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.

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UNITED STATES OF AMERICA

MEETING OF THE GOLD COMMISSION

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

Friday, September 18, 1981

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ATTENDEES:

SECRETARY OF THE TREASURY DONALD T. REGAN
Chairman

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

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

SENATOR ROGER W. JEPSEN, Vice Chairman
Joint Economic Committee

JERRY L. JORDAN, Member
Council of Economic Advisors

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

PAUL W. McCracken, Edmund Ezra Day University
Professor of Business Administration
University of Michigan

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

J. CHARLES PARTEE, Governor
Federal Reserve Board

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

CONGRESSMAN HENRY S. REUSS, Chairman
Joint Economic Committee

EMMETT J. RICE, Governor
Federal Reserve Board

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

HENRY C. WALLICH, Governor
Federal Reserve Board

MURRAY L. WEIDENBAUM, Chairman
Council of Economic Advisors

CONGRESSMAN CHALMERS P. WYLIE, Member
Joint Economic Committee

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ATTENDEES: (Continued)

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

CRAIG ROBERTS, Assistant Secretary
Economic Policy

MARC LELAND, Assistant Secretary
International Affairs

BERYL SPRINKEL, Undersecretary
Monetary Affairs
AGENDA

1. Introduction by Secretary Regan
2. Procedural Questions
3. Senator Helm's Proposal
4. Public Hearings and Solicitation of Written Views
5. Records of Commission Meetings
6. Schedule of Future Meetings
7. History of Gold - Dr. Schwartz
9. Future Work Projects
SECRETARY REGAN: I would like to welcome all of the members to the second meeting of the Gold Commission. As you know, the world, the United States and the rest of us are going through a period of very serious economic difficulty that is characterized by accelerating inflation, declining productivity, slow economic growth and high unemployment.

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

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

We have had one very preliminary discussion of this subject. It is clearly a wide diversity of views...
and considerable public interest. The difficulties that this economy has faced and faces are serious and complex and the charge of this Commission is an important one.

I have circulated a tentative agenda for today's meeting, which outlines a number of procedural issues, as well as substantive questions for consideration by the Commission.

We discussed some of those questions at our last meeting and I hope we can move through the procedural issues fairly quickly and get to the substance of the Commission's work.

I would like to thank the members of the Commission for responding to the telephone poll on whether to open this meeting. Obviously, the result was that the meeting should be open to the public.

I propose at the end of this meeting, the Commission decide whether the next meeting should be open or closed.

Finally, though I know we have a lot to cover this morning, I hope that we will reserve time for some discussion of the last item on our proposed agenda, the Commission's future work program and the structure of the Commission's report. It is important that we begin to try to develop a consensus on how to approach this work, in order to organize future meetings and request...
drafting of report sections for consideration by the Commission.

Now, I would like to know whether or not the proposed agenda is acceptable to the Commission as the basis for today's discussion? Do we want to have any comments on that?

(No response.)

SECRETARY REGAN: All right, we will proceed under that.

Now, the first agenda item is the procedural questions on quorums, voting and other parliamentary issues. I think the quorum arrangement is a requirement, need for votes is already arisen in very senses. I think that we have to have some rules under which to proceed.

I would suggest Robert's Rules, but I would like to hear from members of the Commission as to what their desires are.

CONGRESSMAN WYLIE: Mr. Chairman, since we are a feature of Congress, why don't we adopt the rules that the committees of Congress operate. In other words, take formal action by a majority of the membership?

SECRETARY REGAN: The majority of those voting, or a majority of the membership?

CONGRESSMAN WYLIE: A majority of the members of the Commission.
SECRETARY REGAN: A majority of the members of the Commission. Anyone got any thoughts on that?

MR. McCracken: What about people who are not present?

CONGRESSMAN WYLIE: Pardon me?

MR. McCracken: What happens when people are not present under such an arrangement?

CONGRESSMAN WYLIE: Then they cannot vote. I wouldn't suggest that they have a proxy, is that what you are asking?

MR. McCracken: I had two questions in mind. One is the possibility that somebody who is not there might want to speak on a substantive issue, or have his view known. But the second one is if you don't have full attendance you might have to have a very high percentage of the vote of the people who are there -- that's just a mechanical matter.

CONGRESSMAN WYLIE: I was trying to get it first the first step first and that is if we issue a report or if we take a vote on a position of the Commission, or something like that, we ought to have at least 50 percent or half of those who are members of the Commission present.

Now, if we want to have informal discussions, which involve the members of the Commission or if the members of the Commission want to have an informal
discussion and there doesn't happen to be -- how many
members are there of this Commission?

SECRETARY REGAN: Seventeen.

CONGRESSMAN WYLIE: That would take at least
nine under the present arrangement to do any formal
business. But if a meeting of the Commission is called
and only eight are able to show up, that would suggest
that we not do anything but have a public discussion or
private discussion.

But if we are going to recommend something for
a report later on, then I think we ought to have at least
nine present.

SECRETARY REGAN: Why can't we say that a quorum
would be a majority of the members, and in order to have
a vote, we must have a quorum present? And then for some­
thing to pass, it must be a majority of those present and
voting?

CONGRESSMAN WYLIE: Yes.

SECRETARY REGAN: Is that agreeable to everybody?

MR. LEHRMAN: Don, on matters of procedure that
strikes me as the sensible way to do things. But on
matters of substance, where the actual recommendation of
the Commission might be at stake and made permanent in the
record, I am not certain, but I reflect that five people
under this arrangement could determine for the seventeen
commissioners, all of whom are supposed to be deliberating
the role of gold in the international and national
monetary system. This is not meant in the form of an
objection, it is only that we consider deliberately before
we give initiative to five people to determine outcomes
on such matters when 17 opinions would surely be at stake.

SECRETARY REGAN: For the benefit of the two
senators that just arrived, what we are trying to do here
is to come with some rules to guide ourselves on pro­
cedural, the first item on our agenda.

The suggestion has been made that we follow the
rules of the Congress in that for something to pass we
would have to have a quorum, a quorum would be nine.

The question now raised by Mr. Lehrman is what
happens if a majority of those present, which would be
five, could they vote on a substantive matter and
thereby five members of the Commission would set a sub­
stantive decision for the entire Commission.

What do you do in Congress?
SEnATOR SCHMITT: Usually, if it is really
substantive, we will poll the rest of the members.

SECRETARY REGAN: Poll the rest of the members?
How does that strike you then as a method of
procedure for us?

All right, let's adopt that.
Do you have something?

CONGRESSMAN PAUL: I might have something, does this make the assumption that voting -- all voting on all issues will be done by voice vote, or by recorded vote?

SECRETARY REGAN: My suggestion would be, let's have it by voice vote, unless someone of the members asks for a recorded vote.

CONGRESSMAN PAUL: One member can get a recorded vote?

SECRETARY REGAN: One member can get a recorded vote.

SENATOR SCHMITT: That's normal procedure.

MR. LEHRMAN: Don, with respect to the question of polling the members and with respect to the senator, the Congress is a permanent body that sits in perpetuity, virtually. And the deliberation of its members are known and they can make their voices heard in the cloakroom and through the polling technique.

This is a commission which may only have a short life.

SECRETARY REGAN: A little longer than short, I hope.

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

SENATOR SCHMITT: A bill has been introduced in
both houses to extend the life.

SECRETARY REGAN: Thank you, Senator.

SENATOR SCHMITT: We should be able to find a vehicle to attach it to to compensate it.

SECRETARY REGAN: I think we have to have some rules in order to get started, or else we are just going to bog down here forever on rules and procedure. And as all of us want to do, I would like to get to the substance as quickly as possible, but not steamroll anything over any other member of the Commission.

But I do think we have to set these rules. And that brings us to my next point, which is Item 1B, which is the date for completion for the Commission's work.

CONGRESSIONMAN REUSS: On that I would like to be heard, Mr. Chairman.

SECRETARY REGAN: Yes.

CONGRESSIONMAN REUSS: The basic law which set us up was drafted, I believe, by Senator Helms and directed you, as Secretary of the Treasury, to set up a Gold Commission to make recommendations "with regard to the policy of the United States government concerning the role of gold in domestic and international monetary systems", and to report its recommendations to Congress no later than October 7, 1981.

Many months have gone by since then -- I was
disturbed last spring that the Gold Commission wasn't operating and I wrote the Chairman a letter last April in which I pointed out the Commission's duty to report by October 7th and urged him to act promptly to complete the appointments to the Commission and to set an early date -- time is short, I said, and there is much to be done. But, unfortunately, much wasn't done and we finally met just before the August recess and this today is our second meeting.

There are, unfortunately, the grounds to believe that at least two groups are interested in keeping the Commission alive well beyond the time set for the deliberations by Congress, which would leave the United States without a gold policy and continue to contribute to the uncertainty which now dogs the market. Those two groups are the Gold Block, which hasn't given us any very clear idea of exactly what it means by a return to the Gold Standard, what price gold should be.

But as long as the Commission remains in being there is a plausible chance that gold might one day be reinstated and this, of course, would be good new to the gold speculators, for the Russians and the South Africans.

Then there are the supply siders who have been telling us all along that the enactment of the present budget and tax proposals would bring economic recovery
and an end to high interest rates.

Now that program has been enacted, yet interest rates remain outrageously high. On the way into the Cash Room this morning I passed the Treasury Auction Room and I saw what you have to pay for a treasury bill, more than 17 percent, it's an outrage and a scandal.

The latest proposition of the supply side leaders -- one I must say they forgot to mention when they were making us promises a few months ago, if only we passed the President's economic program, is that what is needed in addition to the President's program is a return to the Gold Standard in order to drive interest rates down.

So, as long as the Gold Commission sits it is possible to make this assertion, since nobody is going to act until the Gold Commission makes its recommendations. So, while the Commission sits uncertainty, we will continue to hang over the markets.

Now, what should we do?

I want a full and fair opportunity for those who believe that gold will be the salvation of this republic to bring in witnesses and to have full hearings. I would be delighted, for instance, if Mr. Lehrman and Dr. Paul would be given the twice the time of those who, like myself, think that gold does not belong in our system.

Let those hearings be set down right away, let's not delay.
let's not be the Goldbrick Commission, but the Gold
Commission.

I don't see why this can't be done and the
Committee sit down and deliberate fully, agree on a
majority report under the excellent rules just adopted,
and if there is a minority, have the minority write its
views. And why we can't get that program delivered by
Chairman Regan to the Congress, not by October 7th, but
as soon thereafter as possible.

I have discussed this with various leaders on
the Hill and I think I can assure you, Mr. Chairman, that
if we make an honest effort and don't goldbrick and don't
delay, and don't filibuster, we will not be subject to
criticism, if we don't meet the October 7th deadline,
but come in a few weeks later, or whatever time it takes
for us to thoroughly to deliberate it.

What the Congress would not like and what I
certainly would not like is to have endless monthly
hearings and go on, and on and on, perhaps into the
new year. I think that would be a great mistake.

So, I hope that we will get right down to setting
hearing dates, though I have other duties, as everyone of
us has, I am ready to give them up as I have given them
up the last time and this time, to participate -- with our
excellent staff, Dr. Schwartz, I think we should have no
difficulty acting deliberately and promptly. So, I would hope that we could now set about setting dates -- how about next Wednesday? How about Thursday? Friday? Saturday?

SECRETARY REGAN: Thank you, Congressman.

Other comments?

MR. MCCrackEN: Mr. Chairman, I thought I was going to agree with Mr. Reuss, but I found myself disembarking as he went along.

I think the Congress ought to be much more concerned if we tried to meet anything like the October 7th deadline, than if we take enough time to give a serious effort to what has become a serious problem, or issue.

The Congress has requested the Commission to explore the role of gold and, if possible, its contribution to our international and domestic monetary problems. I think we have to give this serious attention and I do not think there is anyway this can be done by mid-October, or shortly thereafter.

I think we ought to take enough time to do a thorough job.

CONGRESSMAN REUSS: If the gentleman would yield, I didn't say mid-October. I said at such time, without goldbricking or filibustering, we may in an orderly way
arrive at a conclusion.

MR. McCracken: What is reasonable?

Congressman Reuss: I don't know. I am willing to trust the Chairman to keep us shepherded. And if it goes into November, so be it; and if it goes into December, as a result of conscientious work by this Commission you won't have heard one word of criticism by me about it.

MR. McCracken: If you will just keep going, we might agree.

MR. LEHRMAN: Mr. Chairman.

Secretary Regan: First Mr. Lehrman and then the Senator.

MR. LEHRMAN: I yield to the Senator.

Senator Jepsen: I just wanted to point out that the two proposals in Congress to extend this date are to extend it to June 30th of next year.

Senator Schmitt: The Senate bill I introduced the other day would extend it to December 20th, 1982. We will revise that date when we attach whatever bill we attach it to, to meet the interests of the majority of the Commission, that is a fairly arbitrary date.

Senator Jepsen: Well, it would seem that reasonable men and women would assume that the intent of this Commission when it was established, the people who drafted and established this was that they would have one
year to meet. Of course, for whatever reason, the Commission was not constituted or put together, in fact, it was not started until the year was nearly over with -- I don't think any reasonable person would expect you to do anything other than have at least one year from the date we first met, which I believe was the 30th of June.

MR. LELAND: July 16.

SENATOR JEPSEN: That, I think, would be the minimum that would come out of Congress as far as an extension of this. So, again, I thought for some guidelines -- SENATOR SCHMITT: Mr. Secretary, I think whatever this group decides, would be what I would modify the legislation to cover.

SECRETARY REGAN: Mr. Lehrman.

MR. LEHRMAN: One problem with Congressman Reuss's suggestion is that, in fact, it reached the law. Now, I gather there is no penalty provided in the statute but it would trouble me to be sitting on a Commission and the statutory termination date of which is October 7th, 1981, and the sitting thereafter ipso facto, in violation of a law of Congress.

This may be a matter of mere form or detail to some, I think the rule of law should prevail here and I think we should go through the process of deciding among
the members what is a reasonable date. And then specify
and conform to the rule of the statute.

SECRETARY REGAN: Have you any suggestions as
to what you think would be an appropriate date?

MR. LEHRMAN: I am sympathetic to Senator Jepsen's
recommendation and the thrust of Paul McCracken's remark,
but perhaps somewhere beyond December or January, as has
been suggested. And, perhaps, no later than a year from
the date of the first meeting.

SECRETARY REGAN: Congressman Paul?

CONGRESSMAN PAUL: Thank you, Mr. Chairman.

I, too, would like to see the subject studied
adequately. I am sympathetic towards Congressman Reuss's
suggestion that we expedite things and move along quickly.
And I think he makes a good point about that because we
have been moving slowly up until now.

But I feel strongly that it is a very, very
important issue. I believe that we got ourselves to where
we are today over a long period of time of deliberate type
of actions by the Congress and by other agencies in the
government, dating from 1913 up to 1931, I would say that
we have systematically brought ourselves to this point
of crisis.

I cannot see that we will resolve this quickly,
in a week or two, even though in my own mind I have very
definite ideas about what we should do, I, too, would
confess that there is a great deal of difficulty overcome-
ing all of the problems that we have created in the
economy. And I do not think there is a magic wand to
wave and tomorrow everything is going to be all right.

So, I see this as a major problem that we have
to face.

Now, as far as time goes and having the
Commission in perpetuity, I might just remind you that
Congress has been rather careless in what they have done
before for less significant events. For instance, it was
just within the month that we reappropriated $30,000 or
$25,000 for a commission that has been in existence for
close to 30 years. And that commission is to study the
feasibility of a monument for FDR.

Now, somebody suggested that is the best
monument we could have.

(Laughter.)

CONGRESSMAN PAUL: But, again, we are
appropriating money that is in perpetuity. It seems
if we have that condition, then it would be asking for
an extension for a thorough study of six months, rather
than the full 12 months would be adequate.

I would suggest that maybe we compromise and
maybe instead of at the end of the year, or next year,
maybe the suggestion that June would be the date -- the
end of June. I certainly would be very receptive to that
date.

SECRETARY REGAN: Are there comments?

CONGRESSMAN WYLIE: Mr. Secretary, I would like
to associate myself with the date on which our report
would be rendered. I think December 20th as the date due
is a little too long, it's after the next election, for
one thing.

And I think the process would be slowed down
considerably between September and October. I do think
we need a little more time than the January date that
was suggested.

As Senator Jepsen pointed out, we had our first
meeting on July 16th and within the spirit of the law
which was passed, I think we were supposed to have at
least a year for deliberation. And I think if we did
something before July 4th, 1982, which is Independence
Day, that maybe the June 30th date might be a good date.

SENATOR JEPSEN: Mr. Chairman, is a motion in
order to get this on the record, or to get some action
on it? I think we have discussed it adequately.

SECRETARY REGAN: I was going to make a
suggestion, Senator, that we consider that since we have
two opinions that have been expressed here, one for a
fairly short tether, and another one for a reasonably long one. And since we think that we could proceed with fairly good speed, might I suggest March 31st as a compromise between the two views, with the thought in mind that we could probably come in within that period of time if we really were diligent in what we are doing?

I wouldn't suggest April 1st, obviously.

(Laughter.)

CONGRESSMAN WYLIE: No fool, like an old fool.

CONGRESSMAN PAUL: Mr. Chairman, may I make a suggestion?

SECRETARY REGAN: Yes.

CONGRESSMAN PAUL: Maybe, before we make a motion to make it official, take a show of hands of those who favor March and those who favor June?

SECRETARY REGAN: All right, we will do it that way. We will take it informal and then we will take a formal thing for the Senator.

MR. PARTEE: I think we should hear from the staff as to what they think a reasonable time schedule is.

DR. SCHWARTZ: I have no doubt we would not produce any kind of report by October, or with an indefinite date in prospect. I think we need a firm date when we have met enough times so that everybody's views
are clear and a report can be drawn up that reflects faithfully what members believe, with the reasons they have for the positions they have taken, either the end of December or the beginning of January, end of March -- would all be feasible, I think. But I would prefer a definite date.

And then schedule meetings, so that we know in advance what our commitments are and as we proceed with the discussions of these issues, we will have some sense of what the shape of this report will be like. And then I can begin working on it, passing around drafts and getting responses from members of the Commission.

SECRETARY REGAN: All right, I will entertain one comment over here.

MR. COYNE: A question, Dr. Schwartz, on the basis of your experience, would you have any idea of how long it might be between the end of this Commission's deliberations and the time that that process of writing and drafting the report might take? Are we talking about a long period of time?

DR. SCHWARTZ: No. I would expect that, say, within a month of our last meeting, you would have in your hands a draft of a report that would be final, depending on the revisions you would like to make. It might take another month, but there is just no way I can
submit a report to you and each of you have the time to
read it over, for the staff to read it over and return it
to me with your comments and suggestions for changes.

I am sure it is going to take some time.

SENATOR SCHMITT: Mr. Chairman, could I try
a little bit of charting on this thing, since that's where
I grew up in NASA.

I think the best time to hold hearings and do
things substantive by the Commission would be between now
and the end of congressional activities for this year.
I hate to be parochial, but several members will then find
it necessary not to be in Washington very long. Say, like
the first of November, maybe the 15th -- we will know more
about that later.

But if we could schedule the substantive hear­
ings that the Chairman has talked about between now and
the first of November, I think you will get the meat of
your job done. And then between that time and when we
return in January, the staff would have the opportunity
to produce a draft document based on those hearings.

And then after we come back the circulation
process would begin. And I think it is probably going to
take at least a month for all of us to read and work on
the draft, get together again a time or two to argue out
specific points. And you are really approaching it in that
kind of context, you are approaching really a March date
of some kind before you can logically produce the kind of
document that I think you would have.

SECRETARY REGAN: Okay. Let's have a showing of
hands then, we will take three dates, December 31st,
March 31st and June 30th as the three dates --

CONGRESSMAN REUSS: How about four, like March 1?

SECRETARY REGAN: March 1.

SENATOR JEPSEN: Then how about five, the 15th
do of July?

CONGRESSMAN REUSS: When?

SENATOR JEPSEN: The 15th of July.

CONGRESSMAN REUSS: I am going to split the
opposition.

SECRETARY REGAN: Let's stick to three, I think
three is enough.

An informal show of hands, please, December 31st?

(A show of hands.)

SECRETARY REGAN: March 31st?

(A show of hands.)

SECRETARY REGAN: June 30th?

(A show of hands.)

SECRETARY REGAN: What do you get, eight, seven
and one?

MR. SPRINKEL: Yes.
SECRETARY REGAN: Eight for June 30th?

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

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

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

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

SECRETARY REGAN: Well, may I suggest, Mr. Congressman, that what we are trying to do here is indicate to both houses of the Congress the date that the Commission would prefer. Obviously, if the Congress decides otherwise, we would stick to the date that the Congress would set.

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

CONGRESSMAN REUSS: But that has been taken,
eight say June 30; seven say March 31. Do we need to do
more?

MR. WEIDENBAUM: Mr. Chairman, I gather there
was a call for a revote, is that the pending business?

SECRETARY REGAN: It has been suggested that
there was a double count here. So, would you please
raise your hands high this time -- December 31st?

(No response.)

SECRETARY REGAN: March 31st?

(A show of hands.)

SECRETARY REGAN: June 30th?

(A show of hands.)

SECRETARY REGAN: That is correct, eight and
eight, it's a tie.

MR. LEHRMAN: What about June 15th?

Congressman Reuss is particularly concerned that
we move with deliberate speed and I agree with him. And
it strikes me that the Congress initiated this action,
they have a vital interest in the report.

Now, were we to agree that June were the date,
but Congress wished to have an earlier report, they could
invoke their privilege to ask for one, indeed, the
President himself could ask for an earlier first draft,
and it might not necessarily be the official one.

SECRETARY REGAN: Well, why don't we do it this

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way, we have a tie vote here.

MR. WEIDENBAUM: Point of order, the Chairman has not cast his vote yet.

SECRETARY REGAN: Yes, I did, I was on March 31st.

MR. WEIDENBAUM: I'm sorry.

SECRETARY REGAN: Let's do it this way, we will report to the Congress, to the Senators that we wish an extension and that the Commission is evenly divided as to whether it should be March 31st or June 30th. And the ball is back in the courts of the Congress.

SENATOR SCHMITT: I think we can get together.

CONGRESSMAN REUSS: Or very simply, I bear the proxy of the absent member, Senator Dodd of Connecticut and if somebody will call him to verify, I am sure he would be extremely farsighted and would vote for March 31.

(Laughter.)

CONGRESSMAN REUSS: -- which I think is sort of a waste of time.

CONGRESSMAN NEAL: Mr. Chairman?

SECRETARY REGAN: Mr. Congressman.

CONGRESSMAN NEAL: I urge that we request that the Congress extend the life of the Commission until June 15th. I think if you would have a vote on that --
SECRETARY REGAN: May I suggest that we are bogging down here on procedural and not getting into substance.

Why don't we just suggest to the Congress that we would like to have the life of this commission extended? We took an informal poll, give the results of our poll, and let the Congress decide it.

CONGRESSMAN REUSS: Mr. Chairman, let the writer up of this meeting indicate the names of those who voted for March 31 and June 30 respectively and get the opinion of the absent member, Senator Dodd. Not that this matters all that much, but he might as well be heard from.

SENATOR JEPSEN: Mr. Chairman, I would respectfully suggest that what we have experienced here in the last 30 minutes is all the more reason we need to go to the 30th of June. We are not going to get anywhere like this.

SECRETARY REGAN: Well, we will have a recorded vote.

Now, the next item on the agenda is proposals by Senator Helms that the Commission be subject to Federal Advisory Committee Act. Does anyone have an opinion on that?

Yes?

MR. WEIDENBAUM: I have a question on that, Mr.
Chairman. This is a committee advisory, as I understand it, to the Congress, not the Executive Branch. If we were subject to the Federal Advisory Committee Act, would we lose the discretion of, say, that the congressional committees have, having executive sessions as well as open hearings?

SECRETARY REGAN: Anyone?

A VOICE: There are specific exceptions to the Federal Advisory Committee Act for closing meetings, there is some question as to the extent to which any one of those exemptions would apply. There is one potential exemption to allow you to close a meeting if the discussion would create speculation or adverse impact on the markets.

So, you would continue to have some discretion, but certainly it would be more limited if the Act did not apply.

SECRETARY REGAN: Any other comments on that?

(No response.)

SECRETARY REGAN: It is really not up to us to tell Senator Helms of the House of Representatives how to vote on this particular question. I just alert you to this particular item.

And there is also a proposal by Senator Helms that a fourth member of the Senate be added to the
Commission. This would put the balance back, it was originally proposed, as you know, three and three. And then by a quirk that came out, it is four and three. And this would restore the balance between the houses.

Again, that is not up to us, but I merely call it to your attention.

The next item concerns public hearings and solicitation of written views. Several Commission members have indicated that they would like to have hearings. And our director has gotten several indications of interest in testifying from private citizens.

So the options that we have, actually, are no hearings and no solicitation of written views on the grounds that this Commission already represents a wide diversity of views and expertise.

The second option would be that we have written views only, that is Treasury would issue a press release, a Federal Register notice inviting written statements and asking that they be filed with the Commission by a particular date.

The third option would be that there be hearings and solicitation of written views. The Commission might schedule one or two days for appearances by witnesses, and also, solicit written views.

There is likely to be a problem, of course, in
witness selection. And one possible approach would be
that each Commission member would name one or two witnesses,
or we could draw by lot, or what have you, but try to
maintain some impartiality and see that most opinions or
sections for opinions are represented.

Now, I would like to have some discussion on
that.

Senator Schmitt?

SENATOR SCHMITT: Mr. Chairman, as a matter of
course the members of the Congress will receive and must
be responsive to written views from the general public,
as well as anyone else you may wish to comment.

So, I think if you decide not to solicit views
those views would still be available to the Commission
through our various offices and presentations.

I tend -- just speaking off the top of my head
on this -- tend to think that the idea of a sequence of
public hearings where each member selects some number --
certainly not make it more than three, I would prefer
maybe one or two -- for presentations at that hearing,
would be a very reasonable and equitable way to handle it,
plus the knowledge that the written solicitations will,
in fact, be available to the Commission, if you want to
use them.

SECRETARY REGAN: Other opinions?

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MR. LEHRMAN: The Federal Advisory Act provides for almost all of the contingencies which we might imagine that would be fitting for a Commission to consider. And, in particular, this Advisory Act provides for hearings.

I don't like to dwell on it but does the Federal Advisory Act apply, or are we deciding that, or is the Congress to opine on that in the future?

SECRETARY REGAN: I am informed that the Advisory Act, although we are not under it as yet, this is merely a proposal by Senator Helms, is that the Commission could establish its own rules for hearing witnesses. And that is what I am attempting to do.

I don't think we have to go through the formal procedure of the Federal Advisory Act. I think we should be able to establish our own rules as to working under constrictions that we all have other jobs and we don't have an infinite amount of time to hear witnesses, but we do want to get all shades of opinions that we possibly can since this is such a sensitive question.

What is the reasonable thing to do, as far as soliciting views of witnesses in public hearings?

MR. LEHRMAN: I have one other comment, the statute is a very simple one and the rules that govern it are equally simple in the matter of hearings. Were we
to voluntarily think it wise to govern ourselves by the '72 statute, which it might seem that the Congress intended, even for this kind of commission, without putting the Congress through the process of amending it, we would have simplified our decision at this very moment and provided for open hearings simultaneously.

SECRETARY REGAN: Any other comments?

MR. McCracken: Mr. Chairman, it seems to me we have to be receptive, certainly to written comments. Anyone who wants to address the Commission has got to have the opportunity to do so.

I am quite amenable to a limited amount of hearings, as you indicate we all have to make our living in other ways, so we cannot spend an unlimited amount of time.

SECRETARY REGAN: Other comments?

CONGRESSMAN WYLIE: I can tell from my mail, since I became a member of this Commission, that there is a considerable amount more interest to this subject than I had originally contemplated. And I think, based on what I have been hearing, that we ought to give ample opportunity for hearings, public hearings.

How we determine the number of witnesses, who will come in and so forth, I am not sure I know how to make recommendations at the present time. But I do feel...
that we need public hearings and we need some written views come in.

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...
in one week.

And I also think that if each of us were to recommend two witnesses for those public hearings, with an opportunity, I guess, to testify ourselves, if we chose to do so, would probably mean that all sides, all sides -- and I agree with Paul McCracken that there are more sides to this than just two, would be well represented.

And, obviously, the hearings should be public.

SECRETARY REGAN: Senator Jepsen.

SENATOR JEPSEN: I don't know why we are even discussing all sides, this is a commission where the Federal Advisory Act does not apply to the Commission. It does apply -- I think the guidelines that we follow provides, and I quote, "Interested persons shall be permitted to attend the hearings or file statements with any advisory committee, subject to such rules and regulations as prescribed" and prescribe the rules and regulations you want to follow and get on with it.

It is not a matter of choosing. We are spending too much time on choosing up sides, this is a commission to find out about all sides. And if we are going to hassle among ourselves, we will be here until after the 30th of June.

Obviously an open meeting. It is a commission that seeks the truth, it seeks facts.
SENATOR SCHMITT: We have to figure out how to do it.

SENATOR JEPSEN: Let's just go to it.

MR. COSTAMAGNA: Mr. Secretary, I would ask if we do have public meetings, since I come from California, 3,000 miles, that we do try to have them all in the same week, otherwise I will be commuting back and forth.

If you would give that some consideration, I would appreciate that.

SECRETARY REGAN: I understand your problem.

Might I suggest this, since, as Senator Schmitt has reminded us, we should try to get most of our work done prior to the Congress's going home, which probably will be sometime in mid-November. Time is very short and several of us have other things that will intervene between now and then -- that we try to speed this up as much as possible.

As Chairman, I think that I would like to see only three days of hearings and a lot more written.

One, to accommodate, of course, Mr. Costamagna's point of view, but the other that we work in-house. I think the three full days of hearings from nine to five, of that nature -- and I am more than willing to put that kind of time into it -- and those of you who can be present as much as possible, otherwise we will give you
parts of the thing. We certainly should be able to --
and we will have to limit the time, of course, of witnesses
to a reasonable statement, depending upon the number of
witnesses.

I think that should accomplish what we would
want to do and give all sides a chance to be heard, then
give Dr. Schwartz a chance to go through the papers, to
summarize most of them for us, and to have all of them
available for each member of the commission to read in
detail.

How does that sound?

CONGRESSMAN WYLIE: Would you put that in the
form of a motion, Mr. Chairman?

SECRETARY REGAN: I will put that in the form
of a motion.

CONGRESSMAN WYLIE: Second.

SECRETARY REGAN: All in favor?

(A chorus of Ayes.)

SECRETARY REGAN: Opposed?

(No response.)

SECRETARY REGAN: All right, that is carried.

DR. SCHWARTZ: May I ask whether it is the
intention to publish the hearings, or will the hearings
be available to members of the Commission, that would be
reported in some summary fashion, and the report, but not
MR. LEHRMAN: May I move that they be published?

SECRETARY REGAN: Before I do that, I have to think through, there are no funds appropriated for this Commission. Unlike the Roosevelt Commission, we didn't get any funds. And all of this comes out of Treasury. And since we are in the process of cutting everybody's budget, including the Treasury budget, could we at least look at the cost of this, versus how many scholars would like to see what everybody has to say?

We can certainly make the record available, but whether we publish in detail everything that is submitted to us, and how many volumes, I would like to reserve on that temporarily.

SENATOR SCHMITT: Maybe we could charge a testimony fee, or something.

MR. WEIDENBAUM: I would suggest, Mr. Chairman, in view of the point you have just made, that the statements of the various witnesses and any exhibits be available to the public, but that the scarce funds be devoted to publishing only the report of this Commission.

SECRETARY REGAN: Congressman Paul.

CONGRESSMAN PAUL: I would strongly urge that we ought to publish the testimony. I have looked around -- we have been publishing the Congress for a good many
years and it is quite amazing what we do publish. But because of the importance of the subject, I think we should give serious consideration to publishing what is said.

I have on my little list of things to be brought up under parliamentary issues, that funding, since it has been brought up, I would like to comment on it, because it is true the amendment that was offered did not account for direct funding, but did come out with the Treasury budget and, particularly, the National Affairs budget.

My understanding is that last year we appropriated $23,663,000. And as of last accounting Treasury has spent $18,914,000 with $4.7 million remaining.

It was suggested earlier that we not have a reporter here because of the expense. I did offer to pay for the reporter and I see we do have somebody here to take minutes today and I think this is very good. But I cannot help but suggest the importance of the discussion mandates that we have accurate minutes kept and publication of those.

I am sure for every person who testifies there is going to be maybe 20 people requesting or anxious to testify. So, I would think the importance of what they say is such that it should be made a permanent record.
I think the funds are there in order to do it, according to my figures.

SECRETARY REGAN: I seriously dispute that, that there are funds available for this, since they were not accounted for in any budget that was submitted to the Congress. What we are doing is robbing Peter to pay Paul. (Laughter.)

SENATOR SCHMITT: Mr. Secretary, could I suggest we pass over the issue of publication at this point and make the suggestion that we talk to the chairman of our two banking committee and see if they might not be interested in publishing as part of their permanent record, that's one possibility?

SECRETARY REGAN: All right, let's reserve on that question of publishing. We are sensitive to the issue. We will make certain that there is sufficient documentation, so that people understand the background that we went through and to the extent possible, we will, at one of our subsequent meetings, take up this discussion. All right, now, let's see, records of the Commission's meeting. We are taking a permanent record of these. We will be sending the reports of the meetings to the members as quickly as possible after each meeting, and certainly before the next meeting.

Now, a schedule of future meetings and a

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decision on whether or not to keep the meeting open or closed. I think we have decided that we will have open meetings. The question now is when?

Why don't I do this, in view of what we have said about the wanting to have three open hearings for witnesses, plus the other strictures that we are under, try as much as possible to circulate to each of the committee members suggested dates, and then see what we can do when you look at your calendars as to how these dates fit in with your schedules. And we will try to accommodate most of them.

Obviously, we are never going to get a time at which all of us can appear, -- for each and every meeting, but we will do the best we can.

CONGRESSMAN REUSS: Mr. Chairman, I think that is a sensible suggestion. Secondly, I can now report that Senator Dodd has been contacted in Connecticut where he is on official business, and on the matter contained in the procedural question 1B, he votes for March 31 and against June 30th, if you are recording the official vote.

SECRETARY REGAN: All right, thank you, Mr. Reuss.

Now, that brings us then to the substantive questions. I think the first thing we should do is to
ask the four members who did not attend the July -- no,
two members who did not attend the July 16th meeting and
two who did not speak at the July 16th meeting, if any of
the four, or all of them, would like to make statements
concerning the Commission's work.

And those are Senators Schmitt and Dodd.

Obviously, Senator Dodd is not here. Senator Jepsen and
Dr. Weidenbaum.

Would any of you gentlemen like to speak?

SENATOR SCHMITT: Mr. Secretary, very briefly,
had I been here July 16th I would have said how interested
I have become on this issue since being appointed to the
Commission. And I think that is one of the reasons that
justifies some longer period of time for the Commission
because one doesn't learn a great deal about an issue
until you are faced with having to make some decisions and
do some thinking about it.

In this case it would seem to me that the
underlining issue here is not so much gold, but the
question of how you stabilize both the domestic kind of
currency and the international currency. The suggestion
being that if you tie it to gold such stability will occur.

The only flaw that I see in that suggestion is
that since the industrial revolution currency has been
the necessary or seemingly necessary part of our society
in order to pay for goods and services.

And the increase in the availability of gold
does not, obviously, parallel the increase in the capabil-
ity or the demand for goods and services.

There may be a middle ground, which I have been
exploring in my own mind and with a few other individuals,
and that is if we could fashion a way in which the price
of gold, the value that we set on gold, having tied it
to our currency, in turn reflected some average of the
value of goods and services within our society. That is
-- and it would have to be an average or a value of goods
and services that did not fluctuate if we tried to measure
the GNP on a weekly or monthly basis -- maybe it is an
annualized, running annualized average.

But there I think, at least conceptually, there
are some interesting possibilities there of having the
value of our currency tied to gold, which in turn was
tied in a stable way to the value of goods and services
circulating within the economy.

That might be done by, again, a formula of some
kind that would tie that price of gold, or the value that
we put on gold to a running 12-month average, objective
measurement of the value of goods and services.

That is about as far as I have gone in thinking
about it. But I can say that I have not yet been able to
see how we could make just a simple tie of the value of currency to the value of gold. Maybe my background as a geologist is what is influencing me here, and I just don't see any way to keep the production of gold up with the production of goods and services.

SECRETARY REGAN: Interesting.

Senator Jepsen, would you like to make any comments?

SENATOR JEPSEN: Thank you, Mr. Chairman.

Very briefly, I think the basic premise on which the Gold Commission was established was the United States personally has no position on gold, or rather its stated position is contradictory.

On the one hand, gold plays no official role in our monetary system and it has not since President Nixon closed the Gold Bill on August 15th, 1971.

Yet, on the other hand, the United States still holds over $115 billion worth of gold at the present market prices while continuing to carry it at an official price of $42.22 an ounce.

So, it is the role of the Gold Commission to determine whether we should remonetize gold and give it some official standing in our monetary system, or finish the task of demonetizing gold by selling all but that which is necessary for strategic purposes.
I respectfully submit a joint committee print
of the Gold Standard and its history and record against
inflation, a study that is prepared for the use of the
subcommittee. And I have had copies of it made available
to the folks here today.

In it I would also recommend a way of starting --
some starting point to get our teeth into something and
to talk about what we are charged with here. And I
recommend the Commission study the Gold Certificate
Reserve Requirement Plan that has been presented in this,
which I think has three major virtues and does put a lid
on money growth, but it is not a rule -- no sudden jolts
to the economy. And, also, gives the Federal Reserve
an anchor to write out demands and temptations to renew
inflationary money course.

A case in point, they can, of course, ask for
any law to be changed for the purpose of having some sort
of legal anchor, Mr. Chairman, not to make sure we ever
change course, but to make sure that we give it some
thought before we do.

I will say it will make it easier to return to
the Gold Standard, but not inevitable. So, I think it
will make the possibility and urgency of returning to the
Gold Standard unimportant by reducing inflation, but if
the problem doesn't go away, there is a plan here that
will make it much easier. With that, Jerry Jordan can
cover any technical question and Mr. Weidenbaum is here,
and some of our staff will be here to answer any questions
and so on.

And I think we will start to resolve what we
are put together for, if not at least we will be working
towards the time we will.

MR. WEIDENBAUM: Mr. Chairman, I welcome the
opportunity to serve on this Commission under your leader­
ship. Coming to this Commission from an uncommitted
position on the subject of gold, per se, my reflections
on the subject to-date lead me to emphasize what I take
to be the underlining and truly important concerns of
all of the participants in the discussions -- and I
mean the discussions, not just before the commission, but
nationally. And that is the need for discipline and
restraint in monetary affairs, and especially monetary
matters.

I take it this is an indication of the enduring
proposition, a very simple one, that human wants are
insatiable. We need to make difficult choices in our
future deliberations.

I suggest that this leaves us to emphasize the
need to obtain greater price stability and sustained
economic growth and that be the beacon by which we chart
our course. And that the specific mechanism that we consider and propose are viewed properly as means, and that the end be our central concern.

And the end, as I take it, is not the instrument of our monetary policy, but the output, the results of economic activity.

Thank you.

SECRETARY REGAN: Thank you, Dr. Weidenbaum.

CONGRESSMAN PAUL: Mr. Chairman, may I make a request? Have we finished those people who were going to express their views?

SECRETARY REGAN: I believe so, with the exception of Senator Dodd. If he does come today, or at a later date, we will let him speak.

CONGRESSMAN PAUL: I have a request along this line, I see that we will be discussing very briefly the role of gold in the U.S. by Dr. Schwartz, as well as the gold output by Dr. Schwartz. We have a lot of material by Dr. Schwartz and she is playing a very critical and important role in the Commission.

And I would like to make the request that she, too, state her position for the record. I see on her second paper that she wrote, she said this review is headed part two because I anticipate it will serve as the second part of the report of the Gold Commission. And I
think this is sort of getting the horse before the cart.

I don't particularly think it is a good idea
to have a report written before we have discussed this.
I would like to ask if other members would be interested
to have her view and her position on gold, as we are?

DR. SCHWARTZ: It is your votes that will determine the recommendation of the Gold Commission. I am not a voting member.

My function here, as I see it, is to present you with evidence so that your recommendations would be informed. That is my only function.

If you do not think that the history of the U.S. experience with gold is relevant to a report of the Commission, you are at liberty to vote against the inclusion of such material in the report. I am not writing the report in advance of what the Commission wants to do, but I certainly believe that knowing what U.S. experience with gold has been, since there has been a connection with gold in our monetary system, is relevant. And that is my only interest in presenting it to you.

CONGRESSMAN PAUL: So, she chooses really not to answer my question.

DR. SCHWARTZ: I don't see what difference my views make because my views have nothing to do with your recommendations. I have lots of views on lots of things,
but they are not relevant to my role here.

SECRETARY REGAN: From the point of view of Dr. Schwartz, she is a non-voting and staff member to this Commission. I think, in my own opinion, it would not be appropriate for her to express her views the same as the voting members. She is trying to maintain an impartial role here and it is my duty as Chairman, as well as Secretary of the Treasury, to see that the materials that get to you are even handed and that the opinions expressed by my staff, whether from outside staffers, or members of the Treasury, who also have different views here, are even handed, Mr. Paul.

And I will assure you that we will try to maintain impartiality.

Now, if we could go on with a review of that historical draft. And the reason for this is I want you to notice what I am trying to do here, I am trying to lay a foundation for our discussions, so that we understand where we are coming from. There are varying degrees of knowledge in this Commission on the subject of gold, some have to run a little faster than others to catch up, to make sure that we are all in the same game. And, accordingly, that is what I am trying to establish here in this type of meeting.

And that's why I wanted to get started on just
some history and also since this is our first public
meeting, to bring members of the press, as well as members
of the audience here along with us in our deliberations.

So, Dr. Schwartz, would you give us a brief
review of your historical draft?

DR. SCHWARTZ: Thank you, Mr. Chairman.

I have asked that two of the charts that were
included in the historical chapter be distributed among
you, and I will comment on the various sub-periods which
are considered in the chapter in relation to the movements
of the wholesale price levels that are shown in Figure 1,
from 1800 to 1979; and movement of real per capita income
in the United States from 1870 to 1979.

We do not have continuous series for real per
capital income before the Civil War with the figures. The
estimates for the post-Civil War period which is why the
chart for real per capita income does not cover as long
a period as the wholesale price chart, but which has
something about the available estimates for the pre-Civil
War period.

To begin at the beginning, Alexander Hamilton
designed the monetary system for the new republic. He
would have preferred to have established a gold standard
but there was a scarcity mainly of gold coin and even
silver coins that were circulated in the states were of
foreign origin and he knew there was no way to establish a gold standard directly. He chose instead a bimetallic.

He was aware it was important to establish a ratio between the number of grains of silver in the silver dollar and the number of grains of gold in the gold dollar, so that that ratio at the mint matched the market ratio.

At the time of the Coinage Act of 1792, passed in 1792, he did manage to choose the correct ratio, 15 to 1; 371.25 grains of fine silver and 24.75 grains of fine gold. That is a ratio of 15 to 1.

What normally happens, however, under a bimetallic standard is that because the net ratio diverges from the market ratio, you end up with a multi-metallic standard, with only one of the metals and this is what happened after the Coinage Act of 1792 was passed; with greater production of silver in Mexico and South America than production of gold worldwide. This increased the market ratio to 15½ to 1. Gold, therefore, was undervalued at the mint. Nobody bought gold to be coined and we were essentially de facto on a silver standard until 1834, when Congress passed an act reducing the gold content of the gold dollar, leaving the silver content of the silver dollar unchanged and ended up with a ratio of 16.002 to 1.

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 be­
come 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
you define the dollar to be, that is the price. There is no way of defining the content or weight of gold in a dollar without at the same time setting a price.

I want now to say a few words about the period 1834 to 1861, to illustrate the kind of conclusions I have come to about how the gold standard operates -- there is short-term instability, there is long-term predictability of the price level.

If you will look at the price chart you will see movements above and below the trend line which is a declining trend from 1834 to 1861. Those movements above and below the trend line reflect the kinds of disturbances that occur on the gold standard.

From 1834 to 1836 there was an in-flow of this which has supported the expansion of the stock and made possible the kind of growth we had during that period. The Gold Standard is subject to external shocks and internal shocks. The external shock during that period was capital flows from Great Britain -- we were very much like a less developed country, we were a retractor country in which to invest funds and Britain did increase its capital flow to this country during that period.

The capital could-flow here only if we had a deficit in our balance of payment, that would have made possible the transfer of real goods and commodities in

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order to permit us to have a deficit in its balance of payments prices in this country it had to be relatively higher than in Britain to make Britain a more attractive place for Americans to buy goods and services than to buy them domestically.

This is the essence of the way in which a transfer of capital took place during the whole pre-World War I period of the Gold Standard history.

Then, because Britain in 1836 discovered that it was losing gold, the Bank of England then raised the discount rate and moreover declined to discount bids of exchange with the Franco-American trade. Financial pressure in this country was immediately experienced. In 1837 there was a banking panic, and one or two failures, frozen loans and suspension of specie payments that are referred to.

Banks no longer would sell foreign exchange to traders at the official price, you had to pay a premium to get it. This was a temporary devaluation and it was done in order to avoid the kind of contraction in the price level that would have been required in order to maintain balance in our international payments.

The Gold Standard was also subject to internal shocks. What were the internal shocks? In a less complex society than we have currently it is possible to...
note them on the fingers of one hand. Britain was particularly eager to import cotton from the United States. The enlarged demand for cotton triggered a land movement. The federal government sextupled its sales of land during the period of 1834 to 1836 at a fixed price and found itself with a huge surplus.

A decision was then made to distribute this surplus among the states. The states, in turn, embarked on public works projects, issuing bonds which were widely sold in Europe.

And in the ensuing financial turmoil they ended up in default on their monetary indebtedness. Capital flows to this country ceased during the 10-year period from 1841 to 1851. The sequence of developments can be traced in every cyclical movement, before World War I the details were different but this is the kind of economic development that you will observe.

If the figures for real output growth before the Civil War had been plotted, you would have seen they were on a generally upward trend, there were very substantial up and down movements.

Now, I describe that as short-term stability. You will then notice on the wholesale price chart the enormous increase in the price level from 1861 to 1865, that of course is the Civil War inflation. We suspended
specie payments and it is not hard to understand why our 
balance of payments was actually in collapse.

Normally the south had a surplus in trade with 
England, the north had the deficit in trade with England, 
but the south had a deficit in trade with the north and 
the north had a surplus in trade with the south. Southern 
cotton disappeared from our exports, our balance of payments -- at the same time, of course, Treasury had to finance all of it.

Even if taxes had been increased, it is conceivable that they would have been able to have advanced military expenditures only by taxes. So, the answer was to emit intersparing and non-intersparing currency.

In 1865, at the end of the war the decision was pretty generally accepted that we would attempt to get back to a pre-war currency. How could that be achieved?

The only way to achieve it was to have a price deflation from that peak of 1865 to the draft that you see in 1879, so that our price level would resume the relationship to British prices that had been maintained before the Civil War.

How was this great price deflation achieved? Prices fell by about 5½ percent in the year, currency contracted only about 1½ percent, so the big factor that permitted the price level to fall was the enormous increase
in real output during that period.

You must not think that this was a period of great unrest, there were many sections of the society that objected to the resumption of the old currency.

I mentioned at the first meeting that Congress by resolution in 1876 appointed a silver commission. That commission reported a year later that the majority wanted resumption only on the condition that silver was restored as the metallic monetary system. Some of the majority wanted to change to devalue silver below the 371.25 pre-war silver content.

A minority wanted to resume, but devalue gold; a second minority did not want to resume unless there was an international agreement to restore silver to the monetary status.

After that commission reported a bill was introduced in Congress to repeal the resumption act that had been passed in 1875, the bill to repeal failed by one vote. And the resumption was achieved on January 1, 1879.

We still didn't see the end of our political troubles because, again, the price level continued to fall beyond the resumption date.

Why did it fall? Because this was the period when the rest of the world was moving to the gold standard and gold output was very much restricted.
is no way an increase in the demand for gold and an less
than adequate increase in the gold supply could produce
a stable price level. So, you have a decline in the
price level, again, with the movements up and down to
meet the trend line.

The period of dissatisfaction in this country
with the declining price level came to a head in 1896,
and that was the year that William Jennings Bryan, who
campaigned "You shall not crucify mankind", the cause of
gold was defeated and the gold standard seemed to have
won. The real reason was not Bryan's defeat, but the
new processes, the cyanide extraction of gold, the
discovery and opening of new mines, permitted a large
increase in gold output from the mid-1890s on and the
price level reversed -- that's the upward movement that
you see from 1896 on.

The last suspension of payments by the banks,
coverting them to gold only by paying a premium occurred
in 1927 in the banking crisis. That was what occasioned
the creation of the National Monetary Commission to
reform the banking system in this country.

Am I going on too long?

SECRETARY REGAN: I would say about another
five or 10 minutes, if you would.

DR. SCHWARTZ: Okay.
The advantage of my having dwelled on the past, as you probably know, just as well as I do, but anyway the Federal Reserve System was introduced in 1914. The Gold Standard was exemplified by an imposition of gold reserve requirements, Federal Reserve notes, Federal Reserve deposits and it seemed that we were going to operate under the requirements of the Gold Standard.

Right off the bat we had enormous inflows of gold from Europe as a result of the outbreak of war there. We had wartime inflation and we also had a post-war inflation, that was something different. We were losing gold after 1918 but the Federal Reserve continued to expand the money supply, mainly because it was trying to play ball with the Treasury, but did not want to see any increase in the interest rates the Treasury had to pay on federal indebtedness.

And it was not until the beginning of 1920 when the gold reserve ratio came perilously close to the minimum level that the Federal Reserve contracted. The contraction of debt went on beyond the point it needed to have because the increase in the discount rate in January of 1920 permitted a reversal of the outflow of gold — gold was flowing into the Federal Reserve system in its contractionary policies.

So, you had the first of the three great inter-war
depressions, 1920-21; 1929-33 and 1937-38. Again, the
1930 experience with the devaluation of the gold dollar,
quite different from the kinds of devaluations we had
experienced in earlier periods because they had always
come after a period of boom in this country, when the
country was unwilling to experience a deflation in the
price that would have been required in order to maintain
the par value of the exchange.

In 1933 we had just emerged from a very deep
depression, the gold in this country was ample, we had
as much gold in 1933 as we had in 1929 and the gold
reserve ratio was way above minimum requirements. A
deliberate decision was taken to devaluate the dollar
in order to increase the price of U.S. exports, returning
to gold at a fixed price after a period of flowing exchange
rates in January 1934, and that's the year -- well, I
think I will stop here.

SECRETARY REGAN: Thank you, Doctor, that is
very interesting.

Any comments on the historical record?

CONGRESSMAN PAUL: Are we going to go into a
discussion on that, or are we going to go into something
else?

SECRETARY REGAN: We could have a discussion of
that now. What we intend to do -- I think the next item
that will come up is a discussion of your paper, then we will briefly review a paper on gold supplies that Dr. Schwartz prepared, and then our final item will be our future work program.

And we have approximately two hours in which to do that. So, a discussion of this historical record is in order.

DR. ROBERTS: Dr. Schwartz, just one question, when I look at these charts, at least on the surface, there is something here that seems to be out of tune with our present-day ideas.

If you look at the period from the end of the Civil War to about the turn of the century one looks like a remarkable deflation and yet the other chart shows it as a period of above-trend growth in real per capita income.

We normally associate the periods of deflation with falling output. Here we find a period of unusually high output. How do you account for that?

DR. SCHWARTZ: I think the normal assumption of that is false. We find, in fact, that there is a negative relationship between them which has been well born out by our experience in the 1970s.

MR. PARTEE: I would though, Dr. Schwartz, direct your attention to the right-hand side of the chart.
which seems to me to have the opposite result, that is there is of course a great deal of inflation in those last two decades, but there also is a sustained period well above trend growth.

So, I think you can reach distinctively opposite views, depending on whether you are looking at post-Civil War periods or the last 20 years, we can reach distinctly opposite views as to what that relationship might be.

But it is a complicated relationship.

MR. LEHRMAN: Could I remark?

SECRETARY REGAN: Well, Congressman Paul had asked first.

CONGRESSMAN PAUL: I would like to speak to the chart, the first chart, because I think it is a remarkable chart and one that someone if they are inclined to give serious consideration, I think it should convince you that gold is a very, very important feature and something that is beneficial.

