered.

1 But, there are other ends in life than windfall profits to the
2 Treasury and I think those should be considered, too.
3 MR. COSTAMAGNA: The point on the capital gains --
4 Again, referring to this bill, Senate 17-04, they treat the
5 question of capital gains in this Gold Coinage Act and say
6 the following:
7 "Neither the United States nor any state shall
8 impose an excise or transaction or capital gains tax upon the
9 use of gold or upon banking services that involve the promise
10 to pay with gold."
11 Just for the record, that is already provided for
12 in this particular bill.
13 SECRETARY REGAN: Are there any other comments on
14 this particular item?
15 MR. NEAL: Excuse me just a moment. Do I understand
16 correctly that the Treasury is now pursuing this question and
17 not only the direct question but also the tax implications
18 surrounding it?
19 DR. SPRINKEL: Yes, sir; that is correct. We hope
20 to have a paper distributed to members of the Commission in the
21 next week or so.
22 SECRETARY REGAN: All right. Dr. Schwartz?
23 DR. SCHWARTZ: The fifth question, are you in favor
24 of a Treasury issue of gold-backed notes or bonds, was
25 turned down by a majority. Of those four who responded

1 affirmatively, one qualified his answer by saying "not
2 immediately". He was in favor at some future date but not
3 immediately, of the Treasury issue.
4 SECRETARY REGAN: Does anyone want to speak to
5 this?
6 MR. NEAL: May I just make one brief comment on
7 this? It's not something I know very much about. I voted
8 for it because I was approached not too long ago by a
9 Congressman with a bill that would essentially do this.
10 His argument was that this would -- that if the
11 Treasury were to issue gold backed bonds or notes, that it
12 might be able to pay a much lower rate of interest on these
13 and it might have a very positive impact on our budget deficit.
14 It might put to use some of the gold that we have
15 in our storehouse. It would just seem to me to be somewhat
16 of an appealing idea. I think it's worth looking at a little
17 closer. I'm just curious as to what the arguments against it
18 are. Obviously, I'm in the minority in my thinking.
19 SECRETARY REGAN: Governor Wallich?
20 GOVERNOR WALLICH: I would say a gold-backed
21 Treasury bond, if it is convertible into gold at the present
22 market price, is simply a warehouse certificate on gold. By
23 owning it, one has the same advantages, chances of gain or loss,
24 or gain at any rate, as owning gold. One ought not to get any
25 interest at all. One is saving the cost of storage and the

1 insurance. So, I would say yes, you can issue a gold-backed
2 bond and pay a minimal interest rate. But, you are really
3 just allowing people to speculate or encouraging people to
4 speculate on gold and get interest at the same time if that
5 instrument pays any interest.
6 The instrument does not really differ from, let us
7 say, a convertible bond convertible into the common stock of
8 some corporation. That, too, also has a lower interest rate
9 because there is a possibility of speculative gain.
10 The Treasury would be giving up the gold. That is
11 where the cost would be coming in.
12 MR. NEAL: Well, of course, the price of gold may
13 go down and it would be a windfall to the Treasury.
14 GOVERNOR WALLICH: It would, but in the course of
15 time, if people make the assumption that they want to buy this,
16 they probably have reason to think it will go up. The price
17 of common stock could go down, too, but in the course of time
18 on average, it goes up.
19 MR. NEAL: I am just trying to help save the
20 Treasury from its policy.
21 GOVERNOR PARTEE: I think it would be equivalent
22 to a forward sale of gold. There wouldn't be any market for
23 it if everybody thought the price of gold would go down.
24 MR. NEAL: I know.
25 GOVERNOR PARTEE: So, you wouldn't sell it. You

1 would only sell it if they expected the price to go up. That
2 puts the Treasury betting against the market and the chances
3 are the Treasury would lose.
4 SECRETARY REGAN: All right. Shall we press on,
5 Dr. Schwartz?
6 DR. SCHWARTZ: With respect to the sixth question,
7 should the Treasury engage in commercial operations such as
8 leases and swaps of U.S. gold holdings, you will recognize
9 this question as one that Mr. Coyne posed.
10 Eleven voted in the negative. Of the two who
11 were in favor of it, one qualified it by saying, "if conditions
12 are favorable". I suppose that means that the Treasury would
13 know that it could make a sure profit.
14 SECRETARY REGAN: Any comments?
15 GOVERNOR PARTEE: I'm the one for if conditions
16 favor it and one of very few for it, apparently. It just
17 simply -- I don't see any reason to preclude this. If, in
18 fact, there should be a condition that would seem to make the
19 most favorable course, the swap or lease of gold, I see no
20 reason we shouldn't use -- I rather agree with Mr. Coyne.
21 We have a stale asset here that is doing nothing
22 at all for us. If we can utilize it effectively, why, we
23 ought to. But, I can't think off-hand of what those conditions
24 are. I just wouldn't want to prohibit the possibility if it
25 looked all right.

1 MR. COYNE: Well, of course, there is no reason to
2 do such a thing in and of itself. One would only do such,
3 engage in such an operation, if there were a good reason to do
4 it in any individual case.
5 The kinds of reasons could include such things as
6 follows. If some future administration or the current one
7 changed its policy on this and it were necessary to defend the
8 dollar or to -- whatever the opposite of defending the dollar
9 is, defend other currencies against it or limit the increase
10 in the dollar.
11 Inasmuch as this country's principal reserve asset
12 is in gold, if it were necessary to defend the dollar, rather
13 than to borrow Deutschmarks as part of a defensive operation,
14 it could, at the discretion of the Fed, be more suitable to
15 do that operation against gold if the Fed chose to do so under
16 the market conditions that existed at that particular time.
17 This would not require shorting of one particular
18 current country's currencies as against defending the dollar
19 against gold which might be considered at that time a proxy
20 for, let's say, a basket of currencies. That could be a
21 condition under which gold could be useful to the Fed at some
22 future time.
23 At the opposite end, there are dozens of such
24 examples that are possible. At the other end of the scale
25 would be simply the possibility of producing reasonable income

for the Treasury. If part of this country's holdings were in the form of 99.5 pure gold and 9999 pure gold which is the case, if an opportunity to sell one and replace with the other with no monetary significance to the reserves at all other than to produce the commercial profit of the exchange of material, one could perhaps generate profits by these sorts of operations in the range of perhaps $20 to $50 million a year and perhaps more if one were extensively using it as a part of the repurchase agreements.

DR. SCHWARTZ: Mr. Coyne, I agree with your latter description of commercial operations, but I don't understand how your initial statement about defending the dollar this way would be classified as a commercial operation.

SECRETARY REGAN: Anyone else? Governor Rice?

GOVERNOR RICE: Does the Treasury have the authority to engage in profits of gold now?

SECRETARY REGAN: As long as they are monetary transactions, I am informed the Treasury does have the right to swap gold.

GOVERNOR RICE: That was my assumption when I answered the question. I assume that they can do this now and I couldn't imagine any additional authority I was in favor of.

SECRETARY REGAN: Obviously, it hasn't been done.

GOVERNOR RICE: I know that.

DR. SCHWARTZ: The question is whether it should

1 engage, not whether it should be given the authority to do so.

2 GOVERNOR RICE: Well, if it can do it and do it to

3 its advantage, why not?

4 DR. SCHWARTZ: That is the question.

5 SECRETARY REGAN: The one thing I will tell you is

6 it's easy to do it with the system we are using now. You

7 wouldn't have to physically transfer the gold. It's quite

8 simpler. Well, shall we push on to seven?

9 DR. SCHWARTZ: Question seven, are you in favor of

10 maintaining without change the physical volume of the U.S.

11 Government's gold stock and with no change in its valuation

12 at $42.20 an ounce.

13 One member thought that that question should have

14 been divided into first, asking whether you are in favor of

15 maintaining without change the physical volume. The separate

16 question should have been whether that should be valued at the

17 old official price.

18 On the question as stated, eleven were not in favor

19 of maintaining without change the present physical volume,

20 although one qualified that by saying some reduction in the

21 stock seems okay.

22 Two were in favor of maintaining without change

23 the present physical volume of U.S. government stock and with

24 no change in its valuation.

25 GOVERNOR WALLICH: It seems to me to say that one

1 is in favor of maintaining the present volume does not mean
2 under all and any conditions. There may be reasons why one
3 would want to use the gold. After all, that's the nature of a
4 reserve. But, I took this question to imply that other things
5 equal, if there are no particular reasons, then the Treasury
6 should not actively undertake a gold disposal or gold
7 acquisition policy.
8 SECRETARY REGAN: Anyone else?
9 (No response.)
10 SECRETARY REGAN: Okay. Eight?
11 DR. SCHWARTZ: The first part of question eight
12 asked if you favored changing the valuation of the gold stock,
13 maintaining the present physical volume. Nine responded
14 negatively, again. Three favored revaluing. One qualified
15 that, "gradually in bites of 20 per year". I don't know
16 whether that means $20 per year or a 20 percent increase in the
17 value of the price of gold per ounce.
18 There was one question in the NA column, one answer
19 in the NA column. Revalue but allow modest fluctuation in
20 volume. I suppose that could have been included under the
21 yes column.
22 I don't quite know how to interpret this. The
23 majority is against maintaining without change the physical
24 volume of the U.S. government's gold stock at the price of
25 $42.22 and a smaller majority doesn't want to maintain the

1 present physical volume, even revaluing it. So, I am not quite
2 sure how to interpret the answers to seven and eight.
3 SECRETARY REGAN: Does anyone wish to clarify?
4 GOVERNOR WALLICH: I wish to clarify that I
5 interpret this to mean that the main point was whether gold
6 was to be revalued. I meant to vote no on that.
7 DR. SCHWARTZ: You were consistent.
8 SECRETARY REGAN: Governor Partee?
9 GOVERNOR PARTEE: I was a yes on that. I think it
10 is very awkward to be carrying the gold at a value that is
11 tremendously below any feasible market price.
12 I don't mean to say that $400 is a viable market
13 price, but I think that the circumstances under which gold
14 would drop back to $42 just aren't clear to me at all. They
15 are so unclear that I think that there is one of the most
16 artificial characters of our gold policy is that $42 an ounce.
17 That is so far below purchasing power or anything
18 that one would expect gold to be. Therefore, I am inclined
19 to think that we ought to revalue the gold. The trouble with
20 revaluing the gold is that if you do it in one swoop, to $200
21 an ounce or $100 or $150, whatever might be determined, it is
22 a tremendous windfall, with possible substantial monetary
23 implications.
24 Therefore, I thought that one feasible -- if the
25 Commission, which it appears does not. But, if it were

1 concerned with the price of gold, being so ridiculously low
2 on the books of the government and on the books of the Federal
3 Reserve where it is carried at $42 an ounce, one feasible way
4 of going about that would be to raise, in a program, gradually
5 the price of gold. That was supposed to be $20 and I can see
6 now that my dollar sign wasn't all that clear. $20 an ounce
7 a year, say, would mean about $5 billion a year.
8 Now, in order to avoid monetary effect from that,
9 the restriction could be that that revaluation must be used
10 to retire debt held by the Federal Reserve. Therefore, what
11 you would have each year would be a $5 billion increase in the
12 value of gold and a $5 billion reduction in the value of
13 securities held by the Federal Reserve.
14 It is a bookkeeping entry at the end of every year.
15 The Federal Reserve has about $130 billion in government
16 securities, so that it doesn't -- it would take a long time.
17 There is some growth, so that it would take a long time to use
18 up anything like a significant portion of that stock of
19 government securities.
20 The reason I wouldn't recommend going faster than
21 that is that as the lender of last resort, we have to have the
22 capacity to sell government securities when we make loans to
23 banks or others under our discount facility. I wouldn't want
24 to jeopardize that, so I think it would have to be done rather
25 gradually.

So, this was quite a complicated answer to your question. It envisages a way, if the Commission wished, to gradually raise the value of gold on the books of the Federal Reserve and not to have any monetary effects from so doing.

SECRETARY REGAN: It's very interesting, particularl in view of some of the meetings I've been attending yesterday and today regarding the deficits and the like.

GOVERNOR PARTEE: I am not sure about deficit accounting. I am not sure that it would do that. It would reduce the gross public debt, of course, but not the net public debt. The net public debt is net of what the Federal Reserve is holding.

MR. COSTAMAGNA: Would you impose a capital gains tax on the government?

(Laughter)

SECRETARY REGAN: Any other comments on that? I am not sure whether we have helped Dr. Schwartz or not.

DR. SCHWARTZ: Yes. I wish somebody would speak up who answered no on both question seven and question 8(a).

SECRETARY REGAN: Governor Rice?

GOVERNOR RICE: Someone who answered no?

DR. SCHWARTZ: No on both questions seven and 8(a).

GOVERNOR RICE: Well, it just seemed to me that voting yes was inconsistent with the desire to issue coins. That would automatically reduce the physical volume.

1 DR. SCHWARTZ: But I thought the distinction
2 between seven and 8(a) had something to do with revaluing the
3 stock.
4 GOVERNOR RICE: Yes, you include the revaluing in
5 seven and you don't in eight. But, in both questions, the
6 question assumes that you maintain the physical volume of gold
7 constant.
8 DR. SCHWARTZ: Okay. I see what the problem was.
9 GOVERNOR RICE: I think later on I indicated that
10 I was in favor of revaluing the gold stock. I don't remember
11 now what question it was.
12 DR. SCHWARTZ: It was my failure in not making the
13 questions clear.
14 SECRETARY REGAN: Dr. Weidenbaum?
15 DR. WEIDENBAUM: If this helps Dr. Schwartz any,
16 I voted against maintaining without change the present
17 physical volume of the government's gold stock simply because
18 I didn't think that was an objective worthy of the use of the
19 government's limited resources in view of the many high
20 priority demands on the government's limited resources.
21 SECRETARY REGAN: Anything else?
22 (No response.)
23 SECRETARY REGAN: All right. Next?
24 DR. SCHWARTZ: On 8(b), whether the Treasury should
25 avoid monetarization of the revaluation profit, there was a yes

1 vote of five and eight voted it as not applicable, since
2 they had turned down the 8(a) on whether the revaluation profi
3 should be used to retire federal debt, two voted -- I think
4 there is an error there. Two voted in favor of reducing the
5 federal debt. I think it must have been four and seven then
6 for the remaining numbers.
7 Nobody wanted to use the revaluation profit to
8 finance current deficits. Then, with question nine, at last
9 we have a unanimous statement. Nobody is in favor of
10 Treasury sales at auction of the present U.S. government gold
11 stock.
12 SECRETARY REGAN: Are there any comments on those
13 questions?
14 (No response.)
15 DR. SCHWARTZ: Are there any points with respect
16 to Treasury operations, Mr. Coyne, that I missed that were
17 included in your statement of options?
18 MR. COYNE: I have to say there are too many
19 different, variously phrased questions for me to give a quick
20 answer to that.
21 DR. SCHWARTZ: All right. I think when --
22 MR. COYNE: I note that the response at the table
23 here today to question six seemed to be perhaps a bit
24 different than the vote would indicate which makes me wonder
25 whether the meaning of the question was clear.

1 SECRETARY REGAN: Are there any more comments
2 on those questions? Can we go on to the next?
3 DR. SCHWARTZ: Yes. The next group of questions
4 would affect Federal Reserve operations. The first question
5 asks whether you are in favor of fixing a required ratio of
6 the U.S. government's gold stock to the Federal Reserve mone-
7 tary base Federal Reserve notes plus bank reserves.
8 One member indicated that he believed it didn't
9 necessarily have to be related to the monetary base, perhaps
10 to some monetary aggregate. As you see, ten were opposed to
11 such a requirement. Three favored it.
12 On the question of whether the ratio should have
13 fixed upper and lower limits, ten again were opposed; two
14 favored upper and lower limits and one wanted only a fixed
15 ratio in the not applicable column.
16 DR. SPRINKEL: Are there any comments on that
17 question? Mr. Coyne?
18 MR. COYNE: Yes. When I went over these questions,
19 perhaps not being an economist, I got very confused by the
20 variety of options I had in answering things. It seemed that
21 there was one generic question which somehow or another should
22 be in here that is not.
23 Should there be some sort of -- let me try to
24 start over. Do the members of this Commission believe that
25 there should be some sort of linkage between our gold stocks

1 or the value of our gold stocks and the amount of money that
2 we have in our money inventory. Regardless of the specifics
3 of what that linkage should be, should there be some sort of
4 linkage whether it's a monetary rule or a fixed gold dollar
5 price or a ratio of the value of gold on some basis against
6 some sort of monetary aggregate or some other definition of
7 money that is yet to be devised.
8 Or, in fact, should our gold stock have no
9 relationship whatsoever to the money supply and those two
10 items are to grow or diminish independently of each other.
11 DR. SCHWARTZ: I think that the generic question
12 was answered in the majority vote no on every one of the
13 questions raised in this section.
14 DR. SPRINKEL: You would have voted for some form
15 of a relation even though you didn't like these; is that
16 correct?
17 MR. COYNE: Well, it is not so much that. I wasn't
18 especially referring to how I would have voted as to what I
19 understood certain people on this Commission were saying. I
20 didn't see a window for the expression of that opinion.
21 That is to say, should there be some sort of gold-
22 dollar link or is that concept rejected? I understand that
23 there were a number of questions which were very specific in
24 nature, but somehow or other, I feel the absence of the
25 generic question may be relevant.

1 DR. SCHWARTZ: I would think that the first
2 question ten is precisely that generic question. It links
3 the gold stock to the Federal Reserve portfolio.
4 DR. SPRINKEL: Are there any further comments on
5 that question? Could we have the next one?
6 DR. SCHWARTZ: Yes. The next question was an
7 attempt to restate Dr. Weintraub's proposal. I don't know,
8 maybe I wasn't successful in putting it into language somewhat
9 different from his own.
10 Moreover, while he limited the procedure that he
11 outlined to the Federal Reserve currency issue, I broadened
12 it to the Federal Reserve monetary base. Otherwise, it is
13 his proposal.
14 Are you in favor of a rule or a procedure
15 constraining the Federal Reserve monetary base or currency
16 situation to grow at a rate determined by the growth of the
17 value of the monetary gold stock, the latter set by a pre-
18 announced annual increase in the official price of $42.20
19 per ounce.
20 The question was defeated, eleven to two.
21 DR. SPRINKEL: Are there any comments on that?
22 MR. NEAL: May I ask a question? I am surprised
23 that the vote was eleven to two against that, based on
24 previous comments I've heard made at these meetings. I am just
25 amazed that the vote is so one-sided on that question. I just

express that as a matter of interest, because I have been pretty clearly aware that the members of the Federal Reserve Board would be opposed to any such proposal.

I have heard Congressman Reuss' opinion on this, but I know that others on the Commission have expressed the idea that somehow money growth ought to be limited. Even though they may not be wild about this specific proposal, recognizing it as a ruse, as the author does also.

It is an attempt to limit money growth legislatively, and I just wonder if those that voted against it were against it because they are against limiting money growth legislatively or whether they are against it, whether they might be for that but are against this particular way of going about it.

DR. SPRINKEL: Would anyone like to comment on that question?

GOVERNOR PARTEE: I do think -- I believe you weren't here, Congressman, when the list of those who hadn't responded to the questionnaire was cited.

DR. SPRINKEL: That's right.

GOVERNOR PARTEE: It includes several who I think would have voted for this.

DR. SCHWARTZ: I think if we get the complete --

MR. NEAL: Actually, they were just the Senators, right? Plus the Chairman?

1 GOVERNOR PARTEE: Right, and Mr. Lehrman. I don't
2 know what Lehrman would do.
3 DR. SPRINKEL: Congressman Paul?
4 DR. PAUL: Thank you. I think part of the problem
5 is compared to what, you know. If we're going to talk about
6 this compared to what we may consider as the ideal system or
7 shall we consider it to maybe what we have.
8 I think if we put up a monetary rule associated
9 with gold compared to the current system, I think you might
10 get a lot more yesses. Or, if you just put a monetary rule
11 up against what we have, you can get a fair number of yesses
12 from even people who believe that gold should be incorporated
13 into the system.
14 I think under the circumstances, you are not going
15 to even get as many yesses as you might have if you narrowed
16 that question somewhat.
17 MR. NEAL: That was really my question. The
18 question doesn't say that.
19 DR. PAUL: I know.
20 MR. REUSS: Mr. Chairman?
21 DR. SPRINKEL: Yes, Congressman Reuss?
22 MR. REUSS: I was one of those who was in the
23 happy majority of the Commission on this point. Hence, I too
24 am amazed at our own moderation and common sense. However, I
25 know that Steve Neal has long been wedded, and though I

1 disagree with him, it's a serious position, to a rule not
2 linked to gold constraining the growth rate of the Federal
3 Reserve monetary base. That is true; is it not?
4 MR. NEAL: Yes, sir.
5 MR. REUSS: While I don't agree with that position,
6 I think it is one that deserves not to be zapped by this great
7 Gold Commission, because it really has nothing to do with
8 gold and --
9 MR. NEAL: Exactly.
10 MR. REUSS: -- therefore, I would hope that despite
11 the triumph of reason in the answer to question 16, that
12 that triumph not be embedded in the Commission report because
13 it is irrelevant to gold.
14 MR. NEAL: I have no objection to that. I don't
15 think it is going to have an effect on the success or the
16 failure of the proposal. Once we go through another round of
17 inflation, we'll be looking again for solutions.
18 MR. REUSS: Your day may come, but not on
19 February 28th.
20 MR. NEAL: I was just surprised. Let me just ask
21 this general question, if I can, and if anyone wants to
22 respond. Are those that are answering no on this question
23 answering no, they don't like the idea of a legislatively
24 mandated money rule or yes, they do like that idea but they
25 just don't like it in this particular form?

1 I am aware of what Mr. Reuss would think and I
2 think what the Federal Reserve Governors would think. I'm
3 just curious if any others would want to respond to that.
4 MR. REUSS: One particular form, it is nonspecific
5 here in question 16.
6 MR. NEAL: And someone did point out that there is
7 another question.
8 MR. REUSS: Anybody who voted no on that and now
9 tells us that he really would like some kind of a rule not
10 linked to gold restraining the growth rate of the Federal
11 Reserve monetary base obviously needs sympathetic treatment.
12 MR. NEAL: Well, so on 16 then the result is much
13 closer.
14 MR. REUSS: Yes.
15 MR. NEAL: I think that makes more sense, myself.
16 I don't see any reason for linking up gold to it, at all.
17 MR. REUSS: In the light of that, I think I'm --
18 Dr. Schwartz will check me on this. I think I was the one who
19 said not relevant to inquiry.
20 DR. SCHWARTZ: That's right.
21 MR. REUSS: Fine. I will now change my vote to
22 no so that the margin of rejection is even larger, but renew
23 my request that this not be included in the report as
24 unnecessarily unkind to Congressman Neal. It isn't necessary.
25 DR. SPRINKEL: Mr. Jordan?

1 MR. JORDAN: I would be opposed to removing it.
2 There are still four members of the Commission that have not
3 responded and hopefully, sense will prevail.
4 MR. NEAL: I concur with the comments of Mr. Jordan.
5 MR. REUSS: Well, I think there is a question of
6 whether it is germane. I think it is illegal for us to
7 pontificate on this. We aren't the Commission to decide
8 whether there ought to be a monetary rule. We are the
9 Commission to investigate the position of gold in the domestic
10 market.
11 MR. NEAL: Let me say, though, my good friend, the
12 only reason any of us are willing to spend time sitting and
13 discussing this issue is because we are interested in the
14 problem of inflation. I assume that to be true of other
15 members of the Commission.
16 Those that propose a gold standard are proposing it
17 because they are interested in controlling inflation, I assume.
18 Those that would argue against it are arguing against it
19 because they think there are better ways to control inflation.
20 The question of inflation is really the underlying
21 question in all of this, I hope. If it's not I certainly
22 feel like I'm wasting my time entirely.
23 MR. REUSS: I think we all are.
24 MR. NEAL: We probably are. I would agree with
25 that, but still, I think that there is a genuine concern

1 about the very serious problem of inflation in our economy.
2 I think that is why everyone at this table is willing to spend
3 their time here thinking about it, talking about it, working
4 on this question.
5 So, I just don't think that we should -- if there
6 is a serious proposal to do something about controlling
7 inflation that could come out of this. I think that when the
8 other votes come in, Mr. Jordan is correct.
9 You will find that the vote on that question is
10 much closer. It may be that our position is in the majority
11 and not in the minority. Germane or not, I'd say leave it in
12 the report and let's see what we can do to -- if we can help
13 in resolving this very serious question of continuing
14 inflation in this country.
15 MR. REUSS: I must serve notice that if my motion
16 to exclude from the report this non-germane element fails,
17 I would then intend to put before this Commission a whole
18 series of anti-inflationary proposals -- energy policies,
19 export policies, import policies, industrial policies. I can
20 predict a busy February as we move to meet our deadline.
21 DR. SCHWARTZ: The deadline is March 31.
22 MR. REUSS: March 31, oh then it's easy, no problem.
23 DR. SPRINKEL: Mr. Costamagna?
24 MR. COSTAMAGNA: I might stick my neck out and
25 try to answer Congressman Neal's question with my thinking on

1 this. I did vote yes on 16, but I voted no on the Weintraub
2 Proposal for several reasons.
3 One, I found it quite complicated with the graduated
4 scale of raising the price of gold over a period of years,
5 and other elements that were contained in the basic proposal.
6 But I might express this another way. We have
7 developed several roles, as I have perceived them, during
8 these discussions -- the role of man, the role of law and the
9 role of gold and so forth.
10 I have also coined a phrase of my own, which I call
11 the role of the people. That is the best way I can describe
12 the gold coin idea. I think that if we have gold coinage
13 we are putting in the hands of the people a -- it's up to them,
14 if they wish to, an opportunity to do possibly what the role
15 of law might do.
16 In the sense of if they do not like the current
17 monetary policies of too much increase in the supply of money,
18 they would in turn buy gold coins and vice versa. If they do
19 like the monetary policy, they would not buy gold coins.
20 Rather than have a role of law, I perceive it as a
21 role that is in the hands of the people. It's a little more
22 flexible, in my opinion than something I perceive to be so
23 complicated as the Weintraub Proposal.
24 I mention that I did vote yes for the general idea
25 of 16 as expressed in question 16. That may give you some

1 idea of my thinking, Congressman, and why I voted no in that
2 particular column.
3 MR. NEAL: The vote on 16 really answers my
4 question and I thank you.
5 MR. COSTAMAGNA: Yes, sir.
6 MR. NEAL: Sixteen is a significant question, it
7 seems to me.
8 DR. SPRINKEL: Any further questions or comments
9 on this question?
10 (No response.)
11 DR. SPRINKEL: Anna?
12 DR. SCHWARTZ: Question 13 essentially deals with
13 returning to a gold standard with a fixed price of gold and
14 there, there was a clear majority opposed and one who favored.
15 That one who favored was opposed to -- didn't really answer
16 whether convertibility would be for U.S. residents or citizens
17 only or without convertibility.
18 There were 13 who answered no on (c) and (d). On
19 the convertibility of paper money, eleven were opposed. The
20 member who favored establishing a gold standard with a fixed
21 price of gold was joined by another member who interpreted
22 that to mean convertibility would be limited to the coins at
23 the market plus a markup.
24 I don't really know why that reply was included in
25 question 13.

1 DR. SPRINKEL: Any comments on 13?

2 DR. SCHWARTZ: One thing, one question I would like

3 to address to the members is are all the recommendations going

4 to be positive? I mean, would I be out of order if I said the

5 Commission did not recommend a return, a majority did not

6 recommend a return to a gold standard with a fixed price of

7 gold?

8 MR. NEAL: I think that would be quite in order.

9 DR. SCHWARTZ: It would be in order that the

10 recommendations don't all have to be positive recommendations?

11 DR. SPRINKEL: There aren't too many.

12 DR. SCHWARTZ: There aren't too many; that's right.

13 DR. SPRINKEL: So far.

14 MR. REUSS: So, recommendations do not all have to

15 be positive.

16 DR. SCHWARTZ: Yes.

17 MR. REUSS: Wouldn't the sensible method of

18 determining whether something rises to the dignity of a

19 recommendation, negative or positive, be is it reasonably

20 important and relevant?

21 DR. SCHWARTZ: All right. Question 14, again, you

22 will recognize the source of this question as one of the

23 propositions that Mr. Coyne presented. Do you favor giving

24 authority to the Federal Reserve System to engage in open

25 market operations in gold. Eleven responded negatively; two

positively; one with the qualification, "If the Treasury concurs".

DR. SPRINKEL: Why don't you go ahead?

DR. SCHWARTZ: Fifteen, do you favor fixing upper and lower limits to the price of gold essentially stabilizing the price of gold. All 13 turned it down.

Questions 16 and 17, as you see, were revised from the form in which I originally presented them, in response to one member's request. Sixteen now reads do you favor a rule not linked to gold constraining the growth rate of the Federal Reserve monetary base. We've already had some discussion of that response.

Seventeen, do you favor continuation of the present system for managing U.S. monetary policy. Nine responded favorably. Three opposed the continuation of the present system. One qualified his answer by saying that since the system is not defined, he is not in a position to respond.

DR. SPRINKEL: Any comments on those questions?

(No response.)

DR. SCHWARTZ: I listed two questions affecting the private sector. Here, we come back to the issue of gold coin and whether the coin should be made legal tender for settlement of all private debts and payment of taxes. There were seven who voted no and one qualified his answer by saying "Only if no" -- The seven who voted no include two who

1 opposed coins, per se, and did not respond. The six who
2 voted -- there were six who voted affirmatively. These
3 qualifications -- one member stated that debtors who did not
4 include a gold clause in their contract should not be compelled
5 to repay in gold.
6 Another one stated that in his judgment, the
7 question required legal analysis. I presume that means whether
8 there are Constitutional issues involved in making the issue
9 of gold coin legal tender. I'm not sure.
10 GOVERNOR PARTEE: I raised the legal question.
11 DR. SCHWARTZ: Yes.
12 GOVERNOR PARTEE: Just reading the question on the
13 face of it, I didn't see any problem. I am not sure whether
14 there are other implications.
15 If, in fact, you have a gold coin and that can be
16 redeemed at the Treasury or an agency of the Treasury at the
17 bullion price, what's the big thing about making it legal
18 tender for that purpose? One ounce of gold, two ounces of gold
19 at the legal price for payment of taxes, for payment of
20 interest, even for payment of private debts?
21 I don't see any problem because of the convertibilit
22 that we've provided in that system. There may be other
23 implications in the legal tender definition that I don't
24 understand and that weren't encompassed in your answer. So,
25 that's why I thought that one would have to know what all the

1 implications were.

2 DR. SPRINKEL: Congressman Paul?

3 DR. PAUL: I think that under ordinary circum-

4 stances there would not be a problem if we were deciding today

5 what the payment of debt is, we could make the exchange.

6 What has happened in the past in the legal tender

7 cases is that a contract has been made in terms of gold. Then

8 somebody reneged and it goes to court and it settles five

9 years hence. It is settled in terms of weight of gold in

10 dollar terms prior.

11 In the law, the current law states that all the

12 debts in the court will be settled in dollar terms. Therefore,

13 that individual, and frequently it's governments as well,

14 they pay the debt in the old terms.

15 It is very critical that we address this if we

16 want to give any concession at all to the usage of gold coins.

17 I have one objection to the question, though, that I think

18 confuses things. I'm just wondering whether any no could

19 be switched to yes if we would limit the usage of coins for

20 private debts.

21 I do not see any necessity insisting that the

22 government take gold. If there is a depreciation of the

23 dollar value of gold, there may be a disadvantage. Some

24 people may be hesitant to see that gold be used in payment of

25 taxes. Since I am concerned more about private transactions,

1 would there be anybody here that would say no for the payment
2 of taxes but would be willing to allow this coin to be used in
3 the legal sense to contract a debt. Then the debt is paid,
4 that the court would rule that it's paid in the terms of the
5 weight of gold rather than in a dollar term.
6 DR. SPRINKEL: Congressman Reuss?
7 MR. REUSS: I am very much opposed to allowing this
8 little gold coin, this Kruegerand, this Maple Leaf for which
9 I voted in an earlier question, to be used as legal tender for
10 the settlement of debts, private or public.
11 I think it is outrageous to compel a private
12 creditor who may be deeply opposed to the policies of the
13 Soviet Union and/or the Union of South Africa, to accept a
14 gold American Kruegerand when he is entitled to $28.30 or
15 whatever the debt amounts to. So, I would continue to be very
16 much in opposition.
17 DR. PAUL: May I have a chance to answer that,
18 because there would be no compulsion. We don't have
19 compulsion in our system. It would be a voluntary contract.
20 Besides, we're not dealing with Kruegerands. We are currently
21 dealing with an American coin.
22 But, if you did not voluntarily accept the contract
23 that you would take an American gold coin, nobody is going to
24 compel you to. We're just trying to remove a little bit of
25 compulsion. We are adding no compulsion whatsoever.

1 MR. REUSS: Well, legal tender means that you
2 satisfy the contractual requirements by owning up. It is
3 proposed by the six here that you can satisfy the legal
4 requirements by tendering an American version of the Kruegerand,
5 namely a gold coin with a premium over the current market price.
6 DR. PAUL: I think your point may be well taken.
7 It may require a lot more understanding on my part about the
8 legal understanding of legal tender laws. If that is the
9 case, if a legal tender law would insist that you take it,
10 that is not exactly what I'm looking for.
11 I am looking for the permission or the voluntary
12 use of a coin so that nobody can remove that. But, if legal
13 tender means that one must receive it, then I think we'd have
14 to look into the legal description of this.
15 I don't think there is a great deal of difference
16 between that, but if you are correct in that, then I would
17 have to modify my statement.
18 MR. REUSS: I am sure Treasury Counsel can answer
19 this out of hand. Does not legal tender mean that the
20 offering of that which is legal tender constitutes a
21 satisfaction of the contractual terms?
22 MR. JACKLIN: Private parties may specify that
23 for now -- Since repeal of the Gold Clause Resolution in
24 October 1977, private parties may contract to insist on payment
25 of their contracts in a particular form of the United States

1 legal tender. However, if they go to court to enforce that
2 obligation, the court will render a judgment in dollar terms.
3 They may choose to insist on specific performance, in other
4 words, say you must perform your contract in kinds of legal
5 tender that are provided for in the contract.
6 However, specific performance is something that
7 is rarely granted by the courts, so that in the end, the
8 result may be exactly as Congressman Reuss described it.
9 The debtor on that contract may say, "I am discharging my
10 dollar obligation or the dollar judgment rendered in the court
11 by giving to you, the creditor on my contract, payment in gold
12 coins of the dollar face value or something other than gold
13 coins of the dollar face value so long as it's legal tender
14 in the United States."
15 DR. PAUL: Let me follow up. That would not
16 necessarily preclude us looking into the possibility of using
17 a coin with legal tender status that could not lose that
18 function by compelling us to pay our debt in dollars.
19 Therefore, if we do have the contract in gold,
20 we can pay it in gold. We would not be forced to use dollars
21 and yet, not force someone to accept gold if they have a
22 contract in dollars.
23 I would have no objection to that. That, to me,
24 looks like a legal technicality that could be worked out with-
25 out difficulty.

1 MS. JACKLIN: Parties today can freely specify
2 in their contract the means by which they want to receive
3 payment, including but not excluding gold.
4 DR. PAUL: Yes, but today, if the court settles
5 it, it must be paid, it is determined, in dollars. That is
6 the key to it.
7 What would be advantageous to those who would like
8 to use gold coins as money is that if they contract through
9 gold and pay through gold without assuming the role of legal
10 tender for all of our contracts.
11 Because it says legal tender, legal tender may mean
12 long term. But, the exclusion of legal tender applications --
13 maybe that's what we need. The exclusion of the forcing on
14 of legal tender laws that compel us to pay in dollars if we
15 have a broken contract that had been in gold.
16 MS. JACKLIN: What you are describing is a concept
17 that I think is novel in terms of the present legal structure.
18 We would have to consider all of its implications.
19 MR. REUSS: There is nothing now to stop my
20 contracting to pay Mr. Neal for a given service in 18 ounces
21 of gold; is there?
22 MS. JACKLIN: No, there is no legal prohibition
23 or restriction on that.
24 MR. REUSS: I don't know why we need to force it
25 on people who don't want this.

1 DR. PAUL: We are not talking about force. When
2 it is voluntary, there is no problem. The only time you have
3 a problem is when there is an argument when it goes to court.
4 Then you have no choice.
5 Even if your contract says you will pay in gold,
6 you have no choice. The courts are ordered to determine the
7 payment that you may owe him in dollars. So, the compulsion
8 is in the existing law today.
9 What we'd like to do is remove some of the
10 compulsion so that you can follow through with this contract
11 that you have voluntarily entered into.
12 MS. JACKLIN: Excuse me, Congressman. In fact, the
13 court could choose if it so determined to order specific form
14 of payment in gold and that would be governed by the normal
15 contract concepts in those cases in which specific performance
16 rather than money damages is justified.
17 DR. PAUL: Well, historically and traditionally,
18 they have not done that.
19 MS. JACKLIN: That is correct.
20 DR. PAUL: They have done it in dollars. They
21 have done it at the expense of the man that would owe the
22 debt in gold.
23 MR. NEAL: What has been the rationale for that?
24 That is just a bizarre interpretation of contract law. What
25 has been the rationale of the courts?

1 MS. JACKLIN: For not granting specific
2 performance?
3 MR. NEAL: Right.
4 MS. JACKLIN: Well, if you can give the equivalent
5 dollar value, the question and the problem really is in
6 determining the date at which to value the gold that is owed
7 under the contract.
8 Essentially, it is a question of determining that
9 day to make sure that you get equivalent value in dollars and
10 then you yourself could go out and purchase the gold.
11 MR. COYNE: So, if I understand correctly, there
12 is nothing special about what you've said as it relates to
13 the issue that Congressman Paul introduces.
14 If I were to make a contract to deliver to you a
15 ton of iron ore a month from now and defaulted on my obliga-
16 tion to that, the court would be unlikely to force me to
17 deliver the iron ore, but rather, would give you the monetary
18 compensation.
19 MS. JACKLIN: That is correct.
20 MR. COYNE: So, there is nothing special about
21 this. This would relate to any contract, as I understand it.
22 The court would tend to convert it into damages expressed in
23 dollar terms. It has nothing to do with gold.
24 MS. JACKLIN: I think there is one clarification
25 I need to make. That is the significance of legal tender is

1 that if you do not specify that the means of payment in the
2 contract, then if the debtor offers to pay in U.S. legal
3 tender, that is sufficient discharge of his obligations.
4 That is the main significance of legal tender status.
5 DR. PAUL: For further follow-up, even when it
6 has been specified in gold for settlement in terms of dollars,
7 iron ore I don't think is a good comparison because we are not
8 trying to use iron ore, as you know, as coins and something
9 that will circulate.
10 Besides, you would still have the problem if the
11 iron ore should be priced at two years ago or at today. It
12 is usually settled at two years before. So, if your iron ore
13 is worth twice as much, the courts usually do not double the
14 settlement.
15 By that time, your dollar has depreciated and it
16 is a tremendous boon to those who loan the money. This is
17 what happened in the Civil War. It was a tremendous windfall
18 to the government as well as those who loaned out money.
19 So, it is a very very significant and a very
20 critical point. I don't think that we can get very far
21 unless we recognize the fact that if somebody has a contract,
22 the contract shall be honored. If the contract is in an
23 ounce of gold, an ounce of gold shall be paid.
24 If it is translated into dollars and they use the
25 value of gold when it is $400 and then five years from now

1 when it's $2,000 they base the contract on $400 an ounce,
2 somebody just receives a bundle of depreciated paper.
3 That is the thing that has to be addressed or we
4 cannot have any encouragement whatsoever for some sort of
5 competition.
6 DR. SPRINKEL: It is about one o'clock, slightly
7 after. If it is agreeable with the Commission members, we
8 will break for one hour.
9 I hope that when we come back, we can complete the
10 review of these questions and also discuss the draft of the
11 first two chapters and make certain we are clear on the
12 next meeting date.
13 Thank you.
14 (Whereupon, the meeting was adjourned to be
15 reconvened at 2:00 p.m. at the same location.)
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1 A F T E R N O O N S E S S I O N

2 DR. SPRINKEL: We are continuing, and Dr. Schwartz
3 will read 19, and I'll solicit comments.

4 DR. SCHWARTZ: The question of are you in favor
5 of allowing private firms to issue gold coins of specified
6 weight and fineness with the status of legal tender. Eleven
7 voted no. One of those favored private issue of gold coins,
8 but would not afford them legal tender status. Two voted
9 without qualifications on this kind of issue with legal
10 tender.

11 DR. SPRINKEL: Any discussion of that? Yes,
12 Congressman Paul?

13 DR. PAUL: Do you think from the interpretation of
14 this, one could construe that that means that 11 members are
15 against private coinage, or do you think only because it
16 has legal tender?

17 DR. SCHWARTZ: I took it to be that they were
18 against issuing of coins by private firms, because only
19 one made this qualification that he favored private issue,
20 but would not afford private firms legal tender status.

21 DR. SPRINKEL: Do the other two want to indicate --

22 GOVERNOR PARTEE: My concern was entirely with
23 the legal tender question, although I answered no. It was
24 because of the legal tender. Another was I don't really
25 see that we're much involved in the question of whether

1 some private firm wants to use this gold boullion to stamp
2 into a piece. I just don't see that that's our problem,
3 but the legal tender seems to be unappropriate to extend
4 that to a private client over which you don't have control
5 as to fineness and weight and procedures and all those things
6 that would be in play.
7 DR. SPRINKEL: Mr. Costamagna?
8 MR. COSTAMAGNA: I voted no for the same reasons
9 that Governor Partee has just mentioned, and as you will --
10 I think the government has an obligation to guarantee the
11 weight and the content of a coin, and to eliminate the possi-
12 bility of fraud, et cetera, and I wouldn't have any objection
13 if they just minted medallions, but if we're talking about
14 coins and coinage, I think there's a distinction, and the
15 government, only the government, can protect the public
16 from fraudulent coins or coins that are less weight and
17 fineness, and so those are some of the reasons I voted no
18 for that.
19 DR. SPRINKEL: Henry, do you have any observation
20 you want to make? Either Henry?
21 MR. REUSS: Not I.
22 DR. SPRINKEL: Henry Wallich?
23 GOVERNOR WALLICH: I think the legal tender thing
24 needs to be explored as legal ramifications that I don't
25 think have been fully brought out, and it may have logical

1 implications that one might conclude that if something is
2 legal tender then something else, for instance a tax privi-
3 leges might apply or some other treatment might apply, which
4 one hadn't intended at all, so I have voted no.
5 DR. SPRINKEL: Any other observations? We have
6 a group of questions relating to international monetary
7 arrangements. We will start on those now.
8 DR. SCHWARTZ: There was a considerable degree
9 of unanimity with respect to international monetary arrange-
10 ments. On the first question, are you in favor of returning
11 to fixed exchanges rates on the basis of the U.S. dollar
12 pegged in terms of a fixed price of gold, all 13 voted no.
13 On the question of revaluing the U.S. Government's
14 gold stock at current market prices and using monetary gold
15 to intervene in foreign exchange markets to influence the
16 exchange rate of the dollar, only one voted in favor with
17 12 no's.
18 On the next question, are you in favor of main-
19 taining the present flexible exchange rate system, with
20 the exchange rate of the dollar determined by the demand
21 for and supply of money, one member qualified or rewrote
22 the question. Instead of saying "maintaining the present
23 flexible" chose to read it as, are you in favor of main-
24 taining a flexible exchange rate system.
25 Another member said he's in favor with

1 qualification, but he doesn't spell out the nature of the
2 qualification.
3 DR. SPRINKEL: Is there anyone here that wants
4 to give those qualifications? I guess not.
5 DR. SCHWARTZ: Question 23, are you in favor
6 of revaluing the U.S. Government's gold stock at current
7 market prices and using monetary gold to settle balance
8 of payments disequilibria, 12 voted against and one quali-
9 fied his negative vote by saying not under today's circum-
10 stances, and one affirmative vote qualified by saying with
11 limits to prevent the dissipation of gold.
12 On the 24th question, if your answer is yes to
13 question 13(c) which dealt with convertibility under a gold
14 standard, do you also favor extending convertibility to
15 foreign individuals and commercial institutions, and the
16 12 who had not voted for that question 13 were in the not
17 applicable, and one that said no said no also to converti-
18 bility for foreign official agencies.
19 And finally, the two questions affecting the
20 IMF. Are you in favor of taking steps to seek a distribu-
21 tion of IMF gold to member countries? Nine were in the
22 negative, four in the affirmative of whom one qualified
23 his affirmative vote by saying that the recommendation should
24 be considered and the proceeds to be distributed partly
25 according to LDC need.

1 DR. SPRINKEL: Yes, Congressman Paul?

2 DR. PAUL: Yes, I'd like to make a comment on

3 this particular question. I think it's very interesting

4 to see the results generally of the whole questionnaire

5 seeing that there is essentially no one strongly advocating

6 an honest gold standard today, and yet all 13 of us agree

7 that we shall not and should not get rid of the gold holdings

8 that we have, and all of a sudden four brave souls are will-

9 ing to say that the IMF shouldn't get rid of the only money

10 they have which is the gold, and it, to me, I think, makes

11 the dramatic point, the economic point, the fact of life

12 is that no matter how much one talks negatively about gold,

13 everybody deep down inside knows that's the only money they

14 have.

15 Why does the IMF need the gold? Why does the

16 treasury need the gold if it isn't money? This is proof

17 of the pudding that we are totally contradicting everything

18 that we're saying in the Commission.

19 We say that gold is not money, and yet we want

20 it. Why? Because that's the only asset, they tell me,

21 that the IMF has. Why don't they hold pork belly? Why

22 don't they hold land? Why don't they do something else?

23 Precisely for one reason, because gold is the only real

24 money in the world and the only thing they can resort to

25 in case of an emergency.

To me, it's proof positive that the only real money in the world today and ever is gold, and I think everybody that voted no here is saying that even though they might not admit it.

DR. SPRINKEL: Any comments?

GOVERNOR PARTEE: Well, I might say I voted yes, as a possible initiative, I guess because I viewed the question of the holding of gold by the IMF as something that needs to be explored, whether there's a logic of it, because as you've said, they don't utilize it, and I don't know that it's necessary to their operation, and so I don't see why it shouldn't be something that was considered.

As far as our vote, we hold many assets in the United States Government that aren't money. We hold land, we hold armaments, we hold many buildings, and gold isn't --

DR. PAUL: Are they monetary assets?

GOVERNOR PARTEE: Well, no, but I don't --

DR. PAUL: Gold is the only --

GOVERNOR PARTEE: I don't know that it's a monetary. It's certainly not a monetary asset the way we're holding it, because we're not using it. It has no use, so I think the reason that people want to continue to hold gold, although I don't go all the way with that, I think we probably have too much, I think the reason they want to hold gold is that they regard it as a valuable asset

1 on the balance sheet of the United States, not because it's
2 money, but because it's a valuable asset that we should
3 not waste.
4 DR. SPRINKEL: Go to the next one.
5 DR. SCHWARTZ: Yes, the one member who voted
6 yes on the 26th question eliminated the initial clause and
7 just voted yes to will you propose an amendment of the Arti-
8 cles of the IMF to change the existing regulations, although
9 I had thought of that question in relation to a gold stan-
10 dard which would require an amendment of the Articles of
11 the IMF, but nobody else responded affirmatively to that
12 question. For the nine who hadn't voted in favor of the
13 gold standard in the first place, it was not applicable.
14 DR. SPRINKEL: Well, that completes the rundown
15 on the questions, I presume. We said early on, however,
16 that this was no final balloting, and do you plan at the
17 next meeting to --
18 DR. SCHWARTZ: Well, I'm going to try to formulate
19 recommendations during the coming week, and see if I can
20 get them to you well before the next meeting. What I'd
21 like to do is be able to incorporate them in the intro-
22 ductory chapter, and see your reaction to my sense of what
23 the answers to these questions suggest in the way of recom-
24 mendations. Yes?
25 DR. PAUL: May I make one suggestion? If at

1 all possible, there's another person I'd like to have asked.

2 DR. SCHWARTZ: Yes, I was going to ask that too.

3 If there are any questions that haven't really been dealt

4 with, I wish people would bring them up. If not at this

5 meeting, if you think of things between now and the next

6 meetings, let me know.

7 DR. PAUL: May I just briefly mention why it

8 concerns me, because we've talked about it very briefly

9 before, and that has to do with whether or not the Secretary

10 of the Treasury has the power to confiscate gold.

11 You know, a lot of this might be useless discus-

12 sion if we know with the signing of the pen in the declara-

13 tion of emergency, they can confiscate gold. Now, this

14 was brought up, and it was said that they did not have this

15 power, and I've gone back and reread all the laws, and the

16 American Law Institute takes the position that they do,

17 the Treasury does have the power in emergency to confiscate

18 gold, to take in gold, and, to me, it's a critical point,

19 and I think we should make it very, very clear what the

20 law says, because I think if that power exists, I think

21 the recommendation should be that it should not exist.

22 DR. SPRINKEL: We have some information on that

23 if our attorney would?

24 MS. JACKLIN: Yes, the Treasury Department has

25 on several occasions testified to the effect that the

1 existing statute regarding withdrawal of gold from circula-
2 tion was impliedly repealed by the legislation that
3 authorized private ownership of gold.
4 There have been proposals on several occasions
5 in the Congress for express repeal of that legislation and
6 the Department has never opposed such action.
7 DR. PAUL: Okay, and that is the way I understand
8 it, because, as a matter of fact, it has not been too long
9 ago that the House did pass legislation that would have
10 repealed this power, but I don't think it passed in the
11 Senate, so this idea has been bounced around, but I think
12 this is true.
13 It may have been implied, but some of us like
14 real protection.
15 DR. SPRINKEL: Can we go to a discussion of the
16 initial drafts of the first two chapters? Do you want to
17 summarize what you've done, Anna?
18 DR. SCHWARTZ: Yes, I'm not sure that any of
19 you have had an opportunity to look over these first two
20 chapters. The second chapter is the one on experience with
21 gold from 1834 on, so presumably you have had an opportunity
22 to look at that. Although I've made some minor changes,
23 the draft of chapter one is new. I'd very much appreciate
24 any kinds of changes that you would suggest, stylistic,
25 analytical, if I haven't covered particular issues that

1 you believe should be included. I'm sure that when I go
2 over this draft myself, I will make some changes, but the
3 quicker you can get me your reactions, the easier it will
4 make my lot, and I realize all of you are busy people. Per-
5 haps your staff people can be of assistance in this regard.
6 You can look over the changes that your staff might recom-
7 mend.
8 DR. WEIDENBAUM: I would just like to say the
9 staff is even busier.
10 DR. SCHWARTZ: The staff is even busier, yes,
11 I know it's the wrong time of the year.
12 DR. SPRINKEL: We don't all have an economic
13 report to write. Yes, sir?
14 MR. REUSS: On the question of draft chapters
15 one and two, I think draft chapter two on gold is excellent,
16 and while I and my staff may have a few literary changes
17 which it's unnecessary to go into now, I think that's fine,
18 relevant and that or something like it should be adopted.
19 On chapter one, I have some problems. Let me
20 dilate on them. For one thing, a matter of legislative
21 history, chapter one starts right out with saying, and I
22 quote, "The legislation to create the Gold Commission in
23 1980 was a product of growing concerns in many quarters
24 in this country over the persistence and acceleration here
25 for close to two decades," close quotes. Well, I am in

1 a position to testify on this, because I was Chairman of
2 the Banking Committee and had been trying for many months
3 prior to September 1980 to get the bill through Congress
4 replenishing the International Monetary Fund and enabling
5 it to continue, and we were having problems, but we finally
6 screwed our courage to the sticking point, and in late Septem-
7 ber did bring it to the House floor with full knowledge
8 that on the Senate side when it passed in June or July of
9 1980, the so-called Helms Amendment setting up the Gold
10 Commission had been attached.
11 I can testify that the question, overall question
12 of inflation wasn't really in our minds, and a careful search
13 which I've made of the legislative history in the Con-
14 gressional Record shows that nothing was said about that,
15 so that the legislation to create the Gold Commission in
16 1980 was a product of growing concern on my part that the
17 IMF bill would not get through Congress unless we diverged
18 a possible Senate waylaying of the bill by putting in a
19 Gold Commission, and I considered it a small price to pay
20 for the International Monetary Fund.
21 So I have a factual difference on that. Secondly,
22 while I think the --
23 DR. SCHWARTZ: Could I respond to that before
24 you go onto the --
25 MR. REUSS: Yes, I'll give you the legislative

1 history and respond, please.

2 DR. SCHWARTZ: Isn't it possible for both things

3 to be correct, that the legislative history as you describe

4 it, indeed presented you with this amendment which you

5 accepted in order to get the bill passed which you were

6 truly interested in, whereas the people who were interested

7 in inserting this amendment were reflecting a concern that

8 many people did share?

9 I mean even if you did have this concern --

10 MR. REUSS: That is, indeed, possible, but that

11 isn't what happened. What happened was that I wanted to

12 get the IMF bill through, and so did Mr. Neal and the others,

13 and we didn't want to risk our friend Jessie Helms tor-

14 pedoing the fine ship IMF, with Congress due to adjourn

15 in early October which it did, so a minor point, but.

16 DR. SCHWARTZ: No, I'm quite aware of what you're

17 saying to me, and, in fact, Congressman Wylie made the same

18 point at an earlier meeting when I presented the intro-

19 ductory chapter, so I don't dispute the legislative history.

20 It's undoubtedly the way you say it occurred, but, at the

21 same time, the inclusion of that amendment by those who

22 were interested in having that amendment added to the bill

23 did reflect this concern, and I don't see why --

24 MR. REUSS: Did it? I don't know. I'm not a

25 psychoanalyst of the gold bloc. I don't know what motivates

1 the. They didn't say -- for instance, Mr. Paul who offered
2 the amendment, he didn't say a word about inflation, and
3 the record will speak for itself, and I offer the record
4 of the host proceedings in November 1980, but this isn't
5 a great point.
6 It simply illustrates a difficulty, and I started
7 with paragraph one, a difficulty I have with chapter one,
8 and I'm afraid that the process of working over chapter
9 one would be endless.
10 In my own case, I have a number of difficulties
11 with it, because, God help me, I'm not a monetarist, the
12 phraseology gives me difficulties. That isn't to say there
13 is anything wrong with it. In fact, there's everything
14 glorious about it, and I would propose and hope, Mr. Chairman,
15 that we could take Dr. Schwartz's thesis on inflation and
16 include it as a part of our record as written by our marvelous
17 staff director, Dr. Schwartz.
18 I say that, because, one, I don't think it's
19 really relevant under the statutory mandate which is to
20 look at the role of gold. We didn't have a mandate to look
21 at fiscal policy or incomes policy or export/import policy
22 or inflation generally.
23 We were supposed to look at gold, and I think
24 it goes too far, not that inflation isn't closely related
25 to this and not that it wouldn't be most useful to have

1 included in the record this exemplary piece, I'm just saying
2 if it stays in, I would have to indulge in endless persnick-
3 ety changes, not because I want to be difficult, because
4 if it's a committee report, it's got to be my phraseology
5 or I have to write lugubrious footnotes about it all.
6 I just see some troubles there, and with the
7 desire to get things --
8 DR. SCHWARTZ: Well, how would you put the back-
9 ground to the creation of the Commission? The establishment
10 of the Gold Commission resulted from a bit of horsetrading,
11 is that the way you would put it?
12 MR. REUSS: Of the most unedifying sort.
13 DR. SCHWARTZ: This is going to be a report for
14 the ages.
15 GOVERNOR PARTEE: Do we still have a preface,
16 Anna?
17 DR. SCHWARTZ: Excuse me?
18 GOVERNOR PARTEE: A preface?
19 DR. SCHWARTZ: The introductory chapter which
20 I presented a couple of meetings back in which I set aside
21 until I really know what the shape of the recommendations
22 will be, because that's where I propose to present the recom-
23 mendations of the Commission. That introductory chapter
24 states who the members are, when we held meetings, what
25 was discussed at the meetings and ends up with the

1 recommendations. Then there's the body of the report that
2 has a body of four chapters plus a statistical appendix.
3 Anyway, this is the way I've conceived what the report would
4 be, and it would be my hope that anybody who wanted to find
5 anything about gold or gold and its relation to the problem
6 of our economy would find an attempt has been made to satisfy
7 that interest in this report.
8 I have no interest in presenting or writing some-
9 thing that is going to be useless so far as we're concerned.
10 SECRETARY REGAN: Congressman Paul?
11 DR. PAUL: Thank you, Mr. Chairman. I would
12 like to take a point of disagreement with Congressman Reuss
13 who thinks that it was within my views that when I pre-
14 sented the amendment that I explicitly even mentioned the
15 consideration of ostrian economics and talked about economics
16 and money in general.
17 I think Congressman Neal said it so clearly ear-
18 lier today. What are we all doing here if we're not con-
19 cerned about monetary policy and the problem of inflation?
20 I think his understanding of why we're here was
21 exactly correct. I do believe Congressman Reuss is abso-
22 lutely correct that, yes, the immediate legislative reason
23 why the amendment was given was a legislative concession.
24 It was horsetrading. It was an attempt to buy some votes
25 by some type of a concession. This is absolutely true,

1 but if I were to propose that we have a pig commission,
2 do you think it would have gone through? No, it was an
3 obvious understanding that we have a problem with the mone-
4 tary system and that there are a lot of people thinking
5 about gold, and for this reason, it was an appropriate answer
6 and appropriate way to entice other people to vote for that
7 particular bill, so in that sense, I think both are correct.
8 SECRETARY REGAN: Governor Partee?
9 GOVERNOR PARTEE: Well, I don't know what to
10 say about this. You could take care of the problem that
11 Congressman Reuss specifies, and so did Congressman Wiley
12 at the last meeting, by using some term in the first sen-
13 tence and elsewhere when you refer to it. You have another
14 gangbuster type sentence toward the very end on this same
15 subject, but here, you could say, well, the legislation
16 that created the Gold Commission in 1980 coincided with
17 evidence of growing concern in many quarters.
18 I mean, you know, it doesn't have to be attributed
19 as the reason for it, but having said that, I have a lot
20 of problems with this chapter.
21 DR. SCHWARTZ: Okay, I want to know them.
22 GOVERNOR PARTEE: I've got many comments that
23 I've made here. The basic difficulty, I guess, is from
24 a standpoint from an eclectic in this field, is that I can
25 immediately identify this as a chapter by a monetarist,

1 from a monetarist point of view, looking at the economy
2 through a monetarist's eyes, and I don't know if we can
3 correct that or not, and then I have, you know, a lot of
4 detailed objections.
5 I find particularly offensive your section on
6 the political business cycle.
7 DR. SCHWARTZ: Well, I'm just reporting from
8 the literature. It's not my --
9 GOVERNOR PARTEE: I don't think the literature
10 is in agreement witn you on this.
11 DR. SCHWARTZ: On the record, and if you can
12 tell me what --
13 GOVERNOR PARTEE: We can give you chapter and
14 verse on papers that dispute your finding here. I also
15 find totally inadequate the treatment of 1980-81. In fact,
16 you give the sense here that this is an ongoing process
17 of accelerating inflation when, in fact, in flation is
18 decelerating. The gold price has dropped more than 50 per-
19 cent, monetary expansion has greatly subsided.
20 I mean, you know, you may be dealing with a past
21 problem.
22 DR. SCHWARTZ: Background, we're in 1980, we're
23 not in 1981. This is a background to the establishment
24 of the Commission. I did not propose this chapter --
25 GOVERNOR PARTEE: But I think it just changes

1 the tone of it entirely. If you have an upbeat last phase
2 here, which you don't really have, it would be possible,
3 I think, to conceive this as being a last section of chapter
4 two rather than a separately set chapter one in which you
5 indicate that the problems of inflation, again, coincided,
6 worseneed significantly after the ending of Bretton Woods
7 which is a gold subject and then ask the extent to which
8 Bretton Woods had an effect, or the end of Bretton Woods
9 had an effect in the inflation problem.
10 It could be casting it in a different light,
11 but it would be a light that would be consistent with the
12 treatment of the role of gold in the inflation process.
13 So those are my comments. I don't know where
14 it comes, I have detailed comments to give you, but it's
15 highlighted an awful lot the way it's presented.
16 SECRETARY REGAN: Mr. Costamagna, you're next.
17 MR. COSTAMAGNA: Thank you, sir. I'm of the
18 opinion that I really don't see how we can discuss gold
19 and the role of gold without commenting on inflation, and
20 taking that in a historical context, I just recently read
21 the gold bouillion report of 1810 which was done in England,
22 and it seems that they were faced with the same question,
23 and I will make this available, because I would appreciate
24 if all of you had a copy of this, because not only is it
25 an historical document, I believe it's a beautiful document

in the way it was written, and it's really a work of art and literature in my opinion, and I would encourage all of you to read it.

But if I may just quote one sentence that I think is appropriate to this discussion as follows: "The same rise of the market price of gold above its mint price will take place if the local currency of this particular country being no longer convertible into gold should at any time be issued to excess . . . an increase in the quantity of the local currency of a particular country will raise prices in that country exactly in the same manner at an increase in the general supply of precious metals raises prices all over the world."

Now that's just a sample of some of the statements made in this gold boullion report, and I, again, don't believe we can discuss the role of gold without addressing the question of inflation, but I'd like to make this available to all of you also.

SECRETARY REGAN: Governor Wallich?

GOVERNOR WALLICH: I share some of the views expressed before by Congressman Reuss and my colleague, Governor Partee.

Above all, it seems to me if we are to have a chapter on inflation here, we should debate inflation. These may be very consistent and persuasive views from some

1 point of view, but they're not mine. I disagree very
2 strongly with some of what is said here. I'd be delighted
3 to debate inflation with you, and now you know that, I don't
4 think we've got the time to do that.
5 If we were to put a chapter like this on top
6 of the report, it will have exactly the appearance that
7 Governor Partee said, namely it will put a monetarist's
8 task on the whole job, and I don't think it's necessarily
9 the view of the Commission.
10 Perhaps it is, but then people should have a
11 chance to express their views, to observe which everybody
12 is immediately prepared to do where the differences of opin-
13 ion come in and how, in my opinion, dangerously misleading
14 this analysis is.
15 There's also a question about the analysis itself.
16 We have some charts. We have them around here which we
17 could hand out. I think you'll recognize, but if you go
18 back earlier, the correlation isn't nearly so good. You
19 also recognize that you've made an automatic error, auto-
20 correlation adjustment there, which is a statistical tech-
21 nique that is used, but it has, of course, the effect of
22 making the data look better, relation look better than they
23 are.
24 We have presented data that show the earlier
25 years, beginning in 1950 or thereabouts, and you'll see

how far inflation and money diverge, and we've shown the data for the same period as Dr. Schwartz without that auto-correlation adjustment, and we see that the correlation becomes less good.

These are technical points that I think are of some consequence, and I would argue that if you want to analyze inflation in those terms, the suggestion of Congressman Reuss is the right one. It is a paper reflecting your thinking. You're a very well known expert in the field, even though you seem to have shifted here from M-2 in your book with Milton Friedman to M-1, but at any rate, anything you write can stand on its own, and will make a contribution to the report.

It just is not, I think, my view certainly, and I doubt it is the view of most members of the Commission, what is said here.

SECRETARY REGAN: Dr. Weidenbaum?

DR. WEIDENBAUM: I'd like to comment on the preceding discussion. It's my view that the subject matter that Dr. Schwartz covered, inflation, monetary policy, et cetera, is very appropriate as an introduction to the deliberations, to the report, recommendations of this Commission. I personally don't view the term monetarists as perjorative as the colleague to my left.

Nevertheless, if the wording is not sufficiently--

1 I don't use it in the theologic sense -- Catholic to cover
2 the views of the membership, perhaps the explanation should
3 be extended a bit, but I think the subject matter that Dr.
4 Schwartz covered is very appropriate, and if specific members
5 of the Commission -- I'm not one of them -- if specific
6 members of the Commission have suggestions for improving
7 the text, I urge them to make them speedily available.
8 SECRETARY REGAN: Any other comments?
9 DR. SCHWARTZ: I must say I didn't believe that
10 I was writing this as my chapter. I would have written
11 an entirely different chapter if I had wanted to present
12 my views on the background. I thought I was trying to repre-
13 sent your views, and that's my only intention in anything
14 that I will be doing here.
15 As to the charts that have been presented here
16 showing the deviation of actual from predicted, I think
17 that's precisely something that I covered in the chapter.
18 The big peak and actual in '73 is that energy related peak,
19 and I don't really see how you undermined this relation-
20 ship by the charts that I've looked at very hastily here.
21 The fact that I used M-1-B is proof positive
22 that I wasn't trying to write my own chapter.
23 GOVERNOR PARTEE: I do think you need to look
24 at charts three and four which take out that correlation
25 technique. You need to look at charts three and four.

1 The point is still there, but the deviation is much larger
2 and much more prolonged.
3 DR. SCHWARTZ: That's not the issue. The issue
4 is I've got to write a chapter. It seems to me that a chap-
5 ter on the background belongs in this report, and if it
6 isn't the chapter that you would have written, I wish you
7 would indicate to me how I must change this so that it's
8 closer to your wishes, and if we're not going to talk about
9 inflation, the problem that motivated the amendment to the
10 bills relating to the IMF, there's just no rationale at
11 all for the Commission's existence.
12 SECRETARY REGAN: Mr. Coyne?
13 MR. COYNE: Well, my comments are really in no
14 way a criticism of Dr. Schwartz's highly competent and dili-
15 gent effort as the staff officer of this Commission, and
16 I have a high regard for her professional approach, but
17 it seems clear as I read this and as I hear these comments
18 and as I've had private conversations with certain members
19 of this Commission that chapters one and two appear to me,
20 let us say, to be deeply embued with a Friedmanesque spirit,
21 and they seem basically to contend the changes in the money
22 supply are the prime mover, and de-emphasize other factors
23 and a priori relegate gold.
24 It seems clear to me that many different factors
25 could also be stressed if the report had been written with

1 a more universal or eclectic position. It's my view, and
2 I sense that that is the view of certain other members of
3 this Commission, a one-sided emphasis on the money supply
4 growth and the statement without documentation, and I
5 respectfully suggest contrary to what I believe to be the
6 case, that gold since 1934 has been demonetized, I don't
7 think allows these chapters to take us in to the nature
8 of our relatively narrow mission which is not to deal with
9 the macro questions of inflation and the various other
10 associated subjects which Congressman Reuss suggested intro-
11 ducing to our consideration, and I wonder what we can do
12 to broaden the questions before us, if, in fact, there is
13 a general consensus among many of the people on this Com-
14 mission that the perspective of chapters one and two are
15 not appropriate to the Commission's thinking.
16 SECRETARY REGAN: Mr. Jordan?
17 MR. JORDAN: On those notifications when there
18 has been a little bit of discussion of some substance of
19 this Commission, everyone, both those people that talk in
20 favor of the role of gold and those that are opposed to
21 it, have talked in terms of price stability, whether or
22 not it would contribute to such and all of the witnesses
23 brought before this committee, whether they talked in terms
24 of in favor or opposed to gold was in terms of whether or
25 not it would improve on the results of inflation. I don't

25

1 see how the Commission has an agenda at all if we're not
2 talking about inflation and monetary policy.
3 SECRETARY REGAN: Governor Rice?
4 GOVERNOR RICE: Well, I agree with Mr. Jordan
5 that everybody is concerned about inflation, and, of course,
6 it is the thing that we're all most concerned about, but
7 I don't think that dismisses the problem of relevance.
8 It is the problem of how relevant a discussion
9 of this sort in the first chapter is to the terms of refer-
10 ence that we've been given here. One, I suppose, can take
11 a broader interpretation of the terms of reference and feel
12 free to discuss anything that has to do with inflation in-
13 cluding the kinds of things that Congressman Reuss proposes
14 to discuss, or one can take a very narrow approach, a strict
15 constructionalists approach and just say that we're con-
16 cerned with the role of gold.
17 And, I myself am inclined to lean toward the
18 latter approach, because to get into the kind of discussion
19 of inflation that we see here in the first chapter, we
20 open up an area where we're just not going to get any agree-
21 ment at all.
22 Even Dr. Schwartz refers to a number of areas
23 of controversy where there are arguments in the literature,
24 where there's no agreement among people who have studied
25 these issues for a long time, and I don't think we as

1 a Commission can get ourselves in the position of seeming
2 to take a view, seeming to take a position on a number of
3 these controversial issues.
4 Now, this is not to say that I don't think the
5 material in this chapter is useful. A lot of it is, and
6 I would want to purge the chapter of most of the controver-
7 sial material, and perhaps find a way to include the rest
8 of it in some other part of the report. That would be my
9 approach.
10 DR. SCHWARTZ: So there should be no introductory
11 chapter?
12 GOVERNOR RICE: No, but I think an introductory
13 chapter ought to start on a strictly constructionalist point
14 of view. For example, we could take the line that the United
15 States has no gold policy as Congressman Reuss has pointed
16 out a number of times. The U.S. has no gold policy. It
17 needs a gold policy.
18 It's got all this gold which is potentially useful
19 for various kinds of things. It's never been explored,
20 and we don't have a gold policy so one of the objectives,
21 one of the things the Commission is required to do is develop
22 a gold policy, and I think a chapter, an introductory chap-
23 ter could be written along these lines exploring the possible
24 roles of gold and lead into the second chapter that way.
25 DR. SCHWARTZ: And we are going to explore

1 the possible roles of gold with relation to domestic mone-
2 tary --
3 GOVERNOR RICE: Domestic and international mone-
4 tary funds.
5 DR. SCHWARTZ: How can you discuss it without
6 bringing in the question of the price level?
7 GOVERNOR RICE: Well, I think you can.
8 DR. SCHWARTZ: Simply by ignoring it.
9 GOVERNOR RICE: No, ignoring it in the introduc-
10 tion, but not ignoring it in the report.
11 SECRETARY REGAN: Congressman Paul?
12 DR. PAUL: Thank you. I would like to suggest
13 a compromise. I don't feel any great affection to the chap-
14 ter. I have no strong objections.
15 GOVERNOR RICE: I thought I was offering a com-
16 promise.
17 DR. PAUL: I'll offer mine too. At the early
18 part of the Commission meetings, I presented a paper which
19 talked about the statistics of the past ten years of what
20 it was like when we did not have gold. I would suggest
21 that we incorporate that into a paper that I'll pass around
22 today which takes another tne-year period, a ten-year period
23 when we back onto the gold standard, the 1879 to 1889 period,
24 and the results are very dramatic, and I think the comparison
25 of ten years, immediately returning to gold and ten years

1 immediately leaving gold which are really historic periods
2 and very rare circumstances in our entire 200-year history
3 can use that as an introduction into the role of gold in
4 the monetary system, but I would like to pass that around
5 if I may, the statistics on 1879 to 1889.
6 SECRETARY REGAN: Thank you. Murray?
7 DR. WEIDENBAUM: My reflection after listening
8 to my colleagues on the Commission, I'd like to suggest
9 that in rewriting this introductory matter that Dr. Schwartz
10 try to emphasize, one, an examination of the inflationary
11 experience, and, two, perhaps allude to the variety of ex-
12 planations and the differences among them, and to do that
13 not in a way that demonstrates, that provides the basis
14 for concluding yay or nay about the subject of gold, but
15 hopefully, and as a matter of fact, I hasten to add, neutral
16 if that's attainable in this imperfect world, an explanation
17 of the phenomenon of inflation.
18 As I say, I think it's quite clear that there's
19 more than one explanation, and I think it might be useful
20 for the Commission to acknowledge just that rather than
21 have to debate which of these various worthy explanations
22 do we wish to enshrine as the official explanation.
23 I see no need for really doing that.
24 SECRETARY REGAN: Thank you. Mr. Costamagna?
25 MR. COSTAMAGNA: The material we have received

1 over the last six months has had significant amounts of
2 data on why gold is or is not a good standard. Dr. Jordan
3 just mentioned one item which is price stability.
4 Another is the importance of gold in terms of
5 putting confidence behind our currency, and it seems to
6 me that the burden of proof over the last ten to 15 years
7 is on those who advocate a continuation of a totally paper
8 system, and I think in the spirit of some compromise over
9 the last six months, and if I understand the vote clearly,
10 it appears that we are headed in some direction of gold
11 coinage as a beginning to return some confidence to our
12 currency.
13 So I don't see how we can discuss returning confi-
14 dence to paper currency and having a gold link without dis-
15 cussing the reason for that lack of confidence which is
16 the history of the inflation we've had the last ten to 15
17 tears, so I would again repeat that I believe that we have
18 to have some introductory chapter, as Dr. Schwartz has
19 attempted to present, and maybe there are different formats
20 or different ways of presenting it. I'm not an economist
21 so I will leave that decision to others, but I certainly
22 believe that we must have a discussion in here of some reason
23 for this Gold Commission.
24 SECRETARY REGAN: Governor Partee?
25 GOVERNOR PARTEE: Well, I rather like Murray's

1 suggestion. I think that a recasting of the chapter in
2 terms of the generally undesirable results of the 15-year
3 period in terms of inflation and rising unemployment,
4 flagging productivity, all of those things, is a way to
5 say that there was a malaise in the society that people
6 are looking for ways to deal with of which a possible dif-
7 fernt application of gold would be one, and I think, you
8 know, that certainly would state that there's been large
9 monetary expansion in the 15-year period.
10 It would also state that productivity has declined
11 from three percent to zero as a trend rate. It would talk
12 about the upheavals that occurred in oil which was certainly
13 massive. There were massive events, about the effects of
14 regulation and economic regulation on the cost of doing
15 business and quite a number of things, I think, could be
16 done, and I can see that that might be an acceptable way
17 of presenting our belief that there was a feeling of unhappi-
18 ness about the whole economic outcome of the period.
19 DR. SCHWARTZ: Can I go over the sections of
20 this chapter and ask Chairman Weidenbaum first whether the
21 section on the record of inflation meets with his suggestion
22 that there should be an examination of the inflationary
23 experience. Is the initial section of this chapter, where
24 there are thumbnail sketches of sub-periods?
25 DR. WEIDENBAUM: I was not especially critical

1 of that. I was trying to develop a framework for --

2 DR. SCHWARTZ: I quite appreciate what your second

3 suggestion is, and there's no question that I can recast

4 that section to cover the variety of explanations.

5 Now, the focus of the chapter is why the setbacks

6 to success of anti-inflation policies, and I thought that

7 that was as neutral as anyone could be. I wasn't saying

8 that there as a political business cycle. I don't under-

9 stand why you say that's offensive. That's a subject that's

10 discussed in the literature.

11 It at no point say that we, the Commission, be-

12 lieve that there is a political business cycle. Everyone

13 of these points that's made here, the inflation, unemployment

14 trade-off, the political business cycle, the --

15 GOVERNOR PARTEE: Could I quote the sentence

16 there?

17 DR. SCHWARTZ: Yes.

18 GOVERNOR PARTEE: "In democracies, both monetary

19 and fiscal authorities become highly sensitive to high un-

20 employment and stagnated economic activity as elections

21 approach." I think you could drop those last three words.

22 In democracies, both monetary and fiscal authori-

23 ties are sensitive to unemployment and stagnation whether

24 or not elections are approaching, but by adding the phrase,

25 "as elections approach," you assume that there is a political

1 reason for this. It could just be a humanitarian reason
2 for being concerned about unemployment and the position
3 of the economy. This is one example.
4 SECRETARY REGAN: Are your suggestions written
5 out?
6 GOVERNOR PARTEE: I have got a few here.
7 SECRETARY REGAN: If you would make them available
8 to Dr. Schwartz.
9 DR. SCHWARTZ: Okay, I'll try again. Never say
10 die.
11 SECRETARY REGAN: Time is growing short. We
12 have to be careful. Mr. Coyne? I don't necessarily mean
13 today, I mean our report date.
14 MR. COYNE: Recognizing that a shoemaker tends
15 to see the world in terms of shoes, I most particularly
16 look in my profession at the items that you spoke of in
17 relationship to gold, and my sense is, and I'll give you
18 two examples, my sense is that it's not broad and even-
19 handed enough to clarify what the potential options are.
20 In particular, I refer you to your section 2-47
21 and also 2-90. In 2-47, you say, for example, "After 1934,
22 the role of gold in the United States was not that of the
23 base of the monetary system. Rather it became a commodity
24 whose price was officially supported in the same way as
25 the price of wheat under various agricultural support

1 programs." I would suggest that that's substantially too
2 narrow and one-sided a description of a situation under
3 which --
4 DR. SCHWARTZ: Federal Reserve says that iself.
5 MR. COYNE: Pardon?
6 DR. SCHWARTZ: The Federal Reserve System says
7 that itself in its handout on the system's purposes. I
8 mean this is not a statement that I dreamed up.
9 MR. COYNE: I'm sorry, I just didn't hear what
10 you said.
11 DR. SCHWARTZ: I said the Federal Reserve System
12 makes this statement itself in its handout about the pur-
13 poses. What's the title of that pamphlet? "Purposes and
14 Functions of the Federal Reserve System."
15 MR. COYNE: I understand. My point is that in
16 this report as in the introduction to say that the price
17 of $35 was comparable to an agricultural support program
18 for wheat, I think, is an inadequate description of the
19 realities. In fact, the $35 price was a way by which the
20 international foreign exchange rates were kept stable, and
21 during which period the United States assumed the obligation
22 to both buy and sell gold with all foreign governments thereby
23 permitting the dollar to be held as a reserve asset by those
24 foreign governments because of its convertibility back into
25 gold at a fixed price. I don't argue that point. I'm only

1 saying that, in fact, I believe a full description of that
2 situation surely would mean that more was involved than
3 a commodity price support program, and to eliminate enormous
4 monetary implications of a $35 price and fixed exchange
5 rates, thereby permitting the dollar to be held as a reserve
6 asset with confidence does not, I suggest, tell the full
7 story.
8 DR. SCHWARTZ: Well, that section goes on from
9 2-46 to 2-58, and it seems to me I described very fully
10 what the role of gold was. I don't think that that single
11 sentence tells you the whole story by a longshot.
12 DR. WEIDENBAUM: May I suggest in the spirit
13 of cooperation that if members of the Commission find speci-
14 fic phrases not to their liking that the staff make a special
15 effort?
16 DR. SCHWARTZ: That's right. I mean stylistic
17 improvements are always desirable, and if you also suggest
18 how you think that something could be improved --
19 MR. COYNE: I was suggesting coming from a --
20 I was not suggesting that you change the perspective from
21 14 degrees west to 12 degrees east, but rather than you
22 show the full spectrum a bit more broadly with respect to
23 section 2-90 where there is one paragraph that concludes
24 what is the current role of gold.
25 Again, I suggest that it is too narrow in

1 describing what the international state of events are. Gold's
2 monetary uses are I suggest broader than you indicate.
3 I don't think any conclusions need be drawn from
4 that necessarily, but the fact is the fact. The most obvious
5 acknowledgement of at least some monetary role for gold
6 in the world is the mere fact that many monetary institutions
7 and central banks in the world are, in fact, buying gold
8 and adding gold now in significant amounts to their reserves
9 and using those reserves.
10 This is simply happening, as we all know, in
11 the world, and despite the fact there are also central banks
12 which are selling gold, there are independently other central
13 banks which are buying gold and doing so in substantial
14 quantity because there are a range of other events which
15 perhaps are worth mentioning, such as the European eccu.
16 DR. SCHWARTZ: Yes, but the focus of the chapter
17 is U.S. experience. I'm well aware of these other factors,
18 and, in fact, I drew on another piece which I had written
19 in which I covered the wider international aspects of gold
20 and deliberately excluded those international aspects, be-
21 cause I didn't think they were relevant to a chapter on
22 U.S. experience.
23 MR. COYNE: I'm suggesting that in 2-90, and
24 I don't say this to argue, and if you feel it's not appro-
25 priate, then discount, but, in fact, the first sentence

after, what is the current role of gold is, "IMF members no longer define the exchange value of their currency in terms of gold," and, therefore, I felt that was sufficiently international.

DR. SCHWARTZ: No, we are an IMF member. That's the thrust of that sentence, not that I'm trying to cover the international position of gold.

MR. COYNE: Very well.

SECRETARY REGAN: Okay, any more remarks? That brings me to the future meetings and the work schedule. Now you will recall that we at our last December meeting decided to meet on February 12, so we will continue with that date.

Now at that meeting, we're expecting to review the initial drafts of Chapter Three, and possibly the revised --

DR. SCHWARTZ: I will have revised one and two. I hope that everybody who has detailed general comments on anything that I've submitted will try to get them into my hands very shortly so that I can have the changes made, and then I will submit revised one, two, plus a draft of three for the first time.

SECRETARY REGAN: All right.

DR. WEIDENBAUM: Is it likely, Mr. Chairman, there will be additional meetings?

1 SECRETARY REGAN: Well, I'm coming to that. What
2 is passing through my mind is whether or not we should have
3 a cut-off date to get these things to Dr. Schwartz in order
4 to force this action to happen. Suppose we say ten days
5 from now?
6 DR. SCHWARTZ: Ten days from now, yes, and send
7 it to me express mail. Let's see, today is the 8th.
8 SECRETARY REGAN: And that would be the 18th,
9 Monday the 18th in Dr. Schwartz' hands.
10 DR. SCHWARTZ: If you can't get it to me by regular
11 mail, get it to me by express mail.
12 SECRETARY REGAN: Okay, and would you see that
13 a notice of this goes to the members who are not present
14 at this time?
15 DR. SCHWARTZ: Yes.
16 SECRETARY REGAN: Now the next thing we should
17 suggest is a further meeting in early March which would
18 leave time available toward the end of the month if we need
19 it for the completion of the report. Now I'm going to sug-
20 gest Friday, March 5. No? What date is agreeable to you,
21 Mr. Costamagna, in that period of time, somewhere in there?
22 MR. COSTAMAGNA: That week is just a disaster
23 for me, the first week.
24 SECRETARY REGAN: That week is a disaster. You
25 can't make it either? How about the 8th? Monday, the 8th?

1 Okay, let's set Monday the 8th and suggest that date to
2 everybody on the Commission, and that will leave us open
3 then to have one more later in the month if we need it.
4 DR. SCHWARTZ: By the 8th, I will have the draft
5 of the full report, and then that will be the first time
6 presumably that you will have a chance to read Chapter Four,
7 and then I will have a few weeks beyond that to make any
8 further changes that you would suggest.
9 SECRETARY REGAN: Mr. Coyne?
10 MR. COYNE: Mr. Secretary, in terms of the draft-
11 ing of the report, what type of product are we asking Dr.
12 Schwartz to prepare for us, because I sense slightly less
13 than a total agreement on all issues. How is this going
14 to be reconciled into a single paper which is useful, and
15 achieves the goals appropriate to the mission of this
16 Commission?
17 SECRETARY REGAN: Would you like to answer that,
18 Dr. Schwartz?
19 DR. SCHWARTZ: Well, as I've indicated what the
20 structure of the report will be, there is an initial chapter
21 which lays out the establishment of the Commission, the
22 times the Commission has met, subjects that were discussed
23 and ends up with recommendations.
24 I would hope in the draft of recommendations
25 that I will submit in this chapter that I will be able

1 to cover the majority views and minority views based on
2 the questionnaire. You will be at liberty then to make
3 any changes in what these recommendations are, as I've for-
4 mulated them, or to show dissent.
5 MR. COYNE: Dr. Schwartz, I refer to the Under
6 Secretary's introductory comments this morning where he
7 referred to the vote on this questionnaire as being an indi-
8 cation of position rather than a formal vote. I hope I'm
9 quoting that more or less correctly with the idea that none
10 of us would be locked into a formal position.
11 I understood from the Under Secretary's comments
12 that there would be the opportunity for further ruminations
13 after understanding the nature of the broad Commission per-
14 spective on many of these issues. How will that be taken
15 into account?
16 SECRETARY REGAN: Well, I would suggest that
17 in the course of reading the chapter as prepared by Dr.
18 Schwartz, if there is a point at which you think or anyone
19 thinks that she has incorrectly stated that the majority
20 seemed to be, let's say, in favor of gold coins, that that
21 would be a subject you would raise here, and, if necessary,
22 we'd take a vote on the spot to make certain that in her
23 write-up of gold coinage that she was reflecting a majority
24 view and at the same time would reflect a minority view
25 that this is not necessarily something that was good.

1 MR. COYNE: Mr. Secretary, I was really thinking
2 in terms that at least so far as I was concerned and also
3 as I understood the Secretary's comments that these were,
4 how would you say, non-final indications. I've heard a
5 number of things today that have actually influenced my
6 thinking.
7 I would not vote on all points now as I did last
8 week, and I thought that that was, in fact, the intention
9 of the questionnaire.
10 I'm not wishing to be technical on this point,
11 but rather thinking that after spending all of this time
12 and all of this effort, we on the Commission and on the
13 staff --
14 SECRETARY REGAN: There is one thing we could
15 do here, Mr. Coyne, as a possibility. Let's see how it's
16 received by everybody here. We could possibly recirculate
17 these questions or perhaps along the same lines with a slight
18 variance that we've found in the course of this, that some
19 of these questions were confusing or people had a double
20 question, and they answered one part but not the other.
21 We could recirculate for a final analysis so
22 that we could see whether or not the opinions we're holding
23 as were tentatively expressed in the first questionnaire.
24 DR. SCHWARTZ: Or alternatively you could communi-
25 cate any change that you wanted to make without the formal

1 checkmarks on the questionnaire again, but I presume you
2 have a record of what you answered and submitted, but if
3 you wanted to change any specific answers or if you wanted
4 to modify some general reaction, you could just write it
5 up and send it to me, send it to Mr. Leddy. Would that
6 be satisfactory?
7 MR. COYNE: Yes, I'm not thinking in terms of
8 what would or wouldn't be satisfactory, rather how this
9 Commission could, in fact, propose a response to the Congress
10 which I understand is its mission which could be useful
11 to it in terms of the questions which this Commission has
12 been asked rather than perhaps to have a scatter gun series
13 of answers to unrelated question without our having some
14 clear consensus or at least majority view on the overall
15 question.
16 I wish I could tell you how I thought we should
17 go about doing that, but I can't, and that's why I raised
18 the question.
19 Someone is going to have to take what we give
20 them and decide what to do about it, and how can we present
21 our report in such a way with such a content that the Con-
22 gress can then decide what action it should reasonably then
23 take upon our proposal.
24 DR. SCHWARTZ: Mr. Coyne, did you find my organi-
25 zation of the questions useful, organizing them according

1 to their effect on domestic versus international monetary
2 arrangements and then the agencies that would be affected
3 by the answers to the questions?
4 MR. COYNE: I guess I'm currently seeing all
5 the issues too fragmented, in too fragmented a form, and
6 I don't understand how we're going to take answers to many
7 unrelated questions, answers of which were often perhaps
8 differently, that is to say the questions perhaps being
9 slightly differently understood by various members one to
10 the other, and turn it into a report that will be useful
11 to the Congress which has asked us to make a reasonable
12 proposal.
13 I really have said all I have to say on this,
14 and if you feel that this will be done, I'm sure it will
15 be done. Maybe some other person here would have some com-
16 ment to make on this subject. I hope I'm seeing a phantom
17 where none exists.
18 SECRETARY REGAN: Governor Partee?
19 GOVERNOR PARTEE: Well, I think we really have
20 to see an attempt at drafting the recommendations. Now,
21 that's going to be a nasty, terrible job, and I think, as
22 is always the case, it's the staff that gets the nasty,
23 terrible jobs like that, and then we're going to have to
24 see whether we can coalesce around the recommendations.
25 What we're talking about here in Chapter One

1 and Two and the background chapters is sort of a gilding
2 of the lily. The lily is going to be the recommendations,
3 and we just have to slog through them, I think. Whether
4 they'll be cohesive or not, I have no way of knowing. I
5 don't think anybody in this room knows at this moment whether
6 we can have a cohesive set of recommendations. We just
7 have to see some verbage, I think.
8 SECRETARY REGAN: Well, there's your challenge.
9 All right. Anything else to come before the Commission?
10 Mr. Coyne?
11 MR. COYNE: Mr. Secretary, just one last comment.
12 There were some questions which I thought should have been
13 asked as I saw it, and with the treasury's kind cooperation,
14 these were circulated to members of the Commission, and
15 I would request that any Commission member who feels it's
16 appropriate to answer these questions does so and returns
17 it directly to Dr. Schwartz.
18 DR. SCHWARTZ: Three members have submitted
19 answers, but we didn't think that was a sufficient repre-
20 sentation to make --
21 MR. COYNE: Right. I think I just did it last
22 week, so I understand that.
23 SECRETARY REGAN: All right. Thank you very
24 much. We'll stand adjourned until the 12th.
25 (Whereupon, the meeting adjourned at 3:25 p.m.)