As we take the period from 1834 to 1961, and compare that, also, to the period 1879 to 1913, those are the two periods of time where it was most remarkably stable, even though we have a short-term fluctuation in here.

Characteristic, also, of this era, or these two periods is the fact that gold coins did circulate and
government had a minimum amount of control over the money system.

The government was very much involved in the 1860s with the printing of the greenbacks and the depreciation of the currency then is the obvious consequence of the higher prices and then, subsequently deflation as they removed the greenbacks.

So, I think this is a remarkable chart and one that cannot deny the historic evidence of the tremendous benefit of having a gold standard.

Now, this is, in spite of the fact that it was a pseudo gold standard, not a repeal gold standard and not our best gold standard. It was one that still endorsed fractional reserves.

Dr. Schwartz makes a good statement on page 15, and I think the third paragraph on page 15 is very important. Monetary disturbances during the period from 1879 to 1914 were associated with banking difficulties, '73; '84; '90, '93. This is usually used as evidence to condemn the gold standard. Under a fractional reserve system the public's withdraw of currency from the banks not only reduced the bank's reserve, but caused these problems.

Finally she says, "These monetary disturbances, however, were attributable to the U.S. banking structure".
And that is so important, rather than the gold standard system. To me that is the key point.

So, whenever somebody says to you there are fluctuations of the gold standard on the short-run, it is indeed correct. And it is proper to point out that it is because we were not on the true gold standard, we were on a pseudo gold standard and we had fractional reserve banking which to me is deception and fraud, telling people they had money in the bank and they don't and create it out of thin air and depreciate the currency and prices subsequently go up.

So, I see this chart as a beautiful chart for those who advocate a gold currency.

Now, I date 1913 as a critical period in our economic line because very quickly that is where the line starts and the line shoots up. We had inflation in the first World War, we had rapid price rises, we had monetary inflation during the 1920s with a 65 percent increase in the gold money supply in the '20s. We had deflation in the '20s and in '29.

And we have had nothing but chaos for these past 80 years and we are on an exponential curve right now.

I might say that every bit of evidence right here indicts paper, indicts government, defends gold and says money must have something of real value and not something
out of our imagination — if we put blips on paper, or print numbers on paper, then all of a sudden we have money or something of real value.

The second chart I would like to comment on as well. We talk about real capital income. I think there is a discrepancy here because I think you would have a difficult time to go to the American people today and tell them for the last 10 years they have had this tremendous increase in real capital income. Ask anybody, ask the kids who are trying to buy a house, or buy a car. Ask the people who are trying to go on a vacation, and they are not going — their standard of living is down.

So, regardless of what the statistics tell you about real capital income, you have to realize that real capital income comes when you add up government spending, dividends, corporate profit, welfare spending — no wonder it looks good on the chart. — But what you really want to look at is this chart (indicating).

Now, I don't know whether you can see it, but this line here (indicating) dips down, that is the line that you must be concerned about if we are concerned about the American people. This is the real wage, what people take home after they have been taxed and inflation has eaten away — it has declined 15 percent since 1977,
mainly because there has been a transfer of wealth through the depreciation of currency, some have gone to welfare and some have gone to very poor.

So, the standard of living is going down. The real capital income, per capita income is deceptive because it adds in government spending. And I think this is the chart that is important, this has come about in particular in these past 10 years when we have had totally managed fiat currency.

I think it is so important that we look at this historically. And I think most of this reporting here of Dr. Schwartz' is accurate, beneficial, but I do think that the most important thing is to realize here that we had a pseudo gold standard in the past, we have never had a real gold standard. We can have a better gold standard and that everything that is presented, as I see it, is an indictment of paper and an indictment of government management of money.

SECRETARY REGAN: Thank you, Mr. Paul.

What I have been doing is trying to keep a record of who wishes to speak, so if occasionally if you wish to get on my list -- it's a good list -- would you just sort of signal to me and I will make note of your name.

The first one I have down is Mr. Lehrman.
MR. LEHRMAN: I will yield to Mr. Jordan. I think he went up at the same time.

SECRETARY REGAN: Well, actually Mr. Jordan's boss is ahead of him. Would you like to speak first and then have Mr. Jordan and Mr. Wallich?

MR. WEIDENBAUM: I would like to call Dr. Paul's question. You may recall in my opening remarks, I urged the need to pay close attention to both price stability, which has been the focus of most of the discussion and economic growth.

And in the spirit of Dr. Paul's concern, I would like to shift the second part of the discussion from the input measures to the output measures to the growth measures and ask Dr. Schwartz what was the experience during the period our country was on the Gold Standard, compared to periods when the economy was off the Gold Standard, in terms of the growth of, say, real per capita for GNP and--

DR. SCHWARTZ: Well, if you compare 1879 to 1914, or 1947 to 1979, both with respect to their ability and with respect to average rates of growth post-1947, there is not much of a difference. The difference really isn't significant.

With respect to the variance, again, there is slightly more variance before 1914 and post-1947,
everything favors pre-World War I. Of course those three
depressions we experienced in the inter-war period that
influenced post-war views and really shaped economic
policy, whether the evidence of the inter-war period was
misread, but it was because of a direct experience of
this country getting into the inter-war period when we were
on the Gold Standard that the conclusion was reached that
this was not the way -- that we did not need to determine
domestic economic policy.

MR. WEIDENBAUM: Thank you.

SECRETARY REGAN: Jerry.

MR. JORDAN: I would like to return to chart
one, figure one and focus, first, on the period of the
1950s or the late '40s until about the early 1960s. That
was a period that interested me in a lot of ways, one,
why did it happen at all? And, two, why did it come to
an end?

We had a period of 15 years or so of very low
inflation, I think the average in that period was about
1½ to 2 percent annual rate. It came on the heels of
great wars and inflation that resulted from war, war
being financed the way most wars were, each were followed
by large deflations, either to get us back onto a gold
standard, or because we were on a gold standard.

The inflation of World War I was followed by
a collapse of housing prices in the early 1920s and the rate of increase in inflation during World War I is very similar to what we have experienced in the last decade.

So, we might want to keep that in mind. And then, thanks to the Great Depression, we got the level of pricing back up where they were before World War I.

And then we fought another war by monetary grants, but we didn't follow by a deflation, we followed with a period of price stability. And as far as the long-term price stability there is the question are we satisfied looking back at what happened at the end of World War II to the early 1960s, or would we have preferred the price levels to go back to where they were before the war? Which view of price stability are we interested in?

I am satisfied with what happened at the end of World War II, the price levels and the rate of inflation leveled off -- the price level didn't go back down, but it just stopped going up so rapidly.

Then we had another war and the Great Society, the Vietnam War during the '60s, the Great Society, the failure to raise taxes to finance it, as usual during a war, the inflationary finance. And it kicked off a wave of inflation. And, unfortunately, it continued long after the war ended.

And now we are faced with the question of do we

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want to go back to a period like the 1950s and have a
leveling off of the rate of inflation from the present
level -- that's what I would prefer, just get the rate of
increase down to essentially zero, or would we want to
see the level of prices go back down to the level of the
early 1960s, before this last round of inflation? Would
we be willing to commit ourselves to the kind of discipline
of a true gold standard that would force the price level
back down, not just the rate of inflation back down?

SECRETARY REGAN: The next comments, I have
Governor Wallich.

GOVERNOR WALLICH: Mr. Secretary, my points
are of a more technical nature and I can just as well
take them up with Dr. Schwartz, without taking the time
of the committee. I would appreciate that opportunity
later.

SECRETARY REGAN: Fine.

Senator Schmitt.

SENATOR SCHMITT: First of all, I just have a
technical question which may help to clarify.
Why did you pick a log scale, just to get it
on the same page?

DR. SCHWARTZ: In economic statistics a log
scale that shows equal percentage changes in absolute
numbers is pretty much the standard way of presentation.
You have a false impression of relationships if you just look at changes in the absolute numbers and the percentage changes.

SENATOR SCHMITT: Okay.

Sort of relating a little bit to what Jerry Jordan has said, I think we have to be very careful, again, let me emphasize that I don't know what we ought to do on this issue of gold and price stability. But I think we have got to be very careful in the kinds of lessons we try to draw from the past.

Let's just remember that in the last several decades the rate of change of our society, because of ability, because of communication and new technologies, has increased phenomenally and we have just got to be very careful what lessons we try to draw.

I think there is an interesting lesson that we should use those that are appropriate, but to try to tie the current world into the past in charts like this can get you in trouble.

That's about the extent of my remarks, except also to remember that there are -- some of those differences are not only the accelerated rate of change, the ability, the communication and new technology, that I mentioned, but the control of the production of gold has shifted around the world, the nature of gold has altered.
That is one of the lessons you get from the past. Every-
time you see a change in what happens in the mining
business with respect to gold, you see a blip on these
curves.

So that clearly does influence the situation and
must be remembered, today's situation is not the same
as it has been in the past.

And then further I would associate myself with
Dr. Jordan's remarks about remembering that in the more
modern context we did a period of extraordinary price
stability, extraordinary, when you compare the rest of
the nation's history, the period he refers to is truly
extraordinary.

And we may learn more by examining why, in
terms of price stability and what we ought to do in the
future. And maybe what we ought to do is include some
relationship to gold, as I indicated in my opening remarks
earlier, that it is far more stable during that period of
time than anything else we have seen in the charts that
you have presented us.

DR. SCHWARTZ: Senator Schmitt, may I respond
briefly?

It was not my intention to present this material
in the sense that it was the lessons of the past --

SENATOR SCHMITT: No, I did not mean to infer
that you did, I just think if we use the charts we have
to be careful of how we draw our conclusions.

DR. SCHWARTZ: I was interested in showing how
did we get from where we started out to the point we are
at now.

I also think, looking at the pre-1914 experience,is something that will prevent you from making a wholesale
allegation that that's the way the gold standard, true
fractional reserve gold standard operates -- and some,
who I don't think stick as closely to the record as they
might --

SECRETARY REGAN: Governor Rice, would you like
to comment?

GOVERNOR RICE: Mr. Secretary, I just had a
general observation. First, I would like to say that I
think Dr. Schwartz' paper is very useful. I found her
division of relative periods is especially helpful.

I think, to me, the paper demonstrates that
whether we are on the gold standard of some variety or
whether we are on some form of non-gold standard we have
had difficulty in managing money. This experience, I
think, has persuaded some that money will not manage
itself. And that perhaps some of the problems we have
had with money should be looked at from the management
side.

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The weight of evidence clearly suggests that none of the automatic systems or rigid systems have performed satisfactorily.

Now, in light of this evidence, it seems to me that those who advocate some form of gold standard should -- advocates of the gold standard, in general, should be specific and say exactly what type of gold standard it is that they would like to see, indicating very clearly what the degree of money management would be associated with this particular variety of gold standard.

And, secondly, to show why that particular varying gold standard would not subject us to the kinds of adverse experience that we have had in the past.

SECRETARY REGAN: Thank you, Governor Rice.

Mr. Lehrman.

MR. LEHRMAN: Mr. Secretary, just a few remarks on the weight of the evidence which was so systematically presented by this excellent memo on the history.

With respect -- I must deny the assertion that Governor Rice made about the weight of the evidence. It is clear from the way that the evidence of the memorandum itself, carefully read, that stability at the price level by -- and its own assertion from the memo, was better under the gold standard, each period of the gold standard, whichever form you choose, then the characteristics of the
price level during the last 10 years, subsequent to the suspension of the Gold Standard in 1971 by President Nixon.

And in the imperfect world of human affairs, one always has to ask the question compared to what? And what we are doing is comparing the practical results of economic activity and the price level under the Gold Standard with the practical result of economic activity and the price level under the managed paper standard of the last decade.

Now, when those two intervals are chosen and those standards are applied, it is clear that the weight of evidence favors the Gold Standard.

I would draw your attention, not only to the graphs that Anna has provided, but to the detailed documentation of the monetary history of the United States by Milton Freeman -- now, that I believe is the unequivocal conclusion one must draw from the memorandum she has presented to the Commission.

And I just did not want the record to show otherwise than what she herself has argued in that piece.

Let us talk also, if we may, about Senator Schmitt's shrewd observations about the period since the late 1940s, until the mid-1960s where, when we look at the graph we observe reasonable stability at the price level. This period was known as the Bretton-Wood System.

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The linchpin of the Bretton-Woods system was convertibility of a paper dollar into an equivalent weight of gold. It was an international treaty to which we bound ourselves voluntarily and inaugurated in 1944.

But as you observe on this graph, you will notice that the price level continued upward from 1944, until about 1948,'49,'50. It was in that year where the Bretton-Woods System became fully or almost fully operable. And it is from that point where we observe the onset of reasonable price stability.

That is to say, the convertibility of the currencies among the major industrial powers subsequent to 1950 was insured by the pledge to maintain convertibility whereas before that it was not. I remarked the devaluation of sterling in the interval, between World War II in 1945 and 1950, and then the stabilization of sterling thereafter.

The extraordinary financial reforms in Germany which occurred in 1948 under the government of Lucius Clay, a glorious general who did much in fact to win the war. Under Lucius Clay and under the Ludwig Erhard, the first post-war Economics Minister of Germany, a complete reform of the German currency was undertaken in the occupation zones. And the German Mark was made convertible into the dollar and, of course, therewith into a specified
and assured weight limit of gold.

Immediately thereafter stability of the price level returned, not only in Europe, but relatively speaking to the world at-large.

Now, if you look at the chart during the same period -- I do so because of Senator Schmitt's pointed question -- you will also observe that this period extends until about 1965. Now, between 1959 and 1965, the European Payments Union was integrated into the clearing mechanisms of the Western World, and multi-lateral convertibility of currencies into the dollar and into gold was fully established and legally enforced by treaty and general convention among central banks.

During that period the price level not only was stable, but as Jerry Jordan has pointed out, only the most modest incipient tendency for a rise in the price level was observed -- less than 1 percent on an average annual rate.

The cause of this stability was the willingness of all countries to assure the exchange rate machine which had been ordained by the Bretton-Woods Treaty to which we were thereafter bound by the Constitution.

So, it is no accident that the modernized gold standard of Bretton-Woods, otherwise known as the Gold Exchange Standard, gave us the reasonable price level
stability which has also been remarked by several of our
colleagues around here, of the period 1834 to 1860 and
1875 to 1879.

I would just like to make one or two antidotal
observations, if I may. The value of loaf of bread, a
pound loaf of bread was the same under Teddy Roosevelt
at the turn of the 20th Century as it was under George
Washington at the beginning of the Republic, and that was
also not coincidental for the same monetary standard, the
same value of the monetary standard that prevailed for
more than a century.

The observation, it seems to me, that is so
striking about this chart which Anna has provided us is
that during all periods of the gold standard, without
exception, reasonable price level stability was assured
the American people. And that is why the gold dollar is,
in fact, American money, it was the only authentic American
money until very recently.

With the suspension of gold convertibility at
the time of the War of 1812, with the suspension of the
gold convertibility by Abraham Lincoln in January of 1862,
which in a public speech he personally deplored and with
the suspension of gold convertibility in 1971, by President
Nixon, we can observe, as someone remarked, the only
exponential rise in the price level during American history.

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One other comment and I beg you to indulge me --
we are not only talking about reasonable price stability,
but by the evidence of our distinguished Chief-of-Staff,
Anna Schwartz, we are talking about a negative correlation
between a rise in the price level and real economic output
in certain periods. And we are talking about a positive
correlation between a gently falling price level and rising
output.

That is to say, under periods of the gold standard
we had some of the most unparalleled periods of American
prosperity. Indeed, the gold standard paralleled the rise
of 13 dispirit colonies to the preeminent power of the
world. And it was during that period that the United
States was on the gold standard, where economic output
was steady and rising, real per capita income was not only
steady but rising very rapidly. And in the end it was
only in 1971, and thereafter, in the last decade where
we have observed 10 years of sustained, rising prices,
associated with the fall in real average wages.

The uniqueness of these correspondences I don't
think can be ignored by reasonable men and women.

Thank you.

SECRETARY REGAN: Yes?

MR. WALLICH: Mr. Secretary --

SECRETARY REGAN: Dr. McCracken asked that he
be next. We will let him speak.

Did you just want to comment on what Mr. Lehrman said?

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

It seems to me this chart can be interpreted in various ways, it can be taken to show that we have had stability under the gold standard, instability at other times. At the same time if you look at what happens on this chart we can see that we tend to be on the gold standard until something happens, in 1861 when the Civil War broke out and then we go off in 1932 when prices fall sharply when we are in deep depression, after we go off again in 1971, that inflation has become very severe and the gold standard ceases to be sustainable, and so we go off again.

What I see in the chart is that we have gone to the gold standard when conditions have more or less settled down, after the 1830s, after the Civil War and that we go off when conditions become difficult.

So, I conclude that in some respects you can say that the gold standard is a cause of the stability, but you can also say just as well that it is the consequence of stability. We have stability and it works quite well, but then we get unstable for some reason and we go off. You might just as well charge that to the gold
standard as to some other events.

So, I don't see much cause or significance to be read into the periods of stability and the gold standard and how they relate to each other.

MR. McCracken: Mr. Chairman, I think I could use as the title for my remarks a comment which Governor Rice made, that money doesn't manage itself. I think I would add a second suggestion, neither can anyone else do it. At least that is one conclusion one might draw from our material on the past.

I do have two specific points to make here, one of them is that as I read the experience-- and here I will not go very far back into history -- as I read the experience of only the 20th Century or to be specific the first two-thirds of the 20th Century, I don't see very much of the evidence which suggests that the U.S. economy was becoming more inflation-prone.

As a matter of fact, if you look at the two decades or so, and I think it is quite proper to do so, and eliminate the price level exposition because of World War I, and then take the roughly two decades from 1948 to a little before 1968, but it is roughly two decades. I did a quick calculation on this on my calculator, the average annual rate of rise in the price level in those two periods, one at the beginning of the century and the
other up until the demise of -- up until the outbreak of inflation again, in the latter part of the '60s, the rates of inflation were almost identical.

No evidence, in other words, that the economy up to that point was somehow or other becoming much more inflation-prone.

My second basic point is that we may see here historically a rhythm, as it were, that we have had periods, as is indicated by the chart here, we have had periods of the operation of the gold standard in that period, some we didn't have it. I don't see how anyone can look at our experience in the last decade or so without concluding that we do have to explore ways of putting the management of economic policy on a somewhat shorter leash.

We can't look back at the record of the last 10 to 15 years and say, well, it is clear that nothing needs to be done, we are doing all right.

Now, reasonable people can disagree on what this leash might be, but I do, myself, attach some significance to the fact that the rate of inflation -- that there was an outbreak of it worldwide after the breakdown of the Bretton Woods System. Now, I think the Bretton Woods System has come to its end, but nonetheless for close to two decades -- in fact, for almost a quarter of a century it seemed to provide a reasonable degree of price
stability. Moreover, as I read the evidence about the
relationship between inflation and measures of real
welfare, real income or per capita output, they are really
the same thing, apart from relatively short periods, I
don't see very much in the evidence to suggest that we
gained by accepting yet a little more inflation, and as
a matter of fact, I see a good deal of evidence that we
lose.

Therefore, I do think this Commission is
entrusted with time to explore ways by which constructively
we can -- well, to use my figure of speech provide a
little shorter leash in the management of policy or
impose a little more discipline on the process without,
to quote Bryan, "putting us on the cross of gold".

I don't mean by that that I am necessarily
voting for the gold standard, I am not committing myself.

(Laughter.)

SECRETARY REGAN: Congressman Reuss.

CONGRESSMAN REUSS: Mr. Chairman, Congressman
Paul a few minutes ago referred to the publication "Hard
Money News" published by the Committee to Establish the
Gold Standard and referred to charts and said that it had
caused the publication to be distributed to the members.
I would point out that on page 5 it says, "To cite
Paul Adolph Volcker as a man whose word is to be trusted

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is an insult to the intelligence of an economically aware person. He is a proven liar".

Also on page 5, "Chairman Fauntroy of the Domestic Monetary Subcommittee is lying". On page 6, this should interest you, Mr. Chairman, "If Secretary Regan does not want to be quoted in this paper, we suggest that he leave public life". On page 8 --

(Laughter.)

CONGRESSMAN REUSS: On page 8 --

SECRETARY REGAN: By the way, Congressman, my wife joins in that.

(Laughter.)

CONGRESSMAN REUSS: On page 8, we hear about Montagu Norman, head of the Bank of England and Benjamin Strong of Federal Reserve Bank of New York, and it is said of a meeting of theirs "There are two interpretations of this, one that they had a homosexual relation, which I don't particularly buy; and two, the more compelling, that they were both tools of the J. P. Morgan empire".

And so on and so on. I would simply ask members to confine to the absolute minimum the scurrilous matters that we put into the record of this hearing.

CONGRESSMAN PAUL: Mr. Chairman, I would like to mention something, I think that it would not be proper for you to make those quotes and associate my name with

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that because I think to quote statistics, they came from the U.S. Bureau of Labor Statistics. If there is an answer to the statistical analysis, I think that would be a more proper, and more intellectual, academic exercise.

CONGRESSMAN REUSS: You passed out the copies consisting of 10 pages of this publication to the committee.

CONGRESSMAN PAUL: I did not.

CONGRESSMAN REUSS: You did not? Well, who was the passer out?

CONGRESSMAN PAUL: You will have to answer that, I don't know.

To associate me with that, I think, is an attack on my character and I do resent it. And I think I deserve an apology.

CONGRESSMAN REUSS: Let's find out who the inserter into our record of this little bit of scurrility is.

SECRETARY REGAN: Would you identify yourself, sir?

MR. KAPLAN: My name is Howard Kaplan, I passed them out.

CONGRESSMAN REUSS: Do you know this man, Dr. Paul?

CONGRESSMAN PAUL: I have met him.
CONGRESSMAN REUSS: I think we have discussed it enough.

CONGRESSMAN PAUL: No, I think I would like to make one more statement. I think it must be very clear to the record that it was an attack on character, rather than an attack on facts. The facts remain, it remains to be seen that if the facts can be reputed, we should deal with it as an intellectual matter and not with attack on character.

SECRETARY REGAN: We will notice this.

Another comment, Senator?

SENATOR SCHMITT: Yes. Mr. Secretary, I was intrigued some years ago, soon after I arrived in the Senate by support of the study that I believe Congressman Reuss, I believe your committee did, and extensive study of the relationship between the rate of growth of the money supply and the rate of growth of the gross national product.

If I am not mistaken one of the conclusions of that study was what I hope everybody agrees is true, and that is if you really take a careful look at those two parameters, the rate of growth of the money supply and the rate of growth of the value of goods and services within the economy, that when you have periods of price stability, those two rates of growth are essentially the
same. Where you do not, they have diverged historically, the amount of divergence, that is the amount of inflation or deflation is almost a one-to-one correlation with that divergence. You have to shift the curve by -- in modern times probably by about 18 months and in older times I don't know, but it is not a time correlation, it is a factual correlation that requires a shifting of those curves.

And I think it is important as we think about the historical lessons to be learned, and I suspect, Dr. Schwartz, if we went back and looked at those two parameters, the rate of growth of money supply and the rate of growth of goods and services, that we would find a fairly close correlation, no matter what standard we were on.

And that inflation or deflation is very clearly the result of that divergence. One of the items that I hope this Commission can be thinking about as it explores whether gold can be a part of our monetary future again, or not, is more basically how do we exert the kind of discipline necessary to keep those two parameters from diverging, at least from diverging on an inflationary trend. Because I suspect that we would find that where such as after the Civil War, where we had a deflationary period, but with high output, and I believe also a high -- an increase in real per capita income, that we would not be
too dissatisfied with that kind of a situation, could it occur again.

DR. SCHWARTZ: Well, I am not so sure about that. I think when the prices are on an upward trend, or on a downward trend, that is a cause for political contention in this country. I don't think we should opt for a known inflationary pact, because I think it creates problems in the same sense that inflation does, but it distributes it differently.

SENATOR SCHMITT: I am not suggesting that we do, but certainly I think in terms of creating price stability, it seems to be the general consensus here that that is what we would like to do -- exerting the kinds of discipline necessary to keep those two rates of growth more or less equal, properly spaced. It would be a tremendously worthy aim of this commission.

SECRETARY REGAN: Congressman Neal.

CONGRESSMAN NEAL: I think Senator Schmitt has begun to make the point that I wanted to make. I think it is important, and I note in the study that I tried to do over the last several years, the charts that have been most impressive to me have been those that demonstrate that during those periods when we have had moderate and slow and predictable growth in the money supply, however it was backed or so on, have been those periods when we
have had with a time lag, predictable and stable economy, full employment economy and what has been characterized as a very healthy economy for all of our citizens.

And has been, if I understand correctly, the motivation behind the establishment of this commission. It is to find the conditions which will most aid us in producing that kind of non-inflationary full employment, predictable economic condition for our country that we have experienced at times in the past. And there are those who think that the return to the gold standard is one way of getting there, there are others who think there are other ways of getting there.

And I would just hope the commission would not limit itself to trying to achieve this goal, which I think we all agree on, or limit ourselves to the idea of gold because I think there are some other charts that we could introduce that would be helpful to us in reaching that same goal.

SECRETARY REGAN: Thank you, Congressman.

Governor Partee.

MR. PARTEE: Mr. Chairman, I just wanted to speak to Anna's paper and charts that she distributed. I think that listening to the earlier conversation, I think that I would conclude on the basis of this very sketchy presentation that the last is the best overall
performance the economy has had since the chart started in 1800.

It is true, I think, that because -- not only because of reasonable price stability, although I must say in the '50s I think many people were very concerned about inflation, but also if you look at the second chart it seems to me that the behavior in per capita income has been on the whole more stable and more satisfactory over this period than any time earlier and this goes back to 1870.

Let me point out on that second chart you show a decline, a level of decline back toward a trend, that has rather significant implications, that means decline in per capita income year by year. And I see, for example, although it looks like you are just returning to the trend, that 1880 to 1900 was a period where almost continuously per capita income was on the decline, that was a difficult period for the country and I'm sure a very difficult period to get through.

I might also say on the first chart I thoroughly agree with the earlier comments made that one has to be somewhat doubtful about the productive results of the declines over the same periods in that price line.

The period from 1860 into the Civil War, to 1900 when, according to this the price level dropped by...
more than 50 percent over a sustained period and was one that was marked by many financial panics, wholesale failures, widespread unemployment, great difficulty in the country and I think we should keep that in mind.

By comparison, it seems to me that this post-war blocked in section labeled Bretton-Woods is the best performance. But the fact that it is blocked in and labeled Bretton-Woods somehow suggests that Bretton-Woods accounted for it and I don't think that that follows.

I have always been concerned with cause and effect and growing cause and effect relationships from very simple comparisons of numbers. That by the way, extends to the comments of the money supply, such as the one Congressman Neal just made. And it seems to me clear, having at least been alive and witnessed and been an analyst of this period that the Bretton-Woods was not a very real consideration.

I would think that what we would like to do would be to return to something close to the experience of 1948 to 1965, but I am not at all sure that the return to a Bretton-Woods kind of system, or a return to the gold standard would contribute to that.

Nevertheless, I think that that is the subject of the commission, rather than a marginal monetary return of the kind that the Congressman was suggesting.

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SECRETARY REGAN: Congressman Wylie.

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

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

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

So, we possibly could use that as a guideline, but I renew my anxiety which I expressed at a commission meeting that if we do go to some gold standard, or some convertibility of dollar to gold, that we may have to take other countries along. And given the volatility of
the international economic markets as we see them, my
guess is that it would be very difficult to arrange some
sort of an agreement with the likes of the Soviet Union
which has a considerable amount of gold, or South Africa,
or Red China, or Brazil, France or the United Kingdom.

I would like someone to address that. As I say,
I might be inclined to do it and it sounds pretty good on
the face of it, except that I cannot get over this big
hurdle that I had at the first meeting as to how to fix
the price of gold and how we maintain some sort of an
agreement for stability.

SECRETARY REGAN: Thank you, Congressman.

Mr. Costamagna.

MR. COSTAMAGNA: Mr. Chairman, I have just a
brief comment I would like to make in relationship to
this chart. Looking more closely at the period of the
'60s again, would appear to be a very stable period. It
appears to me that the pressure began to build approxi­
mately in '65 or '66 and then by 1968 we were faced with
the bill in 1973 that removed the 25 percent coverage
that existed at that time.

And I would just like to refer to the Congress­
ional Record, I would be happy to make a copy of this
available later.

SECRETARY REGAN: Watch the distribution, will
you?

MR. COSTAMAGNA: Pardon me?

SECRETARY REGAN: I said just watch distributing that particular publication.

(Laughter.)

MR. COSTAMAGNA: I would just like to refer to this, especially the remarks that the late Senator Dirksen made at that time in relationship to passage of this bill, it is very fascinating. Many of the things that we have been discussing today appear to me to have been anticipated as early as 1968. In 1968, as I read history and as I read this chart, really gave birth to 1971, and that's all I would say.

SECRETARY REGAN: I think we have pretty well gotten through the history of gold.

We have a couple of other items on the agenda. Should we take a five-minute break and then come back? We have about another hour or so to go. I suggest a five-minute break and then we will come back.

(Whereupon, a short recess was taken.)

SECRETARY REGAN: The next item on our agenda is a review of recent United States economic experience from 1971 to 1981, a period -- a paper that was presented by Dr. Paul.

Would you please take over, Dr. Paul?
CONGRESSMAN PAUL: Thank you, very much, Mr. Chairman.

The paper is not a complex paper, it is more or less an analysis of what has happened since 1971. This is a special period for us, uncharted waters for the United States of America. We have the currency that we have today, so I believe the events that have occurred are very, very significant and they are worthy of special study.

I think it is appropriate in this follow-up study on the past history of our monetary system in this country, but it is today -- the condition that we have today we have essentially managed currency.

And the general analysis of what happens when we depreciate a currency and have inflation, we usually analyze this in terms of prices. I, for one do not think this is the best way, but I think it is the conventional way and I describe that in this little article by addressing the subject of prices, even though that is the secondary problem. The first problem is the money itself.

Here I will just go over it very briefly because I think most of you have a copy of this, it essentially shows that during this period of time, of '71 to '81, the consumer price index has seen an increase of 137 percent; money supply up 186 percent, but if you take M-3...
it is even worse than that, M-3 I believe during this period of time was up 2.8 times, so it is much higher if you are inclined to use larger Ms.

Interest rates, of course, is a big issue on today's agenda and today's markets, they are very high and if you measure those just in percentage increases there is a 271 percent increase; bankruptcies are up 75 percent, unemployment is up 24 percent; savings down. People aren't even trying to save, it is not beneficial to save.

And, again, I hesitate to bring up the subject of real wages, real wages are down. And I think this is the key, this is what people are really concerned about, they could care less about M-1s and M-2s, the gold standard and paper, but they care about what they are getting out of life and what they are getting in return for their work and effort. And they are not getting what they deserve, they are getting less now than they have ever gotten.

As best I can determine from all these statistics, they are getting less now than they have ever gotten in the history of our country. And I think there is a reason for it, and I think it is very specific and I think this is the proper place to be discussing it because I do believe it is related to real money, which
Even though we address this subject so often in terms of prices, I would like to take a slightly different slant on this because it is said so often in some of the papers that have been circulating that the assumption is that the whole purpose of what we do and what the money is for is to maintain price stability. That seems to be the objective.

And I, for one, would like to introduce a challenge to that because in my understanding of money that is not the ultimate objective. The ultimate objective is to have honesty in money, rather than a stable price level. It just happens that honest money gives more stable price levels than paper money, historically proven. But the whole goal is not price stability.

The reason why I concern myself about the unit of money being honest is that I think there are a lot of people who stand to benefit when you have honest money, when you grant the power to literally create money and depreciate currency this is literally the power to steal.

If I have $500 in the bank and somebody doubles the money supply, I have just lost $50 and that is a moral issue. I have been stolen from and that is why people are concerned because their savings are being stolen.
So, it becomes the issue of theft and honesty. So, what is the motivation for all this? I think that is important. Why do we depreciate the currency? Is it accidental? It couldn't be accidental, because it has to happen for a reason and there is a very specific reason.

I believe there are people who are misinformed, who believe that inflation creates economic growth and it is beneficial to the whole. But I think they tend to be on the small numbers.

I believe there are individuals who are able to benefit from inflation. I think government is a great beneficiary as they pay their bills with depreciated currency -- this is a tremendous boom to the politician who can give away and pay for the bills with printed money.

To me this is a dishonest method of paying the bills in that the politician is responsible for this destruction of money.

I believe the banks have an interest in inflation. I don't have banks come rushing to me and saying, "Please stop the inflation, I want honest money". They know that when we have a deficit and the fed responds and creates dollars to pay the bills, they can take the dollar and make six more out of it. No wonder it is
beneficial and no wonder the momentum is so strongly
against hard money and for fiat currency.

And also any individual who can get hold of the
money before it depreciates, whoever, has a reason to
benefit, so there is a transfer of wealth.

I have to admit that by understanding inflation
I can benefit from inflation. And most of us in this
room I bet have done it with some respect to inflation.
The average man in this country doesn't it, the average
man suffers the consequences because if we have a hard
asset and it appreciates in dollar terms somebody else
lost and it is usually the wage earner. He loses because
statistics shows he lost 15 percent last year. That is
the important thing about statistics, but the most important
thing is that we indict the idea, the idea is that dis-
honest money. And the only solution is honest money.

SECRETARY REGAN: Thank you, Congressman.

Jerry Jordan.

MR. JORDAN: A few comments in response, I
agree that inflation creates transfers, but inflation
does a lot of other things that are very negative. And
I feel very strongly that inflation should be eliminated,
not merely as a sort of value judgment on my part, but
because of what it does to society, both the real standard
of living ability and also the potential for social device.
So, we have to be careful about terminology.

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

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

And in that sense you might be able to use the term "theft", it is an unvoted for tax increase. The government has more resources at its command and the private sector, individuals, have less. But there is more to it even than that, Aristotle said that money was a veil, it was neutral. I don't believe that. I think that the quality of money, in the sense of the stability of the purchasing power, the medium of exchange function
of money serving to help individuals to make better
decisions in terms of economizing on the use resources,
gathering information and to conduct transactions, and
that the more stable the purchasing power of money over
time, the less shoe leather that goes to economizing on
money, we call it the hyper-inflation in the early '20s.
But nowadays it is not shoe leather, it is computer time,
it is accountants, it is financial managers of all types
to create ways to protect people against inflation, or to
get ahead of inflation or even to, as the popular books
say now, to profit from inflation.

That is socially wasteful to devote resources
to that purpose. So, price stability should be an
objective. But I think there is a difference here, we
are sort of dancing around as to what we mean by price
stability.

In Congressman Paul's list he had long-run price
stability for the last objective. And I guess I would
agree with that as long as short-run price stability is
the first objective. It is really the variance of the
rate of inflation year in and year out that is my
objective.

If somebody offered me two choices of inflation
year in and year out at 2 percent per year, which is about
the measure of quality -- improvement of quality of

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goods and services or the best we can do to measure it
with our price indices, versus a period where we would
have several years of 4 or 5 percent inflation followed
by several years of 4 or 5 percent deflation.

And we say that would average out to be zero.

five years of plus 5 and five years of minus 5, versus
year in and year out, I would take the mild creeping
inflation. I believe that it wouldn't escalate, as being
preferable to 10 years of zero, if that 10-year had
sharp increases and decreases in the price.

So, the challenge to us is to find something
that works better than in much of our history of this
long period that Dr. Schwartz referred to, maybe worked
at least as well as what happened in the '50s and early
'60s, even though we may not be able to agree why that
worked as well.

We can, I think, agree as to why it broke down
because once the disciplining forces on fiscal policy
certainly broke down in the mid-1960s, once the gold
cover on currency got in the way, became an inconvenience
-- there were problems with the gold pool in London, then
there was a problem with the exchange rates and the
challenge to our gold standard in the early '70s, we
simply weren't willing to be disciplined. So, we abandoned
the system and, I guess I would agree with Governor Partee,
but I wouldn't say that the period of the '50s and early '60s was necessarily as good as it was because of Bretton Woods, it was as good as it was because we had relative stability in the monetary growth and because we had a very desirable fiscal policy in that period.

We did not have year in and year out massive deficits in the federal budget, but it did break down. And so can we design a system of monetary discipline that will not be abandoned once it gets in our way, but that also does not cause periodic increases in the price levels to be followed by equal periods of decline in price levels, or deflation?

I don't think that that would be desirable either. I think it would be possible for us to actually make matters worse than what has been in some of our recent periods of history -- not worse than it has been in the last 10 years, I hope.

As far as the wealth losses in the '70s, while I believe that monetary instability and inflation has absorbed resources, it has caused the standard of living not to rise as rapidly as it otherwise would have, it has caused an element of social devisal. We also have to be careful of interpreting that period and when we look at what the oil shocks did, the oil price increases were massive once and for all wealth transfers, away from...
us and other oil consuming countries to the oil exporting
countries. That was a real wealth transfer, they can't
be richer unless we are poorer.

And we have to separate the effects of our own
inflation and what we did to ourselves with our monetary
and fiscal policies, from these other elements and not
attach it all to our monetary instability.

SECRETARY REGAN: Thank you, Jerry.

Governor Wallich.

MR. WALLICH: Mr. Secretary, I want to agree
above all with Congressman Paul in his use of the words
"honest money". I think that is a critical distinction
whether one thinks of inflation as a moral problem or
merely as a financial one. I think it is basically a
moral problem, that is why it is so important that we
come to grips with it, that it has this moral connotation,
it becomes very apparent when you look at the injustices
and frauds that are perpetrated by inflation.

As I have said on other occasions it is like
a country where nobody speaks the truth, we make contracts
knowing perfectly well that these contracts are not going
to be fulfilled in the literal language of the contract.

Now, an economist can talk about anticipating
inflation, first you can never be sure that it is
correctly anticipated; second, most people cannot
adequately defend themselves, certainly not under our
tax system where the inflation premium supposedly protects
the saver is taxed.

So, I think anticipated inflation is really of
no help at all, we might just as well recognize it is
unfair and unjust and unanticipated.

Now, as I come to the paper of Congressman Paul
I do begin to see things a little differently, he sees
this period of the 10-years under the paper standard as
a disaster and differing from what went before. Well, it
surely was a very poor period, but let's remember it did
not begin perfect stability. We didn't end the gold
standard and then launch ourselves the breaks of progress.
It was that the gold standard had not prevented the
inflation that began in 1965, gaining momentum and
finally it was the inflation that 'killed the gold standard,
and forced us off.

So, there were much deeper causes than merely
the closing of the gold window in 1971.

And, finally, I would like to draw your attention
to the numbers that Congressman Paul has on page 2, where
he shows the monetary base in M-1-A and then on to the
other aggregates. What strikes me is that the rate of
growth of these aggregates was very different, the base
rose from 77 to 163, which is a little more than 100 percent
over 10 years, which if I do it right in my head, is like something like 7 percent a year. M-1-A rose from 221 to 365, that is a little more than 50 percent and if I do it right in my head, is it somewhere between 4 and 5 percent per year.

I am not saying that either of these numbers is good, what I am saying is that different monetary targets pursued since 1971 would have produced very different economic effects. Had, for instance we had tried an M-1-A target in 1971, we would have to conduct an only mildly restraining monetary policy in order to stay on that target, granted that 45 percent would have been too high.

Had we had a monetary base target, we would have had to pursue a much more restraining policy in order to achieve what one would consider a reasonable rate of growth.

I make these points because I want to draw attention to the great difficulty of specifying in advance any rate of growth with any particular monetary aggregate.

SECRETARY REGAN: Thank you, Mr. Wallich.

CONGRESSMAN WYLIE: Mr. Secretary, I think this might be a good time for me to ask a question, because I notice that Dr. Paul has introduced a bill which provides
for gold coins. And for Americans who have an infinity
for owning gold, may I ask you, Mr. Secretary, what has
been the experience with reference to the so-called
one ounce and half ounce gold medallions, are they
available?

Are Americans buying them?

SECRETARY REGAN: Subject to correct by members
of my staff, off the top of my head, Congressman, we do
have gold medallions for sale. I don't think the sale of
them has overwhelmed us, in fact, I think it has under­
whelmed us. I think we have quite an inventory of gold
coins, they have not sold well.

SENATOR SCHMITT: Congressman, if you would
yield. We have done a little bit of investigation on
this and it turns out to be quite difficult to buy them.

Mr. Secretary, we are making some recommendations
to you to try to clean up that particular problem.

SECRETARY REGAN: For a person who formally
thought he knew something about marketing, I would be
interested in your suggestions.

SENATOR SCHMITT: There is a regulatory overhead
that is the problem.

CONGRESSION WYLIE: You say there is a problem
buying them, what do you mean?

SENATOR SCHMITT: I am not an expert either,
except to know that you don't just walk up to the window
and buy a U.S. government gold coin. You have to apply
in advance, as I recall, and pay in advance — you have
to do that, too, before you get the coin.

SECRETARY REGAN: That is a thing called a
cloak.

SENATOR SCHMITT: It is easier to buy foreign
gold coins than it is to buy U.S. ones.

CONGRESSMAN WYLIE: I suggest on the 100th
anniversary of George Washington's birthday and the 100th
anniversary of Franklin Roosevelt's birthday, maybe we
ought to come up with some sort of gold medallion and
market it for those people who would like to own gold.

SECRETARY REGAN: It is my understanding --
again, from the top of my head -- Mr. Wylie, that we
are going to have a half dollar, I believe, with George
Washington's likeness on it commemorating his 250th
birthday and that has been authorized by the Congress.

CONGRESSMAN WYLIE: A half dollar gold piece?

SECRETARY REGAN: No, no, silver.

CONGRESSMAN WYLIE: That is correct, that went
through our Banking Committee, we do have a half dollar.
Would that satisfy Dr. Paul?

SECRETARY REGAN: Let me add one other thing,
just for purposes of this discussion. There is a
memorandum circulating in Treasury now that the Treasurer of the United States may be counted as the lay person on -- and we have been in discussions with the White House about it -- a proposition has been put to Treasury by the organizing committee for the Olympic Games, a Los Angeles group, this is a private group, no government money involved in it, they are the ones that have the rights to the TV and things of that nature, for putting on the 1984 Olympics in Los Angeles.

They have proposed to us a series of coins, some silver, one gold coin, be minted. These be uncirculated coins. They would have a numismatic value for coin collectors and would sell at a premium and that premium be shared by the federal government and by the Los Angeles Olympic Committee on behalf of the Olympic athletes, and their training, and for putting on the games.

That probably will be introduced in this legislation in the near future.

CONGRESSMAN WYLIE: That would be our coin?

SECRETARY REGAN: And the proposal as it stands now -- these would be currency. Now, these would be silver and gold coins, $5, $10 denominations in silver, probably $50 and $100 gold pieces, at the current market price with a premium.

SENATOR SCHMITT: Mr. Secretary, the only point
that I am making and make in the legislation that I have introduced, is that we ought to make it simple. And it shouldn't take six weeks for somebody to buy a gold coin, that is basically what apparently it takes. There are roadblocks that Treasury has introduced into the purchase of these coins and apparently in the legislation you are considering for the olympic medallions there would be additional difficulties in buying gold.

And if it is difficult to buy gold in this country, somebody is going to buy it where it is easier, because that's the way people are.

The olympic coins would be actual coins, the others are medallions, and obviously don't circulate.

SECRETARY REGAN: Mr. Coyne?

MR. COYNE: The distinction as I see it, the numismatic coin, which is produced in relatively small quantities at prices that are not in anyway related to the bullion value, as against what is generally called a bullion coin, which is in the same marketing category it would seem as the United States olympic medallion.

The interesting thing the commission may wish to note is that foreign countries are marketing these coins in the United States and as a result of which they are selling in the United States millions of ounces of gold, as part of what appears to be a private monetization
program on the part of certain people in the United States.

CONGRESSMAN WYLIE: Why are so many Krugerrands
being sold in this country and not the medallions?

MR. COYNE: The Krugerrand is in a sense a one-
one ounce baby bullion bar in the form of a coin and marketed
as such. The U.S. medallion is not sold, it really must
be bought. The distinction would really be --

CONGRESSMAN WYLIE: It is a question of marketing,
they both have gold.

MR. COYNE: The Krugerrand is minted by the
Royal Canadian Mint and a number of others, banks are in
fact marketing these products in the United States in a
very substantial way and making them available to American
citizens at a very modest premium over the gold bullion
price and despite the fact that the U.S. medallion is
also available at a very small premium over the price.
It is an American coin and will have great antique value
at some distant point in the future, we are not talking
about 1792.

So, from that point it would seem clear that
these coins could be sold in very substantial quantities
in the United States, if its availability were made on
any kind of comparable basis to the way other central
banks around the world are marketing their gold in this
country and in other European and Far Eastern countries.

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SECRETARY REGAN: Dr. Schwartz.

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

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

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

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

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the monopoly that I think has been so detrimental. And also we have a law on the books today which is a disad-
vantage to us, and that is that there is a law on the books that says that the gold could be confiscated and taken from the American people — the same power that was in the hands of the Secretary of the Treasury in 1934 is today. And they could take it in at $400 an ounce and tomorrow sell it for $1,000 — they took it in in the '30s at $20 and remonetized it at $35 and at a great loss to a great number of American people.

So, there are very specific laws that do not permit the development of a real gold standard. We don't want a law that says — at least I don't — I don't want a law that says that thou shall use and mandate a gold standard. We want competition, we want fairness and those are the specific laws that I say we need to remove.

DR. SCHWARTZ: Are you in favor of national coinage of gold, or are you advocating private coinage of gold?

CONGRESSMAN PAUL: I would favor private monetization of gold with the condition that it could be used for the payment of debt. If the proposal was that you needed to relinquish the gold and demonetize the system and return the gold to the American people, the appropriate way is to make quarter ounces, half ounces and ounces so
that the American people can have it and have it dumped on the market and sold in the gold bullion form as our Treasury did a few years back, the central banks and large investors buy it.

So, I would say that the gold can be returned in small amounts and let it stand on its own merits.

CONGRESSMAN NEAL: Didn't we pass legislation just recently that made it clear that there was no prohibition against making contracts payable in gold? In fact, not discourage in anyway the use of gold in any particular way, that an individual might use?

CONGRESSMAN PAUL: The gold contract is legalized, but if a person comes today under the present understanding of legal tender laws and insisted that you pay so much of your debt in a depreciated federal reserve note they can 'do it and it can be upheld in the courts. It is a very, very clear constitutional and court opinion that was established in the late 1800s after legal tender laws were written during the Civil War period. We have -- we did in the House pass the confiscation law, but it did not pass in the Senate, so you may recall that we did address that and said that the government should not ever have the power to confiscate gold.

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 repealed 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 that 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 in-
stability and dishonest money?

I hear the phrase gold standard and I must
confess that I really don't understand what it means.

And in a profound sense I think the institution of a fixed price between gold and the dollar, institution of fixed gold standards would somehow allow us to achieve price stability and to cure the problems of inflation.

I also see that in fact we do not have a fixed price between the U.S. dollar and foreign currencies.

And I think it is clear on a common sense basis that the United States is not now in an overwhelming dominant economic industrial position with the rest of the world.

I am asking myself what is the question that this commission should be dealing with, how to reconcile those. Do those three facts make sense in any reconcilable way, fixed gold dollar price, number one; a variable dollar for exchange price, number two, and this country's current position as one very strange competitor in the international world in terms of our country's productivity and true economic accounting.

SECRETARY REGAN: I might say in answer to those questions you raised, under item 2E, which is the -- we have one more topic and then we will get to that -- that is some of the future work of this commission. We want to address those specific questions that you have just raised in the course of this.

Mr. Costamagna.

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MR. COSTAMAGNA: I have just two comments on the discussion, one is in relationship to this medallion, it ties in with a paper that I am going to submit today for a future agenda, the question of convertibility.

Would the Treasury be willing to buy back the medallions? In other words --

SECRETARY REGAN: You don't mind if I reserve on that question right now?

MR. COSTAMAGNA: The question of convertibility plays a role in coinage, the Krugerrand, the Maple Leaf when a person wants they can convert them back.

SECRETARY REGAN: Into what?

MR. COSTAMAGNA: Into dollars.

SECRETARY REGAN: Is there a secondary market for the medallion?

MR. COSTAMAGNA: That I don't know. That would be the true test of a coin, would be its convertibility back and forth.

I would inquire whether the medallion is salable once a person has bought it, or is it just a collector's item?

The second point, and this is a statistic I came upon in preparing this paper, is that last year, 1980, I would hope this figure can be confirmed or denied, there was $1.9 billions invested in foreign gold coins.
And that to me seems to be a significant amount in terms of our balance of payments as well, because Americans apparently can't buy American coins, they have resorted to buying foreign coins.

And this has an implication and a contribution to the deficit in our balance of payments, and this is something else to consider.

SECRETARY REGAN: Jerry.

MR. JORDAN: I am a little confused about the reference to convertibility. In one sense as long as there is a secondary or free market for something, you would in a sense say it was convertible. In the case of Krugerrands or other foreign coins -- Mexican coins, or something -- is what you are referring to that you can always sell them on the market in exchange for dollars?

MR. COSTAMAGNA: Yes.

MR. JORDAN: The question most people raise about convertibility is that the federal government agencies, the Treasury or the central bank are willing to exchange some sort of paper money at a fixed rate.

Now, we didn't have convertibility during the Bretton-Woods System because it was illegal for Americans to hold gold, so we didn't have convertibility for a different reason. But then you could have a system where you have a free market for exchange between dollars.
and gold, and you can say that is convertibility.

And I am not sure what role that has in the monetary system.

MR. COSTAMAGNA: Convertibility is a word of art. And I have been exploring this since our last meeting, it has developed certain fictions as the lawyers say and those fictions are quite interesting. When we have convertibility internationally -- there is international convertibility and domestic convertibility. When we have international convertibility, as you say, Americans could not convert because it was illegal to own gold.

Then we had a period of time -- well, in a sense we have a fiction again, we do have convertibility. I can convert paper into gold today, if I wish, because it is now legal. But internationally we do not have convertibility because foreign currencies cannot be converted into our American gold.

So, this is premature in a sense and that is why --

SECRETARY REGAN: All right, let me break off this discussion, time is slipping away from us.

Paul, would you like to --

MR. McCracken: I have this final item, you had better use the time for that.

SECRETARY REGAN: Let's go on. Dr. Schwartz,
can you briefly review that point for us?

DR. SCHWARTZ: I implicitly covered that paper, that the rate of growth of gold output varies with the real price that producers can obtain with an output.

There has been very substantial variation in the rate of growth of output, gold output since 1800, periods of declining rates of growth. They are not matched with deflationary episodes in the price level and rapid rates of growth of gold output that are matched with periods of inflation.

The output of gold production since 1970 down to the end of the century is that it will be declining and we cannot look forward, given present knowledge of the relation between the price of gold and the cost of gold and present knowledge of the state of the gold reserves of the world; we cannot look forward to gold output except at a flat rate or a declining rate.

To me this is a forecast of inflationary effect on the price level should we decide to return to gold. In that regard, that is a very serious problem.

SECRETARY REGAN: Any comments on that?

(No response.)

SECRETARY REGAN: All right, we will pass on to the next topic which is 2E. Now, there what we are trying to do is to stimulate your thinking. We have put
down a series of topics, we are wondering whether this is what you would like the staff to develop for you. In other words, to develop papers along -- on these topics.

Do you have other topics on which you would like to see us develop papers?

This will aid us in setting agendas for future meetings as we go, so as to get through rather quickly.

Henry?

MR. WALLICH: It seems to me some data, not only on gold production as we have here, but on the stocks is important; and not just the official stocks but private which gold is something like 50 percent, which gives the U.S. something like one-sixth of the total official and private stock.

I express this because the movement of gold, the volume of gold -- the U.S. on the gold standard might have to buy would depend of course not on current production, but on the stock that exists everywhere in the world and the inflation that we could get from having to monetize a vast inflow existing, not merely produce gold to be something which we hold.

SECRETARY REGAN: We will get those statistics for you.

DR. SCHWARTZ: I am planning to produce a statistical compendium with the report which will show
the statistical knowledge of stocks, monetary and non-
monetary, output and so on.

SECRETARY REGAN: Will you circulate those as
quickly as you can get them?

DR. SCHWARTZ: Certainly.

CONGRESSMAN PAUL: Mr. Chairman, I would like
to suggest a study paper on the history of parallel
currencies. It would be beneficial, for instance, I
believe Dr. Schwartz mentioned in her summary on the
history that during the Civil War gold did circulate in
the western part of the country, they dealt in the gold
currency and this is what prompted the legal tender laws
to make sure that debts were paid in greenbacks rather
than gold.