CERTIFICATE

This is to certify that the attached proceedings before the Department

In the matter of:

The Fifth Meeting of the Gold Commission

January 8, 1982

were had as therein appears, and that this is the original transcript thereof for the files of the Department.

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By Elma S. Dirolf
Reporter

Elma S. Dirolf

MEETING OF THE GOLD COMMISSION

The Gold Commission met on Friday, February 12, 1982, 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 seven 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 Avenue
Cash Room
Washington, D. C.

Friday, February 12, 1982

The meeting in the above-entitled matter convened at 9:35 o'clock a.m.

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Commission Members

Secretary Regan
Chairman Weidenbaum
Mr. Coyne
Congressman Neal
Governor Partee
Congressman Paul
Congressman Reuss
Governor Rice
Governor Wallich
Congressman Wylie
Mr. Costamagna
Mr. Jordan

1 P R O C E E D I N G S

2 9:35 a.m.

3 SECRETARY REGAN: If we could get started please.
4 The first item on our agenda this morning is the discussion of
5 the capital gains taxation of gold, and I think we should go in
6 the usual order alphabetically around the table to see if any of
7 the members of the Commission would like to speak on this topic
8 and then we will take a vote on that particular item. And then
9 we will go through the draft of the Commission's report,
10 including Chapter Three, and then set a future meeting schedule.
11 MR. REUSS: Mr. Chairman, I move that we alter the
12 agenda and take Item Two, which is the real important one,
13 that's the vote on all the recommendations. I don't know why we
14 tarry with capital gains provision. I don't think that's really
15 before us and I wasn't aware that we were going to take a vote
16 on it. So I would move that we simply alter the agenda order
17 and take up number two as number one, which should properly be.
18 SECRETARY REGAN: This subject has been. . . by
19 members of the Commission that we actually discuss this and take
20 a position on it, Mr. Reuss.
21 MR. REUSS: Well, I'm a member of the Commission and
22 I request that we don't -- could we have a vote on that?
23 SECRETARY REGAN: Alright, does anyone want to speak
24 to the other side of that, that we should discuss this capital
25 gains treatment first? Congressman Neal, do you have a

position?

MR. JORDAN: I think it's an important issue and I think we should discuss it.

SECRETARY REGAN: Well, then, may you signify by raising your hand that if you are in agreement that the first item on the agenda should be the capital gains treatment of gold. All in favor of discussion?

(Whereupon, a vote was taken)

SECRETARY REGAN: One, two, three, four, five, six, seven. Opposed: One. Accordingly, we will go on with Item One on the agenda, which is the capital gains taxation of gold. I think you know the background here and the papers have been circulated as to whether or not this Commission were to recommend the gold coin, for example, should there be a capital gains tax on a gold coin. And the obvious second point to that would be if there is a capital gains tax on the gold coin, then obviously there should be a capital gains tax on gold bullion. However, if there is no capital gains tax on gold coins, should we in fact then have capital gains tax on bullion, and the like. Who would wish to speak to that? Starting down there first, Mr. Costamagna?

MR. COSTAMAGNA: Thank you, Mr. Chairman. First of all I would just like to ask who wrote this paper. There is no author, because I was quite impressed by it, and I think whoever did write it should be, in my opinion, commended.

1 SECRETARY REGAN: Dr. Schwartz, could you tell us who
2 wrote the paper?
3 DR. SCHWARTZ: Someone in the Treasury wrote the
4 paper, not I.
5 SECRETARY REGAN: It was a staff member here at
6 Treasury that wrote it.
7 MR. COSTAMAGNA: Who will remain anonymous?
8 TREASURY STAFF MEMBER: Jacob Dryer.
9 MR. COSTAMAGNA: It was an excellent report, in my
10 opinion, and I think it covered the subject well, and I really
11 have a. . .
12 SECRETARY REGAN: He is no longer anonymous, although
13 he remains hidden.
14 MR. COSTAMAGNA: These are the gold gnomes you hear
15 about. My only thought is, as I brushed previously on this
16 subject at the last meeting, I believe there should be a
17 distinction between the tax treatment between gold coins and
18 gold bullion. I do believe that paper makes that distinction.
19 In other words, I would be of the opinion that gold coins
20 treated as money would not be subject to sales tax or capital
21 gains tax. Bullion would be a different consideration in my
22 opinion. I don't have anything to add at this time.
23 SECRETARY REGAN: Mr. Coyne?
24 MR. COYNE: No.
25 SECRETARY REGAN: No? Mr. Partee, I noticed your

1 hand was up.

2 GOVERNOR PARTEE: (Inaudible) This paper convinces

3 me that we should not recommend that capital gains taxes be

4 exempt.

5 SECRETARY REGAN: I skipped over you.

6 MR. JORDAN: I'll wait my turn.

7 SECRETARY REGAN: Alright, okay. Congressman Paul?

8 DR. PAUL: I too believe this paper was well written

9 and thought it had a lot of good material in it.

10 I guess I didn't come to as strong a conclusion as

11 Governor Partee did, but I do really see some of the ramifica-

12 tions which confuses the issue. Anyway, I think the point that

13 was made there and the point that I've made earlier -- I think

14 we have to realize in a practical sense it might not matter --

15 only in a negative way to the Treasury, because if you're deal-

16 ing with coins, most likely if a person sells them and takes a

17 loss, the Treasury will get a capital loss and less tax is on

18 it, and the capital gains is never reported or it's never taken.

19 If the benefit isn't taken, that is the coins are either not

20 sold, or if they're sold, it's not reported, so in a very practi-

21 cal sense, it probably doesn't matter that if we exempt it from

22 capital gain and capital loss the Treasury would actually gain.

23 But I also understand the confusion that it raises on

24 certificates and bullion and the different problems that we

25 have, so even though it's very attractive to me to see that it

1 would be exempt from capital gains, I'm not sure that it makes a
2 lot of difference. I would certainly lean toward to exempting
3 this, but I also would understand the rationale for not. Even
4 though this was not listed in the topic, it was discussed in the
5 paper, and that has to do with the sales tax. I think the paper
6 emphasized that this was more practical, and again if we do not
7 exempt it from sales taxes, we will not be able to distribute
8 it. I mean if there's a six percent sales tax in New York and
9 no taxes in Nevada, nobody's going to buy coins in New York, and
10 it's just going to inhibit the sales of these coins. So it will
11 be similar to the problem with the medallion sales.
12 SECRETARY REGAN: Now, Dr. Jordan?
13 DR. JORDAN: Well, the point that Congressman Paul
14 mentioned, the asymmetry of taxation and the way it works out in
15 practice bothered me some in reading this proposal, and I think
16 that that should be brought to the attention of the Congress and
17 in their future deliberations about capital gains taxation
18 generally. Not that we should recommend that they should
19 abolish capital gains taxation on gold coins, but they should be
20 aware of the way it works out in practice. They should be aware
21 of the issue and they should consider whether or not it works
22 the way intended, and if not, whether some alteration is
23 appropriate.
24 SECRETARY REGAN: Mr. Coyne?
25 MR. COYNE: I wasn't sure I was raising my hand, but

1 as long as you ask me. . .

2 SECRETARY REGAN: I thought you were.

3 MR. COYNE: I was thinking, it's not the question of
4 whether coins should be made legal tender rather than whether
5 legal tender should be exempt from capital gains tax and sales
6 tax, because if in fact coins are legal tender, then would they
7 not logically, and perhaps even by definition be exempt from
8 capital gains and sales tax?

9 On the question of the distinction between coins and
10 other types of gold bullion or bullion proxies, would there not
11 be some type of Gresham's variant that would in fact mean that
12 if coins were exempt from capital gains tax and sales tax that
13 that would drive out all other forms of gold holdings?

14 SECRETARY REGAN: Any other comments on this subject?
15 Yes, Congressman.

16 MR. REUSS: Yes, I reiterate my point against the
17 vast accurateness of discussing whether there ought to be a
18 capital gain tax on a coin when we haven't determined whether
19 there ought to be a coin or not. My proposition is that there
20 ought not to be an exemption from capital gain taxes. But I
21 also believe that there should not be a gold bullion coin, a
22 point which I'll argue later.

23 I hope the members had a chance to read what the
24 Treasury said about this a year or two ago when I raised the
25 question whether it might not be a good idea for the Treasury to

1 make an honest seigniorage buck or two by issuing an American
2 Kruggerand or Maple Leaf. In order to escape sales taxes by the
3 states, which seems a sensible thing to do if you're going to
4 have an American Kruggerand, the proposition that I put to the
5 Treasury was that it be a gold bullion coin. And the Treasury,
6 after considering the matter at length and with its permanent
7 staff, determined that the advantages would be very small and
8 the disadvantages would be large, because it would lead the Gold
9 Block to say ah ha, we are now partially reenthroning gold. And
10 that is precisely what our friends from the Gold Block are now
11 doing, so I come down very strongly against the proposition of
12 overruling the Treasury's judgment of a year or two ago in
13 having a gold bullion coin.
14 If we are so misguided as to have one, it certainly
15 should not be an article that's exempt from capital gains. I
16 agree that the Treasury's nineteen-page piece entitled
17 "Abolition of Capital Gains Taxation on Certain Gold Assets" is
18 well written, but would the distinguished Secretary of the
19 Treasury tell me what its conclusion is? Are you for it or
20 against it?
21 SECRETARY REGAN: Well, at the request of the
22 members, this was a discussion paper, and the paper was not
23 asked to come up with a conclusion as to what Treasury's opinion
24 was. The Treasury Department, in giving the members staff help,
25 decided they would tee-up the issue and let the members swing

1 at it rather than have the Treasury try to put an opinion in
2 there to prejudice the paper, one way or the other.
3 MR. REUSS: I am with the hope that the Chairman will
4 not press us to a vote on this question that wasn't listed on
5 the agenda, but shall proceed to point to the nitty-gritty
6 voting which will then enable us to get to this in due course.
7 SECRETARY REGAN: I believe, Mr. Reuss, that's
8 exactly what we're going to follow. But I wanted to have this
9 discussion first so that it would be in the minds of the members
10 as they come to, as you describe, the nitty-gritty items that
11 Dr. Schwartz will lead us through, and voting, so that we have
12 this issue in mind.
13 MR. REUSS: Thank you.
14 SECRETARY REGAN: Yes, Mr. Wylie?
15 MR. WYLIE: Mr. Chairman, I must admit that I did not
16 study this part of the report in the detail that Mr. Costamagna
17 apparently did, because when I got down to the paragraph that
18 said only after the desirability of a dual money arrangement
19 with gold as one of the two monies has been established, and
20 argument for freeing gold from capital gains taxation would be
21 logically defensible. I am not one of those who think that it's
22 desirable to have a dual money arrangement with gold as one of
23 the two monies. And if we are concerned then only with gold as
24 a commodity, my own feeling is that we should keep the capital
25 gains tax law where it is. But when you come to the caveat that

1 we are discussing, the frame of reference of the dual money
2 arrangement, then as I say, I don't think it's desirable, and my
3 indications previously have been in that direction. So I'm
4 inclined to think it's good to have this discussion since some
5 of the members did ask for it, but I would associate myself with
6 the suggestion of Mr. Reuss.
7 SECRETARY REGAN: Thank you Mr. Wylie. Yes, Mr.
8 Neal?
9 MR. NEAL: I've been attracted to the idea that it
10 might be good to have a competing currency of some sort, and yet
11 I see that there are some complexities in this issue that I
12 didn't anticipate when I first suggested that we take a look at
13 Mr. Rahn's proposal. I think there have been certainly some
14 very valid questions raised about it concerning speculation, and
15 some other questions, some of the complexities raised by this
16 paper also.
17 I would think, though, that we might want to -- I
18 guess there will at some point be a vote on this proposal -- and
19 it still seems to me, though, that it's something that we might
20 want to look at in the future -- maybe not in the context of
21 this Commission, but that Congress might want to take a look at
22 -- there might be some hearings on it or something like that,
23 because I still am not convinced that there's any harm in the
24 idea of there being something that competes with paper money.
25 And if we can find some way to overcome some of these objections

1 that have been raised, I don't personally think that there would
2 be many that would want to use a competing currency. But I
3 think that it might have the potential for establishing maybe a
4 little bit more confidence in the currency that we do use if
5 there were some alternative available, and it might put a little
6 pressure on those that create the currency that we use that
7 would be beneficial. So I just say that we shouldn't write-off
8 the proposal out of hand, but I can't see it at this point,
9 because I can't see any overwhelming support for the idea,
10 either.
11 SECRETARY REGAN: Mr. Paul?
12 MR. PAUL: I think the suggestion by Dr. (inaudible)
13 is a good suggestion.
14 SECRETARY REGAN: Thank you. Dr. Jordan?
15 DR. JORDAN: My main point is that I found the paper
16 very educational. I learned a lot by reading it. This is an
17 issue that has received some public attention. It's been in the
18 Wall Street Journal and other places. And I don't think that we
19 should indicate that we have closed this issue -- we have
20 settled the debate, and that the public also wouldn't learn by
21 the debate being continued. And us not closing it off and
22 indicating that the subject should be discussed some further may
23 be beneficial in informing the public of some very important
24 issues, however they ultimately come out on it.
25 As far as competing monies go, that also is still an

1 open issue. It is not settled in the economics profession, it
2 is not settled, I think, in the minds of the public. We see
3 that constantly people are innovating the institutions and the
4 preferences of individuals in the forms of money, the way to use
5 money. We see in other economies dollars circulating along with
6 their domestic currencies. We're not trying to close off
7 innovation in the use of monies, the efficiency of our monetary
8 system in other ways, and I don't think that we should presume
9 to close off a potential form of competing money in this area
10 either. I don't think that we are in a position to say that the
11 people shouldn't hold money in this form if that's the will of
12 the people.
13 SECRETARY REGAN: Dr. Wallich?
14 GOVERNOR WALLICH: Mr. Chairman, I think the
15 theory of competing money is one that applies to thoroughly
16 disrupted monetary systems -- hyperinflation. In that case
17 one has observed that, for instance in European inflations
18 the dollar came to circulate -- in some Latin American
19 countries where they go to very high rates of inflation, to
20 some extent the dollar and other currencies play a role.
21 But that is a situation that we need not visage here, and I
22 think it would be very unwise to open the door by creating a
23 possibility for a parallel money.
24 SECRETARY REGAN: Dr. Jordan?
25 DR. JORDAN: This subject we dealt with to some

1 extent in the Annual Report of the Council of Economic Advisors
2 that was just released, and contrary to Gresham's law, we make
3 the point that high confidence monies drive out low confidence
4 monies. And if we have stability in the purchasing power of the
5 dollar, there will not be a general tendency for people to
6 prefer to hold money balances in the form of a gold coin or in
7 German Marks or Mexican pesos. But if it's the case that the
8 purchasing power, stability is not achieved in terms of dollars,
9 that people will prefer to hold alternative forms of money.
10 SECRETARY REGAN: Any further discussion on this
11 topic? If not, then I suggest we move on to Item Number Two,
12 which is the draft introduction and recommendations of the
13 Commission's Report, which Dr. Schwartz has provided us with,
14 and I would ask her to take us through this report.
15 DR. SCHWARTZ: I had earlier submitted to you the
16 initial pages of this introduction, so I think we can go
17 directly to page five where I list the subjects on which
18 recommendations are presented. There are six such subjects, and
19 needless to say, if I have not covered all items that you think
20 should be included, I will be glad to receive any further
21 suggestions from you. And the six subjects, as you see, are the
22 program of Treasury medallion sales, the Treasury issue of gold
23 bullion coins, Treasury issue of gold-backed notes or bonds, and
24 then a series of questions about the gold stock owned by the
25 United States, domestic monetary policy arrangements and

1 finally, international monetary policy arrangements.

2 The way I structured the recommendations is to

3 present what seemed to be majority views based on a

4 questionnaire, based on statements that some of you have

5 individually submitted to me and based on Mr. Lehrman's views,

6 even though he did not respond to the questionnaire.

7 DR. WEIDENBAUM: Mr. Chairman?

8 SECRETARY REGAN: Dr. Weidenbaum?

9 DR. WEIDENBAUM: I'd like to commend Dr. Schwartz for

10 a very able job of synthesizing the varied views of the members

11 of the Commission. I know except for some of the most minor

12 editorial comments I think that this is a very fine edition of

13 the views of this Commission, made in the most neutral manner.

14 SECRETARY REGAN: Mr. Reuss?

15 MR. REUSS: I join Murray Weidenbaum in commending

16 Mrs. Schwartz for laying this out in an orderly manner which

17 enables us now to vote, and I would take it -- the Chairman will

18 correct me if I'm mistaken -- that the Chair will now proceed

19 from Item One through Item Six, that what Mrs. Schwartz calls

20 the majority recommendation where there is a choice will be open

21 to substitute amendments; that the substitute amendments will be

22 considered in the order that they are presented, that's as good

23 an order as any, where there are more than one. And that where

24 there are additional substitutes such as three or four that I

25 have, they will then be considered in each case after the

1 disposition of the other substitutes. I think I've stated what
2 probably is the case.
3 SECRETARY REGAN: If I've followed what you've said,
4 I agree with it.
5 DR. SCHWARTZ: It was my intention, Congressman
6 Reuss, to introduce the variance that some of you have submitted
7 as I present the recommendation as I formulated it, and I
8 thought there could be a vote.
9 SECRETARY REGAN: Well, what I shall do as Chairman
10 as we go through here, let's take for example Treasury
11 medallion sales, I will call for a discussion of the item. Upon
12 the end of the discussion of that item and that item only, ask
13 if anyone has anything further to say. If not, we will vote on
14 it. And if somebody wishes to substitute something for that
15 vote, we will take it. But I think we've got to get on with the
16 work of the Commission here, and this is the session in which we
17 should be voting on these particular items. And I would ask
18 that in the course of this that you confine your discussion, if
19 we're on medallion sales, to medallion sales, and not confuse it
20 with gold coins until we get to the gold coins. Then we'll
21 actually discuss that as a separate item -- that type of thing.
22 Are those ground rules generally acceptable to the members?
23 DR. WEIDENBAUM: Can I suggest that language comments
24 and proposals might effectively be presented on another
25 occasion, perhaps in writing?

1 DR. SCHWARTZ: Yes, that would be the most desirable
2 way for you to make suggestions for revision. If you will send
3 me the detailed changes that you would like to see incorporated
4 in this introductory chapter, I shall certainly take them into
5 account, just as the detailed suggestions for revision of
6 Chapter One were very helpful to me in revising that chapter.
7 SECRETARY REGAN: Governor Partee first, then
8 Governor Rice.
9 GOVERNOR PARTEE: On the procedure, Mr. Chairman,
10 there is a little difficulty, I think. For example, just to
11 take your example, one's position on medallions might be
12 affected with regard to what happens with regard to gold coins,
13 that is, it would seem to me there's not that much distinction
14 between medallions and gold coins, and you probably wouldn't
15 want to have both. And so it's a little difficult to discuss
16 medallions unless one knows what would happen with gold coins.
17 So I'm not sure that we can just go seriatim, one, two, three,
18 as you suggested.
19 SECRETARY REGAN: Well, I think in general that we
20 should try to confine ourselves to the extent that, let us
21 assume a case here, that the majority agrees that there should
22 be medallions -- and having that in view when we come to discuss
23 the coins, if somebody wishes then to reopen medallions as a
24 result of action taken on coins, certainly I'm not going to
25 foreclose forever any further discussion of medallions once we

1 have taken this initial vote, but we've got to come to some
2 conclusions is what I'm urging you to please, let's make up our
3 minds that time is getting short and we do have to come to
4 conclusions on this. So Dr. Schwartz, would you briefly take us
5 through the medallion sales and then we'll have discussion on
6 that.
7 DR. SCHWARTZ: Okay, the procedure I've followed is
8 first to lay out what were the issues that were examined under
9 each subject heading, and if there were opposing views, to
10 present them before moving on to what the recommendations were.
11 The program of Treasury medallion sales as I presented here is
12 noncontroversial and I just end up with a general recommendation
13 that the Gold Commission supports the improvement of the program
14 of medallion sales that the Treasury plans.
15 SECRETARY REGAN: Any further discussion? Governor
16 Rice?
17 GOVERNOR RICE: Well, this might be something of a
18 quibble of the kind Dr. Weidenbaum cautioned against. But on
19 the language the Treasury plans seems to be very open-ended and
20 commits us to something that we really don't have clearly in
21 mind. I was wondering if we could find language that would not
22 so commit us.
23 MR. REUSS: Would the gentlemen yield?
24 GOVERNOR RICE: Yes.
25 MR. REUSS: Would it help matters if we changed the

1 language so that it would read: The Gold Commission supports
2 the improvement of the program of medallion sales along the
3 general lines that the Treasury plans.
4 GOVERNOR RICE: That would help.
5 SECRETARY REGAN: Any discussion of that, Congressman
6 Paul?
7 DR. PAUL: Mr. Chairman, I think what I have to say
8 is said in relationship to what Governor Partee had to say,
9 because I think it makes a lot of difference on what happens
10 with the gold bullion coin, and I think the consensus has been
11 overwhelmingly in support of the gold bullion coin, and I'm
12 assuming that we will proceed along with that majority. I for
13 one find the gold medallions not all that attractive, and I know
14 Treasury hasn't especially enjoyed dealing with that program,
15 and they have the problems of distribution and will have two
16 different programs. I would like to reserve a recommendation
17 after we're finished with the gold bullion coin that would say:
18 We recommend that the Congress enact legislation to stop the
19 sales of all gold medallions and commemorative gold coins....the
20 programs that are in process. I'd like to find out, though, how
21 others feel, whether they're enthusiastic about the gold
22 medallions, whether they think that we should have two, or just
23 what. I just think that if we have a gold bullion coin, the
24 other coins are unnecessary.
25 SECRETARY REGAN: Mr. Costamagna?

1 MR. COSTAMAGNA: Along those lines, I feel that -- on
2 page seven at the top there, the first paragraph, or the
3 continuing paragraph from six, talks about the additional cost
4 to the consumer to be increased by another three percent when
5 these are promoted through dealers. When I looked into the cost
6 of these coins some months ago, I found that there was
7 approximately a twelve-dollar charge now, and we're talking
8 about here adding another approximately three percent or twelve
9 dollars. This seems to me that adding all of these charges to a
10 medallion is just going to make the medallion something that
11 people will not buy.
12 SECRETARY REGAN: I am informed, Mr. Costamagna, that
13 is not in addition to the current charge. The current charge is
14 three, and that will remain at three. This is not in addition.
15 MR. COSTAMAGNA: Well, it said that dealers would add
16 a comparable in selling to the public and develop a secondary
17 market for the medallion. But regardless, I would agree with
18 Congressman Paul and Governor Partee that if we decide to have a
19 gold coin, I would strongly urge the cessation of the sale of
20 medallions. I don't believe they would be able to compete.
21 SECRETARY REGAN: Governor Partee?
22 GOVERNOR PARTEE: There is, of course, a timing
23 difference, Mr. Costamagna, that is, this is something that is
24 an ongoing program and I presume the plans would be to improve
25 it in coming months. At the time it is not quite clear to me,

1 whereas that the gold coin, as I understand it, would be a
2 recommendation that would have to be considered by the Congress,
3 if I'm correct, and might result in a gold coin say two years
4 from now. So there is a timing difference that I think we need
5 to keep into account.
6 MR. COSTAMAGNA: Well, then would we amend the
7 recommendation to say the Gold Commission supports the
8 improvement of the program of medallion sales the Treasury plans
9 until we have a gold coin?
10 MR. JORDAN: I really don't think that that would be
11 necessary because the market place would take care of it. And
12 if it turns out the gold medallions are not attractive after we
13 start issuing gold coins, you can store them along with the
14 Susan B. Anthony dollars.
15 SECRETARY REGAN: Would you like to have the
16 two-dollar bill? Congressman Wylie?
17 MR. WYLIE: Mr. Secretary, I think I asked this maybe
18 at our first meeting, but how many of these gold medallions
19 are in supply right now?
20 SECRETARY REGAN: Would somebody get that
21 information? This is Thomas Leddy of the Treasury.
22 TREASURY OFFICIAL: The medallion program has run
23 about two years and the authorization was for a million ounces
24 each year. The first year I think four hundred and forty-one
25 thousand ounces actually sold, and something less, I think, than

1 a hundred thousand ounces so far this year, so something around
2 five hundred to five hundred and fifty thousand in total is out
3 in circulation now.
4 MR. WYLIE: Thank you.
5 SECRETARY REGAN: That's ounces -- how many coins
6 would that be?
7 TREASURY OFFICIAL: There were two pieces, one one
8 ounce and one one-half ounce, and I don't know the number off
9 hand.
10 DR. SCHWARTZ: Well, it's in the text on page six. I
11 got the data through November, 1981, which I had recorded
12 figures. It's given there in number of pieces and in ounces.
13 And incidentally, this program was legislated to run for five
14 years, so it may just terminate when the legislated period ends
15 and there may not be any problem about a program of Treasury
16 sales of medallions along with a coin sale program, because as
17 Governor Partee indicates, . . .
18 SECRETARY REGAN: That is 1983 it runs out?
19 DR. SCHWARTZ: It runs out in 1983.
20 MR. WYLIE: The law requires the minting of one
21 million ounces of gold medallions each year for five years
22 beginning in 1980. We're only into the second year, so if I add
23 these up -- I remember reading this last night -- we still have
24 about two hundred thousand medallions in storage, so I do think
25 that your recommendation that we come to some kind of a program

1 of improvement of marketing these medallions is very highly
2 desirable. They are not doing much good in storage. Now maybe
3 we made a mistake when we passed the law suggesting the minting
4 of a million ounces of these each year for five years, but we're
5 into it, so I think we do have an obligation to try to promote
6 the sale of them.
7 SECRETARY REGAN: Alright, Mr. Coyne?
8 MR. COYNE: Congressman Wylie really touched on the
9 point that I wish to make, quite well, with respect to the
10 medallion. Mr. Leddy would know precisely if this is so -- the
11 government is under the obligation to strike the total of five
12 million medallions, then, and that is to say that is a law of
13 the country. And it must be done unless another law is passed
14 undoing it. And in the meantime we're sitting on an
15 unsuccessful program of minting and marketing these, and what do
16 you do about this unfortunate situation?
17 And I'm not sure how that relates to the Gold
18 Commission mandate, but nonetheless, that's the question. It
19 would seem to me that the language of this paragraph on page 07
20 perhaps should be changed in order not to inadvertently lay down
21 too many requirements for the Treasury, such as plus a three
22 percent mark-up plus an additional three percent mark-up for the
23 distributor. I believe it should be left to the Treasury's
24 discretion to determine how it should be marketed. What if the
25 right premium is four percent or two percent --shouldn't that be

1 left to the professionals to decide how in fact they can turn an
2 unsuccessful program into a successful program?
3 The medallion program is a fact of life and it's
4 simply a matter of establishing a marketing program that allows
5 those coins to compete with the imported coins -- allows those
6 medallions to compete with the imported coins, or simply
7 continuing to store them as we do any other gold, in the vaults
8 of the, wherever you keep the stuff.
9 SECRETARY REGAN: Congressman Reuss?
10 MR. REUSS: I have a little difficulty with having
11 anything at all on the business of medallion sales. Our mandate
12 is to make recommendations concerning the role of gold in
13 domestic and international monetary systems. These gold
14 medallions are a trinket and a bauble, not a part of a monetary
15 system. And while I don't really have all that much objection
16 to the way it's put, it may be a very wasteful and costly
17 recommendation, because I would think that a sensible Treasury
18 like this one would one of these days want to come to Congress
19 and say, look please lift that requirement that we mint a
20 million of these every year. We've got enough in stock, they're
21 running out of our ears. And I really wouldn't want to prevent
22 the Treasury from being the watchdog of the Treasury on that
23 point. So I think a sensible thing to do would be just pass
24 this. We don't really need to commit ourselves.
25 SECRETARY REGAN: Mr. Coyne?

1 MR. COYNE: While I understand the reasonableness of
2 what you say, I suggest the other side to that is that the
3 purpose of this program was to allow American citizens to buy
4 some of the gold within this country's stock of gold, and the
5 program was structured in such a way as to make that
6 administratively and logistically and economically so difficult
7 to do that no one in any significant number has bothered to do
8 so. Rather, they've bought what gold coins or medallions
9 they've wanted to buy by importing them from other countries
10 such as Canada or Mexico or South Africa or the Soviet Union or
11 wherever. And therefore, if in fact it's still the intention to
12 allow American citizens to buy gold out of the amount of this
13 country's gold stock, the question simply is whether to make
14 that gold available to American citizens in some reasonably
15 accessible way.
16 MR. REUSS: Well, perhaps so, but I'd sooner see
17 Treasury employees keeping hard drugs out of the country, for
18 example, than frittering away their time minting gold baubles
19 that nobody wants to buy.
20 MR. COYNE: I'm not suggesting that they do that.
21 I'm simply saying that if in fact one does want to allow to buy
22 these gold coins they must be marketed in such a way as to make
23 it reasonably practical and feasible for citizens to be able to
24 buy them, which I suggest is not currently being done.
25 SECRETARY REGAN: Well, may I suggest that probably

1 we should move on to Item Number Two here, and if I sense what
2 most people are saying here, they'd rather pass on a vote on
3 this one now until we get through with Item Number Two of the
4 topics for discussion. So might I suggest that we go right into
5 Item Two, and then revisit this one later.
6 Now, Dr. Schwartz, would you discuss the Treasury
7 issue of gold bullion coins?
8 DR. SCHWARTZ: Yes. I distinguish two views among
9 those who support a Treasury issue of gold bullion coins.
10 Those who expect the demand for such coins to be an investment
11 demand similar to the demand for Kruggerands, Maple Leafs,
12 Mexican pesos and other foreign coins that have found a market
13 in this country, and others who expect the demand for such coins
14 to be or to have the potential to be a demand for their use as
15 money. Their value would change from day to day as the gold
16 content value of coin fluctuated in the free gold market. Some
17 advocates of this proposal as facilitating development of a dual
18 monetary system which would provide a degree of discipline to
19 discretionary monetary policy in the country. However, those
20 opposing the proposal believe that after supplies of gold in
21 forms other than Treasury coins are available to satisfy the
22 demand for gold in the private sector to compete with foreign
23 coins, some proponents advise that the new issues be designated
24 legal tender and as coin of the realm bearing the great seal of
25 the United States, the motto "In God we trust." In addition

1 they advise that changes in the dollar value of these coins
2 should be exempt from capital gains taxation.
3 Now, I list a number of questions that are raised by
4 a Treasury issue of gold bullion coins, but I haven't
5 specifically stated that these should be the subject of
6 Congressional hearings, and perhaps that is the way the
7 statement should be made. The questions I list are
8 consideration of a quantity or a price limit on the issue of the
9 coins and the opposing views in answering such a question. The
10 necessity to obtain enabling legislation to mint coins, since
11 now it's prohibited, what legal tender status for newly-minted
12 coins implies, and the report will contain an annex showing what
13 Treasury Counsel believes to be the issues raised by extending
14 legal tender status in the coins, and then the question of
15 capital gains exemption in changes in the dollar value of the
16 coins, as well as a question of sales tax taxes imposed on the
17 coins, the question of issues by private mints, the question of
18 convertibility at the Treasury of the gold bullion coin, and I
19 end up with a majority recommendation. We favor Treasury issue
20 of gold bullion coins of specified weights to be sold at a small
21 mark-up over the market price of the gold content, and recommend
22 that the Congress request from the Treasury an analysis of the
23 ways in which this proposal might be implemented, and the
24 minority recommendation, we oppose Treasury issue of gold
25 bullion coins.

1 Congressman Reuss has proposed an alternative for
2 this recommendation: We neither favor nor oppose Treasury issue
3 of gold bullion coins and recommend that the Treasury feel free
4 whether to make recommendations to the Congress on this subject.
5 Mr. Coyne has his own version of his recommendation which goes:
6 The Gold Commission recommends to Congress that the U.S. mint a
7 gold bullion coin priced near gold content value and with such
8 technical specifications as are necessary to enhance this coin's
9 public appeal, and make it competitive with similar foreign
10 coins.
11 So you now have three possible versions of a majority
12 recommendation with respect to the Treasury issue of gold
13 bullion coins.
14 SECRETARY REGAN: Congressman Reuss:
15 MR. REUSS: Very briefly, Mr. Chairman, I would
16 oppose the proposed majority recommendation, and not
17 surprisingly, favor my own over both the majority and the
18 minority recommendation. The majority recommendation as
19 proposed says we favor issue of gold bullion coins, dot, dot,
20 dot, and recommend that the Congress request from the Treasury,
21 an analysis of the ways in which this proposal might be
22 implemented. But as Dr. Schwartz's excellent excerptus points
23 out, those ways of implementing it are cosmic in there
24 differences, so one way is to make this coin convertible into
25 dollars at the current gold price, another has to do with legal

1 tender, and still another has to do with capital gains. I think
2 there's something very wrong with making a gold coin legal
3 tender and thus forcing Americans, under the guise of a coin
4 which has "liberty" stamped on it, to support a principal export
5 of the Soviet Union whose policies I don't agree with, or of the
6 Union of South Africa, whose policies I also don't agree with.
7 A couple of years ago, as I've said, thinking that it
8 might be nice to have the Treasury make a dollar or two out of
9 seigniorage, asked then Secretary of the Treasury Miller what
10 about it. Should we issue Kruggerands, Maple Leafs and make a
11 buck out of them? And I gave some reasons why it might be nice
12 to do that. The Treasury considered the matter very carefully
13 and determined that in addition to all the other reasons for not
14 doing it, to do so would simply give aid and encouragement to
15 the Gold Block.
16 That that wasn't an idle or paranoid fear is made
17 clear by Dr. Schwartz's honest account of things. On page seven
18 she says that some of the advocates of a gold bullion coin
19 expect that they'll be used for money, and some advocates of
20 this proposal see these coins as facilitating development of a
21 dual monetary system which would provide a degree of discipline
22 to discretionary monetary policy in this country.
23 I think this is the question we ought to leave to the
24 Treasury, and there's something a little exotic, if I may say
25 so, about the proposed majority recommendation which says that

1 you, my respected Secretary of the Treasury, as well as Chairman
2 of this Commission, should recommend to the Congress that we
3 request from you an analysis of the way in which this proposal
4 may be implemented. I really think this is ridiculous. It's an
5 Alpan and Gaston Act seldom equalled in the history of American
6 jurisprudence. Let's not do it. I don't want to rub the noses
7 of those who still think that a gold bullion coin might be worth
8 having into it. Therefore my recommendation, which we'll come
9 to as a substitute in due course, says we neither favor nor
10 oppose Treasury issue of gold bullion coins and recommend that
11 the Treasury feel free whether to make recommendations to
12 Congress on this subject. If you make them, I guarantee you
13 that I for one will seriously consider them. If you don't make
14 them for awhile, I will guarantee you that I will not needle or
15 persecute you for dilatoriness.
16 SECRETARY REGAN: Dr. Weidenbaum?
17 DR. WEIDENBAUM: I have a brief intervention in the
18 spirit of Congressman Reuss's brief intervention. I was
19 fascinated by his point relating gold bullion sales to the
20 philosophy of the Soviet Union. I hadn't thought of making that
21 kind of philosophical and economic linkages, but I'm always
22 instructed by the gentleman from Wisconsin and therefore I will
23 personally reconsider my consumption of Wisconsin cheese because
24 I don't want that to be taken necessarily an endorsement of the
25 policies of the State of Wisconsin.

1 MR. REUSS: In so doing you make more difficult the
2 position of the Treasury, which is trying to get rid of
3 Wisconsin.
4 DR. WEIDENBAUM: The emphasis, of course, was on
5 Wisconsin, not on cheese.
6 SECRETARY REGAN: Congressman Paul?
7 DR. PAUL: Thank you, Mr. Chairman. I find
8 Congressman Reuss's statement somewhat amusing because I think
9 there is a bit of contradiction. I have found that he has
10 advocated a gold coin for quite a few years, here, and I believe
11 he voted for the bullion coin, and here we have a majority
12 recommendation that as I see is very, very benign. We're
13 recommending that Congress mint a gold coin and now he says that
14 we shouldn't have a gold coin and that we should let Treasury
15 decide. He criticizes the statement that we're asking some
16 advice by Treasury, but he's more or less repealing the whole
17 Commission by saying the Commission shouldn't make any
18 recommendations and that Treasury should make all the
19 recommendations. So I would say that there's a bit of incon-
20 sistency there, and this to me is a very benign proposal that we
21 recommend that these coins be minted. I see that he resents and
22 maybe properly so, that if he were compelled to receive gold
23 coins as legal tender, he might not like it. But has he ever
24 given any consideration of the compulsion of others who are
25 compelled to use Federal Reserve notes as legal tender? I

1 mean, it should be looked at universally and consistently. That
2 imposition and removal of some people's freedom is just as
3 ominous as if you were compelled to take a gold coin, and they
4 are equal.
5 We are not suggesting that a gold coin, at least I am
6 not suggesting that a gold coin become legal tender in the sense
7 that people must be forced to use them. All that we're asking
8 and suggesting is that in a free country, people may make
9 choices and repeal some of the laws that prohibited the use, and
10 in particular the law of 1792 that states that all settlements
11 shall be made in terms of dollars. So it's not legal tender in
12 the sense of compulsion, it's legal tender in the sense of
13 exempting it from legal tender status and compulsion. So I
14 would suggest that the proper role would probably be to repeal
15 all legal tender laws rather than condemning a modest proposal
16 like this.
17 The suggestion that a gold coin would be beneficial
18 to Russia and South Africa is a bewildering type of argument to
19 me, because nobody has made the suggestion anywhere in this
20 Commission ever that anybody was going to go out and purchase
21 gold coins. All we were going to do was to accommodate the
22 anti-gold people and sell off some gold -- American gold -- gold
23 that had been taken from the American people, and allow the
24 American people to buy it back. It has nothing to do with South
25 Africa. I think that these arguments are hollow.

1 And I would suggest, back more to the technical
2 wording of the amendment, that it be clear that if and when we
3 do this, that the coins are intended to be available to compete
4 with South African coins so South African coins aren't being
5 sold. In other words, those who are objecting to this I would
6 think are subsidizing South Africa, that they will enhance the
7 sales of Kruggerands rather than the American gold coin. And we
8 do say bullion coins. I would have preferred it to suggest that
9 it would be bullion coins similar to what the competition is
10 putting out, that is, the one-tenth, one-quarter, one-half and
11 one-ounce coins. I think that by mentioning coins at least that
12 is open-ended and I'm sure when we get to a more specific piece
13 of legislation we could designate what type of coins that we
14 would want.
15 I think it's very important that the amount of coins,
16 and Dr. Schwartz addressed the subject -- the amount of coins
17 have to be available on demand. That is, if we only do a
18 million or two million and there has to be a premium in the
19 secondary market immediately, and they would not circulate and
20 they would not be bought as they buy Kruggerands today.
21 I do have one question at this time for Mr. Coyne.
22 In his proposal he does mention "a" gold coin. Does this mean
23 you'd like to limit it to one single one-ounce coin, or are you
24 talking a gold coin in a much broader sense?
25 MR. COYNE: I was really talking about a concept

1 without specifically recommending anything. I had been thinking
2 in terms of a one-ounce bullion coin, but I would think that
3 that would warrant. . .
4 DR. SCHWARTZ: It's hard to hear down here.
5 MR. COYNE: I would think that that would warrant
6 study.
7 DR. PAUL: You would not have a strong objection to
8 the concept of having the same coins that the Mexican government
9 and the South African government puts out.
10 MR. COYNE: No, none, not at all.
11 MR. REUSS: Mr. Secretary, it's now been said by Mr.
12 Paul that I voted for gold bullion coins. Not so, as the record
13 demonstrates on January 24, 1980, I wrote the Secretary of the
14 Treasury saying, in effect, hey, look, could we make a buck or
15 two out of Kruggerands if we did it? What do you think? And he
16 wrote me back on April 21, 1980 saying, "It would be wisest for
17 the United States to avoid productions and sales of gold coins."
18 That you may change on the part of the Treasury. If so, I would
19 certainly as a Congressman very seriously consider its views,
20 but it simply is not so that I voted for gold coins. When the
21 Treasury made its negative recommendations I went no further
22 with the matter and bowed to cooler heads.
23 DR. PAUL: May I clarify my statement. I believe,
24 though, at our last meeting you said that you were one of the
25 individuals who voted in our recommendations in the polling, you

1 know. That's what I'm referring to.

2 MR. REUSS: Well, that's a far different thing from

3 suggested that I voted in the. . .

4 DR. PAUL: We have never had a vote in Congress.

5 We've never had a vote in Congress, but you even have put out

6 releases endorsing the gold coin, so you obviously have. . .

7 MR. REUSS: Until the Treasury straightened me out.

8 Let me say that I answered the polled question from Staff

9 Director Schwartz on gold coins, on gold bullion coins, not

10 knowing that the modest positive vote in favor of that would be

11 seized upon by the Gold Block as an occasion for the ringing of

12 bells throughout the lands and the announcement that gold was

13 now reenthroned. They're doing that, and it could be that

14 Congressman Paul has been one of the leading bell ringers. That

15 has caused me to change my preliminary response to the pollster.

16 SECRETARY REGAN: Thank you, Congressman. Governor

17 Partee?

18 GOVERNOR PARTEE: Well, Mr. Chairman, I think that

19 there seems to be a tendency for the Commission to withdraw back

20 from things it ought to be prepared to make recommendations on.

21 I am not particularly overwhelmed by the thought that some

22 previous Treasury paper said that it wouldn't be a good idea not

23 to have gold coin, but neither am I particularly overwhelmed by

24 a suggestion that, well we don't know anything about it so we'll

25 ask Congress to request another such paper from the Treasury,

1 which seems to be the second part of this recommendation. I
2 think if a sizeable group, perhaps a majority of the Commission
3 wants to support the issuance of a gold coin, then let us say
4 so, and I'm sure that since by the very nature of things there
5 will be hearings and that the Congress would request testimony
6 from the Treasury as well as many others on the subject, and
7 therefore the second part of this recommendation is not needed.
8 But I do think that a couple of important issues have been
9 raised that the Commission ought to have some sort of a
10 preliminary view on in its recommendation.
11 First of all, this doesn't specify whether or not
12 these would be dollar-denominated gold coins. The talk that
13 we've had lead me to believe that the people proposing that
14 didn't have in mind a dollar-denominated gold coin, in which
15 case I think we ought to say without dollar denomination in the
16 recommendation.
17 The second question that has been discussed at some
18 length, and we have a technical paper on it from the legal staff
19 is the question of legal tender status. Now, I think the
20 Commission ought have a view as to whether, if there is a gold
21 coin, it would have legal tender status or would not have legal
22 tender status. And therefore, we ought to either say with legal
23 tender status or without legal tender status.
24 And finally, I think that the taxation question is
25 important enough, and this is where it is raised in the

1 Secretariat's material, that we ought to have a view as to
2 whether it ought to be subject to capital gains taxation or not
3 subject to capital gains taxation, and so we ought to specify
4 that. At least that would be the way I would see a meaningful
5 recommendation from the Commission.
6 Mr. Reuss suggests that the Commission cop out
7 altogether and just say, we want another paper on the whole
8 subject from Treasury. But even this Commission's
9 recommendation says we want a paper from Treasury on all these
10 details, including, presumably, such things as those I just
11 mentioned. And I think the Commission ought to be prepared to
12 have a view on it.
13 SECRETARY REGAN: Congressman Wylie, before we go. .
14 DR. SCHWARTZ: I was just going to say to Governor
15 Partee that this recommendation is for coins by weight, the
16 dollar value of which would change from day to day. There is no
17 dollar denomination on this thing.
18 GOVERNOR PARTEE: It's not all that clear, Anna. I
19 think there's no reason we shouldn't say "without dollar
20 denomination."
21 SECRETARY REGAN: I have a question along that line
22 that I'd like to throw up to the economists on the Commission.
23 What do you think this is going to do to the price of gold were
24 the United States mint to start coining one-ounce, half-ounce or
25 whatever weight of gold bullion would be desirable, coins; and

at the same time, if these coins did not have any capital gains tax attached to them for the purchase or sale, or the sale after purchase, what would that do with relation to arbitrage with gold bullion if gold bullion did not have this. I don't think we've had a discussion of the economic consequences of what we might be doing here to the price of gold. Congressman Reuss has raised the question as to whether this has any effect on a support, direct or indirect, for the Soviet Union or for South Africa. Congressman Paul doesn't seem to think it would.

I wonder about the price of gold itself -- what we might be doing here to it. Theoretically, I suppose, you could say that if we mint only coins from our own store of gold and don't replace it regardless of demand for these coins, and we don't know actually what the demand would be, that we would probably not raise the price of gold or lower it any more than it would otherwise be. But were we to try to replace some of the bullion that would be put into these coins, we might influence price one way or the other. Has any one of the economists here thought about that and care to offer me some guidance? Dr. Jordan?

MR. JORDAN: Well, a different way of speaking about the price of gold is to talk in terms of the gold price of dollars. An increase in the price of gold in terms of dollars is the same thing as the decline in the value of dollars relative to gold. And I think that the decline in the value of the

1 dollar with regard to a whole host of things -- oil and
2 everything else -- is basically a function of monetary policy --
3 how rapidly we create them. And ultimately it comes down to a
4 supply and demand for dollars versus supply and demand for gold,
5 and I don't think that we would be able to separate out the
6 effect of coining gold on price versus all of the other factors
7 that influence the dollar-gold exchange rate.
8 SECRETARY REGAN: Congressman Paul?
9 DR. PAUL: I guess I can't qualify as an economist,
10 but may I make a point? And I may qualify for making this
11 suggestion, because I think it's very difficult for anybody to
12 project and for an economist to know what will happen to the
13 price of gold. I certainly agree with Dr. Jordan that the
14 monetary policy is the most significant on the long term. The
15 money supply as you depreciate the dollar you're certainly going
16 to see in terms of the relationship of gold to the dollar, the
17 dollar price of gold going up. That's the most significant
18 factor.
19 On the short run, things are a little bit different.
20 We might refer back for guidance about what was projected in
21 1974, January of '75 when gold became legalized, the projections
22 and the fears expressed were that gold would go off the roof and
23 that Americans would slop it up and that the hundred and
24 ninety-five dollar gold at that time would soar to four to five
25 hundred dollars very quickly. Even though the market was

1 interfered with at that time with Treasury and IMF sales, the
2 people did not buy a lot of gold. Prices then went into a down
3 trend for a couple of years and lost almost fifty percent of the
4 dollar denominated value, so all the projection I had heard then
5 anticipated a sharp rise, and I think that some would say that
6 by minting coins you could expect it, and I think the plain
7 truth is that it's going to be very difficult to know exactly
8 what will happen.
9 It depends on the attitudes of millions and millions
10 of Americans determining what will happen -- not only Americans,
11 but everybody in the world, in the anticipation of monetary
12 policy. I think it would be the monetary policy that would make
13 the biggest difference in what the economy is doing at that
14 particular time.
15 SECRETARY REGAN: Congressman Wylie, then Governor
16 Wallich.
17 MR. WYLIE: Chairman, I might be in the position of
18 wearing two hats here if this recommendation is adopted, because
19 I am a member of the Subcommittee on Coining in the House
20 Banking Committee, so I think I would be remiss if I remained
21 silent during the discussions.
22 I was one of those who opposed Treasury's coining of
23 gold bullion coins, which is one of the minority recommenda-
24 tions, so I don't necessarily think that Congressman Reuss's
25 recommendation is a cop-out, with all due respect to Governor

1 Wallich, because it comes closer to my position than the
2 majority recommendation would be. And perhaps we ought to leave
3 it up to Treasury, but your question, Mr. Chairman, points out
4 the difficulty of making a decision on this right nor, it seems
5 to me, in that there doesn't appear to be any answer. If I
6 interpreted what Mr. Jordan said the Dr. Paul said correctly, so
7 I am in the posture of wanting to err on the side of being
8 conservative. In the suggestions that I made in the paper I
9 submitted, I said that I thought that we ought to keep our gold.
10 I think it is a valuable asset. We don't know what the economic
11 trends will be in the international marketplace and we might
12 want to have our gold in store to be in a strong position to
13 discuss the future role of gold in the international
14 marketplace. So given the fact that the report suggests a
15 recommendation that we favor the issue of gold bullion coins and
16 the fact that I'm opposed to the issue of gold bullion coins, I
17 would vote with Chairman Reuss on his recommendation if some
18 modification of the two could be reached.
19 SECRETARY REGAN: Governor Wallich?
20 GOVERNOR WALLICH: I was going to address myself sim-
21 ply to the question whether issuing gold coins -- what it would
22 do to the price of gold, because it seems to me your analysis is
23 very accurate, Mr. Secretary, if the Treasury attracts attention
24 to a gold coin there's an increase in demand. The Treasury meets
25 that demand by supplying from its vaults, the net effect

1 ought to be zero. But if the Treasury then goes into the market
2 and replaces the gold that it has coined, the net effect will be
3 an increase in demand and therefore a rise in price.
4 For the rest, I'd like to associate myself with the
5 comments of my colleague, Governor Partee, as regards the three
6 qualifications that I think should go into this recommendation;
7 namely, no capital gains tax imposed, no legal tender status and
8 no dollar denomination. And if all these things are appended,
9 then I would say I'd vote for a gold coin.
10 MR. WYLIE: Mr. Secretary, may I revise my remarks to
11 substitute Governor Partee for Governor Wallich and apologize to
12 both?
13 GOVERNOR PARTEE: I didn't mind your blaming someone
14 else, Congressman.
15 SECRETARY REGAN: Congressman Neal?
16 MR. NEAL: Just a comment on this question of the
17 impact on the value of gold. It would seem to me that you would
18 not expect the demand for these gold coins to be much greater
19 than the demand has been for Kruggerands and Maple Leafs and so
20 on, unless we were to provide some capital gains tax exemption,
21 which as I understand we will not be considering at this point.
22 And even so, I think Governor Wallich's point is absolutely on
23 target -- if the Treasury did not go on the market and buy gold
24 it shouldn't have any impact.
25 I had a suggestion that we might want to refine the

1 language just a little bit here. And some others might want to
2 add some other thoughts. But my suggestion would be as follows:
3 That we favor Treasury issue of gold bullion coins of specified
4 weights, to be manufactured from its stock of gold, which is
5 what I would add at that point, and then go on as that paragraph
6 reads, "to be sold" and so on until we come to the word,
7 "Congress," and then strike all after that. In other words we
8 strike that language that says something like requests from the
9 Treasury an analysis of the ways in which this proposal might be
10 implemented, and substitute, and I'll read that last phrase
11 again, "and recommend that the Congress implement this
12 proposal." It would be the charge of the Congress to do this
13 anyway, and I'm sure, as someone mentioned, that they would
14 request the Treasury's opinion, and might request the opinion of
15 some others, also, and might at that time get into questions
16 about the capital gains tax treatment again and more thoroughly
17 than we would be able to do here.
18 And I wouldn't mind adding something about this
19 question of legal tender. I don't think there's any intent here
20 that these coins be made legal tender. Is there? And if there
21 is, then maybe we ought to print a warning label on them and say
22 "Warning, these coins may be damaging to your economic health"
23 or something like that. Or maybe print a hammer and sickle on
24 those that are gold imported from Russia.
25 GOVERNOR PARTEE: My point was simply that there'd

1 been considerable discussion of the issue. I don't know . . .
2 SECRETARY REGAN: There has been a proposal I
3 believe, Dr. Schwartz, by members -- I believe it's plural -- of
4 this Commission that if we do have a gold coin that it be legal
5 tender.
6 MR. NEAL: Well, that's not a part of the majority
7 recommendation, though, is it?
8 SECRETARY REGAN: That is correct. It's not part of
9 the majority recommendation.
10 MR. NEAL: Well, what I was suggesting, and I agree
11 with that, but as a part of the majority recommendation we add
12 that these coins would be manufactured from the Treasury stock,
13 and you might want to say specifically that they are not legal
14 tender.
15 MR. REUSS: Were you suggesting that the replacement
16 gold may have its origin either in the Union of South Africa or
17 the Soviet Union, and if not there, where?
18 MR. NEAL: I did not envision their replacing their
19 stock for this purpose. I don't see that we need to deal with
20 that question at this time -- the stock is so much larger than
21 anything possible that I think any of us could foresee at this
22 time for these coins. I mean there's not a huge demand for
23 these coins anywhere. Coins like this are available now.
24 MR. REUSS: There are upcoming recommendations that
25 the stock of gold of the United States should not be diminished.

1 MR. NEAL: Well, I would have to deal with that at
2 that time. We might want to add a provision there that says
3 except for gold coinage, or something. I don't feel very
4 strongly about it, but I don't see any inclination on the part
5 of the Treasury to go into the market to replace gold. And if
6 you thought, Mr. Chairman, that that were necessary, I would not
7 object to adding that at some point in the report. I just don't
8 see any real impact.
9 DR. SCHWARTZ: I note that a majority voted against
10 Treasury purchases of gold to replace gold it has coined and
11 sold. A majority voted in favor of legal tender status.
12 MR. REUSS: These weren't votes. I really object to
13 that.
14 DR. SCHWARTZ: I'm just reporting.
15 MR. REUSS: Let's not do that.
16 DR. SCHWARTZ: I'm just reporting.
17 MR. REUSS: Yes, well don't report it, Dr. Schwartz,
18 it's not accurate. We did not vote.
19 SECRETARY REGAN: Dr. Jordan?
20 MR. JORDAN: My great hope is that the purchasing
21 power of the dollar, the exchange rate between the dollar and a
22 whole host of goods and services stabilizes and our ability to
23 forecast the dollar price of gold or gold price of dollars is
24 not a factor in deciding whether or not the American people are
25 allowed to hold some of the U.S. gold stock in the form of

1 coins. The American people own right now two hundred and
2 sixty-four million ounces of gold. Frankly, I don't think the
3 government owns any gold. The American people own that gold.
4 We're addressing the question on the way in which they are
5 allowed to hold it.
6 I think it was wrong to have forty years in our
7 history where the people were not allowed to directly own the
8 gold. I'm not at all terrified by the prospect that the
9 American people might choose to hold some of the U.S. gold stock
10 in the form of gold coins. I have a lot of confidence in the
11 American people to exercise their own judgments, and I don't
12 think that we should prohibit them to have that right if they
13 choose to, and so Mr. Coyne's proposal or Mr. Neal's variant
14 either one I think is the one that we should adopt.
15 SECRETARY REGAN: Well, I think what we should do at
16 this point, if this is agreeable to the members, is that we take
17 a vote on a simple gold coin, period. And if the majority votes
18 in favor of a gold coin, that we further then try to describe
19 the gold coin to see what the majority's decisions are. Should
20 it be legal tender, should it be free from capital gains tax,
21 should it be with or without a dollar denomination -- that type
22 of thing, to see whether or not we want to describe the gold
23 coin in our report, if indeed we want to go with a gold coin.
24 MR. REUSS: Before voting, may we have the position
25 of the United States Treasury on the lines in which it is

1 proposed we confine it?

2 SECRETARY REGAN: The Treasury recommendation is that

3 we do have a gold coin. And the Treasury would further

4 recommend that the gold coin be exempted from capital gains

5 taxation and that it be a weighted coin rather than a dollar

6 denominated coin, and it would not have legal tender status.

7 MR. REUSS: When and in what document was that

8 Treasury position arrived at, and has it been disclosed to the

9 American people before this moment?

10 SECRETARY REGAN: No, it has not, because as you will

11 recall, Congressman Reuss, that I, as Secretary of the Treasury,

12 am a member of this Commission and I have every intention of

13 voting as a member of the Commission. I said that I would vote

14 at the conclusion of all these meetings when the time came to

15 vote, and would not state my position so that I could be neutral

16 up here in conducting these discussions and see that discussions

17 proceeded in an orderly fashion. The time has come for me to

18 vote, and inasmuch as I am Secretary of the Treasury, you can

19 assume that this is not a personal vote, that I have taken the

20 recommendations of my staff into consideration.

21 MR. WYLIE: Mr. Secretary, may I ask a question on

22 clarification?

23 SECRETARY REGAN: Yes.

24 MR. WYLIE: You said the Treasury was recommending

25 the minting of a gold coin?

1 SECRETARY REGAN: Pardon?

2 MR. WYLIE: You said the Treasury was recommending
3 the minting of a gold coin?

4 SECRETARY REGAN: Yes.

5 MR. WYLIE: Which would not be legal tender?

6 SECRETARY REGAN: That's right.

7 MR. WYLIE: I had the wrong impression. I thought if
8 it were a gold coin it would have legal tender status.
9 Otherwise it would be a medallion, or. . .

10 SECRETARY REGAN: Well, as far as the legal tender
11 status, as you can well imagine what we're talking about there
12 is that if we made it as legal tender and the like, then it
13 could be used or required to be used in settling of contracts
14 and the like. What we're suggesting is that we not put that
15 requirement in. But if two parties were to agree on a contract
16 to be settled in gold, that would be outside our purview.

17 MR. WYLIE: Then maybe we should call it a gold
18 piece, not a gold coin. . . or a gold medallion. Am I wrong
19 about that -- that if it's a coin. . .

20 SECRETARY REGAN: Well, I think that's a legal point.
21 Why don't you explain this -- from our legal office of our
22 General Counsel at Treasury, here, an explanation of legal
23 tender.

24 MR. REUSS: Mr. Secretary, before the explanation and
25 so that we may not waste time, we're about to vote on a really

1 stupendous proposition which the Treasury has now announced to
2 the world, I ask that the proposed resolution be put in writing,
3 which can easily be done and distributed, so we can see what
4 we're voting on. I put mine in writing. You ought to put yours
5 in writing.
6 SECRETARY REGAN: My position on this vote is what
7 you asked, Congressman Reuss, and I will be voting on this.
8 This is not a novel or a new suggestion. It's merely the one
9 that's contained in here, as amended. And it will be the
10 resolution that's before this entire Commission on which the
11 Treasury will be voting -- the Secretary of the Treasury will be
12 voting.
13 MR. REUSS: Well, you had all sorts of provisos about
14 exempt from capital gains and not legal tender, and something
15 about weighted. I really would like to see all those before I
16 vote.
17 SECRETARY REGAN: If you will recall what I said
18 earlier in calling for this vote, I said our first vote would be
19 on a simple would we issue a gold coin. We would then have
20 subsequent votes on materials such as Governor Partee brought
21 out as to the description of the coin.
22 MR. REUSS: Well, I want to see those in writing.
23 I'm not going to vote on oral propositions, and I have a right
24 to see, in writing, anything that we're asked to vote on. We
25 have three such propositions in writing. Voting on those is

1 fine. Anybody wishing to bring in additional propositions
2 should commit them to writing, which is why I raise the point
3 now so that we can. . .
4 SECRETARY REGAN: Well you earlier raised the point
5 as to whether or not these things could be amended, and whether
6 or not we could vote on such amendments. And I agreed, and the
7 members agreed that we could have these propositions amended as
8 we go. And I would assume that descriptions of the coin would
9 be an amendment to the original proposition. Congressman Paul?
10 DR. PAUL: Mr. Chairman, I may be able to offer a
11 suggestion here to satisfy both your suggestion and Congressman
12 Reuss's. If we took the majority recommendation and took the
13 first part which is in writing, we favor Treasury issue of gold
14 bullion coins at specified weights, period. And that would
15 satisfy our initial vote. And then designate all the other
16 things. It would be in writing and we would get a vote, and
17 then can go to the other recommendations.
18 SECRETARY REGAN: We also have Congressman Neal with
19 suggestions on how to amend this also. I didn't mean to
20 overlook Congressman Neal. Governor Rice, first, and then
21 Governor Wallich.
22 GOVERNOR RICE: As I understand it, we would be asked
23 to vote not on the Treasury position as you just. . .
24 SECRETARY REGAN: There is no vote on the Treasury
25 position, no.

1 GOVERNOR RICE: But simply on the proposition that
2 you suggested in the first place, that is the Commission favors
3 the issuance of the bullion coin. Maybe with Congressman Paul's
4 position on a certain weight, etc., etc.
5 SECRETARY REGAN: Governor Wallich?
6 GOVERNOR WALLICH: Mr. Chairman, I would find it very
7 difficult to vote on the issue of coin or no coin unless I knew
8 what the qualifications were going to be. If the qualifications
9 subsequently were approved as I suggested them, I would vote
10 yes. But if those qualifications or any one of them were
11 defeated, I would have to vote no. How could I make that vote
12 effectively?
13 SECRETARY REGAN: Governor Partee?
14 GOVERNOR PARTEE: Well, it seems to me, Henry, that
15 if you vote on a general proposition but then vote against
16 having a particular feature, that that would be a part of the
17 record. The majority favors it, but. . .
18 DR. SCHWARTZ: That's right, the recommendation could
19 simply state that . . .
20 GOVERNOR PARTEE: (continuing). . .but the majority
21 doesn't favor it with capital gains, or whatever, you know.
22 MR. WYLIE: Mr. Secretary, my question becomes even
23 more important to me as to whether we're talking about a coin of
24 the realm, or, this says we oppose Treasury issue of gold
25 bullion coins. Now I was thinking in terms of something that

1 could be exchanged as legal tender.

2 SECRETARY REGAN: We got thrown off that discussion

3 momentarily, we will return to it now. Would you describe legal

4 tender?

5 TREASURY COUNSEL: You're correct, Congressman, that

6 all coins of the United States are legal tender, so if we were

7 to have legislation for the issuance of a gold coin and it was

8 not to be legal tender, that legislation would state that this

9 particular coin would not have legal tender status.

10 MR. WYLIE: Then I think we should call it something

11 else. I mean from a psychological standpoint, if nothing else.

12 Are we going to have a separate new coin which is not legal

13 tender by definition? I think we should call it a gold piece if

14 we're going to go this route.

15 SECRETARY REGAN: Dr. Jordan?

16 MR. JORDAN: Do I recall correctly that the guts of

17 the legal tender issue is whether or not the courts would

18 require specific performance?

19 TREASURY COUNSEL: There was some discussion about

20 legal tender status versus specific performance. They are two

21 very separate issues. Legal tender status essentially requires

22 only that in any contract that does not otherwise specify, that

23 debt can be discharged by the rendering of any form of U.S.

24 legal tender. What Congressman Paul was concerned about was not

25 that question, but if the contract is sued upon in court, that

1 the courts be required to order specific performance for
2 attainment in gold whenever gold is the specified means of
3 payment in the contract. That's a very separate issue and has
4 not been presented in the materials before the Commission.
5 SECRETARY REGAN: Are there other comments here?
6 Governor Rice?
7 GOVERNOR RICE: Mr. Chairman, is this the point at
8 which to raise questions about the Treasury position, or should
9 we wait?
10 SECRETARY REGAN: You can if you so desire. I'm
11 merely revealing the way I will vote on these issues, but go
12 ahead. I'll be more than happy to describe my vote.
13 GOVERNOR RICE: Well, I wanted to ask about this
14 question of exemption from the capital gains tax for the coin.
15 As I recall the Treasury staff paper on the subject said that if
16 the coin is exempted from capital gains taxation then the whole
17 range of gold assets and assets related to gold would also have
18 to be exempted from capital gains taxation. Am I correct in
19 that? Didn't the paper say that?
20 SECRETARY REGAN: Would you describe what was in your
21 paper, please?
22 TREASURY STAFF MEMBER: It would require, in
23 particular, exemption from capital gains taxes on
24 non-interest-bearing claims in gold. Warehouse receipt demands
25 the costs are tied on paper. It would not necessarily require

1 exemption from capital gains either in terms of gold or in terms
2 of dollars off interest-bearing claims of gold, bonds and notes.
3 GOVERNOR RICE: How about bullion?
4 TREASURY STAFF MEMBER: No, because the coin would be
5 just sold at some premium over alternative forms of gold.
6 GOVERNOR RICE: Except then you have the Secretary's
7 problem with arbitrage.
8 TREASURY STAFF MEMBER: The same problem as between
9 municipal bonds and the fully-taxable bond.
10 MR. REUSS: Didn't you say that bullion would be
11 exempt?
12 TREASURY STAFF MEMBER: Well, that's not for me to
13 judge, but if bullion is not exempt, then simply the gold coins
14 would be priced at a premium over alternative forms of gold.
15 There would be some spread that would be required that (inaudi-
16 ble) the value of the capital gain exemption at the market.
17 GOVERNOR PARTEE: Might I ask a question of the
18 author of the paper. You referred to the warehouse receipts.
19 TREASURY STAFF MEMBER: Right.
20 GOVERNOR PARTEE: Now if the warehouse receipts are
21 issued by a private company, a bank, if they're issued in
22 greater quantity than the gold that stands behind them, will
23 that still extend the capital gains exemption, or what? What is
24 really in effect the practice of banking and creation of assets.
25 TREASURY STAFF MEMBER: It would be a bank credit

1 denomination in terms of gold.

2 MR. NEAL: Mr. Chairman, I just heard Governor Partee
3 say this is an awfully big step, and I think that it is. I
4 think that the paper was exceptionally well done but inclusive.
5 It raises a number of issues, it does not purport to advise us
6 as to what course we ought to take, and it seems to me that this
7 is a proper subject for extensive Congressional hearings, and I
8 would just think that we might want to make a recommendation
9 concerning gold coins that would not preclude this particular
10 possibility. In fact, not prejudiced in any way but recognize
11 that it is a complex issue. There were questions raised -- very
12 valid ones I think, at our last hearing concerning the
13 possibilities for speculation in gold arising from this
14 particular tax treatment of gold, and I think they're valid and
15 simply deserve more attention than we can properly give them
16 here, and I would just recommend that we not deal with that
17 question. We recommend a gold bullion coin and we suggest that
18 it be manufactured from the Treasury stocks of gold, we suggest
19 that it be without legal tender, that it be sold at a small
20 mark-up, and we recommend that the Congress implement this
21 proposal. And we're getting into some complicated tax issues
22 here, and we have tax writing committees. We would certainly
23 welcome on those committees, I'm sure, your advice, that of the
24 author, and so on, but I don't think we can deal adequately with
25 this question.

1 SECRETARY REGAN: Congressman Paul.

2 DR. PAUL: Mr. Chairman, one brief statement. I
3 didn't want it to go by without commenting on something that
4 Governor Partee mentioned -- the question of whether excessive
5 certificates may be issued over the amount of bullion that they
6 might be holding and how one might benefit tax wise from this.
7 I would suggest that under those circumstances we're out of the
8 realm of a tax problem, but we're in the realm of a fraud
9 problem, and that certainly isn't something that we should even
10 concede as a proper thing to do. And I think that that issue
11 could easily be settled. I suggest that we try to move along
12 with the Secretary's suggestion of deciding one way or the other
13 and then defining what the coin will be like.

14 MR. NEAL: May I make, Mr. Chairman, may I propose a
15 majority recommendation for an up or down vote. I think that
16 from what I hear it would encompass the consensus of the
17 majority view of this panel.

18 SECRETARY REGAN: Let's hear your proposition and
19 then we'll have to ask the gentlemen whether they want to vote
20 on it and whether they want it in writing or not.

21 MR. NEAL: Alright, I propose the following with
22 minor change, and there's one problem with wording that I
23 haven't resolved yet, but it would be as follows: We favor
24 Treasury issue of gold bullion coins of specified weights, to be
25 manufactured from its stock of gold, to be without legal tender

1 and to be sold at a small mark-up over the market price of the
2 gold content and recommend that the Congress implement this
3 proposal.
4 MR. REUSS: Mr. Chairman?
5 SECRETARY REGAN: Yes, Mr. Reuss.
6 MR. REUSS: I asked for the regular order, which has
7 been agreed to and laid down by the Chair. There is before us
8 the majority recommendation, "We favor Treasury issue of gold
9 bullion coins of specified weights to be sold at a small mark-up
10 over the market price of the gold content, and recommend that
11 the Congress request from the Treasury an analysis of the ways
12 in which this proposal might be implemented." We should have a
13 vote on that and we should have a vote on minority
14 recommendation number one. Then there is my recommendation
15 which I herewith withdraw in view of the disclosure at this
16 moment to me of the Treasury view. I don't know why that
17 couldn't have been disclosed before, but let that pass. And
18 then, assuming that the Commission has not, by majority vote
19 adopted a recommendation, it will be in order for others,
20 including, certainly, Mr. Neal, to put in writing their
21 proposals.
22 MR. NEAL: Will the gentlemen yield to me on this
23 point?
24 MR. REUSS: Surely.
25 MR. NEAL: Wouldn't it be in order as a matter of

1 preference to offer a substitute for this proposal, and that is
2 essentially what I'm doing.
3 MR. REUSS: Well, the order, the regular order was
4 agreed on at the start of this meeting, and I don't think we
5 should improvise as we go along, and I also would insist on the
6 proposition that we vote only on matters which are in writing
7 before us --a mechanical task readily accomplished.
8 MR. NEAL: Mr. Chairman, wouldn't it be in regular
9 parliamentary procedure for a substitute for this proposal to be
10 the first order of business? And that was my proposal.
11 MR. REUSS: There's no such thing as regular
12 parliamentary procedure. The procedure is that adopted by the
13 body, and the procedure adopted by the body earlier this morning
14 was to vote on the recommendations propounded by Dr. Schwartz
15 and on various minorities' recommendations included in it, and
16 thereafter other recommendations offered by members. Those
17 recommendations should be in writing, and there's no mechanical
18 problem in getting them in writing.
19 SECRETARY REGAN: Dr. Weidenbaum?
20 DR. WEIDENBAUM: Once again I find Congressman
21 Reuss's logic compelling. I think we should stay with these
22 recommendations, and of course, in reviewing them, I presume the
23 ordinary procedure quite in order, to amend or modify these
24 recommendations as we vote on them. And quite clearly the
25 proposal to amend the recommendation, I take it we would vote on

1 before we would vote on the full recommendation, and therefore I
2 would move, urge, suggest that we amend the majority
3 recommendation and take account of Congressman Neal's
4 suggestions, vote up and down on that amendment, and then we
5 vote up and down on the recommendation. And that would be fully
6 in the spirit of Congressman Reuss's approach.
7 MR. REUSS: With the amendments to be in writing. I
8 don't think we should attempt to act on oral recommendations.
9 SECRETARY REGAN: Could the Chair say something here?
10 I think that if any of the members wish to have an amendment,
11 if they would write it out, I'll have it typed up and duplicated
12 rather quickly. Even though it might be a little more time
13 consuming, we can have the benefit of at least seeing what we
14 are doing. And then we can go on from there to any amendments.
15 We'll see how the amendments look, and then we'll finally come
16 to what we have voted on. You understand, of course,
17 Congressman Reuss, that the Treasury will not have a
18 recommendation, but we have a vote.
19 MR. REUSS: That's fine, and they needn't even be
20 typewritten. I think legible writing reproduced is fine.
21 SECRETARY REGAN: So the Chair will pause here while
22 anyone who thinks he may have an amendment could write it out,
23 and then we will have those so we won't have too long inbetween
24 things.
25 DR. WEIDENBAUM: While we're waiting, Mr. Chairman, I

1 should hope that Congressman Reuss's suggestion that amendments
2 be in writing not be compulsory. I certainly don't intend, if I
3 catch a typo here, to have to submit the darn think in writing
4 in quintuplicate. I think a rule of reason should well apply
5 that the simple amendments that are clearly understood by all I
6 see no reason why we can't feel free and I will feel free in the
7 course of these proceedings to urge them.
8 GOVERNOR PARTEE: Mr. Chairman, I don't know quite
9 what parliamentary procedure is in this case, but let me just
10 say that regarding Congressman Neal's amendment, that I would
11 like to add: without dollar denomination. Now how do I go
12 about doing that?
13 SECRETARY REGAN: We'll give you an extra copy of his
14 and you can put your change on it.
15 MR. REUSS: Steve, have you got the thing you've
16 written that it's not exempt from the capital gains tax?
17 MR. NEAL: I just didn't deal with that.
18 MR. REUSS: Well, how about dealing with it? That's
19 an important point.
20 MR. NEAL: The only reason I hesitate, Henry, is
21 because I didn't want to prejudice that issue. I thought it was
22 an issue that would be dealt with at some length by the Ways and
23 Means Committee at an appropriate time, or, you know, we might
24 have some suggestion on it. I just personally have mixed
25 feelings about it. I just feel that we don't know enough about

1 it at this point to know that we should not exempt it from
2 capital gains tax. It was my own feeling about it, but do you
3 feel confident at this point that it should never, under any
4 circumstances, be . . .
5 MR. REUSS: Utterly confident. And it should not be
6 exempted.
7 MR. NEAL: Well, I don't share in your confidence.
8 SECRETARY REGAN: I would say that I think both of
9 you are right, but we might propose, I think the Congress will
10 dispose of this one.
11 MR. REUSS: Well, in all other aspects.
12 SECRETARY REGAN: Naturally, but I might remind you,
13 Congressman Reuss, that if that doesn't come up in an amendment,
14 we will not be voting on the capital gains treatment here.
15 MR. REUSS: It will, though, because I'll propose it
16 as an amendment.
17 (At which time a pause was taken in the proceedings.)
18 SECRETARY REGAN: I think the papers have been
19 distributed now, and I think we can proceed.
20 MR. NEAL: Mr. Chairman, I'd just like to point to at
21 least one grammatical error in my amendment.
22 SECRETARY REGAN: Could you save that? That's under
23 the Weidenbaum rule, anyway. What I am going to propose now,
24 that we vote first on the majority recommendation as it is
25 stated on page eleven of Dr. Schwartz's text. We then will vote

1 on the minority recommendation as stated in Dr. Schwartz's page
2 eleven. We will then come to the amendments. And the order, as
3 I recall, that they were suggested is the way in which I suggest
4 we vote. The first one to make a suggestion was Congressman
5 Neal, then Congressman Reuss, then Congressman Wylie, then
6 Congressman Paul. And I have no other amendments at this
7 particular time to this original amendment or substitutes for
8 page eleven.
9 Now do we all understand the procedure of how we're
10 going to vote? Now I have one other announcement to make.
11 Congressman Reuss, I would wish you would listen carefully to
12 what I'm saying here. Dr. Jordan, will you state the proxies
13 that you have at this moment?
14 MR. JORDAN: I'm holding proxies for Senator Schmitt
15 and Senator Jepsen.
16 SECRETARY REGAN: And what do those proxies authorize
17 you to do?
18 MR. JORDAN: To vote.
19 SECRETARY REGAN: Now, do you all understand that he
20 has the Senators' proxies?
21 DR. PAUL: May I mention also, I have the proxy of
22 Mr. Lehrman.
23 SECRETARY REGAN: You have whose proxy?
24 DR. PAUL: I have the proxy of Mr. Lehrman.
25 SECRETARY REGAN: You have Mr. Lehrman's proxy, is

1 that in writing also? I have not seen that.

2 DR. PAUL: No, I do not have that in writing. I

3 didn't realize, because I recall one time when we had a proxy

4 early, it was done by telephone, by somebody running out of the

5 room. So I had this confirmed by telephone.

6 SECRETARY REGAN: Will all of you gentlemen accept

7 the fact that Congressman Paul has Mr. Lehrman's proxy? And

8 that Dr. Jordan has the proxies of the two Senators, Schmitt and

9 Jepsen? Alright.

10 MR. COYNE: Are there any other members of the

11 Commission who would wish to vote if they knew that proxies

12 were permitted?

13 DR. SCHWARTZ: Senator Dodd.

14 SECRETARY REGAN: Senator Dodd has not communicated

15 with us as to how or what he. . .

16 MR. REUSS: I have Senator Dodd's proxy, but not on

17 this issue.

18 SECRETARY REGAN: Alright, Congressman Reuss. Do you

19 have it on other issues that might come up today?

20 MR. REUSS: Yes, on five and six I have his proxy.

21 SECRETARY REGAN: Does that answer your question, Mr.

22 Coyne?

23 MR. COYNE: Yes, it does.

24 SECRETARY REGAN: Alright, the Chair will now call

25 for a vote on the majority recommendation -- We favor issuance

1 of gold bullion coins of specified weights to be sold at a
2 small mark-up over the market price of the gold content,
3 and recommend that the Congress request from the Treasury
4 an analysis of the ways in which this proposal might be
5 implemented.
6 MR. NEAL: Mr. Chairman, may I just raise one
7 question here. Wouldn't it be in order if one favors a
8 preferred wording, wouldn't it be better at this time to vote
9 down this proposal, recognizing full well that we will have
10 another chance at wording that we might prefer? I mean,
11 wouldn't it be a cleaner proposal to do that than to try to vote
12 for this and then go back at a later time and substitute, and so
13 on?
14 MR. JORDAN: I'm puzzled if you have substitute
15 language proposed, how the ordering of the voting works out.
16 GOVERNOR PARTEE: I assume that if one didn't like
17 the exact wording here you'd vote no.
18 MR. NEAL: Vote no, that's what I would think, and
19 then have a second shot at it.
20 DR. WEIDENBAUM: This is precisely why earlier I had
21 suggested we vote on the amendments before we vote on the main
22 motion.
23 MR. JORDAN: I would prefer to vote for the amended
24 language first.
25 MR. REUSS: I think the Chairman is on the right

1 track. Why don't we vote? This first one can be by show of
2 hands. I will not call for a roll call.
3 SECRETARY REGAN: Right, and then I would suggest
4 that you could vote yes twice. You like this one, but if
5 there's a better substitute you could also vote that way, for
6 the substitute.
7 MR. REUSS: You lost me, Mr. Chairman, on that one.
8 I don't think that's going to work.
9 MR. JORDAN: This is why the normal parliamentary
10 procedure suggests that we may have a substitute, and that that
11 vote might come earlier in the process.
12 MR. REUSS: Well, we know that you've very nicely
13 given us copies of what you're going to propose, Steve, and
14 we'll get to that momentarily.
15 SECRETARY REGAN: May I ask a technical question
16 here. In voting in the Congress, which do you do first, your
17 substitute or the original.
18 MR. REUSS: The substitute.
19 MR. WYLIE: Mr. Chairman, we don't really have
20 anything before us until we adopt this, and then it's subject to
21 amendment later on. I think your procedure is quite correct in
22 view of our procedures in Congress. If we vote on Congressman
23 Neal's motion first, then that would remove any vote on this.
24 That would be the language that would have to be amended later
25 on. There really isn't anything technically before us yet,

1 because we haven't adopted it.

2 MR. NEAL: Still, we can just go ahead and have a

3 vote on this proposal, and either way the vote goes, we will be

4 able to deal with it.

5 MR. WYLIE: Sure.

6 SECRETARY REGAN: Congressman Paul?

7 DR. PAUL: If we go and proceed with a substitute

8 amendment, a substitute proposal, and vote on Congressman Neal's

9 proposal, then I think it would be imperative that we do go

10 through all the amendments prior to voting, say, on the majority

11 recommendation. I for one find it quite difficult to accept the

12 wording of the substitute, mainly because it more or less goes

13 against what the intention was at the very beginning, that we

14 would try to decide one way or the other on a coin and then have

15 these different things dealt with separately. And, for

16 instance, the legal tender status -- its committed in there, and

17 then the question comes up, after we pass the substitute, can we

18 go back and amend only those three words, the legal tender

19 status, in his substitute. So, I think it's important if we do

20 a substitute, we also do the amendments prior to a vote on the

21 coin. I still think it would be quite proper to go along with

22 the Secretary's suggestion that we vote on the majority

23 recommendation first and then amend it as we see fit. It gets

24 very confusing if we go into substitute amendments, substitute

25 resolutions.

1 MR. REUSS: Since this will be the only thing Mr.
2 Paul and I will agree on during these proceedings, I suggest we
3 proceed.
4 SECRETARY REGAN: Let me have that once more, then to
5 make sure. Everybody understands what we're doing here.
6 MR. WYLIE: I think you're right.
7 DR. PAUL: To go ahead and vote the majority
8 recommendation as you suggested and then go and take the
9 individual items afterwards, and amend it?
10 SECRETARY REGAN: Right.
11 Alright, I'm going to call for a vote. All in favor
12 of the majority recommendation that the Chair just annunciated
13 as written on page eleven of Dr. Schwartz's text signify by
14 raising their hand. . . all in favor. One, two, three,
15 four, five, six, seven, eight, plus proxies.
16 TREASURY STAFF MEMBER: Plus two proxies.
17 SECRETARY REGAN: Two? Three. Plus three proxies.
18 Eleven. All opposed? One, two, three. Alright, we now have a
19 majority recommendation. We will now vote on the minority
20 recommendation. Minority recommendation is: We oppose Treasury
21 issue of gold bullion coins. All in favor of that minority
22 recommendation? Two. Opposed? The same vote.
23 MR. REUSS: What was it, Mr. Chairman?
24 SECRETARY REGAN: The vote was ten, I believe. Let's
25 have another show of hands. One, two, three, four, five, six

1 over here, seven, eight, nine, ten, eleven.

2 MR. REUSS: Eleven to two.

3 SECRETARY REGAN: Eleven to two. Alright.

4 MR. NEAL: Mr. Chairman? I would like to offer a

5 substitute for the majority recommendation, and I would like to

6 point out that there is a grammatical error in line four. "Nor"

7 should be "or" and there may be others.

8 MR. REUSS: You ask unanimous consent?

9 MR. NEAL: I ask unanimous consent that "nor" be

10 stricken and that "or" be substituted.

11 SECRETARY REGAN: Any objections? You didn't hear

12 what he said?

13 MR. COYNE: No, I thought you asked whether there

14 were objections.

15 SECRETARY REGAN: Objections to his change?

16 MR. COYNE: To striking "nor" and adding "or."

17 SECRETARY REGAN: That's what I'm calling for. I

18 said, are there any objections.

19 MR. COYNE: And I raised my hand.

20 SECRETARY REGAN: You do object?

21 MR. COYNE: I would like to ask a question in the

22 nature of an objection. I don't understand the procedure

23 whereby we have just had an eleven to three vote in favor of the

24 majority recommendation which seems to me to be global in its

25 scope which does not have the force of law, as this is not a law

1 making body, but rather making a recommendation, as I understand
2 it, to the Congress. Why would we wish to sub-define such a
3 broad recommendation on which there appears to be an
4 overwhelming majority in favor when the questions are, as
5 Congressman Neal put it just quite correctly in my view before,
6 the issues and the ramifications are so complicated and so
7 beyond, at least my power, to understand what the full force
8 would be if we went this way or that. Why can't we leave it as
9 the vote?
10 MR. NEAL: Would the gentleman yield?
11 MR. COYNE: Yes.
12 MR. NEAL: The Chairman only asked unanimous consent
13 that we change one word in a proposed substitute for the
14 majority recommendation, and it appeared to me that most people
15 who voted for the majority recommendation did so with the
16 knowledge that there would be this substitute offered, and that
17 we would have the opportunity to adopt this wording if that is
18 the will of this panel. And that then we have the opportunity
19 to amend the substitute, if that's the will of this Commission.
20 MR. REUSS: Mr. Chairman, I make the point of order
21 that the Commission is out of order, that it is discussing
22 matters which have been duly adopted by recorded votes of the
23 Commission -- there is no motion to reconsider. We are now on
24 the Neal motion, which is perfectly proper. But criticism of
25 the substance of what the Commission has just done is not only

1 out of order, because we have passed that point, but may offend
2 against questioning the sanity of the Commission.
3 MR. NEAL: Would the gentleman withdraw his objection
4 to changing that one word in the substitute?
5 MR. COYNE: What I was deposing is, that unless there
6 is a clear view as to whether it should or it should not be
7 legal tender, I'm understanding what all of the ramifications of
8 that are, an understanding of which I do not. . .
9 SECRETARY REGAN: Well, Mr. Coyne, you understand
10 what we're doing here now. We're a little bit off base here.
11 What has happened is that we've voted on the majority
12 recommendation. Mr. Neal now wishes to substitute another
13 amendment for that. He is entirely within his rights in making
14 this suggestion. The only thing that he has asked, though, is
15 in his substitute, and you will recall that we put this in
16 writing in order to make certain we knew what we were voting on,
17 is that the word "nor" be changed to "or" for correct,
18 grammatical use. We will then vote on that. If the Neal
19 amendment is adopted by a majority, that is the wish of this
20 Commission. If it is turned down may a majority, then we would
21 revert to the original that we just voted on, eleven to three.
22 That is the status of where the Commission stands at this point.
23 MR. NEAL: And Mr. Chairman, isn't it also true that
24 the amendment would be subject to amendment?
25 SECRETARY REGAN: And the substitute amendment would

1 be subject to amendment, either in whole or in part.

2 MR. REUSS: I make a point of order against that, Mr.
3 Chairman, on the ground that we have already, by a majority vote
4 of eleven to three, duly recorded, adopted the majority
5 recommendation. Mr. Neal has now been recognized to make an
6 additional recommendation, but it is not a substitute
7 recommendation. The Commission has acted -- I think unwisely --
8 but it has acted on the so-called majority recommendation. The
9 time has passed . . .

10 MR. NEAL: I move for a substitute or an amended
11 majority recommendation, whatever you want to call it. We're
12 writing parliamentary rules as we go along today. Mr. Chairman
13 knows.

14 MR. REUSS: Well, I would make a point of order
15 against there being a substitute or an amendment. It is an
16 additional recommendation.

17 MR. NEAL: Well, it's overruled. It's an additional
18 recommendation, and I would overrule your point of order.

19 SECRETARY REGAN: I think, Congressman Reuss, that if
20 we follow your line of thinking now we have definitely mislead
21 this Commission and we'd better go back to square one, because
22 we said that we would vote on the majority recommendation, on
23 the minority recommendation, then on a substitute, and then on
24 amendments. And we all agreed to that and you suggested they be
25 put in writing. We paused in order to have that done. Now if

1 we're going to say, well, having voted for the majority
2 recommendation, that is the majority recommendation -- and it
3 cannot be expunged in any way by a substitute or an amendment,
4 and it must stand on its own, and they'll be some with a second
5 recommendation that would be somehow or other amended, amending
6 that first one, we would not only confuse the Congress, but
7 ourselves and the public, were we to submit two recommendations
8 along the same line.
9 MR. REUSS: Well, that's why I voted against the
10 majority recommendation. The eleven who voted for it must
11 answer at the bar of public opinion for their vote.
12 GOVERNOR RICE: I thought I was voting for the
13 additional substitute that Congressman Neal is going to make.
14 SECRETARY REGAN: I agree with you, Governor Rice.
15 That was the Chair's understanding also. And the Chair will
16 exercise the prerogative here and suggest that we revert right
17 to what we said. We will now entertain an amendment to the
18 original from Congressman Neal. Congressman Neal?
19 MR. REUSS: I register a point of order against that
20 on the ground that we have voted on the so-called majority
21 recommendation. There was no motion to reconsider. We have
22 moved on to another matter, and it is therefore out of order to
23 consider a substitute.
24 SECRETARY REGAN: The Chair rules otherwise, and
25 the Chair asks the Commission to vote here on whether it will

1 approve of what the Chair's ruling is in this case or not.