But it did exist at that time and I believe some
silver and some gold circulated through the Revolutionary
period and there maybe other examples. And I think that
would be worthy to our study because most of us, even
we who advocate a gold type of currency, recognize a
great deal of trouble from going from where we are to
where we would like to go.

And it is a possibility that permitting some
type of competition and allowing people to use another type
of currency might be advantageous and that would satisfy
some of us and yet do anything to disrupt and destroy the
system that we have.

So, I think that information would be of great value to me, personally.

DR. SCHWARTZ: That is precisely why I asked whether you would be in favor of private monetization of gold coin, and that would be a dual currency.

CONGRESSMAN PAUL: We do have some problems, as I suggested before, with prohibitions and also the fact that if you have depreciating currency that prompts the advantage to hang on to your appreciated currency -- it makes us hang on to the good currency and we use the worthless currency. But if we did maximize the freedom that we would like to have, I think it would not only permit us to act freely, but it would be a challenge to the money managers to do a better job.

So, I think a study of whenever this happened -- I am sure there are other examples in history that might give us some insight into this.

SECRETARY REGAN: Paul.

MR. McCracken: The suggested outline for the report here strikes me as very good, what we need at this point is some kind of a general road map, I would assume.

I would have two comments to make regarding this, without in any sense suggest that I am quibbling with words, the alternative monetary standard, if I were
to put that item in, would be something like alternative
modification of our monetary system, or something like
that.

What I had in mind is that the results of this
commission could be seen as anywhere along a wide spectrum,
ranging all the way from it doesn't need any change, it is
okay the way it is; to, I suppose at the other end, we
go back to the full fledge gold standard. But there maybe
intermediate suggestions that don't quite go to either
end of the spectrum, and that is the point of my suggestion.

The second suggestion is, I think in all of our
deliberations as to any change in our system we ought to
be quite explicit with the question of transition of
problems.

Congressman Wylie alluded to one question,
namely, if you were to go back to gold at what price?
You lifted the curtain on the stage that has a lot more
questions than even that, there are all kinds of problems
-- or at least we ought to face the fact that if this is
a part of a strategy or a return to price level stability,
what are the contemporary experiences, including inter-
national experiences suggest about the transition of
problems from getting where we are to where we would like
to be, you should argue one system versus another, to
be sure that you can get from one to the other.

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SECRETARY REGAN: Thank you, Paul.

MR. LEHRMAN: One question that arises from the latter part of this discussion is the use and the purposes to which working people put the monetary standard. To a great extent we allow ourselves to get involved in a lot of academic disputes over the competing theories and hypothesis about how the monetary system might work in the abstract.

But it might be important to determine the period, the uses and the purposes that people -- working people have in mind when they accept dollars and when they stipulate contracts with deferred payments in dollars. And what are their expectations with respect to those stipulations?

I think it is important because only by determining the uses and the purpose of the monetary standard can we arrive at a conclusion of the appropriate character for the one that would attain the goals that we all have in mind.

And I am just reminded that everybody around this room, unlike the early 1960s, agrees that inflation must be ended. That was not true in the academic disputes of the early '60s -- Beryl and Henry are both nodding, both sort of my teachers in one way or another, long distance -- remember that period very well indeed. But now Socialists,
Communists, monetarists -- it is curious how everybody of all persuasion has now agreed that the end of the inflation is at least as important, if not the preeminent goal that we all affirm.

Now, to design a goal without the effective means to attain that goal is to court political disaster. And I would submit with respect, that during the last decade we have been courting political disaster and the American people and their leaders have arrived at the conclusion that we must end inflation.

But we have not focused on the important question, we all agree on the goal; then let us navigate the dispute as to what is the optimum technique by which to end it.

And in that regard I would ask only as a businessman the following question: Is it more impractical to work out the problems of establishing a monetary standard, to use Dr. Paul's phrase, which has honest and assured value, or in a more academic phrase, the historic record of proven price stability, is it more practical to work out the problems in the discovery process for the transition to a true gold standard, or is it more impractical for the principle financial officers of this country appointed by the President and the senior legislative leaders to live with the impractical conditions.
which have immobilized the financial markets in New York and around the world today?

Now, I ask only that we compare real world situations and, therefore, I would hope you would add to the agenda an examination of the very real question, which is most impractical, living with 20 percent interest rates, variations in the financial markets which have literally paralyzed the American businesses and in fact destroyed large segments of the small business system, or to determine the uses and the purposes of the monetary standard and the likelihood that the gold standard would yield reasonable price stability?

Finally, that we abandon the abstract utopian notion that, in fact, there is a perfect monetary system, that there is a perfect monetary standard, that there is an optimum central banking policy, that the Federal Reserve system has it within its power to deliver to the American people -- I believe that is a false and very dangerous hope. And we seek to determine what is the least imperfect of the monetary institutions which has a record of proven and effective results, in the only laboratory which really counts to working people, which is the laboratory of the history, which is very different from the econometric models and the laboratories of the classroom with which you can conduct a lot of experiments.
And having made that determination, what is the least imperfect institution, then I think we can live with the fact that we are imperfect people, and that is about the very best that can be expected of us, both in this commission and in the legislature.

SECRETARY REGAN: Thank you.

Jerry.

MR. JORDAN: A suggestion for staff activities, I doubt that as a commission we can discuss every one of the specific proposals that we must ultimately get to, to do something, as a group, each of the 17 of us, might suggest.

At the beginning of today Senator Jepsen suggested that we discuss the gold reserve certificate proposal. We are going to get a lot of proposals that some of us might have some interest in, or a lot of unsolicited proposals. But we are not going to have the time, I would be willing for each one of us to make our analysis of whether we should be considering as a group.

So, I suggest that the staff serve as a clearing-house to look at all of these proposals, ideas and suggest which ones we should look at as a group.

One final comment, of the list of people that Mr. Lehrman mentioned that are now firmly opposed to inflation, I am wondering why you put the monetarists at
the end?

(Laughter.)

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

DR. SCHWARTZ: Incidentally, Jerry, I have already
been keeping all proposals that have come across my desk,
and I certainly expect there would have to be some kind of
an appendix.

MR. WEIDENBAUM: I would like to call attention
for the great care needed in filling out the draft of the
outline. And I specifically look at the section "Alternativ
Monetary Standards" and the subsection "Assessment of
Strengths and Weaknesses".

Given the array of views -- the array of back­
grounds on the part of the membership of the commission,
this may be an extremely challenging assignment, certainly
it is extremely difficult. I hope that filling this out
doesn't become another example of forensic economics where
the strengths are described by the proponents and the
weaknesses by the opponents. I don't find that terribly
useful, although very frankly, it characterizes the great
mass of material I have read on the subject since being
appointed to this commission.

I would hope that perhaps at the staff level there
would be some give and take among people with a variety
of viewpoints, so that this assessment could be much more
analytical than those pro forma assessments usually are. I mean this in the constructive way, but when I read some of the staff papers to-date I urge the staff to take this to heart, to the greatest degree possible. And I do mean this is a very constructive way because the staff input can be vital to the effectiveness of this commission.

SECRETARY REGAN: Governor Partee.

GOVERNOR PARTEE: Well, maybe we are all saying the same thing, but I believe the way I could best express it is to say that I would support the change in emphasis that Paul McCracken has suggested for this important section on alternative monetary standards.

I think there is a danger that this could result in useful, but somewhat sterile analysis of alternative systems. I think instead emphasizing the modifications that would be possible, there are pros and cons, there are strengths and weaknesses, but that would be the way to go because I think you do have to deal with the adjustment in the system.

And I believe Lew was saying that and I believe you were saying that, also.

One possibility, of course, would be to consider the kinds of facilities to make possible, let's say a private gold coin. And I think that is an alternative.
It might be one thing that ought to be looked into whether there are legal prohibitions or difficulties of one kind or another, whether there should be gold coins with interchangeability with the money with what the current prices of gold are.

That's one possibility. And I think if we approached this section in that way, we could accommodate what Congressman Paul said.

SECRETARY REGAN: Thank you.

Any other comments on the agenda? Mr.

Costamagna?

MR. COSTAMAGNA: Mr. Secretary, on the selection of speakers, for some reason I am enamored about what happened in 1968 and as it ties into Congressman Paul's analysis of the last 10 years. Apparently there were many people who testified at that particular point in time in favor of eliminating the gold clause as it then existed.

I am wondering if some of those same people could not be asked to come before this commission, especially those who sort of ordered it.

SECRETARY REGAN: And ask them if they had to do it all over again, would they?

MR. COSTAMAGNA: Right. There must be a way of finding out who they were from the Congressional Record.

If someone could find out, I would appreciate it. And
ask some of them to appear, whoever they were. Not to put them on the spot, but say did the last 12 or 13 years really turn out as you thought it would, when you recom-
mended this in 1968.

I really think from our standpoint that that is an important question, not that they had any bad intent.

SECRETARY REGAN: We will do some research on that, see if we have any volunteers. But I don't think we should subpoena them though.

DR. SCHWARTZ: The alternative would have been pay-out U.S. gold for the deficit on our balance of payments for so many years. We have not literally been converting outside liability, foreign liabilities that were convertible in gold and that would have been --

MR. COSTAMAGNA: No, I am talking about '68.

DR. SCHWARTZ: I am talking about '68. In '68 we already were not converting freely dollar liability for currency.

I was really going to ask, but the moment passed, what was really a gold standard because from '60 on, the U.S. was a most reluctant converter, it took every dodge possible not to convert foreign liabilities into gold.

We did many demeaning things in an effort and then we lost because our liabilities kept on growing.

And, as I say, if we hadn't eliminated the gold
reserve requirement at that point and of course when we 
eliminated it at that point, it was with the intention of 
pacifying our foreign creditors, presumably would have 
available $10 billion in golds that would otherwise have 
been available to convert to notes, but we didn't pay out 
that gold either.

MR. LEHRMAN: Anna, I thought you did not have 
a point of view.

DR. SCHWARTZ: I answered his questions because 
Mr. Costamagna wants to ask the people who at that time 
advocated -- legally there was nothing they could do.

SECRETARY REGAN: Well, I think I will bring 
this discussion to a close. Time has passed.

I wish that as you think this over over the next 
few days, if you have any further suggestions for us for 
the agendas, that you please get them to us as rapidly as 
possible, particularly if they need staff work.

I want to thank all members of the Commission 
for coming today. I think it has been a very lively, 
interesting discussion.

We will get you as quickly as possible the next 
meeting and the next meeting dates. Thank you all very 
much.

(Whereupon, the meeting was adjourned at 
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, 1961, as herein appears, and that this is the original transcript thereof.

[Signature]

PHYLIS P. YOUNG
Reporter

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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
Governor Rice
Governor Partee
Senator Jepsen
Senator Schmitt

Dr. Schwartz
Mr. Lehrman
Mr. Jordan
Mr. Costamagna
Mr. Weidenbaum
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 gold, 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.
This, in essence, is the way the gold standard operated in the period before 1914.

The fixed rate system that was established under the Bretton Woods system, in essence, required every country to declare a relationship to the dollar. The dollar was the central currency in the system.

It was different from the international gold standard of the free world for one period because countries were not really expected to decrease their internal money supply of balance of payment deficits.

They were free to adjust it to the dollar. In effect, this was a world where the internal money supply was determined by the fiat of the different national monetary authorities, based on this fixed, but adjustable, link to the dollar.

Finally, there is an alternative which is the floating rate system even though the floating rate is subject to management by national monetary authorities or exchange stabilization funds.

This system essentially is the demand for the supply of national currencies in foreign exchange markets that determines the price in other currencies.

As I indicated especially the last alternative makes possible a choice of an internal system independent of 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 consensus 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 regime.

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
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
ten years has been very poor and that even that with the rule I think the price rigidity or stability is not likely to come.

This is not the main reason why we have a gold standard or advocate a gold standard. The number one reason is to establish a trustworthy and dependable medium of exchange and one that people will believe will retain its value and has retained its value and cannot be distorted and cannot be abused and it cannot be a political football.

This why we asked for a gold standard, not seeking out rigid prices. Some have argued quite the opposite that there is more flexibility in the gold standard than in the monetary rule of discretion.

Back in 1925 the economist, Benjamin Anderson, in the case of the Economic Bulletin was arguing about the need to return to an international gold standard. I think at that particular time England was contemplating going back on the gold standard.

I would just like to quote a short sentence from his paper. He said:

"One of the great advantages to the restoration of the gold standard through the main commercial countries of the world would be the restoration of elasticity to the currencies which are now less elastic than it is desirable. An elastic currency has meant a currency which will contract
and expand with the needs of the trade."

This he was saying in spite of the fact that, of course, the main reason we created the Federal Reserve System was to give us an elastic currency. Here he is advocating gold because it does allow an adjustment to market conditions much better and much smoother than the monetary managers.

I believe this was the same argument used by the economist, Art Laffer, just recently in the Wall Street Journal that there was more elasticity and that the money supply could adjust upward if necessary.

So far as the Bretton Woods agreement is concerned, it is hard for me to see too many people advocating that concerning the problems that we have.

During that time I believe there were more than 500 major and minor devaluations that occurred in that period of time. It was a major problem. Of course, up until the bitter end we were able to main $35, but only with a precipitous halt to it. We finally did create enough inflation that we could not honor this.

I think it is also important to realize that even though with that agreement one of the strongest currencies survived without the use of the IMF and the Bretton Woods agreement and that was Switzerland.

They never joined the IMF and they had a currency
which was more closely linked to gold than the other currency and I would suspect probably the strongest currency in that period of time.

So far as the type that I would probably opt for most would be in number three where we have floating rates. Under the conditions today and under the conditions that we can anticipate in the near future, the odds of countries not inflating or the odds of all countries getting together and inflating at the same rate are virtually nil.

Therefore, you have to have a market mechanism for adjusting the discrepancies in the values of these currencies.

So, the floating rate under anticipated conditions I think is necessary. But we have to realize that if a gold standard existed, there would be no price fixing and no rate concerns.

It merely would be the comparison of two yardsticks. It would be the comparison of the Kruger rand to the maple leaf to the Mexican ounce to the U.S. ounce. It is all the same. You do not ever have to have a conference. You don't ever have to get people together and to agree that the yardstick is three feet long and 36 inches long.

People just have an understanding that there is fair trade. Under the gold standard we do not sit down and 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.
DR. SCHWARTZ: Yes.

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

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

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

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

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

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

DR. SCHWARTZ: All I am trying to find out is the way a gold system would operate under the conditions that you described. I don't see how saying "I don't want to name
the price" means that there is no price. There is a price.

When you fix the --

CHAIRMAN WEIDENBAUM: Mr. Chairman, may I ask a few questions for clarification here?

Assuming we were on the gold standard right now and that the Treasury issued currency back as fully as you specified by gold for a given number of grains of gold, what denomination would Treasury issue?

MR. PAUL: I am not sure. I understand the question completely, but let me say that my concept is that if we have a hundred -- for every ounce of gold you will have a fixed number of circulating substitutes for money.

CHAIRMAN WEIDENBAUM: What denomination would appear on those pieces of currency for one ounce of gold?

MR. PAUL: Preferably if you had one ounce of gold you would have a piece of paper that would say "Redeemable in one ounce of gold."

CHAIRMAN WEIDENBAUM: But it wouldn't say "one dollar," "ten dollars," or "fifty dollars"?

MR. PAUL: Not in a true gold standard. I think psychologically and by tradition and the desire to live in the past means that a lot of people want to hang on to the dollar.

In order to think of it in the true gold standard, you should have an ounce of gold and piece of paper that
says that if you put it to the Treasury or to your bank you will have it redeemed for an ounce of gold.

Then you do not have to worry about dollars sitting over here which can arbitrarily be increased by politicians versus gold which can only be increased by people putting out effort.

GOVERNOR WALLICH: If I may, Mr. Chairman?

Does this mean that the prices then would be quoted in terms of multiples of the weight of gold? For instance, a car would cost ten ounces of gold?

MR. PAUL: This would be the best way. I am not anticipating that this will happen in the next six months. This would be the ideal way for the true gold standard.

The real purchasing power today is measured in terms of the real wealth of gold or silver because we still think in terms of dollars but we have to take into account they are being appreciated at a very rapid rate. That is why we have to have so many.

But in terms of real purchasing power of real wealth and retention of purchasing power, if you have gold the purchasing power is going up at a rapid rate because of what is happening to the dollar.

MR. WYLIE: How do I go about getting my share of the gold in a system like that? I would like to buy an automobile.
MR. PAUL: I think one of the ways -- how would you get a share of the gold?

MR. WYLIE: Yes, so I can buy an automobile.

MR. PAUL: The first think is this. If we develop the parallel standard first, what you do is follow up on the discussion we had at the last meeting of the suggestion that the gold get out of the hands of the bankers, in the central bank, in the treasury, and put it in the hands of the people where it was taken from.

It was taken from the people at $20 an ounce and then revalued upwards. I would say that we should make the effort to put it back in the hands of the people. The first step would be the mintage of coins and make them available to the people and allowing them to use them when they choose to since the change may be difficult from today and tomorrow to go the idea.

We should at least consider the right of the competition to allow us to think of terms of real terms.

MR. WYLIE: But I want to buy the coins with dollars.

MR. PAUL: That is right. Under today's circumstances; yes, you would have to.

SECRETARY REGAN: Dr. Jordan?

DR. JORDAN: So long as we do have dollars in the system, I think you will agree that it makes little
difference whether we define a dollar as worth \( \frac{1}{500} \)th of an ounce of gold or to say gold costs \$500\ an ounce and you fix the price.

If you had warehouse receipts or gold certificates circulating as money, paper money and deposit money -- electronic transactions -- suppose we called them golden eagles, we still would have the same problem of whether you define an eagle as being a certain number of grains or a certain fraction of an ounce of gold, or a price of gold, it makes little difference.

You still can have that possibility of simply changing that definition. That is going to be true of any system that has any kind of deposit money or paper receipts or certificates.

Whatever you call those, the name of dollar or eagle or pound, is not the key thing.

MR. PAUL: It is the key thing. There is a big difference. If we have so many ounces of gold here and so many certificates here that are redeemable in that amount of gold, that is one thing.

But if you have them redeemable in dollars and dollars are arbitrary and there is nothing controlling its supply and somebody is increasing it at three percent, or five percent, or eight percent per year, in terms of dollars 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
percent 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 distributin;
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
credit and how are we going to get growth, this comes from our savings.

We reduce taxes and we do not tax savings and then there is an incentive to save because there is a belief that it is going to be worthwhile to put $100 worth of gold in the bank and in ten years I will earn three percent on it.

The only reason that credit creation acts as capital is because it steals from people who save. Since 1939, because of credit creation, $3.8 trillion was stolen from people who save; the people who put money in savings accounts. There was $3.8 trillion of transfer of wealth.

So that is what I object to. I say there should be no transfer of wealth. The all capital should come from savings. Money should increase at the rate of something of true value.

DR. JORDAN: But there is a transfer of wealth. Your system of 100 percent reserve requirement, which is what you are suggesting for the banking system -- 100 percent backing -- says that all of the creation of money at whatever rate -- and people are going to want to hold this form of money and use it the slower the rate that it is created and the more confidence that they have it and the quality aspect of money -- but it operates as a part of the tax system.

Other things are the same. The higher the reserve
requirement, the more the transfer to the Government from
the process of money creation.

SECRETARY REGAN: Gentlemen, I would like to
have this go on, but we are a little bit off the immediate
subject.

MR. REUSS: A parliamentary inquiry; if I may?

SECRETARY REGAN: Yes?

MR. REUSS: Since the purpose of this go around
-- and I think it is an excellent purpose -- is to elicit
from members their views on the role of gold in international
monetary systems, and since Dr. Paul has said that he
has views and will give them to us at some future time,
I think it would be entirely in order for Dr. Paul to proceed
now to give us his views on the role of gold in the internationa
monetary system.

That time should now be made available to him
as much as I would like to hear from Mr. Neal and Mr. Lehrman.

SECRETARY REGAN: Do you have anything further
to say?

MR. PAU: I think maybe Congressman Reuss mis-
understood me. I did have a view that said that the third
system where we had a variable floating rate of currency
-- I might not have been clear enough -- with a domestic
gold coin standard without international agreements was
the best that I could come up with here.
But even here the third one would have been entirely satisfactory because it said it was subject to an intervention. The floats were subject to intervention by monetary authorities.

I would have to exclude that and ask that we have a domestic gold standard with fluctuating rates.

The part that I think you are suggesting that I bring up now and I would be glad to, is that I have a proposal and a recommendation. I would like to get the opinion of the committee on what to do with gold in the international system.

Would you want me to make that proposal now?

SECRETARY REGAN: Much as I would like to at this point, I think we should hear from the other four or five who have not spoken on the initial point. Then we will come back to that.

Congressman Neal?

MR. NEAL: Mr. Chairman, for a variety of reasons as yet unconvinced that we can better restore trust in money by either returning or going to a gold standard domestically, it is hard for me to conceive of a different role than for gold in the international monetary system either.

It does seem to me that we could do a better job of providing trust in our money and it seems to me that if we would pursue a predictable course of growth in the money
supply over a period of years -- a level of growth that approximates the growth in the economy -- and if there was a commitment from all branches of Government, a consistent commitment to that over some period of time, then we could very well restore trust in our system of money without entering into what seems to me to be some very uncertain and possibly very damaging possibilities by returning or going to a gold standard.

Whether this is possible or not, I have come to think that it probably is, but recent political history would suggest that it may not be without some sort of legislation.

I say that because often those who are great proponents of this, at the least sign of any difficulties, start attacking the idea of maintaining consistency in money growth and so on.

My own preference would be, as I said on the first day, legislation to require that money grow at about the rate that the economy is growing. Even with that, I would like to see some kind of escape clause to accommodate external shocks to the economy.

I am thinking of things such as this. I would think that a mechanism for that would be a vote of a super majority on the Open Market Committee of the Federal Reserve Board.
I am thinking of shocks like the dramatic increase in oil prices, the oil embargo. Some sort of temporary adjustment might need to be made.

I think this again is a good argument for not going to some sort of rigid gold standard. I think it would either -- since we would make a political decision to go to a gold standard, that decision could be referred and since we are perfectly capable of reversing ourselves in public policy, I imagine it would be reserved at the time of some grave difficulty.

I think we might anticipate that we might face some difficult times in the future from time to time and provide a mechanism for making some adjustment to those difficult times and make sure that it is a temporary sort of adjustment to accommodate those conditions only and not a permanent change.

I would remain convinced at this time, although I certainly want to keep an open mind on this subject, that that system, if we would make a commitment to it, would be better than going to a gold standard domestically.

For that reason I cannot see an important role for gold in the international economy.

SECRETARY REGAN: Thank you very much.

Mr. Lehrman?

MR. LEHRMAN: The question of: Do you favor the
present floating rate system?, the answer is: I do not.
The floating rate system was inaugurated in 1973 and the consequences are everywhere to behold.

We have the highest real interest rates as Mr. Schmidt said at Ottawa, since the birth of Christ. Indeed, the average rate of unemployment since 1973 exceeds by some measures the average rate of unemployment in any decade since the birth of the Republic up to the Great Depression.

The floating exchange rate system was established by theorists, economists, policy makers with the belief that it would bring equilibrium in the world market where balance of payments were not adjusted properly under the Bretton Woods system.

It was established with good intentions and those good intentions have brought about a disaster.

The question goes on: Is there a role for gold in the system of floating exchange rates? Under floating exchange rates there is no role for gold. Gold is a commodity, the price of which varies according to the production of paper and credit currency by the central banks or monetary authorities of the individual nations who chose the floating exchange rate system in order to free their monetary policies to have the license financed deficits which would otherwise never be financed in a free and open market.
The next question was: Do you favor return to the Bretton Woods system of internationally-agreed fixed exchange rates? The Bretton Woods agreement of 1944 was also inaugurated with the hope that we would avoid the "beggar your neighbor" policies and the exchange rate wars of the late 1920s and the 1930s.

It was a great hope and it was appropriate that Americans should have given the world a hope for real money. Unfortunately, the outcome of the Bretton Woods agreement was precisely as Anna described it, namely, that the balance of payments deficits were perennial through the 1960s and they gave rise to a financial crises in every year which lead to ever more luncheons in Bonn and Rome and Zurich and London, among the central bankers who participated in them without ever a remedy for the fundamental defect of Bretton Woods.

The next question is: How would discipline be imposed on members so that par values would not become misaligned?

The discipline which was missing in the Bretton Woods system was the requirement, as Arthur Costamagna pointed out in his brief, but compelling three page piece on convertibility, the discipline missing was the rule of convertibility.

Though it was contemplated for Bretton Woods, indeed by John Maynard Cains in his recommendation at Bretton
Woods, it was never fully implemented nor universalized under the Bretton Woods agreement.

What, in fact, happened under Bretton Woods was that the balance of payments adjusted mechanism under a fixed exchange rate regime was immobilized as in any dependency case, even a welfare dependency where often you put someone on the dole and his whole adjustment process in life is somewhat immobilized.

So, we immobilized the balance of payment adjustment mechanism. We jammed the adjustment mechanism by forbidding convertibility under the Bretton Woods agreement.

They were forbidden to convert their paper and credit currency until the par value which, by law, the dollar was defined, namely, a weight unit of gold, 13.71 grams.

That is the way the discipline to restore the discipline that was absent in the Bretton Woods agreement of convertibility and to make it at least reasonably workable was.

What would be the role of gold in the system?
The role of gold would be that of the monetary standard.
The monetary standard is the yardstick and as a yardstick it has a specified value.

Who would give to a board of governors of uniform weights and measures the authority to appreciate the yardstick
on a yearly basis to 18 inches, or to augment it to 42 inches.

The monetary standard -- a weight unit of gold under the Bretton Woods system -- would also provide, upon demand of those who desired it, a medium of exchange, a form of payment, though they need not rule out Federal Reserve notes, or hand-to-hand payments in currency or the use of checking deposits to make payments in the supermarket.

It would, in fact, provide for a currency for those who desired it and who turned in their paper currency.

Finally, it would provide, as all real monies have, a store value, which is missing in every one of the pure paper currencies that we have today.

To my knowledge, scholars suggest that at no time in the last 1,500 years has the world had no single currency backed in any form by a monetary standard which required real work and capital to produce it. At no time in the last 1,500 years has the discretion of nations, states, or powers be so unlimited as to produce at varying rates a paper currency linked to nothing but the whim of the politicians who presently control the system.

How would the price of gold in the system be determined under a Bretton Woods system? The price of gold would be determined under present conditions by the determination to establish a steady monetary policy at the Federal Reserve during a stabilization period in which the
equilibrium long-run price for gold would be emerging.

Secondarily, among the financial officers of the land -- primarily the Secretary of the Treasury -- informed by the legislative leaders whose responsibility to establish the statute that it would be, that the standard would be set at a weight unit where the price of gold, as Anna prefers, set at the average level where nominal wages could not fall.

With these two indicators we could be sure that interest rates would fall immediately in the market. Those are the two techniques by which you determine the price which seems to have caused so much confusion.

The equilibrium price emerges in the market during the period of stabilization because of the pledge to establish the monetary standard say, two years hence, and a steady monetary policy at the Federal Reserve which is a pledge, which I gather was undertaken on October 6, 1979, in any event.

Secondly, the rate unit will be established and the statute for price will be established in the statute such that according to the financial officers of the land, duly appointed by the President, that the average level of nominal wages will not fall.

The next question was: Do you favor return to an international gold standard? I do favor going forward to an
international gold standard. I also believe you cannot go back in history.

Do you recommend a convenient international monetary conference to obtain an agreement of three-fifths of the members of the IMF with 85 percent of the votes to restore a fixed price for gold and the definition of each currency at a fixed gold rate?

I recommend that we attempt to gain the agreement of three-fifths of the members of the IMF with 85 percent of the votes. In the absence of it, we should establish the monetary standard of the United States as a way to go for it is the only authentic American money.

I believe that the entire free world would adhere to that standard as they did in the past because all the world desires a stable money. The dollar is our trademark. There seems to have been some confusion before. Murray Weidenbaum pointed it out so clearly.

The dollar is our trademark and we should not abandon it. Our dollar should be a monetary standard which all would respect as an honest measure of the value of commercial transactions.

How would the fixed price of gold be determined? That is the same question that was asked in part two, and I would answer it similarly.

Will gold coinage be restored? Indeed, gold
coinage will be restorage. A free coinage act will be passed not unlike that established by Alexander Hamilton, George Washington, and the founders of this Nation in 1972.

Those who desire to hold their currency in coin in a free and open society should have the power to do so and those who desire to hold their currency in the form of Federal Reserve notes or in bank credit, demand deposits, convertible, as promissory notes into the monetary standards, should have the freedom to do so.

I would like one more word, if you would permit me, Mr. Secretary.

The monetary standard is no more than the word implies. It is a standard of the value of economic transactions. Under our Constitution there are two articles which pertain to the monetary standard. They are compelling and decisive.

The first clause is that the Congress has the power to coin money. It is clear and explicit. So what one recommends in the form of a gold standard is not only reasonable and I think established by the test of history as the least imperfect of the monetary standards for it, as Murray pointed out, we cannot expect utopia, and we must repudiate that very idea or it will bring about the same disaster as the floating exchange rates did.

But the second article in the Constitution denies to the 50 States the power to make legal tender of anything
but gold and silver. That is to say, the monetary standard, trademarked the dollar, shall be a real article of wealth, the anchor, for the paper currency or bills of exchange or demand deposits issued by the banking system or the Government authorities.

Therefore, the argument for a Nation which lives under laws and not under the discretion of politicians, originates in the Constitution. I believe that argument, if it is not sufficient, is certainly necessary to justify any argument.

Congress is given the power to determine in the Constitution uniform weights and measures. It is by that authority that the Congress establishes the yardstick equal to three feet, or 36 inches, and would never defy reason or logic by augmenting the length of the yardstick next year or depreciating it.

SECRETARY REGAN: How about 39 inches and calling it a meter?

MR. LEHRMAN: I have no knowledge that we have ever gone to a 39 inch yardstick. It so defies common sense that to use the analogy it speaks of the importance of having a monetary standard which is a just and honest measure which people can have faith in.

The monetary standard in the United States from 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
they were during the Civil War when our Nation was going through dissolution. The economic program to which I am profoundly committed -- not to mention the leadership of President Reagan -- is going to work. We will have to establish the monetary standard, for it is the only way to give working people a six percent mortgage and businessmen who want to establish new products and retool their plants and compete with the Germans and the Japanese abroad, a rate of interest in the capital money markets which is consistent with a reasonable rate of return.

SECRETARY REGAN: Thank you very much.

Mr. Costamagna?

MR. COSTAMAGNA: On the domestic basis I would agree with what Mr. Lehrman just had to say. However, as I view it, it is a question of timing when I consider the international aspects.

I would feel we must learn to walk once again before we run.

The development I have seen in the last several years of foreign gold coins coming into our country indicates to me there are several major countries throughout the world that are proceeding with domestic coinage.

It would seem that if we proceeded to do the same, that would be the beginning of the locking. I have to believe that if we proceed along these lines, the international
might take care of itself or if every major country in the world were to proceed along these lines of having internal convertibility or redeemability, whichever term you wish to use, ultimately the international conference of 85 people might just flow automatically and the international convertibility desired at the end of the road might be much easier to accomplish.

What I am saying is it is a question of timing. I believe currently that I would view the alternatives on an international basis, retaining the status quo, of the floating rate system.

But domestically I share with Mr. Lehrman his many fine points.

SECRETARY REGAN: Thank you very much.

Dr. Jordan?

DR. JORDAN: Thank you.

In international affairs I think Gresham's Law is backwards. It is that high-confidence monies drive out low-confidence monies. The experience of the past, especially the last decade after Bretton Woods broke down, and even before, is that the world turns to the currencies that they perceive as having the greatest stability on the purchasing power.

The dollar at one point was totally dominant.

When inflation became a major problem in the United States,
the erosion of confidence in the stability of our purchasing
power of our money -- and it may also be in our political
institutions, our will to deal with this problem -- the world
started looking for substitutes. Whether it was Swiss francs
or German marcs or yen or creating something new -- the SDR,
the so-called paper gold -- it was the idea of having something
that had greater stability and something the world could have
more confidence in as an international reserve.

It always has been a paradox to me that it was
excessive creation of dollars that caused people to lose
confidence, but the advocates of SDR worried that if SDRs were
not created fast enough, it could never become an international
reserve.

The world tried to create a common currency in
Europe, an alternative. If the United States restores
stability to its economic policies broadly and brings down
the rate of inflation very sharply, then I have no doubt that
the dollar will be the international reserve currency. It
will be the enumerator of the world.

The strength of the dollar in 1981 I think is a
reflection of this increasing confidence in what we are doing
here.

I do not believe that the United States in any
case should think in terms of fixing the exchange rate between
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.",
some sort of cooperation among all the other countries. I think that is very unrealistic.

I think that we should move towards a set of institutional arrangements that will eliminate inflation and guarantee that it will stay eliminated. If you have a stable dollar and stable purchasing power, the rest of the world will adopt a system tying themselves to us. But we should not tie ourselves to them.

SECRETARY REGAN: Thank you very much.

Governor Partee?

GOVERNOR PARTEE: I agree with a lot of what Mr. Jordan said. As we have gone around the table there has been, it seems to me, more talk about the domestic role of gold than there has of the international role of gold.

People have said provocative things such as it would bring down interest rates rapidly to very nominal levels and that we can define money and that kind of thing. I do not want to comment on them.

But it does seem to me that in a modern society you have to have a unit of account. If you have a unit of account and have a gold standard, that means you have to define the account in terms of gold content that is established as the unit of accounts price, the gold's price in terms of the unit of account.

To have an international standard would mean that
each country would have to do the same thing. Therefore, it is impossible for us to say we should have an international gold standard. It involves a great many partners in doing that and in agreeing to defining their currencies and terms and their units of accounts in terms of the content of gold.

Obviously it would require an international conference and it would be extremely difficult, I think, to obtain. Therefore, I do not think it is a practical question of: Should we have an international gold standard for this Commission or even this Government or even this Nation?

It is something that would require a great deal of cooperation around the world.

The reason we have a floating rate, changing the exchange rate relationships, it seems to me, is because conditions vary so much for one country to another around the world.

Even if every country in the world were to define their currencies in terms of gold, the situation basically and inherently would be unstable unless they all agreed to establish the same conditions of all the economic and financial and social conditions that would make it possible to maintain this, which is the rule of gold as Anna has put it together here.

It seems to me there is no chance that the countries 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.
That, I think, gets beyond our purview. So, of necessity I guess I would say that today we have no alternative but to think in terms of the floating exchange rate much like the present system that we have.

MR. LEHRMAN: Mr. Secretary, may I make a brief comment?

SECRETARY REGAN: Certainly.

MR. LEHRMAN: With full respect to Chuck, I want to make the point as a businessman that when you have a unit of account, it is an established unit of account that no one ever anticipates that a political authority can change.

Working people, business people, and I am not now talking about economists, trade goods and services in the market -- ball point pens in the United States for beer in Germany or stocks in Wall Street for shares of stock in Germany, using a unit of account.

The very phrase "unit of account" means a specified value which no one arbitrarily under a contract has the lawful privilege to alter. Any other definition of the unit of account is a phrase without meaning and eviscerates the whole purpose of the accounting system in business transactions.

The reason why that is important -- and no one knows this better than the Secretary himself when he was the Chairman of Merrill Lynch, is that in the last decade we
have created such chaos in our business and accounting systems by the mutation and the unit of account that we now have the SEC and the Accounting Board and the United States warring with each other in the courts over what, in fact, is a unit of account.

Is it the historical unit of account in which we maintain our books? Or is it a current account? The FRB says one thing and the SEC another.

All of the guardian elite, these regulators, are now trying to tell businessmen and working people from all walks of life four or five definitions established in far-away places like New York or Washington of what, in fact, is the local unit of account. No one can agree upon it.

What are the consequences? The SEC suggests that businessmen now under the laws of disclosure are fraudulently reporting their earnings when they under-depreciate their capital assets or when they improperly account for their working capital because of the variations in the values of inventories during the market interval.

The unit of account has been wrecked and the historical or current cost of accounting system is not only no substitute but is breeding the very chaos which it was brought about to cure.

The other reason why this question of the unit of account to business people and working people is so important
and why any alteration in it arbitrarily violates contracts voluntarily arrived at is equally important is that this distinction which we learned in academic departments of economics between the national economy and the international economy is inane.

Any person who has ever worked in financial or economic markets knows there is only one economy. It is the world economy. It is a unified economy wholly arbitraged by prices, production, and shipping.

As a result of that, the unit of account in the United States is inextricably linked to the unit of account in Germany. As a result, to distinguish between the monetary standard in the United States and separated as if we have the privilege in an integrated world of establishing a unit of account entirely separated from the unit of accounts in the rest of the world, and that we could move it and value it as we please arbitrarily, is equally inane.

It produces the very chaos in the financial markets we presently enjoy.

If we are unwilling to accept the notion that the world economy is an integrated economy, then we will continue to make the distinction between national economic policy and international monetary policy to our everlasting disadvantage.

SECRETARY REGAN: May I interrupt at this moment for a technical point of view?
Chairman Weidenbaum and I have to go to a Cabinet meeting which is scheduled at 12 o'clock with the President. We will be back when we reassemble here at two o'clock.

As I understand it, this meeting will continue on until one o'clock and then a luncheon break.

I will ask Dr. Sprinkel to chair the meeting in my absence. I want to welcome Senator Jepsen here to the meeting. I didn't have a chance to say hello to him earlier.

We will see you at two o'clock.

GOVERNOR PARTEE: I really think I ought to be permitted to respond to that.

SECRETARY SPRINKEL: Yes.

GOVERNOR PARTEE: That is pretty much the speech you gave at our first meeting and afterwards I told him and I still think that he gave a fine speech in opposition to inflation.

MR. LEHRMAN: Thank you again.

GOVERNOR PARTEE: I agree that inflation has been a very evil thing. But the point I want to make is that inflation, the thing that concerns him, me, or anybody else or any consumer as a practitioner is maintaining a stable value for the goods and services you buy.

Gold is not the goods and services we buy. Therefore, that is not the proxy for goods and services 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.
There have been periods where we have had international convertibility.

My question is: Have there been any extended periods in the history when we have had domestic convertibility but not international convertibility?

SECRETARY SPRINKEL: Would you repeat that question?

MR. WYLIE: The question is: Have there been any extended periods in the history -- and it seems to me that the discussion was leading in that direction among certain members of the panel here this morning -- when there has been domestic convertibility to gold?

In other words, American citizens could convert whatever their holdings were, their money or whatever, into gold and that we would not say to foreign banks or central banks of foreign countries that they could convert their dollars into gold?

DR. SCHWARTZ? I think during World War I, around 1917 to 1919 when you could export gold only under license from the Treasury, that technically it was possible for domestic holders of non-gold money to obtain gold from the Treasury, but for export it was necessary to obtain a license.

So, in that limited sense you could say there was domestic convertibility, but limited international 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.
DR. SCHWARTZ: I think it is conceivable that you could run a system that way without permitting international convertibility without setting up a fixed exchange rate system which is what international convertibility would involve. I don't think of any historical example which would fit that description.

You know, under the pre-World War I gold standard, the Bank of England manipulated the price of gold. It wasn't strictly 84 shillings, ten and a half ounces. They shaded the price sometimes, and they raised the price sometimes in an effort either to bring in gold that otherwise would not have flowed to England or to deter export of gold.

During that whole pre-World War I period, technically gold was convertible for domestic holders, but I don't really believe that that fits exactly the description of a floating rate international system and internal gold convertibility. I don't really think that's --

UNDER SECRETARY SPRINKEL: Congressman Paul?

CONGRESSMAN PAUL: In answer to Congressman's Wylie's comment, I think maybe I could ask that same question another way, and maybe the history could confirm this, whether it was true or not.

Isn't it true that when we had a domestic gold standard and there was redeemability that when other
countries had redeemability and there was an interchange between gold standards, we did not have international agreements. Is that true in the 19th Century that we did not have an IMF type of an agreement?

DR. SCHWARTZ: Oh, no, there was no international monetary authority comparable to the -- but that's why you need it under the Bretton Woods system, simply because it was not the type of fixed --

CONGRESSMAN PAUL: That's the important point then, that we have a domestic gold standard, and it is a better gold standard than we had under the IMF and the Bretton Woods. The importance of the international agreement was downgraded. You didn't need it, because there wasn't interchange of currency.

The other end of the question you asked, can you have domestic redeemability without an international. Yes, in the First World War, we probably could go to the bank and get -- but there was one year, I don't think we could do that. I think there was one year where they --

DR. SCHWARTZ: '15 through '17 -- no, '17 through '19, from the time we entered the war in April 1917 until June 1919 --

CONGRESSMAN PAUL: They suspended it.

DR. SCHWARTZ: -- they suspended it.

CONGRESSMAN PAUL: So I think my point is that
when you have a good gold standard, you don't need your international agreements.

UNDER SECRETARY SPRINKEL: Senator Jepsen, other present members of the Commission have had an opportunity to respond to Anna Schwartz' paper, and with special emphasis on the preferred role of gold in the monetary system, and we'd like to have your comments before we proceed to other items on the agenda if you want to give them.

SENATOR JEPSEN: I have not had a chance to review this yet. Later on in the day I will.

UNDER SECRETARY SPRINKEL: You would then submit them, if you prefer to do so, and we'll see that they get on the record.

Yes, Mr. Lehrman?

MR. LEHRMAN: Congressman Wylie's question, I think, goes to the center of the problem. He asked whether or not a national monetary system can exist independently on the gold standard of the international relations of foreign currencies, and we do have, and I think you wanted an historical example.

UNDER SECRETARY SPRINKEL: Has it ever happened before?

MR. LEHRMAN: Has it ever happened, and I think that that's the first question. We have only the laboratory of human history by which to test some of these
propositions. Indeed, that did happen. In fact, all of
the 19th Century provides the data from the subject. At
the end of the Napoleonic Wars, at the Congress of Vienna
and subsequent thereto, the United Kingdom, England,
established the monetary standard as a weight of gold.
In fact, English money was known as gold money throughout
the world.

In 1817, the Parliament in England decided to
re-establish the monetary standard which had been suspended
in 1795 in order to prosecute the war through the issue
of paper money and bank credit which would have, of course,
destroyed the pre-war parity.

Twenty-two years later in 1817 after the war
was over, England decided to re-establish the pre-war parity.
Now leaving aside whether or not that was a wise decision
to establish the pre-war parity, they did nevertheless
in 1817 pass a statute to attain that goal, and it became
effective in 1821.

It's known as the Ricardian Restoration, largely
as a result of the role played by David Ricardo, and from
1821 through the remainder of the century terminating as
Anna pointed out with the First World War, gradually every
country in the integrated free world economy of the 19th
Century linked systematically its currency directly with
the pound sterling or defined in statute domestically without
an international agreement to a weight unit of gold.
There you have a perfect example of what happens when the leading country of the world, as it was, without peer in 1817 decides to establish an honest monetary standard which all the world can depend upon.

It drew to its banner, to its standard all other countries which then wanted a confident money for their people to save in, to hold their pensions in, and ultimately to stipulate for payments, that is to say long-term bond contracts, and gradually through the 19th Century the gold standard through certain trials and tribulations became the adopted monetary standard of the entire world, not because England determined unilaterally what would be the monetary standard of the world, but because all the world voluntarily and freely chose a monetary standard which working people from all walks of life could understand and have faith in.

UNDER SECRETARY SPRINKEL: If it's agreeable with the members, I would like to have Dr. Schwartz summarize the range of views that have been expressed around this table, and then we would like to go onto the next agenda item.

GOVERNOR RICE: Could I just ask one question of Congressman Paul?

UNDER SECRETARY SPRINKEL: Yes, sir.

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.
I see no need for that, and yet under the gold standards, that's essentially what has happened is that the money supply does increase essentially at the rate of economic growth.

Dr. Sprinkel, if you move onto the next subject, I want to remind you of my request.

UNDER SECRETARY SPRINKEL: Would you prefer to do it now or subsequently?

CONGRESSMAN PAUL: Well, it's dealing with this subject. Are we going to go to another subject?

UNDER SECRETARY SPRINKEL: Yes. Why don't you do it now?

CONGRESSMAN PAUL: Okay. I have a specific proposal having to do with what we should do with gold in the international system that I would like to hear comments on from the Commission.

I would think that both the people who believed in the gold standard as well as those who claim that gold has no role in the monetary system should agree with this, and my proposal or my request is that we advise the Congress that the gold, the American gold, held in the IMF be returned to America, to the American citizen. That is, come back to the Treasury, and then get to the American people once again in the form of coins, and I would think this would satisfy those individuals who say that gold has no role.
in the domestic or in the monetary system, and it would satisfy us who believe that gold should stand on its own, it should stand in the marketplace, we should get it where it belongs, it's a free country, and people ought to have gold, and I've discussed this with the different factions in the monetary spectrum and several in each faction seems to think that there is no pressing need to hold gold in the IMF.

I think this is a consistent belief that we must not hold gold in the IMF. This has been the official policy. I believe it's an official policy today, certainly under the Bretton Woods agreement, the law that was passed in 1976, our bill, from the report it says 1971 -- this comes from the report of the House in 1976 dealing with the IMF Bill.

In 1971, the IMF abolished convertibility of the dollar into gold. Since then, it has been the objective of the United States with the support of this committee to hasten the demonetization of gold so as to reduce its role in the world monetary system. So it seems like that was the intention and the policy of our government, and still there's no official policy today that says otherwise.

Now what has happened since '76? Well, at the time, there was approximately 150 million ounces of gold in the IMF, and the decision was made at that time to remove
a third of it, to follow up on this deliberate policy.

25 million ounces were sold, and the funds, revenues, were given away, and 25 million ounces of gold were returned to the host nation. At that particular time, 5.7 million ounces were returned to the United States according to my records.

It is my estimation the IMF now holds 42 million ounces of gold which the United States is entitled to, and I think that it would be wise for us who believe in gold to have the gold returned to the people, and it would be wise for those who don't believe in gold to make sure that gold is demonetized, and I would like to get as many comments as possible on this proposal, because this is something very, very concrete that we can deal with and make a recommendation one way or the other.

I might suggest that I think it's so important that if gold is something that the speculators are dealing with, and that we must be very cautious in that we should do anything to benefit the South Africans, that the very best thing we could do to hurt those terrible speculators and to injure South Africa is to get the gold out, and, as a matter of fact, just as quickly as possible, take 100 million ounces of gold away from the IMF and put it in the marketplace.

UNDER SECRETARY SPRINKEL: Do the members of
the Commission want to comment on that proposal now, or should it be deferred until the other proposals that have been made and will be made are considered in detail?

CONGRESSMAN REUSS: Mr. Chairman, I would like to ask just one question of Dr. Paul. Has Dr. Paul now tabled before the Gold Commission the totality of his recommendations concerning gold in the international monetary system?

CONGRESSMAN PAUL: Have I what? Please repeat that.

CONGRESSMAN REUSS: In the proposal that you just placed before the Gold Commission, is that your total proposal for the role of gold in international monetary systems?

CONGRESSMAN PAUL: No, for the moment, this is one --

CONGRESSMAN REUSS: Well, can we have the rest of the package?

CONGRESSMAN PAUL: I have no other one -- because, as Dr. Sprinkel, I guess, advised there would be another period of time that specific proposals may be brought up later, so, no, I have not decided this was my only proposal.

CONGRESSMAN REUSS: Well, Dr. Sprinkel, Mr. Chairman, I thought that Chairman Regan's request to members of the Commission was that each one of us place before
the Commission his views under the statute concerning the
appropriate role of gold in international monetary systems.

I think it is now nearing the end of October.

If members are holding back and have some other views,
it's going to make our completion of our statutory tasks
very difficult, so I would ask the chair's indulgence in
giving Dr. Paul whatever time he needs now to divest himself
totally of his proposals for the role of gold in the inter-
national monetary systems.

UNDER SECRETARY SPRINKEL: I understood him to
say he had no further proposals at this time.

CONGRESSMAN PAUL: No, I did not, and I would
suggest that this might be the very first and the only
congressional proposal made so far in all our meetings, so I
would suggest that maybe that's not an appropriate request.

Why don't we make that request to everybody
including yourself?

CONGRESSMAN REUSS: Well, I've given my views --

CONGRESSMAN PAUL: I reserve the right to have
another proposal. This is a proposal today which I have,
and it may be that I'll have no other proposal. I think
my indication that I don't think too much of international
agreements, that they develop rather naturally with sound
monetary systems and in the early part of the session,
I gave my position so it's unlikely that I will have another
suggestion, but I don't see that as the reason to preclude me from having another one. I might have another thought from what is being discussed here. I don't understand the request to tell you the truth.

UNDER SECRETARY SPRINKEL: What I would like to do is ask Dr. Schwartz to briefly summarize from her point of view the variation that she heard in terms of recommendations for the role of gold in the international monetary system.

This is not the final word; it's just a summary and then I'd like to go to the next item on the agenda if that's agreeable. Dr. Schwartz, could you respond to that please?

DR. SCHWARTZ: The majority view by a very large majority favors continuance of a floating exchange rate system under present conditions. Some specified without any government intervention. Some specified that at some future date they would be ready to consider an alternative, such as a return or adoption of an international gold standard.

Only one member indicated a strong preference for an international gold standard, some kind of fixed exchange rate system. The role of gold under a floating rate system was not really clearly defined by most speakers. Some indicated that a domestic convertibility of non-gold
money would be an attribute of a floating rate system. This was not the majority view of those who favored continu­ance under a floating rate system.

UNDER SECRETARY SPRINKEL: As you gentlemen know, the Commission has the duty of providing a report to the Congress a few months from now, and from our point of view, it's important that we agree on an outline of the main substantive portion of this report, and there has been a suggested set of proposals, and you may want to add to or subtract from that suggested.

In the materials sent to you, it was suggested that we should consider and analyze five different possible systems: one, the discretionary system for monetary growth; secondly, a rule for monetary growth without reference to gold; third, a monetary rule related to gold, but not involving convertibility; four, a gold reserve requirement combined with convertibility; and, five, a pure gold stan­dard.

Now this listing of categories is simply one possibility, and you may want to change it. What is important, I think, is that the Commission decide on the range of possibilities that it wants to examine so that we can discuss the proposals in an orderly way. The dis­cussion to date, as you're well aware, has been diffuse, interesting, but not especially organized in a form that
we can put into the report that you all want to sign off on at some point in time.

What I would like, I would like a reaction from the Commission members as to whether or not this is an appropriate way to proceed and whether you want to accept this particular listing or change it, and in what way would you like to change it, if it is the latter. Yes, sir.

Dr. Wallich?

GOVERNOR WALLICH: Mr. Chairman, I have taken the liberty of supplying to members a variant of Ms. Schwartz proposal which I've circulated, and I hope you all have it. It's entitled, "Alternative Outlines of Report of Gold Commision," and my reason for doing this --

CONGRESSMAN NEAL: Mr. Chairman, excuse me, I did not get a copy, and Mr. Lehman said he hadn't gotten a copy.

GOVERNOR WALLICH: Who doesn't have a copy?

UNDER SECRETARY SPRINKEL: Are there copies available for the members so that we know what Governor Wallich is talking about?

GOVERNOR WALLICH: Yes, there are.

UNDER SECRETARY SPRINKEL: Is there anyone that does not have a copy? I believe they have it now, Governor Wallich.

GOVERNOR WALLICH: Well, the point I wanted to
make is a very simple one. I think this five-part structure is helpful and a feasible one, but the first two items on it really get us away from the subject of gold, and instead of talking about the role of gold which is the function of the Commission, it gets us into, in effect, the conduct of monetary policy and the monetary system in general.

So that's not what the Commission, was I understand it, was intended to do. Moreover, the conduct of monetary policy, of course, is discussed in other fora, is before the Congress, is discussed under the Humphrey-Hawkins Act periodically. There is a vast amount of literature on it. A great deal of research work has been done on it. The Federal Reserve has done a great deal which we have neither looked at nor, I think, in the amount of time available could really look at, and if we did try to encompass all this, I think our problem of arriving at as much agreement as we can would be greatly exacerbated, because we know, of course, that the techniques and principles of the monetary system, the conduct of monetary policy are not agreed and are very hotly debated.

So hopefully we can stay with gold, and in order to do that, I've changed the first two items where the Secretary's proposal reads, "No change in the present discretionary system for monetary growth." I've simply said
no change in the present role of gold in the monetary system
with some minor qualifications such as public accounting
for the gold stock and improving the program for medallions
and for coin sales, and then the next item which refers
to establishment of a rule for monetary growth, a legislation
but without reference to gold, I simply said what is implicit
in that proposal, namely to reduce the role of gold.