2 MR. REUSS: I haven't asked that the Chair be

3 overruled. I've asked that the Chair make a ruling, and I have

4 not heard that ruling.

5 SECRETARY REGAN: The ruling is that we will now vote

6 on the Neal amendment. In the event that the Neal amendment

7 carries, it will be substituted for the recommendation of

8 majority, and it will be the recommendation of the majority of

9 this Commission as far as gold coins are concerned. There would

10 then be an order for the Neal amendment to be further amended by

11 other people who have made suggestions, including yourself.

12 MR. REUSS: And hence my point of order that the Neal

13 substitute amendment is not in order should be and hereby is

14 overruled by the Chair. Is that correct?

15 SECRETARY REGAN: That is correct.

16 MR. REUSS: And I do not exercise my privilege of

17 asking to overrule the Chair.

18 SECRETARY REGAN: Fine. Thank you, Congressman.

19 Congressman Neal, we have consent for your "nor" for "or," would

20 you please make your recommendation.

21 MR. NEAL: I move the adoption of this substitute for

22 the majority recommendation -- the substitute that you have

23 before you, Mr. Chairman.

24 SECRETARY REGAN: You have before you a

25 recommendation of Congressman Neal: We favor Treasury issue of

1 gold bullion coins of specified weights and without dollar
2 denomination or legal tender status to be manufactured from its
3 existing stock of gold and to be sold at a small mark-up over
4 the market value of the gold content, and recommend that the
5 Congress implement this proposal. All in favor of that signify
6 by . . .
7 MR. REUSS: Mr. Chairman, I object and raise a point
8 of order. You're cutting off amendments to it, and I ask that
9 the Chair follow the regular order and permit amendments to the
10 Neal resolution before it is voted on as the Chair said he would
11 do.
12 DR. PAUL: Point of order -- it is my
13 understanding...
14 MR. REUSS: May I have a ruling on my point of order
15 before we ...
16 SECRETARY REGAN: Congressman Reuss, we agreed that
17 we would vote on this one first, and then I said that
18 recommendations for amending Congressman Neal's proposal would
19 then be in order.
20 DR. WEIDENBAUM: That is my recollection.
21 MR. REUSS: There was no agreement or any vote on
22 that, and until it's been put to a vote...
23 SECRETARY REGAN: The Chair ruled that way, and there
24 was no call for anyone to overrule the Chair, as I recall. And
25 accordingly, the Chair's ruling stands. I will now call for a

1 vote. All in favor of Congressman Neal's amendment, please
2 signify by raising their hand. And are you voting three? One,
3 two, three, four, five, six, seven, eight, nine, ten, eleven,
4 twelve, thirteen. Opposed? Two.
5 Is there any further business now? The next one
6 would be amendments offered by Mr. Reuss.
7 MR. COSTAMAGNA: Mr. Secretary?
8 SECRETARY REGAN: Yes.
9 MR. COSTAMAGNA: I think there are sixteen votes
10 represented here, and I can't quite. . .
11 SECRETARY REGAN: No, Congressman Dodd and . . .
12 DR. SCHWARTZ: We're missing Paul McCracken's vote on
13 this. Those are the two votes that we don't have.
14 SECRETARY REGAN: Let's have that count again. Would
15 you mind -- we did get a little high on that count, I think.
16 DR. SCHWARTZ: No, you got sixteen, and Paul
17 McCracken's. Thirteen to three.
18 MR. COSTAMAGNA: Mr. Secretary, may I just say
19 that...
20 SECRETARY REGAN: There are two votes that are
21 missing. The missing votes are Paul McCracken ...
22 DR. SCHWARTZ: And Dodd.
23 SECRETARY REGAN: And Senator Dodd.
24 DR. WEIDENBAUM: Mr. Chairman, I ask for a roll-call
25 vote on that.

1 SECRETARY REGAN: Alright, roll-call is . . . would
2 you call the roll please?
3 TREASURY COUNSEL: Mr. Costamagna.
4 MR. COSTAMAGNA: Here.
5 MR. REUSS: I ask unanimous consent that Mr.
6 Costamagna be allowed to change his vote to "Aye."
7 MR. COSTAMAGNA: Being from California, I'm not used
8 to these machinations in Washington, so you'll have to forgive
9 me.
10 SECRETARY REGAN: Even being from Washington, I'm not
11 used to them. What we're voting on here is a roll-call vote on
12 the vote we just took by a raising of the hands. So would you
13 please signify whether you are in favor of Congressman Neal's
14 amendment or not.
15 TREASURY COUNSEL: Mr. Coyne.
16 MR. COYNE: Yes.
17 TREASURY COUNSEL: What was that?
18 MR. COYNE: Yes, aye.
19 TREASURY COUNSEL: Mr. Dodd?
20 SECRETARY REGAN: Senator Dodd's not voting.
21 TREASURY COUNSEL: Senator Jepsen.
22 MR. JORDAN: Yes.
23 TREASURY COUNSEL: Mr. Jordan.
24 MR. JORDAN: Yes.
25 TREASURY COUNSEL: Mr. Lehrman.

1 DR. PAUL: Yes.

2 TREASURY COUNSEL: Mr. McCracken's not present.

3 Congressman Neal.

4 MR. NEAL: Yes.

5 TREASURY COUNSEL: Governor Partee.

6 GOVERNOR PARTEE: Yes.

7 TREASURY COUNSEL: Congressman Paul.

8 DR. PAUL: Yes.

9 TREASURY COUNSEL: Congressman Reuss.

10 MR. REUSS: No.

11 TREASURY COUNSEL: Governor Rice.

12 GOVERNOR RICE: Yes.

13 TREASURY COUNSEL: Senator Schmitt.

14 MR. JORDAN: Yes.

15 TREASURY COUNSEL: Governor Wallich.

16 GOVERNOR WALLICH: Yes.

17 TREASURY COUNSEL: Chairman Weidenbaum.

18 DR. WEIDENBAUM: Yes.

19 TREASURY COUNSEL: Congressman Wylie.

20 MR. WYLIE: No.

21 SECRETARY REGAN: The Chair votes yes.

22 TREASURY COUNSEL: Thirteen in favor, two opposed.

23 SECRETARY REGAN: Thirteen and two. Alright, now the

24 next order of business is the amendments by Mr. Reuss. The

25 first amendment: Such a coin should not be convertible into

1 dollars on demand at the Treasury. We'll call for a showing of
2 hands on Congressman Reuss's amendment. All in favor, please
3 raise your hand. One, two, three, four, five, six. All
4 opposed, one, two, three, four five, six, seven, eight, nine.
5 Next: Such a coin should not be exempt from capital
6 gains taxation. All in favor signify by raising their hand.
7 One, two, three, four, five...
8 MR. NEAL: Mr. Chairman.
9 SECRETARY REGAN: I want to raise a question on this.
10 Unless it is specifically mentioned one way or the other, such a
11 coin would not be exempt from capital gains taxation. Such
12 coins would not be exempt under current law.
13 SECRETARY REGAN: Yes, but the gentleman has a right
14 to propose an amendment and we agreed we would vote on it.
15 MR. NEAL: Well, isn't it in order to discuss the
16 amendment for a moment or two? You know, we could add an
17 amendment that said that such coins would not be used to build
18 airplanes or something. I just can't see the relevance at this
19 point. That's my question. If we remain neutral on this
20 question, it would be something that would be dealt with at some
21 other time, and I'm trying to understand the need for this at
22 this time.
23 MR. REUSS: The subject of capital gains taxation has
24 been treated at length in the draft report presented us, it's
25 been treated at length in a Treasury memorandum. As for the

1 proposition that another body, namely the Congress, not this
2 Commission will be responsible for the ultimate disposition of
3 that -- happily that is true of everything we've been doing. So
4 I think we should vote.
5 SECRETARY REGAN: Any further discussion?
6 Incidentally, I don't mean to cut off discussion on this even
7 though time is getting on. So if any of these other amendments
8 coming up anyone wishes to discuss before we go to vote, would
9 you please signify.
10 DR. PAUL: Is it your thought, Congressman, that
11 since we have indicated this should not be legal tender that the
12 capital gains taxation question does not arise.
13 MR. NEAL: Not at this point.
14 DR. PAUL: Had we indicated it should be legal tender
15 it would very well have been in question, then, because
16 ordinarily, legal tender would not be subject to capital gains
17 ...
18 MR. NEAL: I did not have the thought in my mind as
19 precisely as do you, but I believe your point is well made.
20 SECRETARY REGAN: Any further discussion? Alright,
21 then I'll call for a vote on the second amendment by Congressman
22 Reuss that such a coin should not be exempt from capital gains
23 taxation. All in favor? One, two, three, four. Opposed? One,
24 two, three, four, five, six, seven, eight, nine, ten, eleven.
25 Alright, we now come to Congressman Wylie's

1 amendment, and Congressman Wylie moves to amend the majority
2 recommendation, well, it's actually now, the...
3 MR. WYLIE: It would still apply, though.
4 SECRETARY REGAN: It still applies to the Neal...
5 MR. WYLIE: That is the majority recommendation now.
6 SECRETARY REGAN: It is now the majority
7 recommendation that where it is stated, "gold bullion coins"
8 that the word "coins" be deleted and insert therein the word
9 "pieces," so that it would read, "We favor Treasury issue of
10 gold bullion pieces of specified weights, and without dollar
11 denomination."
12 MR. WYLIE: Pieces of eight. I think that the word
13 "coins" and "without legal tender" are mutually exclusive in our
14 society. But if they're not mutually exclusive, then they
15 create an ambiguity. A coin has always been held to be legal
16 tender. A coin of the realm -- I think coin is a word of art,
17 and it seems to me that up to now it has been accepted as
18 payment for public debt in our society, and if we try to define
19 another coin, which is what we're in essence doing, a coin
20 without legal tender, then it seems to me as if we're creating
21 an ambiguity which would be confusing to the public. And I
22 think it would make us look foolish, frankly.
23 MR. NEAL: Would the gentleman yield?
24 MR. WYLIE: Yes.
25 MR. NEAL: I wonder if the gentleman would accept the

1 substitution of the word "doubloons."

2 MR. WYLIE: What?

3 MR. NEAL: The substitution of the word "doubloon"

4 -- "doubloons" for "pieces."

5 SECRETARY REGAN: Is there any other discussion? Dr.

6 Jordan?

7 MR. JORDAN: I sympathize with Congressman Wylie's

8 concerns about the potential for confusion, because I am

9 somewhat confused by the significance of this, and I was

10 wondering if the Treasury's legal counsel could tell us what

11 importance this issue is.

12 TREASURY COUNSEL: The present statutes do provide

13 that all coins and currency issued by the United States are

14 legal tender. The legislation that would authorize the issuance

15 of these coins could state that these coins, and these coins

16 only, will not constitute legal tender. But Congressman Wylie

17 is correct in that the law now provides all coins issued by the

18 United States should constitute legal tender.

19 MR. WYLIE: I'm not necessarily sold on the word

20 "pieces," but I am sold on the fact that it should not be

21 "coin."

22 MR. JORDAN: Even in a case where it may be

23 stipulated that these specific coins, a description of a piece

24 of metal that's stamped in a circle, are not legal tender,

25 because of the potential for confusing the public?

1 MR. WYLIE: Exactly right.

2 MR. NEAL: Mr. Chairman.

3 SECRETARY REGAN: Yes.

4 MR. NEAL: I think it's a good point also. I'm just
5 wondering if they might should not in fact be labeled as not
6 legal tender. There shouldn't be some little inscription at
7 some point on them that says "not legal tender."

8 MR. WYLIE: What's wrong with just changing the word
9 from "coins" to "pieces" -- bullion pieces. You can call them
10 something else later on if you want to, but I don't think you
11 should call them bullion coins.

12 SECRETARY REGAN: I see. My own instinct is that if
13 we use the word "pieces" in describing this, that we'll be
14 misunderstood as to what we're trying to do in the majority
15 recommendation, and we'd cause more confusion. But we would
16 certainly leave it either to the current or a future Secretary
17 of the Treasury or representative of the Treasury to discuss
18 this with the Congress at such time, if, as and when the
19 Congress were ever acting on this recommendation that it be very
20 specific in law as to what it was doing.

21 MR. WYLIE: We have gold medallions right now.
22 That's why I didn't change it to "medallions." We could change
23 to "medallions" if we want to, and say that we recommend the
24 present law be repealed and that we substitute these new
25 medallions in its place, if we want to go that route. But

1 that's what these amount to -- they're medallions.

2 SECRETARY REGAN: Mr. Pieces, or is it Mr. Coyne?

3 Would you like to speak?

4 MR. COYNE: Well...

5 SECRETARY REGAN: I'm sorry about that.

6 MR. COYNE: Mr. Secretary, as long as you put it that

7 way, I'd like to say with respect to Congressman Wylie, as he

8 suggests that these should not be gold coins, I would like to

9 suggest they should not be called "Wylies."

10 MR. WYLIE: I'll buy that.

11 SECRETARY REGAN: Congressman Paul?

12 MR. COYNE: I'm sorry, that was not the point of

13 my... As these coins are being contemplated in terms of their

14 providing the American public with an alternative store valued

15 to Federal Reserve notes or other assets, I would suggest that

16 the use of a term other than "coin" would simply tend to defeat

17 the object of the exercise. If there were one single feature

18 that makes the U.S. medallion program unsuccessful more than any

19 other feature -- and it has a great deal of competition in that

20 respect -- it would be the use of the word "medallion" or such a

21 term: "piece" or anything other than "coin" would seem to me to

22 be a decision to make it not work. There appears to be in the

23 marketplace an inhibition about the transferability of an item

24 of jewelry rather than an item which is supposed to have some

25 private monetary significance.

1 MR. WYLIE: Would the gentleman yield? The point I'm
2 making here is if you're going to issue gold bullion, whatever
3 you call them -- if you call them "coins" then they ought to
4 have legal tender -- if we decide to go that route. I don't
5 know of any other country in the world that issues a gold coin
6 without legal tender.
7 MR. COYNE: In almost every country I can think of
8 off hand which issues what we normally think of as a gold coin,
9 as a gold bullion coin, namely, the Canadian Maple Leaf, South
10 African Kruggerand, the Russian Chevaunets, the Austrian
11 Corona...
12 MR. WYLIE: Yet you present all those countries in
13 payment of public debt...
14 MR. COYNE: In some of those countries, in one of
15 those countries, in the Soviet Union, it is in fact illegal for
16 a citizen to own that coin, forgetting about the question about
17 using it as payment for public debt.
18 MR. WYLIE: I certainly don't want to go the route of
19 the Soviet Union.
20 MR. COYNE: No, I'm saying that so far is it from the
21 use as legal tender -- even though it is designated as legal
22 tender, it is not legally holdable by citizens within the
23 country itself. In South Africa the Kruggerand is not usable
24 for the payment of private debts, nor is it in Canada, nor is
25 the Corona in Austria, nor is the Mexican peso coin, or any

1 other Mexican coin in Mexico. That is to say, it is not only
2 that there is not -- I'm sorry, let me put it more directly --
3 there is no single country, to the best of my knowledge, in
4 which a gold bullion coin -- even those designated as legal
5 tender by the law of that country -- which is usable for the
6 payment of private debts within those countries, and in at least
7 one country it's not even legal to own that coin.
8 SECRETARY REGAN: Governor Wallich and then Dr.
9 Jordan.
10 GOVERNOR WALLICH: I was trying to make the point
11 that if it is very important to people to have the object that
12 is issued called a "coin" rather than "medallion" there may be
13 some element of misunderstanding on people's part. They may
14 think these in effect have legal tender and can be used in
15 payment, even though we've decided not to.
16 SECRETARY REGAN: Dr. Jordan?
17 MR. JORDAN: As Mr. Coyne has indicated, a Maple Leaf
18 is a coin if people so view it as being a coin. Whether we say
19 it's a coin in this resolution or a piece or a medallion, it in
20 fact looks like a coin, it feels like a coin, it must be a coin.
21 And it will become referred to as something like the American
22 Eagle, maybe, or something. And so whether we put in this
23 resolution or not that we call it a coin here, legal counsel's
24 advice is that can be separate from the issue of legal tender.
25 And I think that we shouldn't conclude here that us referring to

1 it as a coin says something about its legal tender status when
2 it doesn't.
3 SECRETARY REGAN: Congressman Paul?
4 DR. PAUL: I see the need to change this word as
5 totally unnecessary. I think the fact that it does not have
6 legal tender status takes care of it. I think that this is just
7 totally needless to take a coin -- it is a coin -- and call it
8 something else. It doesn't seem to add up, so I would strongly
9 urge that we just leave the wording as it is.
10 SECRETARY REGAN: Any further comments? Then I'll
11 call for a vote on Congressman Wylie's recommendation that we
12 delete the word "coins" in Congressman Neal's amendment and to
13 state that we favor Treasury issue of gold bullion pieces of
14 specified weights and without dollar denomination, and so forth.
15 All in favor of that substitution, please signify by raising
16 their hand. One, two. Opposed to that substitution. One, two,
17 three, four, five, six, seven, eight, nine, ten, eleven, twelve.
18 Alright, we now have four amendments from Congressman
19 Paul. The first amendment: The coins shall be accepted in
20 payment of debts if so specified in contracts. Congressman
21 Paul?
22 DR. PAUL: May I just make a comment. I think
23 this would certainly satisfy my concern about not having a coin
24 legal tender. I'm not interested in having it legal tender, and
25 I think this more or less conforms with what most people think

1 is already in the law -- that if you have a contract that you
2 pay in whatever you contracted in -- and this is just to clarify
3 that and for us to take a position that we believe in contracts,
4 and the rule of contract is still the most important thing
5 that occurs in the free market. So I would hope that everybody
6 could endorse this type of language.
7 SECRETARY REGAN: Any other comments on this?
8 Governor Wallich.
9 GOVERNOR WALLICH: I think this is an extremely
10 dangerous provision because innocent people might be illegal in
11 making a contract in which they had to pay in gold, and on top
12 of that be charged an interest rate, for instance on a loan, in
13 which case they'd be paying more interest than they should be.
14 They'd be paying the gold appreciation that may occur over time,
15 plus the interest. This is exactly the same reasoning that
16 underlies the idea of a government-backed gold bond. It needs
17 little or no interest because it gets the appreciation of the
18 gold. Here a possibly naive borrower might be exposed to paying
19 double interest.
20 SECRETARY REGAN: I'm asking our counsel to give us a
21 little instruction here. As a non-lawyer, I'd like to know a
22 little bit about contract law and what the significance of this
23 would be.
24 TREASURY COUNSEL: Essentially, anyone can contract
25 and have a provision in the contract that payment be required

1 only by payment in gold coin, or in gold. The normal result
2 would be that that contract would be valid and binding. And as
3 discussed at the last meeting, on the issue concerning a breach
4 of that provision by the debtor, and the creditor took the
5 debtor to court, the court normally would award damages rather
6 than specific performance of a contract provision. So it's up
7 to the courts to decide what the remedy for the breach, whether
8 it orders performance or orders monetary damages, an amount
9 adequate to compensate. What Congressman Paul's statement here
10 is on its face is merely a statement of present law that a
11 contract provision which specifies payment in gold or in gold
12 coin is to be honored, and that's true of any contract.
13 SECRETARY REGAN: Congressman Paul.
14 DR. PAUL: In a way I think that's exactly right --
15 that it is a statement of what is current law -- until you get
16 to the point of the breach, and this is the whole point. A
17 contract -- when everybody follows through voluntarily -- that's
18 all fine and good. But the reason you have a contract is if
19 there is a breach and a breaking down of the contract. Then
20 there has to be a settlement. And in the past, the systems have
21 been abused, especially the paper systems have been abused,
22 because people have been forced to accept worthless paper. This
23 would not, as she says, change law, but just take a position in
24 saying that we feel that if you do have a contract, that we
25 should consider maybe the changes in the law that are necessary

1 that people ought to have the right to free contract. What she
2 is saying is correct -- that when the breach occurs, yes -- then
3 there's a breakdown. What I'm suggesting is that if there's a
4 breach of contract, that the contract is still in effect and
5 that we're not forced to pay off in Federal Reserve notes.
6 SECRETARY REGAN: Any other comments on this?
7 Alright, I'll call for a vote here on: The coins shall be
8 accepted in payment of debts if so specified in contract.
9 All in favor signify by raising their hand. One,
10 two, three, four, five. Opposed? One, two, three, four, five,
11 six, seven, eight.
12 Alright, next amendment: The coin shall be exempt
13 from capital gains tax.
14 DR. PAUL: I volunteer to remove that. I believe we
15 voted on that.
16 MR. REUSS: No, I insist on a vote, Mr. Chairman. It
17 has been placed before us, and I move the previous question.
18 DR. SCHWARTZ: The original amendment by Mr. Reuss
19 was voted down, that your coin should not be exempt from capital
20 gains taxation.
21 MR. REUSS: This, however, is a different amendment,
22 because this would put it into the recommendation of the
23 Committee and I think we should have a vote and I call, Mr.
24 Chairman, for a vote.
25 SECRETARY REGAN: Any other comments?

1 MR. NEAL: I call for a record vote -- yeas and nays
2 on it.
3 SECRETARY REGAN: A recorded vote this time. Would
4 you please signify in answer to your name whether you are in
5 favor or not: The coins shall be exempt from capital gains
6 taxes. Would you call the roll.
7 TREASURY COUNSEL: Mr. Costamagna.
8 MR. COSTAMAGNA: Yes.
9 TREASURY COUNSEL: Mr. Coyne is absent at the
10 present, Senator Dodd is absent, Senator Jepsen.
11 MR. JORDAN: Yes.
12 TREASURY COUNSEL: Mr. Jordan.
13 MR. JORDAN: Yes.
14 TREASURY COUNSEL: Mr. Lehrman? A proxy for Mr.
15 Lehrman?
16 DR. PAUL: Here, yes.
17 TREASURY COUNSEL: Mr. McCracken is absent,
18 Congressman Neal?
19 MR. NEAL: No.
20 TREASURY COUNSEL: Governor Partee.
21 GOVERNOR PARTEE: No.
22 TREASURY COUNSEL: Congressman Paul.
23 DR. PAUL: Yes.
24 TREASURY COUNSEL: Congressman Reuss.
25 MR. REUSS: No.

1 TREASURY COUNSEL: Governor Rice.

2 GOVERNOR RICE: No.

3 TREASURY COUNSEL: Senator Schmitt -- proxy?

4 MR. JORDAN: Yes.

5 TREASURY COUNSEL: Governor Wallich.

6 GOVERNOR WALLICH: No.

7 TREASURY COUNSEL: Chairman Weidenbaum.

8 DR. WEIDENBAUM: Yes.

9 TREASURY COUNSEL: Congressman Wylie.

10 MR. WYLIE: No.

11 TREASURY COUNSEL: Mr. Chairman?

12 SECRETARY REGAN: The Chair votes yes.

13 TREASURY COUNSEL: Eight in favor and six against.

14 SECRETARY REGAN: Eight in favor, six against.

15 The third amendment: The coins shall be exempt from

16 sales taxes. Any discussion?

17 MR. JORDAN: Yes, is this where we would recommend

18 that all states that have sales taxes abolish them? I'm not

19 sure what this recommendation says.

20 SECRETARY REGAN: Congressman Paul.

21 DR. PAUL: I would suggest that we look at this like

22 issuing a federal stamp -- the post offices or states don't

23 charge sales tax on something the government issues. I would

24 just say that we recommend to the Congress that these coins be

25 exempt from sales taxes.

1 MR. JORDAN: On primary issue by the Treasury.
2 DR. PAUL: On the coin that we're talking about.
3 MR. JORDAN: On the primary issue. On the initial
4 issue by the Treasury, but not necessarily on subsequent
5 transactions. If a state government levies a sales tax on a
6 dealer that is holding coins and sells them are we saying ...
7 DR. PAUL: I'm talking mainly about the purchasing of
8 the coins. You walk into a bank and you buy a coin for four
9 hundred dollars -- you don't pay a four percent sales tax -- the
10 sales tax on the coin.
11 SECRETARY REGAN: What about a subsequent dealer who
12 buys those and somebody walks into the dealer and buys a coin?
13 DR. PAUL: Any sale.
14 SECRETARY REGAN: Any sale.
15 DR. PAUL: Yes.
16 DR. WEIDENBAUM: If you buy postage stamps from a
17 dealer do you pay a sales tax on it? Can anyone provide
18 information on that?
19 SECRETARY REGAN: I don't think that dealers normally
20 deal -- oh I guess they do. I suppose you could take a
21 commemorative issue and buy it from a dealer. The Assistant
22 Secretary reminds me that stamps can be sold in machines and
23 there's a mark-up over the -- he's not sure if that's a sales
24 tax or what it is. I'm sorry, nobody...
25 GOVERNOR WALLICH: I think this coin has the

1 character of a security, Mr. Chairman.

2 SECRETARY REGAN: Counsel seems to think that in

3 regard to postage stamps, that this would be considered the same

4 as all U.S. Treasury issues are exempt from sales taxes, and a

5 postage stamp would be considered as a Treasury issue. And the

6 coin would be fit into the same category.

7 MR. JORDAN: Is that suggesting that it's not

8 necessary to vote on this -- that it would automatically be

9 exempt?

10 TREASURY COUNSEL: No, it would not automatically be

11 exempt, but this coin could be regarded as a federal instrumen-

12 tality which the Congress would state is not subject to state

13 sales tax and other city taxes.

14 SECRETARY REGAN: Again I remind you we're not making

15 law, we're making recommendations to the Congress. Further

16 discussion? I'll call for a vote then, by roll-call. On: The

17 coin shall be exempt from sales tax. Would you call the roll.

18 TREASURY COUNSEL: Mr. Costamagna.

19 MR. COSTAMAGNA: Yes.

20 TREASURY COUNSEL: Mr. Coyne.

21 MR. COYNE: Yes.

22 TREASURY COUNSEL: Senator Jepsen.

23 MR. JORDAN: Yes.

24 TREASURY COUNSEL: Mr. Jordan.

25 MR. JORDAN: Yes.

1 TREASURY COUNSEL: Mr. Lehrman?

2 DR. PAUL: Yes.

3 TREASURY COUNSEL: Congressman Neal?

4 MR. NEAL: Yes.

5 TREASURY COUNSEL: Governor Partee.

6 GOVERNOR PARTEE: Yes.

7 TREASURY COUNSEL: Congressman Paul.

8 DR. PAUL: Yes.

9 TREASURY COUNSEL: Congressman Reuss.

10 MR. REUSS: No.

11 TREASURY COUNSEL: Governor Rice.

12 GOVERNOR RICE: Yes.

13 TREASURY COUNSEL: Senator Schmitt.

14 MR. JORDAN: Yes.

15 TREASURY COUNSEL: Governor Wallich.

16 GOVERNOR WALLICH: Yes.

17 TREASURY COUNSEL: Chairman Weidenbaum.

18 DR. WEIDENBAUM: Yes.

19 TREASURY COUNSEL: Congressman Wylie.

20 MR. WYLIE: No.

21 TREASURY COUNSEL: Mr. Chairman?

22 SECRETARY REGAN: The Chair votes yes.

23 TREASURY COUNSEL: It's thirteen to two.

24 SECRETARY REGAN: The vote is thirteen to two.

25 The fourth amendment by Mr. Paul: The coin shall be

1 minted in quantities sufficient to meet public demand. Any
2 discussion of that? Chairman Weidenbaum.
3 DR. WEIDENBAUM: That strikes me as the kind of
4 specific instructions to the Treasury that I very frankly find
5 uncomfortable in a policy report of this nature.
6 SECRETARY REGAN: Governor Partee.
7 GOVERNOR PARTEE: Well wouldn't this -- that could be
8 unlimited. That could exceed the gold stock of the
9 world -- Wouldn't this be subject to control and review and
10 reports by the Treasury as to how it was going to Congress, so
11 that it could be stopped, or something like that? I mean it
12 seems to me this is a little different than saying you should
13 limit specifically the thing to a million ounces or two million
14 ounces. It's very unlimited.
15 SECRETARY REGAN: Mr. Paul.
16 DR. PAUL: Theoretically you're correct, it could be
17 infinite, but that would only occur when the dollars debt goes
18 to zero, because all the Federal Reserve notes would be turned
19 in and everybody would seek to have a gold coin. But I think if
20 we don't accept something like this we will be not doing
21 anything -- so to speak -- because if we issue say five hundred
22 thousand, or one hundred thousand and the demand is one million
23 and you don't meet it, there is immediately a premium built in
24 to it. I mean, if we only minted one hundred thousand and the
25 demand was for one million, I think that the whole program would

1 break down.

2 GOVERNOR PARTEE: Yes, well my point is simply, it's

3 the unlimited character that's the trouble, not the idea that

4 you have in mind there should be a substantial...

5 DR. PAUL: I think there's been pretty firm

6 expression here that one of the things we don't anticipate, or

7 have not anticipated -- there was not a great demand for gold

8 medallions. There may or may not be a great demand for this

9 coin, but I think that if we don't say that we should satisfy

10 the public demand, we will have this premium built into it

11 immediately. A Kruggerand then immediately would replace the

12 sale of the American Eagle. You would walk in, even though...

13 GOVERNOR PARTEE: A further devaluation though the

14 dollar is no longer tied to gold, and there is that thought that

15 it might be interpreted internationally. I have to believe

16 that's why the original majority recommendation was that we

17 are...

18 DR. PAUL: I think we need to address the subject.

19 SECRETARY REGAN: First Dr. Jordan, then Congressman

20 Neal.

21 MR. JORDAN: I sympathize somewhat with Congressman

22 Paul's concerns. However, I would feel more comfortable with

23 having no limit if I thought that these were simply medallions

24 or baubles or something. But if these are to serve as money and

25 people may view them as an alternative money, then I would be

1 opposed to having any statement to say that the U.S. Treasury or
2 the Federal Reserve is going to supply the public's unlimited
3 demands for money balances -- whether it's Federal Reserve notes
4 -- which I think should be constrained, whether it's all forms
5 of money. And since I believe that there should be constraints
6 on the creation of money, then I have trouble with this. In one
7 sense there is no requirement, I guess, as far as legal, that
8 the number of fifty-cent pieces or any other form of money or
9 coin in a specific denomination be limited.
10 DR. PAUL: How do you handle the problem, though, of
11 the limited supply of a hundred thousand versus the demand of
12 one million? How do you take care of that problem?
13 MR. JORDAN: I don't know how to handle the problem,
14 but for us to specifically say that particular form of money
15 shall be -- that the demand for it shall be unlimited -- I do
16 have a problem with that.
17 DR. PAUL: Of course, the demand will be related to
18 the availability of Federal Reserve notes, so you can limit the
19 demand for gold coins if you have people who are less desirous
20 of abandoning Federal Reserve notes, so...
21 MR. JORDAN: Once we put the limit on the quantity of
22 Federal Reserve notes then I'll feel more comfortable with that.
23 SECRETARY REGAN: Congressman Neal first, then
24 Governor Wallich, then Mr. Reuss.
25 MR. NEAL: It was pointed out earlier that if we

1 added this, that there would be an internal inconsistency in our
2 proposal, that is, if you will recall, we have a mandate that
3 these coins be manufactured from its existing stock of gold.
4 And even though I think it's clearly only a theoretical
5 inconsistency, I just don't see any sense in adding it. It
6 seems to be somewhat redundant. It's the Treasury's job to
7 fulfill the demand for fifty-cent pieces and quarters, and so
8 on, and they do it very well. And I would just say, leave it to
9 them. Sometimes they overfill the demand, as in the case of the
10 Susan B. Anthony dollar.
11 SECRETARY REGAN: Governor Wallich.
12 GOVERNOR WALLICH: I think the demand will depend on
13 the mark-up. If the mark-up is the same as that on other gold
14 coins, it's roughly predictable -- the demand is roughly
15 predictable from the experience of other coins. If it's higher,
16 the demand will be very little. What I would worry is if the
17 Treasury were to mint large amounts and find that they suffered
18 the same as the Susan B. Anthony dollar, and then reduce the
19 mark-up in order to get rid of them. I am uneasy about meeting
20 all demand regardless of stating the price.
21 SECRETARY REGAN: Mr. Reuss.
22 MR. REUSS: In the interest of moving on I'll waive
23 my remarks and move the previous question and ask for a vote.
24 SECRETARY REGAN: Anyone else? Alright. The
25 amendment before us now is that the coins shall be minted in

1 quantities sufficient to meet public demand. All in favor of
2 that please signify by raising your hand.
3 MR. REUSS: Roll call.
4 SECRETARY REGAN: Roll call again. By answering
5 "yes" if in favor, or "no" on the roll call. Would you call the
6 roll.
7 TREASURY COUNSEL: Mr. Costamagna.
8 MR. COSTAMAGNA: Yes.
9 TREASURY COUNSEL: Mr. Coyne.
10 MR. COYNE: Aye.
11 TREASURY COUNSEL: Senator Jepsen.
12 MR. JORDAN: No.
13 TREASURY COUNSEL: Mr. Jordan.
14 MR. JORDAN: No.
15 TREASURY COUNSEL: Mr. Lehrman?
16 DR. PAUL: Yes.
17 TREASURY COUNSEL: Congressman Neal?
18 MR. NEAL: No.
19 TREASURY COUNSEL: Governor Partee.
20 GOVERNOR PARTEE: No.
21 TREASURY COUNSEL: Congressman Paul.
22 DR. PAUL: Yes.
23 TREASURY COUNSEL: Congressman Reuss.
24 MR. REUSS: No.
25 TREASURY COUNSEL: Governor Rice.

1 GOVERNOR RICE: No.

2 TREASURY COUNSEL: Senator Schmitt.

3 MR. JORDAN: No.

4 TREASURY COUNSEL: Governor Wallich.

5 GOVERNOR WALLICH: No.

6 TREASURY COUNSEL: Chairman Weidenbaum.

7 DR. WEIDENBAUM: No.

8 TREASURY COUNSEL: Congressman Wylie.

9 MR. WYLIE: No.

10 TREASURY COUNSEL: Mr. Chairman?

11 SECRETARY REGAN: The Chair votes no.

12 TREASURY COUNSEL: It's eleven to four against.

13 SECRETARY REGAN: Eleven to four against. Now those
14 are all the amendments that I have, and is there anyone that has
15 been taking notes that would care to read back what we have just
16 done so that we understand what we have done before we break
17 for luncheon?

18 I just want to make sure that if you all care to take
19 Congressman Neal's copy and then we can write into that whatever
20 amendments have carried. I've sort of lost track here.

21 DR. SCHWARTZ: I can...

22 SECRETARY REGAN: You have it?

23 DR. SCHWARTZ: Okay, are we simply tacking on the
24 amendments that were carried to Congressman Neal's...

25 SECRETARY REGAN: Well, yes, unless there are

1 substitute words.

2 DR. WEIDENBAUM: The first one's a substitute.

3 Congressman Neal's is a substitute.

4 SECRETARY REGAN: Right. So it's Congressman Neal's

5 substitute, but the question that Dr. Schwartz asked was whether

6 these are just tacked on at the tail end.

7 DR. SCHWARTZ: Are we then adding the things that

8 carried subsequently?

9 MR. NEAL: Mr. Chairman, I would suggest, I'm

10 trying to remember. I don't think there was an amendment

11 adopted that we could not incorporate into the substitute

12 so that we had one readable paragraph. And that would be

13 my recommendation.

14 SECRETARY REGAN: Well, that's what I'm trying to

15 get.

16 MR. REUSS: Adding at the end the words "the coin

17 shall be exempt from capital gains taxes and from sales taxes" I

18 believe would ...

19 DR. SCHWARTZ: And also "such a coin should not be

20 convertible into dollars on demand at the Treasury" -- that

21 carried, didn't it?

22 TREASURY COUNSEL: Yes.

23 MR. REUSS: What is that one?

24 DR. SCHWARTZ: Such a coin should not be convertible

25 into dollars on demand at the Treasury.

1 SECRETARY REGAN: That did not carry?

2 TREASURY OFFICIAL: Six in favor, nine against.

3 DR. SCHWARTZ: Oh, that did not carry.

4 SECRETARY REGAN: Counsel, would you tell us, since
5 you were recording the vote, which ones carried.

6 TREASURY COUNSEL: Okay, the Congressman Neal
7 substitute carried. The first amendment by Mr. Reuss did not.

8 SECRETARY REGAN: No, which ones did.

9 TREASURY COUNSEL: Just the ones that did.

10 SECRETARY REGAN: Just the ones that did, so we can
11 handwrite into our own copies.

12 TREASURY COUNSEL: The coin shall be exempt from
13 capital gains tax, the coin shall be exempt sales tax, and
14 that's all.

15 DR. SCHWARTZ: May I ask a question? Since unlimited
16 coinage was voted down, is there a parallel amendment saying
17 there shall be a limit on the issue of gold coins?

18 MR. REUSS: No.

19 SECRETARY REGAN: Let me see if I can read this out
20 now -- what we have finally done -- and see if you all agree
21 with me so that before we break we have a general agreement. If
22 you will follow along on Congressman Neal's Text. "We favor
23 Treasury issue of gold bullion coins of specified weights and
24 without dollar denomination or legal tender status to be
25 manufactured from its existing stock of gold and sold at a

1 small mark-up over the market value of the gold content and
2 recommend that the Congress implement this proposal. The coin
3 shall be exempt from capital gains tax. The coin shall be
4 exempt from sales tax."
5 MR. WYLIE: There was one other amendment -- the
6 coins shall be accepted in payment of debts if so specified in
7 the contract.
8 SECRETARY REGAN: How did that vote go?
9 TREASURY COUNSEL: No, that did not carry.
10 SECRETARY REGAN: That did not carry.
11 MR. WYLIE: Oh, that did not carry. Okay.
12 MR. NEAL: Mr. Chairman, we would work in the phrase,
13 "shall not be subject to capital gains or sales taxes" somewhere
14 in the text if that were the will of the body. And I would
15 suggest right after the words "legal tender status."
16 SECRETARY REGAN: I think I would rather add after
17 the word "proposal," "further" or "furthermore the coin shall be
18 exempt from capital gains tax and the coin shall be exempt from
19 sales tax." I think that's the order in which we did it, and
20 would show the content of what we did do here this morning. If
21 you would allow the Chair to insert the word "furthermore" --
22 "the coin shall be exempt from capital gains tax."
23 Oh, "Furthermore we recommend that the coin shall be
24 exempt from capital gains taxes." Is that wording agreeable to
25 everybody, or shall we put it to a vote. "Furthermore we

1 recommend that..." Alright, we'll put it in that way.

2 Alright, thank you very much. We'll now break.

3 MR. REUSS: Mr. Chairman. I would be delighted to

4 have the matter end here, but we haven't adopted anything yet.

5 We've adopted the Neal substitute. The question, I would think,

6 is whether we now adopt the majority recommendation as amended

7 by the Neal substitute, as amended. Otherwise we will have done

8 nothing, which, I might add, would have been a far better thing.

9 SECRETARY REGAN: Well, that's your opinion. Some of

10 us think otherwise. Shall we then have, Mr. Coyne...

11 MR. COYNE: I'm sorry, I thought you were finished.

12 SECRETARY REGAN: No, I am asking for opinions from

13 the members and also, may I first of all ask Counsel, have we

14 done anything yet?

15 TREASURY COUNSEL: Well, I think based on the rules

16 as you had stated them initially, we have. But an extra vote I

17 don't think will overturn that.

18 MR. NEAL: I'm so moving, Mr. Chairman.

19 SECRETARY REGAN: You're moving the Reuss motion?

20 MR. NEAL: Yes.

21 SECRETARY REGAN: We'll now have a final, final vote

22 on the majority recommendation concerning gold coins, as will be

23 as follows: The recommendation of this Commission regarding gold

24 coins will be: "We favor Treasury issue of gold bullion coins

25 of specified weights and without dollar denomination or legal

1 tender status to be manufactured from its existing stock of gold
2 and to be sold at a small mark-up over the market value of the
3 gold content, and recommend that the Congress implement this
4 proposal. Furthermore we recommend that the coin shall be
5 exempt from capital gains taxes and the coin shall be exempt
6 from sales taxes.
7 Now I'll call for a vote, roll-call vote on that one
8 as the recommendation of this Commission concerning gold coins.
9 Will you please call the roll.
10 TREASURY COUNSEL: Mr. Costamagna.
11 MR. COSTAMAGNA: Yes.
12 TREASURY COUNSEL: Mr. Coyne.
13 MR. COYNE: Aye.
14 TREASURY COUNSEL: Senator Jepsen.
15 MR. JORDAN: Yes.
16 TREASURY COUNSEL: Mr. Jordan.
17 MR. JORDAN: Yes.
18 TREASURY COUNSEL: Mr. Lehrman.
19 DR. PAUL: Yes.
20 TREASURY COUNSEL: Congressman Neal.
21 MR. NEAL: Yes.
22 TREASURY COUNSEL: Governor Partee.
23 GOVERNOR PARTEE: Yes.
24 TREASURY COUNSEL: Congressman Paul.
25 DR. PAUL: Yes.

1 TREASURY COUNSEL: Congressman Reuss.

2 MR. REUSS: No.

3 TREASURY COUNSEL: Governor Rice.

4 GOVERNOR RICE: Yes.

5 TREASURY COUNSEL: Senator Schmitt.

6 MR. JORDAN: Yes.

7 TREASURY COUNSEL: Governor Wallich.

8 GOVERNOR WALLICH: No.

9 TREASURY COUNSEL: Chairman Weidenbaum.

10 DR. WEIDENBAUM: Yes.

11 TREASURY COUNSEL: Congressman Wylie.

12 MR. WYLIE: No.

13 TREASURY COUNSEL: Mr. Chairman.

14 SECRETARY REGAN: Yes.

15 TREASURY COUNSEL: Twelve in favor, three opposed.

16 SECRETARY REGAN: Twelve in favor, three opposed. So

17 that is the majority recommendation.

18 DR. SCHWARTZ: And the minority recommendation stands

19 the way it appears on page eleven, is that correct?

20 SECRETARY REGAN: Yes. Anything else before we

21 break? Alright we are adjourned until two o'clock. Lunch will

22 be served.

23

24 (Whereupon there was an adjournment until two

25 o'clock.)