Then come the three last proposal that Mrs. Schwartz
has made which it seems to me all reflect the growing role
of gold in ascending order. It seems to me that that is
analytically well taken.

UNDER SECRETARY SPRINKEL: You've heard Governor
Wallich's proposal that the discussion reflect on gold
only, and the reason for the broader approach was that
we have heard from various members of the Commission that
the efforts should be gold versus what, how can we encourage
monetary discipline, and I would like some instruction
from the members of the Commission which direction you
want to go.

CONGRESSMAN NEAL: Mr. Chairman?

UNDER SECRETARY SPRINKEL: Congressman Neal?

CONGRESSMAN NEAL: Well, I can't imagine the
value of a discussion of the role of gold in our domestic
economy in a vacuum or without a consideration, a broader
consideration, of monetary policy, so I would much prefer
the outline that is offered by Dr. Schwartz. I hope we
will leave this option open for discussion. It simply doesn't
make any sense at all to be discussing gold unrelated to
other aspects of our economy.

UNDER SECRETARY SPRINKEL: Congressman Paul?

CONGRESSMAN PAUL: Thank you, Mr. Chairman. I
believe I lean in the direction of supporting Governor
Wallich. I think he makes some good points. I think it's
hard to talk about gold without at least the inference
without dissecting each system out, such as the discretionary
system and the established rule for monetary growth.

I would be quite pleased to drop the first two.
The one thing I would like to compliment the Governor,
in the number one, he includes validating public accounting
for the gold stock. I think we've seen enough in the news
to suggest that we could reassure the people about that,
and I am glad that he concluded that.

I would like to emphasize two words that he stuck
on at the end, coin sales, because I wanted to make this
a separate proposal, and I hope it deserves that, and that
is the minting of U.S. gold coins and the removal of legal
impediments to their circulation. I would like to see
that studied in depth and reported on, and also in number
two, it seems like that would be an appropriate place for
me to have my suggestion included for debate, and that
is the reduction of the role of gold and the sale of gold, including IMF gold.

UNDER SECRETARY SPRINKEL: Mr. Jordan?

MR. JORDAN: I do not favor the alternative. I think the original five is the proper outline or set of alternatives. Number two under the alternative is quite different than number two under Mrs. Schwartz' proposal, and I prefer to stick with the original.

UNDER SECRETARY SPRINKEL: Mr. Lehrman, you had your hand up at one point.

MR. LEHRMAN: The clarify of Governor Wallich's draft is for me, at least, unmistakable, and I like it because it focuses the attention of our research group on the issue which was defined in the statute. With respect to Steve Neal's comment which I think are important, the proposal does provide, as I see it, in its final paragraph for the necessary comparisons that Steve suggested, and, therefore, I would endorse the alternative.

UNDER SECRETARY SPRINKEL: So you're proposing to leave out any consideration of a rule for monetary growth, is that correct?

MR. LEHRMAN: No, I say that in Governor Wallich's final paragraph, he provides for the condition whereby one might wish to analyze any of the strengths and weaknesses of the gold standard by comparison. In other words, there's
no exclusion in Governor Wallich's outline. Rather what it does is to focus the issue on the pluses and minuses of the gold standard, but it doesn't exclude other considerations.

UNDER SECRETARY SPRINKEL: Governor Partee?

GOVERNOR PARTEE: Well, I think that's right. When you read 3A, it seems to me 3A, and particularly the Weintraub proposal could lead to some discussion of the alternative of doing the same thing without gold which would be the equivalent of the rule, but, to me, the merit of this outline is that it focuses on the subject that the Commission was established by Congress to focus on, namely the role of gold in the domestic and international monetary system, and I do think that, in particular, point one, and I don't care much whether improving the program of medallion or coin sales appears under one or under two, it could be either. The question is, as a matter of fact, that we have sales, so you would think that a real program of having coins would be more something that would transfer from the gold stock from public ownership to private ownership or might have that effect over time, so that could go in number two.

But, I think the great advantage is that it does focus on the question that the Commission was asked to study rather than some other question that some members
in their private roles would like to look at.

CONGRESSMAN WYLIE: Can I ask a question in that regard? I'm without as much background in this as some of the other members of the committee as to opt in favor of the alternative draft based on the reasoning which Governor Partee whin just listed, which says that -- which relates to our charge here, shall transmit to Congress reports on the role of gold in domestic and international monetary systems, but I would have a question of Dr. Schwartz.

How does your number two, the establishment of a rule for monetary growth, perhaps through legislation without reference to gold would relate to the charge, Dr. Schwartz?

DR. SCHWARTZ: Would relate to?

CONGRESSMAN WYLIE: To the charge that we have in the statute of coming up with recommendations with reference -- concerning the role of gold in domestic and international monetary systems. Now I know there will be some impact that whatever we do as far as gold is concerned on the international monetary system, and I said that before, but it says here without reference to gold. Establishment of rule for monetary growth, perhaps through legislation, without reference to gold.

DR. SCHWARTZ: Sure. Then you'd be asking the question why --

CONGRESSMAN WYLIE: If we exclude gold, this
whole Commission is set up on the role of gold in the international monetary system.

DR. SCHWARTZ: All right, and you're asking what is the object of assigning to gold a role in the monetary system, and then you can answer the question, you can do with a rule what you could do with gold. If there are disadvantages that attach to the use of gold, these should also be considered, and then you do have an alternative, so you're not ruling out discussion of gold by saying there is an alternative to the use of gold, but you're considering the role of gold in a very full sense.

UNDER SECRETARY SPRINKEL: That is in comparison to other alternatives.

CONGRESSMAN WYLIE: You wouldn't want --

CONGRESSMAN REUSS: Mr. Chairman, I think --

CONGRESSMAN WYLIE: -- without reference to gold then, would you? You would say with not using gold.

CONGRESSMAN REUSS: I think skilled parlimentarians with whom this Commission abounds will be well able to talk about discretionary and the rules for money creation, lag reserves, the composition of M2B, and other witty diversities ad infinitum, possibly ad nauseum, but I think in our agenda, it is well to act as if we were obeying the statute, and the statute says that we are set up to conduct an inquiry with respect to the role of gold, so why not
look legal and go with Wallich and then all are at liberty
to wangle under the Wallich rubrics whatever they want
to talk about.

I will vote for Wallich.

UNDER SECRETARY SPRINKEL: Are there any other
observations?

GOVERNOR WALlich: Mr. Chairman?

UNDER SECRETARY SPRINKEL: Yes, sir.

GOVERNOR WALlich: It happened that I talked
to a Dr. McCracken on another subject, and he said he wasn't
going to be here, but he authorized me to mention that
he agreed we should stick to the subject of gold.

UNDER SECRETARY SPRINKEL: Yes, Mr. Lehrman?

MR. LEHRMAN: May I move that we adopt the rule
according to Wallich?

CONGRESSMAN NEAL: Will the gentleman withhold
just for a minute and let me raise one other point?

UNDER SECRETARY SPRINKEL: Congressman Neal.

CONGRESSMAN NEAL: Obviously part of our skill
is supposed to be counting, and it looks like I can count
votes in the majority for the Wallich proposal, but I still
see nothing in the Wallich proposal which would preclude
the discussion of some other alternatives, am I correct
in that reading of the Wallich proposal?

GOVERNOR WALlich: As I listened to the voice,
I realized there's no way you can stop a Commission member from talking about all these technical matters except that there may be a shortage of time.

CONGRESSMAN NEAL: It doesn't look like it to me, but as long as there is a clear understanding that discussion of other alternatives which may work to achieve the same results desired by those who are proponents of returning to a gold standard or others who are opponents of that also, as long as there's no prohibition against the discussion of other alternatives, then I would see no objection to adopting the Wallich proposal.

Is that the Chairman's understanding?

UNDER SECRETARY SPRINKEL: Well, there have been several observations to that effect including what I thought was Congressman Reuss' observation and I gather Governor Wallich's observation. Are there other observations on that very issue?

GOVERNOR WALLICH: Let me just clarify that I think the discussion is in the nature of this group going to be far-ranging, but I think whatever the group recommends in the end, if it is a single recommendation, should deal with gold and should not deal with the techniques of a monetary policy.

UNDER SECRETARY SPRINKEL: Yes, Congressman Paul?

CONGRESSMAN PAUL: Mr. Chairman, before we approve
the Wallich recommendation, can I assume that the two addi-
tions were included in there as well, the IMF recommendation
and the minting of gold coins? Is that okay with the Com-
mission that we will also discuss that?

UNDER SECRETARY SPRINKEL: Is there agreement
that we should include the minting of gold coins and the
IMF recommendation concerning gold ownership to the range
that has been suggested? It's not quite the same animal,
but it certainly could be considered there. Anna?

DR. SCHWARTZ: Well, I want to ask Congressman
Paul a question that I asked him at the last meeting too.
We're talking about government minting of coins, or are
we talking about private minting of coins?

CONGRESSMAN PAUL: This would be both.

DR. SCHWARTZ: This would be both?

CONGRESSMAN PAUL: Because the government has
the gold. The government has taken the gold.

DR. SCHWARTZ: But anybody could go into the
market now and buy gold and mint it. I mean there's --

CONGRESSMAN PAUL: Yes, but the government has
all the gold. They have the 266 million ounces of gold.

How do you propose that we handle that gold? We're supposed
to recommend what to do with it, and I'm coming up with
the recommendation that we mint coins and we allow them
to circulate and get rid of the legal impediments to
their circulation.

DR. SCHWARTZ: Both government and private minting of gold coins?

CONGRESSMAN PAUL: Sure, I'd be pleased with both.

GOVERNOR PARTEE: But with a variable press, is that right?

CONGRESSMAN PAUL: Pardon me?

GOVERNOR PARTEE: But with a variable press, that is the price would be --

CONGRESSMAN PAUL: Oh, yes, that would be my impression that we certainly wouldn't be doing it for $100 an ounce. I mean it would be as other nations are selling coins like South Africa.

DR. SCHWARTZ: And with respect to the return by the IMF of gold of the United States, that will be returned to the Treasury?

CONGRESSMAN PAUL: That would be the issue that we would debate. Yes, that's my proposal, that we follow through with the position that was taken in 1971 by our government to demonetize gold internationally and that the SDR would be the unit of account and that the gold would come back to the United States and to other nations, because they've done one-third. I would follow with the rest.
What I'm asking now is just to debate it, not to, you know, solve that problem.

DR. SCHWARTZ: And the ultimate object of the return of gold by the Treasury to the public is that there would be private circulation of gold.

CONGRESSMAN PAUL: This would be the intention, to let it stand on its own merits, since I'm realistic, and I don't believe that we will have the real gold standard tomorrow. I think that allowing it to get into a position where it may compete, I think, would neither challenge the status quo, and yet it would satisfy many of us who believe in the free market.

DR. SCHWARTZ: But at the same time, this would preclude an ultimate adoption of an international gold standard by the United States. We would have no gold reserve. There would be no convertibility in that.

CONGRESSMAN PAUL: Well, that would be one of the -- if some people believe in a mandated international gold standard, yes, that would be the argument to be posed at the time -- I'm interested in getting it on the agenda, of course, and it seems like it deserves the attention. There are a lot of questions.

UNDER SECRETARY SPRINKEL: These fit under two really, I think, Anna.

DR. SCHWARTZ: Excuse me?
UNDER SECRETARY SPRINKEL: Both these proposals would be subsets under number two.

DR. SCHWARTZ: I just wanted to be sure I understood.

UNDER SECRETARY SPRINKEL: Mr. Lehrman?

MR. LEHRMAN: Governor Wallich's proposal is clear on both those recommendations of Congressman Paul. It first provides for coin sales and consideration thereof, and the second point provides for the consideration of the disposition of IMF gold inasmuch as he refers to a program of sales of official stocks to the markets. Official stocks must include those not only of national official stocks, but those of international official stocks, so I find one of the virtues of Governor Wallich's proposal is that it is inclusive.

DR. SCHWARTZ: But is that a proposal that you would support?

MR. LEHRMAN: No, I have moved that we adopt Governor Wallich's proposal, and I think that Secretary Sprinkel has asked us first the substantive questions so that we can take care of Governor Wallich's proposal.

UNDER SECRETARY SPRINKEL: Are we ready to vote on Governor Wallich's proposal with, if I understand the sense correctly, the understanding that other alternatives can be discussed during the period, but the recommendation
to the Congress will be focussed on gold. All in favor of adopting his proposed agenda, say aye?

(A chorus of ayes.)

Against, raise your hands?

(No response.)

The ayes have carried, so let's go to the next item if that's agreeable.

We have some administrative issues that we would like to take care of. As you know, we have scheduled two full days of hearings beginning at 10 a.m. on November 12, and at 9:30 a.m. on November 13 here in this room.

As of October 19, we have received the name of 36 suggested witnesses from Commission members. I don't know whether there have been additional ones coming in since that time or not. I can find out.

In the time available on those two days which we think will be about 13 hours in total after deducting time for lunch, we're planning testimony for no more than 24 witnesses. This would allow slightly over 30 minutes per witness, and we would hope that at least half of that time would be devoted to responding to questions placed to the witnesses rather than just a 30-minute paper they might present.

In our initial witness selections, we're planning for no more than two witnesses suggested by any one
individual Commission member, and to issue invitations to all witnesses that have been suggested by two or more Commission members and to include witnesses that have been suggested by each Commission member that has given us suggestions.

If an initial invitee declines to testify, we would invite additional names that have been suggested. We'll plan to distribute an update on plans for hearings at the October 26th Gold Commission meeting, and we hope to be able to provide a definitive list of witnesses at that time.

Now are there any observations that you have about these tentative plans, anything you would like to suggest in the way of changes? Yes, sir?

MR. LEHRMAN: The time being scarce, Beryl, and there being so many qualified people who wish to testify, I would recommend that we exclude no testimony, but that we recognize that in two days we can only hear a limited number of people.

The remedy for that defect might be that all who wish to submit for the record testimony in whatever form or amplitude might do so, and that it be equally considered by the Commission staff as if it were presented in person for the Commission as a whole.

That would reduce the burden on those of us
who know so many qualified laymen and economists who have
an opinion on this, that in the end, all these opinions
would have equal opportunity to be heard.

UNDER SECRETARY SPRINKEL: Is everyone agreeable
that we should take papers that are presented by anyone
who wants to present it and that those papers be available
for study by the staff and the individual Commission members?
Yes, sir, Congressman Neal?

CONGRESSMAN NEAL: Just to elaborate on that
a bit, it would seem to me then to be a good idea to not
only take all papers submitted, but then to try to have
staff somehow sort out among the witnesses so that we have
some sort of balance in the presentations that are made
so that we hear all points of view and so on, which I'm
sure we do anyway.

GOVERNOR PARTEE: I should think also that we
would want to have a staff analysis of the comments received,
because there may be hundreds, and I --

DR. SCHWARTZ: I have already about 25.

UNDER SECRETARY SPRINKEL: Are there any other
comments? Yes, Congressman Paul?

CONGRESSMAN PAUL: I am somewhat disappointed
that I couldn't have had more of my recommendations approved,
but I also understand the limitations of time, and I also
know how to compare things, and compared to not having
hearings, I guess I can't complain too much. I would like to ask though that one name in particular be held, because it was high on my list of recommendations. I see it was not included, and this is an attorney from Brooklyn Law School, Henry Holzer.

If it is at all possible to work him in, or if we have a cancellation or something like that, I would appreciate that.

UNDER SECRETARY SPRINKEL: Would you make that note? If it becomes possible, we will certainly do so.

Yes, sir? Mr. Costamagna?

MR. COSTAMAGNA: Do I understand that there is the possibility of additional days of speakers?

UNDER SECRETARY SPRINKEL: Well, it's upto the Commission. At the present time, we've planned the scheduled two days. We must get on with this Commission's work, and it can't go on indefinitely, but if there is strong feeling that it's useful and that additional ones should be held, obviously the Commission has the authority to consider that.

MR. COSTAMAGNA: As you know at the last meeting, I requested some information in terms of the 1968 Congressional hearings on the bills that were before the Congress at that time, and I did thank you very much, receive from your office the material that I requested, and
I do have the names of significant people who testified at that particular time before both the Senate and the House of Representatives, and if you recall, I did express the desire that some of these folks be invited, if they wished to appear 13 years later, and a quick glance at this list of people that are scheduled to testify, I don't recognize any who did testify 13 years ago, and I believe that some of them, and I trust most of them, are still alive.

UNDER SECRETARY SPRINKEL: I think your comments earlier suggested they might not be too happy with their testimony looking backwards, and they might choose not to testify.

MR. COSTAMAGNA: Well, there were some who were pro and there were some who were con. We could possibly have --

UNDER SECRETARY SPRINKEL: In any event, there's no reason why they couldn't be invited to submit testimony whether or not we can get them on.

MR. COSTAMAGNA: If we could leave that open, I would appreciate something along those lines.

UNDER SECRETARY SPRINKEL: Is there agreement that this is the next way to approach this issue, that we will schedule two days of hearings under the ground rules we've set up, and we'll leave open the possibility
that the Commission may want to extend the hearings?

MR. LEHRMAN: Is it clear though, Mr. Secretary, that with this provision that those who submit written testimony will have equal standing in its consideration by the Commission and its staff?

UNDER SECRETARY SPRINKEL: That was my understanding. That was your proposal, and I thought everybody was agreed to that, that the information will be made available to the staff and to the Commission members.

MR. LEHRMAN: There are many in California, indeed in Europe, who may wish to submit reports who might find it impossible to attend even were we to open the hearings for a longer period.

UNDER SECRETARY SPRINKEL: Well, we will proceed then in getting -- we have done some work, but we'll continue to proceed to arrange for these hearings.

GOVERNOR PARTEE: I would hope that any request for commentary would emphasize brevity, because you may just get thousands and thousands of pages. Let's ask them to be brief and to give their opinions.

UNDER SECRETARY SPRINKEL: I certainly agree with that.

DR. SCHWARTZ: Will I be permitted to question witnesses after Commission members?

UNDER SECRETARY SPRINKEL: I would think you
could. You have to help draft a report so certainly to make sure that the testimony is clear.

We had some problem, as you know, in terms of scheduling today's meeting, and I think it would be useful if we could look ahead and agree upon subsequent dates, dates for subsequent meetings. On the agenda circulated, we've suggested consideration of Friday, December 11, Friday, January 8, Friday, February 5 as dates for the next three meetings, and everyone here is busy, and we know that, but if we can get it out a ways, it might make your schedule easier.

We have checked this, I believe, with both Secretary Regan's schedule and my own, and we can make them. Are those dates as agreeable as any other three dates that we might find?

MR. LEHRMAN: Could you repeat them?

UNDER SECRETARY SPRINKEL: The dates that we proposed were Friday, December 11, Friday, January 8, and Friday, February 5, as the dates for the next three meetings.

CONGRESSMAN REUSS: Mr. Chairman?

UNDER SECRETARY SPRINKEL: Yes, sir.

CONGRESSMAN REUSS: I think those are, as you say, as good dates as any other, and I think we would want to go with them.

I would like to ask about the procedure and
timetable with regard to the preparation of the report, and I would hope that the Chairman of the Commission aided, of course, by the staff would prepare at some appropriate time, and I'll come to that in a minute, a proposed draft report which is generally congenial to him, and then submit it to members, and it can then be debated and whatever report a majority of us agree on then becomes the Commission report with full opportunity to others to get in additional dissenting and supplemental views.

I would think that it would be good for the Chairman to be able to present such a draft report to us at least shortly before the December 11 meeting, because that leaves three meetings, and there will be debate.

I saw Ms. Schwartz --

DR. SCHWARTZ: I would prefer the January 8th meeting when I hope I will have a draft of a report ready, and that should leave nearly three months for the Commission to study the draft, recommend changes, for me to make changes.

I don't see how I can do it be December 11. By December 11, I hope to have a memo on the demand for gold. I think we need something on the gold market in this report, but --

CONGRESSMAN REUSS: Well, I certainly want to accommodate my suggestion to your human needs, but I do
point out that we're talking about three months from January 8, it to live dangerously.

DR. SCHWARTZ: Well, there will be a report, a draft.

CONGRESSMAN REUSS: The legislative record on the extension was quite clear on both sides of the aisle that Congress wanted that deadline well met.

DR. SCHWARTZ: Well, that deadline, if there is a draft in your hands, it will have to be by the end of the year. You will have to see the thing before the meeting on January 8, and then I would hope to get detailed comments from each of you.

CONGRESSMAN REUSS: That is certainly reasonable, but I would ask then why do we need a meeting on December 11?

UNDER SECRETARY SPRINKEL: Well, hopefully to discuss some of the issues that we just agreed upon that should be considered by this Commission.

MR. JORDAN: The Commission has hearings for the public on the 12th and 13th of November, and I think that we will need the December 11th meeting to discuss among the Commission members what we have heard before it would be possible to start drafting a report.

UNDER SECRETARY SPRINKEL: I would agree with that.
CONGRESSMAN REUSS: Fair enough.

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

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

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

How does a congressional committee provide for the questioning of witnesses by a principal, in this particular case a principal Commissioner in his absence? Does a Commissioner have the authority to request from the Secretary or from the Commission as a whole the privilege of recommending that someone sit in his stead and question and hear the witnesses in a way that might conform most to what he thinks he would have asked himself, or is that too much to ask?

UNDER SECRETARY SPRINKEL: There are several
Congressman here, and you asked what are the congressional rules on that, I believe.

MR. LEHRMAN: And then also what is a reasonable rule that we might adopt, if any?

UNDER SECRETARY SPRINKEL: Congressman Wylie?

CONGRESSMAN WYLIE: We have the privilege of asking questions for the record. If we don't happen to be there, we ask permission in advance, and that's usually granted, but we don't have surrogates who sit in for us and ask questions. I don't sense that that would be a workable scheme to follow.

UNDER SECRETARY SPRINKEL: So you would propose to do as the Congress does, the right to leave questions to be directed in their absence.

Yes, sir?

CONGRESSMAN NEAL: Well, normally what we do is to leave those questions in writing.

UNDER SECRETARY SPRINKEL: Yes, in writing, so that they would be asked of the witness.

CONGRESSMAN WYLIE: I would agree that I think it would be very difficult if we tried to appoint surrogates.

UNDER SECRETARY SPRINKEL: Is that an agreeable ground rule for other members of the Commission? It's worked in the Congress so let's assume that it will work
here.

CONGRESSMAN WYLIE: I think we adopted the rules of Congress anyhow.

UNDER SECRETARY SPRINKEL: Yes, that's correct.

There's was a suggestion made that individual Commission members try to present at the next meeting papers describing the main characteristics and operation of proposals in each category, a statement of the objectives of the proposal, description of the main elements of the proposal, analysis of how the proposal would be expected to operate, and a discussion of the transitional problems, a touch on international implications and an assessment of strengths and weaknesses as you see it.

Is this something that would be -- it would be useful from my point of view if each of the members could address their proposals in this arena and touch upon those particular aspects, and I think that was in your paper. Is this something that you would like to do that would be agreeable to do? We must prepare the report ultimately, and if you could do it, it would make it much easier. Yes, sir?

CONGRESSMAN PAUL: I'm a little bit confused on what the attention is on the report. Is it to include everybody's views and a description of what we believe in, or is it to get a concensus of a recommendation? I
had the impression that we were, you know, to try to get a consensus and recommendation versus a listing.

I don't see the tremendous benefit for me to list my views, you know, if it's not being given serious consideration as a consensus.

UNDER SECRETARY SPRINKEL: The purpose is to try to get a consensus. Now it may or may not be possible, but we should strive to achieve that obviously.

CONGRESSMAN PAUL: I have no objection. I'd be delighted to.

UNDER SECRETARY SPRINKEL: Those of you that would like to do that, it will make certain that we can present fairly the views held so that there is no doubt about the extent to which there is overlap of views and hence a consensus emerging. Otherwise, there may be some difficulty of distinguishing between one view and a different one.

MR. LEHRMAN: Mr. Secretary?

UNDER SECRETARY SPRINKEL: Yes, sir.

MR. LEHRMAN: I know Anna's prodigious capacity for scholarship. I've observed it in other places. I just wonder whether such a report can adequately represent the individual points of views no matter how explicitly they're laid down. My view was, at least what I thought was going to be the case, was that the Commission would
make an advisory opinion to the Congress as the statute
requires, and that would require a report of the staff
appointed by the Secretary perhaps in the form of a majority
report, and that would be given in good faith even if it
were to diverge from the opinions of individual members
of the Commission.

I certainly had every expectation that that was
the case. I would worry about trying to include every
person's view fairly and definitively in a report sub­
mitted to the Congress.

UNDER SECRETARY SPRINKEL: Dr. Schwartz?

DR. SCHWARTZ: I certainly expect that there
will be a majority view from this Commission. There will
be minorities views, so if the minority doesn't propose
to have a full statement of the views that minority holds,
that's an option that you will have to decide.

It's my expectation that minority would want
to have a full presentation of its views and why it is
not willing to accept the majority's views, so from that
point of view, it's useful to know the extent to which
anybody diverges from the majority view and the reasons
for it.

MR. LEHRMAN: And with respect, my understanding
of a Congressional procedure is that one must know what
the majority opinion will be in its written form
definitively before a minority view can dissent or endorse parts thereof and express incidental opinions as well, so it would seem to me that the majority view in good faith has to be represented before any minority view can emerge.

UNDER SECRETARY SPRINKEL: Dr. Schwartz, would it be possible to attempt the first draft of majority view in early January, as you indicate, or by the end of the year so that it will be available, and subsequent to that point, if we can agree upon the majority view, then urge the dissenting members to try to get a consensus on the dissenting minority viewpoint.

That seems to be the way in which the argument is going here.

MR. LEHRMAN: Yes, sir.

UNDER SECRETARY SPRINKEL: Is everyone -- yes, sir?

GOVERNOR WALLICH: Wouldn't the Secretary write the minority view also?

DR. SCHWARTZ: Well, I'm prepared to express fully and with complete fidelity any view that I hear here. I'm not trying to present any view except the views of the members of the Commission.

UNDER SECRETARY SPRINKEL: That was the purpose of the initial request that each of you submit it, but you're suggesting we should go the other route, and
we want to make absolutely certain that both the majority
and the minority views are presented fairly.

MR. LEHRMAN: It strikes me we can only decide
what is a minority view fairly expressed once we have the
majority view.

UNDER SECRETARY SPRINKEL: Let's try to bring
this subject up for reconsideration at the January -- no
later than the January meeting where hopefully we will
have the beginning draft of a majority view.

MR. LEHRMAN: We will then have the majority
report in its preliminary form in January?

UNDER SECRETARY SPRINKEL: Yes.

DR. SCHWARTZ: And the only problem then is the
views of Senator Dodd who's not appeared at any of the
meetings, and we really have no clue to --

GOVERNOR PARTEE: It would seem to be that there
would be elements that we would agree to and elements that
we might disagree to when one is getting a consensus, and
it might be that we would have common ground on items A
through E and disagreement on items F through H or some­
thing like that.

DR. SCHWARTZ: It's possible to write a report
in such a way that this is clear.

UNDER SECRETARY SPRINKEL: I think we're making
very good progress on our agenda, and the proposal was
to break at 1:00. We're only three minutes late for lunch. When we return, we will consider agreeable to Commission the proposal establishing a fuel reserve requirement against Federal Reserve note liabilities, and also Mr. Costamagna's proposal concerning convertibility.

The meeting is adjourned for the moment.

(Whereupon, the meeting adjourned for luncheon recess at 1:03 p.m., to resume this same day.)
SECRETARY REGAN: If we could just get started, Ladies and Gentlemen. It is my understanding that in the absence of Murray Weidenbaum and myself, you accomplished quite a bit. I'm not sure if that's cause and effect but nonetheless, we'll call a spade a shovel.

As I understand it, we're pretty well down to Item 4 on our agenda, which is the establishment of the gold reserve requirements against federal reserve note liabilities. So, Dr. Schwartz, why don't you describe Bob Weintraub's position in general and then let's have a discussion of it.

DR. SCHWARTZ: All right.

SENATOR JEPSEN: Mr. Chairman?

SECRETARY REGAN: Yes?

SENATOR JEPSEN: Respectfully, Bob Weintraub is here.

SECRETARY REGAN: Is he here?

SENATOR JEPSEN: Yes, he's right back here.

SECRETARY REGAN: All right. Well, why don't you describe it yourself? Come up here and describe your position.

MR. WEINTRAUB: Thank you, Mr. Secretary. I'll be as brief as possible. Basically, what my proposal does is to put a lid on money growth and to do so by tying the growth of the currency component of the money supply to the price of gold, the official price of gold.
This allows the official price of gold to rise by a set amount each year, or a set percentage each year. I could go through the prototype proposal so that you could see a little bit about the arithmetic that is involved. Let me do that, because I think it will help to clarify it for most people.

Keep in mind that the prototype proposal is not the final proposal. It's just kind of a springboard for a further dive. In December of 1980, the Federal Reserve held nine cents in gold certificate reserves valued at their legal value which was $42.22 behind each dollar of their note liabilities.

If we passed a law which said that the Federal Reserve had to hold nine cents in gold certificate reserves and kept the value of gold, the legal value of gold at $42.22 per ounce in perpetuity, that would not allow for any money growth unless the Treasury bought gold, which would be highly unlikely since it would have to pay the market price. It would receive from the Federal Reserve a credit of only $42.22 when it sent the gold certificate over to the Federal Reserve.

So, basically, that's a little bit tight. One would rather allow for some growth in the money supply. To do that, we have only to allow for a rise in the official price of gold. One could allow that rise at any percentage one wants.

Let me, to simplify matters, indicate that my proposal calls for allowing the price of gold, the official
price, to rise by seven and a half percent this year, 1981; six percent in 1982; four and a half percent in 1983; three percent in 1984 and in all subsequent years.

This would basically limit money growth, limit currency growth, at least, to those percentages. It would also limit money growth if there were no change in the deposit to currency ratio. Of course, we have to allow for changes in the deposit to currency ratio.

That is not a terribly difficult thing to do. I don't want to get too involved in the algebra, but basically what it would come down to is this. The legislation that I would have in mind and would hope this Commission would recommend would operate to put a ceiling on the growth of the exchanged media measure of money, which is commonly called today M-1-B.

I don't want to give all of my reasons for selecting M-1-B, because you're going to have to listen to me again on November 12 and I want to be brief now.

CHAIRMAN WEIDENBAUM: You can be brief then, too.

MR. WEINTRAUB: Well, I'll try to be brief then, too. It's not a bad idea.

It's important that we extend the recommendation to cover the exchanged media money in order to allow the Federal Reserve to prevent a monetary contraction from occurring in the event of a currency drain and to assure that currency...
reflows would not lead to explosions of money growth. If not compensated for, conversions of checking deposits into currency will drain bank reserves and cause multiple contractions of reservable checking deposits in the sum of those deposits and currency — that is an M-1-B. Currency reflows would produce multiple increases.

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

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

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

The essence of it is simply that the maximum M-1-B growth can be limited legislatively by setting the maximum percentage change in note liabilities equal to the maximum percentage change in the M-1-B that is desired minus the
observed percentage change in an expression that would be one plus the deposit to currency ratio. I won't give you the exact formula. It's in the paper and there is no reason to go into the algebra, I don't think.

Take my word for it, at least at this point, that this would limit money growth. It would put a limit on it, a lid on it, successfully. Then one has to ask whether or not this is a wise thing to do.

I believe that it is a wise thing to do. I think if you go back and look at our recent history, I think you'll find that when we removed this constraint on money growth in 1968, we permitted much faster money growth than the economy could tolerate.

I have some very interesting numbers to demonstrate this. Since removing the gold certificate reserve requirement for Federal Reserve note liabilities in 1968, M-1-B money growth has accelerated from a yearly average of 2.4 percent in the 1956 to 1967 period to 6.4 percent in the '68 to 1980 period and 7.5 percent in the 1977 to 1980 period.

Faster money growth was accompanied by faster inflation. The numbers are rather startling. The yearly rate of rise of the GNP deflator averaged 2.2 percent from '56 to '67 versus 2.4 for money growth; 6.4 percent in inflation from '68 to 1980 versus 6.4 percent in money growth; and 7.7 percent from 1970 to 1980 versus 7.5 percent in money
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 supply 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
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.
As an arithmatic matter, if for some reason or another people desire to hold more of their balances in currency and less of their balance in deposits, one can have an uncontrollable financial panic.

It would seem to me that certainly anything that severely -- that would make it impossible for financial institutions to meet their depositors' claims because there simply was not currency available would be a bad thing. It would be a backward step for the country. I would make that comment on it.

The other comment I would like to make, though, is that he's expanded it now so that it includes a current -- as he said -- today's definition of money, M-1-B. Let me just point out that today's definition of money is not yesterday's definition of money.

We have expanded the concept to include the interest accounts and the thrift institutions. Today's definition of money may not be tomorrow's definition of money. For example, today's definition does not include the cash management accounts of Merrill Lynch. One may, in fact, do a fair amount of transacting through those accounts.

So I would say that one of the great problems, and a problem that we have when we talk about this around the table, is that the definition of money is a changeable one. Any kind of a rule, it seems to me, would need to take into
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 accommodate 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
that is really implied in such a thing is not a happy thing. If it isn't a gold standard device, then people will be very disappointed if some day it becomes apparent that they haven't bought this thing on its proper terms.

Now, as far as the effectiveness of the rule is concerned, Bob says that since '68, the money supply has grown faster and that is undoubtedly true. The question is how much did that have to do with the abandonment of the reserve against currency and how much on the contrary did the abandonment of that limitation have to do with the fact that the money supply was growing faster.

You will recall that during the war, it went away for the first time from the 40 percent against currency and 35 percent against deposits rule simply because it stood in the way of normal war finance. It went to 25 and 25.

Then when that reckoned to become binding, we went to 25 against a currency only and I am ashamed to say I went to Mr. Martin in those days from the Council of Economic Advisors proposing just that. I said, "Here is that stupid limitation. It has no meaning. It ought to be removed."

Mr. Martin said, "Certainly not." But a few years later or even months later, it was removed anyway. Now, we have an example of how these mandated ceilings work in our own government. We have the Federal Debt Ceiling. Does that restrain government spending? Each year that we get close to
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
made with this, that is probably the least damaging. All
other uses are a little more explosive, politically sensitive,
and so forth.

There still is the fact that you reduce the debt.
Therefore, you reduce the deficit. Therefore, you generate
some leeway for traditional government spending without
increasing the debt.

As I looked in the numbers, it seemed to me that in
the last year, '88, there would be a debt reduction of $26
billion. If that were to lead to a commensurate budget
expansion, it would be quite an amount, too. Well, these are
my concerns about the proposal.

SECRETARY REGAN: Thank you, Henry. Jerry?

MR. JORDAN: Currently, the U.S. has a gold policy
of neither buying nor selling gold at $42.22 an ounce, which
translates into about $11 billion worth of gold and, therefore,
gold certificates, that are held as an asset by the Central
Bank.

We got to that $42.22 an ounce in two steps. First,
to $38 with the first devaluation and then the second devalu-
ation in '73, I believe. On both occasions, as the price of
gold was officially changed, the Treasury wound up with $1.2
billion more to spend than it otherwise had, and did so,
of course.

SECRETARY REGAN: Wait a minute. Did the Treasury
spend that?

MR. JORDAN: You betcha.

SECRETARY REGAN: Was that at the request of the Congress?

MR. JORDAN: It was put into the Treasury's account and it spent it. It borrowed that much less than it otherwise would have borrowed.

In order to return gold into the system in any way at any time, you have to contemplate moving the official price of gold more towards something that represents a market type price. You have a problem of the transition and how you translate that.

The discipline was not there before when the official price was changed. We have to worry about whether the discipline would be there or not in the future. In this kind of a proposal, one of the interesting things about it, it gives a mechanism for insuring that as you move the official price of gold towards the market -- if that were a decision to be made.

On the asset side of the Central Bank's balance sheet, you do substitute for securities. Currently, it's something like $130 or $135 billion worth of securities. The fed earns interest, probably this year $13 billion or so. It spends ten percent of it, up twelve percent from last year. It gives the rest back to the Treasury.
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
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
of each dollar was backed with a gold certificate.

MR. WEINTRAUB: Today, it is nine percent at the official price of $42.22. We had 11.161 billion dollars in gold certificates carried as assets by the Federal Reserve banks in December 1981 held as backing behind $124.251 billion of Federal Reserve notes outstanding.

That makes just about nine percent. It's 8.98 percent, to be exact. My proposal would envision either -- you could keep that nine cents in perpetuity or you could raise it each year by, let's say, 33 percent, and then on top of that 33 percent rise, you'd have another three percent.

The first 33 percent, you'd match. You'd go from nine cents to twelve cents, for example, in the certificate reserve requirement. Then allow the price of gold to rise by 33 percent to $42.22 and then by another "x" percent to allow for growth in the money supply.

The first 33 percent would be just offsetting --

DR. SCHWARTZ: This is not a proposal to give convertability to notes.

MR. WEINTRAUB: Not immediately; no. All I could say is that when you finally get to the point where the legal price of gold is equal to the market price, somebody might want to review this proposal. You can't rule that out at this time.

DR. SCHWARTZ: Yes.
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
Governor 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 simultan­
eously 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 certi­
ficate 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,
they'd have the $400 to spend pretty much as they'd wish.

MR. JORDAN: May I interject? The idea that the Federal Reserve owns that is not correct. That is a fiction under the idea that the Central Bank or the Reserve Banks as a group -- since all of the assets and the earnings of the Central Bank belong to the federal government and to the Treasury, the Treasury in fact owns all of its gold.

GOVERNOR WALLICH: There is no question that --

MR. JORDAN: There is no question about that.

GOVERNOR WALLICH: -- the Treasury owns the gold.

MR. JORDAN: One hundred percent. The $42.22 goir to the Fed, in no sense could keep, and in that sense, that also would revert to the Treasury.

MR. WEINTRAUB: It does own the gold certificates. Unless the Federal Reserve were liquidated, in liquidation, I think it would belong to --

MR. JORDAN: But the earnings of the Treasury and the Fed go to the Treasury every year.

MR. WEINTRAUB: I understand that, but I think the way they keep the books, which is not necessarily the way I would want the books kept --

MR. JORDAN: There is no question that the Treasury owns the gold.

SECRETARY SPRINKEL: Are there any other observations yes, Henry? Congressman Paul, and then we'll go back to Henry Wallich.
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
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
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...
definition of money and the other is the temporary abode of
purchasing power definition. I've always used the former.
My one time mentor and person I admire almost most in the
world, Milt Friedman, uses the latter.

In this regard, I think he is mistaken. I think
that one has to define money as the exchange media. If you
do that, you would never have any trouble recognizing that
NOW accounts were money. As soon as the consumer saving
bank of Worcester, Massachusetts, issued NOW accounts back a
few years ago, I knew that those were checkable deposits in a
depository institution and knew that they should have been
included in money, in the definition of the M-1 measure of
money.

I don't have any trouble there at all. Also, I
would like to point out to the members of the Commission that
I think it is terribly important to do so -- People continual­
ly talk about new financial innovations, new financial instru­
ments, as having some important destructive effect on the
reliability of M-1-B, of the exchange media measure of money
as a useful and reliable indicator of the thrust of monetary
policy.

If this were true, I would point out, you would
have to see some breakdown in the relationship between
percentage changes in M-1-B and percentage changes in nominal
GNP growth. You don't see that.
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
maximum lid presents no problem whatever, because you'd want to be under it. It's only if, in fact, the rate of rise of M-1-B's velocity fell far below its recent trend, which is, as I say, about 3½ percent a year.

If it fell to minus 3½ percent a year, then you might want to make an adjustment. But the likelihood of that is really very very small. It's infinitesimal in my opinion that the secular trend of velocity should fall to minus 3½ percent.

However, it might occur. If it were to occur, one would want to amend this law or suspend it.

SECRETARY SPRINKEL: Governor Wallich, I believe you had a comment.

GOVERNOR WALLICH: I have a comment on this question of the stability of M-1-B and its relationship to GNP. I don't know how you arrived at this, but we have observed shifts of a very large order in that relationship in '76, '77, I believe, on the order of $40 billion, in other words, at 10, 12, 13 percent by which velocity grew faster than could be anticipated.

Again, in '79, '80, '81, there's been a massive shift. That is one of the reasons why pursuit of seemingly modest money supply targets has been, has resulted in inflationary -- so, I would caution very much against assuming that there's any reliance on a stable relationship between
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 legislatively via the gold cover might restore that confidence. Moreover, Mr. Weintraub's proposal is a transition, ultimately...
to gold convertability, since at some point, the official
price of gold will equal the market price. I think in
commenting on this very thing we call confidence and we're
hearing a lot about it with the struggle we're having with
high interest rates now about the inflationary expectancy --
the bracket of points or number of points that's built into
the interest rates that's giving us fits. We talked about
this a little bit at noon while we were having lunch.

Again, I would remind, for the record, you of the
history which I think supports Mr. Weintraub's proposal or
at least the philosophy behind it in gaining confidence. In
'67 and '68, we had huge deficits for whatever reason.

Politics did get involved. The Administration then
wanted the federal government to increase the amount of money
in circulation to decrease these interest rates. The federal
government couldn't do it because they were tied to a gold
standard.

So they just did away with it. We all know what's
happened ever since. We are in deep trouble now. So, the
people in politics that got involved -- it's the same thing
that frankly is not making for a lot of confidence right now.
People declaring something isn't so when in fact there isn't
anything to point to and say, "Here is the formula. Here is
where it is."

We've taken it out of the people and politics area.
We've got something that in the past has always worked. We're going to look at it in a very modified form. That's, I think, the key, Mr. Weintraub, very modified -- very modified. We've done all kinds of things since last fall in this new Administration.

The interest rates in May were just as high as the interest rates were in September. I should reverse that. In September, they were just as high as they were in May. That's after we had drastic cuts in the budget, a drastic overhaul or quite a good overhaul, depending on how you look at, and a restructuring of the tax laws.

It didn't affect interest rates at all. Granted, the time wasn't very long. There's supposed to be some relationship there or something that that shows to me and to a lot of the rest of us, some of us who are meeting again at 4:00 o'clock this afternoon for the eighth time in the last ten days.

It's that confidence that people have or don't have. They don't have it right now. What's going to happen. They've already got the President's program of economic recovery failing before it got started.

We have these economic shark infested waters that we're in now with the high interest rates, which is what politically has agitated this thing. You can take five or six points of the interest rate and point to it. It all has
to do with this lack of confidence. I believe that whatever we might try on a limited scale, that's always advocated here.

To get ahold of this economy of hours, I think if we got interest rates down, for example, right now to a 12 or 13 percent ratio, you'd find we'd have the greatest boon economically this country has ever had.

People are ready to do business at interest rates that they used to wouldn't think about doing business at.

SECRETARY SPRINKEL: Are there any further comments on Dr. Weintraub's proposal?

GOVERNOR PARTEE: I would just like to make the comment that we -- until Senator Jepsen spoke, we got farther and farther away from the discussion of gold and closer and closer to a discussion of what the workings of the monetary rule would be.

This indicates, I think, as Murray said at the beginning, that this is not a gold proposal. This is a monetary rule proposal that we're dealing with. We all recognize that. So that if the Commission wants to consider proceeding on the thing, it seems to me necessarily in order to fit into the gold mandate of the Commission, it should be thought of as a transition period which leads to a reevaluation, taking care about not using the profits in an improper way.

It should be something that leads to a situation where gold is more important a part of the monetary system.
than now. I agree with the Senator. It can only be looked at favorably if it is a transition to something.

SECRETARY SPRINKEL: Senator Schmitt?

SENATOR SCHMITT: Mr. Chairman, if I may take a few minutes --

SECRETARY SPRINKEL: Yes, sir.

SENATOR SCHMITT: -- I'd like to provide an analysis that -- at the conclusion of which, I will say we ought to look very carefully at the proposal of Mr. Weintraub as put forward by Senator Jepsen.

Gentlemen, I can't help thinking that sometimes at least human affairs swing to and fro like a pendulum. It was only a decade ago, in fact, that President Nixon suspended the conversion of dollars held by foreign central banks and other official institutions into gold.

Actually, our foreign friends had agreed informally not to convert in 1968. That same year, Congress, at the request of President Johnson, repealed the law requiring fractional gold backing behind Federal Reserve notes.

These actions were assumed at the time to settle forever the role of gold in our domestic and international monetary systems. Neither gold backing nor the domestic issue of currency nor gold sales to settle international dollar claims were assumed to be needed.

Here we are today, less than a generation later.
The members and staff of a Presidential gold commission are studying the role that gold should play in our domestic and international monetary systems.

There is no secret about why we are here. Congress established this Commission because ever since we cut the ties of our monetary systems to gold, money growth has been too fast. At least partly, as a result, we have suffered increasingly virulent waves of inflation.

Whether there is any correlation between these facts is one question that we are here to ponder. It could be pure coincidence. I think we all objectively must recognize that.

The American people recognize that inflation, which has resulted from whatever has happened, is unfair to most low and mid income persons—in fact, unfair to all. Most of these persons in particular cannot afford to invest in antiques, rare metals, stamps, land, other inflation hedges.

The public also knows that inflation is a tax on savings and that it creates uncertainty. As a result, it holds down productivity growth and promotes recession should other tendencies be present and maybe even if they are not present.

Few today, in the United States at least, would urge inflation as a cure for our economic problems. That time is past. Most recognize it as the number one cause of these problems. A great deal of progress may already have
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.
that is spread out through time, which is sufficiently close
and reliable to bring to the attention of this Commission,
upon which I believe we must base our future decisions.

Studies issued by the Subcommittee on Domestic
Monetary Policy of the House Banking Committee in 1976 under
the chairmanship of our colleague Steve Neal, and in 1980,
under Parren Mitchell's chairmanship, show that the rate of
inflation tracks the two year earlier growth of the M-1-B or
exchange media measure of money.

The chart I have passed out pictures the relation­
ship between percentage changes and the gross national product
deflator which is our most comprehensive price index and
percentage changes in M-1-B two years earlier.

This is the subject about which I spoke briefly at
our last session. The chart maps percentage increases
between the same calendar quarters from one year to the
next. The solid line maps the rate of rise of the deflator.
The dash line maps M-1-B growth.

To capture the average lag between changes in money
growth and changes in the rate of inflation, the four quarter
or yearly growth of M-1-B which is represented by the height
of any point on the dash line, refers to the percentage growth
that occurred during the four quarters ending in the quarter
two years before the one directly below it on the horizontal
axis.
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 solid 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.
I would say that if a geologist, which I used to be and I hope still am, saw that kind of correlation in certain natural phenomena, he would write a paper and come as close to a Nobel prize as a geologist is ever going to get.

I do not pretend to fully understand the transmission process that converts changes in money growth into changes in inflation rates, but I am sure that it happens just as I am sure that sun spots stimulate rain in Southwestern New Mexico on an 11-year cycle, even though I do not fully comprehend the why.

Chairman Volcker put it, once again, "In spite of all the nuances, it is clear that inflation cannot persist over the long run in the absence of excessive monetary growth." This chart, I think, illustrates what he is saying in the reverse sense.

That, together with the evidence assembled on the chart I distributed, is enough to make the case for our purposes. The great attraction of the gold standard is that it is a virtually foolproof way of keeping money growth non-inflationary over the long run provided there is no increase in the supply of gold available, as Spain and Europe found out back after the discovery of the New World.

At the present time, with a fairly constant, relatively constant and low production of gold, people I think sense that this is true. Investment horizons and long
term interest rates reflect it. Thus, the appeal of the gold standard. The gold standard also has its drawbacks. Coin, currency and checking accounts would still comprise our exchange media and money could be defined, as many do now, as exchange media.

Some gold might be used as coins, but the bulk would be used industrially, ornamentally and as monetary reserves. One problem with the gold standard is that under it, money growth increases if the Treasury buys gold, regardless of whether the sellers and buyers respectively are foreigners or U.S. residents.

As I understand it, domestic economic stability requires different responses to Treasury gold purchases and sales originated with foreigners than to those originating with U.S. residents.

For example, if U.S. residents design to hold less paper and deposit money and, therefore, buy gold from the Treasury, economic stability requires that the growth of money defined as exchange media be decreased.

Slower money growth indeed is needed to counteract the rise of its velocity which holding less money implies. Compensatory decrease in money growth is assured by the Treasury's gold sales to the public.

Sales reduce the monetary base and thereby the growth of the money supply and in this case, the gold standard
works very well. However, if foreigners buy gold for any
reason, including in response to fear that their other
property is going to be confiscated, there is no reason why
domestic money growth should change.

Nonetheless, the gold standard also produces slower
money growth in this case. That, in turn, will cause an
unnecessary recessionary or deflationary tendency in the
United States. In this case, the gold standard can be
considered destabilized.

It is also destabilizing if, for example, foreigners
suffer poor harvests and our grain exports increase. In this
case, gold will flow into the United States, increasing our
money growth and prices. It makes little sense to me that we
should undergo a burst of inflation, however, short, because
the Soviets for example suffer a poor agricultural harvest.

Historically, disturbances in the supply and demand
for gold originated abroad, which occurred while we were
in the gold exchange standard, cause substantial and long
cyclical movement in the U.S. production and prices between
1879 and when we resumed species payments in 1934 when we
suspended them.

The years of the gold standard were not always
golden, although once again, they were years characterized by
very long term price level stability. That in itself was a
considerable plus.
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
role of gold in our domestic and international monetary systems. Beyond that, take into account the psychological advantages that gold does supply to us. I think we all have recognized this.

It also would meet the goal of designing a workable credible policy to stop inflation and keep it in check permanently. Thus, in closing, I want to recommend that we study Robert Weintraub's gold certificate reserve plan which has been circulated by Senator Jepsen and study it very carefully.

Within it may lie at least a kernel of a proposal that we all could support. This plan has been discussed. I'll not discuss it further. My reading of the plan is that it would fill the bill of particulars that I have previously outlined.

One, it links money creation to gold. Although it does not require convertability, it does provide the psychological advantage of so doing. Secondly, it prevents excessive money creation and thereby provides for long term price stability. Third, it allows us to manage the creation of money here independent of foreign disturbances or fluctuations in the rate of gold production.

Whatever we decide to do, the problem to be solved is clear. Eliminate the cycles in money supply growth as so obviously illustrated by the chart that I have supplied which
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.
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.

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.
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
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.
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
have here says thousand troy ounces. This is taken from the
journal I cited earlier.

DR. SCHWARTZ: Yes.

MR. COSTAMAGNA: So there are 18,535,000 coins that
were purchased by U.S. citizens or imported into this country
since 1974.

SECRETARY REGAN: What sort of premiums have they
been paying?

MR. COSTAMAGNA: In anticipation of that question,
on Friday, I called Denver, Colorado, and got a recent quote
on Krugerrands. I thought it was quite interesting.

The spot market price was $433 an ounce on Friday.
That's what they call the unmanufactured price of gold coins.
The bid in ask on Krugerrands was $444, $447. If one wished
to purchase those, you'd pay plus a three percent commission
and a delivery charge of $12.50. On the sale side, you'd
pay a one to two percent commission.

Now, as I understand it, the difference between the
$433 and the $444 is the cost of minting that coin above the
spot price. These are coins that have milled edges as
compared to medallions, which it is my understanding, do not
have milled edges.

I don't mean to deprive brokers of their commis-
sions, sir, but -- having been one myself many years ago --
but I do believe that if coins were sold directly through
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
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
would affect, I really wouldn't have an opinion.

SECRETARY REGAN: Thank you. Jerry Jordan had his hand up.

MR. JORDAN: Pass.

SECRETARY REGAN: Pass? Chuck?

GOVERNOR PARTEE: Well, I was just going to ask Mr. Costamagna -- what we're really talking about here is something like the Mexican situation. I take it we would issue an ounce, a half ounce and probably a quarter ounce. We would mill the edges and guarantee the fineness and weight of the gold.

MR. COSTAMAGNA: Yes.

GOVERNOR PARTEE: This, however, would be at whatever the gold's market price is plus, I suppose, a small markup for the cost of coinage or anything that the Treasury would like to have, as long as it's not large.

I think if it's large, it would have quite an effect on what I'm going to ask. This would seem, on the face of it, to run exactly opposite to Mr. Weintraub's proposal, for example, if in fact you would visualize that a large number of such coins would be demanded by the public because they would come, of course, from the Treasury gold stock. Then the Treasury gold stock would decline.

Now, do you -- 18 million, although it sounds like a large number, isn't that many compared with the Treasury
gold stock. Do you anticipate that there would be a very
very much larger demand for such coins than there are for
Krugerrands and the Mexican and the Canadian and so forth?