1 DR. SPRINKEL: Would you take your seats, we will
2 continue the meeting. Secretary Regan will not be here this
3 afternoon and I will be Chairing in his place. One question I
4 would like to ask before we go through the remaining questions.
5 Is there any interest on the part of the Commission members of
6 going back now to the gold medallion issue, now that you have
7 voted to issue a gold coin?
8 MR. REUSS: Well, Mr. Chairman, we haven't voted on
9 that, and we're stuck with a large supply of gold medallions. I
10 would suggest we go back and that we support the recommendation.
11 DR. SPRINKEL: Are there any other discussions on
12 that issue? The recommendation was that the Gold Commission
13 supports the improvement of the program of medallion sales along
14 the general lines of the Treasury plans. And is that acceptable
15 to each member of the Commission, or would you like to discuss
16 it or take a vote on it?
17 MR. REUSS: I move we accept it, Mr. Chairman.
18 DR. SPRINKEL: Alright, we will do so.
19 The next major recommendation for consideration
20 relates to the issue of Treasury gold-backed notes or bonds.
21 The majority recommendation was that we oppose the issue of
22 Treasury gold-backed notes or bonds as prejudicial to the
23 national interest, and there was a minority recommendation that
24 the Treasury should consider issuing gold-backed bonds or notes
25 with a low coupon as a way of reducing interest payments on

1 public debt and thus current budget deficits. Is there a
2 discussion of those two issues, and then we'll take a vote on
3 each of them.
4 MR. REUSS: I move we adopt the majority
5 recommendation.
6 DR. SPRINKEL: It's been moved, do I hear a second
7 that we adopt the majority recommendation?
8 MR. WYLIE: Second.
9 DR. SPRINKEL: If everyone's agreeable to that we
10 will do so. Yes sir, Mr. Costamagna.
11 MR. COSTAMAGNA: The language is as prejudicial to
12 the national interest. I'm just questioning why that has to be
13 in there. Can't we just say we oppose the issue of Treasury
14 gold-backed notes or bonds, period? There are many reasons. I
15 don't think that is an all and conclusive...
16 DR. SPRINKEL: Congressman Reuss accepts that
17 amendment. Is that agreeable to the other Commission members?
18 MR. WYLIE: Yes.
19 DR. SPRINKEL: And we will retain the minority
20 recommendation as stated. Is there any support for the minority
21 recommendation? There was at one point. Okay, we'll strike it.
22 DR. SCHWARTZ: No minority recommendation?
23 DR. SPRINKEL: No minority recommendation. No one
24 indicated support of it. They must have at one time.
25 DR. WEIDENBAUM: Are any of the absent members on

1 record as supporting the minority position?

2 DR. SPRINKEL: Could you tell us how the initial vote

3 was to see who did support it initially?

4 DR. SCHWARTZ: There were five who supported Treasury

5 issue of gold-backed notes and bonds, ten were opposed.

6 MR. REUSS: Mr. Chairman, they all have proxies here,

7 and this earlier sampling was not really a vote.

8 DR. SPRINKEL: Would you like to have a vote on the

9 minority recommendation?

10 MR. REUSS: No

11 DR. WEIDENBAUM: No, I'm part of the majority -- not

12 so silent majority. I just wanted to make sure ...

13 DR. SPRINKEL: I would agree with that, but there is

14 no one here voting, I gather, that wants to include it as a

15 minority recommendation.

16 DR. WEIDENBAUM: Okay, fine.

17 DR. SCHWARTZ: Then we will change that to "The

18 Commission recommends..."

19 DR. SPRINKEL: That's the way the vote came out this

20 afternoon. The next subject deals with the accounting, the

21 public accounting of the gold stock. The majority

22 recommendation was that we are satisfied that the Treasury is

23 meeting the requirements of 31 U.S.C. 354 regarding annual

24 settlements of account and that the Treasury's continuing audit

25 of the government-owned gold stock, when completed in 1984, will

1 provide full verification of the accuracy of inventory records.
2 The minority recommendation was that the Treasury should assign
3 adequate manpower to complete a one hundred percent audit of the
4 gold stock every year.
5 MR. REUSS: Move adoption of the majority
6 recommendation.
7 DR. SPRINKEL: Is there a second to that? Mr.
8 Costamagna?
9 MR. COSTAMAGNA: Could we discuss this a moment?
10 DR. SPRINKEL: Yes sir.
11 MR. COSTAMAGNA: I have problems with this "when
12 completed in 1984." I don't see how we can certify something
13 now that hasn't been completed. I think we can only certify
14 what has been completed.
15 DR. SPRINKEL: It merely says you're satisfied, I
16 believe.
17 MR. COSTAMAGNA: Yes, satisfied. Because suppose
18 they find a discrepancy. Are we then satisfied?
19 DR. SPRINKEL: Satisfied they found it.
20 MR. COSTAMAGNA: I mean in the next few years.
21 DR. WEIDENBAUM: I think if we dropped "when
22 completed in 1984" we don't lose anything.
23 DR. SPRINKEL: Is there a proposal for a change?
24 DR. WEIDENBAUM: I move that we strike that phrase.
25 If the Treasury wants to extend it or hasten the process, I

1 don't think we can get involved in that sort of operating
2 detail.
3 DR. SPRINKEL: You're suggesting strike "when
4 completed in 1984"?
5 DR. WEIDENBAUM: Yes, Mr. Chairman.
6 MR. REUSS: That's satisfactory to me.
7 DR. SPRINKEL: Is that satisfactory to other members
8 of the Commission?
9 GOVERNOR PARTEE: I was thinking along the lines of
10 maybe what we ought to say ... (inaudible)...the phrase ...
11 (inaudible) ... "provide satisfactory basis for full
12 verification of the accuracy of inventory records and to
13 emphasize the process."
14 MR. REUSS: That's alright with me, too.
15 MR. COSTAMAGNA: Yes.
16 DR. SPRINKEL: Are we making a record of these
17 changes. They're talking about the process now.
18 (inaudible)
19 DR. SPRINKEL: That's agreeable with Commission
20 members? That will be then accepted as the majority
21 recommendation. Does anyone want to speak to the minority
22 recommendation?
23 DR. SCHWARTZ: It's just been called to my attention
24 that we have -- we are satisfied that the Treasury is and
25 provides a satisfactory basis. Can we get a substitute for

1 "satisfactory"?

2 MR. REUSS: No, it's alright, isn't it, to say that

3 we're satisfied that the continuing audit provides a

4 satisfactory basis for full verification. If the Treasury

5 screws up, well that's too bad, but we've got basis.

6 DR. WEIDENBAUM: An adequate basis.

7 DR. SPRINKEL: Is there any support for the minority

8 recommendation; namely, that the Treasury should assign adequate

9 manpower to complete a one hundred percent audit of the gold

10 stock every year?

11 DR. PAUL: Yes.

12 DR. SPRINKEL: So we have Congressman Paul supporting

13 that minority position?

14 DR. SCHWARTZ: Yes.

15 DR. SPRINKEL: So it will be included as a minority

16 recommendation.

17 DR. SCHWARTZ: That's right.

18 DR. SPRINKEL: The next recommendation is that we

19 believe that the Treasury and Federal Reserve are following

20 appropriate procedures in reporting Federal Reserve claims on

21 the Treasury represented by gold certificates and payable in

22 dollars. This issue came up because it was contended by some

23 that the procedure was not appropriate, but I think all members

24 of the Commission are agreed that it is. Are there any

25 questions about that?

1 GOVERNOR PARTEE: Do we have a report? (inaudible)
2 DR. SPRINKEL: Yes, is that correct Nancy?
3 TREASURY COUNSEL: I think that's set forth right
4 here, right in the text that precedes.
5 MR. COSTAMAGNA: I can't hear down here, I'm sorry.
6 TREASURY COUNSEL: Oh, I'm sorry. I think the
7 procedure is merely described in the text immediately preceding
8 the recommendation. It was just confusion at one of the
9 meetings as to who owned the gold stock and how gold
10 certificates were issued. And I think there was a feeling that
11 this would at least give an accurate and complete record.
12 MR. REUSS: A question, Mr. Chairman, on the previous
13 recommendation, there is a majority recommendation in which all
14 except, I think, Mr. Paul agreed, and then there was something
15 called "B" on which just Mr. Paul agreed. We aren't going to
16 call those things minority recommendations are we? It seems to
17 me that they are dissents from the majority and the dissenter
18 has a full right, by footnote or otherwise, to state his point
19 of view.
20 DR. SPRINKEL: We had on other occasions had both
21 majority recommendation and minority recommendations whenever
22 there was someone supporting a contrary point of view. Is two
23 enough?
24 MR. REUSS: Have we, in fact? I'm not aware of any
25 so far.

1 DR. WEIDENBAUM: Oh yes, on a report there was a case
2 in which the distinguished Congressman from Wisconsin was in the
3 minority and we included your minority...
4 MR. REUSS: Well, I really wish you wouldn't, because
5 I'll dissent with gusto and panache all by myself. You don't
6 need mine a minority recommendation. I just think it's a queer
7 thing to talk about minority recommendations. They're dissents
8 -- perfectly proper.
9 DR. WEIDENBAUM: Aren't we following the procedure
10 that the distinguished body on the other end of Pennsylvania
11 Avenue follows -- minority reports, majority reports? Aren't
12 you on the Joint Economic Committee, for example?
13 MR. REUSS: Yes, but we don't, in the Joint Economic
14 Committee, list majority views and so-called minority views
15 cheek by cheek. We give the majority view and then the various
16 vagrant minorities have their say in bold-faced type at the end.
17 Otherwise you produce this monstrosity with all kinds of
18 majority and minority recommendations. The fact is that one
19 member of the Commission differs with us. That's his right and
20 that's fine, but let's not call it a minority recommendation.
21 DR. SPRINKEL: It's up to the Commission as to how
22 you would like to handle that. Would you like to have a vote on
23 that. I presume you would say a "minority view" instead of a
24 "recommendation" -- is it the word "recommendation" that is
25 bothering you?

1 MR. REUSS: No, I think the Commission should come up
2 with its recommendations -- whatever gets a majority -- and then
3 the dissenters which include on certain issues myself, should
4 have a full opportunity by either footnote, asterisk or separate
5 view to say that we differ on that.
6 DR. SCHWARTZ: Would you object to what's being cheek
7 by jowl, as you say with the ...
8 MR. REUSS: Right, why call it a minority
9 recommendation? This is a dissent from the majority. Dr. Paul
10 thinks that the majority is wrong and that we should have an
11 audit every year. Fine. Let him state that in a dissenting
12 view, or if he prefers, in a footnote to that point in the body
13 of the text.
14 DR. SPRINKEL: What's the desire of the Commission on
15 this issue?
16 GOVERNOR PARTEE: I think Mr. Reuss has made great
17 progress here. You will recall that our original thoughts were
18 that there might be questions of ...
19 DR. SCHWARTZ: I can't hear.
20 GOVERNOR PARTEE: You will recall that our original
21 thought, months ago, was that we might have such a divided -- we
22 couldn't agree on a set of recommendations. If in fact the
23 dissents are not going to be terribly numerous, well then I
24 think they can be handled as dissents rather than as minority
25 recommendations. So I would support the Congressman.

1 DR. SPRINKEL: Would you like to have a vote on that
2 issue? How would you like to resolve it?
3 MR. WYLIE: When you get into matters of degree here,
4 how many constitute a minority? Does one constitute a minority,
5 or two, or six? I don't have any hang-up about calling it a
6 minority recommendation.
7 MR. REUSS: I'm content to let you and Chairman Regan
8 and Dr. Schwartz decide what's a good format.
9 DR. SPRINKEL: We certainly do not want to headline
10 the minority position, especially if it's a very low minority
11 position, and I think that's the point you're making.
12 The next majority recommendation that I see, and
13 I believe there are some substitute motions to be offered,
14 relates to the auction sales designed to dispose of the gold
15 stock held by the Treasury, and it recommends that while no
16 precise level for the gold stock is necessarily right,
17 substantial stocks should be maintained against various
18 contingencies. There is a minority viewpoint -- two minority
19 viewpoints -- printed here. One, that we're opposed to
20 auction sales of the gold stock held by the Treasury and
21 recommend that the stocks be maintained unchanged at its
22 present size. And the second minority recommendation, should
23 a gold cover requirement be adopted at some future date,
24 hearings should be held by the Congress to determine whether
25 the existing gold stock is adequate in light of the proposed

1 ratio of gold to the money supply. I believe, Congressman
2 Reuss, you have a proposal.
3 MR. REUSS: I have a substitute amendment which goes
4 to the majority recommendation, which if it's in order I'll of-
5 fer right now. This has been placed in writing in your hands
6 some days ago, but I'll read it. I would substitute for the
7 majority recommendation slightly different language. The reason
8 I would do that is that the language of the majority
9 recommendation opposes any auction sales which the Treasury is
10 under the law unable to conduct, and I'm not advocating to
11 conducting them or not conducting them, but I see no point in
12 taking away that right from the Treasury. So I think, of
13 course, that there needs to be a safeguard so that we don't
14 unduly deplete our enormous gold stock. Therefore, my
15 substitute is: We recommend that while no precise level for the
16 gold stock is necessarily -- quotes -- "right" -- closed quotes,
17 the Treasury continue auction sales of gold at its discretion
18 provided adequate levels are maintained for contingencies. It's
19 very alike, the only difference from the majority is that the
20 majority really changes the present law which says that the
21 Treasury can, if it deems it in the national interest, auction
22 small amounts. And my substitute would require that the
23 Treasury not hold auctions that would bring the stock of gold
24 below levels needed for contingency. So I think it's
25 self-explanatory and I ask for debate and a vote.
26 DR. SCHWARTZ: There was another proposal by Mr.

1 Coyne. Your proposal in your letter of January 27? Shall I
2 read it?
3 MR. COYNE: Go ahead.
4 DR. SCHWARTZ: The Commission recognizes that the
5 U.S. gold stock constitutes an important strategic and monetary
6 reserve and recommends to Congress that these gold stocks be
7 maintained at or near present levels. While modest variations
8 in these stocks may be acceptable for various policy purposes,
9 it is the intent of this recommendation that there be no
10 appreciable depletion of these stocks in the long run.
11 DR. SPRINKEL: Mr. Coyne.
12 MR. COYNE: Paul McCracken...
13 DR. SCHWARTZ: I can't hear you.
14 MR. COYNE: Paul McCracken says that he feels happy
15 having our current gold stocks and would feel unhappy if we
16 didn't have it, and he doesn't know that he would be able to
17 explain his feelings reasonably or rationally, but he knows that
18 that is the case. And I guess that also represents my view. I
19 agree with Mr. McCracken in that respect that it would seem to
20 me that there should be some type of reasoned decision that goes
21 into the serious depletion of the gold stocks, and it should not
22 be done casually. I would, while I'm on the microphone, I would
23 also like to respond to one aspect, or object -- one aspect of
24 Congressman Reuss's proposal only with respect to the word
25 "auction." I wonder why the Treasury should be required to

1 sell its gold if it chooses to sell its gold in a way that's
2 different from the way it sells or buys other foreign exchange
3 reserve assets when the auction system appears to me, at least,
4 to be designed to drive the price of the object that we're
5 trying to sell lower.
6 MR. REUSS: Would the gentleman yield? I think he
7 makes a good point and I'm prepared to accept his improvement as
8 I'm prepared to accept an improvement just suggested by Governor
9 Partee so that my substitute would read: We recommend that,
10 while no precise level for the gold stock is necessarily
11 "right," the Treasury should retain the right to conduct sales
12 of gold at its discretion, provided adequate levels are
13 maintained for contingencies. That has both Partee and Coyne in
14 it. I think it's an improvement, and I'll offer that with the
15 amendments in it.
16 MR. COYNE: Thank you, sir. I'm wondering then
17 whether you would be able to support the proposal which I also
18 submitted in writing which seems to be approximately the same
19 thing but perhaps said from a different end of the tunnel --
20 that is, does this Commission believe -- I propose that this
21 Commission should recommend that although we do not know whether
22 our current gold stocks are exactly right, that we should in
23 fact not make any substantial depletion or additions to them
24 until some competent body studies the issue and makes a serious
25 proposal regarding whether we should or should not substan-

1 tially reduce our gold stocks or add to them or whatever else,
2 or what our program should be regarding not only our largest
3 single reserve asset, but virtually our only reserve asset, and
4 certainly the only thing that is our monetary base -- any
5 reserve asset other than in our own currency.
6 DR. PAUL: I have a question about procedure.
7 When we had a question of voting for a substitute we voted
8 first on the majority recommendation. Then we went to the
9 substitute. Is that the procedure we're going to follow
10 right now?
11 DR. SPRINKEL: Well, I just checked with our attorney
12 to see which way I should do it. I was well aware of the
13 concerns and she told me to do it the other way. Now I'm
14 willing to go either way. I'm perfectly happy to go with the
15 majority as written, if that's what the Commission wants. My
16 attorney says that the proper way is the other way, but let's go
17 with the majority recommendation.
18 DR. PAUL: Okay, I need a chance before we vote,
19 after you find out what the majority wants, I would like to make
20 another comment.
21 MR. COSTAMAGNA: What?
22 DR. PAUL: Okay, my concern is, I'd like to change
23 one word, either in the substitute or in the majority
24 recommendation. I'm concerned about the word "gold stock." If
25 we recommend that we don't promote sales of all gold stocks,

1 that might be interpreted to mean you can't sell any gold in
2 order to sell the coins, and I think the word "stock" should be
3 changed to "bullion" and I was wondering if we could get that
4 inserted in place of gold stock.
5 MR. REUSS: I think that, less this get out of hand,
6 I would, while of course reserving the right of Mr. Paul to make
7 any additional recommendations he wants, I would ask for a vote
8 on my substitute amendment which I will reread: We recommend
9 that -- comma -- while no precise level for the gold stock is
10 necessarily -- quote -- "right" -- closed quotes -- comma -- the
11 Treasury retain the right to conduct sales of gold at its
12 discretion -- comma -- provided adequate levels are maintained
13 for contingencies. And I ask for a vote.
14 DR. SPRINKEL: Is the Commission prepared to vote on
15 that particular proposal? Yes, Congressman Paul.
16 DR. PAUL: I would like to just make one point -- I
17 do believe when we took a preliminary vote earlier, a month or
18 two ago, I think it was unanimous that we did not endorse any
19 continued bullion sales. That was an unanimous preliminary
20 vote.
21 DR. SCHWARTZ: And that's why the recommendation
22 is...
23 DR. PAUL: That's why you came up with the
24 recommendation. It was logical.
25 DR. SPRINKEL: Mr. Coyne?

1 MR. COYNE: Sir, one question and one point. The
2 question is, is it not appropriate for us to vote first on the
3 majority recommendation rather than an alternative to the
4 majority recommendation? And my point is, with respect to the
5 recommendation, I would argue that the phrase, for
6 contingencies, is an argumentative phrase.
7 MR. REUSS: That's in both the majority
8 recommendation and my substitute. If you want to improve on it,
9 it is in order to move to amend my substitute.
10 MR. COYNE: Well, I am confused by the difference
11 between adequate levels for contingencies and substantial stocks
12 against various contingencies. I don't know what the
13 implication of one is as against the other. What I am thinking
14 is, that until somebody reasons why we should reduce our stock
15 substantially or increase our stock substantially, we should not
16 do so, and that is what I would think of as the issue here, and
17 I would welcome comments from other members of the Commission.
18 MR. REUSS: Would it reduce the swelling if I put
19 substantial instead of adequate?
20 MR. COYNE: Well, sir with respect, I did not wish to
21 discuss semantics so much as understand what the substantive
22 thinking is of the other members of the Commission on the
23 subject of whether in fact we should maintain our gold stocks at
24 our current levels and have some competent body understand in
25 fact what types of gold stocks this country should carry against

1 its monetary and strategic and other reserves. And it is to
2 that question that I would ask for comment.
3 DR. SPRINKEL: Governor Wallich.
4 GOVERNOR WALLICH: Well, gold is a reserve. Reserves
5 are there to be used when there is a need for doing so. What
6 troubles me about the provision that would leave gold auctions
7 in place is that a decision might be made to dispose of this
8 gold regardless of any need to use reserves simply in order to
9 get gold outside our system. We did that at one time and I
10 wasn't happy about it. I'm very reluctant to deprive the
11 Treasury of freedom to maneuver with respect to gold or anything
12 else, but I think we need some type of language that would say
13 that auctions should not be conducted simply in order to dispose
14 of the assets.
15 MR. NEAL: Mr. Chairman?
16 DR. SPRINKEL: Yes, sir.
17 MR. NEAL: I'm sorry, I was concentrating on
18 something else and missed some of this discussion. Is the
19 essential question whether or not we're going to recommend at
20 this point that the Treasury be allowed to sell more gold than
21 it ordinarily might sell?
22 DR. SPRINKEL: Yes, there is a majority
23 recommendation and there have been two substitute proposals, one
24 of which increases flexibility of sale, Congressman Reuss's; one
25 of which limits.

1 MR. NEAL: May I express concern and then ask the
2 question which one of these proposals I should support -- and
3 I'm sorry to do this to you, but it'll just take a moment. My
4 concern is that we might, if we were to encourage the greater
5 sale of gold at this time, that that might offer a great
6 temptation to the Treasury to use that as a method of gaining
7 revenue to lessen the discipline that I think is needed on all
8 of our parts in our economy. So it would not be my desire to
9 make it any easier for the Treasury to sell off gold to reduce
10 the budget deficit or to finance any other aspect of government
11 outside of the normal legislative processes. That being my
12 feeling on the subject, is it the Committee's recommendation
13 that would come closest to that?
14 MR. REUSS: Not really. My recommendation is more
15 gold-preserving than the present state of affairs. Under the
16 present state of affairs the Treasury in its discretion may sell
17 gold at auction or otherwise to a level lower than that adequate
18 for contingencies. I think that's a mistake. There we should
19 reign in the Feds. But I don't see why we should remove the
20 Treasury's present power.
21 DR.SPRINKEL: Mr.Costamagna, you had your hand up a
22 few moments ago, and you have something you want to say?
23 MR. COSTAMAGNA: Well, I think that in response to
24 Mr. Coyne's request to get the feelings of other members, I have
25 to believe that the three proposals are trying to say somewhat

1 the same thing, but I believe Mr. Coyne's expression of it in
2 his amended majority recommendation is much more positive in its
3 wordage. It is a positive statement of what we believe, whereas
4 the others seem to have negatives in them and say what we don't
5 believe. For that reason I like his expression of this idea.
6 DR. SPRINKEL: I need some guidance. Yes sir, Mr.
7 Wylie?
8 MR.WYLIE: Mr. Chairman, thank you. I haven't
9 participated in discussion on this majority recommendation
10 because I was one of those who recommended the minority
11 recommendation, number one, and I realize that's a little too
12 -- what I really wanted to say there was that I was opposed to
13 auction sales of the gold stock held by Treasury under the
14 circumstances as we now find them, or something like that -- not
15 to say that I would be opposed to auction sales ad
16 infinitum. That doesn't quite say that, but I think that I
17 want to reiterate that I'm anxious to keep as much of our gold
18 in reserve as possible given the circumstances, and I think in
19 view of the fact that there will be gold bullion coins minted
20 that I'm even more anxious to see something like the minority
21 recommendation number one be incorporated. I may only be a
22 minority of one, but that's my position.
23 DR. SPRINKEL: I need some guidance from the
24 Commission members. Do you want to go in the sequence we used
25 this morning, that is, you can set the rules -- go to the

1 majority recommendation and then vote on the substitutes, or do
2 you want to vote on the substitutes first? We'll go either way.
3 It's your call, but I can't do both.
4 MR. COYNE: Inasmuch as no one else is answering,
5 could I suggest that we keep to the same procedure that we used
6 this morning? It seemed at least to get us through with a clear
7 cut vote at the end, that we vote on the majority, minority and
8 then we take up the amendments in turn.
9 DR. SPRINKEL: Is that agreeable to the Commission
10 members? If so, we'll vote first on the majority
11 recommendation, namely: We are opposed at this time to auction
12 sales designed to dispose of the gold stock held by the Treasury
13 and recommend that while no precise level for the gold stock is
14 necessarily "right", substantial stocks should be maintained
15 against various contingencies.
16 Subsequent to that, we will vote on the other two
17 proposals, Congressman Reuss's and also the one made by Mr.
18 Coyne.
19 Could I have a show of hands on the votes for the
20 majority recommendation?
21 (Whereupon there was a showing of hands).
22 DR. SPRINKEL: Eleven. Against?
23 (Whereupon there was a showing of hands).
24 DR. SPRINKEL: Two against.
25 Now, could we take up Congressman Reuss's proposal?

1 MR. REUSS: Well, I'll not press mine because I'm
2 obviously --
3 DR. SPRINKEL: Well, but yours is not too much
4 different from this, and this morning wasn't the procedure --
5 the one that followed the majority of the first recommendation
6 that carried -- that was in lieu of the first one. Wasn't that
7 the way that it was done this morning?
8 MR. REUSS: Well, yes, it was a parliamentary system
9 unknown to man.
10 DR. SPRINKEL: I asked which way you would like to
11 go.
12 GOVERNOR PARTEE: I do agree that there isn't much
13 difference. I think that in the thing that just carried which
14 was the majority, there has to be an awful lot of weight on the
15 reading of the phrase: designed to dispose of the gold stock.
16 That is, if it's designed to do anything other than dispose of
17 the gold stock it presumably is not in contravention of this.
18 And I think that's really what Mr. Reuss's ...
19 DR. SPRINKEL: Alright, sir. Would you read it,
20 please?
21 MR. REUSS: We recommend -- and this contains the
22 Partee and the Coyne improvements. We recommend that, while no
23 precise level for the gold stock is necessarily "right," the
24 Treasury retains the right to conduct sales of gold at its
25 discretion provided adequate levels are maintained for

1 contingencies.

2 DR. SPRINKEL: Could I have a show of hands?

3 MR. COYNE: May I ask what we're voting on? Are we

4 voting on this as an addendum, or is this a substitute?

5 DR. SPRINKEL: This is a substitute.

6 MR. COYNE: A substitute.

7 DR. SPRINKEL: The majority asked that we vote on the

8 majority recommendation first and then go to the substitutes,

9 which is different from most procedures I grant. But you can

10 set your own ground rules. Now we're voting on the substitute

11 motion. Could I have all of the aye's in favor of Congressman

12 Reuss's proposal?

13 (Whereupon there was a showing of hands.)

14 TREASURY OFFICIAL: One, two...eight.

15 DR. SPRINKEL: How many against Congressman Reuss's

16 proposal?

17 (Whereupon there was a showing of hands.)

18 TREASURY OFFICIAL: Six.

19 DR. SPRINKEL: Six against.

20 MR. REUSS: Others may be substituters. I thank the

21 gentleman for his parliamentary errors.

22 DR. SPRINKEL: I'm going by your rules, not mine.

23 Mr. Coyne, do you want to offer your proposal?

24 MR. COYNE: Yes sir, I propose, although I realize

25 that all of the things we're saying are substantially the same,

1 there is the clear difference in tone and perhaps even in
2 intention in them. I am proposing as follows: That the
3 Commission recognize that the U.S. gold stock constitutes an
4 important strategic and monetary reserve and recommends to
5 Congress that these gold stocks be maintained at or near present
6 levels. While modest variations in these stocks may be
7 acceptable for various policy purposes, it is the intent of this
8 recommendation that there be no appreciable depletion of these
9 stocks in the long run.
10 DR. SPRINKEL: Is there any discussion?
11 GOVERNOR PARTEE: I'd like to just point out --
12 having approved of our number two recommendation that says that
13 we will have a production of gold coins manufactured from the
14 domestic monetary stocks, it seems to me that acceptance of your
15 proposal is inconsistent with our acceptance of the earlier
16 proposal.
17 DR. SPRINKEL: It puts a considerably greater
18 restraint on the ability of the Treasury to sell gold, it seems
19 to me.
20 GOVERNOR PARTEE: But more than that I would say that
21 if we were to agree to this you couldn't have an appreciable
22 reduction in your monetary gold stock. But as you coin gold you
23 would have to buy it on the market in bullion form in order to
24 replace what you've lost, which you cannot do under our
25 resolution. It's the opposite of what Congressman Neal had in

1 mind.

2 MR. WYLIE: Mr. Chairman?

3 DR. SPRINKEL: Yes sir, Mr. Wylie.

4 MR. WYLIE: I think his amendment is even more

5 restrictive that mine. Yours wouldn't permit any appreciable

6 sales at any time, and I'm suggesting that maybe the minority

7 recommendation number one might be closer to where you're coming

8 out if we added the words, after the word "recommend" in the

9 second line, and recommend that under circumstances similar to

10 those that presently exist, the stock be maintained unchanged.

11 DR. SPRINKEL: Are you prepared to vote on Mr.

12 Coyne's proposal? All in favor of Mr. Coyne's substitute

13 proposal...

14 MR. COYNE: I'm just thinking of how I could respond.

15 I realize, as Governor Partee says, I realize as we were

16 talking about the coin issue earlier, that this inconsistency

17 would arise, and I would not have allowed us off this subject

18 without surfacing it myself. There was within the

19 recommendations on the minting of the gold bullion coins the

20 intention for the statement that we would not recommend minting

21 unlimited quantities. That gave me some comfort. If in fact

22 one is talking about minting one or two or three million ounces

23 of coins a year, then there is no problem. If in fact one were

24 talking about minting, to name a deliberately ridiculous number,

25 thirty or forty or fifty million ounces a year, then I wish to

1 surface during this particular discussion the simple fact that
2 we would then have depleted our gold stocks in three and a half
3 years, or I'm sorry, whatever it is -- four and a half years.
4 And moreover, we would have done so on a scale which would have
5 had the effect of enabling the Treasury to finance its budget
6 deficit to the extent of the difference between forty-two,
7 twenty-two and whatever the price of the coins which are sold to
8 the public. Now I'm sorry that we can't close the loop so late
9 on Friday afternoon more readily, but this is a problem and I
10 can't necessarily tell you so quickly what the solution is other
11 than I think that I've sensed throughout these meetings the
12 general idea that there were members on this Commission that
13 believed that we should not substantially reduce our gold stocks
14 and I think this is the time to clarify what our true intention
15 is.
16 DR. SPRINKEL: Mr. Jordan?
17 MR. JORDAN: Mr. Coyne, under the circumstances where
18 the people are converting dollars into gold in the Treasury, in
19 the one sense we are not depleting our gold stock, we're just
20 changing the direct ownership from government hands to
21 individual's hands, but your proposal would require that
22 Congress appropriate money to the Treasury to go into world
23 markets to acquire additional gold under circumstances where
24 people were trying to get rid of dollars in exchange for gold.
25 And I don't see where the discipline in the system comes from

1 with that constraint.

2 MR. COYNE: I'm saying that we should either limit

3 the sale of coins or ...

4 MR. JORDAN: No, we should limit the printing of

5 dollars.

6 DR. SPRINKEL: Are we prepared to vote on Mr. Coyne's

7 substitute proposal? All in favor, please say "aye." Maybe we

8 should have a show of hands, I thought I heard two. Is that

9 correct?

10 (Whereupon there was a showing of hands.)

11 DR. SPRINKEL: Two in favor? Three. We've got

12 three.

13 All against please raise your hands.

14 (Whereupon there was a showing of hands).

15 DR. SPRINKEL: Now we still have a minority

16 recommendation. Is there any support for that minority

17 recommendation?

18 MR. WYLIE: Yes sir.

19 DR. SPRINKEL: Mr. Wylie.

20 MR. WYLIE: May I make a request a la Ron Paul

21 suggested a little while ago on the minority recommendation,

22 apparently I'll be the only one on it. But I'd like this to be

23 changed just a little bit and put in as a minority

24 recommendation which would say: We are opposed to auction sales

25 of the gold stock held by the Treasury and recommend that under

1 circumstances similar to those that presently exist the stock be
2 maintained at its present level.
3 DR. SPRINKEL: So we have two minority
4 recommendations at this point, right?
5 MR. NEAL: May I raise a question?
6 DR. SPRINKEL: Yes sir.
7 MR. NEAL: What do you mean by "circumstances"?
8 MR. WYLIE: I mean circumstances can change and there
9 may be a time when Treasury ought to have a right to sell some
10 at an auction. I don't think the time is now, though, and I
11 want to have some restrictive language in there which indicates
12 that I am opposed right now to auction sales, but I don't want
13 that to continue on forever, ad infinitum as I said before.
14 MR. NEAL: Well, does the second part of your
15 recommendation, that the stock be maintained unchanged, conform?
16 MR. WYLIE: I took out the word "unchanged" in my
17 modification.
18 MR. REUSS: Mr. Chairman, again I express
19 bewilderment at this procedure. Mr. Wylie has an absolute right
20 to state his views. So does Dr. Paul, so does anybody else. As
21 much as I oppose them, I will defend to the death their right to
22 say them. But why are the rest of us asked to vote on them?
23 DR. SPRINKEL: I'm merely asking if these minority
24 recommendations should be included in the report in some form or
25 other.

1 MR. REUSS: Well, Mr. Wylie has a well thought-out
2 minority recommendation and of course he will include it by
3 asterisk, by footnote or by dissenting view as he sees fit.
4 DR. SCHWARTZ: But why is this presentation
5 unacceptable? I don't see what difference it makes if it's in
6 the body of the report or if it's at the bottom of the page.
7 MR. REUSS: Well don't call it a minority
8 recommendation -- call it a recommendation from Mr. Wylie or
9 from whoever its from.
10 DR. SCHWARTZ: We haven't identified anybody in these
11 changes in majorities we've had or the change in minorities.
12 MR. REUSS: Well let's identify.
13 MR. WYLIE: I think we get hung-up on words, Mr.
14 Reuss. As I asked before, what is a minority? Is it one or two
15 or three or four or five? You know what I mean, it's a matter
16 of degree. And Dr. Paul has been able to put in his minority
17 recommendation which was fine with me, and I might be afforded
18 the same privilege.
19 DR. SPRINKEL: Mr. Jordan?
20 MR. JORDAN: We have a majority position. If there
21 is any member of the Commission that wants this particular
22 phrasing of minority included, then I think it should and we
23 shouldn't vote to not let them do so, or any other minority
24 recommendation, and get on with that.
25 DR. SPRINKEL: I agree with that, and we have two

1 that I still do not know whether -- we certainly have one from
2 Mr. Wylie's proposal, and it should be included. Do we have any
3 support for this second minority recommendation that's listed in
4 our text? If so we'll include it and if not, we will not.
5 MR. REUSS: Well, again, if one of our worthy
6 Commissioners at any time prior to the locking up which I guess
7 will occur on March 8 has a second thought, I want that person
8 to be able to express his dissent.
9 DR. SPRINKEL: That's all I'm asking. Does anyone
10 want that second one mentioned with the possibility of a dissent
11 from the majority recommendation? I gather not, so let's move
12 on if we may.
13 MR. COYNE: Could I ask what was accepted as the
14 majority recommendation?
15 DR. SCHWARTZ: Congressman Reuss's version.
16 MR. COYNE: Would you tell me, please, what the vote
17 was on that.
18 DR. SPRINKEL: Eight-Six.
19 MR. COYNE: And what was the vote on the original
20 majority recommendation?
21 TREASURY COUNSEL: Eleven to three.
22 DR. SPRINKEL: Eleven to three.
23 MR. COYNE: There is a confusion in my head as to a
24 vote of eight could override a vote of eleven.
25 DR. SPRINKEL: Well, the agreed-upon rule -- your

1 rules -- were that you could have a substitute motion which, if
2 carried, would prevail.
3 GOVERNOR WALLICH: Propose another substitute with a
4 similar wording and it will pass eleven to three.
5 MR. REUSS: No motion to reconsider having been made,
6 there is now before us, Mr. Chairman, the next item.
7 MR. COYNE: Excuse me, sir, is it still in order for
8 me to speak?
9 DR. SPRINKEL: Yes, if you have something to say,
10 certainly.
11 MR. COYNE: I am much more at home on a debating
12 floor than a discussion of parliamentary techniques. But, would
13 it be appropriate to ask whether there in fact is a majority in
14 favor of the original majority or in favor of the substitution
15 proposal before the original majority?
16 DR. SPRINKEL: I asked the Commission for their
17 advice on how we set up the rules, and it was decided that we
18 should do the same as this morning, is what I heard. And what
19 we did this morning was voted on the majority recommendation and
20 then the substitute. If the substitute carried, it was in lieu
21 of the original proposal. And that's what I did.
22 DR. PAUL: Mr. Chairman.
23 DR. SPRINKEL: Dr. Paul.
24 DR. PAUL: I would like to insist that the regular is
25 as we followed this morning as Congressman Reuss insisted. But

1 after we voted on the substitute he required another additional
2 vote to say that we really did do something, so in that line, to
3 be consistent it will require another vote according to
4 Congressman Reuss's rules.
5 MR. REUSS: I make the point of order that the
6 gentlemen makes out of order. We've already passed that point.
7 DR. PAUL: Then this is exactly correct and I think
8 we should have another vote.
9 MR. COYNE: Do I infer -- please excuse me, but I
10 truly -- I don't understand, so please excuse me if I'm saying
11 something that's inappropriate, but is it appropriate for me
12 then to propose an additional amendment which is that we should
13 re-vote on the subject of the majority recommendation? If that
14 is in order, I would wish to....
15 DR. PAUL: All I can say is ....
16 MR. REUSS: I have made that point of order
17 repeatedly that we have passed that point. Subsequent business
18 has intervened, no motion to reconsider was made timely, and we
19 are not considering the next item which is managing the gold
20 stock.
21 MR. COYNE: May I propose a third recommendation, in
22 that case? Is it in order for me to make an additional
23 recommendation?
24 DR. SPRINKEL: Yes, Congressman Paul.
25 DR. PAUL: All I would like to do is try to make my

1 point clear. This morning after we voted on the substitute Neal
2 amendment, Congressman Reuss insisted that we vote on it as a
3 completion of business and voted on it again because we only
4 voted on it as a substitute. To be consistent we would do the
5 same, and I object also that we have not moved on to the next
6 business. We're still talking about this subject and to pass
7 this the same way we did the recommendation this morning, it
8 would require another vote, and it would also allow amendments.
9 We followed-up with amendments afterwards this morning -- after
10 the recommendation was passed.
11 DR. SPRINKEL: I have asked our attorney what I
12 should do in this situation. She says she would like to have
13 one more vote on Congressman Reuss's proposal, which would be in
14 line with an action taken this morning, and then we'll move on
15 to other....
16 MR. REUSS: Mr. Chairman, this whole thing is so
17 abysmally rigged and so unrepresentative that I shall now absent
18 myself from further proceedings and oppose what is done.
19 DR. SPRINKEL: Could you read the proposal?
20 TREASURY COUNSEL: The question is whether the
21 majority: We recommend that while no precise level for the gold
22 stock is necessarily right, the Treasury retain the right to
23 ...the gold...(inaudible)...provided adequate levels may be
24 maintained.
25 DR. SPRINKEL: Could I have a vote on that please,

1 then we'll move on to the next issue. All in favor, raise your
2 hand, please.
3 (Whereupon there was a showing of hands.)
4 DR. SPRINKEL: All against?
5 (Whereupon there was a showing of hands.)
6 TREASURY COUNSEL: It's seven to five.
7 DR. SPRINKEL: Okay, let's move on to the next
8 proposal. The next majority recommendation on which the
9 Commission may want to take a position is as follows: We are
10 opposed to revaluing United States gold stock at a higher price.
11 There is the minority recommendation that we favor revaluing the
12 U.S. gold stock at a higher price, the price to be increased
13 annually by some moderate amount. We also recommend that the
14 U.S. Treasury conduct a study of the valuation of official gold
15 stocks and report its findings to the Congress with any formulas
16 it deems appropriate for valuing gold at market-based prices.
17 Only some of us favor the suggested uses of the revalued gold
18 stocks.
19 DR. SCHWARTZ: Mr. Coyne has a substitute version of
20 the minority recommendation.
21 MR. NEAL: Mr. Chairman.
22 DR. SPRINKEL: Yes sir.
23 MR. NEAL: I'd like to move the adoption of the
24 majority recommendation.
25 DR. SPRINKEL: Is there any discussion of the

1 majority recommendation? All in favor of the majority
2 recommendation, please raise your hands.
3 (Whereupon there was a showing of hands.)
4 DR. SPRINKEL: All against the majority
5 recommendation, raise your hands.
6 (Whereupon there was a showing of hands.)
7 DR. SPRINKEL: So the majority recommendation did not
8 carry, is that correct?
9 DR. SCHWARTZ: I believe it carried.
10 TREASURY OFFICIAL: I counted five in favor, three
11 against.
12 DR. SPRINKEL: Could we have the yes votes again in
13 favor of the majority recommendation.
14 TREASURY OFFICIAL: Four.
15 DR. SPRINKEL: And the votes against the majority
16 recommendation?
17 TREASURY OFFICIAL: Four.
18 DR. SPRINKEL: Four and four. We're not all voting,
19 is that correct?
20 MR. JORDAN: Mr. Chairman, I move we vote on the
21 minority recommendation as the substitute for the majority
22 recommendation.
23 DR. SPRINKEL: Could we have a vote? The majority
24 recommendation did not carry. Can we have a vote on the
25 minority recommendation which would be a substitute to the

1 initial majority recommendation. Is there any discussion.
2 GOVERNOR PARTEE: I don't quite understand that last
3 sentence.
4 DR. SPRINKEL: Anna, would you elaborate?
5 DR. SCHWARTZ: Well, the discussion of revaluing the
6 gold stock went on to consider what might be done with the
7 valuation profit.
8 GOVERNOR PARTEE: It seems to me, especially if its
9 going to be a majority recommendation, that it's awfully vague
10 -- that last sentence.
11 DR. SPRINKEL: Would you like to clear it up,
12 Governor Partee?
13 GOVERNOR PARTEE: Did you have a substitute, Emmit,
14 did you have a substitute wording for this? May I ask Governor
15 Rice? I thought I saw one earlier that dealt specifically with
16 this question of uses of profit. Somebody had it.
17 GOVERNOR RICE: I had one earlier, but I thought Mr.
18 Coyne....
19 DR. SCHWARTZ: Mr. Coyne has a substitute.
20 GOVERNOR RICE: Which was just like mine.
21 DR. SPRINKEL: Well this is being considered as the
22 majority recommendation now, and we will consider Mr. Coyne's as
23 soon as this is over.
24 DR. WEIDENBAUM: Any discussion?
25 DR. SPRINKEL: Yes, I am inviting discussion.

1 DR. WEIDENBAUM: On this minority recommendation, I
2 didn't vote in favor of it the first time around, very frankly.
3 If I read it correctly it says no matter what is the market
4 price in the future for all time, we're going to increase
5 annually the price of the gold stock. I don't think that is a
6 carefully worded recommendation.
7 MR. JORDAN: Mr. Chairman, I would suggest that Mr.
8 Coyne's wording includes this minority recommendation and is
9 superior to it. It doesn't have some of the problems that Mr.
10 Weidenbaum is referring to and I would withdraw my earlier
11 suggestion and suggest we substitute Mr. Coyne's wording.
12 DR.SPRINKEL: Could that be read, please. Mr. Coyne,
13 could you read your recommendation?
14 MR. COYNE: Yes. Is it appropriate to propose a
15 minority recommendation?
16 DR. WEIDENBAUM: Propose the recommendation and we'll
17 see, sir.
18 MR. COYNE: I propose that the Commission recommend
19 that the United States move toward valuing gold realistically at
20 market-related prices rather than at an out-dated, fixed price.
21 This change should be subject to the legislative constraint that
22 the proceeds of this new valuation not be monetized by the
23 Treasury or in any way used to enhance the government's spending
24 power. The Treasury Department should be asked to develop a
25 formula and time table for valuing U.S. gold stocks in a manner

1 realistically related to gold market value.

2 DR. SPRINKEL: Is there any discussion of that

3 proposal? Dr. Wallich?

4 GOVERNOR WALLICH: What happens if we raise the price

5 of gold over time to the market and the market then goes down.

6 Does this imply that we carry it above market, or that we put in

7 money from the budget to make-up the loss, assuming that we've

8 meanwhile spent the difference?

9 MR. COYNE: Well, sir, if there is any chance of our

10 spending the difference, then I would vote against my own

11 proposal.

12 GOVERNOR WALLICH: But that surely is inevitable

13 because the money has to be parked somewhere.

14 MR. COYNE: I'm suggesting that we sterilize the

15 differential so that in fact the money cannot be spent.

16 MR. JORDAN: I don't see the problem that Governor

17 Wallich is referring to because the gold stock and the gold

18 certificates related to that are also related to the Federal

19 Reserve's holdings of U.S. government securities, and if the

20 gold stock is valued at market prices and the market price goes

21 down, then I would expect the official value to also be adjusted

22 down according to this formula that would be developed.