MR. COSTAMAGNA: I think the answer to that
depends -- now we get back to the question of money supply.

I have to believe that given today, if we said a
gold coin was worth $450 and we all had the right to redeem
that. If we believed that our monetary authorities were
curtailing the money supply, we probably would not redeem.

Those dollars, in the meantime, would be earning
interest. Gold, being sterile, would not earn interest.
Therefore, we would think it to our advantage to hold the
paper.

However, if the opposite were true, that the money
supply were being increased beyond the average -- six, seven
or eight percent -- then the person would be wise to redeem
some as currency. Invariably, I believe under those conditions,
from the experience of the last five or six years, that it
would force the price of gold upwards.

So in answer to your question, I believe that what
the American people would do under the circumstances, would
be to evaluate what are the monetary authorities doing, at
least those who understood that. If they did not like what
was being done, they would then have the option to redeem their
paper into gold coins.
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.
GOVERNOR PARTEE: Well, would you have in mind some kind of a discipline?

MS. COSTAMAGNA: Well, that would be --

GOVERNOR PARTEE: But that is essentially --

MR. COSTAMAGNA: Well, I would find it hard to believe that all of the dollars would be redeemed because of the number of views that people have. Some people would like it --

GOVERNOR PARTEE: But you have to recognize that you can't just look at the currency total. You can cash in your demand deposits. You can cash in your Treasury Bills for demand deposits which you, in turn, can buy gold with. The potential is probably several trillion dollars of demand for gold.

MR. COSTAMAGNA: Then that would be a problem if all of that were allowed to be redeemed, but I don't --

GOVERNOR PARTEE: Yeah, I mean, there is no way to stop it.

SECRETARY REGAN: Dr. Schwartz is next.

DR. SCHWARTZ: My question relates, first of all, is what is happening to the Federal Reserve note issue? Once a note has been redeemed, retired, doesn't exist anymore, that is not allowed to issue another one in its place, is that right? I mean, that's crucial because then the Federal Reserve note issue is declining along with the
transfer of gold to the public that has redeemed Federal Reserve notes, is that right?

MR. COSTAMAGNA: When that gold is turned in, then a new federal note is created, is it not?

DR. SCHWARTZ: So that you visualize this as responding to a public demand for gold?

MR. COSTAMAGNA: Yeah, I --

DR. SCHWARTZ: My trouble -- I mean, I've seen a number of proposals along these lines, and what I don't understand, there is now a free market for gold. Okay, you cannot buy gold -- American gold coins, but if you mistrust the American currency, you can go out and buy gold and hold it.

MR. COSTAMAGNA: That's right.

DR. SCHWARTZ: But there does not seem to be an overwhelming demand for gold given the instability of a price level. What, in your proposal, would be responding to some public need or demand for it?

MR. COSTAMAGNA: I think a great deal of it is psychological. If the public has the ability to redeem its dollars, it may probably in most respects would not do it but knowing that it's available and able to do so, a psychological element.

DR. SCHWARTZ: But it's now got a free gold market, if you take Federal Reserve notes to the free gold market
and buy gold.

MR. COSTAMAGNA: But when we do that, we're distur­bining our balance of payments because all we're buying is foreign coins.

DR. SCHWARTZ: But they don't have to buy foreign coins. They can buy foreign bullion. So that the object of your proposal is to protect the balance of payments when gold is treated as --

MR. COSTAMAGNA: Well, I would say that is one of the elements, that if we bought in the last six years a total of over $8 billion worth of foreign gold coin, I have to believe that's a significant amount. It's certainly something that we shouldn't ignore. That money is going out of the country. I have to believe that the advertisement there for the Mexican pesos was certainly attracted by the American market for gold coins.

SECRETARY REGAN: Thank you. The next question was Governor Rice.

GOVERNOR RICE: Chuck asked the same question I wanted to ask. Just a minor question: How would -- where would you get the price, the daily price for your gold coins?

MR. COSTAMAGNA: Well --

GOVERNOR RICE: London gold market?

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
some patriotism. I think if the average person who is
going to redeem some dollars and old gold, just as they
are doing today, they are not necessarily ready to sell
them just based on an arbitrage figure; at least, I don't
believe so. And if it were done in great quantities, just,
in fact, this booklet, our medalian says, that purchase
of significant quantities is not permissible or, at least,
is restricted.

Maybe that's an answer. And, besides, I believe
that people who are going to be arbitragers in large quanti-
ties are going to deal in bullion rather than coins.

SECRETARY REGAN: Congressman Neal and then Congress-
man Paul.

CONGRESSMAN NEAL: I had the opportunity to dis-
cuss this idea with Mr. Costamagna. We ended up on the
same airplane one day, and I was quite taken by it because,
as I understood part of what he was trying to accomplish,
it was to help -- help Americans restore trust in their
money, give them the opportunity to do what they thought
might help restore some trust. And it just occurred to
me, though, a few minutes ago that it might be possible
that we would, in fact, create some distrust if, in fact,
the monetary authorities did their job very well and we
got inflation well under control and the price of gold
went down considerably, there might be -- have been a lot
of Americans who had bought gold at the market price of $4.50 or so and find that it's only worth $2-300 and then feel that they had been somehow betrayed by their government. And I don't know if that's all that likely or not. I don't know if the first part of that equation is all that likely. History doesn't suggest so but it's certainly very possible and I don't know what kind of risk that might be, even though there might be one. It might be worth thinking about.

MR. COSTAMAGNA: I have given that some thought and it seems to me that it will cut both ways: Those who will hold paper will have to take the same risks as those who wish to hold gold just as in the past, it has actually been a risk to hold paper because the purchasing power for paper has gone down so it will --

Yes, if you have a fluctuating price, that's one of the risks.

CONGRESSMAN NEAL: I just think that if we ever were to do something like this, that we would certainly want to make it clear that there was the -- there was a risk involved, that we make it clear that there was that kind of risk.

And let me just ask one other question, if I can.

MR. COSTAMAGNA: Yes, sir.
CONGRESSMAN NEAL: Would there be any prohibition under law now from some entrepreneur coining some gold coins and selling them at a market price?

DR. SCHWARTZ: There is a firm in Kansas City, I believe, that coins gold coins, and you can go there and buy them.

SECRETARY REGAN: Let's have an understanding, though, of the gold coin, not coin of the realm. That has to be Treasury.

DR. SCHWARTZ: That's right.

SECRETARY REGAN: But there is nothing to stop a private mint from coining one ounce gold, whatever.

CONGRESSMAN NEAL: I wonder why it's not done. It would seem to me that that someone might -- you say it is done?

DR. SCHWARTZ: It is done, and you can arrange contracts in which you stipulate that payment will be in these gold coins.

CONGRESSMAN NEAL: I guess this outfit, though, doesn't advertise as effectively as the South Africans and the Canadians and the Mexicans and so on.

DR. SCHWARTZ: I don't know, but --

CONGRESSMAN NEAL: The other concern of Mr. Costamagna's was this outflow of currency primarily.

DR. SCHWARTZ: There would have to be some kind
of exchange control in order to limit this convertibility
to --

MR. COSTAMAGNA: Well, I'm sure there are problems. I'm just proposing this as the embryo of an idea, the skeletal outline, as I call it. I trust that in the next months as we develop ideas, we can add a little flesh to the bones, so to speak. As I said, it's just, as I see it, is an eighth alternative to the seven that Dr. Schwartz presented to us, and there may be well a ninth, a tenth, and an eleventh. It's just something I felt a desire to put down in writing.

SECRETARY REGAN: Congressman Paul?

CONGRESSMAN PAUL: Mr. Chairman, I'd like to compliment the gentleman for his presentation because I think it deserves a lot of serious consideration. It has some things in it I have proposed, and some new things, as well, and it is my understanding that banks or the government would buy and sell coins as well as just sell coins, which I think was more like my proposal.

I think the point you make about Americans buying is important. I probably have a few questions about whether that is best thing or whether it is very effective if we limit only the purchase of coins to American citizens as a practical thing.

I would assume that a foreigner, if he wanted
them, it wouldn't take too much for him to have an emissary
to come and buy the coins. But I think your point is so
well taken when you think that when Americans weren't allowed
to own gold, when gold was taken from them at 20 and quickly
made -- equated to a value of $35, and then it was sold
for many, many years up until 1971 at $35 an ounce to a
foreigner, I can certainly sympathize with what you're
saying, as well as seeing now that many of our dollars
go over to South Africa, to Mexico to buy another coin.

    My concern only would be that if we always advocate
maximum amount of freedom, individuals -- regardless of
what their citizenship is -- they would probably be allowed
to buy, but I certainly understand your concern.

    And the other question of whether it's very practi-
cal or not, I think the question brought by Governor Partee
about what would happen if all of a sudden we sold a
lot of gold, and the gold reserves were complete dissipated.
Of course, I think the implication is that that is the
vote of the public saying, you know, there is something
wrong, you know, with the value of the dollar. Everybody
is leaving the dollar and they're going into these gold
coins which are now American gold coins rather than the
Mexican gold coins.

    It does raise the question -- and I believe it's
been raised by some in the Administration -- about what
the policy of gold should be, and this is not my position but it does raise the question: If gold were being sold and there was a good market for it, whether the government actually should make a purchase of gold, and that raises that possibility. I'm not necessarily advocating that.

But back to the -- back to the discussion about why this private mint in Kansas City isn't more successful. I think there is a limitation on the success of even H rugerrands in Mexican coins. They do better mainly because it's government coin. I think that's the main reason. But if we want to allow a little bit of competition -- and this is what it is. This is the market place being permitted to vote on the value of the currency. But if we really wanted to allow this, there is a very specific reason why more coins aren't bought and more coins -- or coins might not even be used, because there have been obstacles put in the place of the usage of gold coins.

For instance, if we go to the mint or if we buy Mexican coin, we pay a tax to buy it. We have a sales tax. That's a little bit of a disadvantage compared to using a Federal Reserve note. There is a premium attached to it.

And also if there is a depreciation of value of that coin when it is reused again to buy a $500 suit instead of a $400 suit, we'd better be prepared to talk
to the Federal Reserve agent or the IRS agent to pay a tax on that. So there are several things that impede us from encouraging that.

But I think the outstanding part of the proposal is that it says something about the benefits of gold because I think no matter who talks about it, there is a certain recognition that there is something beneficial about gold. But the magnificent part about this is, there is so much less disruption with this. This is not an attack on current policy, and this is not an insistence that we change immediately tomorrow the whole international banking structure.

And yet, it is so demonstrative of our belief that competition exists in this country and that currency should stand on its merit, and I think it's a very wise consideration and would be a worthwhile step, something along these lines.

SECRETARY REGAN: Thank you. Governor Wallich?

GOVERNOR WALLICH: Well, I think, Mr. Chairman, the principal points have been raised. One is which -- that Mrs. Schwartz raised, is the money that goes into the Treasury and this gold that goes in and their currency is redeemed, is that sterilized or not? Presumably, the Treasury has to give the Fed at least $42.42 because a gold certificate must now be redeemed since the gold has gone out of the Treasury. What does the Treasury do with the other $00 and some? Does it spend it or does it sterilize
it somewhat? How -- if it were to sterilize this by holding
it in an active account, say, the money supplies reduced,
therefore, by $450 per ounce sold, is the Federal Reserve
allowed to make up for that by buying government securities
and restoring bank reserves with the money supply back
to their original level?

If the Fed could do that, then this would be
a bottomless pit. The money supply would never change,
and the desired discipline that you have in mind, I think,
would not really be exerpt. So it's really the decisions
that are made with respect to these subsequent moves that
are important.

And as for the -- how the coin is purchased by
citizens, presumably we'd buy it from dealers and banks
because not everybody could go to the Treasury and deal
directly. The dealer, being the American citizen, presumably
can buy as much as he likes. What the dealer doesn't have,
he buys it from the Treasury or buys it in the market.
He'll buy whatever is cheapest. So the Treasury becomes
just one more source of gold in competition with every
other source for gold, and the issue then really is, are
we wise in liquidating our gold holdings or are we not?

I would strongly feel that we would not be wise
in liquidating our holdings.

DR. SCHWARTZ: Now, I would like to suggest that
that -- the proposal that Mr. Costamagna made could very well be subsumed under Governor Wallich's point: Reduce the role of gold, for example, through a program of sales of official stocks to the market.

This would be a way of denuding the Treasury of its gold holdings and, although you can argue that you're providing an alternative to currency issues for holding by the public, the effect of the program is just point two in Governor Wallich's draft outline. And, in fact, you might ask the question, if you really want what's held by the Treasury transferred in some way to the public, you could do it more effectively by the auction sales method, just as the Treasury was selling gold from '76 to '78.

That would put it in the hands of the citizens of this country.

MR. COSTAMAGNA: I think possibly the difference is that what I'm looking at is gold as money.

DR. SCHWARTZ: Yes.

MR. COSTAMAGNA: Not just a commodity, and that that coin would be money, and that you would go to a bank, not necessarily -- not a broker or not a dealer, but you would go to the bank just as we go now to cash a check and get cash. It would be part of the banking system.

The problems that you raised, Dr. Wallich, certainly are highly important problems, and I'm sure the
expertise of your offices and yourselves, members of the Federal Reserve, would certainly have to play a role if this is to become a plan to determine how it can be done effectively without creating a bottomless pit.

But what I think I've tried to express is that as I view convertibility and we may have misused the word technically, but -- and it has been a fiction in many respects over the last many years, and, in essence, what I've really done is to perpetuate the fiction, but in favor of American citizens.

GOVERNOR PARTEE: I think, Mr. Chairman, that it's not really fair to characterize this as a denuding of the Treasury, a word you used. That that could be more effectively accomplished by the sale of bullion to foreigners, say. I mean, you know, there is something here, and the kinds of problems that Henry mentions can be dealt with. You can count this as part of the money supply, and why not?

If we have 130 -- whatever it was, 140 billion in currency outstanding which doesn't draw interest, far from all of that circulates. Yet we count as a part of money supply. Why not count the gold coins? I don't see any reason, and I think we could, in fact, neutralize the fiscal effect of the receipts without too much difficulty.

So that I don't --I really think there is something
a little more substantial here than just a way of getting
rid of the gold stock.

SECRETARY REGAN: Congressman Wylie had his hand
up.

CONGRESSMAN WYLIE: Thank you. Well, Governor
Partee is making a point that I thought that I might want
to make, too. If we make it a gold coin, doesn't it become
a part of the money supply rather than if we just sell
the gold in the market place as was previously suggested?

I might say that I earlier expressed myself
as having some sympathy with the idea of the gold coin,
and when you brought up the Olympic gold coin, that had
some appeal to me.

The problem that I had with that, as I reflected
on it, was that I think you said that the Olympic gold
coin would be a collectors item. It would not be legal
tender or would be --

SECRETARY REGAN: The proposal -- the proposal
is that they would be sold in sets with numismatic value,
and would be sold at a considerable mark-up. So I would
doubt, although technically they could be used as a coin
and payment at that, because of the high mark-up, it really
wouldn't be an effective way to pay off one's debts.

CONGRESSMAN WYLIE: Does the Senate -- does the
Senate bill have an indication as to how much the mark-up
will be or is that left to the discretion of Treasury?

SECRETARY REGAN: As I understand it -- and this
is strictly from memory now -- it will be somewhere in
the neighborhood of at least -- well, I know that they
have promised us the cost plus 20 percent in Treasury,
and then they want to raise these additional funds for
the Olympics themselves so it has to be at least 50 percent,
if not more.

CONGRESSMAN WYLIE: Fifty percent, so at today's
gold prices of $430 an ounce, it would have to go up another
couple hundred dollars an ounce before it would be worth-
while as a medium of exchange.

In the case of the Krugerrand, I think that --
if I've figured up correctly here -- the premium is some-
where around seven to eight percent, which is within the.
realm of feasibility as far as its ability to circulate.

I don't know. As I say, I want to hear arguments
the other way, but I look at the benefit of a gold coin
here perhaps as twofold: One, that it might satisfy to
some extent the desire of Americans to buy gold and to
own gold, which we hear so much about, but I think it could
serve as a kind of a mechanism if we get the Fed to take
back some of its -- some of its money. How much, I don't
know -- some of its paper money which had some salutary
effect, too.
The problem that I have with it is how many of these gold coins would we mint? Who would have the discretion of many, the number? And in what denominations?

But, as I say, if we can get ourselves over those hurdles, why, I think that the idea of minting an American gold coin has some appeal.

SECRETARY REGAN: Well, I think that that's something that we will be working on. I know Mr. Costamagna said that this is merely his initial proposal. He wanted to see what reaction was, and he'd try to flesh it out so all the time's ahead.

Does anybody else want to be heard on this item? If not, just prior to adjourning, let me remind you now of what's -- as I understand it, what's going to happen at our next meeting. We will be meeting on November 12 and November 13. We have panels of 24 witnesses. Each panel will have a half hour or so. There will be -- we'll have to ask them to be brief in their openint remarks and submit things for the record, and we'll have to limit the questions as we go around the table, or else we'll never get finished during that period of time.

So I will ask, rather than lecture to you, when we open those public hearings that you try to keep your questions down to about -- the question period down to five minutes; again, of course, depending upon the length
and the type of answer that you get from the witness to your question.

Anybody have any other comments they wish to make on that? Yes, Chuck?

GOVERNOR PARTEE: I had something on unfinished business.

SECRETARY REGAN: Oh.

GOVERNOR PARTEE: Sorry.

SECRETARY REGAN: And as far as the witnesses themselves, as you know, we're trying to accommodate as many of the witnesses as were suggested by members of this panel as we possibly can. We're trying to be imminently fair about it in the way that we've done it to get various shades of opinion represented, and others who wish to speak but who cannot be accommodated obviously can submit papers for the record.

Okay, Chuck, what is it?

GOVERNOR PARTEE: Well, while you were gone this morning, Mr. Secretary, the group adopted the alternative outline for presentation of a report along the lines that Governor Wallich had suggested, and I just wanted to point out that there are a few things that need to be researched in connection with that report.

First, it occurs to me, in point one, it was suggested that we might want to see whether the Commission
could serve a constructive purpose by validating or authenti-
cating the existence of the gold stock. That's a technical
question, and what's involved in the technical work that
would have to be done to make it possible for us to do
that I think is something that I would like to see explored,
and I really don't know quite what's involved.

It would presumably involve some kind of an auditor
from outside the Treasury or the Federal Reserve Control
that would be used by the Commission.

SECRETARY REGAN: In that connection, would you
suggest that perhaps this Gold Commission should meet at
Fort Knox?

GOVERNOR PARTEE: Well, perhaps there could be
a committee of the Gold Commission. I don't know. I --
you know, it's a highly technical question in how you assay
it.

CONGRESSMAN WYLIE: Mr. Secretary, I suggested
that at lunch. I think that would have a very salutary
effect.

SECRETARY REGAN: We'd have to pay our own pay.
I'm not sure the Treasury could spring for it.

GOVERNOR PARTEE: Sell some gold. The second
suggestion, we know there is an ongoing accounting for
the gold stock.

SECRETARY REGAN: Then perhaps we ought to have
a report as to what that is, and whether that would be

enough of a --

GOVERNOR PARTEE: That's where it started, under
Secretary Simon.

SECRETARY REGAN: Yes.

GOVERNOR PARTEE: And there is an ongoing --
by GAO, I believe, and it may be that they can do a more
complete job, and we might be able to accept it.

In any event, it needs to be explored. The second
point is -- well, closely related to Mr. Costamagna's point
but also to the fact that we do have a medallion, improving
the methodology for use of the medallion or gold coin,
and I think some work needs to be done there.

For example, Congressman Paul, I think, mentioned
that you had to pay sales tax on the purchase of these
things.

Well, that's a -- and that that seems wrong if,
in fact, it's part of the money supply. If it's just a
little piece of jewelry, why, it seems right, but, you
know, one would have to have a view on that.

And thirdly, it was suggested by Congressman
Paul that added to the outline would be a consideration
of whether or not the Commission should suggest to the
Congress that we ask for our gold back from the IMF, and
that was accepted by the group, and I think we need a legal
paper on that because I don't know whether we have the 
authority to ask for the gold back or not. So that I think 
that the Secretariat ought to take a look at the new outline, 
and think in terms of fleshing it out and the various aspects 
that are involved.

SECRETARY REGAN: We will undertake that. Anybody 
have anything else that they wish to bring up?

All right, well, thank you very much. A very 
orderly meeting. We will meet on the 12th.

(Whereupon, the meeting was hereby adjourned 
at 3:55 p.m., to be reconvened on November 12, 1981.)
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.
APPEARANCES:

Members

Secretary Regan

Mr. Costamagna
Mr. Coyne
Senator Dodd
Senator Jepsen
Mr. Jordan
Mr. Lehrman
Dr. McCracken
Mr. Neal
Governor Partee
Congressman Paul
Mr. Reuss
Governor Rice
Senator Schmitt
Governor Wallich
Dr. Weidenbaum
Mr. Wylie

Also Present:

Under Secretary Sprinkel
Assistant Secretary Leland
Assistant Secretary Roberts
Dr. Anna Schwartz
Nancy Jacklin, Esq.
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DR. SPRINKEL: Good morning, ladies and gentlemen.

We still do not have a quorum. I understand one is en route and another one will be here in 25 or 30 minutes. I suggest if it is agreeable that we begin our informal discussion and try to avoid any vote until a quorum does arrive.

Welcome to this meeting. This is the fifth meeting of the Gold Commission. Secretary Regan has again been called to the White House. He asked me to convey his apologies for his absence. He expects to be with us in about an hour.

We have circulated two staff papers on questions raised at the last meeting; one, discussing the implication of U.S. IMF obligations for the establishment of a gold standard and the second, discussing the implications of legal tender status.

We had hoped also to have a paper responding to Mr. Neal's question on abolition of the capital gains tax on gold. It is in process, but unfortunately is not completed. We will circulate it to the Commission as soon as possible, hopefully next week.

So, I suggest we proceed with the proposed agenda. At earlier meetings, discussions of specific issues, such as audit of the gold stock and issuance of gold coins has been suggested. Our suggested agenda item two is intended to
provide the opportunity for a discussion of these and other specific questions.

Dr. Schwartz has prepared a tabular summary of responses to her questionnaire which we have made available to each member at the table. I want to thank each of you for responding.

The point of the questionnaire was not to record votes in a final way, but to provide a clearer basis for our discussion of specific issues and possible recommendations, and to identify where there may be areas of agreement.

I understand the difficulty of trying to deal with complex issues with a check-mark. The questions obviously could not be fully answered in that form. A number of members did include general comments and various marginal notations in their responses.

I will now ask Dr. Schwartz to give us an oral summary of the responses, including the general comments she received. Mr. Coyne, I might add, asked that his own questionnaire be circulated to members.

In the time available, we have not nearly as full a response as to Dr. Schwartz's questionnaire, but we will circulate a summary of that as well when the responses are received.

Dr. Schwartz, would you give us a summary of the reply of the members of the Commission?
DR. SCHWARTZ: Yes. Since you have the summary tabulation in front of you, it isn't really essential for me to read each question and give you the tally of support or nonsupport for each of the issues that are posed in this questionnaire.

As Secretary Sprinkel indicated, some of you responded by revising the language of some of the questions. I will keep that in mind in any subsequent use that I make of these responses.

Some of you qualified your answers. Some of the qualifications are noted on the tally sheet, but I have even a fuller record of qualifications than is listed here.

You can run your eye down each of the columns and see where substantial majorities exist in support of one of the issues where the very mixed feelings are evident on the basis of the vote.

What I propose to do during the week ahead is to see if I can formulate some recommendations on the basis of your responses, then submit them to you to see if they really express the views which you entertain on these issues. In that way, try to complete the introductory chapter to the report that was submitted to you at the meeting before last.

Then have that in a version which you can then review in the same kind of detail that I hope you will review Chapters One and Two that have already been sent to you.
Until I get the recommendations in some kind of orderly way, it will be difficult for me to prepare the final chapter, which is going to be the role of gold in which I hope to review all of the proposals that have been made to the members on how the role of gold might be incorporated in the domestic or international monetary arrangements of the United States.

It is my belief that the way the report is structured will permit a reference to something in Chapter Four as support for a recommendation that will appear in the introductory chapter.

That is why I would like to get the recommendations as firmly in hand as possible, as quickly as possible, so that I can go ahead then with the preparation of this Chapter Four which I regard as the key chapter of the report and the one that will be the culminating chapter of the report.

I don't know, apart from that, how we should proceed with respect to the responses that you have made to these questions. If anybody would like to take up a specific question to express his own views in greater detail than is possible, as Secretary Sprinkel said, to denote by simply checking a column. Perhaps that would be the most useful way to proceed.

DR. SPRINKEL: For the second item on the agenda, it was my intent to go through each specific question and
solicit observations from the Commission members. Do you have anymore more general comments to make on the questionnaire?

DR. SCHWARTZ: No, I don't.

DR. SPRINKEL: Well, then I suggest, if it is agreeable, that we begin to go through each of the questions and try to identify points where agreements or differences exist, and also identify areas where you may want further study.

I think we should regard this as a tentative discussion. It will be our first detailed discussion of a number of issues. I am sure we will want time to reflect on what is said before coming to final conclusions or casting definitive votes.

It is important, as I am sure you realize, that we make progress on this matter today, because this discussion will be the basis on which Dr. Schwartz will begin to draft the policy part of your report.

So, I suggest we start off in the order the questions were posed in the questionnaire. Clearly, there are great differences in policy importance among these questions and various overlaps, both between the questions and the questions that Mr. Coyne has submitted.

But I think this is the most orderly way to proceed, so if it is agreeable let us ask you to read the
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.
The current audit started in 1975. I understand it will end in 1984. It will take ten years. A 1974 partial audit by the GAO also occurred. The Federal Reserve is auditing the gold it holds.

So far, 212 million fine Troy ounces have been audited, according to Treasury. In 1974, the audit covered only 21 percent of gold bars at Fort Knox, one of the five depositories.

Only ten percent of the gold is audited annually on the average. Treasury says it would be feasible to complete a 100 percent audit -- it would not be feasible to complete an audit in a single year without seriously impairing the audit of other vital Treasury operations.

The Department also says that the continuing audit when completed will have required 26 man years. That means only 26 men could audit the entire Reserve in one year, something Treasury says is not feasible.

Stretching it out over ten years means that two men on the average are doing the audit each year. 31 U.S. Code 354 appears to require annual audits of our entire coin and bullion stock "Once at least in every year, there shall be an accurate and full settlement of the accounts of the Superintendent of Coining Department and the Superintendent of Melting and Refining Department at which time those officers shall deliver up to the Superintendent 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
the gold would be wise to find out.

DR. SCHWARTZ: Let me add that one other member who
voted in the affirmative on this question also had a note to
the effect that the audit should be speeded up.

Question two is in four parts. First --

DR. SPRINKEL: Could I add one point, Congressman
Paul? We will get a legal opinion from the Mint on the
interpretation of that statute which you read.

DR. SCHWARTZ: Part A asks, "Are you in favor of
the Treasury's marketing a gold bullion coin of specified
weight and selling it at a mark-up over the market price of
the gold content?"

There were eleven favorable answers, one of which
qualified by saying "not a gold bullion coin, but gold
bullion coins". There were two negative responses.

DR. SPRINKEL: Are there any comments by members of
the Commission on this question? Yes, Mr. Costamagna?

MR. COSTAMAGNA: The use of the word "marketing"
disturbs me a little bit, as I expressed in the questionnaire.
If we decide that a gold coin is money, I have a problem with
the idea of having to market money.

I don't know that we market paper money. I just
would like us to reflect on the use of that word "marketing"
for a moment.

DR. SPRINKEL: Well, we have a well-defined
procedure, of course, for getting paper money into distribution and replacing it as it wears out. In this case, there have been no gold coins minted by the United States Government for a long period of time.

I presume that since the --

MR. COSTAMAGNA: Since the year I was born; 1933.

DR. SPRINKEL: So, we've got at least, at a minimum, to inform the public that they are available since there is no procedure for distribution at the moment. I don't think that implies we're going to put on a heavy --

MR. COSTAMAGNA: Campaign.

DR. SPRINKEL: -- advertising campaign to get them distributed. If we go this route, we want to give it a fair shot, as an alternative.

MR. COSTAMAGNA: Yes, absolutely. I agree. The only thing that concerns me is the fact that what I see in terms of marketing by other countries of their coins and even the marketing that I've seen of the facsimile of the coin that is proposed in the current Senate bill, has all the earmarks of a promotion.

I think that might detract. It is similar to what is happening, say, with the gold medallions. As you know, I mentioned earlier at other meetings, that I had to go to several post offices before even being able to find a brochure let alone being able to purchase the coins.
If that is considered marketing, that would be something I would question. I think if we go the route of a gold coin and it is determined to be money with legal tender status, it should be just readily available at a bank. That should be made known to the public and that way of obtaining it promulgated.

That, to me, would be the sufficient marketing. I don't think it would have to be glossy promotional type literature and that type of marketing. That is why I'm just asking if we could discuss that word a little bit.

DR. SPRINKEL: Is there any observations by other members? Yes, Congressman Paul?

DR. PAUL: I would like to reiterate what Mr. Costamagna says. I think if marketing is misconstrued, it could be detrimental. If marketing means an announcement, that is fine.

I think if it is a medallion type coin and we need to market it and sell it, we don't need that kind of activity in the U.S. Treasury or we would have additional expenses and everything. I don't think that has been the intentions of those of us who have been promoting a gold coin.

So, I would like to emphasize that marketing would be unnecessary and really detrimental and there is no need to. There is one other word in the sentence that I would like to call attention to.
That is the word "markup". Possibly, we could clarify that. I don't think there is any intention that this markup is to be ten or 15 or 20 percent. I think the general understanding has been that there would be a markup to cover the cost of minting. I would like to make sure the record is clear on that.

DR. SCHWARTZ: Yes, in fact, that was a qualification that was stated.

DR. SPRINKEL: Governor Wallich?

GOVERNOR WALLICH: I would like to say that in my mind, markup didn't mean the cost of minting. I thought it was something that was customary in the trade and to be about the same as the markup at which other countries or dealers sell coins.

However, the Treasury shouldn't become the cheapest supplier. It should become a supplier of last resort rather than the first resort. That was my interpretation of this.

DR. SPRINKEL: Yes, Mr. Coyne?

MR. COYNE: Just to refer back to Mr. Costamagna's and Congressman Paul's comment about marketing, I just want to -- I don't really understand what you meant. There is a difference between the gold bullion coin as I understand what this means, and money in the ordinary common usage of that word.
A bullion coin is a coin which may or may not have a face value on it in U.S. currency, but which is, in fact, denominated in weight on a pure ounce of gold basis, which means that the coin will always be bought and sold on the basis of an always changing gold price.

Therefore, the price of the gold coins must be available for sale at any moment at whatever that minute's gold price is. You can't have the gold sold, let's say, over the counter of an ordinary bank without having a substantial time lag between the real price of gold at the moment and the last price at which a teller in a retail banking establishment would have available to him.

Therefore, one would have, it seems to me, excessive transactions of what I think would be called an arbitrage nature, where people would be buying and selling these items and the risk at the level of the bank or from the Treasury's point of view, if the Treasury were the buyer and seller of last resorts would be substantial.

I wonder whether -- is there something that I am not understanding here? It appears that unless the Treasury itself were to be a minute-to-minute seller and a minute-to-minute repurchaser of these coins that in order for the coins to have liquidity, they would have to have what amounts to a secondary market, comparable, say, to the secondary market that exists in Treasury securities.
DR. SPRINKEL: Well, it does suggest that the possibility of arbitrage will keep the price close to the quoted price of gold coins the day before.

Now, whether you can do it minute-by-minute, I don't know. It depends on the volume you've got, I suppose, whether it's worth it.

MR. COYNE: Well, I am simply saying that in a commodity such as gold, with the premium of two or three percent for the coin, and assuming the coin is a liquid investment object --

DR. SPRINKEL: Yes.

MR. COYNE: -- which would be required for it to be a value for the buyer. The buyer would have to be able to sell it; otherwise, it wouldn't be useful. This commodity could move in price $5 and $10 and often does in a period of one minute or five minutes or ten minutes.

Therefore, one would be inviting -- I don't know what the right expression is -- operators into transactions where people would be standing with transistor radios outside of banks, running in to buy 10,000 coins on the basis of a price movement. A $3 variation in the price on 10,000 coins would be $30,000 and that would amortize the transistor radio.

DR. SPRINKEL: Mr. Costamagna?

MR. COSTAMAGNA: I think part of that problem is addressed in this Bill that I referred to at the last meeting,
Senate 17-04 which is the bill that's pending before the Senate currently.

It says, "In accordance with the regulations, it shall be proscribed by the Secretary", meaning the Secretary of the Treasury. "The Secretary shall establish a formula for determining on an hourly basis the official conversion rate of gold."

It then goes on, in several other paragraphs, to define how that needs to be done. I agree that that doesn't take care of the minute-to-minute problem, but it does seem to anticipate that problem to some degree.

I would trust that after a period of time that if gold coinage becomes a reality and is in common usage, that the price will eventually stabilize.

DR. SCHWARTZ: May I say something?

DR. SPRINKEL: Yes.

DR. SCHWARTZ: I think there is a distinction between what Mr. Coyne has referred to as the gold bullion cold as a store of value. What I believe other advocates of gold bullion coin have in mind is that it will become a customary use in settling transactions between private individuals.

That is a subject that has not really been thoroughly discussed here, because the fact of the changing market price makes it difficult for me to see how people will
readily engage in the use of coin, even by weight. You are going to have a contract that you will pay in a certain weight of coin, but you will know that the market price for that weight of coin is liable to change from the date the contract was signed until it's fulfilled.

Well, you are going to have to make all kinds of arrangements then to protect yourself against changes in the price of gold. That is something that I don't believe has been discussed here by those who advocate the use of the minting of the gold coin with the expectation that it will come into general use for settlement of transactions, not strictly as an investment holding.

DR. SPRINKEL: Governor Partee?

GOVERNOR PARTEE: I am sorry to be late. I take it that I still haven't --

DR. SPRINKEL: We are still --

GOVERNOR PARTEE: Still on the informal discussion?

DR. SPRINKEL: That is correct.

GOVERNOR PARTEE: I don't know that I caught it all, but it would seem to me on this question of market, what I had in mind in favoring the gold bullion coin is that there would be a seigniorage charge of maybe seven percent or something like that.

If the Treasury or its agent made a markup for the coin in purchasing they were purchased at less the seigniorage
so that there would be, in effect, a spread of seven percent or thereabouts between the sale price of the coin and the buy price of the coin.

    If that is so, I don't think that the kinds of variations that you're talking about, Mr. Coyne, would probably be an important issue.

    MR. COYNE: Of course, if the Treasury's agents comparable to the primary dealers that are used in Treasury securities make a markup for the coin, this would not -- the situation I referred to would not exist.

    I was referring to the distinction that Dr. Schwartz I think quite rightly made which is that if this is being, if gold bullion coins are being minted in anticipation of its being used by the public to settle personal debts, private debts, in a serious and major way, that that is an expectation which I think has no great basis as an appropriate one. That would mean that people were making contracts to settle their debts on the basis of the gold speculation.

    I cannot imagine that that is likely to happen in a stable system such as we have in this country. It would imply an agreement by both the buyer and the seller of a commodity to settle their future obligation in terms of the gold price at a future date when the future gold price is not known. The idea of finding such a complex agreement would strike me as being highly unlikely.
Even though it could occur, the idea of minting a gold bullion coin in expectation of that occurring in the reasonable future --

GOVERNOR PARTEE: I would suppose most of the people who answered the question this way considered it more likely that it would be a store value and not used actively. I agree with you that it is unlikely, but I see no reason to prohibit it.

MR. COYNE: No, I wasn't suggesting to prohibit it. It just doesn't seem that that would be likely to occur, nor would one really need a gold bullion coin to accomplish that effect.

If I wanted to sell you my house for delivery in five years at so many ounces of gold, I could legally do that now. The essential point, I think, about having a successful distribution of the gold bullion coin would be establishing a basis whereby that coin could be resold by the holder at any time.

Of course, by phrasing it that way, I realize also I am talking about -- when I use the word "resell", that implies that I am talking about a commodity rather than a unit of currency.

I think that at this point in time, that is a reasonable position in that the unit of currency in this country is the dollar. Despite the fact that this coin might
have a face value expressed in dollars, it would in fact be bought and sold in terms of the constantly fluctuating price of gold, presumably a value which would be higher than the face on the coin.

DR. SPRINKEL: Congressman Paul?

DR. PAUL: First, to your last point, I don't think there are too many of us who are anticipating that there will be the face value of the dollar on there.

This specifically says, "a coin with a specified weight", so I would hope that we continue to think of a coin with a specified weight associated with it.

It seems like the buying and selling of Kruegerans. Wouldn't this address the concern that you have? It seems like the differential in the buying and selling of Kruegerans, nobody seems to be concerned about that.

These coins would trade back and forth, too, in that we wouldn't have to anticipate what the price would be tomorrow. I would like to take a minute, though, and address Dr. Schwartz's point about the lack of feasibility or the unlikelihood of coins being used in transactions.

I think that for the moment this point is well taken, but you referred to the problems being that we can't tell what the price of gold will be tomorrow, so therefore nobody is going to have a transaction in gold.

We live in a period of time of monetary turmoil and
financial turmoil. I see that that same statement can be
thrown right back and say well, it isn't the price of gold
that's the problem, it's the value of the dollar.

It is precisely because we cannot anticipate the
value of the dollar that the long-term contracts have
totally disintegrated. We can't get our mortgages and we
can't get our bonds precisely for that reason.

So, therefore we are in a transition. Most every­
body here agrees and understands the value of the gold bond,
the fact that they are going to be guaranteed a precise
weight in gold, that that interest rate would be much lower
than it would be with one that you have to discount the
depreciation of the dollar.

I think as time goes on, if there is a choice it
will be up to the people in society to choose which is the
most precarious to deal with -- the depreciation of the
dollar or the stability of gold.

As long as that's available, I think that we'll
let the market decide as to exactly when they will so choose
to use it. In a way, this is a very indirect monitor of what
the monitory authorities do.

If they see that there is no bond market and no
mortgage market, that somebody is achieving a market in gold,
then obviously the monetary policy is wrong. This will be a
market mechanism of telling the authorities that something
else has to be done. I think as long as we can legitimatize
and legalize it and permit it, that's the key to what we are
trying to achieve.

DR. SCHWARTZ: That is right. I agree that the
public will decide whether these coins will be used in
transactions. It isn't anything that can be determined in
advance.

DR. SPRINKEL: Mr. Coyne?

MR. COYNE: I really completely agree with what
Congressman Paul just said, even though it may not seem so.
I was simply saying that if such a coin were minted tomorrow,
in fact, it would appear to be highly likely that it would not
be so used.

Maybe eventually it would be. I certainly hope not,
but maybe eventually it would be. Therefore, in the near
term, one is talking it would seem to me about a coin that
would be sold and marketed as you suggest, as in the analogy
that you suggest such as the Kruegerand or the Maple Leaf or
any one of the other gold bullion coins which in fact are
bought as investment items rather than for the purpose of
using it as a payment of debt.

DR. SPRINKEL: Are there anymore comments on two?

Mr. Costamagna?

MR. COSTAMAGNA: On the second issue that was
raised here on the word "markup", Governor Partee's mentioning
of a seven percent spread as a markup. That certainly
wouldn't be my idea of a gold coin that was to be used as
money. That might be what is being done with Kreugerands.
I don't believe the spread is that wide or --

GOVERNOR PARTEE: I don't know what the spread
ought to be.

MR. COSTAMAGNA: I think the time I checked a
couple of meetings ago, it was approximately three percent.
That might be fine for foreign coins, because those are not
legal tender in the United States.

I don't see where an American coin should have that
kind of a spread if it's going to be considered legal tender.
I certainly can appreciate the fact that there should be some
charge or premium for the cost of producing, minting, and
distributing.

Certainly, seven percent would render it useless
in terms of what I think we are voting on here in having it
become a coin that would be used as money. I would anticipate
that these coins, at least as reflected in this Senate bill,
again. There are four different coins of different weights --
one ounce, half ounce, quarter ounce.

It's a one Troy ounce, one ounce, one-half ounce
and a quarter-ounce. The quarter-ounce would be at current
market prices of about a $40 coin, which I think is something
that possibly could be seen used in daily commerce.
This spread or this markup is something that I think should be further clarified.

DR. SPRINKEL: Is there any further discussion of this issue? Did you say $40 for a quarter ounce?

DR. SCHWARTZ: That would be $100.

DR. SPRINKEL: I thought it would be $100.

MR. COSTAMAGNA: No, I'm sorry. I think it's a one-tenth ounce.

DR. SPRINKEL: Oh, okay.

MR. COSTAMAGNA: I have the glossy brochure that has already manufactured them, as a matter of fact. I will pass this around. You might find this of interest. It is a gold Troy ounce, an ounce, a gold ten gram and a gold five gram.

DR. SPRINKEL: Dr. Schwartz, do you want to read 2-B, please?

DR. SCHWARTZ: 2-B. Of those in favor of issue of gold coins, six were in favor of making the coin convertible by the Treasury at the market price on the day of redemption. Five were opposed.

DR. SPRINKEL: I might note that we now have a quorum, so we are convened officially. Governor Wallich?

GOVERNOR WALLICH: I would note that making the coin redeemable at the market price would conflict with what I thought was the margin around, above and below the
market price that this coin should have. Now, whether it's seven percent or three percent is something one could discuss. If the Treasury buys coins at market, it leaves no room for that margin as I see it unless that term is so construed that it means at the market plus that normal margin.

If it did buy it without the normal margin at the market, it would for one thing, of course, eliminate the dealers who must make some profit from the transaction. It would also create a pegged price for gold at least to the extent that the market price didn't move.

So that larger amounts could be disposed of by the total market, taking coins and bullions together, than would otherwise have been possible. I think this kind of pegging, even of the coin in a limited sense, would be very undesirable.

DR. SPRINKEL: Yes, Mr. Coyne.

MR. COYNE: If I just may offer a possible point for clarity and semantics, the term "three percent" would be, I think, called a seigniorage -- or seven percent or whatever the government of issue charges over the bullion price for the coin.

If, for example, a coin were minted which was sold by the Treasury at three percent over the gold price of the day, that three percent would be a seigniorage. The spread 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 percent.

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 short 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.
DR. SPRINKEL: And Secretary Regan.

MR. REUSS: And Secretary Regan. Thank you.

DR. SPRINKEL: One question that occurs to me on
2-B is what option is available to the public that wants to
get rid of their coin by asking the Treasury to buy it if it
isn't available, they can sell it in the open market. Could
you comment on that, Mr. Coyne? Unless there is a monopsony
out there where a large holder might depress the price --

MR. COYNE: I am not proposing anything specific
and this would certainly warrant study, but I would offer
that there is an exact and appropriate analogy in the U.S.
Government Securities market. That is, there are primary
dealers who buy and, in volume, and are obliged to maintain
a secondary market.

That is, in fact, the way the gold market works
in practice. It would seem the logical way to, in fact,
create the liquidity and market penetration that one may wish
if one chooses to go the route of issuing a gold bullion coin
by the United States.

DR. SPRINKEL: But, with the Treasury debt there is
a maturity and therefore, we must, we the Treasury must pay
off the maturity. With the gold coin, there is no similar
maturity. The option would be up to the owner, I presume,
to either sell it on the market or turn it back into the
Treasury, if that happens to be the rule.
MR. COYNE: Well, the coin, of course, could be either the Treasury either could or could not have the ultimate obligation to repurchase the gold coin at the gold market of the day.

It would not be necessary to do such a thing. One may choose to do it, but many nations which produce gold bullion coins in fact put a low face value on the coin, which is far below the gold content.

They are obliged, in fact, to redeem the coin at the face value. The Canadian government, for example, does this with the Maple Leaf coin. Obviously, no rational person would redeem a $50 one ounce gold coin at $50 and therefore, will sell it in the secondary market.

The Royal Canadian Mint sells Maple Leaf coins to a series of primary dealers, to a group of primarily dealers who are obliged to maintain a secondary market in that coin. In fact, the Canadian government is not the buyer of last resort at the gold price. They would only redeem it on the face value of the coin basis.

DR. SPRINKEL: Could I ask the question a little differently? A majority of those voting, or at least six, were in favor of the Treasury converting at the market price.

I just wondered why those voting in favor of the Treasury converting those coins at the market price believe that would be an advantage to the coin or to the holder of
MR. COYNE: Well, whether the Treasury should do it or not is a different kind of question, but in terms of whether it would be an advantage, it certainly would be an enormous competitive advantage.

Again, I apologize for that word, because it --

DR. SPRINKEL: It says "at the market", however, whatever the market is.

MR. COYNE: At the market, because that would mean that there would in fact be a buyer of last resort for all of the outstanding gold coins, which would mean that the secondary market would be even more aggressive in its desire and need to repurchase coins in the marketplace.

It would, therefore, make these coins, once it got out into the final owners across the country, it would make these coins more desirable because they were more liquid.

That is to say it would be much more easily resalable if everyone along the channel of distribution had complete confidence that the coins could be converted back into normal U.S. currency at any moment of the day or night at whatever the market price is.

That would obviously put the Treasury in the position of selling gold at the price it happened to sell it at and being obliged to repurchase it at whatever price the ultimate buyer wished to resell it at, so that if we had been
issuing a bullion coin during 1979, it would have been possible for the government to have issued gold coins at $400 an ounce and later to have been obliged to repurchase those coins at $800 an ounce.

DR. SPRINKEL: Governor Partee?

GOVERNOR PARTEE: I voted for this. My theory was that there is not much to be lost, as I see it, from the point of view of the government in providing this redemption privilege assuming the redemption privilege is at the bullion price.

I would assume that it would be very possible to cover right away in the market. It just provides a place where you can do that. I had in mind that the sale would be at a coin price in excess of the bullion price.

I don't know what the right number is, but it would be large enough so that there wouldn't be a lot of movement in and out just on that basis. Ordinarily, I would think there would be a secondary market that would be above the bullion price, so that not much would, in fact, come back.

I can see no particular exposure from the government to it and I did it in the spirit of regarding this as rather a sponsored market. That is, not just that we are getting rid of our gold, which might be part of the practical effect from the point of view of the government accounts, but rather that we are putting out a coin -- and I agree with the Congressman -- that would be stated in terms of gold content rather than
dollars that would have a degree of sponsorship behind it by the government.

It seems to me if you sponsor, and in view of the fact that there is no maturity as you say, and in view of the fact that anybody could melt the coin and get the bullion price anyway, why, part of that sponsorship would be to have, for example, the Federal Reserve Banks standing ready to buy it across the window at the bullion price, at the quoted price, however that is determined based on the bullion market, hour by hour or day by day.

That might take a certain amount of business away from the dealers like Mr. Coyne, but I don't think so in the ordinary circumstance, because you have to recognize that probably the coin would have some value over and above bullion because of its character, its easy character.

I think that's been true generally of coins, hasn't it? They run at more --

MR. COYNE: Yes, absolutely.

GOVERNOR PARTEE: -- than bullion price?

MR. COYNE: Absolutely. By the way, if such a thing were in fact to happen, it would have quite the opposite effect on a professional bullion dealer's business, because it would in fact create a reflow and a recycling of these items.

If there were -- as a generality, there is a premium for bullion coins. It is extremely rare, if ever, that
coins are remelted. Therefore, the secondary market will, in fact, repurchase these coins at a premium of only a fraction of a percent below the price at which it is sold.

If the coin has sufficient liquidity, the reason that the primary dealer will do this is because of the readiness with which he, in fact, can resell it at the full price.

DR. SPRINKEL: Congressman Ruess?

MR. REUSS: Thank you, Mr. Chairman. I am surprised to find my friend, Governor Partee, for whom I have the highest regard, among the six on this. I would ask him a question about it.

Isn't there a danger if you do this that -- I was among the eleven. I think a gold coin is a perfectly good idea, but to make it convertible by the Treasury, suppose we do have a gold coin and it is widely distributed as it well might be.

Suppose the Soviet Union, up to God knows what kind of tricks, by withholding gold from the market, has driven the price to a juicy $1,000 an ounce, let us say. Must the Treasury then subsidize that practice?

It seems to me that could happen. I don't know, I don't see any case at all for convertibility.

GOVERNOR PARTEE: Well, my thought --

MR. REUSS: Set my mind at rest.
GOVERNOR PARTEE: Well, my thought, Congressman, is that the Treasury -- I presume there would be an office in the Treasury that would manage this system. The Treasury might very well decide to cover any purchases of gold coin.

That is, if the price were quite high and if they found gold coin coming back, there could be a very good information system on this so that you would know every day what your net position was.

If the price were quite high, they could opt to cover in the spot market for gold bullion. If they were buying at the bullion price and if they were then selling gold bullion equal to the amount that they had received, there would be no particular exposure for the Treasury.

MR. REUSS: But, why put the Treasury up to such fancy Dan tricks? Have you no mercy on them? What is the good of it all?

GOVERNOR PARTEE: Again, I did this just simply in the spirit of regarding this as a rather sponsored market. That is, in the sense of the Gold Commission to find a use for gold, there are a good many people including a lot of very little people, who might want to hold some gold as a store of value. I think it would set their minds at rest if they knew they could convert it any day through an official channel rather than depending on a dealer market or something of that sort.
Therefore, it would give it an attribute that would be rather popular among the general public without, as I say, a particular exposure for the Treasury. That is simply why I supported it.

DR. SPRINKEL: Governor Rice?

GOVERNOR RICE: Mr. Chairman, unlike Congressman Reuss, I am quite accustomed to disagreeing with my colleague, Governor Partee. I voted differently on this, too. I was in the majority with the eleven, and I voted against this.

I would like to raise a question. Despite what Mr. Aaron said, maybe I'm confused. I still don't see why this would be an advantage to members of the public who are using these coins as a store of value.

They can depreciate in value. The market can go down. They can lose money. It seems to me they'd be much better off, holding them as a store value if the price were fixed. Even if they knew they would forfeit the seigniorage by giving them back to the Treasury or selling them back to the Treasury at a fixed price, they would know.

There would be a floor under this price and they would know what they would get. They would be protected to that extent. On the other hand, they would be in a position of, in case the price of gold rose substantially, they would be in a position to sell at a profit.

So, they would -- it seems to me that the members
of the public would be in a much better position if they
faced a fixed price for gold. That is, the willingness of the
Treasury to buy back gold at a fixed price, although lower
than the price at which they sold the coin.

DR. SPRINKEL: Yes, Congressman Paul?

DR. PAUL: Thank you, Mr. Chairman.

I would like to address the question that my
colleague raised about the threat of Russia maybe doing some
disastrous things that would change the dollar price of gold.
I think I can reassure him that his concerns are unfounded.

If Russia made a deliberate attempt to interfere
with the market, I think they'd have a great deal of difficulty.
If you take the year that they have had their maximum amount
of production of gold, it is one-half of one percent of the
total gold reserves.

So, whether they withheld it for a year or dumped
it on one day, it could not affect the market. Today, we know
that the Russians are dumping and selling gold very rapidly.
We see a calm gold market.

We've seen gold at around $400 for several months.
They have been dumping into this market. They have not been
able to affect it. I will concede one point. I am one of the
six that voted yes.

It is one of the points that I do not feel real
strong about. To me, who believes in freedom and competition,
I don't think my system that I desire depends on this. It depends on legalizing the freedom to transact in gold, to allow those gold coins whether they are government minted or privately minted to have legal tender status. That is the important thing.

Whether or not the government guarantees that they buy that back, if my system depended on that, I would say it is a weak system. It is not dependent on that. I think that there is somewhat of a plus for it, and I voted yes on that. It is not a real strong yes.

So, if I truly believed it would jeopardize the Treasury in some way, I would vote no. I happen to disagree with the argument that the Treasury is jeopardized by the threat of Russia or South Africa. That to me is a fallacious argument.

DR. SPRINKEL: Mr. Costamagna?

MR. COSTAMAGNA: Dr. Sprinkel, I also voted yes on that question. I feel very strongly on the point of convertibility on the market as distinguished from Dr. Rice for several reasons.

It would seem to me that everything we have read and reviewed here in the last six months indicates that the fixing of the price of gold is probably one of the most difficult things that we could possibly attempt.

I have come to the conclusion that there is no one
wise enough to determine what that particular price should be. I would believe that the market, in its wisdom, would reflect that price most adequately every single day, because it would be the judgment of millions of people not only in this country but throughout the entire world.

The other point in having this convertible at the market is the idea that -- the idea just escaped me. I'd like to get back to that later, if I may.

DR. SPRINKEL: All right. Congressman Neal.

MR. NEAL: Mr. Chairman, there was an article in The Washington Post yesterday indicating that over the last year or so, the Soviet Union and South Africa had been selling large amounts of gold on the market, thus depressing the price of gold. That seemed quite reasonable to me when I read the article.

I wonder if some of my more learned colleagues in this area would tell me if that is the case or not. I noticed Governor Partee nodding. Is that a true account?

GOVERNOR PARTEE: I don't know whether they've been selling gold or not, but if they've been selling gold, it has tended to depress the market.

MR. NEAL: As a matter of fact, the price of gold has come down rather dramatically over the last couple of years.

DR. SPRINKEL: Some would argue that is because we
are getting the inflation under control.

MR. NEAL: May I continue, just for a moment.

DR. SPRINKEL: It does seem unlikely, Congressman, that they could have been selling enough to have dropped it from $650 to $400. That's a lot of a drop.

MR. NEAL: One of the questions, though, that has been on my mind since the beginning of these discussions has been this very question of the ability of the Soviets, the South Africans, or them working in concert, to have some affect on our monetary system, our rates of inflation, recession and so on.

That has troubled me from the beginning. It continues to trouble me. I would think that if this article is correct that it's significant that we look into it. The whole concern isn't related to their annual production.

It's related to their storehouse of this particular asset.

DR. SPRINKEL: Congressman Paul?

DR. PAUL: I would like to respond again. I do not believe they have the power to do that. I think they can, on a day to day basis, have some effect on it. But, overall it is inconsequential because of the small amount that they can product.

So, if they produce at their maximum rate for one year and can come up with only one-half percent of the full
gold stock, it is not enough to affect the market. I would like to suggest that Dr. Sprinkel is exactly right. There is a disinflationary psychology existing today.

For this reason, a lot of people have backed off. There are a lot of people in this country right now that are very frightened about serious deflation. For this reason, people have backed off.

That is a much more significant event. The inflation rate is lower. So, the so-called dollar price of gold is subjectively set by those people in the community and throughout the country, depending on what they anticipate in inflation. That is the number one reason.

That is 99 percent of the reason you have a dollar price of gold going down today. What the South Africans and the Russians do I think is inconsequential. There is no real sound evidence to show that they can, because the Russians, as I understand it, it's been two or three months since the Russians as well as South Africa have been selling a lot in the last several months.

We are in a very very calm market right now, compared to when there was a severe inflationary psychology and it was skyrocketing at 850. That had nothing to do with withholding of sales when it went to 850.

When it crashed down, it had nothing to do with the supply and demand of the gold. It had to do all with the
psychology of the people anticipating inflation versus deflation. So, I think this is a small event.

DR. SPRINKEL: Dr. Schwartz?

DR. SCHWARTZ: On the other hand, those who argue that the sales by the Russians have had a depressing effect on the price of gold argue from the premise that political uncertainty has heightened during this period.

In times past when political uncertainty with regard to the Polish situation, for example, there has been an increase in the price of gold which we haven't observed currently. They relate these two developments -- the fact that there has been an increase in political uncertainty and that the price of gold has not responded as it has in the past and at the same time, there has been an increase in sales of gold by the Russians and South Africans. When you measure it quantitatively, I don't know.

DR. SPRINKEL: Mr. Neal?

MR. NEAL: I'd like to know also, if there is such a wonderful deflationary expectation or if we've ended inflationary expectations, why are interest rates continuing at such high levels?

DR. SPRINKEL: I am not a member of the Commission. This is not an appropriate time to discuss it.

MR. NEAL: I am just not convinced that that's not the case, as a matter of fact.
GOVERNOR PARTEE: Congressman, I would, but I don't really agree with Congressman Paul all together. I think the interest rates themselves tend to put the price of gold down. What you've got is no return on gold and you can get 15 to 17 percent on the market for your money.

You have to reach a view as to whether gold is likely to appreciate by more than that or whether you'd be better off in an interest bearing estimate.

DR. SPRINKEL: Mr. Costamagna?

MR. COSTAMAGNA: The second point I wish to make, to return to my train of thought. Again, in addressing Governor Rice's point that this should be a fixed price, as distinguished from a market price, it seems to me that the --

For example, I appreciate you might have an individual buying a gold coin at $400 and a year from now, it's $300. But, I don't see that as any different from the man who in 1966 bought Detroit Edison 6's of 96 at par and today they are 40 cents on the dollar. That's the risk -- and that's an actual price, by the way.

That is the risk that an individual takes, whether he holds paper or gold. The possibility of those sixes of 96 returning to par plus a premium is possible, hopefully, as the price of gold going up or down.

So, it would be treating gold and paper equally so that the individual who holds gold takes the same risk as
the individual who has held paper. Thank you.

DR. SPRINKEL: Did our gold market expert, Mr. Coyne have something to say about these discussions?

MR. COYNE: I'm hardly an expert, but I was simply going to say that as I've always seen it, the Soviet Union and South Africa have held the same general position on gold as say the United States has had on, say, wheat in that it is for them a principal export and production item for each of those nations -- certainly, South Africa and with more variability but still generally the same, the Soviet Union.

They have mined gold each year and have, on a reasonably regular basis, sold and exported that gold to the industrial consumption markets in the world in the same normal commercial way in which other commodities appear to be exported.

I've never seen an instance in my experience in recent years where I've seen something that I could have considered dumping. Nor have I seen periods of withholding gold from the market.

That is not to say that it couldn't happen in the future, but that is simply not their day to day and week to week and month to month and year to year method of operations.

DR. SPRINKEL: Yes, Dr. Weidenbaum?

Statement by Dr. Murray L. Weidenbaum

DR. WEIDENBAUM: First of all, I would like to apologize to the members of the Commission, but the Chairman
and I were invited to a meeting at the White House by a
gentleman whose invitation we could not refuse. The Chairman
asked me to say he will be with us in just a few moments.

I would like to have the Chair's indulgence to
read, in connection with the questionnaire, a very short
statement of my views. The members do not need to take notes.
I have copies here if they are so interested.

The deliberations of the Commission have served
the useful function of underscoring the continued need to
fight inflation and to promote policies of economic restraint.

Although many of the members and witnesses were
persuasive in critiquing historical experience, I was not
convinced that any of the suggested major changes in our mone­
tary system would be superior in both theory and practice to
the existing system with all its imperfections.

Surely, we always should remain open-minded in
evaluating proposals for policy changes. Indeed, I find myself
supporting some of the specific suggestions made to the
Commission, notably to allow Treasury circulation of gold coins

But I remain unconvinced that we should institute
price controls over commodities and that includes precious
metals, such as gold and silver. Thank you, Mr. Chairman.

DR. SPRINKEL: Are there any further comments on
this issue? If not, we'll move to the next question,

Dr. Schwartz.
DR. SCHWARTZ: Yes, of the six members who favored making the coin convertible by the Treasury, five said that they were indifferent. One said he was aware of the fact that such conversion would produce profits or losses for the Treasury. One answered in the negative who was not indifferent.

DR. SPRINKEL: So, most of them don't care.

DR. SCHWARTZ: Most of them don't care.

DR. SPRINKEL: Are there any observations on that particular question?

GOVERNOR PARTEE: Yes. It's a very small issue. I think that all you're talking about, really, is the seigniorage on whatever the volume is compared with the cost of running the operation efficiently.

DR. SPRINKEL: Are there some comments? Yes, Mr. Costamagna?

MR. COSTAMAGNA: Yes. I was just going to say that it would seem to me that the don't cares and the yesses would be the same.

(Laughter)

MR. COSTAMAGNA: It is a distinction without a difference, as the lawyers would say.

DR. SPRINKEL: Any further comments? We'll move onto the next question, Dr. Schwartz.

DR. SCHWARTZ: The final question in two is since the existing statute prohibits the minting of gold coins for
circulation, will you propose repeal or modification of the statute. Eight said they would favor repeal and three said they did not. I assume that the three who said they did not were convinced that the coins would circulate.

I am not sure how to interpret that fact that eleven voted in favor of the coin, but then three would not vote to propose repeal or modification of the statute prohibiting the minting of gold coins for circulation.

DR. SPRINKEL: Are there any comments on this question?

(No response.)

DR. SPRINKEL: No comments. Shall we move on to three?

DR. SCHWARTZ: Yes. As you undoubtedly aware, I framed these questions in response to issues that had been raised in previous meetings. One of the issues that had been raised is this question, three.

Are you in favor of Treasury purchases of gold to replace gold it has coined and sold. The majority voted no on that question.

(Secretary Regan enters room.)

DR. SPRINKEL: Are there any responses to question three?

MR. COYNE: That question in abstract is really almost an impossible one to answer, I think, because if in fact
a total of 2 million ounces of gold coins were sold a year, then the idea of requiring cover in bullion would hardly be worth talking about.

If, in fact, 20 million coins a year were sold and distributed, then after five years we would have lost 100 million ounces of our Treasury stock. This question has this point. It has ramifications to certain of the other questions befitting our indifference to profit and loss.

Questions such as the capital gains text treatment regarding profits on such items, if one were to -- if the government were to determine to mint and market a two or three percent seigniorage gold coin and agreed to repurchase at the market and make that item free of state sales tax and compensating use tax and free of capital gains, I would say that 20 million ounces a year would be a reasonable objective.

I am not very good with decimal points, but I think that even the three percent seigniorage on that would be a number that the Congress would wish to take into account in its budget.

Because we're talking about serious money just on seigniorage on that score --

GOVERNOR PARTEE: That is $240 million at three percent in dollars. That is $240 million at $400 an ounce.

MR. COYNE: That is correct.

GOVERNOR PARTEE: That is not a giant item, but it
would be a significant amount of money; yes.

MR. COYNE: Therefore, if one were talking of a
total package of that nature, I don't think one could
casually make the decision not to cover.

I now see with a fresh clarity the pertinence of
Governor Wallich's comment at the last minute that a series
of questions such as this could lead us to "A" is greater
than "B" is greater than "C" is greater than "A".

The question becomes more complex and one would
have to, I believe, take into account the answers to all of
these coin-related questions before determining an answer to
each one individually.

MR. COSTAMAGNA: I voted yes for this particular
question, but if I may take the liberty of just rephrasing
that a little bit. Are you in favor of Treasury purchases of
gold to replace gold it has coined and sold if the quantity
of gold diminishes below 200 million ounces.

I think you might have a different response. I
would suspect that there would be no one in this room that
would want to see our entire gold store depleted. I think we
would, if that question were rephrased as I suggested, it is
possible that we would get a different answer.

There might be some point at which we would not want
to see the gold store go below, as strong as I am in favor of
minting gold coins, I do not want to see that done at the
expense of depleting our entire gold store.

SECRETARY REGAN: Thank you. Governor Partee?

GOVERNOR PARTEE: Well, Mr. Chairman, I answered no on this. I must say I did it in anticipation that there wouldn't be just a very substantial use of Treasury gold.

I think probably that our gold stock is larger than we need. I don't know how much larger, but it is significantly larger than we need. So, if we were to lose in the process here ten or 20 percent of our gold, I wouldn't mind.

I guess I would join Mr. Coyne in saying that there is a point. I mean I suppose there would be a range that one would have in mind of permissible losses of gold before one would consider covering with bullion purchases the use of bullion to issue coins.

SECRETARY REGAN: Congressman Paul?

DR. PAUL: Thank you, Mr. Chairman. I just wonder whether or not the Treasury doesn't already have the authority to make a decision like this if this is the case.

I think that if we did, once again, sell or distribute gold coins and then the level got to such a level that the Secretary of Treasury or the Treasury Department and the Administration felt that the purchase of gold was wise, I believe it is legal to do that now.

If that's the case, we might not have to be as concerned about this as we seem to be. I don't think there is
anything wrong with us taking the position, because that is
certainly part of our responsibility, to at least make a
statement. But, if legally we could purchase the gold this
might not be as serious a question as we have right now.

Does anybody know if we do have the legal authority
to purchase gold?

MR. LELAND: We have the legal authority to purchase
gold. We don't have the legal authority to mint gold coins.

SECRETARY REGAN: Governor Wallich?

GOVERNOR WALLICH: Mr. Chairman, I was surprised by
the estimate of Mr. Coyne as to the volume of coins that might
result. To me, that would not be a reason why the Treasury
should go in the market and replace it.

If that estimate -- which, as I say surprises me,
but you are the expert -- were to reflect the way the market
would work, I would say we'd have to raise the seigniorage
and arrive at a margin that puts the Treasury at least as high
as competing coins and maybe a little higher.

SECRETARY REGAN: Thank you. Anything else on this?

Any other comments?

(No response.)

SECRETARY REGAN: All right. Why don't we proceed
on, Dr. Schwartz?

DR. SCHWARTZ: The next question regarding the
exemption from capital gains taxation of the profits or losses
when changes in the market values of private holdings of gold bullions or coins was answered in the affirmative by seven, of whom two restricted the exemption to coin only. I believe Congressman Neal circulated a statement about all of the questions that would need to be examined very carefully before a statement about the implications of such exemption. Somebody else had a note about also sales tax exemption, but since sales taxes are at the state level or at the city level, I didn't regard that qualification as applicable to this Commission's responsibility.

MR. NEAL: Why not?

SECRETARY REGAN: Congressman Neal, do you want to speak to that?

MR. NEAL: Well, I was intrigued by an idea that appeared in a Wall Street Journal article written by a Mr. Richard Ron, who suggested that if we were to exempt gold under certain circumstances. That is, if we were -- gold, after a certain date.

If we were to exempt gold from capital gains taxes, then we would allow gold to compete with paper currency without prejudice. If people preferred to hold gold, then there would be no government impediment to their holding and training in gold. It seems to me it ought to satisfy those who think gold is a superior currency.

If people would prefer to trade, make purchases,
contracts and so on in the coin of the realm, then those
people would be permitted to do so. Both would compete on an
equal level. It is just a very intriguing idea to me.

There is no essential cost involved to government
as I see it, no impact on monetary policy that I can see at
this moment. There are some questions, as Dr. Schwartz
indicated, we raised and we asked about the tax consequences
of this. We list several questions. There may be some others
that would need to be asked.

I just think it is an idea that has a certain
appeal. I would like to explore the idea a little bit further.

SECRETARY REGAN: Do you have a comment,
Congressman Reuss?

MR. REUSS: Thank you, Mr. Chairman. I must speak
out with some heat on this one question, four.

In the first place, methodologically, I can't see
listing a majority as being in favor of this. According to
the record, only five really answered yes. Two of the
so-called seven majority said coin only.

Well, that is, Mr. Chairman, as if somebody asked
the question do you favor the death penalty for murder and
traffic violations and seven said for murder yes, but not for
traffic violations and you put yes as the answer.

So, tut-tut on the methodology, but much more
important, what a preposterous thing after we've already
disgraced ourselves by putting all of these new loopholes in
the tax laws. Now we are supposed to give gold speculators
a free live? This is the Bunker-Hunt Amendment here. I not
only want no part of it but I shall fight it in the
Commission, beyond the Commission, wherever it appears.

Finally, since when is it our business and our
mandate to comment on tax laws? We are supposed to comment on
the role of gold in the domestic and international monetary
system, not about whether states may impose a property tax on
gold, cities may impose a sales tax on the sale of gold or
whether we should put a Bunker-Hunt loophole.

So I would hope that this would fall between the
cracks. The sooner, the better.

MR. NEAL: Mr. Chairman?

SECRETARY REGAN: Yes?

MR. NEAL: The suggestion was that the capital gains
tax be removed beginning as of a date certain in the future
sometime so that there would be no benefit to those already
holding gold.

In other words, there would be no particular benefit
to any gold speculator now in the business of speculating in
gold.

MR. REUSS: What Bunker-Hunt is getting out of
silver and he'll have several billions to put into gold the
day you take off the capital gains tax.
MR. NEAL: Let me pursue this. As I understand the proposal, there would be no particular advantage to a speculator in holding, that would trade in gold, that would not be there for a speculator that would hold dollars.

I mean you or I can speculate today in dollars if we want to. We can choose to hold dollars as opposed to real estate or something else. There is no particular capital gains tax applied to those dollars.

MR. REUSS: But when we sell the real estate, there is a --

MR. NEAL: No, no, but if you've sold the dollar, there is no capital gains tax. If you happen to hold dollars and our government is successful in --

MR. REUSS: There is no capital gain because like it says on your paper currency, this is redeemable at the Treasury by Mr. Regan or it's exactly what you paid for it. It's a wash.

MR. NEAL: In dollars.

MR. REUSS: No gain, no loss.

MR. NEAL: Exactly. What I'm trying to understand is how you see this as different from the situation that would exist if the same treatment were given gold. I have no desire, let me just make it very clear, if benefiting any particular group of speculators.

In fact, what I think would happen if we were to do
something like this or suggest something like this that essentially nothing would happen. There would still be no way of a person earning interest on gold. A person can earn interest on dollars, and I can't see what possible benefit there would be to anyone in holding gold unless they just happened to want to bet as they can now, by the way, that we are going to inflate our economy or other international events will raise the price of gold.

I just don't see the basis of your charge that this is somehow of benefit to speculators.

MR. REUSS: It enables him to buy gold at $600 and sell it at $1,000 and not pay a long-term capital gain on the $400.

MR. NEAL: But you can buy $600 worth of dollars and sell them at $1,000 worth of dollars and not pay a capital gains tax.

MR. REUSS: I don't know how you sell $600 for $1,000. If you'll tell me, I'll be rich.

(Laughter)

MR. NEAL: I'm just saying that if you owned gold last year at $800 and it is now $400, you don't become very rich doing that either, do you?

MR. REUSS: No, but that's an unrealized capital gain. If you realize the capital gain by selling it, then, says the tax laws, you pay a tax.
MR. NEAL: No, that's a capital loss.

MR. REUSS: Now, it's suggested that we put in the Bunker Hunt Amendment saying that however you realize your gain in gold, you don't have to pay a tax. I cannot join in that Commission recommendation.

SECRETARY REGAN: Congressman Paul?

DR. PAUL: Thank you, Mr. Chairman. I think Congressman Ruess might have this a bit misinterpreted. I understand that Bunker Hunt did not make a whole lot of money on silver.

(Laughter)

DR. PAUL: I understand he had a little trouble and if he gets into the gold market and loses, what we've done is we've cut out his capital loss. So, he's going to get stuck. He won't be able to declare his capital loss. Think of the capital losses he's going to have with the silver.

MR. REUSS: I presume Bunker Hunt goes into these transactions with the thought in his mind that he's going to make a capital gain.

DR. PAUL: I know, but he lost money in silver. That is the whole point. He's benefited tremendously from the general tax code, because he's taken it as a capital loss.

What we're saying is we shouldn't have capital gains or capital losses. They should balance out. Besides, I think there will be a greater gain for the government because...
those individuals who buy gold tend to hold it right now. There are capital gains. They don't trade them in and take them, so they are not paying a lot of taxes.

I would suspect if you'd do an analysis from the Treasury you would find that there were more capital losses declared last year on the metals than capital gains. I think that we're really sticking it to the speculator by taking away his capital loss.

MR. REUSS: Why don't you just take away his capital loss, but tax him on his capital gains?

(Laughter)

DR. PAUL: Because I happen to think about a free society and I'd like to treat him fairly. That would be totally unfair and sort of ridiculous when you think about it.

MR. NEAL: That is your suggestion, right, Henry?

DR. PAUL: He's serious, I guess.

(Laughter)


DR. PAUL: I would like to follow up on this on the taxes. I think this is a very specific important area that we address, because we are talking about gold being used as money.

If there is any way that gold can compete, you have to get it somewhere on an equal status. For that reason, I think the subject of state tax and sales tax is a proper subject. If we walk into our bank today and we write a check
and take out three $100 bills, nobody charges us a sales tax on it. So, if we walk into the bank and ask for three ounces of gold, the subject of a sales tax is very critical. It is less likely that we would go in and buy three ounces of gold if we are going to have a premium of three percent or six percent. It leads to chaotic conditions.

Even today, we realize that some states charge sales tax on gold; others don't. Those who want gold buy gold through the mail and skip the sales tax. Some states would exempt and others wouldn't.

So, I think it would be very important, if we're serious about allowing some freedom and some competition that we might not have the legislative and Constitutional authority to say anything, but we might have a recommendation that we could make.

SECRETARY REGAN: Governor Wallich, you are next.

GOVERNOR WALLICH: I voted against it, Mr. Chairman, not because I think the capital gains tax is a good tax. I think it's a very bad one. It is a triple taxation of savings -- once when the income is earned; once when the income produces dividends after being invested; and finally, when it's sold if there is a profit.

It is harmful to productivity and growth. During inflation, of course, it is worse because it becomes a tax on very often a real loss, even though there is a nominal gain.
It becomes a tax on capital. Nevertheless, so long as we have this tax in the system, then it seems to me that we shouldn't discriminate in favor of an unproductive investment, such as the ownership of gold and existing assets which, as we know, doesn't influence production in any particular way and against productive investments such as common stocks or real estate, productive assets.

I would think we would want to treat all capital gains alike.

SECRETARY REGAN: Thank you very much, Governor.

Mr. Costamagna, you are next and then Governor Partee.

MR. COSTAMAGNA: Thank you. I was one of the two that made a distinction between gold coins and bullion. I think that that may solve the debate that I hear going on here.

If we can look at it for a moment again with the idea Congressman Paul just said. We are looking at gold coins as money. Now, there are no American gold coins in existence today. All of those people who currently own foreign gold coins or who have gold bullion, if you make a distinction between newly minted gold coins that are to be produced sometime in the future as U.S. gold currency or coins, gold legal tender, money.

There will be known from the past who has gold bullion or gold coins. That will be exempt from the capital 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 Kruegerand 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)
MR. COYNE: My God, I hope you're kidding me.

But, if this dollar bill buys one loaf of bread and I do not now need a loaf of bread, but I may when I retire at the age of 65, what I wish to do is to store this in such a form as I get back the equivalent of one loaf of bread, not a dollar.

I don't care if I get back 50 cents and 50 cents buys a loaf of bread. I don't care if I get back $5 if $5 buys a loaf of bread.

If we are intending to create a legal tender in gold coin as store of value for the citizens of this country, then to tax that store of value in a discriminatory way against other American legal tender would not serve the purpose of creating a legal tender alternative to ordinary American currency.

If that's what one's philosophical thinking would be, one would presumably not wish to mint a legal tender U.S. gold coin.

SECRETARY REGAN: Congressman Neal?

MR. NEAL: Well, the point of the article was not that the gold coin would be legal tender, number one. Number two, the point was that it would be used primarily for -- it would allow the use of gold for long-term contracts.

I think you raise an interesting point about the advantage given speculators if it were in bullion. It had not occurred to me. Maybe it's the same point with the coin,
I'm not quite sure. But, I think the idea as presented is to allow gold coin and paper to compete. If you bet that the chunk of gold that you own is going to buy you the loaf of bread -- if you'd rather bet that way than to bet on the dollar you own -- it's an interesting question as to whether or not you ought to be allowed to do that, ought to exercise that judgment.

I have a feeling that not many people would make that judgment, but why discriminate against those who would want to make that judgment? I said a minute ago that it had no direct impact on monetary policy, and I think that is correct.

It would seem to me that if there were somehow a run on gold coin, if people were trading dollar bills for gold coin right and left, that that might send some sort of a message to the Federal Reserve and the Congress that there was something amiss and that we might want to do something to reverse that trend.

GOVERNOR PARTEE: I think the logic of that is clear. It was stated by both Costamagna and Coyne.

The thing that bothers me, assuming it is three percent seigniorage, say. You might have a man or a wealthy corporation or somebody who said, "Well, I want to make a plunge in gold and so I'm going to buy 100 million. But, 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,
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.
But, there are other ends in life than windfall profits to the Treasury and I think those should be considered, too.

MR. COSTAMAGNA: The point on the capital gains -- Again, referring to this bill, Senate 17-04, they treat the question of capital gains in this Gold Coinage Act and say the following:

"Neither the United States nor any state shall impose an excise or transaction or capital gains tax upon the use of gold or upon banking services that involve the promise to pay with gold."

Just for the record, that is already provided for in this particular bill.

SECRETARY REGAN: Are there any other comments on this particular item?

MR. NEAL: Excuse me just a moment. Do I understand correctly that the Treasury is now pursuing this question and not only the direct question but also the tax implications surrounding it?

DR. SPRINKEL: Yes, sir; that is correct. We hope to have a paper distributed to members of the Commission in the next week or so.

SECRETARY REGAN: All right. Dr. Schwartz?

DR. SCHWARTZ: The fifth question, are you in favor of a Treasury issue of gold-backed notes or bonds, was turned down by a majority. Of those four who responded
affirmatively, one qualified his answer by saying "not immediately". He was in favor at some future date but not immediately, of the Treasury issue.

SECRETARY REGAN: Does anyone want to speak to this?

MR. NEAL: May I just make one brief comment on this? It's not something I know very much about. I voted for it because I was approached not too long ago by a Congressman with a bill that would essentially do this.

His argument was that this would -- that if the Treasury were to issue gold backed bonds or notes, that it might be able to pay a much lower rate of interest on these and it might have a very positive impact on our budget deficit.

It might put to use some of the gold that we have in our storehouse. It would just seem to me to be somewhat of an appealing idea. I think it's worth looking at a little closer. I'm just curious as to what the arguments against it are. Obviously, I'm in the minority in my thinking.

SECRETARY REGAN: Governor Wallich?

GOVERNOR WALLICH: I would say a gold-backed Treasury bond, if it is convertible into gold at the present market price, is simply a warehouse certificate on gold. By owning it, one has the same advantages, chances of gain or loss, or gain at any rate, as owning gold. One ought not to get any interest at all. One is saving the cost of storage and the
insurance. So, I would say yes, you can issue a gold-backed bond and pay a minimal interest rate. But, you are really just allowing people to speculate or encouraging people to speculate on gold and get interest at the same time if that instrument pays any interest.

The instrument does not really differ from, let us say, a convertible bond convertible into the common stock of some corporation. That, too, also has a lower interest rate because there is a possibility of speculative gain.

The Treasury would be giving up the gold. That is where the cost would be coming in.

MR. NEAL: Well, of course, the price of gold may go down and it would be a windfall to the Treasury.

GOVERNOR WALLICH: It would, but in the course of time, if people make the assumption that they want to buy this, they probably have reason to think it will go up. The price of common stock could go down, too, but in the course of time on average, it goes up.

MR. NEAL: I am just trying to help save the Treasury from its policy.

GOVERNOR PARTEE: I think it would be equivalent to a forward sale of gold. There wouldn't be any market for it if everybody thought the price of gold would go down.

MR. NEAL: I know.

GOVERNOR PARTEE: So, you wouldn't sell it. You
would only sell it if they expected the price to go up. That puts the Treasury betting against the market and the chances are the Treasury would lose.

SECRETARY REGAN: All right. Shall we press on, Dr. Schwartz?

DR. SCHWARTZ: With respect to the sixth question, should the Treasury engage in commercial operations such as leases and swaps of U.S. gold holdings, you will recognize this question as one that Mr. Coyne posed.

Eleven voted in the negative. Of the two who were in favor of it, one qualified it by saying, "if conditions are favorable". I suppose that means that the Treasury would know that it could make a sure profit.

SECRETARY REGAN: Any comments?

GOVERNOR PARTEE: I'm the one for if conditions favor it and one of very few for it, apparently. It just simply -- I don't see any reason to preclude this. If, in fact, there should be a condition that would seem to make the most favorable course, the swap or lease of gold, I see no reason we shouldn't use -- I rather agree with Mr. Coyne.

We have a stale asset here that is doing nothing at all for us. If we can utilize it effectively, why, we ought to. But, I can't think off-hand of what those conditions are. I just wouldn't want to prohibit the possibility if it looked all right.
MR. COYNE: Well, of course, there is no reason to do such a thing in and of itself. One would only do such, engage in such an operation, if there were a good reason to do it in any individual case.

The kinds of reasons could include such things as follows. If some future administration or the current one changed its policy on this and it were necessary to defend the dollar or to -- whatever the opposite of defending the dollar is, defend other currencies against it or limit the increase in the dollar.

Inasmuch as this country's principal reserve asset is in gold, if it were necessary to defend the dollar, rather than to borrow Deutschmarks as part of a defensive operation, it could, at the discretion of the Fed, be more suitable to do that operation against gold if the Fed chose to do so under the market conditions that existed at that particular time.

This would not require shorting of one particular current country's currencies as against defending the dollar against gold which might be considered at that time a proxy for, let's say, a basket of currencies. That could be a condition under which gold could be useful to the Fed at some future time.

At the opposite end, there are dozens of such examples that are possible. At the other end of the scale 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
engage, not whether it should be given the authority to do so.

GOVERNOR RICE: Well, if it can do it and do it to its advantage, why not?

DR. SCHWARTZ: That is the question.

SECRETARY REGAN: The one thing I will tell you is it's easy to do it with the system we are using now. You wouldn't have to physically transfer the gold. It's quite simpler. Well, shall we push on to seven?

DR. SCHWARTZ: Question seven, are you in favor of maintaining without change the physical volume of the U.S. Government's gold stock and with no change in its valuation at $42.20 an ounce.

One member thought that that question should have been divided into first, asking whether you are in favor of maintaining without change the physical volume. The separate question should have been whether that should be valued at the old official price.

On the question as stated, eleven were not in favor of maintaining without change the present physical volume, although one qualified that by saying some reduction in the stock seems okay.

Two were in favor of maintaining without change the present physical volume of U.S. government stock and with no change in its valuation.

GOVERNOR WALLICH: It seems to me to say that one
is in favor of maintaining the present volume does not mean under all and any conditions. There may be reasons why one would want to use the gold. After all, that's the nature of a reserve. But, I took this question to imply that other things equal, if there are no particular reasons, then the Treasury should not actively undertake a gold disposal or gold acquisition policy.

SECRETARY REGAN: Anyone else?

(No response.)

SECRETARY REGAN: Okay. Eight?

DR. SCHWARTZ: The first part of question eight asked if you favored changing the valuation of the gold stock, maintaining the present physical volume. Nine responded negatively, again. Three favored revaluing. One qualified that, "gradually in bites of 20 per year". I don't know whether that means $20 per year or a 20 percent increase in the value of the price of gold per ounce.

There was one question in the NA column, one answer in the NA column. Revalue but allow modest fluctuation in volume. I suppose that could have been included under the yes column.

I don't quite know how to interpret this. The majority is against maintaining without change the physical volume of the U.S. government's gold stock at the price of $42.22 and a smaller majority doesn't want to maintain the
present physical volume, even revaluing it. So, I am not quite sure how to interpret the answers to seven and eight.

SECRETARY REGAN: Does anyone wish to clarify?

GOVERNOR WALLICH: I wish to clarify that I interpret this to mean that the main point was whether gold was to be revalued. I meant to vote no on that.

DR. SCHWARTZ: You were consistent.

SECRETARY REGAN: Governor Partee?

GOVERNOR PARTEE: I was a yes on that. I think it is very awkward to be carrying the gold at a value that is tremendously below any feasible market price.

I don't mean to say that $400 is a viable market price, but I think that the circumstances under which gold would drop back to $42 just aren't clear to me at all. They are so unclear that I think that there is one of the most artificial characters of our gold policy is that $42 an ounce. That is so far below purchasing power or anything that one would expect gold to be. Therefore, I am inclined to think that we ought to revalue the gold. The trouble with revaluing the gold is that if you do it in one swoop, to $200 an ounce or $100 or $150, whatever might be determined, it is a tremendous windfall, with possible substantial monetary implications.

Therefore, I thought that one feasible -- if the Commission, which it appears does not. But, if it were
concerned with the price of gold, being so ridiculously low on the books of the government and on the books of the Federal Reserve where it is carried at $42 an ounce, one feasible way of going about that would be to raise, in a program, gradually the price of gold. That was supposed to be $20 and I can see now that my dollar sign wasn't all that clear. $20 an ounce a year, say, would mean about $5 billion a year.

Now, in order to avoid monetary effect from that, the restriction could be that that revaluation must be used to retire debt held by the Federal Reserve. Therefore, what you would have each year would be a $5 billion increase in the value of gold and a $5 billion reduction in the value of securities held by the Federal Reserve.

It is a bookkeeping entry at the end of every year. The Federal Reserve has about $130 billion in government securities, so that it doesn't -- it would take a long time. There is some growth, so that it would take a long time to use up anything like a significant portion of that stock of government securities.

The reason I wouldn't recommend going faster than that is that as the lender of last resort, we have to have the capacity to sell government securities when we make loans to banks or others under our discount facility. I wouldn't want to jeopardize that, so I think it would have to be done rather 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, particularly 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.
DR. SCHWARTZ: But I thought the distinction between seven and 3(a) had something to do with revaluing the stock.

GOVERNOR RICE: Yes, you include the revaluing in seven and you don't in eight. But, in both questions, the question assumes that you maintain the physical volume of gold constant.

DR. SCHWARTZ: Okay. I see what the problem was.

GOVERNOR RICE: I think later on I indicated that I was in favor of revaluing the gold stock. I don't remember now what question it was.

DR. SCHWARTZ: It was my failure in not making the questions clear.

SECRETARY REGAN: Dr. Weidenbaum?

DR. WEIDENBAUM: If this helps Dr. Schwartz any, I voted against maintaining without change the present physical volume of the government's gold stock simply because I didn't think that was an objective worthy of the use of the government's limited resources in view of the many high priority demands on the government's limited resources.

SECRETARY REGAN: Anything else?

(No response.)

SECRETARY REGAN: All right. Next?

DR. SCHWARTZ: On 8(b), whether the Treasury should avoid monetarization of the revaluation profit, there was a yes
vote of five and eight voted it as not applicable, since
they had turned down the 8(a) on whether the revaluation profi
should be used to retire federal debt, two voted -- I think there is an error there. Two voted in favor of reducing the federal debt. I think it must have been four and seven then for the remaining numbers.

Nobody wanted to use the revaluation profit to finance current deficits. Then, with question nine, at last we have a unanimous statement. Nobody is in favor of Treasury sales at auction of the present U.S. government gold stock.

SECRETARY REGAN: Are there any comments on those questions?

(No response.)

DR. SCHWARTZ: Are there any points with respect to Treasury operations, Mr. Coyne, that I missed that were included in your statement of options?

MR. COYNE: I have to say there are too many different, variously phrased questions for me to give a quick answer to that.

DR. SCHWARTZ: All right. I think when --

MR. COYNE: I note that the response at the table here today to question six seemed to be perhaps a bit different than the vote would indicate which makes me wonder whether the meaning of the question was clear.
SECRETARY REGAN: Are there any more comments on those questions? Can we go on to the next?

DR. SCHWARTZ: Yes. The next group of questions would affect Federal Reserve operations. The first question asks whether you are in favor of fixing a required ratio of the U.S. government's gold stock to the Federal Reserve monetary base Federal Reserve notes plus bank reserves.

One member indicated that he believed it didn't necessarily have to be related to the monetary base, perhaps to some monetary aggregate. As you see, ten were opposed to such a requirement. Three favored it.

On the question of whether the ratio should have fixed upper and lower limits, ten again were opposed; two favored upper and lower limits and one wanted only a fixed ratio in the not applicable column.

DR. SPRINKEL: Are there any comments on that question? Mr. Coyne?

MR. COYNE: Yes. When I went over these questions, perhaps not being an economist, I got very confused by the variety of options I had in answering things. It seemed that there was one generic question which somehow or another should be in here that is not.

Should there be some sort of -- let me try to start over. Do the members of this Commission believe that there should be some sort of linkage between our gold stocks
or the value of our gold stocks and the amount of money that
we have in our money inventory. Regardless of the specifics
of what that linkage should be, should there be some sort of
linkage whether it's a monetary rule or a fixed gold dollar
price or a ratio of the value of gold on some basis against
some sort of monetary aggregate or some other definition of
money that is yet to be devised.

Or, in fact, should our gold stock have no
relationship whatsoever to the money supply and those two
items are to grow or diminish independently of each other.

DR. SCHWARTZ: I think that the generic question
was answered in the majority vote no on every one of the
questions raised in this section.

DR. SPRINKEL: You would have voted for some form
of a relation even though you didn't like these; is that
correct?

MR. COYNE: Well, it is not so much that. I wasn't
especially referring to how I would have voted as to what I
understood certain people on this Commission were saying. I
didn't see a window for the expression of that opinion.

That is to say, should there be some sort of gold-
dollar link or is that concept rejected? I understand that
there were a number of questions which were very specific in
nature, but somehow or other, I feel the absence of the
generic question may be relevant.
DR. SCHWARTZ: I would think that the first question ten is precisely that generic question. It links the gold stock to the Federal Reserve portfolio.

DR. SPRINKEL: Are there any further comments on that question? Could we have the next one?

DR. SCHWARTZ: Yes. The next question was an attempt to restate Dr. Weintraub's proposal. I don't know, maybe I wasn't successful in putting it into language somewhat different from his own.

Moreover, while he limited the procedure that he outlined to the Federal Reserve currency issue, I broadened it to the Federal Reserve monetary base. Otherwise, it is his proposal.

Are you in favor of a rule or a procedure constraining the Federal Reserve monetary base or currency situation to grow at a rate determined by the growth of the value of the monetary gold stock, the latter set by a pre-announced annual increase in the official price of $42.20 per ounce.

The question was defeated, eleven to two.

DR. SPRINKEL: Are there any comments on that?

MR. NEAL: May I ask a question? I am surprised that the vote was eleven to two against that, based on previous comments I've heard made at these meetings. I am just 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?
GOVERNOR PARTEE: Right, and Mr. Lehrman. I don't know what Lehrman would do.

DR. SPRINKEL: Congressman Paul?

DR. PAUL: Thank you. I think part of the problem is compared to what, you know. If we're going to talk about this compared to what we may consider as the ideal system or shall we consider it to maybe what we have.

I think if we put up a monetary rule associated with gold compared to the current system, I think you might get a lot more yesses. Or, if you just put a monetary rule up against what we have, you can get a fair number of yesses from even people who believe that gold should be incorporated into the system.

I think under the circumstances, you are not going to even get as many yesses as you might have if you narrowed that question somewhat.

MR. NEAL: That was really my question. The question doesn't say that.

DR. PAUL: I know.

MR. REUSS: Mr. Chairman?

DR. SPRINKEL: Yes, Congressman Reuss?

MR. REUSS: I was one of those who was in the happy majority of the Commission on this point. Hence, I too am amazed at our own moderation and common sense. However, I know that Steve Neal has long been wedded, and though I
disagree with him, it's a serious position, to a rule not linked to gold constraining the growth rate of the Federal Reserve monetary base. That is true; is it not?

MR. NEAL: Yes, sir.

MR. REUSS: While I don't agree with that position, I think it is one that deserves not to be zapped by this great Gold Commission, because it really has nothing to do with gold and --

MR. NEAL: Exactly.

MR. REUSS: -- therefore, I would hope that despite the triumph of reason in the answer to question 16, that triumph not be embedded in the Commission report because it is irrelevant to gold.

MR. NEAL: I have no objection to that. I don't think it is going to have an effect on the success or the failure of the proposal. Once we go through another round of inflation, we'll be looking again for solutions.

MR. REUSS: Your day may come, but not on February 28th.

MR. NEAL: I was just surprised. Let me just ask this general question, if I can, and if anyone wants to respond. Are those that are answering no on this question answering no, they don't like the idea of a legislatively mandated money rule or yes, they do like that idea but they just don't like it in this particular form?
I am aware of what Mr. Reuss would think and I think what the Federal Reserve Governors would think. I'm just curious if any others would want to respond to that.

MR. REUSS: One particular form, it is nonspecific here in question 16.

MR. NEAL: And someone did point out that there is another question.

MR. REUSS: Anybody who voted no on that and now tells us that he really would like some kind of a rule not linked to gold restraining the growth rate of the Federal Reserve monetary base obviously needs sympathetic treatment.

MR. NEAL: Well, so on 16 then the result is much closer.

MR. REUSS: Yes.

MR. NEAL: I think that makes more sense, myself. I don't see any reason for linking up gold to it, at all.

MR. REUSS: In the light of that, I think I'm -- Dr. Schwartz will check me on this. I think I was the one who said not relevant to inquiry.

DR. SCHWARTZ: That's right.

MR. REUSS: Fine. I will now change my vote to no so that the margin of rejection is even larger, but renew my request that this not be included in the report as unnecessarily unkind to Congressman Neal. It isn't necessary.

DR. SPRINKEL: Mr. Jordan?
MR. JORDAN: I would be opposed to removing it. There are still four members of the Commission that have not responded and hopefully, sense will prevail.

MR. NEAL: I concur with the comments of Mr. Jordan.

MR. REUSS: Well, I think there is a question of whether it is germane. I think it is illegal for us to pontificate on this. We aren't the Commission to decide whether there ought to be a monetary rule. We are the Commission to investigate the position of gold in the domestic market.

MR. NEAL: Let me say, though, my good friend, the only reason any of us are willing to spend time sitting and discussing this issue is because we are interested in the problem of inflation. I assume that to be true of other members of the Commission.

Those that propose a gold standard are proposing it because they are interested in controlling inflation, I assume. Those that would argue against it are arguing against it because they think there are better ways to control inflation.

The question of inflation is really the underlying question in all of this, I hope. If it's not I certainly feel like I'm wasting my time entirely.

MR. REUSS: I think we all are.

MR. NEAL: We probably are. I would agree with that, but still, I think that there is a genuine concern.
about the very serious problem of inflation in our economy.

I think that is why everyone at this table is willing to spend
their time here thinking about it, talking about it, working
on this question.

So, I just don't think that we should -- if there
is a serious proposal to do something about controlling
inflation that could come out of this. I think that when the
other votes come in, Mr. Jordan is correct.

You will find that the vote on that question is
much closer. It may be that our position is in the majority
and not in the minority. Germane or not, I'd say leave it in
the report and let's see what we can do to -- if we can help
in resolving this very serious question of continuing
inflation in this country.

MR. REUSS: I must serve notice that if my motion
to exclude from the report this non-germane element fails,
I would then intend to put before this Commission a whole
series of anti-inflationary proposals -- energy policies,
export policies, import policies, industrial policies. I can
predict a busy February as we move to meet our deadline.

DR. SCHWARTZ: The deadline is March 31.

MR. REUSS: March 31, oh then it's easy, no problem.

DR. SPRINKEL: Mr. Costamagna?

MR. COSTAMAGNA: I might stick my neck out and
try to answer Congressman Neal's question with my thinking on
this. I did vote yes on 16, but I voted no on the Weintraub Proposal for several reasons.

One, I found it quite complicated with the graduated scale of raising the price of gold over a period of years, and other elements that were contained in the basic proposal.

But I might express this another way. We have developed several roles, as I have perceived them, during these discussions — the role of man, the role of law and the role of gold and so forth.

I have also coined a phrase of my own, which I call the role of the people. That is the best way I can describe the gold coin idea. I think that if we have gold coinage we are putting in the hands of the people a — it's up to them, if they wish to, an opportunity to do possibly what the role of law might do.

In the sense of if they do not like the current monetary policies of too much increase in the supply of money, they would in turn buy gold coins and vice versa. If they do like the monetary policy, they would not buy gold coins.

Rather than have a role of law, I perceive it as a role that is in the hands of the people. It's a little more flexible, in my opinion than something I perceive to be so complicated as the Weintraub Proposal.

I mention that I did vote yes for the general idea of 16 as expressed in question 16. That may give you some
idea of my thinking, Congressman, and why I voted no in that particular column.

MR. NEAL: The vote on 16 really answers my question and I thank you.

MR. COSTAMAGNA: Yes, sir.

MR. NEAL: Sixteen is a significant question, it seems to me.

DR. SPRINKEL: Any further questions or comments on this question?

(No response.)

DR. SPRINKEL: Anna?

DR. SCHWARTZ: Question 13 essentially deals with returning to a gold standard with a fixed price of gold and there, there was a clear majority opposed and one who favored. That one who favored was opposed to — didn't really answer whether convertibility would be for U.S. residents or citizens only or without convertibility.

There were 13 who answered no on (c) and (d). On the convertibility of paper money, eleven were opposed. The member who favored establishing a gold standard with a fixed price of gold was joined by another member who interpreted that to mean convertibility would be limited to the coins at the market plus a markup.

I don't really know why that reply was included in question 13.
DR. SPRINKEL: Any comments on 13?

DR. SCHWARTZ: One thing, one question I would like to address to the members is are all the recommendations going to be positive? I mean, would I be out of order if I said the Commission did not recommend a return, a majority did not recommend a return to a gold standard with a fixed price of gold?

MR. NEAL: I think that would be quite in order.

DR. SCHWARTZ: It would be in order that the recommendations don't all have to be positive recommendations?

DR. SPRINKEL: There aren't too many.

DR. SCHWARTZ: There aren't too many; that's right.

DR. SPRINKEL: So far.

MR. REUSS: So, recommendations do not all have to be positive.

DR. SCHWARTZ: Yes.

MR. REUSS: Wouldn't the sensible method of determining whether something rises to the dignity of a recommendation, negative or positive, be is it reasonably important and relevant?

DR. SCHWARTZ: All right. Question 14, again, you will recognize the source of this question as one of the propositions that Mr. Coyne presented. Do you favor giving authority to the Federal Reserve System to engage in open 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
opposed coins, per se, and did not respond. The six who
voted -- there were six who voted affirmatively. These
qualifications -- one member stated that debtors who did not
include a gold clause in their contract should not be compelled
to repay in gold.

Another one stated that in his judgment, the
question required legal analysis. I presume that means whether
there are Constitutional issues involved in making the issue
of gold coin legal tender. I'm not sure.

GOVERNOR PARTEE: I raised the legal question.

DR. SCHWARTZ: Yes.

GOVERNOR PARTEE: Just reading the question on the
face of it, I didn't see any problem. I am not sure whether
there are other implications.

If, in fact, you have a gold coin and that can be
redeemed at the Treasury or an agency of the Treasury at the
bullion price, what's the big thing about making it legal
tender for that purpose? One ounce of gold, two ounces of gold
at the legal price for payment of taxes, for payment of
interest, even for payment of private debts?

I don't see any problem because of the convertibilit
that we've provided in that system. There may be other
implications in the legal tender definition that I don't
understand and that weren't encompassed in your answer. So,
that's why I thought that one would have to know what all the
implications were.

DR. SPRINKEL: Congressman Paul?

DR. PAUL: I think that under ordinary circum-
stances there would not be a problem if we were deciding today
what the payment of debt is, we could make the exchange.

What has happened in the past in the legal tender
cases is that a contract has been made in terms of gold. Then
somebody reneged and it goes to court and it settles five
years hence. It is settled in terms of weight of gold in
dollar terms prior.

In the law, the current law states that all the
debts in the court will be settled in dollar terms. Therefore,
that individual, and frequently it's governments as well,
they pay the debt in the old terms.

It is very critical that we address this if we
want to give any concession at all to the usage of gold coins.
I have one objection to the question, though, that I think
confuses things. I'm just wondering whether any no could
be switched to yes if we would limit the usage of coins for
private debts.

I do not see any necessity insisting that the
government take gold. If there is a depreciation of the
dollar value of gold, there may be a disadvantage. Some
people may be hesitant to see that gold be used in payment of
taxes. Since I am concerned more about private transactions,
would there be anybody here that would say no for the payment of taxes but would be willing to allow this coin to be used in the legal sense to contract a debt. Then the debt is paid, that the court would rule that it's paid in the terms of the weight of gold rather than in a dollar term.

DR. SPRINKEL: Congressman Reuss?

MR. REUSS: I am very much opposed to allowing this little gold coin, this Kruegerand, this Maple Leaf for which I voted in an earlier question, to be used as legal tender for the settlement of debts, private or public.

I think it is outrageous to compel a private creditor who may be deeply opposed to the policies of the Soviet Union and/or the Union of South Africa, to accept a gold American Kruegerand when he is entitled to $28.30 or whatever the debt amounts to. So, I would continue to be very much in opposition.

DR. PAUL: May I have a chance to answer that, because there would be no compulsion. We don't have compulsion in our system. It would be a voluntary contract. Besides, we're not dealing with Kruegerands. We are currently dealing with an American coin.

But, if you did not voluntarily accept the contract that you would take an American gold coin, nobody is going to compel you to. We're just trying to remove a little bit of compulsion. We are adding no compulsion whatsoever.
MR. REUSS: Well, legal tender means that you satisfy the contractual requirements by owning up. It is proposed by the six here that you can satisfy the legal requirements by tendering an American version of the Kruegerand, namely a gold coin with a premium over the current market price.

DR. PAUL: I think your point may be well taken. It may require a lot more understanding on my part about the legal understanding of legal tender laws. If that is the case, if a legal tender law would insist that you take it, that is not exactly what I'm looking for.

I am looking for the permission or the voluntary use of a coin so that nobody can remove that. But, if legal tender means that one must receive it, then I think we'd have to look into the legal description of this.

I don't think there is a great deal of difference between that, but if you are correct in that, then I would have to modify my statement.

MR. REUSS: I am sure Treasury Counsel can answer this out of hand. Does not legal tender mean that the offering of that which is legal tender constitutes a satisfaction of the contractual terms?

MR. JACKLIN: Private parties may specify that for now -- Since repeal of the Gold Clause Resolution in October 1977, private parties may contract to insist on payment of their contracts in a particular form of the United States
legal tender. However, if they go to court to enforce that
obligation, the court will render a judgment in dollar terms.
They may choose to insist on specific performance, in other
words, say you must perform your contract in kinds of legal
tender that are provided for in the contract.

However, specific performance is something that
is rarely granted by the courts, so that in the end, the
result may be exactly as Congressman Reuss described it.
The debtor on that contract may say, "I am discharging my
dollar obligation or the dollar judgment rendered in the court
by giving to you, the creditor on my contract, payment in gold
coins of the dollar face value or something other than gold
coins of the dollar face value so long as it's legal tender
in the United States."

DR. PAUL: Let me follow up. That would not
necessarily preclude us looking into the possibility of using
a coin with legal tender status that could not lose that
function by compelling us to pay our debt in dollars.

Therefore, if we do have the contract in gold,
we can pay it in gold. We would not be forced to use dollars
and yet, not force someone to accept gold if they have a
contract in dollars.

I would have no objection to that. That, to me,
looks like a legal technicality that could be worked out with­
out difficulty.
MS. JACKLIN: Parties today can freely specify in their contract the means by which they want to receive payment, including but not excluding gold.

DR. PAUL: Yes, but today, if the court settles it, it must be paid, it is determined, in dollars. That is the key to it.

What would be advantageous to those who would like to use gold coins as money is that if they contract through gold and pay through gold without assuming the role of legal tender for all of our contracts.

Because it says legal tender, legal tender may mean long term. But, the exclusion of legal tender applications -- maybe that's what we need. The exclusion of the forcing on of legal tender laws that compel us to pay in dollars if we have a broken contract that had been in gold.

MS. JACKLIN: What you are describing is a concept that I think is novel in terms of the present legal structure. We would have to consider all of its implications.

MR. REUSS: There is nothing now to stop my contracting to pay Mr. Neal for a given service in 18 ounces of gold; is there?

MS. JACKLIN: No, there is no legal prohibition or restriction on that.

MR. REUSS: I don't know why we need to force it on people who don't want this.
DR. PAUL: We are not talking about force. When it is voluntary, there is no problem. The only time you have a problem is when there is an argument when it goes to court. Then you have no choice.

Even if your contract says you will pay in gold, you have no choice. The courts are ordered to determine the payment that you may owe him in dollars. So, the compulsion is in the existing law today.

What we'd like to do is remove some of the compulsion so that you can follow through with this contract that you have voluntarily entered into.

MS. JACKLIN: Excuse me, Congressman. In fact, the court could choose if it so determined to order specific form of payment in gold and that would be governed by the normal contract concepts in those cases in which specific performance rather than money damages is justified.

DR. PAUL: Well, historically and traditionally, they have not done that.

MS. JACKLIN: That is correct.

DR. PAUL: They have done it in dollars. They have done it at the expense of the man that would owe the debt in gold.

MR. NEAL: What has been the rationale for that?

That is just a bizarre interpretation of contract law. What has been the rationale of the courts?
MS. JACKLIN: For not granting specific performance?

MR. NEAL: Right.

MS. JACKLIN: Well, if you can give the equivalent dollar value, the question and the problem really is in determining the date at which to value the gold that is owed under the contract.

Essentially, it is a question of determining that day to make sure that you get equivalent value in dollars and then you yourself could go out and purchase the gold.

MR. COYNE: So, if I understand correctly, there is nothing special about what you've said as it relates to the issue that Congressman Paul introduces.