23 MR. NEAL: And market related.

24 MR. JORDAN: And that that would be reflected in the

25 Central Bank's holdings of government securities as the

1 off-setting entry to make sure that it's not monetized in either
2 direction.
3 GOVERNOR WALLICH: In other words you assume that the
4 money will be used, namely, to reduce public debt, which then
5 leads, of course, to budgetary expenditures because....
6 MR. JORDAN: No, it will not reduce public debt. It
7 would have no effect on the net Treasury debt outstanding. It
8 would have an effect on the Central Bank's holding of the debt,
9 but then those bonds are not part of the real public debt,
10 anyway.
11 DR. SPRINKEL: Mr. Costamagna?
12 MR. COSTAMAGNA: In years gone by when the official
13 price of gold was raised, it was interpreted -- it was in fact a
14 devaluation of the dollar, and I'm thinking that this may well
15 be interpreted a further devaluation, even though the dollar is
16 no longer tied to gold. There is that thought that it might be
17 so interpreted internationally. I have to believe that's why
18 the original majority recommendation was that we are opposed to
19 devaluating the United States gold stock at a higher price.
20 DR. SPRINKEL: But it did not carry.
21 MR. COSTAMAGNA: Oh I know it just did not carry.
22 DR. SPRINKEL: Mr. Coyne?
23 MR. COYNE: Approximately thirty-three and a third
24 percent of the nations and curiously about thirty-three and a
25 third percent of the gold held by monetary authorities, if I

1 remember my facts correctly, are in fact carried at
2 market-related prices now, and they're adjusted on the basis of
3 different formulas that each different country has for gold. It
4 could be perhaps, for example, eighty-five percent of the
5 average London fixing price for the last three months and the
6 prices are continually adjusted to some market-related price
7 that relates to the value of the underlying object rather than
8 an arbitrary price that has no more than a -- that is no longer
9 any more than an historical fiction -- and gold could be
10 revalued, in fact, in the same way that presumably deutsche mark
11 or Swiss Frank holdings are currently revalued -- it is an asset
12 valued at market. The point it would seem that was essential
13 here would be to carry the increased value as part of our
14 reserve assets rather than to use it either to spend more money
15 at the Treasury or to finance the public debt or to finance our
16 current budget deficit.
17 DR. SPRINKEL: Governor Partee?
18 GOVERNOR PARTEE: Well, I was going to say, I agree
19 with Mr. Jordan that what would happen here, that is, using this
20 construction of the Coyne proposal that as the time table of the
21 procedure for valuing gold -- for revaluing gold upward occurred
22 without in any way monetizing it or using it to affect the
23 government's printing power, that would mean that there would be
24 substitution of a gold entry on the Federal Reserve books for a
25 government securities entry. And I think that as long as it

1 goes along at a modest rate I think that's perfectly okay. But
2 I don't, I guess, Jerry, much like the idea of putting that
3 right on the market price and valuing it down and valuing it up,
4 you know, very, very frequently in response to changes in market
5 prices. I believe the thing that leads us to that concept here
6 is the way you stated your first sentence of your
7 recommendation where you say: at market related prices rather
8 than at an out-dated fixed price. Well, I think out-dated fixed
9 price is rather invidious in the first place, and I would think
10 if you said, towards valuing gold realistically at something
11 more closely approximating market prices, that you would have
12 the thrust of your recommendation without capturing the thought
13 that there is a need to have it quite close to the market. I
14 move it back and forth, and I just wondered what you thought
15 about that, Mr. Coyne.
16 MR. COYNE: I'd completely agree with you, and my
17 apology is strictly on the basis of semantics. I intended to
18 get to that by using a phrase, market related, rather than,
19 market prices.
20 GOVERNOR PARTEE: You see, if market were related as
21 eighty percent of market and the devaluation occurs every three
22 months or something like that, there will be continuous changes.
23 And it depends on what you mean by the term, market related.
24 MR. COYNE: Yes, I see. I see. I was thinking, in
25 fact even as you spoke, that three months would be a long time

1 rather than a short time, so I've grown up in an environment
2 where long-term planning is, what are you going to have for
3 lunch?
4 DR. SPRINKEL: Are you accepting Governor Partee's
5 change in the language, if I understand that correctly?
6 MR. COYNE: Yes I am. I mean I certainly am not
7 implying I think that the right percentage is a hundred percent
8 as against seventy percent or the right time change is one month
9 as against six months. Only that the general concept is some
10 sort of relationship to the value of the asset should be....
11 GOVERNOR PARTEE: My precise recommendation was that
12 instead of the second phrase following the comma of your first
13 sentence, we would say, instead, at something more closely
14 approximating market prices.
15 DR. SPRINKEL: Congressman Neal?
16 MR. NEAL: Let's wait until they finish with this
17 other -- have they finished with this other matter?
18 DR. SPRINKEL: I think so. Are you finished with
19 that discussion?
20 MR. NEAL: Well, I wanted to ask Mr. Coyne or anyone
21 else who would respond how that if we were to do this, this
22 would serve the national interest. What are we gaining by this,
23 what are we accomplishing by this? I just don't see anything
24 clearly that we're accomplishing at all.
25 DR. SPRINKEL: Would anyone like to respond to

1 Congressman Neal's question?

2 GOVERNOR WALLICH: Yes.

3 DR. SPRINKEL: Yes, Governor Wallich?

4 GOVERNOR WALLICH: I see a very great danger here.
5 We now seemed to have arrived at a situation, that is, at a
6 proposal that could substitute gold certificates for the full
7 value of the Federal Reserve present portfolio. This is an
8 asset that over ten years has gone from thirty-five to eight
9 hundred and from eight hundred back to three hundred sixty, and
10 that would be the assets of the Federal Reserve instead of
11 Treasury bills and bonds at the present time. Now in a very
12 theoretical way, I suppose somebody might say, what difference
13 does it make. The currency that is issued is outstanding and
14 doesn't depend on the value of those assets. A great many of
15 the people are concerned, however, about the value of our
16 currency, including those interested in the work of this
17 Commission, I think, would worry greatly if the assets of the
18 Central Bank backing the currency had fallen way below the value
19 of the currency.

20 DR. SPRINKEL: Henry, did your remarks take account
21 of the statement that the higher priced gold not be monetized?
22 I understood in Mr. Coyne's proposal that it was not to be
23 monetized.

24 GOVERNOR WALLICH: It is not to be monetized, but
25 from Mr. Jordan's remarks I understood that as we raise the

1 value we put these increased valued gold certificates into the
2 Federal Reserve, take out government debt, and eventually at the
3 market price the Federal Reserve has only gold certificates and
4 no interest bearing government debt.
5 DR. SPRINKEL: That would be monetized.
6 GOVERNOR WALLICH: We would not be monetizing.
7 There's no spending by the Treasury. It would be simply debt
8 redemption. It may lead to bigger expenditures by the
9 government, being freed of that much debt -- but then Mr. Jordan
10 says it really isn't government debt anyway, what the Federal
11 Reserve holds.
12 DR. SPRINKEL: Mr. Jordan?
13 MR. JORDAN: What the Federal Reserve holds is not a
14 part of the true outstanding government debt. The previous two
15 occasions where the official price of gold was changed there was
16 no constraint on the use of the proceeds, and in fact it did
17 turn out to be used as a source of financing government
18 expenditures, so this language would constrain it so that
19 whereas now the Federal Reserve holds something I think about a
20 hundred and thirty-five billion dollars of U.S. government
21 securities or so, over time as the official value of gold was
22 increased, some of that Federal Reserve held debt would be
23 extinguished. At the present time the national income account
24 report that all interest expense of the Treasury is just that
25 even though a share goes to the Federal Reserve -- thirteen or

1 fourteen billion dollars probably last year of interest income
2 received by the Federal Reserve, which is then over and above
3 their expenses paid back to the Treasury and counted as other
4 income.
5 And this really overstates true federal budget
6 outlays and receipts, and in accounting for instance for
7 corporate profit, the way the current accounting system is set
8 up, income of the Federal Reserve is counted as corporate
9 profits before taxes. What the Federal Reserve pays back to the
10 Treasury in effect is counted as taxes and it reduces after-tax
11 corporate profits. And over time this is driving a wedge to the
12 extent of the interest and net interest income of the Federal
13 Reserve, and this sort of a change would gradually wean us off
14 of that kind of accounting anomaly. It would have no effect on
15 the Federal Reserve's ability to conduct its open market
16 operations. It would still have a significant cushion of income
17 from its portfolio of government securities, the revaluation of
18 the gold stock in the direction of market values, especially if
19 it's done in a gradual way over time would not impair the
20 Federal Reserve's independence and authority to conduct its
21 operations.
22 GOVERNOR WALLICH: Mr. Chairman, the numbers I have
23 before me indicate that at a gold price of four hundred
24 ninety-six dollars the entire Federal Reserve portfolio could be
25 off-set by gold certificates. At a price of eight hundred as

1 was reached, clearly we could have a market-related price of six
2 hundred or seven hundred and still the entire portfolio could
3 have been absorbed. And if thereafter the price fell back to
4 where it is now, the assets would not be sufficient to cover the
5 liabilities.
6 GOVERNOR PARTEE: Well, it is certainly true that if
7 one imagined, Jerry, that gold went to a thousand and if the
8 construction of the thing was that then the dollar value of the
9 gold held by the Federal Reserve would have to go to a thousand,
10 and you would more than extinguish the account, which is why I
11 wanted to have in mind a final figure that was a considerable
12 discount from the market price, as well as, I think it would
13 look bad to reverse the procedure that you just talked about in
14 case gold goes down. You say, it goes down substantially and so
15 as it goes down the Federal Reserve would have to add to it's
16 security holdings, and there would certainly be many charges
17 that the monetary base was being de-based as paper was being
18 substituted for gold.
19 MR. JORDAN: I think that there should be flexibility
20 in the system and we ought to take some care in developing the
21 formula and the time table, but we do know that the Central
22 Bank's balance sheet will always balance, and if something
23 dramatic is happening on the assets we would want to take into
24 account how we interpret that -- what is happening on the
25 liability side at the same time. But I think it can be done

1 carefully over, lets say a decade's time of revaluing gold
2 without ....
3 DR. SPRINKEL: Are there any further comments?
4 MR. WYLIE: Are we voting on Mr. Coyne's proposal?
5 DR. SPRINKEL: Yes, we're prepared if there are no
6 further comments.
7 MR. NEAL: I'd just like to make one further comment
8 if I could.
9 DR. SPRINKEL: Yes, sir.
10 MR. NEAL: I'm afraid I haven't had a chance to think
11 this all the way through. I certainly don't feel very
12 comfortable about the possible ramifications of this. I would
13 personally feel a lot better about it if we would take the old
14 Congressional out and recommend a little further study of this
15 question before making a very solid recommendation. It seems to
16 me that it's a complex subject and there may be some dangers
17 lurking here that we're not aware of, and I don't see the
18 benefits are so clear in this proposal, or so overwhelming, that
19 we might not give it a little bit more thought. That would be
20 my own feeling about it.
21 DR. SPRINKEL: Are there any comments on Congressman
22 Neal's observations?
23 GOVERNOR RICE: I'd like to support Congressman Neal
24 on that. I was all prepared to support Mr. Coyne's substitute
25 motion, but having just heard the discussion that has taken

1 place now I'm a little unsettled in my mind as to where I come
2 out, and I'm not now prepared to support it. I think I would
3 like to see some further study. I'd like to see the issues as
4 discussed between Mr. Jordan and Governor Wallich.
5 DR. SPRINKEL: Congressman Wylie, did you have your
6 hand up?
7 MR. WYLIE: Yes, thank you Mr. Chairman. This is a
8 very tricky area as far as I'm concerned, and I must admit that
9 I don't understand all of the considerations going on here and I
10 would think that Congressman Neal...
11 DR. SCHWARTZ: I can't hear you, Congressman.
12 MR. WYLIE: I was saying that to me this is a very
13 tricky area and I'm not really sure that I understand all I've
14 heard here, and I think that Congressman Neal may have given me
15 an option that I like. So I think further study is recommended.
16 DR. SPRINKEL: Congressman Paul?
17 DR. PAUL: Thank you, Mr. Chairman. I had planned to
18 propose a little bit later a recommendation, but if this
19 recommendation fails to come up with something, possibly the
20 recommendation that I have here might suffice. What I have
21 planned to propose, and I will if this goes down, is: We
22 recommend a continued study of the role of gold in the monetary
23 system and urge Congressional hearings on the subject, and all
24 these other questions that we have raised and what-not, so I
25 would suggest that.

1 DR. SPRINKEL: Are there any other observations
2 before we vote?
3 MR. COYNE: Yes, I must also say that the common
4 sense aspect of Congressman Neal's comments are simply too
5 important to be overlooked. As I was listening to Governor
6 Wallich's reservations, which I understood to be anxieties
7 rather than conclusive objections, how could one at this point
8 make a determination of this importance. How could we reflect
9 Congressman Neal's comments in such a way as to ask for a study
10 on this issue so that at some appropriate later point the issue
11 could be determined on the basis of our understanding it as an
12 important issue which must be understood and settled.
13 DR. SPRINKEL: One possibility and I'm just
14 suggesting, that you could withdraw your proposal and substitute
15 something along the line recommended by Congressman Neal, if
16 that's what the Commission would like.
17 MR. COYNE: I would wish to do that.
18 MR. JORDAN: You could accomplish the purpose by
19 inserting in Mr. Coyne's proposal as amended by Governor Partee
20 that the Commission recommends that the Federal Reserve and the
21 Treasury conduct studies of the issue of moving towards valuing
22 gold realistically, etc.
23 DR. SPRINKEL: That is including keeping the initial
24 proposal that Mr. Coyne made with that further amendment.
25 GOVERNOR PARTEE: With a further recommendation of a

1 study rather than the doing.

2 MR. JORDAN: Yes, that the Treasury and the Federal

3 Reserve conduct studies of this issue.

4 DR. SPRINKEL: Are there any further observations, in

5 which case we will have that read before we take any vote, but

6 are there any other observations that anyone wants to make? Tom

7 or Nancy? Tom may have it.

8 TREASURY STAFF MEMBER: The Commission recommends

9 that the Treasury and the Federal Reserve conduct studies of

10 issues that would be involved in a move towards valuing gold

11 realistically, at something more closely approximating market

12 prices, and I assume that the following sentence would be

13 dropped, and that would be the totality of the recommendation.

14 MR. JORDAN: Well, I would think we would keep the

15 following sentence but drop the last sentence from the

16 recommendation.

17 TREASURY STAFF MEMBER: Alright, the second sentence

18 is: This change should be subject to the legislative constraint

19 that the proceeds of this new valuation not be monetized by the

20 Treasury or in any way used to enhance the government's spending

21 power.

22 MR. JORDAN: Well, I would say that the last sentence

23 could be modified to say the studies should consider the

24 development of a formula and time table, then anyone

25 subsequently really addressing this issue would have the formula

1 and time table to consider as options or proposals.

2 GOVERNOR PARTEE: I do believe, Mr. Chairman, that

3 that captures the essence of the Commission, that is, I believe

4 that there is no member of the Commission, regardless of the

5 technical studies that are conducted, who would want to see the

6 profits from gold revaluation used to finance budget deficits or

7 otherwise. And therefore that middle sentence could remain and

8 I think we would all have in mind that regardless of the

9 technical studies it would be a time table rather than something

10 that was done next Saturday morning, and so I would accept what

11 Mr. Jordan said, leaving the last sentence but that as an area

12 for study.

13 DR. SPRINKEL: We will read this one more time to

14 make sure that everyone understands what we're proposing.

15 TREASURY STAFF MEMBER: The Commission recommends

16 that the Treasury and the Federal Reserve conduct studies of

17 issues that would be involved in a move toward valuing gold

18 realistically -- comma -- at something more closely

19 approximating market prices. This change would be subject to

20 the legislative constraint that proceeds of this new valuation

21 not be monetized by the Treasury or in any way used to enhance

22 the government's spending power. The studies should develop a

23 formula and time table for valuing U.S. gold stocks in a manner

24 realistically related to gold market value.

25 DR. SPRINKEL: Did everyone hear that amended

1 proposal? Are you prepared to vote on the proposal? Could I
2 have a show of hands of all those in favor of the proposal?
3 (Whereupon there was a show of hands).
4 DR. SPRINKEL: A show of hands of those against the
5 proposal.
6 (Whereupon there was a show of hands).
7 DR. SPRINKEL: Twelve to one.
8 DR. SCHWARTZ: Governor Wallich, do you want to
9 retain the minority recommendation? The former majority that's
10 now the minority? We are opposed to revaluing the gold stock at
11 a higher price.
12 GOVERNOR WALLICH: I don't like the minority
13 recommendation any more. I like the majority recommendation
14 which you can adapt to be the one-man minority recommendation.
15 DR. SCHWARTZ: Right.
16 DR. SPRINKEL: If we could move on now to the next
17 major recommendation, page twenty, I believe. The majority
18 recommendation is: We do not favor innovative uses of the gold
19 stock, since the objectives sought by adding gold to the policy
20 instruments of the monetary and fiscal authorities are
21 attainable without such use and the side effects of so using
22 gold may be undesirable. And there is a minority
23 recommendation: We favor innovative uses of the gold stock
24 rather than maintaining it in immobile form. Could I have a
25 discussion on those two proposals?

1 GOVERNOR PARTEE: One hates to be opposed to
2 innovation. I wonder if there's some term, word, other than
3 innovation that might be more neutral that could be used.
4 DR. SPRINKEL: Well, it covers such things as swaps,
5 leases, other arrangements.
6 GOVERNOR PARTEE: I understand what's covered.
7 DR. SPRINKEL: You would prefer a different word?
8 GOVERNOR PARTEE: Yes, than innovative.
9 GOVERNOR RICE: Alternative uses -- alternative uses
10 of the gold stock.
11 DR. SPRINKEL: Alternative uses of the gold stock.
12 Mr. Coyne?
13 MR. COYNE: I would propose as follows: The
14 Commission should recommend that the Federal Reserve and the
15 Treasury conduct studies to consider different ways in which
16 gold can be used as a helpful policy instrument. It seems
17 implausible to keep our vast gold stocks completely idle if
18 worthwhile uses can be developed which do not entail depleting
19 these stocks. Some suggestions that had been made in earlier
20 meetings included the use of gold as part of foreign exchange
21 intervention operations should the administration during that
22 period of time in the future ever re-engage in such operations,
23 etc.
24 I would like to mention parenthetically at a recent
25 meeting in Rome on the subject of gold sponsored by the Banko

1 del Logoro (phonetic) at which several members of this
2 Commission were in fact speakers, there was a speech given by
3 Professor Meehuns (phonetic) of the University of Dearn
4 (phonetic) which, to my surprise dealt at some length on
5 precisely this issue -- that is to say, ways in which gold -- he
6 was talking of course from the international rather than the
7 United States point of view -- could and should be used as part
8 of the monetary policy implementations of central banks, and his
9 paper has been published. I presume Dr. Schwartz and Governor
10 Wallich have seen it.
11 DR. SPRINKEL: Are you proposing that as a substitute
12 majority recommendation?
13 MR. COYNE: Well, I guess I'm proposing it as a
14 substitute minority recommendation, however I'm proposing that
15 the Commission recommend that the Federal Reserve and the
16 Treasury conduct studies to consider different ways in which
17 gold can be used as a helpful policy instrument on the basis
18 that it seems implausible to keep our vast gold stocks
19 completely idle if worth-while uses can be developed which do
20 not entail depleting these stocks and which, in fact, the
21 Treasury desires to use to implement its then current policy
22 objectives.
23 DR. SPRINKEL: Is there any further discussion?
24 According to the rules you adopted we vote first on the majority
25 recommendation and then the substitute recommendation. Is there

1 any further discussion? If not we vote on the majority
2 recommendation which says: We do not favor innovative use --
3 well, you did change a word, is that correct?
4 DR. SCHWARTZ: Alternative isn't the right word.
5 DR. SPRINKEL: Pardon?
6 DR. SCHWARTZ: Alternative isn't the right word.
7 But there is a better word, I'm sure, than innovative.
8 DR. SPRINKEL: Other. You said other uses, didn't
9 you. We do not favor, Chuck, what word?
10 DR. SCHWARTZ: Extraordinary?
11 DR. SPRINKEL: I said, well I didn't have a word. I
12 said alternative was the one.
13 DR. SCHWARTZ: Extraordinary uses. They are
14 extraordinary -- they're not normal uses of gold.
15 DR. SPRINKEL: Well, we've got to agree on the
16 wording of that proposal. Auxiliary uses? Is that
17 satisfactory?
18 MR. JORDAN: What is the suggestion?
19 DR. SPRINKEL: Auxiliary uses. They don't like the
20 word innovative.
21 MR. JORDAN: Well, I'm a little bit uncomfortable
22 with saying that I'm in favor of not doing some unspecified
23 thing I don't know what that is. Can we say nontraditional
24 uses?
25 DR. SCHWARTZ: Extraordinary.

1 DR. SPRINKEL: Nontraditional uses. What's the view
2 of the Commission on this? Do you want to go with the wording
3 as stated or do you want to substitute one. Are you agreeable
4 to vote on the majority recommendation as stated?
5 DR. SCHWARTZ: Use nontraditional for the time being.
6 GOVERNOR RICE: Yes, and if you can think of a better
7 word later.
8 DR. SPRINKEL: Yes, if we can think of a better word,
9 we understand the sense. All of those in favor of....
10 MR. JORDAN: What will be the word included?
11 DR. SCHWARTZ: Nontraditional.
12 MR. JORDAN: Nontraditional?
13 GOVERNOR RICE: Perhaps at the next meeting there can
14 be a better word, but for the moment, nontraditional.
15 DR. SPRINKEL: Could I see a show of hands on those
16 in favor of the majority recommendation?
17 (Whereupon there was a show of hands.)
18 TREASURY STAFF MEMBER: One, two, three? Two for.
19 DR. SPRINKEL: All those against?
20 (Whereupon there was a show of hands.)
21 DR. SPRINKEL: Eleven to two.
22 I believe that you had a proposed, you said minority,
23 but, . . . minority recommendation.
24 DR. SCHWARTZ: A substitute for it.
25 DR. SPRINKEL: It would be a majority recommendation.

1 It would be a substitute for that.

2 DR. SCHWARTZ: It would be a substitute for the

3 minority.

4 MR. COYNE: Well, I guess that whatever it is, and

5 inasmuch as I seem to represent the minority view, I would say

6 that simply flushing out what I mean by innovative, or what is

7 meant by innovative would be accomplished in the phrase that I

8 suggested in the letter which I sent to each of you, which is in

9 the language -- I've already read it twice -- that studies be

10 conducted to consider different ways in which gold could be used

11 as a helpful monetary policy instrument, etc.

12 DR. SPRINKEL: Are you proposing this as a substitute

13 motion or as a minority recommendation.

14 MR. COYNE: As a minority.

15 DR. SPRINKEL: As a minority recommendation?

16 MR. COYNE: Yes.

17 DR. SPRINKEL: Then we could, I think, according to

18 the rules we adopted -- correct me if I'm wrong -- we go to the

19 minority recommendation that was stated and then the one that

20 was stated by Mr. Coyne. Yes.

21 DR. PAUL: I have a question. I have an amendment to

22 the majority recommendation, so if that's the case, possibly

23 we'd want to vote on that before we go to the minority.

24 DR. SPRINKEL: Yes sir, I didn't know you had that.

25 DR. PAUL: Okay, and what I'd like to add is the

1 recommendation I read a few moments ago. It would say: We
2 recommend the continued study of the role of gold in the
3 monetary system and urge Congressional hearings on this subject.
4 DR. SPRINKEL: Is there any discussion of that
5 proposal?
6 DR. SCHWARTZ: Where does that come?
7 DR. PAUL: I thought we could put that in as part of
8 the majority recommendation -- an amendment to it. Does anybody
9 want me to read that again?
10 DR. SCHWARTZ: Yes.
11 DR. PAUL: We recommend the continued study of the
12 role of gold in the monetary system and urge Congressional
13 hearings on this subject.
14 DR. SCHWARTZ: Do I hear a second to that proposal?
15 (Whereupon the proposal was seconded.)
16 DR. SPRINKEL: Is there any discussion? Yes, Dr.
17 Weidenbaum.
18 DR. WEIDENBAUM: In view of the extended
19 deliberations of the present, I'm not prepared to support the
20 worthy Congressman's amendment and would vote against it.
21 DR. SPRINKEL: Are there any further discussions?
22 DR. WEIDENBAUM: On the grounds that these
23 deliberations have been inadequate.
24 DR. PAUL: May I make just one point?
25 DR. SPRINKEL: Yes sir.

1 DR. PAUL: These would be Congressional, not this
2 particular Commission.
3 DR. SPRINKEL: Yes.
4 DR. PAUL: We will be disbanded.
5 MR. NEAL: May I just make one suggestion, just on
6 wording. We say we do not favor nontraditional uses, and so on.
7 It does seem to me that if you're going to make that a part of
8 that you might want to say we do favor continued...
9 DR. PAUL: Instead of recommend? Do favor is okay
10 with me.
11 MR. NEAL: Just to keep it consistent with that kind
12 of wording.
13 DR. SPRINKEL: Is there any further discussion before
14 we vote on the amendment to the majority recommendation? If
15 not, could I see a show of hands of those in favor of the
16 amendment?
17 (Whereupon there was a show of hands.)
18 DR. SPRINKEL: Seven. Could I see a show of hands of
19 those against the amendment?
20 (Whereupon there was a show of hands.)
21 DR. SPRINKEL: It carried seven to six, if the count
22 is correct.
23 Now we've got the minority recommendation as stated
24 and then the one proposed by Mr. Coyne.
25 MR. JORDAN: The one that's stated is automatically

1 dropped unless some Commission member supports it.

2 DR. SPRINKEL: If no one supports it we will go

3 directly to Mr. Coyne's proposal as a minority recommendation.

4 DR. SCHWARTZ: Yes, I would agree.

5 DR. SPRINKEL: Mr. Coyne, would you read it one more

6 time, and then we vote.

7 MR. COYNE: If this is the minority recommendation

8 and I am a minority of one, may I ask who else is eligible to

9 vote?

10 DR. SPRINKEL: Would you make sure that we get the

11 proper wording. You can just pass it to us, if you'd like.

12 MR. WYLIE: Mr. Chairman?

13 DR. SPRINKEL: Yes sir.

14 MR. WYLIE: We haven't been able to come up with a

15 word for innovative yet or alternative?

16 DR. SPRINKEL: There were several offered.

17 MR. WYLIE: Maybe we could find another definition

18 for leverage. That's really what we're talking about. Maybe we

19 could look in the dictionary for something along those lines.

20 DR. SPRINKEL: We will search for an appropriate

21 word that catches the sense of the Commission.

22 Now we move to domestic monetary policy arrangements.

23 MR. NEAL: Mr. Chairman, I have a question.

24 DR. SPRINKEL: Yes sir?

25 MR. NEAL: When we polled the Commission, as I recall

1 the vote on this question was very close. It was within one
2 vote, and I understand that it is possible that some other votes
3 have come in since that time, and I want to ask the question, is
4 it still true that we-- quote -- favor no change in the domestic
5 monetary policy arrangements?
6 DR. SPRINKEL: Anna, can you answer that? We also
7 have some proposed proposals by Senator Schmitt.
8 MR. NEAL: And I have one also.
9 DR. SPRINKEL: And you have one also.
10 MR. NEAL: Yes sir, which I'd like to have passed
11 out.
12 DR. SPRINKEL: Can you answer the first question?
13 DR. SCHWARTZ: Yes. On, do you favor continuation of
14 the present system for managing U.S. monetary policy, it's still
15 a majority that favors it.
16 DR. SPRINKEL: There is a proposed majority
17 recommendation that we favor no change in the present domestic
18 monetary policy arrangements. Is there any discussion of that
19 issue before we vote on it?
20 MR. JORDAN: I have a substitute majority
21 recommendation to enter on behalf of Senator Schmitt first of
22 all that's being circulated to you now. And then I also have a
23 recommended amendment to Senator Schmitt's language, and I
24 should also declare that on this issue I also am holding the
25 proxy of Paul McCracken.

1 MR. NEAL: Mr. Chairman?

2 DR. SPRINKEL: Yes sir.

3 MR. NEAL: It might be useful, if it would be in
4 order for me to very briefly read a proposal I've got also, just
5 so we might consider them all in the same context.

6 DR. SPRINKEL: Alright, please do so.

7 MR. NEAL: You recognize me for that at this point?
8 Thank you. I may put this in just a little bit different form
9 than some of our other proposals. I wanted to support it with a
10 couple of whereas clauses. Please forgive me, it's a little bit
11 longer than others, but it's not very long. Whereas the
12 majority of those who supported the creation of the Gold
13 Commission did so with the hope of finding a method for better
14 insuring consistent and persistent price stability and, whereas
15 the inflationary process is ultimately related to excessive
16 growth in money, and whereas it is clear that inflation cannot
17 persist over the long run in the absence of excessive monetary
18 growth, then the Commission recommends that the Congress, by
19 legislation, establish a rule specifying that the growth of the
20 nation's money supply be maintained at a steady rate which
21 insures long-run price stability. That's the proposal.

22 DR. SPRINKEL: Thank you. I think you all have
23 copies now of the proposal by Senator Schmitt that the
24 Commission recommends that Congress and the Federal Reserve
25 study the usefulness of the money rule and domestic money supply

1 management, and a proposed change by Mr. Jordan changing after
2 the word "study" insert the words, merits of establishing a rule
3 specifying that the growth of the nation's money supply be
4 maintained at a steady rate which insures long-run price
5 stability. Governor Wallich?
6 GOVERNOR WALLICH: Mr. Chairman, in view of the
7 amendments that are being proposed, I am taking the liberty
8 of circulating some numbers which would have a bearing on the
9 effectiveness of a rule. They show the rate of growth, a
10 rate of change of velocity, quarter by quarter, and they do
11 this on a contemporaneous basis, and also following the
12 advice I received some time ago from Under Secretary
13 Sprinkel, from yourself, Mr. Chairman, that I do that on a
14 lag basis -- on a two-quarter lag. Now you'll see from this
15 data that velocity is an extremely unstable variable and that
16 any rule requiring money supply to be maintained at a steady
17 rate will run into this variability of velocity. I just
18 thought you might want to see these data when you discuss
19 whether a rule, a fixed rate of growth for the money supply
20 for long periods makes any sense. I do have an amendment of
21 my own which has been circulated and I hope you have that
22 before you. It looks like this, covering the whole page.
23 DR. SPRINKEL: Would you like to read it, Henry?
24 GOVERNOR WALLICH: I will read it. For the domestic
25 monetary policy arrangements it says: We favor no change in the

usage of gold in the present domestic monetary policy arrangements. It stresses the role of gold which is the purpose of this Commission, and does not go into the question of a rule or monetary arrangement which we weren't appointed to discuss and in effect have not discussed.

DR. SPRINKEL: That's just a modification of the majority recommendation by adding usage of gold.

GOVERNOR WALLICH: Right.

DR. SCHWARTZ: Congressman Reuss had a similar change: We favor no change in the role of gold in domestic monetary arrangements.

DR. SPRINKEL: Now you've heard all of the proposals. I'd like to hear the discussion. Yes sir, Congressman Wylie?

MR. WYLIE: In Congressman Reuss's recommendation he uses the words domestic monetary system, and that has a familiar sound to me. Is that what we call it in our public law which set up this Commission, or was it a domestic monetary arrangement, and is there a difference. I don't know.

DR. SPRINKEL: Can you answer that question?

TREASURY COUNSEL: The statute establishing the Commission referred to domestic and international monetary systems.

MR. WYLIE: Could we modify this amendment to say present domestic monetary policy systems? What's the difference between an arrangement and system?

1 GOVERNOR PARTEE: I really don't know. I think
2 Congressman, you're quite right. We ought to follow the
3 legislative mandate and use the word system. So I would move
4 that we amend Governor Wallich's amendment to the majority
5 recommendation by substituting the word "system" for
6 "arrangements" at the end there.
7 GOVERNOR WALLICH: That would be agreeable to me.
8 DR. SPRINKEL: Could you tell me how you prefer to
9 handle this. The way we've been doing it is to go to the
10 majority recommendation. Now there has been Senator Schmitt's
11 proposal as a substitute for the majority recommendation,
12 there's been Congressman Neal's proposal as a substitute for the
13 listed majority recommendation, there's been Henry Wallich's
14 amendment, I believe, to the original majority recommendation,
15 and unless you prefer otherwise, we'll go first to the one
16 that's written and then go to Schmitt and Neal and Wallich. Is
17 that what the Commission would like -- the procedure we've been
18 pursuing before? I'll read the majority recommendation: We
19 favor no change in the present domestic monetary policy
20 arrangements. Is there any discussion on that before we vote?
21 Mr. Costamagna?
22 MR. COSTAMAGNA: I just have one question as it
23 relates to what we did this morning in terms of coins. Are we
24 saying that that is not a part of monetary policy arrangements?
25 DR. SPRINKEL: The coins? Mr. Jordan discussed that

1 some this morning.

2 MR. JORDAN: But he's asking whether voting for this

3 majority would be contrary to that, and I don't know the answer

4 to that question. It could be construed as such, but I don't

5 know.

6 MR. COSTAMAGNA: This talks about....

7 MR. JORDAN: I think the thing to do is to vote with

8 me against this.

9 DR. SPRINKEL: Are we ready for a vote on the listed

10 majority recommendation?

11 GOVERNOR PARTEE: This, of course, was the charge to

12 the Committee, that is as we talk about alternates we talk about

13 things that the Committee was not asked to study. And you could

14 even conceivably have this statement and then have another

15 statement if you wanted to proceed on the rule questions.

16 DR. SPRINKEL: If you're prepared to vote, I'll ask

17 for a show of hands of those that agree with the recorded

18 majority recommendation saying we favor no change in the present

19 domestic monetary policy arrangement. Those in favor raise your

20 hands, please.

21 (Whereupon there was a showing of hands.)

22 DR. SPRINKEL: Those against the listed majority

23 raise your hands please.

24 (Whereupon there was a showing of hands.)

25 MR. WYLIE: Mr. Chairman, I want to be recorded as

1 voting in favor so I can vote for Governor Wallich's.

2 DR. SPRINKEL: Did you count him?

3 GOVERNOR WALLICH: I now have the proxies on this

4 topic of Congressman Reuss and Senator Dodd. Senator Dodd via

5 Congressman Reuss.

6 DR. SPRINKEL: We'll have to recount, then. Could we

7 have a show of hands in favor of the majority recommendation.

8 (Whereupon there was a show of hands.)

9 TREASURY OFFICIAL: That's seven.

10 DR. SPRINKEL: Now, against the majority

11 recommendation.

12 (Whereupon there was a show of hands.)

13 MR. COYNE: Please excuse me. I'm not sure what

14 we're voting on. There's an amendment.

15 DR. SPRINKEL: We haven't gotten to that yet.

16 DR. WEIDENBAUM: No, we haven't gotten to that yet.

17 MR. COYNE: I understand we haven't gotten to that

18 yet. I'm asking, there's a vote on this substitute.

19 DR. SPRINKEL: So this one failed nine to seven. Is

20 that correct? The first substitute that I heard was the one

21 Jerry Jordan suggested concerning Senator Schmitt. And could we

22 have that now?

23 MR. JORDAN: Okay, I think that it's necessary that I

24 recommend it be voted on in two parts -- first as Senator

25 Schmitt originally proposed it and then with my suggested

1 further amendment to Senator Schmitt's statement. And his is:
2 The Commission recommends that the Congress and the Federal
3 Reserve study the usefulness of a monetary rule in domestic
4 money supply management.
5 DR. SPRINKEL: Is there any discussion?
6 GOVERNOR PARTEE: Is that any different from what is
7 now done in the Humphrey-Hawkins presentation and oversight
8 hearings?
9 MR. JORDAN: The question your raising is the reason
10 why I had additional language to also....
11 GOVERNOR PARTEE: I wouldn't think that you would say
12 that that's a rule. The rule is, we're going to try to have
13 growth between x and y. The Congress studies it and the Federal
14 Reserve studies it and there's commentary on it.
15 MR. JORDAN: That's why my additional language gives
16 a little more precision, I think, as to what the recommendation
17 would be.
18 GOVERNOR PARTEE: It certainly gets a lot of study,
19 there's no question about that. It's a lot of press.
20 MR. WYLIE: Where does the role of gold come in to
21 this. I don't see that.
22 MR. JORDAN: That would be up to the Congress and the
23 Federal Reserve in their studies as to whether or not they would
24 have a role of gold such as, say, something like the Weintraub
25 proposal. I really don't know.

1 DR. SPRINKEL: Yes, Congressman Paul.

2 DR. PAUL: I would just like to ask Congressman Neal
3 if we go ahead and pass Senator Schmitt's proposal along with
4 Jerry's amendment, will you feel compelled to have yours added.
5 It seems it's a shame we can't get that message together and
6 vote one time.

7 MR. NEAL: Well, I know we are proceeding in a most
8 awkward way, as you know. We've been doing that all day, but I
9 don't know any alternative at this point other than to vote up
10 or down on these issues as they come and then sort of sort it
11 all out once we've finished it all up. Our procedure normally
12 is better where we offer something and then a substitute and
13 amendments to the substitute and then work our way back through
14 it. But we're not following that kind of procedure. My own
15 view is that this issue has been studied considerably over a
16 considerable period of time and I would hope that we might be
17 able to recommend something stronger than a study. But if we do
18 not recommend something stronger than a study I would want us to
19 recommend another study.

20 DR. PAUL: Okay, I see.

21 DR. SPRINKEL: Congressman Wylie?

22 MR. WYLIE: It seems to me -- I asked that question a
23 little while ago that I didn't see anything in here about the
24 role of gold, but this goes way beyond the charge of the statute
25 which said that we were to ascertain the role of gold in the

1 conduct of monetary policy. I think this stands beyond the
2 parameters that were ever anticipated in the statute which
3 created it.
4 DR. SPRINKEL: Are there any comments on Congressman
5 Wylie's observations? Yes, Mr. Jordan.
6 MR. JORDAN: Not on his observation, but I was going
7 to say to speed things up I'd be prepared to go ahead and make
8 my amendment to Senator Schmitt's proposal as one to be voted
9 together rather than having to vote separately on the two, and I
10 could read it as an amendment.
11 DR. SPRINKEL: Okay, if you would do that.
12 MR. JORDAN: As a recommended majority position, the
13 Commission recommends that the Congress and the Federal Reserve
14 study the merits of establishing a rule specifying that the
15 growth of the nation's money supply be maintained at a steady
16 rate which insures long-run price stability.
17 DR. SPRINKEL: Is there any discussion?
18 DR. WEIDENBAUM: I wonder if counsel could respond to
19 Congressman Wylie's observations.
20 DR. SPRINKEL: Yes sir.
21 TREASURY COUNSEL: Well, the mandate of the
22 Commission is to study and make recommendations regarding the
23 role of gold in domestic and international monetary matters.
24 There is very little legislation on that. I think Congressman
25 Paul probably speaks to the history better than anyone as one of

1 the two members of the Congress who had introduced this
2 legislation. There is considerable flexibility on how you
3 interpret the mandate, and of course if Congress receives
4 recommendations that it finds unnecessary or beyond your mandate
5 it can disregard them.
6 MR. WYLIE: I think I might just for the record make
7 a point of order that it's beyond the scope of the statute which
8 created this.
9 DR. SPRINKEL: Are there any further comments?
10 GOVERNOR PARTEE: I would like to join the
11 Congressman.
12 DR. SPRINKEL: Alright, there are two that had a
13 right to be noted as being beyond the purview, three. Three.
14 MR. NEAL: Well, let me just make one point. I think
15 it's clear from the record that those who supported this had in
16 mind supporting it for the reason that there was a concern about
17 the rate of inflation over a long period of time in this country
18 and with the goal in mind that we might find some better way to
19 deal with this problem. I don't think there was any other
20 purpose, as a matter of fact. It wasn't just sort of academic
21 exercise that was in the minds of the people that proposed this.
22 It certainly wasn't in the mind of the people on the Senate
23 side that proposed it or on the mind of Congressman Paul, I'll
24 promise you, and he introduced it in the House side.
25 This was added as a non-germane amendment to an

1 international monetary fund bill and when it was sent back over
2 to the House I was managing the bill, the International Monetary
3 Fund Bill, and we accepted this amendment. And certainly I had
4 in mind when I agreed to accept it the idea that we might be
5 doing something positive about the problem of inflation in this
6 country. I certainly didn't have in mind that the idea of this
7 Commission would be to sit around and discuss some arcane
8 subject unrelated to anything that is important to the everyday
9 life of the people of this country.
10 So I think it's clear that the people that support
11 the idea of this Commission had in mind doing something about
12 inflation, and if we are to make some positive recommendation in
13 that regard, that would be a valuable service to the people of
14 this country -- to the government of this country, and I don't
15 think anyone should think that we're about anything else. I
16 hope we don't end up with the reputation that we just sat around
17 all this time to talk about gold medallions. That wasn't my
18 purpose.
19 DR. SPRINKEL: Governor Wallich?
20 GOVERNOR WALLICH: Mr. Chairman, if this is
21 a Commission that is to deal with inflation, then we certainly
22 have been very delinquent. We have implied that the only way of
23 dealing with inflation is via gold and maybe via a monetary
24 rule. Now there's absolutely no basis for limiting the
25 instruments to be used against inflation to this very narrow

1 range of devices and of course we all know that there are other
2 things. There's the budget, there's the possibility of income
3 policies, tax oriented or otherwise, there's deregulation. And
4 we say here we're, in effect, a Commission on inflation and
5 we're going to solve the problem with a rule. I invite you to
6 take a look at my numbers here. The velocity of M-1 fluctuates
7 between ten and minus four, approximately, and doing it your way
8 it fluctuates eleven and minus six. In other words the
9 instability of the relationship of money to income is
10 overwhelming. We cannot rely on that as our weapon against
11 inflation alone, as important as monetary policy is.
12 DR. SPRINKEL: Yes, Governor Partee?
13 GOVERNOR PARTEE: I understand Congressman Neal's
14 concern -- the feeling of frustration about this, but it does
15 seem to me, as I read the mandate that we were to study the
16 question of whether gold could be useful. Now we have made, we
17 did agree earlier this morning to make recommendation -- that
18 some members, perhaps most members feel will be at least
19 marginally useful as an indicator of the public's attitude
20 toward the value of the money and very possibly as some kind of
21 lever that will be used in monetary policy formulation.
22 But I believe that the Commission, after hearing much
23 evidence from very many experts agreed that it was not practical
24 to incorporate the elements of a gold standard into a modern
25 system, and it seems to me that that is the conclusion that we

1 have reached. And I agree with Governor Wallich that to go
2 beyond that opens up a whole avenue of alternative procedures --
3 a wide variety of alternative procedures for dealing with
4 inflation that don't involve the use of gold. And we have not
5 covered them. We have not heard the evidence. We do not have
6 the information behind us to support a different recommendation
7 than the one essentially that is here, that we have found no use
8 for the role of gold -- no added use for the role of gold in the
9 domestic monetary system.
10 MR. NEAL: Would the gentleman yield to me on that
11 one? Mr. Chairman, thank you.
12 I quite agree with what you've said, but it does seem
13 to me that since the Commission has found it, as you say,
14 impractical to go to a gold standard or, I think the finding
15 might be possibly stated that it is the opinion of the panel
16 that returning to a gold standard or going to a gold standard --
17 however that might be stated -- is not in the opinion of the
18 overwhelming majority of this Commission, a useful procedure in
19 the fight against inflation, that we might be of some service in
20 suggesting, after having spent some time on this subject, both
21 during the deliberations of the Commission and at other times,
22 in recommending something that in fact might be. And at the
23 very least it seems a very modest proposal of Mr. Jordan's and
24 Senator Schmitt's that at the very least we think that it's
25 certainly worthy of studying this other alternative proposal

1 which we think might have great merit.