If I were to make a contract to deliver to you a ton of iron ore a month from now and defaulted on my obligation to that, the court would be unlikely to force me to deliver the iron ore, but rather, would give you the monetary compensation.

MS. JACKLIN: That is correct.

MR. COYNE: So, there is nothing special about this. This would relate to any contract, as I understand it. The court would tend to convert it into damages expressed in dollar terms. It has nothing to do with gold.

MS. JACKLIN: I think there is one clarification I need to make. That is the significance of legal tender is
that if you do not specify that the means of payment in the
close, then if the debtor offers to pay in U.S. legal
tender, that is sufficient discharge of his obligations.
That is the main significance of legal tender status.

DR. PAUL: For further follow-up, even when it
has been specified in gold for settlement in terms of dollars,
iron ore I don't think is a good comparison because we are not
trying to use iron ore, as you know, as coins and something
that will circulate.

Besides, you would still have the problem if the
iron ore should be priced at two years ago or at today. It
is usually settled at two years before. So, if your iron ore
is worth twice as much, the courts usually do not double the
settlement.

By that time, your dollar has depreciated and it
is a tremendous boon to those who loan the money. This is
what happened in the Civil War. It was a tremendous windfall
to the government as well as those who loaned out money.

So, it is a very very significant and a very
critical point. I don't think that we can get very far
unless we recognize the fact that if somebody has a contract,
the contract shall be honored. If the contract is in an
ounce of gold, an ounce of gold shall be paid.

If it is translated into dollars and they use the
value of gold when it is $400 and then five years from now
when it's $2,000 they base the contract on $400 an ounce, somebody just receives a bundle of depreciated paper.

That is the thing that has to be addressed or we cannot have any encouragement whatsoever for some sort of competition.

DR. SPRINKEL: It is about one o'clock, slightly after. If it is agreeable with the Commission members, we will break for one hour.

I hope that when we come back, we can complete the review of these questions and also discuss the draft of the first two chapters and make certain we are clear on the next meeting date.

Thank you.

(Whereupon, the meeting was adjourned to be reconvened at 2:00 p.m. at the same location.)
AFTERNOON SESSION

DR. SPRINKEL: We are continuing, and Dr. Schwartz will read 19, and I'll solicit comments.

DR. SCHWARTZ: The question of are you in favor of allowing private firms to issue gold coins of specified weight and fineness with the status of legal tender. Eleven voted no. One of those favored private issue of gold coins, but would not afford them legal tender status. Two voted without qualifications on this kind of issue with legal tender.

DR. SPRINKEL: Any discussion of that? Yes, Congressman Paul?

DR. PAUL: Do you think from the interpretation of this, one could construe that that means that 11 members are against private coinage, or do you think only because it has legal tender?

DR. SCHWARTZ: I took it to be that they were against issuing of coins by private firms, because only one made this qualification that he favored private issue, but would not afford private firms legal tender status.

DR. SPRINKEL: Do the other two want to indicate --

GOVERNOR PARTEE: My concern was entirely with the legal tender question, although I answered no. It was because of the legal tender. Another was I don't really see that we're much involved in the question of whether
some private firm wants to use this gold boullion to stamp into a piece. I just don't see that that's our problem, but the legal tender seems to be unappropriate to extend that to a private client over which you don't have control as to fineness and weight and procedures and all those things that would be in play.

DR. SPRINKEL: Mr. Costamagna?

MR. COSTAMAGNA: I voted no for the same reasons that Governor Partee has just mentioned, and as you will -- I think the government has an obligation to guarantee the weight and the content of a coin, and to eliminate the possibility of fraud, et cetera, and I wouldn't have any objection if they just minted medallions, but if we're talking about coins and coinage, I think there's a distinction, and the government, only the government, can protect the public from fraudulent coins or coins that are less weight and fineness, and so those are some of the reasons I voted no for that.

DR. SPRINKEL: Henry, do you have any observation you want to make? Either Henry?

MR. REUSS: Not I.

DR. SPRINKEL: Henry Wallich?

GOVERNOR WALLICH: I think the legal tender thing needs to be explored as legal ramifications that I don't think have been fully brought out, and it may have logical
implications that one might conclude that if something is legal tender then something else, for instance a tax privileges might apply or some other treatment might apply, which one hadn't intended at all, so I have voted no.

DR. SPRINKEL: Any other observations? We have a group of questions relating to international monetary arrangements. We will start on those now.

DR. SCHWARTZ: There was a considerable degree of unanimity with respect to international monetary arrangements. On the first question, are you in favor of returning to fixed exchanges rates on the basis of the U.S. dollar pegged in terms of a fixed price of gold, all 13 voted no.

On the question of revaluing the U.S. Government's gold stock at current market prices and using monetary gold to intervene in foreign exchange markets to influence the exchange rate of the dollar, only one voted in favor with 12 no's.

On the next question, are you in favor of maintaining the present flexible exchange rate system, with the exchange rate of the dollar determined by the demand for and supply of money, one member qualified or rewrote the question. Instead of saying "maintaining the present flexible" chose to read it as, are you in favor of maintaining a flexible exchange rate system.

Another member said he's in favor with
qualification, but he doesn't spell out the nature of the qualification.

DR. SPRINKEL: Is there anyone here that wants to give those qualifications? I guess not.

DR. SCHWARTZ: Question 23, are you in favor of revaluing the U.S. Government's gold stock at current market prices and using monetary gold to settle balance of payments disequilibria, 12 voted against and one qualified his negative vote by saying not under today's circumstances, and one affirmative vote qualified by saying with limits to prevent the dissipation of gold.

On the 24th question, if your answer is yes to question 13(c) which dealt with convertibility under a gold standard, do you also favor extending convertibility to foreign individuals and commercial institutions, and the 12 who had not voted for that question 13 were in the not applicable, and one that said no said no also to convertibility for foreign official agencies.

And finally, the two questions affecting the IMF. Are you in favor of taking steps to seek a distribution of IMF gold to member countries? Nine were in the negative, four in the affirmative of whom one qualified his affirmative vote by saying that the recommendation should be considered and the proceeds to be distributed partly according to LDC need.
DR. SPRINKEL: Yes, Congressman Paul?

DR. PAUL: Yes, I'd like to make a comment on this particular question. I think it's very interesting to see the results generally of the whole questionnaire seeing that there is essentially no one strongly advocating an honest gold standard today, and yet all 13 of us agree that we shall not and should not get rid of the gold holdings that we have, and all of a sudden four brave souls are willing to say that the IMF shouldn't get rid of the only money they have which is the gold, and it, to me, I think, makes the dramatic point, the economic point, the fact of life is that no matter how much one talks negatively about gold, everybody deep down inside knows that's the only money they have.

Why does the IMF need the gold? Why does the treasury need the gold if it isn't money? This is proof of the pudding that we are totally contradicting everything that we're saying in the Commission.

We say that gold is not money, and yet we want it. Why? Because that's the only asset, they tell me, that the IMF has. Why don't they hold pork belly? Why don't they hold land? Why don't they do something else? Precisely for one reason, because gold is the only real money in the world and the only thing they can resort to 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
on the balance sheet of the United States, not because it's money, but because it's a valuable asset that we should not waste.

DR. SPRINKEL: Go to the next one.

DR. SCHWARTZ: Yes, the one member who voted yes on the 26th question eliminated the initial clause and just voted yes to will you propose an amendment of the Articles of the IMF to change the existing regulations, although I had thought of that question in relation to a gold standard which would require an amendment of the Articles of the IMF, but nobody else responded affirmatively to that question. For the nine who hadn't voted in favor of the gold standard in the first place, it was not applicable.

DR. SPRINKEL: Well, that completes the rundown on the questions, I presume. We said early on, however, that this was no final balloting, and do you plan at the next meeting to --

DR. SCHWARTZ: Well, I'm going to try to formulate recommendations during the coming week, and see if I can get them to you well before the next meeting. What I'd like to do is be able to incorporate them in the introductory chapter, and see your reaction to my sense of what the answers to these questions suggest in the way of recommendations. Yes?

DR. PAUL: May I make one suggestion? If at
all possible, there's another person I'd like to have asked.

    DR. SCHWARTZ: Yes, I was going to ask that too.

If there are any questions that haven't really been dealt with, I wish people would bring them up. If not at this meeting, if you think of things between now and the next meetings, let me know.

    DR. PAUL: May I just briefly mention why it concerns me, because we've talked about it very briefly before, and that has to do with whether or not the Secretary of the Treasury has the power to confiscate gold.

        You know, a lot of this might be useless discussion if we know with the signing of the pen in the declaration of emergency, they can confiscate gold. Now, this was brought up, and it was said that they did not have this power, and I've gone back and reread all the laws, and the American Law Institute takes the position that they do, the Treasury does have the power in emergency to confiscate gold, to take in gold, and, to me, it's a critical point, and I think we should make it very, very clear what the law says, because I think if that power exists, I think the recommendation should be that it should not exist.

    DR. SPRINKEL: We have some information on that if our attorney would?

    MS. JACKLIN: Yes, the Treasury Department has on several occasions testified to the effect that the
existing statute regarding withdrawal of gold from circulation was impliedly repealed by the legislation that authorized private ownership of gold.

There have been proposals on several occasions in the Congress for express repeal of that legislation and the Department has never opposed such action.

DR. PAUL: Okay, and that is the way I understand it, because, as a matter of fact, it has not been too long ago that the House did pass legislation that would have repealed this power, but I don't think it passed in the Senate, so this idea has been bounced around, but I think this is true.

It may have been implied, but some of us like real protection.

DR. SPRINKEL: Can we go to a discussion of the initial drafts of the first two chapters? Do you want to summarize what you've done, Anna?

DR. SCHWARTZ: Yes, I'm not sure that any of you have had an opportunity to look over these first two chapters. The second chapter is the one on experience with gold from 1834 on, so presumably you have had an opportunity to look at that. Although I've made some minor changes, the draft of chapter one is new. I'd very much appreciate any kinds of changes that you would suggest, stylistic, analytical, if I haven't covered particular issues that
you believe should be included. I'm sure that when I go over this draft myself, I will make some changes, but the quicker you can get me your reactions, the easier it will make my lot, and I realize all of you are busy people. Perhaps your staff people can be of assistance in this regard. You can look over the changes that your staff might recommend.

DR. WEIDENBAUM: I would just like to say the staff is even busier.

DR. SCHWARTZ: The staff is even busier, yes, I know it's the wrong time of the year.

DR. SPRINKEL: We don't all have an economic report to write. Yes, sir?

MR. REUSS: On the question of draft chapters one and two, I think draft chapter two on gold is excellent, and while I and my staff may have a few literary changes which it's unnecessary to go into now, I think that's fine, relevant and that or something like it should be adopted.

On chapter one, I have some problems. Let me dilate on them. For one thing, a matter of legislative history, chapter one starts right out with saying, and I quote, "The legislation to create the Gold Commission in 1980 was a product of growing concerns in many quarters in this country over the persistence and acceleration here for close to two decades," close quotes. Well, I am in
a position to testify on this, because I was Chairman of
the Banking Committee and had been trying for many months
prior to September 1980 to get the bill through Congress
replenishing the International Monetary Fund and enabling
it to continue, and we were having problems, but we finally
screwed our courage to the sticking point, and in late Septem­
ber did bring it to the House floor with full knowledge
that on the Senate side when it passed in June or July of
1980, the so-called Helms Amendment setting up the Gold
Commission had been attached.

I can testify that the question, overall question
of inflation wasn't really in our minds, and a careful search
which I've made of the legislative history in the Con­
gressional Record shows that nothing was said about that,
so that the legislation to create the Gold Commission in
1980 was a product of growing concern on my part that the
IMF bill would not get through Congress unless we diverged
a possible Senate waylaying of the bill by putting in a
Gold Commission, and I considered it a small price to pay
for the International Monetary Fund.

So I have a factual difference on that. Secondly,
while I think the --

DR. SCHWARTZ: Could I respond to that before
you go onto the --

MR. REUSS: Yes, I'll give you the legislative
history and respond, please.

DR. SCHWARTZ: Isn't it possible for both things to be correct, that the legislative history as you describe it, indeed presented you with this amendment which you accepted in order to get the bill passed which you were truly interested in, whereas the people who were interested in inserting this amendment were reflecting a concern that many people did share?

I mean even if you did have this concern --

MR. REUSS: That is, indeed, possible, but that isn't what happened. What happened was that I wanted to get the IMF bill through, and so did Mr. Neal and the others, and we didn't want to risk our friend Jessie Helms torpedoing the fine ship IMF, with Congress due to adjourn in early October which it did, so a minor point, but.

DR. SCHWARTZ: No, I'm quite aware of what you're saying to me, and, in fact, Congressman Wylie made the same point at an earlier meeting when I presented the introductory chapter, so I don't dispute the legislative history. It's undoubtedly the way you say it occurred, but, at the same time, the inclusion of that amendment by those who were interested in having that amendment added to the bill did reflect this concern, and I don't see why --

MR. REUSS: Did it? I don't know. I'm not a psychoanalyst of the gold bloc. I don't know what motivates
the. They didn't say -- for instance, Mr. Paul who offered
the amendment, he didn't say a word about inflation, and
the record will speak for itself, and I offer the record
of the host proceedings in November 1980, but this isn't
a great point.

It simply illustrates a difficulty, and I started
with paragraph one, a difficulty I have with chapter one,
and I'm afraid that the process of working over chapter
one would be endless.

In my own case, I have a number of difficulties
with it, because, God help me, I'm not a monetarist; the
phraseology gives me difficulties. That isn't to say there
is anything wrong with it. In fact, there's everything
glorious about it, and I would propose and hope, Mr. Chairman,
that we could take Dr. Schwartz's thesis on inflation and
include it as a part of our record as written by our marvelous
staff director, Dr. Schwartz.

I say that, because, one, I don't think it's
really relevant under the statutory mandate which is to
look at the role of gold. We didn't have a mandate to look
at fiscal policy or incomes policy or export/import policy
or inflation generally.

We were supposed to look at gold, and I think
it goes too far, not that inflation isn't closely related
to this and not that it wouldn't be most useful to have
included in the record this exemplary piece, I'm just saying if it stays in, I would have to indulge in endless persnickety changes, not because I want to be difficult, because if it's a committee report, it's got to be my phraseology or I have to write lugubrious footnotes about it all.

I just see some troubles there, and with the desire to get things --

DR. SCHWARTZ: Well, how would you put the background to the creation of the Commission? The establishment of the Gold Commission resulted from a bit of horsetrading, is that the way you would put it?

MR. REUSS: Of the most unedifying sort.

DR. SCHWARTZ: This is going to be a report for the ages.

GOVERNOR PARTEE: Do we still have a preface, Anna?

DR. SCHWARTZ: Excuse me?

GOVERNOR PARTEE: A preface?

DR. SCHWARTZ: The introductory chapter which I presented a couple of meetings back in which I set aside until I really know what the shape of the recommendations will be, because that's where I propose to present the recommendations of the Commission. That introductory chapter states who the members are, when we held meetings, what was discussed at the meetings and ends up with the
recommendations. Then there's the body of the report that has a body of four chapters plus a statistical appendix. Anyway, this is the way I've conceived what the report would be, and it would be my hope that anybody who wanted to find anything about gold or gold and its relation to the problem of our economy would find an attempt has been made to satisfy that interest in this report.

I have no interest in presenting or writing something that is going to be useless so far as we're concerned.

SECRETARY REGAN: Congressman Paul?

DR. PAUL: Thank you, Mr. Chairman. I would like to take a point of disagreement with Congressman Reuss who thinks that it was within my views that when I presented the amendment that I explicitly even mentioned the consideration of ostriani economics and talked about economics and money in general.

I think Congressman Neal said it so clearly earlier today. What are we all doing here if we're not concerned about monetary policy and the problem of inflation?

I think his understanding of why we're here was exactly correct. I do believe Congressman Reuss is absolutely correct that, yes, the immediate legislative reason why the amendment was given was a legislative concession. It was horsetrading. It was an attempt to buy some votes by some type of a concession. This is absolutely true,
but if I were to propose that we have a pig commission, do you think it would have gone through? No, it was an obvious understanding that we have a problem with the monetary system and that there are a lot of people thinking about gold, and for this reason, it was an appropriate answer and appropriate way to entice other people to vote for that particular bill, so in that sense, I think both are correct.

SECRETARY REGAN: Governor Partee?

GOVERNOR PARTEE: Well, I don't know what to say about this. You could take care of the problem that Congressman Reuss specifies, and so did Congressman Wiley at the last meeting, by using some term in the first sentence and elsewhere when you refer to it. You have another gangbuster type sentence toward the very end on this same subject, but here, you could say, well, the legislation that created the Gold Commission in 1980 coincided with evidence of growing concern in many quarters.

I mean, you know, it doesn't have to be attributed as the reason for it, but having said that, I have a lot of problems with this chapter.

DR. SCHWARTZ: Okay, I want to know them.

GOVERNOR PARTEE: I've got many comments that I've made here. The basic difficulty, I guess, is from a standpoint from an eclectic in this field, is that I can immediately identify this as a chapter by a monetarist,
from a monetarist point of view, looking at the economy through a monetarist's eyes, and I don't know if we can correct that or not, and then I have, you know, a lot of detailed objections.

I find particularly offensive your section on the political business cycle.

DR. SCHWARTZ: Well, I'm just reporting from the literature. It's not my --

GOVERNOR PARTEE: I don't think the literature is in agreement with you on this.

DR. SCHWARTZ: On the record, and if you can tell me what --

GOVERNOR PARTEE: We can give you chapter and verse on papers that dispute your finding here. I also find totally inadequate the treatment of 1980-81. In fact, you give the sense here that this is an ongoing process of accelerating inflation when, in fact, inflation is decelerating. The gold price has dropped more than 50 percent, monetary expansion has greatly subsided.

I mean, you know, you may be dealing with a past problem.

DR. SCHWARTZ: Background, we're in 1980, we're not in 1981. This is a background to the establishment of the Commission. I did not propose this chapter --

GOVERNOR PARTEE: But I think it just changes
the tone of it entirely. If you have an upbeat last phase here, which you don't really have, it would be possible, I think, to conceive this as being a last section of chapter two rather than a separately set chapter one in which you indicate that the problems of inflation, again, coincided, worsened significantly after the ending of Bretton Woods, which is a gold subject and then ask the extent to which Bretton Woods had an effect, or the end of Bretton Woods had an effect in the inflation problem.

It could be casting it in a different light, but it would be a light that would be consistent with the treatment of the role of gold in the inflation process.

So those are my comments. I don't know where it comes, I have detailed comments to give you, but it's highlighted an awful lot the way it's presented.

SECRETARY REGAN: Mr. Costamagna, you're next.

MR. COSTAMAGNA: Thank you, sir. I'm of the opinion that I really don't see how we can discuss gold and the role of gold without commenting on inflation, and taking that in a historical context, I just recently read the gold bouillion report of 1810 which was done in England, and it seems that they were faced with the same question, and I will make this available, because I would appreciate if all of you had a copy of this, because not only is it 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 bullion 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
point of view, but they're not mine. I disagree very strongly with some of what is said here. I'd be delighted to debate inflation with you, and now you know that, I don't think we've got the time to do that.

If we were to put a chapter like this on top of the report, it will have exactly the appearance that Governor Partee said, namely it will put a monetarist's task on the whole job, and I don't think it's necessarily the view of the Commission.

Perhaps it is, but then people should have a chance to express their views, to observe which everybody is immediately prepared to do where the differences of opinion come in and how, in my opinion, dangerously misleading this analysis is.

There's also a question about the analysis itself. We have some charts. We have them around here which we could hand out. I think you'll recognize, but if you go back earlier, the correlation isn't nearly so good. You also recognize that you've made an automatic error, autocorrelation adjustment there, which is a statistical technique that is used, but it has, of course, the effect of making the data look better, relation look better than they are.

We have presented data that show the earlier 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 Congress-
man 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 contribu-
tion 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 deli-
berations, 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-
I don't use it in the theologic sense -- Catholic to cover the views of the membership, perhaps the explanation should be extended a bit, but I think the subject matter that Dr. Schwartz covered is very appropriate, and if specific members of the Commission -- I'm not one of them -- if specific members of the Commission have suggestions for improving the text, I urge them to make them speedily available.

SECRETARY REGAN: Any other comments?

DR. SCHWARTZ: I must say I didn't believe that I was writing this as my chapter. I would have written an entirely different chapter if I had wanted to present my views on the background. I thought I was trying to represent your views, and that's my only intention in anything that I will be doing here.

As to the charts that have been presented here showing the deviation of actual from predicted, I think that's precisely something that I covered in the chapter. The big peak and actual in '73 is that energy related peak, and I don't really see how you undermined this relationship by the charts that I've looked at very hastily here.

The fact that I used M-1-B is proof positive that I wasn't trying to write my own chapter.

GOVERNOR PARTEE: I do think you need to look at charts three and four which take out that correlation technique. You need to look at charts three and four.
The point is still there, but the deviation is much larger and much more prolonged.

DR. SCHWARTZ: That's not the issue. The issue is I've got to write a chapter. It seems to me that a chapter on the background belongs in this report, and if it isn't the chapter that you would have written, I wish you would indicate to me how I must change this so that it's closer to your wishes, and if we're not going to talk about inflation, the problem that motivated the amendment to the bills relating to the IMF, there's just no rationale at all for the Commission's existence.

SECRETARY REGAN: Mr. Coyne?

MR. COYNE: Well, my comments are really in no way a criticism of Dr. Schwartz's highly competent and diligent effort as the staff officer of this Commission, and I have a high regard for her professional approach, but it seems clear as I read this and as I hear these comments and as I've had private conversations with certain members of this Commission that chapters one and two appear to me, let us say, to be deeply embued with a Friedmanesque spirit, and they seem basically to contend the changes in the money supply are the prime mover, and de-emphasize other factors and a priori relegate gold.

It seems clear to me that many different factors could also be stressed if the report had been written with
a more universal or eclectic position. It's my view, and I sense that that is the view of certain other members of this Commission, a one-sided emphasis on the money supply growth and the statement without documentation, and I respectfully suggest contrary to what I believe to be the case, that gold since 1934 has been demonetized, I don't think allows these chapters to take us in to the nature of our relatively narrow mission which is not to deal with the macro questions of inflation and the various other associated subjects which Congressman Reuss suggested introducing to our consideration, and I wonder what we can do to broaden the questions before us, if, in fact, there is a general consensus among many of the people on this Commission that the perspective of chapters one and two are not appropriate to the Commission's thinking.

SECRETARY REGAN: Mr. Jordan?

MR. JORDAN: On those notifications when there has been a little bit of discussion of some substance of this Commission, everyone, both those people that talk in favor of the role of gold and those that are opposed to it, have talked in terms of price stability, whether or not it would contribute to such and all of the witnesses brought before this committee, whether they talked in terms of in favor or opposed to gold was in terms of whether or not it would improve on the results of inflation. I don't
see how the Commission has an agenda at all if we're not talking about inflation and monetary policy.

SECRETARY REGAN: Governor Rice?

GOVERNOR RICE: Well, I agree with Mr. Jordan that everybody is concerned about inflation, and, of course, it is the thing that we're all most concerned about, but I don't think that dismisses the problem of relevance.

It is the problem of how relevant a discussion of this sort in the first chapter is to the terms of reference that we've been given here. One, I suppose, can take a broader interpretation of the terms of reference and feel free to discuss anything that has to do with inflation including the kinds of things that Congressman Reuss proposes to discuss, or one can take a very narrow approach, a strict constructionalists approach and just say that we're concerned with the role of gold.

And, I myself am inclined to lean toward the latter approach, because to get into the kind of discussion of inflation that we see here in the first chapter, we open up an area where we're just not going to get any agreement at all.

Even Dr. Schwartz refers to a number of areas of controversy where there are arguments in the literature, where there's no agreement among people who have studied these issues for a long time, and I don't think we as
a Commission can get ourselves in the position of seeming to take a view, seeming to take a position on a number of these controversial issues.

Now, this is not to say that I don't think the material in this chapter is useful. A lot of it is, and I would want to purge the chapter of most of the controversial material, and perhaps find a way to include the rest of it in some other part of the report. That would be my approach.

DR. SCHWARTZ: So there should be no introductory chapter?

GOVERNOR RICE: No, but I think an introductory chapter ought to start on a strictly constructionalist point of view. For example, we could take the line that the United States has no gold policy as Congressman Reuss has pointed out a number of times. The U.S. has no gold policy. It needs a gold policy.

It's got all this gold which is potentially useful for various kinds of things. It's never been explored, and we don't have a gold policy so one of the objectives, one of the things the Commission is required to do is develop a gold policy, and I think a chapter, an introductory chapter could be written along these lines exploring the possible roles of gold and lead into the second chapter that way.

DR. SCHWARTZ: And we are going to explore
the possible roles of gold with relation to domestic monetary --

GOVERNOR RICE: Domestic and international monetary funds.

DR. SCHWARTZ: How can you discuss it without bringing in the question of the price level?

GOVERNOR RICE: Well, I think you can.

DR. SCHWARTZ: Simply by ignoring it.

GOVERNOR RICE: No, ignoring it in the introduction, but not ignoring it in the report.

SECRETARY REGAN: Congressman Paul?

DR. PAUL: Thank you. I would like to suggest a compromise. I don't feel any great affection to the chapter. I have no strong objections.

GOVERNOR RICE: I thought I was offering a compromise.

DR. PAUL: I'll offer mine too. At the early part of the Commission meetings, I presented a paper which talked about the statistics of the past ten years of what it was like when we did not have gold. I would suggest that we incorporate that into a paper that I'll pass around today which takes another ten-year period, a ten-year period when we back onto the gold standard, the 1879 to 1889 period, and the results are very dramatic, and I think the comparison of ten years, immediately returning to gold and ten years
immediately leaving gold which are really historic periods
and very rare circumstances in our entire 200-year history
can use that as an introduction into the role of gold in
the monetary system, but I would like to pass that around
if I may, the statistics on 1879 to 1889.

SECRETARY REGAN: Thank you. Murray?

DR. WEIDENBAUM: My reflection after listening
to my colleagues on the Commission, I'd like to suggest
that in rewriting this introductory matter that Dr. Schwartz
try to emphasize, one, an examination of the inflationary
experience, and, two, perhaps allude to the variety of ex­
planations and the differences among them, and to do that
not in a way that demonstrates, that provides the basis
for concluding yay or nay about the subject of gold, but
hopefully, and as a matter of fact, I hasten to add, neutral
if that's attainable in this imperfect world, an explanation
of the phenomenon of inflation.

As I say, I think it's quite clear that there's
more than one explanation, and I think it might be useful
for the Commission to acknowledge just that rather than
have to debate which of these various worthy explanations
do we wish to enshrine as the official explanation.

I see no need for really doing that.

SECRETARY REGAN: Thank you. Mr. Costamagna?

MR. COSTAMAGNA: The material we have received
over the last six months has had significant amounts of data on why gold is or is not a good standard. Dr. Jordan just mentioned one item which is price stability.

Another is the importance of gold in terms of putting confidence behind our currency, and it seems to me that the burden of proof over the last ten to 15 years is on those who advocate a continuation of a totally paper system, and I think in the spirit of some compromise over the last six months, and if I understand the vote clearly, it appears that we are headed in some direction of gold coinage as a beginning to return some confidence to our currency.

So I don't see how we can discuss returning confidence to paper currency and having a gold link without discussing the reason for that lack of confidence which is the history of the inflation we've had the last ten to 15 years, so I would again repeat that I believe that we have to have some introductory chapter, as Dr. Schwartz has attempted to present, and maybe there are different formats or different ways of presenting it. I'm not an economist so I will leave that decision to others, but I certainly believe that we must have a discussion in here of some reason for this Gold Commission.

SECRETARY REGAN: Governor Partee?

GOVERNOR PARTEE: Well, I rather like Murray's
suggestion. I think that a recasting of the chapter in
terms of the generally undesirable results of the 15-year
period in terms of inflation and rising unemployment,
flagging productivity, all of those things, is a way to
say that there was a malaise in the society that people
are looking for ways to deal with of which a possible dif-
ferent application of gold would be one, and I think, you
know, that certainly would state that there's been large
monetary expansion in the 15-year period.

It would also state that productivity has declined
from three percent to zero as a trend rate. It would talk
about the upheavals that occurred in oil which was certainly
massive. There were massive events, about the effects of
regulation and economic regulation on the cost of doing
business and quite a number of things, I think, could be
done, and I can see that that might be an acceptable way
of presenting our belief that there was a feeling of unhappi-
ness about the whole economic outcome of the period.

DR. SCHWARTZ: Can I go over the sections of
this chapter and ask Chairman Weidenbaum first whether the
section on the record of inflation meets with his suggestion
that there should be an examination of the inflationary
experience. Is the initial section of this chapter, where
there are thumbnail sketches of sub-periods?

DR. WEIDENBAUM: I was not especially critical
of that. I was trying to develop a framework for --

DR. SCHWARTZ: I quite appreciate what your second suggestion is, and there's no question that I can recast that section to cover the variety of explanations.

Now, the focus of the chapter is why the setbacks to success of anti-inflation policies, and I thought that that was as neutral as anyone could be. I wasn't saying that there as a political business cycle. I don't understand why you say that's offensive. That's a subject that's discussed in the literature.

It at no point say that we, the Commission, believe that there is a political business cycle. Everyone of these points that's made here, the inflation, unemployment trade-off, the political business cycle, the --

GOVERNOR PARTEE: Could I quote the sentence there?

DR. SCHWARTZ: Yes.

GOVERNOR PARTEE: "In democracies, both monetary and fiscal authorities become highly sensitive to high unemployment and stagnated economic activity as elections approach." I think you could drop those last three words.

In democracies, both monetary and fiscal authorities are sensitive to unemployment and stagnation whether or not elections are approaching, but by adding the phrase, "as elections approach," you assume that there is a political
reason for this. It could just be a humanitarian reason
for being concerned about unemployment and the position
of the economy. This is one example.

SECRETARY REGAN: Are your suggestions written
out?

GOVERNOR PARTEE: I have got a few here.

SECRETARY REGAN: If you would make them available
to Dr. Schwartz.

DR. SCHWARTZ: Okay, I'll try again. Never say
die.

SECRETARY REGAN: Time is growing short. We
have to be careful. Mr. Coyne? I don't necessarily mean
today, I mean our report date.

MR. COYNE: Recognizing that a shoemaker tends
to see the world in terms of shoes, I most particularly
look in my profession at the items that you spoke of in
relationship to gold, and my sense is, and I'll give you
two examples, my sense is that it's not broad and even-
handed enough to clarify what the potential options are.

In particular, I refer you to your section 2-47
and also 2-90. In 2-47, you say, for example, "After 1934,
the role of gold in the United States was not that of the
base of the monetary system. Rather it became a commodity
whose price was officially supported in the same way as
the price of wheat under various agricultural support
programs." I would suggest that that's substantially too narrow and one-sided a description of a situation under which --

DR. SCHWARTZ: Federal Reserve says that itself.

MR. COYNE: Pardon?

DR. SCHWARTZ: The Federal Reserve System says that itself in its handout on the system's purposes. I mean this is not a statement that I dreamed up.

MR. COYNE: I'm sorry, I just didn't hear what you said.

DR. SCHWARTZ: I said the Federal Reserve System makes this statement itself in its handout about the purposes. What's the title of that pamphlet? "Purposes and Functions of the Federal Reserve System."

MR. COYNE: I understand. My point is that in this report as in the introduction to say that the price of $35 was comparable to an agricultural support program for wheat, I think, is an inadequate description of the realities. In fact, the $35 price was a way by which the international foreign exchange rates were kept stable, and during which period the United States assumed the obligation to both buy and sell gold with all foreign governments thereby permitting the dollar to be held as a reserve asset by those foreign governments because of its convertibility back into gold at a fixed price. I don't argue that point. I'm only
saying that, in fact, I believe a full description of that situation surely would mean that more was involved than a commodity price support program, and to eliminate enormous monetary implications of a $35 price and fixed exchange rates, thereby permitting the dollar to be held as a reserve asset with confidence does not, I suggest, tell the full story.

DR. SCHWARTZ: Well, that section goes on from 2-46 to 2-58, and it seems to me I described very fully what the role of gold was. I don't think that that single sentence tells you the whole story by a longshot.

DR. WEIDENBAUM: May I suggest in the spirit of cooperation that if members of the Commission find specific phrases not to their liking that the staff make a special effort?

DR. SCHWARTZ: That's right. I mean stylistic improvements are always desirable, and if you also suggest how you think that something could be improved --

MR. COYNE: I was suggesting coming from a -- I was not suggesting that you change the perspective from 14 degrees west to 12 degrees east, but rather than you show the full spectrum a bit more broadly with respect to section 2-90 where there is one paragraph that concludes what is the current role of gold.

Again, I suggest that it is too narrow in
describing what the international state of events are. Gold's monetary uses are I suggest broader than you indicate.

I don't think any conclusions need be drawn from that necessarily, but the fact is the fact. The most obvious acknowledgement of at least some monetary role for gold in the world is the mere fact that many monetary institutions and central banks in the world are, in fact, buying gold, and adding gold now in significant amounts to their reserves and using those reserves.

This is simply happening, as we all know, in the world, and despite the fact there are also central banks which are selling gold, there are independently other central banks which are buying gold and doing so in substantial quantity because there are a range of other events which perhaps are worth mentioning, such as the European eccu.

DR. SCHWARTZ: Yes, but the focus of the chapter is U.S. experience. I'm well aware of these other factors, and, in fact, I drew on another piece which I had written in which I covered the wider international aspects of gold and deliberately excluded those international aspects, because I didn't think they were relevant to a chapter on U.S. experience.

MR. COYNE: I'm suggesting that in 2-90, and I don't say this to argue, and if you feel it's not appropriate, 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 re-
vised --

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?
SECRETARY REGAN: Well, I'm coming to that. What is passing through my mind is whether or not we should have a cut-off date to get these things to Dr. Schwartz in order to force this action to happen. Suppose we say ten days from now?

DR. SCHWARTZ: Ten days from now, yes, and send it to me express mail. Let's see, today is the 8th.

SECRETARY REGAN: And that would be the 18th, Monday the 18th in Dr. Schwartz' hands.

DR. SCHWARTZ: If you can't get it to me by regular mail, get it to me by express mail.

SECRETARY REGAN: Okay, and would you see that a notice of this goes to the members who are not present at this time?

DR. SCHWARTZ: Yes.

SECRETARY REGAN: Now the next thing we should suggest is a further meeting in early March which would leave time available toward the end of the month if we need it for the completion of the report. Now I'm going to suggest Friday, March 5. No? What date is agreeable to you, Mr. Costamagna, in that period of time, somewhere in there?

MR. COSTAMAGNA: That week is just a disaster for me, the first week.

SECRETARY REGAN: That week is a disaster. You can't make it either? How about the 8th? Monday, the 8th?
Okay, let's set Monday the 8th and suggest that date to everybody on the Commission, and that will leave us open then to have one more later in the month if we need it.

DR. SCHWARTZ: By the 8th, I will have the draft of the full report, and then that will be the first time presumably that you will have a chance to read Chapter Four, and then I will have a few weeks beyond that to make any further changes that you would suggest.

SECRETARY REGAN: Mr. Coyne?

MR. COYNE: Mr. Secretary, in terms of the drafting of the report, what type of product are we asking Dr. Schwartz to prepare for us, because I sense slightly less than a total agreement on all issues. How is this going to be reconciled into a single paper which is useful, and achieves the goals appropriate to the mission of this Commission?

SECRETARY REGAN: Would you like to answer that, Dr. Schwartz?

DR. SCHWARTZ: Well, as I've indicated what the structure of the report will be, there is an initial chapter which lays out the establishment of the Commission, the times the Commission has met, subjects that were discussed and ends up with recommendations.

I would hope in the draft of recommendations that I will submit in this chapter that I will be able
to cover the majority views and minority views based on
the questionnaire. You will be at liberty then to make
any changes in what these recommendations are, as I've for-
mulated them, or to show dissent.

MR. COYNE: Dr. Schwartz, I refer to the Under
Secretary's introductory comments this morning where he
referred to the vote on this questionnaire as being an indi-
cation of position rather than a formal vote. I hope I'm
quoting that more or less correctly with the idea that none
of us would be locked into a formal position.

I understood from the Under Secretary's comments
that there would be the opportunity for further ruminations
after understanding the nature of the broad Commission per-
spective on many of these issues. How will that be taken
into account?

SECRETARY REGAN: Well, I would suggest that
in the course of reading the chapter as prepared by Dr.
Schwartz, if there is a point at which you think or anyone
thinks that she has incorrectly stated that the majority
seemed to be, let's say, in favor of gold coins, that that
would be a subject you would raise here, and, if necessary,
we'd take a vote on the spot to make certain that in her
write-up of gold coinage that she was reflecting a majority
view and at the same time would reflect a minority view
that this is not necessarily something that was good.
MR. COYNE: Mr. Secretary, I was really thinking in terms that at least so far as I was concerned and also as I understood the Secretary's comments that these were, how would you say, non-final indications. I've heard a number of things today that have actually influenced my thinking.

I would not vote on all points now as I did last week, and I thought that that was, in fact, the intention of the questionnaire.

I'm not wishing to be technical on this point, but rather thinking that after spending all of this time and all of this effort, we on the Commission and on the staff --

SECRETARY REGAN: There is one thing we could do here, Mr. Coyne, as a possibility. Let's see how it's received by everybody here. We could possibly recirculate these questions or perhaps along the same lines with a slight variance that we've found in the course of this, that some of these questions were confusing or people had a double question, and they answered one part but not the other.

We could recirculate for a final analysis so that we could see whether or not the opinions we're holding as were tentatively expressed in the first questionnaire.

DR. SCHWARTZ: Or alternatively you could communicate any change that you wanted to make without the formal
checkmarks on the questionnaire again, but I presume you have a record of what you answered and submitted, but if you wanted to change any specific answers or if you wanted to modify some general reaction, you could just write it up and send it to me, send it to Mr. Leddy. Would that be satisfactory?

MR. COYNE: Yes, I'm not thinking in terms of what would or wouldn't be satisfactory, rather how this Commission could, in fact, propose a response to the Congress which I understand is its mission which could be useful to it in terms of the questions which this Commission has been asked rather than perhaps to have a scatter gun series of answers to unrelated questions without our having some clear consensus or at least majority view on the overall question.

I wish I could tell you how I thought we should go about doing that, but I can't, and that's why I raised the question.

Someone is going to have to take what we give them and decide what to do about it, and how can we present our report in such a way with such a content that the Congress can then decide what action it should reasonably then take upon our proposal.

DR. SCHWARTZ: Mr. Coyne, did you find my organi-

zation of the questions useful, organizing them according
to their effect on domestic versus international monetary arrangements and then the agencies that would be affected by the answers to the questions?

MR. COYNE: I guess I'm currently seeing all the issues too fragmented, in too fragmented a form, and I don't understand how we're going to take answers to many unrelated questions, answers of which were often perhaps differently, that is to say the questions perhaps being slightly differently understood by various members one to the other, and turn it into a report that will be useful to the Congress which has asked us to make a reasonable proposal.

I really have said all I have to say on this, and if you feel that this will be done, I'm sure it will be done. Maybe some other person here would have some comment to make on this subject. I hope I'm seeing a phantom where none exists.

SECRETARY REGAN: Governor Partee?

GOVERNOR PARTEE: Well, I think we really have to see an attempt at drafting the recommendations. Now, that's going to be a nasty, terrible job, and I think, as is always the case, it's the staff that gets the nasty, terrible jobs like that, and then we're going to have to see whether we can coalesce around the recommendations.

What we're talking about here in Chapter One...
and Two and the background chapters is sort of a gilding of the lily. The lily is going to be the recommendations, and we just have to slog through them, I think. Whether they'll be cohesive or not, I have no way of knowing. I don't think anybody in this room knows at this moment whether we can have a cohesive set of recommendations. We just have to see some verbage, I think.

SECRETARY REGAN: Well, there's your challenge. All right. Anything else to come before the Commission? Mr. Coyne?

MR. COYNE: Mr. Secretary, just one last comment. There were some questions which I thought should have been asked as I saw it, and with the treasury's kind cooperation, these were circulated to members of the Commission, and I would request that any Commission member who feels it's appropriate to answer these questions does so and returns it directly to Dr. Schwartz.

DR. SCHWARTZ: Three members have submitted answers, but we didn't think that was a sufficient representation to make --

MR. COYNE: Right. I think I just did it last week, so I understand that.

SECRETARY REGAN: All right. Thank you very much. We'll stand adjourned until the 12th.

(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

were had as therein appears, and that this is the original transcript thereof for the files of the Department.

DIVERSIFIED REPORTING SERVICES, INC.
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By

Elma S. Dirolf
Reporter

January 8, 1982
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.
The meeting in the above-entitled matter convened at 9:35 o'clock a.m.
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
SECRETARY REGAN: If we could get started please.

The first item on our agenda this morning is the discussion of the capital gains taxation of gold, and I think we should go in the usual order alphabetically around the table to see if any of the members of the Commission would like to speak on this topic and then we will take a vote on that particular item. And then we will go through the draft of the Commission's report, including Chapter Three, and then set a future meeting schedule.

MR. REUSS: Mr. Chairman, I move that we alter the agenda and take Item Two, which is the real important one, that's the vote on all the recommendations. I don't know why we tarry with capital gains provision. I don't think that's really before us and I wasn't aware that we were going to take a vote on it. So I would move that we simply alter the agenda order and take up number two as number one, which should properly be.

SECRETARY REGAN: This subject has been... by members of the Commission that we actually discuss this and take a position on it, Mr. Reuss.

MR. REUSS: Well, I'm a member of the Commission and I request that we don't -- could we have a vote on that?

SECRETARY REGAN: Alright, does anyone want to speak to the other side of that, that we should discuss this capital gains treatment first? Congressman Neal, do you have a
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.
SECRETARY REGAN: Dr. Schwartz, could you tell us who wrote the paper?

DR. SCHWARTZ: Someone in the Treasury wrote the paper, not I.

SECRETARY REGAN: It was a staff member here at Treasury that wrote it.

MR. COSTAMAGNA: Who will remain anonymous?

TREASURY STAFF MEMBER: Jacob Dryer.

MR. COSTAMAGNA: It was an excellent report, in my opinion, and I think it covered the subject well, and I really have a... 

SECRETARY REGAN: He is no longer anonymous, although he remains hidden.

MR. COSTAMAGNA: These are the gold gnomes you hear about. My only thought is, as I brushed previously on this subject at the last meeting, I believe there should be a distinction between the tax treatment between gold coins and gold bullion. I do believe that paper makes that distinction. In other words, I would be of the opinion that gold coins treated as money would not be subject to sales tax or capital gains tax. Bullion would be a different consideration in my opinion. I don't have anything to add at this time.

SECRETARY REGAN: Mr. Coyne?

MR. COYNE: No.

SECRETARY REGAN: No? Mr. Partee, I noticed your
hand was up.

GOVERNOR PARTEE: (Inaudible) This paper convinces me that we should not recommend that capital gains taxes be exempt.

SECRETARY REGAN: I skipped over you.

MR. JORDAN: I'll wait my turn.

SECRETARY REGAN: Alright, okay. Congressman Paul?

DR. PAUL: I too believe this paper was well written and thought it had a lot of good material in it.

I guess I didn't come to as strong a conclusion as Governor Partee did, but I do really see some of the ramifications which confuses the issue. Anyway, I think the point that was made there and the point that I've made earlier -- I think we have to realize in a practical sense it might not matter -- only in a negative way to the Treasury, because if you're dealing with coins, most likely if a person sells them and takes a loss, the Treasury will get a capital loss and less tax is on it, and the capital gains is never reported or it's never taken. If the benefit isn't taken, that is the coins are either not sold, or if they're sold, it's not reported, so in a very practical sense, it probably doesn't matter that if we exempt it from capital gain and capital loss the Treasury would actually gain.

But I also understand the confusion that it raises on certificates and bullion and the different problems that we have, so even though it's very attractive to me to see that it...
would be exempt from capital gains, I'm not sure that it makes a lot of difference. I would certainly lean toward to exempting this, but I also would understand the rationale for not. Even though this was not listed in the topic, it was discussed in the paper, and that has to do with the sales tax. I think the paper emphasized that this was more practical, and again if we do not exempt it from sales taxes, we will not be able to distribute it. I mean if there's a six percent sales tax in New York and no taxes in Nevada, nobody's going to buy coins in New York, and it's just going to inhibit the sales of these coins. So it will be similar to the problem with the medallion sales.

SECRETARY REGAN: Now, Dr. Jordan?

DR. JORDAN: Well, the point that Congressman Paul mentioned, the asymmetry of taxation and the way it works out in practice bothered me some in reading this proposal, and I think that that should be brought to the attention of the Congress and in their future deliberations about capital gains taxation generally. Not that we should recommend that they should abolish capital gains taxation on gold coins, but they should be aware of the way it works out in practice. They should be aware of the issue and they should consider whether or not it works the way intended, and if not, whether some alteration is appropriate.

SECRETARY REGAN: Mr. Coyne?

MR. COYNE: I wasn't sure I was raising my hand, but
as long as you ask me... 

SECRETARY REGAN: I thought you were.

MR. COYNE: I was thinking, it's not the question of whether coins should be made legal tender rather than whether legal tender should be exempt from capital gains tax and sales tax, because if in fact coins are legal tender, then would they not logically, and perhaps even by definition be exempt from capital gains and sales tax?

On the question of the distinction between coins and other types of gold bullion or bullion proxies, would there not be some type of Gresham's variant that would in fact mean that if coins were exempt from capital gains tax and sales tax that that would drive out all other forms of gold holdings?

SECRETARY REGAN: Any other comments on this subject?

Yes, Congressman.

MR. REUSS: Yes, I reiterate my point against the vast accurateness of discussing whether there ought to be a capital gain tax on a coin when we haven't determined whether there ought to be a coin or not. My proposition is that there ought not to be an exemption from capital gain taxes. But I also believe that there should not be a gold bullion coin, a point which I'll argue later.

I hope the members had a chance to read what the Treasury said about this a year or two ago when I raised the question whether it might not be a good idea for the Treasury to
make an honest seigniorage buck or two by issuing an American 
Kruggerand or Maple Leaf. In order to escape sales taxes by the 
states, which seems a sensible thing to do if you're going to 
have an American Kruggerand, the proposition that I put to the 
Treasury was that it be a gold bullion coin. And the Treasury, 
after considering the matter at length and with its permanent 
staff, determined that the advantages would be very small and 
the disadvantages would be large, because it would lead the Gold 
Block to say ah ha, we are now partially reenthroning gold. And 
that is precisely what our friends from the Gold Block are now 
doing, so I come down very strongly against the proposition of 
overruling the Treasury's judgment of a year or two ago in 
having a gold bullion coin.

If we are so misguided as to have one, it certainly 
should not be an article that's exempt from capital gains. I 
agree that the Treasury's nineteen-page piece entitled 
"Abolition of Capital Gains Taxation on Certain Gold Assets" is 
well written, but would the distinguished Secretary of the 
Treasury tell me what its conclusion is? Are you for it or 
against it?

SECRETARY REGAN: Well, at the request of the 
members, this was a discussion paper, and the paper was not 
asked to come up with a conclusion as to what Treasury's opinion 
was. The Treasury Department, in giving the members staff help, 
decided they would tee-up the issue and let the members swing
at it rather than have the Treasury try to put an opinion in there to prejudice the paper, one way or the other.

MR. REUSS: I am with the hope that the Chairman will not press us to a vote on this question that wasn't listed on the agenda, but shall proceed to point to the nitty-gritty voting which will then enable us to get to this in due course.

SECRETARY REGAN: I believe, Mr. Reuss, that's exactly what we're going to follow. But I wanted to have this discussion first so that it would be in the minds of the members as they come to, as you describe, the nitty-gritty items that Dr. Schwartz will lead us through, and voting, so that we have this issue in mind.

MR. REUSS: Thank you.

SECRETARY REGAN: Yes, Mr. Wylie?

MR. WYLIE: Mr. Chairman, I must admit that I did not study this part of the report in the detail that Mr. Costamagna apparently did, because when I got down to the paragraph that said only after the desirability of a dual money arrangement with gold as one of the two monies has been established, and argument for freeing gold from capital gains taxation would be logically defensible. I am not one of those who think that it's desirable to have a dual money arrangement with gold as one of the two monies. And if we are concerned then only with gold as a commodity, my own feeling is that we should keep the capital gains tax law where it is. But when you come to the caveat that
we are discussing, the frame of reference of the dual money arrangement, then as I say, I don't think it's desirable, and my indications previously have been in that direction. So I'm inclined to think it's good to have this discussion since some of the members did ask for it, but I would associate myself with the suggestion of Mr. Reuss.

SECRETARY REGAN: Thank you Mr. Wylie. Yes, Mr. Neal?

MR. NEAL: I've been attracted to the idea that it might be good to have a competing currency of some sort, and yet I see that there are some complexities in this issue that I didn't anticipate when I first suggested that we take a look at Mr. Rahn's proposal. I think there have been certainly some very valid questions raised about it concerning speculation, and some other questions, some of the complexities raised by this paper also.

I would think, though, that we might want to -- I guess there will at some point be a vote on this proposal -- and it still seems to me, though, that it's something that we might want to look at in the future -- maybe not in the context of this Commission, but that Congress might want to take a look at -- there might be some hearings on it or something like that, because I still am not convinced that there's any harm in the idea of there being something that competes with paper money. And if we can find some way to overcome some of these objections
that have been raised, I don't personally think that there would be many that would want to use a competing currency. But I think that it might have the potential for establishing maybe a little bit more confidence in the currency that we do use if there were some alternative available, and it might put a little pressure on those that create the currency that we use that would be beneficial. So I just say that we shouldn't write-off the proposal out of hand, but I can't see it at this point, because I can't see any overwhelming support for the idea, either.

SECRETARY REGAN: Mr. Paul?

MR. PAUL: I think the suggestion by Dr. (inaudible) is a good suggestion.

SECRETARY REGAN: Thank you. Dr. Jordan?

DR. JORDAN: My main point is that I found the paper very educational. I learned a lot by reading it. This is an issue that has received some public attention. It's been in the Wall Street Journal and other places. And I don't think that we should indicate that we have closed this issue -- we have settled the debate, and that the public also wouldn't learn by the debate being continued. And us not closing it off and indicating that the subject should be discussed some further may be beneficial in informing the public of some very important issues, however they ultimately come out on it.

As far as competing monies go, that also is still an
open issue. It is not settled in the economics profession, it is not settled, I think, in the minds of the public. We see that constantly people are innovating the institutions and the preferences of individuals in the forms of money, the way to use money. We see in other economies dollars circulating along with their domestic currencies. We're not trying to close off innovation in the use of monies, the efficiency of our monetary system in other ways, and I don't think that we should presume to close off a potential form of competing money in this area either. I don't think that we are in a position to say that the people shouldn't hold money in this form if that's the will of the people.

SECRETARY REGAN: Dr. Wallich?

GOVERNOR WALLICH: Mr. Chairman, I think the theory of competing money is one that applies to thoroughly disrupted monetary systems -- hyperinflation. In that case one has observed that, for instance in European inflations the dollar came to circulate -- in some Latin American countries where they go to very high rates of inflation, to some extent the dollar and other currencies play a role. But that is a situation that we need not visage here, and I think it would be very unwise to open the door by creating a possibility for a parallel money.

SECRETARY REGAN: Dr. Jordan?

DR. JORDAN: This subject we dealt with to some
extent in the Annual Report of the Council of Economic Advisors that was just released, and contrary to Gresham's law, we make the point that high confidence monies drive out low confidence monies. And if we have stability in the purchasing power of the dollar, there will not be a general tendency for people to prefer to hold money balances in the form of a gold coin or in German Marks or Mexican pesos. But if it's the case that the purchasing power, stability is not achieved in terms of dollars, that people will prefer to hold alternative forms of money.

SECRETARY REGAN: Any further discussion on this topic? If not, then I suggest we move on to Item Number Two, which is the draft introduction and recommendations of the Commission's Report, which Dr. Schwartz has provided us with, and I would ask her to take us through this report.

DR. SCHWARTZ: I had earlier submitted to you the initial pages of this introduction, so I think we can go directly to page five where I list the subjects on which recommendations are presented. There are six such subjects, and needless to say, if I have not covered all items that you think should be included, I will be glad to receive any further suggestions from you. And the six subjects, as you see, are the program of Treasury medallion sales, the Treasury issue of gold bullion coins, Treasury issue of gold-backed notes or bonds, and then a series of questions about the gold stock owned by the United States, domestic monetary policy arrangements and
finally, international monetary policy arrangements.