2 Now if the majority of this Commission votes in this

3 direction, I think that's a very important and valid signal. If

4 that passes, or even if it doesn't, I'm going to make another

5 proposal that would be a little stronger -- even suggest that we

6 go a little bit further. And that may not pass. But at least

7 it would be there as a minority proposal. But if this proposal

8 of Mr. Jordan's and Senator Schmitt's passes, I think that would

9 send an important signal to the Congress -- that by golly even

10 though gold is not the answer, we can maybe suggest something

11 else that might be the answer. And if someone else would like

12 to put into the report a minority view that we should go to a

13 wage and price control policy or whatever else was suggested,

14 fine. Put it in there as the minority view. I won't support it

15 and I don't think it'll get broad support from this panel, but

16 why not make it clear that there is one person maybe on the

17 panel that thinks wage and price controls is the way to control

18 inflation.

19 GOVERNOR WALLICH: Forgive me, I did not recommend

20 wage and price controls. My position is very clear from a great

21 deal of testimony before the Congress.

22 MR. NEAL: I'm not trying to suggest that, Henry my

23 friend, I know you don't, but I'm just saying -- there was

24 another member who might have suggested that that would have

25 been a good idea. If he wanted that in there as a minority

1 report -- a minority of one -- put it in. But if we could get a
2 majority to say that yes, we don't think that going to a gold
3 standard makes a lot of sense, but by golly we do think that
4 there is something that could maybe go to the heart of this
5 problem. Let's suggest it, let's get a vote on it, let's see if
6 there is, in fact, a majority of this distinguished panel that
7 might think that there is something we can do about this most
8 serious problem of inflation.
9 DR. SPRINKEL: Are there any other comments? If not
10 I believe we're prepared to vote up or down the proposal made by
11 Mr. Jordan, and would you read it one more time so there is no
12 doubt?
13 MR. JORDAN: The Commission recommends that the
14 Congress and the Federal Reserve study the merits of
15 establishing a rule specifying that the growth of the nation's
16 money supply be maintained at a steady rate which insures
17 long-run price stability.
18 DR. SPRINKEL: All of those in favor of Mr. Jordan's
19 proposal please raise your hand.
20 (Whereupon there was a showing of hands.)
21 TREASURY OFFICIAL: Eleven.
22 DR. SPRINKEL: All of those against, please raise
23 your hand.
24 (Whereupon there was a showing of hands.)
25 TREASURY OFFICIAL: Three.

1 DR. SPRINKEL: Now Congressman Neal, what would you
2 propose?
3 MR. NEAL: Well Mr. Chairman, I'm proud of what we've
4 done so far. I think it sends a very positive signal, but I
5 would like to, even though I doubt that I have the votes,
6 mention this other proposal one more time. And if you don't
7 mind, I'll read it.
8 DR. SPRINKEL: Do you want this as a substitute to
9 the one we just adopted?
10 MR. NEAL: I will offer this as a substitute, and if
11 it's defeated as a substitute, I would like it included in the
12 report as a minority view -- even if it's a minority of one.
13 And there may be others who would like to join in on these
14 minority views. And if you will indulge me I will read it one
15 more time.
16 Whereas the majority of those who supported the
17 creation of the Gold Commission did so with the hope of finding
18 a method for better insuring consistent and persistent price
19 stability and, whereas, the inflationary process is ultimately
20 related to excessive growth in money, and, whereas it is clear
21 that inflation cannot persist over the long run in the absence
22 of excessive monetary growth, then the Commission recommends
23 that the Congress, by legislation, establish a rule specifying
24 that the growth of the nation's money supply be maintained at a
25 steady rate which insures long-run price stability. And I

1 apologize for the awkwardness of the wording.

2 DR. SPRINKEL: Is there any discussion of this

3 proposal?

4 MR. WYLIE: I raise a point of order, Mr. Chairman.

5 DR. SPRINKEL: Pardon me, Mr. Wylie?

6 MR. WYLIE: I raised a point of order.

7 DR. SPRINKEL: Yes sir. Is there any further

8 discussion? Could we have a vote on Congressman Neal's

9 proposal. All in favor, raise your hand.

10 (Whereupon there was a showing of hands.)

11 TREASURY OFFICIAL: Six.

12 DR. SPRINKEL: All against, please raise your hands.

13 GOVERNOR WALLICH: I'd like to have three votes

14 counted.

15 DR. SPRINKEL: You have three, Henry?

16 GOVERNOR WALLICH: I have two proxies plus my own.

17 DR.SPRINKEL: Be sure and count them. Could I see

18 the hands again that are voting no.

19 TREASURY OFFICIAL: One, two, three, four, five, six,

20 seven.

21 DR. SPRINKEL: That was defeated, is that correct?

22 TREASURY OFFICIAL: I think I miscounted the first

23 one.

24 DR. SPRINKEL: You want to have a vote again on those

25 voting positively, that is yes, on Congressman Neal's proposal.

1 We missed the count.

2 TREASURY OFFICIAL: Seven.

3 DR. SPRINKEL: What's the final count?

4 TREASURY OFFICIAL: Seven.

5 DR. SPRINKEL: Seven-seven?

6 DR. WEIDENBAUM: Can I read another iteration and
7 perhaps it deals both with Congressman Neal's desires and
8 Congressman Wylie's concerns. The Commission concludes that
9 under present circumstances restoring the role of gold does not
10 appear to be a fruitful method of dealing with the continuing
11 problem of inflation. Rather we believe that the control of the
12 money supply is the key to reducing inflation. Therefore the
13 Congress and the Federal Reserve should study ways to improve
14 the conduct of monetary policy, including such alternatives as a
15 monetary rule.

16 DR. SPRINKEL: Is there any discussion of Chairman
17 Weidenbaum's....

18 DR. WEIDENBAUM: I'm not wed to the language,
19 obviously, but does that thought...

20 DR. SCHWARTZ: Is that another substitute?

21 DR. SPRINKEL: Well, he hasn't made it yet, he
22 may make it, I don't know.

23 MR. COYNE: May I request that Chairman Weidenbaum
24 reread that?

25 DR. SPRINKEL: He hasn't made, at least I understand

1 you have not yet made this as a proposal.

2 MR. COYNE: But I would still like to hear it again.

3 DR. SPRINKEL: Yes sir.

4 DR. WEIDENBAUM: As I say, I'm not wedded to the

5 specific language, but I'm trying to meld a few items here. The

6 Commission concludes that under present circumstances restoring

7 the role of gold does not appear to be a fruitful method for

8 dealing with the continuing problem of inflation. Rather, we

9 believe that the control of the money supply is the key to

10 reducing inflation. Therefore the Congress and the Federal

11 Reserve should study ways to improve the conduct of monetary

12 policy including such alternatives as a monetary rule.

13 MR. WYLIE: I like the first part of it except when

14 it gets to the rather. I'm not sure that I agree that the

15 conduct of monetary policy weighs that heavy as far as inflation

16 is concerned. I think fiscal policy weighs more heavily myself.

17 MR. NEAL: Mr. Chairman.

18 DR. SPRINKEL: Yes sir.

19 MR. NEAL: May I ask the result of the vote on the

20 proposal I made a few minutes ago.

21 DR. SPRINKEL: Seven and seven, I believe.

22 MR. NEAL: And, in that seven against, was a vote for

23 Mr. Dodd cast?

24 GOVERNOR WALLICH: Yes, he authorized it.

25 MR. NEAL: He authorized it?

1 GOVERNOR WALLICH: He gave it to Reuss and Reuss
2 passed it on.
3 MR. NEAL: Mr. Chairman, that's a most unusual
4 procedure -- one I've never encountered before, I'll have to
5 say.
6 GOVERNOR WALLICH: There's a market for proxies.
7 MR. NEAL: You know, this is an awfully close vote to
8 lose by the vote of a second-hand proxy. By the way, I certainly
9 think your proposal is of great merit, but it's still not as
10 strong as the proposal that we voted on and which I'm not
11 convinced that we lost on, as a matter of fact. We're just
12 going to have to seek a ruling of the Chair in this case. Mr.
13 Chairman, are you entirely comfortable with....
14 DR. SPRINKEL: Well, we have permitted proxies so
15 that that's no question. The question is, as you said, proxies
16 passed on.
17 MR. JORDAN: Mr. Chairman, if it would be appropriate
18 for the report to indicate that there was an equal split for and
19 against Congressman Neal's recommendation being more specific,
20 then I think that that would be a good compromise. If not, then
21 I would be prepared to exercise one of the remaining proxies I'm
22 holding.
23 DR. SPRINKEL: Oh. Why didn't you vote it the first
24 time?
25 GOVERNOR PARTEE: I'd like to see the proxy

1 exercised, myself.

2 DR. SPRINKEL: Well it seems to me that we do have

3 something where we're evenly divided and that it would be fair

4 for it to show that.

5 MR. NEAL: Do you want to record it that way? Is

6 that the Commission's wish? I would argue very strenuously if I

7 thought that it meant that this would end up in the law, but

8 since this is a recommendation I think it would certainly be

9 fair to show that there was an even split on this question. And

10 there is a lot of strength for it from this gentleman.

11 DR. SCHWARTZ: What happened to the Schmitt-Jordan

12 proposal.

13 DR. SPRINKEL: That passed.

14 DR. SCHWARTZ: That passed, so this doesn't supersede

15 it?

16 DR. SPRINKEL: No. So that where we stand now, as I

17 understand it, is that the Schmitt-Jordan proposal did pass, and

18 it will be reported that the vote on Congressman Neal's proposal

19 was a stand-off, seven to seven.

20 DR. SCHWARTZ: Yes.

21 DR. SPRINKEL: Now where do we come on yours now,

22 Murray.

23 DR. WEIDENBAUM: I only really made that suggestion

24 to try to entice Congressman Wylie and I determined it wasn't

25 successful, so....

1 MR. WYLIE: Well, you were on the first sentence.
2 When you started with rather, then...
3 GOVERNOR PARTEE: I do believe, Mr. Chairman, that we
4 ought to have the sense of the first sentence of Weidenbaum's
5 recommendation somewhere in the report, because it's that first
6 sentence that we were asked to study, and we have nowhere a
7 conclusion regarding the principal mandate to the Commission.
8 DR. WEIDENBAUM: I'll offer it.
9 MR. NEAL: Excuse me, would you offer it as instead
10 of a substitute or a minority view, offer it as an additional
11 view so that we might have it in its entirety.
12 DR. WEIDENBAUM: In addition, the Commission
13 concludes that under present circumstances restoring the role of
14 gold does not appear to be a fruitful method of dealing with the
15 continuing problem of inflation. Rather we believe that the
16 control of the money supply is the key to reducing inflation.
17 Therefore the Congress and the Federal Reserve -- is that
18 redundant? Is that therefore redundant? Therefore the Congress
19 and the Federal Reserve should study ways to improve the conduct
20 of monetary policy including such alternatives as adopting a
21 monetary rule.
22 DR. SPRINKEL: Is there any discussion of Dr.
23 Weidenbaum's suggestion?
24 MR. WYLIE: There are two different concepts there.
25 DR. SPRINKEL: Sir?

1 MR. WYLIE: I think there are two different concepts
2 there. Would it be possible to separate them into two?
3 DR. SPRINKEL: Yes, yes.
4 MR. WYLIE: I'd like to vote for the first sentence,
5 but I can't bring myself to vote for the whole thing in its
6 entirety.
7 DR. SPRINKEL: Governor Rice?
8 GOVERNOR RICE: I'd like to support Congressman Wylie
9 on that. To put the entire burden of fighting inflation on
10 monetary policy as this statement does, that is making it the
11 key and ignoring all the other complimentary measures that
12 really should be taken if they're not, I think is unacceptable,
13 and I don't think we ought to state that in a report of this
14 kind. So I would not accept that statement.
15 DR. SPRINKEL: Governor Wallich, did you have your
16 hand up?
17 GOVERNOR WALLICH: Yes, I want to make the same point
18 as Governor Rice. I think that by stating that the control of
19 the money supply is the only needed cure for inflation would be
20 disavowing what I think a large majority in this country
21 believes. We have no basis for factual studies here on the
22 table that we've made and it simply is a declaration of opinion
23 that I think would discredit this Commission.
24 DR. SPRINKEL: Are there any other observations? Mr.
25 Jordan, you had your hand up?

1 MR. JORDAN: I think that the language of the role of
2 gold is a little bit broader than what the sense of the
3 Commission has been, especially with the actions we took on gold
4 coin. What we seem to have concluded, both in the surveys and
5 what we've done so far is that at this time returning to a
6 fixed-price gold standard is not a practical matter, but we have
7 really not said that the role of gold should not be...
8 DR. WEIDENBAUM: Restoring a gold standard -- that's
9 what I had in mind.
10 MR. JORDAN: Gold standard, in the usual sense of
11 that word at this time, but also the language suggesting study
12 of monetary policy sweeps a little broader than, I don't know
13 what all might be included in that compared to the recommenda-
14 tion that we already have moved on. And I'm a little bit
15 uncomfortable with it.
16 DR. SPRINKEL: Mr. Costamagna?
17 MR. COSTAMAGNA: My sentiments are with Jerry Jordan
18 exactly in terms of the first half of your statement there,
19 because I do think we did something this morning that does
20 reflect a role for gold.
21 DR. WEIDENBAUM: I'd be willing to accept this change
22 from restoring the gold standard. That's fine. That's an
23 improvement.
24 DR. SPRINKEL: Yes, Governor Partee?
25 GOVERNOR PARTEE: Well, what I thought I would

1 suggest is that after we've voted on the whole of the proposal I
2 would want to offer as a substitute the first sentence of that
3 proposal. And I think that's consistent with what Congressman
4 Wylie said, and just so that we would know that there would be a
5 chance to vote on a substitute, I would intend to offer that,
6 using the gold standard terminology that you now have.
7 MR. NEAL: Mr. Chairman?
8 DR. SPRINKEL: Yes sir, Congressman Neal.
9 MR. NEAL: As I heard the proposal, it did not say
10 that the only important consideration for our economy was
11 monetary policy. It said the key to controlling inflation is
12 monetary policy. Did I not hear that correctly?
13 DR. WEIDENBAUM: That's correct.
14 MR. NEAL: Well, I certainly have no objection to
15 that.
16 GOVERNOR RICE: To say it's the key without referring
17 to other anti-inflation instruments that may be used is to in
18 effect place the entire burden of fighting inflation on monetary
19 policy.
20 MR. NEAL: Well, that was not to say, though, that
21 fiscal policy is not important.
22 GOVERNOR RICE: Well, then, let him say it.
23 MR. NEAL: Let the record show that no one here
24 thinks that fiscal policy is not important, or international
25 trade is not important, or so on.

1 GOVERNOR RICE: I don't agree.

2 DR. WEIDENBAUM: If the phrase, "the key" is

3 offensive, the most important factor....

4 GOVERNOR RICE: That's equally offensive.

5 DR. SPRINKEL: Are there any further discussions?

6 Now before we vote I want to make sure, Murray, how you're

7 offering this. I understood you to say this is not a substitute

8 for the preceding motions, but how do you characterize it?

9 DR. WEIDENBAUM: It's an additional statement.

10 DR. SPRINKEL: It's an additional statement.

11 DR. WEIDENBAUM: It's a supplement.

12 DR. SPRINKEL: Okay, a supplementary statement. Any

13 further discussion? Could we have a show of hands of those in

14 favor of the supplementary additional statement?

15 COMMISSION MEMBER: Can we hear it once again?

16 DR. SPRINKEL: Yes, we can.

17 DR. WEIDENBAUM: In addition, the Commission

18 concludes that under present circumstances restoring the gold

19 standard does not appear to be a fruitful method for dealing

20 with the continuing problem of inflation. Rather we believe

21 that the control of the money supply is the key to reducing

22 inflation. Congress and the Federal Reserve therefore should

23 study ways to improve the conduct of monetary policy, including

24 such alternatives as adopting a monetary rule.

25 DR. SPRINKEL: Governor Wallich?

1 GOVERNOR WALLICH: Those who don't believe this, will
2 they have a minority opinion?
3 DR. SPRINKEL: We're going to go to the minority as
4 soon as we get off of this particular discussion, including any
5 that you may want to suggest.
6 GOVERNOR PARTEE: I will be recommending a substitute
7 to Murray's amendment....
8 DR. SPRINKEL: Additional statement.
9 GOVERNOR PARTEE: ....right after this that if carried
10 will be a part of the majority.
11 DR. SPRINKEL: Mr. Coyne?
12 MR. COYNE: Excuse me for asking still again, but
13 could you just read the one sentence including the phrase that
14 refers to the growth of the money supply?
15 DR. WEIDENBAUM: We believe that the control of the
16 money supply is the key to reducing inflation. And I'd be
17 amenable to adopting revised language in the spirit of that, if
18 that would help.
19 MR. COYNE: My sense is that what you've offered is
20 an important thing for us to include in our report. But with
21 respect to that one sentence, that implies inclusion based upon
22 analysis of the situation that is just from my personal point of
23 view outside of my competence and my knowledge. I don't know
24 whether that's so. I would have no basis for knowing whether
25 that's so, and I sense difference of opinion among serious

1 people for whom I have great respect at this table. Is it
2 possible that that sentence is separable from the balance of
3 your statement and subject to being voted on separately?
4 DR. WEIDENBAUM: Well let me suggest -- the answer is
5 yes -- and that going from the first sentence to the third we
6 then can have an amendment. I'll walk the amendment by in a
7 second, but let me offer instead a rough statement: In
8 addition, the Commission concludes that under the present
9 circumstances restoring the gold standard does not appear to be
10 a fruitful method for dealing with the continuing problem of
11 inflation. We do urge the Congress and the Federal Reserve
12 System to study ways to improve the conduct of monetary policy,
13 including such alternatives as adopting a monetary rule.
14 DR. SPRINKEL: Any further discussion of that
15 proposal? Are you ready to vote on this added statement in the
16 Commission report? All in favor raise your hands?
17 (Whereupon there was a showing of hands.)
18 TREASURY STAFF MEMBER: I count nine.
19 DR. SPRINKEL: All against? Henry you've got three,
20 right?
21 TREASURY STAFF MEMBER: Eight.
22 DR.SPRINKEL: It carried, by one, is that correct.
23 GOVERNOR PARTEE: Now I'd like to offer an amendment.
24 DR. WEIDENBAUM: I had suggested an amendment.
25 DR. SPRINKEL: Yes you did. Are you going to amend

1 your own one that just won?

2 DR. WEIDENBAUM: Yes, oh sure. Now I'd like to put

3 back in a middle sentence: Rather we believe that the control

4 of the money supply is the key to reducing inflation.

5 DR. SPRINKEL: In addition to the remainder of the

6 statement?

7 DR. WEIDENBAUM: That goes in the middle, in between

8 the first sentence.

9 DR. SPRINKEL: Does everybody understand what Murray

10 is proposing? He is proposing to strengthen it by putting in a

11 statement that money supply is the key concern. Are you

12 prepared to vote?

13 MR. WYLIE: I'll raise a point of order on this one

14 for the record.

15 DR. SPRINKEL: Those in favor of the amended

16 statement please raise your hands.

17 (Whereupon there was a showing of hands.)

18 DR. SPRINKEL: Those against?

19 (Whereupon there was a showing of hands.)

20 DR. SPRINKEL: Eight to seven in favor, if we counted

21 properly. Now, Governor Partee?

22 TREASURY STAFF MEMBER: Dr. Wallich, how many votes

23 were you to cast.

24 GOVERNOR WALLICH: Three, always.

25 DR.SPRINKEL: Could we have the no votes again,

1 please?

2 (Whereupon there was a showing of hands.)

3 TREASURY STAFF MEMBER: One, two, three, four, five,
4 six, seven, eight, nine. Nine to eight the other way.

5 DR. SPRINKEL: Are you sure you got the count right?
6 Are you agreed on the count, or must we do it again.

7 TREASURY STAFF MEMBER: Would you mind taking the no
8 vote one more time?

9 DR. SPRINKEL: Could we have the no vote on that
10 proposal one more time.

11 MR. COYNE: This is to the amendment?

12 DR. SPRINKEL: Yes, that's the stronger statement
13 -- the no vote. Get it right -- nine against, eight for.

14 GOVERNOR PARTEE: Now, Mr. Chairman, may I suggest my
15 amendment which is to accept the first, in substitution of the
16 Weidenbaum -- which should I refer to it -- the first amendment?

17 DR. SPRINKEL: Yes.

18 GOVERNOR PARTEE: In substitution I would like to
19 amend that to only include the first sentence, which reads,
20 again, how Murray?

21 DR. WEIDENBAUM: You mean you want to strike out the
22 second sentence?

23 GOVERNOR PARTEE: That's right. I want to have the
24 reference to the gold standard as not being useful in present
25 circumstances.

1 DR. WEIDENBAUM: You move to strike out the second
2 sentence?
3 DR. SPRINKEL: You want to strike out all sentences
4 except the first one, is that correct?
5 GOVERNOR PARTEE: Except the first one.
6 DR. SPRINKEL: There are only two. So, would you
7 read the first sentence, Murray?
8 DR. WEIDENBAUM: The Commission concludes that under
9 present circumstances restoring the gold standard does not
10 appear to be a fruitful method for dealing with the continuing
11 problem of inflation.
12 DR. SPRINKEL: Is there any discussion? Governor
13 Partee is suggesting that that be included in the statements or
14 in lieu of Murray's -- a substitute for Murray's proposal which
15 won. Any discussion?
16 All in favor of Governor Partee's substitute motion
17 please raise your hand.
18 (Whereupon there was a showing of hands.)
19 DR. SPRINKEL: All those who oppose Governor Partee's
20 proposal raise your hand.
21 (Whereupon there was a showing of hands.)
22 DR. SPRINKEL: What's the vote?
23 TREASURY STAFF MEMBER: Six to ten.
24 DR. SPRINKEL: Six to ten against Governor Partee's
25 proposal.

1 Now, the next question I must ask before we move on,
2 is there any support for the minority recommendations that are
3 listed here? Should they be included in the Commission's report
4 in some form, or not.
5 DR. SCHWARTZ: Well, I'm fairly certain that minority
6 recommendation three represents Mr. Lehrman's viewpoint.
7 DR. SPRINKEL: The first one reads: We are opposed
8 to a role for gold in the domestic monetary system and favor a
9 monetary rule governing ....
10 DR. SCHWARTZ: That's been satisfied.
11 DR. SPRINKEL: Oh, that's been satisfied, okay.
12 Number two, we favor a role for gold as a cover for a
13 monetary aggregate, the value of the gold cover to fluctuate
14 with the market price, that's one. Is there any support for
15 that? Shall we include that in the Commission's report in some
16 form? If there's anyone that wants it included, please raise
17 your hand. There is none.
18 The next one: We favor the restoration of a gold
19 standard with a fixed price of gold. It is the means to achieve
20 discipline in the U.S. money base which will then increase or
21 decrease with gold purchases and sales by the monetary
22 authority.
23 I'm looking at the minority recommendations,
24 Congressman Paul -- I'm on page twenty-three by mine. And the
25 question is, do we want to include that one as a minority?
26 DR. SCHWARTZ: Unless you're not going to represent

1 Lehrman's view.

2 DR. SPRINKEL: Has he voted on that?

3 DR. SCHWARTZ: He hasn't voted on anything, but this

4 is the point that he made during the meetings when he was

5 present.

6 DR. PAUL: Yes, and I think it should be....

7 DR. SPRINKEL: Well, certainly Congressman Paul wants

8 it included as a minority recommendation.

9 Now if we could move on to the next majority

10 recommendation dealing with the international policy

11 arrangements, the majority recommendation was: We favor no

12 change in a flexible exchange rate system because in a world

13 with varying inflation rates in most countries, maintaining

14 permanently fixed rates is not possible. Mr. Jordan?

15 MR. JORDAN: I would recommend we amend this to

16 delete beginning with the word because and everything after

17 that.

18 MR. COSTAMAGNA: I second that.

19 DR. SPRINKEL: Is there any discussion of the

20 proposed deletion?

21 DR. SCHWARTZ: Henry Reuss wanted to change it to:

22 We favor no change in the role of gold in the international

23 monetary system.

24 DR. SPRINKEL: In this particular section?

25 DR. SCHWARTZ: Yes.

1 DR. SPRINKEL: We favor no change in the role of gold
2 in the international monetary system.
3 GOVERNOR WALLICH: Mr. Chairman?
4 DR. SPRINKEL: Yes sir.
5 GOVERNOR WALLICH: I have one that is essentially the
6 same as the Henry Reuss -- I don't want to push it, if Mr.
7 Reuss's vote was there -- it says: We favor no change in the
8 usage of gold in the operation of the present exchange rate
9 arrangements.
10 DR. SPRINKEL: Fairly similar to what Congressman
11 Reuss -- and we want to get your sentiment on all these issues.
12 Now the question is, does anyone prefer keeping the majority
13 recommendation as it is rather than deleted as Mr. Jordan
14 suggested?
15 GOVERNOR WALLICH: I think there is no good purpose
16 served leaving the majority if it is substituted by either
17 Reuss's or mine. So subject to that substitution, I see no need
18 to vote on it, but I would like to be sure that a substitute is
19 offered.
20 DR. SPRINKEL: Well, we'll make certain that the
21 substitute is offered. The rule that you established earlier
22 was that we vote on the majority recommendations and then the
23 substitutes to the majority recommendations.
24 The majority recommendation has been changed by
25 deleting each word after the phrase "exchange rate system." Are

1 you prepared to vote on that.

2 GOVERNOR PARTEE: It has no reference to gold.

3 DR. SPRINKEL: It has no reference to gold as stated

4 here. No necessary role.

5 All in favor of the majority recommendation as

6 amended, please raise your hands.

7 (Whereupon there was a showing of hands.)

8 DR. SPRINKEL: How many votes, Henry?

9 GOVERNOR WALLICH: Three.

10 TREASURY STAFF MEMBER: Twelve.

11 DR. SPRINKEL: Twelve in favor.

12 Could I have the no votes, please?

13 (Whereupon there was a showing of hands.)

14 DR. SPRINKEL: Two no votes.

15 DR. WEIDENBAUM: Do I need to make a motion to get

16 the "a" changed to "the"? We favor no change in the?

17 DR. SPRINKEL: I don't think you need a motion for

18 that.

19 Now we have a proposed alternative, I believe.

20 Henry, did you want to offer yours as an alternative or an added

21 statement?

22 GOVERNOR WALLICH: As an alternative.

23 DR. SPRINKEL: Okay.

24 GOVERNOR WALLICH: Do you want me to read it?

25 DR. SPRINKEL: It's a substitute for.

1 GOVERNOR WALLICH: It's a substitute for what we just
2 voted on.
3 DR.SPRINKEL: Would you read it again, please.
4 GOVERNOR WALLICH: We favor no change in the usage of
5 gold in the operation of the present exchange rate arrangements.
6 DR.SPRINKEL: And that's very close to what
7 Congressman Reuss wanted to say.
8 GOVERNOR WALLICH: Only words that were different --
9 not meaning.
10 DR. SPRINKEL: Is there any discussion? Yes sir,
11 Congressman Wylie.
12 MR. WYLIE: I'm going to support that because he
13 refers to gold. It seems to me that we've gotten far afield in
14 the last few votes of our charge, so since it refers to gold,
15 I'm going to vote for it.
16 MR. JORDAN: Is this being proposed as a substitute
17 for what we've already voted on?
18 DR. SPRINKEL: That's what I understood Governor
19 Wallich to say. Is that correct -- this is a substitute for the
20 one just voted up. That is, it's a substitute for the statement
21 that we favor no change in the flexible exchange rate system.
22 He wants to vote upon this as a substitute for the one already
23 passed. Mr. Costamagna?
24 MR. COSTAMAGNA: I'm just wondering if from all the
25 prior discussions that we've had about the international

1 arrangements, if both of these thoughts cannot be expressed on
2 one recommendation that we favor no change in the flexible
3 exchange rate system and what Governor Wallich is proposing.
4 DR. SPRINKEL: I asked Governor Wallich if he wanted
5 it as an addition or a substitute and he stated he wanted it as
6 a substitute.
7 GOVERNOR PARTEE: Let's try it as a substitute, and
8 if it fails then I'll offer it as an addition.
9 DR. SPRINKEL: Okay. Are we agreed to vote upon it
10 as -- yes, Mr. Coyne.
11 MR. COYNE: A question -- how would this relate to
12 the former vote we took that asked for further study on a
13 monetary rule? No relationship?
14 DR. SPRINKEL: No direct relationship. Any further
15 comments? Could we now vote on Governor Wallich's proposed
16 substitute motion relating to a statement that there should be
17 no change in the role of gold in the international monetary
18 system. Are you ready to vote?
19 All in favor of Governor Wallich's proposal, raise
20 your hand, please.
21 (Whereupon there was a showing of hands.)
22 GOVERNOR WALLICH: Three, please.
23 DR.SPRINKEL: All against Governor Wallich's proposal
24 raise your hand.
25 (Whereupon there was a showing of hands.)

1 GOVERNOR PARTEE: Mr. Chairman, I would like to offer
2 the Wallich proposal as an addition to the recommendation that
3 was previously accepted.
4 DR. SPRINKEL: Okay, it's now being proposed by
5 Governor Partee that the Wallich proposal be offered as an
6 addition to the proposal that was accepted, and the proposal
7 that was accepted stated we favor no change in the flexible
8 exchange rate system -- period. You're suggesting now that in
9 addition we should say, as a Commission, we favor no change in
10 the usage of gold in the operation of the present exchange rate
11 arrangements. Is that understood now? This is in addition to.
12 All in favor of that addition, please raise your hand.
13 (Whereupon there was a showing of hands.)
14 MR. COYNE: We're voting to put back what we
15 originally voted for, in effect?
16 DR. SPRINKEL: I thought I stated -- but I'll state
17 it again, and perhaps I did not state it precisely. We voted on
18 this particular proposal as a substitute for the one that was
19 passed, and it failed. We are now voting on it as an addition
20 to the one that passed.
21 MR. COSTAMAGNA: So it would read: We favor no change
22 in the flexible exchange rate system and no change in the
23 international role gold, or whatever?
24 DR.SPRINKEL: That's correct. Now we know that we're
25 voting on the addition as proposed by Governor Partee, the

1 statement made by Governor Wallich. An addition to the initial
2 one that passed.
3 Could I have a show of hands in favor of, please.
4 (Whereupon there was a showing of hands.)
5 DR. SPRINKEL: Those against?
6 (Whereupon there was a showing of hands.)
7 DR. SPRINKEL: Okay, twelve to two.
8 Now we do have some minority recommendations. What
9 support do we have for those minority recommendations? Should
10 they be included? Yes sir?
11 DR. PAUL: On the first one, I would request that it
12 be included for the benefit of Mr. Lehrman.
13 DR. SPRINKEL: Alright, is there anyone that cares to
14 express a comment on opposing action by the United States to
15 seek a distribution of the IMF gold to member countries.
16 DR. PAUL: I would like to express my dissenting view
17 on that.
18 DR. SPRINKEL: This is a majority recommendation that
19 we're coming into now, but you will have an opportunity to vote
20 against it, I would presume. Governor Wallich? Oh, someone had
21 his hand up, I thought is was Governor Wallich.
22 GOVERNOR WALLICH: I have some language here, but
23 it's not substantive and if I may give it to the Secretary later
24 that would be alright.
25 DR. SPRINKEL: Are we prepared to go to a discussion

1 of the distribution of IMF gold to the member countries? There
2 is a majority recommendation: We oppose action by the United
3 States to seek a distribution of IMF gold to member countries.
4 Is there any discussion? Could I have a show of hands on this
5 issue. Those in favor of the proposed majority recommendation,
6 please raise your hands.
7 (At which time there was a showing of hands.)
8 TREASURY OFFICIAL: Eight yes.
9 DR. SPRINKEL: You've got three, Henry?
10 GOVERNOR WALLICH: Three, yes.
11 DR. SPRINKEL: Could I have a show of hands against
12 the majority recommendation?
13 (At which time there was a showing of hands.)
14 TREASURY OFFICIAL: Three against.
15 DR. SPRINKEL: Eight yes, three no.
16 There is the majority recommendation and I presume
17 you would like to...
18 DR. PAUL: May I be recorded with two votes on
19 opposition to that?
20 TREASURY OFFICIAL: Eight yes, five no.
21 DR. SPRINKEL: I thought something was wrong there.
22 So we include recognition of the fact that there is a minority
23 that proposed distribution of gold.
24 DR. PAUL: Mr.Chairman, may I have an opportunity to
25 present an additional recommendation?

1 DR. SPRINKEL: Yes sir.

2 DR. PAUL: I have expressed concern during some of
3 the Commission hearings about a problem that has existed in the
4 past, and that is the legal implications that the authority that
5 the Secretary of the Treasury has to compel delivery of gold to
6 the Treasury under conditions of economic emergencies. I would
7 like to make a recommendation along these lines. We favor the
8 repeal of the power of the Secretary of the Treasury to compel
9 delivery of gold to the Treasury under economic emergency
10 conditions.

11 DR. SPRINKEL: Could we have some discussion of that
12 proposal?

13 DR. PAUL: I would like to just start off the
14 discussion by saying that everything that we have done would be
15 a moot point if that power is not eliminated, because in the
16 past we have known that in wartime conditions and economic
17 emergency conditions, governments have traditionally taken this
18 freedom away from the people, and I think that if there's any
19 one time that we can come down on the side of the marketplace
20 and a free society, it would be under these conditions to urge
21 that type of an authority be repealed.

22 DR. SCHWARTZ: Under what statute is that authority?

23 DR. PAUL: I understand it's under the Gold Reserve
24 Act of 1934 as well as the Federal Reserve Act of 1913.

25 DR. SPRINKEL: Congressman Paul, I believe you

1 requested a paper by Treasury which unfortunately did not get
2 finished by this meeting. If it would be satisfactory by you,
3 we will make absolutely certain it is available before the next
4 meeting and then we could take up your proposal at that time if
5 you would be willing to do that. And we should have gotten the
6 paper this time if we could have, but there are some problems.
7 But we will get it between now and the next meeting and make
8 certain that you have an opportunity to make your proposal at
9 that time, if that's agreeable.
10 DR. PAUL: Satisfactory.
11 MR. COSTAMAGNA: May I take up a matter, Mr.
12 Chairman?
13 DR. SPRINKEL: Yes sir, Mr. Costamagna.
14 MR. COSTAMAGNA: I don't have an amendment or a
15 proposal. I just would like us to consider the insertion of two
16 or three words here in the conclusion. In the second full
17 paragraph from the top it begins: The majority of us at this
18 time favor essentially no change in the present role of gold.
19 Yet we are not prepared to rule out a role for gold at some
20 future date. If we fail to restore price stability -- and this
21 is what I request we include -- if we fail to restore price
22 stability and confidence in our currency in the years ahead, we
23 believe that those who advocate an immediate return to gold will
24 grow in numbers and influence. If we do succeed in restoring
25 price stability and confidence in our currency, etc.

1 I would appreciate your consideration of adding that
2 phrase: and confidence in our currency. And I think that same
3 language is used in the introduction somewhere, and I would also
4 request, if we agree that that entire phrase be used there also.
5 DR. SPRINKEL: Mr. Jordan?
6 MR. JORDAN: Referring to the same paragraph as Mr.
7 Costamagna, it's not clear to me that the majority view is as
8 stated here in the vague sense of the present role of gold,
9 rather than the majority has not favored an immediate or anytime
10 in the near future return to a gold standard. But that does not
11 necessarily mean that we have rejected a change in the present
12 role of gold, as our decision on gold coins would indicate.
13 DR. WEIDENBAUM: I think that change is well taken.
14 DR. SCHWARTZ: Well, we just accepted the amendments
15 that Governor Wallich and Mr. Reuss suggested: No change in the
16 role of gold in the international monetary system.
17 GOVERNOR WALLICH: Usage of gold, I think it was.
18 DR. WEIDENBAUM: In my supplemental insertion, as Dr.
19 Jordan suggested, no return to gold standard.
20 MR. COSTAMAGNA: I think the distinction there is
21 internationally versus domestically, because adopting the coin
22 is domestically. There is some recognition of a change.
23 DR. SPRINKEL: If the Commission is agreeable, we'll
24 move on to the third part of our agenda.
25 MR. NEAL: Mr. Chairman?

1 DR. SPRINKEL: Yes sir.

2 MR. NEAL: I'm sorry, I had to leave the room for a
3 minute, but there are a couple of comments I'd like to make at
4 this point if I may. You've been considering page twenty-six of
5 your report as I understand it, and maybe you've covered this,
6 but I was just a little bit troubled with some of the language
7 there, and I won't dwell on it, but I'd like your consideration
8 of a couple of things here. Under the conclusion -- in the
9 second paragraph in line one, two, three, four, five, you say,
10 the report says, we believe those who advocate an immediate
11 return to gold will grow in numbers and influence. And I just
12 ask the question why. It seems tome that this implies, wrongly
13 I think, that this would be beneficial. And I just don't see
14 any reason for leaving that kind of impression in the report.
15 Then the next sentence says: If we do succeed in restoring price
16 stability, tighter linkage of our monetary system to gold may
17 well become unnecessary. That seems like a gratuitous kind of
18 comment to me. I don't see the relationship and I don't frankly
19 see why we want that in the report. I would just ask that maybe
20 we work on that language just a little bit.

21 And I'd also like to make one more comment before we
22 move on to the final aspect of our agenda, and that concerns
23 some earlier comments on the role of monetary and fiscal policy
24 and so on. And I certainly did not want to leave the impression
25 that my comments -- no one has suggested to me that I did -- but

1 in -- just in thinking about it while on the phone with someone
2 else, I didn't want to leave the impression that I was trying to
3 be overly critical of our most distinguished Federal Reserve
4 Board.
5 What I was trying to say -- and I hope none of them
6 took it that way, because I hold them in the highest regard and
7 the greatest respect -- and I think the real thrust of what I
8 was saying is that we can attribute the recent reductions --
9 very impressive recent reductions -- in the rate of inflation to
10 the Federal Reserve Board. And if money growth had not been
11 restrained over the last couple of years I think it is quite
12 clear to me that we would not have seen the real reduction in
13 the rate of inflation that we have seen and I would just like to
14 commend them for that, thank them for that, and I just want the
15 record to show that that is consistent with the view that we
16 ought to continue that kind of restraint.
17 I guess I would have to throw in a caveat lest the
18 record be misread, and that is I think that all of the credit
19 for the recent sustained reduction in the rate of inflation can
20 be attributed to the Federal Reserve Board. I think that there
21 has been a certain inconsistency in the policy that resulted in
22 some of the recessionary trends that we've seen also, but I also
23 wanted not to leave the impression that I thought or that I
24 think that anyone else on this panel thought that fiscal policy
25 was not important. I think it certainly is extremely important

1 in this whole mix and that the reason that interest rates remain
2 high in the face of this lowering in the rate of inflation is
3 largely because of the great concern about these deficits in the
4 out years and I certainly would not want to minimize the impact
5 of those deficits, and hope that we will act much more
6 reasonably to control them.
7 I thank you for indulging me in these comments.
8 DR. SPRINKEL: Are there any other comments? Are we
9 ready to go on to the next point of the agenda which was
10 initially meant to be a discussion of Draft Chapter Three of the
11 Commission Report: Alternative Monetary Standards.
12 Unfortunately you received the copy today, not prior to today,
13 and it's not fair to ask you to comment on it now. But if each
14 of you would take a look at it and send your comments directly
15 to Dr. Schwartz it would be very helpful, because it is
16 important that we move along to get it finished as quickly as
17 possible. Yes, Congressman Paul?
18 DR. PAUL: I have one comment in general. I think
19 earlier we had discussed the subject, I believe at our second
20 meeting, and had made the request to describe, as well, a
21 parallel standard, and I see we have a short section in here, a
22 paragraph or two on radical proposals, dealing somewhat with the
23 high-tech proposal, and I would suggest and request again that
24 we deal in a little bit more depth with the parallel type of
25 standard where dollars would be competing more or less with what

1 might be coming about by the very action that we have taken
2 here, by allowing gold coins to exist, and I would ask again
3 that that be included as a section and not just deal with this
4 in the more radical terms of competing paper currencies.
5 Because I think that is more radical than what has been
6 suggested.
7 DR. SPRINKEL: Mr. Coyne?
8 MR. COYNE: Mr. Chairman, just before going off the
9 draft that we just finished, I hope you'll excuse me for just a
10 few seconds if I express my congratulations to Dr. Schwartz on
11 her draft. I really commend her personally for accurately
12 reflecting and putting in workable order the views that were
13 expressed over these past several months -- especially allowing
14 us to be able to come to grips with the diverse and various and
15 frequently changing opinions of this group of people, and it was
16 the fact that we wound up today with a workable document speaks
17 most clearly of the job she did, and I just wish to say thank
18 you.
19 MR. NEAL: I'd like to echo that.
20 DR. SPRINKEL: Before we discuss the final point which
21 is our date for the next meeting, are there any other issues
22 that any member of the commission wants to bring up? Nothing
23 else, is that correct?
24 We agreed at our last meeting to schedule a future
25 meeting on March 8, and at that time we hope to have a complete

1 draft of the report before us and they'll get an opportunity, I
2 presume, to read it before we actually come here March 8. So I
3 would like for us to confirm this date at this time, if that's
4 still your intent, and determine whether another meeting in
5 March is likely to be needed in order for us to complete our
6 report, and that's up to you. If so, if you decide that you may
7 want another date, from my point of view we would suggest
8 Friday, March 26. And this would just barely permit enough time
9 for typing, editing and reproduction before the end March due
10 date for transmittal to the Congress. So I would like to hear
11 your comments on this. Yes, Murray?
12 DR. WEIDENBAUM: Is there an active market for
13 proxies, because I'll be in New York, but I'll be glad to....
14 MR. COSTAMAGNA: Is there a possibility of changing
15 March 8?
16 DR. SPRINKEL: Well, I think it was checked out
17 pretty carefully, and agreed on, at least tentatively. What
18 facilities do we have for changing this, if any?
19 DR. WEIDENBAUM: We would have to check schedules.
20 There were problems with March 5. The eighth was the least
21 worst day in March.
22 DR. SPRINKEL: I think that's correct.
23 MR. COSTAMAGNA: I can be here, but I will have to
24 fly all night to get here.
25 DR. SPRINKEL: Oh goodness.

1 MR. COSTAMAGNA: I'll do it. There's no problem.

2 DR. SPRINKEL: The eighth is a Monday.

3 MR. COSTAMAGNA: I might mention I'm flying all the

4 way from Hawaii.

5 MR. COYNE: Perhaps we could fly out to be with you.

6 DR. SPRINKEL: Even though the eighth date isn't

7 ideal, apparently it's the least worrisome, so if we can agree

8 that our next meeting will be on the eighth. Now what is your

9 desire concerning the possibility of holding another date open

10 in case we need it? It's up to you.

11 GOVERNOR PARTEE: Well, I think we very well may need

12 it. I would certainly think we ought to find a date that we

13 could hold open. Hopefully we won't have to use it, but we

14 might very well need it.

15 DR. SCHWARTZ: We'll have to agree on some point

16 where further changes can be made because I won't be able to

17 accommodate if I'm first going to get changes as late as the

18 twenty-sixth. You will have to have your changes in before that

19 date so that you will see how I attempted to revise something in

20 response to changes made earlier. So if March 26 is really a

21 final version report....

22 DR. SPRINKEL: Does the Commission want to hold the

23 alternative, the second date open in the event it becomes

24 necessary and desirable?

25 GOVERNOR WALLICH: That would be very wise.

1 DR. SPRINKEL: Okay, if there is no objection we will
2 confirm the March 8 date, which will be the next meeting of this
3 Commission, and we will hold open the possibility, if needed, of
4 meeting for the last time on Friday, March 26.
5 Thank you very much for your persistence and hard
6 work. We will look forward to seeing you on March 8.
7
8 (Whereupon, at 5:15 o'clock p.m. the meeting was
9 adjourned.)

CERTIFICATE

This is to certify that the attached proceedings before the Department OF THE TREASURY

In the matter of:

MEETING OF THE GOLD COMMISSION

were had as therein appears, and that this is the original transcript thereof for the files of the Department.

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