The way I structured the recommendations is to present what seemed to be majority views based on a questionnaire, based on statements that some of you have individually submitted to me and based on Mr. Lehrman's views, even though he did not respond to the questionnaire.

DR. WEIDENBAUM: Mr. Chairman?

SECRETARY REGAN: Dr. Weidenbaum?

DR. WEIDENBAUM: I'd like to commend Dr. Schwartz for a very able job of synthesizing the varied views of the members of the Commission. I know except for some of the most minor editorial comments I think that this is a very fine edition of the views of this Commission, made in the most neutral manner.

SECRETARY REGAN: Mr. Reuss?

MR. REUSS: I join Murray Weidenbaum in commending Mrs. Schwartz for laying this out in an orderly manner which enables us now to vote, and I would take it -- the Chairman will correct me if I'm mistaken -- that the Chair will now proceed from Item One through Item Six, that what Mrs. Schwartz calls the majority recommendation where there is a choice will be open to substitute amendments; that the substitute amendments will be considered in the order that they are presented, that's as good an order as any, where there are more than one. And that where there are additional substitutes such as three or four that I have, they will then be considered in each case after the
disposition of the other substitutes. I think I've stated what
probably is the case.

SECRETARY REGAN: If I've followed what you've said,
I agree with it.

DR. SCHWARTZ: It was my intention, Congressman
Reuss, to introduce the variance that some of you have submitted
as I present the recommendation as I formulated it, and I
thought there could be a vote.

SECRETARY REGAN: Well, what I shall do as Chairman
as we go through here, let's take for example Treasury
medallion sales, I will call for a discussion of the item. Upon
the end of the discussion of that item and that item only, ask
if anyone has anything further to say. If not, we will vote on
it. And if somebody wishes to substitute something for that
vote, we will take it. But I think we've got to get on with the
work of the Commission here, and this is the session in which we
should be voting on these particular items. And I would ask
that in the course of this that you confine your discussion, if
we're on medallion sales, to medallion sales, and not confuse it
with gold coins until we get to the gold coins. Then we'll
actually discuss that as a separate item -- that type of thing.
Are those ground rules generally acceptable to the members?

DR. WEIDENBAUM: Can I suggest that language comments
and proposals might effectively be presented on another
occasion, perhaps in writing?
DR. SCHWARTZ: Yes, that would be the most desirable way for you to make suggestions for revision. If you will send me the detailed changes that you would like to see incorporated in this introductory chapter, I shall certainly take them into account, just as the detailed suggestions for revision of Chapter One were very helpful to me in revising that chapter.

SECRETARY REGAN: Governor Partee first, then Governor Rice.

GOVERNOR PARTEE: On the procedure, Mr. Chairman, there is a little difficulty, I think. For example, just to take your example, one's position on medallions might be affected with regard to what happens with regard to gold coins, that is, it would seem to me there's not that much distinction between medallions and gold coins, and you probably wouldn't want to have both. And so it's a little difficult to discuss medallions unless one knows what would happen with gold coins. So I'm not sure that we can just go seriatim, one, two, three, as you suggested.

SECRETARY REGAN: Well, I think in general that we should try to confine ourselves to the extent that, let us assume a case here, that the majority agrees that there should be medallions -- and having that in view when we come to discuss the coins, if somebody wishes then to reopen medallions as a result of action taken on coins, certainly I'm not going to foreclose forever any further discussion of medallions once we
have taken this initial vote, but we've got to come to some
conclusions is what I'm urging you to please, let's make up our
minds that time is getting short and we do have to come to
conclusions on this. So Dr. Schwartz, would you briefly take us
through the medallion sales and then we'll have discussion on
that.

DR. SCHWARTZ: Okay, the procedure I've followed is
first to lay out what were the issues that were examined under
each subject heading, and if there were opposing views, to
present them before moving on to what the recommendations were.
The program of Treasury medallion sales as I presented here is
noncontroversial and I just end up with a general recommendation
that the Gold Commission supports the improvement of the program
of medallion sales that the Treasury plans.

SECRETARY REGAN: Any further discussion? Governor
Rice?

GOVERNOR RICE: Well, this might be something of a
quibble of the kind Dr. Weidenbaum cautioned against. But on
the language the Treasury plans seems to be very open-ended and
commits us to something that we really don't have clearly in
mind. I was wondering if we could find language that would not
so commit us.

MR. REUSS: Would the gentlemen yield?

GOVERNOR RICE: Yes.

MR. REUSS: Would it help matters if we changed the
language so that it would read: The Gold Commission supports
the improvement of the program of medallion sales along the
general lines that the Treasury plans.

GOVERNOR RICE: That would help.

SECRETARY REGAN: Any discussion of that, Congressman
Paul?

DR. PAUL: Mr. Chairman, I think what I have to say
is said in relationship to what Governor Partee had to say,
because I think it makes a lot of difference on what happens
with the gold bullion coin, and I think the consensus has been
overwhelmingly in support of the gold bullion coin, and I'm
assuming that we will proceed along with that majority. I for
one find the gold medallions not all that attractive, and I know
Treasury hasn't especially enjoyed dealing with that program,
and they have the problems of distribution and will have two
different programs. I would like to reserve a recommendation
after we're finished with the gold bullion coin that would say:
We recommend that the Congress enact legislation to stop the
sales of all gold medallions and commemorative gold coins....the
programs that are in process. I'd like to find out, though, how
others feel, whether they're enthusiastic about the gold
medallions, whether they think that we should have two, or just
what. I just think that if we have a gold bullion coin, the
other coins are unnecessary.

SECRETARY REGAN: Mr. Costamagna?
MR. COSTAMAGNA: Along those lines, I feel that -- on page seven at the top there, the first paragraph, or the continuing paragraph from six, talks about the additional cost to the consumer to be increased by another three percent when these are promoted through dealers. When I looked into the cost of these coins some months ago, I found that there was approximately a twelve-dollar charge now, and we're talking about here adding another approximately three percent or twelve dollars. This seems to me that adding all of these charges to a medallion is just going to make the medallion something that people will not buy.

SECRETARY REGAN: I am informed, Mr. Costamagna, that is not in addition to the current charge. The current charge is three, and that will remain at three. This is not in addition.

MR. COSTAMAGNA: Well, it said that dealers would add a comparable in selling to the public and develop a secondary market for the medallion. But regardless, I would agree with Congressman Paul and Governor Partee that if we decide to have a gold coin, I would strongly urge the cessation of the sale of medallions. I don't believe they would be able to compete.

SECRETARY REGAN: Governor Partee?

GOVERNOR PARTEE: There is, of course, a timing difference, Mr. Costamagna, that is, this is something that is an ongoing program and I presume the plans would be to improve it in coming months. At the time it is not quite clear to me,
whereas that the gold coin, as I understand it, would be a
recommendation that would have to be considered by the Congress, if I'm correct, and might result in a gold coin say two years from now. So there is a timing difference that I think we need to keep into account.

MR. COSTAMAGNA: Well, then would we amend the recommendation to say the Gold Commission supports the improvement of the program of medallion sales the Treasury plans until we have a gold coin?

MR. JORDAN: I really don't think that that would be necessary because the market place would take care of it. And if it turns out the gold medallions are not attractive after we start issuing gold coins, you can store them along with the Susan B. Anthony dollars.

SECRETARY REGAN: Would you like to have the two-dollar bill? Congressman Wylie?

MR. WYLIE: Mr. Secretary, I think I asked this maybe at our first meeting, but how many of these gold medallions are in supply right now?

SECRETARY REGAN: Would somebody get that information? This is Thomas Leddy of the Treasury.

TREASURY OFFICIAL: The medallion program has run about two years and the authorization was for a million ounces each year. The first year I think four hundred and forty-one thousand ounces actually sold, and something less, I think, than
a hundred thousand ounces so far this year, so something around five hundred to five hundred and fifty thousand in total is out in circulation now.

MR. WYLIE: Thank you.

SECRETARY REGAN: That's ounces -- how many coins would that be?

TREASURY OFFICIAL: There were two pieces, one one ounce and one one-half ounce, and I don't know the number off hand.

DR. SCHWARTZ: Well, it's in the text on page six. I got the data through November, 1981, which I had recorded figures. It's given there in number of pieces and in ounces. And incidentally, this program was legislated to run for five years, so it may just terminate when the legislated period ends and there may not be any problem about a program of Treasury sales of medallions along with a coin sale program, because as Governor Partee indicates, . . .

SECRETARY REGAN: That is 1983 it runs out?

DR. SCHWARTZ: It runs out in 1983.

MR. WYLIE: The law requires the minting of one million ounces of gold medallions each year for five years beginning in 1980. We're only into the second year, so if I add these up -- I remember reading this last night -- we still have about two hundred thousand medallions in storage, so I do think that your recommendation that we come to some kind of a program
of improvement of marketing these medallions is very highly desirable. They are not doing much good in storage. Now maybe we made a mistake when we passed the law suggesting the minting of a million ounces of these each year for five years, but we're into it, so I think we do have an obligation to try to promote the sale of them.

SECRETARY REGAN: Alright, Mr. Coyne?

MR. COYNE: Congressman Wylie really touched on the point that I wish to make, quite well, with respect to the medallion. Mr. Leddy would know precisely if this is so -- the government is under the obligation to strike the total of five million medallions, then, and that is to say that is a law of the country. And it must be done unless another law is passed undoing it. And in the meantime we're sitting on an unsuccessful program of minting and marketing these, and what do you do about this unfortunate situation?

And I'm not sure how that relates to the Gold Commission mandate, but nonetheless, that's the question. It would seem to me that the language of this paragraph on page 07 perhaps should be changed in order not to inadvertently lay down too many requirements for the Treasury, such as plus a three percent mark-up plus an additional three percent mark-up for the distributor. I believe it should be left to the Treasury's discretion to determine how it should be marketed. What if the right premium is four percent or two percent --shouldn't that be
left to the professionals to decide how in fact they can turn an
unsuccessful program into a successful program?

The medallion program is a fact of life and it's
simply a matter of establishing a marketing program that allows
those coins to compete with the imported coins -- allows those
medallions to compete with the imported coins, or simply
continuing to store them as we do any other gold, in the vaults
of the, wherever you keep the stuff.

SECRETARY REGAN: Congressman Reuss?

MR. REUSS: I have a little difficulty with having
anything at all on the business of medallion sales. Our mandate
is to make recommendations concerning the role of gold in
domestic and international monetary systems. These gold
medallions are a trinket and a bauble, not a part of a monetary
system. And while I don't really have all that much objection
to the way it's put, it may be a very wasteful and costly
recommendation, because I would think that a sensible Treasury
like this one would one of these days want to come to Congress
and say, look please lift that requirement that we mint a
million of these every year. We've got enough in stock, they're
running out of our ears. And I really wouldn't want to prevent
the Treasury from being the watchdog of the Treasury on that
point. So I think a sensible thing to do would be just pass
this. We don't really need to commit ourselves.

SECRETARY REGAN: Mr. Coyne?
MR. COYNE: While I understand the reasonableness of what you say, I suggest the other side to that is that the purpose of this program was to allow American citizens to buy some of the gold within this country's stock of gold, and the program was structured in such a way as to make that administratively and logistically and economically so difficult to do that no one in any significant number has bothered to do so. Rather, they've bought what gold coins or medallions they've wanted to buy by importing them from other countries such as Canada or Mexico or South Africa or the Soviet Union or wherever. And therefore, if in fact it's still the intention to allow American citizens to buy gold out of the amount of this country's gold stock, the question simply is whether to make that gold available to American citizens in some reasonably accessible way.

MR. REUSS: Well, perhaps so, but I'd sooner see Treasury employees keeping hard drugs out of the country, for example, than frittering away their time minting gold baubles that nobody wants to buy.

MR. COYNE: I'm not suggesting that they do that. I'm simply saying that if in fact one does want to allow to buy these gold coins they must be marketed in such a way as to make it reasonably practical and feasible for citizens to be able to buy them, which I suggest is not currently being done.

SECRETARY REGAN: Well, may I suggest that probably
we should move on to Item Number Two here, and if I sense what most people are saying here, they'd rather pass on a vote on this one now until we get through with Item Number Two of the topics for discussion. So might I suggest that we go right into Item Two, and then revisit this one later.

    Now, Dr. Schwartz, would you discuss the Treasury issue of gold bullion coins?

    DR. SCHWARTZ: Yes. I distinguish two views among those who support a Treasury issue of gold bullion coins. Those who expect the demand for such coins to be an investment demand similar to the demand for Kruggerands, Maple Leafs, Mexican pesos and other foreign coins that have found a market in this country, and others who expect the demand for such coins to be or to have the potential to be a demand for their use as money. Their value would change from day to day as the gold content value of coin fluctuated in the free gold market. Some advocates of this proposal as facilitating development of a dual monetary system which would provide a degree of discipline to discretionary monetary policy in the country. However, those opposing the proposal believe that after supplies of gold in forms other than Treasury coins are available to satisfy the demand for gold in the private sector to compete with foreign coins, some proponents advise that the new issues be designated legal tender and as coin of the realm bearing the great seal of the United States, the motto "In God we trust." In addition
they advise that changes in the dollar value of these coins should be exempt from capital gains taxation.

Now, I list a number of questions that are raised by a Treasury issue of gold bullion coins, but I haven't specifically stated that these should be the subject of Congressional hearings, and perhaps that is the way the statement should be made. The questions I list are consideration of a quantity or a price limit on the issue of the coins and the opposing views in answering such a question. The necessity to obtain enabling legislation to mint coins, since now it's prohibited, what legal tender status for newly-minted coins implies, and the report will contain an annex showing what Treasury Counsel believes to be the issues raised by extending legal tender status in the coins, and then the question of capital gains exemption in changes in the dollar value of the coins, as well as a question of sales tax taxes imposed on the coins, the question of issues by private mints, the question of convertibility at the Treasury of the gold bullion coin, and I end up with a majority recommendation. We favor Treasury issue of gold bullion coins of specified weights to be sold at a small mark-up over the market price of the gold content, and recommend that the Congress request from the Treasury an analysis of the ways in which this proposal might be implemented, and the minority recommendation, we oppose Treasury issue of gold bullion coins.
Congressman Reuss has proposed an alternative for this recommendation: We neither favor nor oppose Treasury issue of gold bullion coins and recommend that the Treasury feel free whether to make recommendations to the Congress on this subject. Mr. Coyne has his own version of his recommendation which goes: The Gold Commission recommends to Congress that the U.S. mint a gold bullion coin priced near gold content value and with such technical specifications as are necessary to enhance this coin's public appeal, and make it competitive with similar foreign coins.

So you now have three possible versions of a majority recommendation with respect to the Treasury issue of gold bullion coins.

SECRETARY REGAN: Congressman Reuss:

MR. REUSS: Very briefly, Mr. Chairman, I would oppose the proposed majority recommendation, and not surprisingly, favor my own over both the majority and the minority recommendation. The majority recommendation as proposed says we favor issue of gold bullion coins, dot, dot, dot, and recommend that the Congress request from the Treasury, an analysis of the ways in which this proposal might be implemented. But as Dr. Schwartz's excellent excerptus points out, those ways of implementing it are cosmic in there differences, so one way is to make this coin convertible into dollars at the current gold price, another has to do with legal
tender, and still another has to do with capital gains. I think there's something very wrong with making a gold coin legal tender and thus forcing Americans, under the guise of a coin which has "liberty" stamped on it, to support a principal export of the Soviet Union whose policies I don't agree with, or of the Union of South Africa, whose policies I also don't agree with.

A couple of years ago, as I've said, thinking that it might be nice to have the Treasury make a dollar or two out of seigniorage, asked then Secretary of the Treasury Miller what about it. Should we issue Kruggerands, Maple Leafs and make a buck out of them? And I gave some reasons why it might be nice to do that. The Treasury considered the matter very carefully and determined that in addition to all the other reasons for not doing it, to do so would simply give aid and encouragement to the Gold Block.

That that wasn't an idle or paranoid fear is made clear by Dr. Schwartz's honest account of things. On page seven she says that some of the advocates of a gold bullion coin expect that they'll be used for money, and some advocates of this proposal see these coins as facilitating development of a dual monetary system which would provide a degree of discipline to discretionary monetary policy in this country.

I think this is the question we ought to leave to the Treasury, and there's something a little exotic, if I may say so, about the proposed majority recommendation which says that
you, my respected Secretary of the Treasury, as well as Chairman of this Commission, should recommend to the Congress that we request from you an analysis of the way in which this proposal may be implemented. I really think this is ridiculous. It's an Alpan and Gaston Act seldom equalled in the history of American jurisprudence. Let's not do it. I don't want to rub the noses of those who still think that a gold bullion coin might be worth having into it. Therefore my recommendation, which we'll come to as a substitute in due course, says we neither favor nor oppose Treasury issue of gold bullion coins and recommend that the Treasury feel free whether to make recommendations to Congress on this subject. If you make them, I guarantee you that I for one will seriously consider them. If you don't make them for awhile, I will guarantee you that I will not needle or persecute you for dilatoriness.

SECRETARY REGAN: Dr. Weidenbaum?

DR. WEIDENBAUM: I have a brief intervention in the spirit of Congressman Reuss's brief intervention. I was fascinated by his point relating gold bullion sales to the philosophy of the Soviet Union. I hadn't thought of making that kind of philosophical and economic linkages, but I'm always instructed by the gentleman from Wisconsin and therefore I will personally reconsider my consumption of Wisconsin cheese because I don't want that to be taken necessarily an endorsement of the policies of the State of Wisconsin.
MR. REUSS: In so doing you make more difficult the position of the Treasury, which is trying to get rid of Wisconsin.

DR. WEIDENBAUM: The emphasis, of course, was on Wisconsin, not on cheese.

SECRETARY REGAN: Congressman Paul?

DR. PAUL: Thank you, Mr. Chairman. I find Congressman Reuss's statement somewhat amusing because I think there is a bit of contradiction. I have found that he has advocated a gold coin for quite a few years, here, and I believe he voted for the bullion coin, and here we have a majority recommendation that as I see is very, very benign. We're recommending that Congress mint a gold coin and now he says that we shouldn't have a gold coin and that we should let Treasury decide. He criticizes the statement that we're asking some advice by Treasury, but he's more or less repealing the whole Commission by saying the Commission shouldn't make any recommendations and that Treasury should make all the recommendations. So I would say that there's a bit of inconsistency there, and this to me is a very benign proposal that we recommend that these coins be minted. I see that he resents and maybe properly so, that if he were compelled to receive gold coins as legal tender, he might not like it. But has he ever given any consideration of the compulsion of others who are compelled to use Federal Reserve notes as legal tender? I
mean, it should be looked at universally and consistently. That imposition and removal of some people's freedom is just as ominous as if you were compelled to take a gold coin, and they are equal.

We are not suggesting that a gold coin, at least I am not suggesting that a gold coin become legal tender in the sense that people must be forced to use them. All that we're asking and suggesting is that in a free country, people may make choices and repeal some of the laws that prohibited the use, and in particular the law of 1792 that states that all settlements shall be made in terms of dollars. So it's not legal tender in the sense of compulsion, it's legal tender in the sense of exempting it from legal tender status and compulsion. So I would suggest that the proper role would probably be to repeal all legal tender laws rather than condemning a modest proposal like this.

The suggestion that a gold coin would be beneficial to Russia and South Africa is a bewildering type of argument to me, because nobody has made the suggestion anywhere in this Commission ever that anybody was going to go out and purchase gold coins. All we were going to do was to accommodate the anti-gold people and sell off some gold -- American gold -- gold that had been taken from the American people, and allow the American people to buy it back. It has nothing to do with South Africa. I think that these arguments are hollow.

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And I would suggest, back more to the technical wording of the amendment, that it be clear that if and when we do this, that the coins are intended to be available to compete with South African coins so South African coins aren't being sold. In other words, those who are objecting to this I would think are subsidizing South Africa, that they will enhance the sales of Kruggerands rather than the American gold coin. And we do say bullion coins. I would have preferred it to suggest that it would be bullion coins similar to what the competition is putting out, that is, the one-tenth, one-quarter, one-half and one-ounce coins. I think that by mentioning coins at least that is open-ended and I'm sure when we get to a more specific piece of legislation we could designate what type of coins that we would want.

I think it's very important that the amount of coins, and Dr. Schwartz addressed the subject -- the amount of coins have to be available on demand. That is, if we only do a million or two million and there has to be a premium in the secondary market immediately, and they would not circulate and they would not be bought as they buy Kruggerands today.

I do have one question at this time for Mr. Coyne. In his proposal he does mention "a" gold coin. Does this mean you'd like to limit it to one single one-ounce coin, or are you talking a gold coin in a much broader sense?

MR. COYNE: I was really talking about a concept
without specifically recommending anything. I had been thinking
in terms of a one-ounce bullion coin, but I would think that
that would warrant... 

DR. SCHWARTZ: It's hard to hear down here.

MR. COYNE: I would think that that would warrant
study.

DR. PAUL: You would not have a strong objection to
the concept of having the same coins that the Mexican government
and the South African government puts out.

MR. COYNE: No, none, not at all.

MR. REUSS: Mr. Secretary, it's now been said by Mr.
Paul that I voted for gold bullion coins. Not so, as the record
demonstrates on January 24, 1980, I wrote the Secretary of the
Treasury saying, in effect, hey, look, could we make a buck or
two out of Kruggerands if we did it? What do you think? And he
wrote me back on April 21, 1980 saying, "It would be wisest for
the United States to avoid productions and sales of gold coins."
That you may change on the part of the Treasury. If so, I would
certainly as a Congressman very seriously consider its views,
but it simply is not so that I voted for gold coins. When the
Treasury made its negative recommendations I went no further
with the matter and bowed to cooler heads.

DR. PAUL: May I clarify my statement. I believe,
though, at our last meeting you said that you were one of the
individuals who voted in our recommendations in the polling, you
know. That's what I'm referring to.

MR. REUSS: Well, that's a far different thing from suggested that I voted in the...

DR. PAUL: We have never had a vote in Congress.

We've never had a vote in Congress, but you even have put out releases endorsing the gold coin, so you obviously have...

MR. REUSS: Until the Treasury straightened me out.

Let me say that I answered the polled question from Staff Director Schwartz on gold coins, on gold bullion coins, not knowing that the modest positive vote in favor of that would be seized upon by the Gold Block as an occasion for the ringing of bells throughout the lands and the announcement that gold was now reenthroned. They're doing that, and it could be that Congressman Paul has been one of the leading bell ringers. That has caused me to change my preliminary response to the pollster.

SECRETARY REGAN: Thank you, Congressman. Governor Partee?

GOVERNOR PARTEE: Well, Mr. Chairman, I think that there seems to be a tendency for the Commission to withdraw back from things it ought to be prepared to make recommendations on. I am not particularly overwhelmed by the thought that some previous Treasury paper said that it wouldn't be a good idea not to have gold coin, but neither am I particularly overwhelmed by a suggestion that, well we don't know anything about it so we'll ask Congress to request another such paper from the Treasury,
which seems to be the second part of this recommendation. I think if a sizeable group, perhaps a majority of the Commission wants to support the issuance of a gold coin, then let us say so, and I'm sure that since by the very nature of things there will be hearings and that the Congress would request testimony from the Treasury as well as many others on the subject, and therefore the second part of this recommendation is not needed. But I do think that a couple of important issues have been raised that the Commission ought to have some sort of a preliminary view on in its recommendation.

First of all, this doesn't specify whether or not these would be dollar-denominated gold coins. The talk that we've had lead me to believe that the people proposing that didn't have in mind a dollar-denominated gold coin, in which case I think we ought to say without dollar denomination in the recommendation.

The second question that has been discussed at some length, and we have a technical paper on it from the legal staff is the question of legal tender status. Now, I think the Commission ought have a view as to whether, if there is a gold coin, it would have legal tender status or would not have legal tender status. And therefore, we ought to either say with legal tender status or without legal tender status.

And finally, I think that the taxation question is important enough, and this is where it is raised in the
Secretariat's material, that we ought to have a view as to whether it ought to be subject to capital gains taxation or not subject to capital gains taxation, and so we ought to specify that. At least that would be the way I would see a meaningful recommendation from the Commission.

Mr. Reuss suggests that the Commission cop out altogether and just say, we want another paper on the whole subject from Treasury. But even this Commission's recommendation says we want a paper from Treasury on all these details, including, presumably, such things as those I just mentioned. And I think the Commission ought to be prepared to have a view on it.

SECRETARY REGAN: Congressman Wylie, before we go.

DR. SCHWARTZ: I was just going to say to Governor Partee that this recommendation is for coins by weight, the dollar value of which would change from day to day. There is no dollar denomination on this thing.

GOVERNOR PARTEE: It's not all that clear, Anna. I think there's no reason we shouldn't say "without dollar denomination."

SECRETARY REGAN: I have a question along that line that I'd like to throw up to the economists on the Commission. What do you think this is going to do to the price of gold were the United States mint to start coining one-ounce, half-ounce or 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 rela-
tive to gold. And I think that the decline in the value of the
dollar with regard to a whole host of things -- oil and
everything else -- is basically a function of monetary policy --
how rapidly we create them. And ultimately it comes down to a
supply and demand for dollars versus supply and demand for gold,
and I don't think that we would be able to separate out the
effect of coining gold on price versus all of the other factors
that influence the dollar-gold exchange rate.

SECRETARY REGAN: Congressman Paul?

DR. PAUL: I guess I can't qualify as an economist,
but may I make a point? And I may qualify for making this
suggestion, because I think it's very difficult for anybody to
project and for an economist to know what will happen to the
price of gold. I certainly agree with Dr. Jordan that the
monetary policy is the most significant on the long term. The
money supply as you depreciate the dollar you're certainly going
to see in terms of the relationship of gold to the dollar, the
dollar price of gold going up. That's the most significant
factor.

On the short run, things are a little bit different.
We might refer back for guidance about what was projected in
1974, January of '75 when gold became legalized, the projections
and the fears expressed were that gold would go off the roof and
that Americans would slop it up and that the hundred and
ninety-five dollar gold at that time would soar to four to five
hundred dollars very quickly. Even though the market was
interfered with at that time with Treasury and IMF sales, the people did not buy a lot of gold. Prices then went into a down trend for a couple of years and lost almost fifty percent of the dollar denominated value, so all the projection I had heard then anticipated a sharp rise, and I think that some would say that by minting coins you could expect it, and I think the plain truth is that it's going to be very difficult to know exactly what will happen.

It depends on the attitudes of millions and millions of Americans determining what will happen -- not only Americans, but everybody in the world, in the anticipation of monetary policy. I think it would be the monetary policy that would make the biggest difference in what the economy is doing at that particular time.

SECRETARY REGAN: Congressman Wylie, then Governor Wallich.

MR. WYLIE: Chairman, I might be in the position of wearing two hats here if this recommendation is adopted, because I am a member of the Subcommittee on Coining in the House Banking Committee, so I think I would be remiss if I remained silent during the discussions.

I was one of those who opposed Treasury's coining of gold bullion coins, which is one of the minority recommendations, so I don't necessarily think that Congressman Reuss's recommendation is a cop-out, with all due respect to Governor...
Wallich, because it comes closer to my position than the majority recommendation would be. And perhaps we ought to leave it up to Treasury, but your question, Mr. Chairman, points out the difficulty of making a decision on this right nor, it seems to me, in that there doesn't appear to be any answer. If I interpreted what Mr. Jordan said the Dr. Paul said correctly, so I am in the posture of wanting to err on the side of being conservative. In the suggestions that I made in the paper I submitted, I said that I thought that we ought to keep our gold. I think it is a valuable asset. We don't know what the economic trends will be in the international marketplace and we might want to have our gold in store to be in a strong position to discuss the future role of gold in the international marketplace. So given the fact that the report suggests a recommendation that we favor the issue of gold bullion coins and the fact that I'm opposed to the issue of gold bullion coins, I would vote with Chairman Reuss on his recommendation if some modification of the two could be reached.

SECRETARY REGAN: Governor Wallich?

GOVERNOR WALLICH: I was going to address myself simply to the question whether issuing gold coins -- what it would do to the price of gold, because it seems to me your analysis is very accurate, Mr. Secretary, if the Treasury attracts attention to a gold coin there's an increase in demand. The Treasury meets that demand by supplying from its vaults, the net effect
ought to be zero. But if the Treasury then goes into the market and replaces the gold that it has coined, the net effect will be an increase in demand and therefore a rise in price.

For the rest, I'd like to associate myself with the comments of my colleague, Governor Partee, as regards the three qualifications that I think should go into this recommendation; namely, no capital gains tax imposed, no legal tender status and no dollar denomination. And if all these things are appended, then I would say I'd vote for a gold coin.

MR. WYLIE: Mr. Secretary, may I revise my remarks to substitute Governor Partee for Governor Wallich and apologize to both?

GOVERNOR PARTEE: I didn't mind your blaming someone else, Congressman.

SECRETARY REGAN: Congressman Neal?

MR. NEAL: Just a comment on this question of the impact on the value of gold. It would seem to me that you would not expect the demand for these gold coins to be much greater than the demand has been for Kruggerands and Maple Leafs and so on, unless we were to provide some capital gains tax exemption, which as I understand we will not be considering at this point. And even so, I think Governor Wallich's point is absolutely on target -- if the Treasury did not go on the market and buy gold it shouldn't have any impact.

I had a suggestion that we might want to refine the
language just a little bit here. And some others might want to 
add some other thoughts. But my suggestion would be as follows: 
That we favor Treasury issue of gold bullion coins of specified 
weights, to be manufactured from its stock of gold, which is 
what I would add at that point, and then go on as that paragraph 
reads, "to be sold" and so on until we come to the word, 
"Congress," and then strike all after that. In other words we 
strike that language that says something like requests from the 
Treasury an analysis of the ways in which this proposal might be 
implemented, and substitute, and I'll read that last phrase 
again, "and recommend that the Congress implement this 
proposal." It would be the charge of the Congress to do this 
anyway, and I'm sure, as someone mentioned, that they would 
request the Treasury's opinion, and might request the opinion of 
some others, also, and might at that time get into questions 
about the capital gains tax treatment again and more thoroughly 
than we would be able to do here. 

And I wouldn't mind adding something about this 
question of legal tender. I don't think there's any intent here 
that these coins be made legal tender. Is there? And if there 
is, then maybe we ought to print a warning label on them and say 
"Warning, these coins may be damaging to your economic health" 
or something like that. Or maybe print a hammer and sickle on 
those that are gold imported from Russia.

GOVERNOR PARTEE: My point was simply that there'd
been considerable discussion of the issue. I don't know . . .

SECRETARY REGAN: There has been a proposal I believe, Dr. Schwartz, by members -- I believe it's plural -- of this Commission that if we do have a gold coin that it be legal tender.

MR. NEAL: Well, that's not a part of the majority recommendation, though, is it?

SECRETARY REGAN: That is correct. It's not part of the majority recommendation.

MR. NEAL: Well, what I was suggesting, and I agree with that, but as a part of the majority recommendation we add that these coins would be manufactured from the Treasury stock, and you might want to say specifically that they are not legal tender.

MR. REUSS: Were you suggesting that the replacement gold may have its origin either in the Union of South Africa or the Soviet Union, and if not there, where?

MR. NEAL: I did not envision their replacing their stock for this purpose. I don't see that we need to deal with that question at this time -- the stock is so much larger than anything possible that I think any of us could foresee at this time for these coins. I mean there's not a huge demand for these coins anywhere. Coins like this are available now.

MR. REUSS: There are upcoming recommendations that the stock of gold of the United States should not be diminished.
MR. NEAL: Well, I would have to deal with that at that time. We might want to add a provision there that says except for gold coinage, or something. I don't feel very strongly about it, but I don't see any inclination on the part of the Treasury to go into the market to replace gold. And if you thought, Mr. Chairman, that that were necessary, I would not object to adding that at some point in the report. I just don't see any real impact.

DR. SCHWARTZ: I note that a majority voted against Treasury purchases of gold to replace gold it has coined and sold. A majority voted in favor of legal tender status.

MR. REUSS: These weren't votes. I really object to that.

DR. SCHWARTZ: I'm just reporting.

MR. REUSS: Let's not do that.

DR. SCHWARTZ: I'm just reporting.

MR. REUSS: Yes, well don't report it, Dr. Schwartz, it's not accurate. We did not vote.

SECRETARY REGAN: Dr. Jordan?

MR. JORDAN: My great hope is that the purchasing power of the dollar, the exchange rate between the dollar and a whole host of goods and services stabilizes and our ability to forecast the dollar price of gold or gold price of dollars is not a factor in deciding whether or not the American people are allowed to hold some of the U.S. gold stock in the form of
coins. The American people own right now two hundred and sixty-four million ounces of gold. Frankly, I don't think the government owns any gold. The American people own that gold. We're addressing the question on the way in which they are allowed to hold it.

I think it was wrong to have forty years in our history where the people were not allowed to directly own the gold. I'm not at all terrified by the prospect that the American people might choose to hold some of the U.S. gold stock in the form of gold coins. I have a lot of confidence in the American people to exercise their own judgments, and I don't think that we should prohibit them to have that right if they choose to, and so Mr. Coyne's proposal or Mr. Neal's variant either one I think is the one that we should adopt.

SECRETARY REGAN: Well, I think what we should do at this point, if this is agreeable to the members, is that we take a vote on a simple gold coin, period. And if the majority votes in favor of a gold coin, that we further then try to describe the gold coin to see what the majority's decisions are. Should it be legal tender, should it be free from capital gains tax, should it be with or without a dollar denomination -- that type of thing, to see whether or not we want to describe the gold coin in our report, if indeed we want to go with a gold coin.

MR. REUSS: Before voting, may we have the position of the United States Treasury on the lines in which it is
proposed we confine it?

SECRETARY REGAN: The Treasury recommendation is that we do have a gold coin. And the Treasury would further recommend that the gold coin be exempted from capital gains taxation and that it be a weighted coin rather than a dollar denominated coin, and it would not have legal tender status.

MR. REUSS: When and in what document was that Treasury position arrived at, and has it been disclosed to the American people before this moment?

SECRETARY REGAN: No, it has not, because as you will recall, Congressman Reuss, that I, as Secretary of the Treasury, am a member of this Commission and I have every intention of voting as a member of the Commission. I said that I would vote at the conclusion of all these meetings when the time came to vote, and would not state my position so that I could be neutral up here in conducting these discussions and see that discussions proceeded in an orderly fashion. The time has come for me to vote, and inasmuch as I am Secretary of the Treasury, you can assume that this is not a personal vote, that I have taken the recommendations of my staff into consideration.

MR. WYLIE: Mr. Secretary, may I ask a question on clarification?

SECRETARY REGAN: Yes.

MR. WYLIE: You said the Treasury was recommending the minting of a gold coin?
SECRETARY REGAN: Pardon?

MR. WYLIE: You said the Treasury was recommending the minting of a gold coin?

SECRETARY REGAN: Yes.

MR. WYLIE: Which would not be legal tender?

SECRETARY REGAN: That's right.

MR. WYLIE: I had the wrong impression. I thought if it were a gold coin it would have legal tender status. Otherwise it would be a medallion, or...

SECRETARY REGAN: Well, as far as the legal tender status, as you can well imagine what we're talking about there is that if we made it as legal tender and the like, then it could be used or required to be used in settling of contracts and the like. What we're suggesting is that we not put that requirement in. But if two parties were to agree on a contract to be settled in gold, that would be outside our purview.

MR. WYLIE: Then maybe we should call it a gold piece, not a gold coin... or a gold medallion. Am I wrong about that -- that if it's a coin...

SECRETARY REGAN: Well, I think that's a legal point. Why don't you explain this -- from our legal office of our General Counsel at Treasury, here, an explanation of legal tender.

MR. REUSS: Mr. Secretary, before the explanation and so that we may not waste time, we're about to vote on a really
stupendous proposition which the Treasury has now announced to
the world, I ask that the proposed resolution be put in writing,
which can easily be done and distributed, so we can see what
we're voting on. I put mine in writing. You ought to put yours
in writing.

SECRETARY REGAN: My position on this vote is what
you asked, Congressman Reuss, and I will be voting on this.
This is not a novel or a new suggestion. It's merely the one
that's contained in here, as amended. And it will be the
resolution that's before this entire Commission on which the
Treasury will be voting -- the Secretary of the Treasury will be
voting.

MR. REUSS: Well, you had all sorts of provisos about
exempt from capital gains and not legal tender, and something
about weighted. I really would like to see all those before I
vote.

SECRETARY REGAN: If you will recall what I said
earlier in calling for this vote, I said our first vote would be
on a simple would we issue a gold coin. We would then have
subsequent votes on materials such as Governor Partee brought
out as to the description of the coin.

MR. REUSS: Well, I want to see those in writing.
I'm not going to vote on oral propositions, and I have a right
to see, in writing, anything that we're asked to vote on. We
have three such propositions in writing. Voting on those is
fine. Anybody wishing to bring in additional propositions should commit them to writing, which is why I raise the point now so that we can... 

SECRETARY REGAN: Well you earlier raised the point as to whether or not these things could be amended, and whether or not we could vote on such amendments. And I agreed, and the members agreed that we could have these propositions amended as we go. And I would assume that descriptions of the coin would be an amendment to the original proposition. Congressman Paul?

DR. PAUL: Mr. Chairman, I may be able to offer a suggestion here to satisfy both your suggestion and Congressman Reuss's. If we took the majority recommendation and took the first part which is in writing, we favor Treasury issue of gold bullion coins at specified weights, period. And that would satisfy our initial vote. And then designate all the other things. It would be in writing and we would get a vote, and then can go to the other recommendations.

SECRETARY REGAN: We also have Congressman Neal with suggestions on how to amend this also. I didn't mean to overlook Congressman Neal. Governor Rice, first, and then Governor Wallich.

GOVERNOR RICE: As I understand it, we would be asked to vote not on the Treasury position as you just... 

SECRETARY REGAN: There is no vote on the Treasury position, no.
GOVERNOR RICE: But simply on the proposition that you suggested in the first place, that is the Commission favors the issuance of the bullion coin. Maybe with Congressman Paul's position on a certain weight, etc., etc.

SECRETARY REGAN: Governor Wallich?

GOVERNOR WALLICH: Mr. Chairman, I would find it very difficult to vote on the issue of coin or no coin unless I knew what the qualifications were going to be. If the qualifications subsequently were approved as I suggested them, I would vote yes. But if those qualifications or any one of them were defeated, I would have to vote no. How could I make that vote effectively?

SECRETARY REGAN: Governor Partee?

GOVERNOR PARTEE: Well, it seems to me, Henry, that if you vote on a general proposition but then vote against having a particular feature, that that would be a part of the record. The majority favors it, but...

DR. SCHWARTZ: That's right, the recommendation could simply state that...

GOVERNOR PARTEE: (continuing). . . but the majority doesn't favor it with capital gains, or whatever, you know.

MR. WYLIE: Mr. Secretary, my question becomes even more important to me as to whether we're talking about a coin of the realm, or, this says we oppose Treasury issue of gold bullion coins. Now I was thinking in terms of something that
could be exchanged as legal tender.

SECRETARY REGAN: We got thrown off that discussion momentarily, we will return to it now. Would you describe legal tender?

TREASURY COUNSEL: You're correct, Congressman, that all coins of the United States are legal tender, so if we were to have legislation for the issuance of a gold coin and it was not to be legal tender, that legislation would state that this particular coin would not have legal tender status.

MR. WYLIE: Then I think we should call it something else. I mean from a psychological standpoint, if nothing else. Are we going to have a separate new coin which is not legal tender by definition? I think we should call it a gold piece if we're going to go this route.

SECRETARY REGAN: Dr. Jordan?

MR. JORDAN: Do I recall correctly that the guts of the legal tender issue is whether or not the courts would require specific performance?

TREASURY COUNSEL: There was some discussion about legal tender status versus specific performance. They are two very separate issues. Legal tender status essentially requires only that in any contract that does not otherwise specify, that debt can be discharged by the rendering of any form of U.S. legal tender. What Congressman Paul was concerned about was not that question, but if the contract is sued upon in court, that
the courts be required to order specific performance for
attainment in gold whenever gold is the specified means of
payment in the contract. That's a very separate issue and has
not been presented in the materials before the Commission.

SECRETARY REGAN: Are there other comments here?

Governor Rice?

GOVERNOR RICE: Mr. Chairman, is this the point at
which to raise questions about the Treasury position, or should
we wait?

SECRETARY REGAN: You can if you so desire. I'm
merely revealing the way I will vote on these issues, but go
ahead. I'll be more than happy to describe my vote.

GOVERNOR RICE: Well, I wanted to ask about this
question of exemption from the capital gains tax for the coin.
As I recall the Treasury staff paper on the subject said that if
the coin is exempted from capital gains taxation then the whole
range of gold assets and assets related to gold would also have
to be exempted from capital gains taxation. Am I correct in
that? Didn't the paper say that?

SECRETARY REGAN: Would you describe what was in your
paper, please?

TREASURY STAFF MEMBER: It would require, in
particular, exemption from capital gains taxes on
non-interest-bearing claims in gold. Warehouse receipt demands
the costs are tied on paper. It would not necessarily require
exemption from capital gains either in terms of gold or in terms of dollars off interest-bearing claims of gold, bonds and notes.

GOVERNOR RICE: How about bullion?

TREASURY STAFF MEMBER: No, because the coin would be just sold at some premium over alternative forms of gold.

GOVERNOR RICE: Except then you have the Secretary's problem with arbitrage.

TREASURY STAFF MEMBER: The same problem as between municipal bonds and the fully-taxable bond.

MR. REUSS: Didn't you say that bullion would be exempt?

TREASURY STAFF MEMBER: Well, that's not for me to judge, but if bullion is not exempt, then simply the gold coins would be priced at a premium over alternative forms of gold. There would be some spread that would be required that (inaudible) the value of the capital gain exemption at the market.

GOVERNOR PARTEE: Might I ask a question of the author of the paper. You referred to the warehouse receipts.

TREASURY STAFF MEMBER: Right.

GOVERNOR PARTEE: Now if the warehouse receipts are issued by a private company, a bank, if they're issued in greater quantity than the gold that stands behind them, will that still extend the capital gains exemption, or what? What is really in effect the practice of banking and creation of assets.

TREASURY STAFF MEMBER: It would be a bank credit
denomination in terms of gold.

MR. NEAL: Mr. Chairman, I just heard Governor Partee say this is an awfully big step, and I think that it is. I think that the paper was exceptionally well done but inclusive. It raises a number of issues, it does not purport to advise us as to what course we ought to take, and it seems to me that this is a proper subject for extensive Congressional hearings, and I would just think that we might want to make a recommendation concerning gold coins that would not preclude this particular possibility. In fact, not prejudiced in any way but recognize that it is a complex issue. There were questions raised -- very valid ones I think, at our last hearing concerning the possibilities for speculation in gold arising from this particular tax treatment of gold, and I think they're valid and simply deserve more attention than we can properly give them here, and I would just recommend that we not deal with that question. We recommend a gold bullion coin and we suggest that it be manufactured from the Treasury stocks of gold, we suggest that it be without legal tender, that it be sold at a small mark-up, and we recommend that the Congress implement this proposal. And we're getting into some complicated tax issues here, and we have tax writing committees. We would certainly welcome on those committees, I'm sure, your advice, that of the author, and so on, but I don't think we can deal adequately with this question.
SECRETARY REGAN: Congressman Paul.

DR. PAUL: Mr. Chairman, one brief statement. I didn't want it to go by without commenting on something that Governor Partee mentioned — the question of whether excessive certificates may be issued over the amount of bullion that they might be holding and how one might benefit tax wise from this. I would suggest that under those circumstances we're out of the realm of a tax problem, but we're in the realm of a fraud problem, and that certainly isn't something that we should even concede as a proper thing to do. And I think that that issue could easily be settled. I suggest that we try to move along with the Secretary's suggestion of deciding one way or the other and then defining what the coin will be like.

MR. NEAL: May I make, Mr. Chairman, may I propose a majority recommendation for an up or down vote. I think that from what I hear it would encompass the consensus of the majority view of this panel.

SECRETARY REGAN: Let's hear your proposition and then we'll have to ask the gentlemen whether they want to vote on it and whether they want it in writing or not.

MR. NEAL: Alright, I propose the following with minor change, and there's one problem with wording that I haven't resolved yet, but it would be as follows: We favor Treasury issue of gold bullion coins of specified weights, to be manufactured from its stock of gold, to be without legal tender...
and to be sold at a small mark-up over the market price of the gold content and recommend that the Congress implement this proposal.

    MR. REUSS: Mr. Chairman?
    SECRETARY REGAN: Yes, Mr. Reuss.
    MR. REUSS: I asked for the regular order, which has been agreed to and laid down by the Chair. There is before us the majority recommendation, "We favor Treasury issue of gold bullion coins of specified weights to be sold at a small mark-up over the market price of the gold content, and recommend that the Congress request from the Treasury an analysis of the ways in which this proposal might be implemented." We should have a vote on that and we should have a vote on minority recommendation number one. Then there is my recommendation which I herewith withdraw in view of the disclosure at this moment to me of the Treasury view. I don't know why that couldn't have been disclosed before, but let that pass. And then, assuming that the Commission has not, by majority vote adopted a recommendation, it will be in order for others, including, certainly, Mr. Neal, to put in writing their proposals.

    MR. NEAL: Will the gentlemen yield to me on this point?
    MR. REUSS: Surely.
    MR. NEAL: Wouldn't it be in order as a matter of
preference to offer a substitute for this proposal, and that is
essentially what I'm doing.

MR. REUSS: Well, the order, the regular order was
agreed on at the start of this meeting, and I don't think we
should improvise as we go along, and I also would insist on the
proposition that we vote only on matters which are in writing
before us—a mechanical task readily accomplished.

MR. NEAL: Mr. Chairman, wouldn't it be in regular
parliamentary procedure for a substitute for this proposal to be
the first order of business? And that was my proposal.

MR. REUSS: There's no such thing as regular
parliamentary procedure. The procedure is that adopted by the
body, and the procedure adopted by the body earlier this morning
was to vote on the recommendations propounded by Dr. Schwartz
and on various minorities' recommendations included in it, and
thereafter other recommendations offered by members. Those
recommendations should be in writing, and there's no mechanical
problem in getting them in writing.

SECRETARY REGAN: Dr. Weidenbaum?

DR. WEIDENBAUM: Once again I find Congressman
Reuss's logic compelling. I think we should stay with these
recommendations, and of course, in reviewing them, I presume the
ordinary procedure quite in order, to amend or modify these
recommendations as we vote on them. And quite clearly the
proposal to amend the recommendation, I take it we would vote on
before we would vote on the full recommendation, and therefore I
would move, urge, suggest that we amend the majority
recommendation and take account of Congressman Neal's
suggestions, vote up and down on that amendment, and then we
vote up and down on the recommendation. And that would be fully
in the spirit of Congressman Reuss's approach.

MR. REUSS: With the amendments to be in writing. I
don't think we should attempt to act on oral recommendations.

SECRETARY REGAN: Could the Chair say something here?
I think that if any of the members wish to have an amendment,
if they would write it out, I'll have it typed up and duplicated
rather quickly. Even though it might be a little more time
consuming, we can have the benefit of at least seeing what we
are doing. And then we can go on from there to any amendments.
We'll see how the amendments look, and then we'll finally come
to what we have voted on. You understand, of course,
Congressman Reuss, that the Treasury will not have a
recommendation, but we have a vote.

MR. REUSS: That's fine, and they needn't even be
typewritten. I think legible writing reproduced is fine.

SECRETARY REGAN: So the Chair will pause here while
anyone who thinks he may have an amendment could write it out,
and then we will have those so we won't have too long inbetween
things.

DR. WEIDENBAUM: While we're waiting, Mr. Chairman, I
should hope that Congressman Reuss's suggestion that amendments be in writing not be compulsory. I certainly don't intend, if I catch a typo here, to have to submit the darn think in writing in quintuplicate. I think a rule of reason should well apply that the simple amendments that are clearly understood by all I see no reason why we can't feel free and I will feel free in the course of these proceedings to urge them.

GOVERNOR PARTEE: Mr. Chairman, I don't know quite what parliamentary procedure is in this case, but let me just say that regarding Congressman Neal's amendment, that I would like to add: without dollar denomination. Now how do I go about doing that?

SECRETARY REGAN: We'll give you an extra copy of his and you can put your change on it.

MR. REUSS: Steve, have you got the thing you've written that it's not exempt from the capital gains tax?

MR. NEAL: I just didn't deal with that.

MR. REUSS: Well, how about dealing with it? That's an important point.

MR. NEAL: The only reason I hesitate, Henry, is because I didn't want to prejudice that issue. I thought it was an issue that would be dealt with at some length by the Ways and Means Committee at an appropriate time, or, you know, we might have some suggestion on it. I just personally have mixed feelings about it. I just feel that we don't know enough about
it at this point to know that we should not exempt it from capital gains tax. It was my own feeling about it, but do you feel confident at this point that it should never, under any circumstances, be . . .

MR. REUSS: Utterly confident. And it should not be exempted.

MR. NEAL: Well, I don't share in your confidence.

SECRETARY REGAN: I would say that I think both of you are right, but we might propose, I think, the Congress will dispose of this one.

MR. REUSS: Well, in all other aspects.

SECRETARY REGAN: Naturally, but I might remind you, Congressman Reuss, that if that doesn't come up in an amendment, we will not be voting on the capital gains treatment here.

MR. REUSS: It will, though, because I'll propose it as an amendment.

(At which time a pause was taken in the proceedings.)

SECRETARY REGAN: I think the papers have been distributed now, and I think we can proceed.

MR. NEAL: Mr. Chairman, I'd just like to point to at least one grammatical error in my amendment.

SECRETARY REGAN: Could you save that? That's under the Weidenbaum rule, anyway. What I am going to propose now, that we vote first on the majority recommendation as it is stated on page eleven of Dr. Schwartz's text. We then will vote
on the minority recommendation as stated in Dr. Schwartz's page eleven. We will then come to the amendments. And the order, as I recall, that they were suggested is the way in which I suggest we vote. The first one to make a suggestion was Congressman Neal, then Congressman Reuss, then Congressman Wylie, then Congressman Paul. And I have no other amendments at this particular time to this original amendment or substitutes for page eleven.

Now do we all understand the procedure of how we're going to vote? Now I have one other announcement to make. Congressman Reuss, I would wish you would listen carefully to what I'm saying here. Dr. Jordan, will you state the proxies that you have at this moment?

MR. JORDAN: I'm holding proxies for Senator Schmitt and Senator Jepsen.

SECRETARY REGAN: And what do those proxies authorize you to do?

MR. JORDAN: To vote.

SECRETARY REGAN: Now, do you all understand that he has the Senators' proxies?

DR. PAUL: May I mention also, I have the proxy of Mr. Lehrman.

SECRETARY REGAN: You have whose proxy?

DR. PAUL: I have the proxy of Mr. Lehrman.

SECRETARY REGAN: You have Mr. Lehrman's proxy, is
that in writing also? I have not seen that.

DR. PAUL: No, I do not have that in writing. I
didn't realize, because I recall one time when we had a proxy
early, it was done by telephone, by somebody running out of the
room. So I had this confirmed by telephone.

SECRETARY REGAN: Will all of you gentlemen accept
the fact that Congressman Paul has Mr. Lehrman's proxy? And
that Dr. Jordan has the proxies of the two Senators, Schmitt and
Jepsen? Alright.

MR. COYNE: Are there any other members of the
Commission who would wish to vote if they knew that proxies
were permitted?

DR. SCHWARTZ: Senator Dodd.

SECRETARY REGAN: Senator Dodd has not communicated
with us as to how or what he. . .

MR. REUSS: I have Senator Dodd's proxy, but not on
this issue.

SECRETARY REGAN: Alright, Congressman Reuss. Do you
have it on other issues that might come up today?

MR. REUSS: Yes, on five and six I have his proxy.

SECRETARY REGAN: Does that answer your question, Mr.
Coyne?

MR. COYNE: Yes, it does.

SECRETARY REGAN: Alright, the Chair will now call
for a vote on the majority recommendation -- We favor issuance
of gold bullion coins of specified weights to be sold at a small mark-up over the market price of the gold content, and recommend that the Congress request from the Treasury an analysis of the ways in which this proposal might be implemented.

MR. NEAL: Mr. Chairman, may I just raise one question here. Wouldn't it be in order if one favors a preferred wording, wouldn't it be better at this time to vote down this proposal, recognizing full well that we will have another chance at wording that we might prefer? I mean, wouldn't it be a cleaner proposal to do that than to try to vote for this and then go back at a later time and substitute, and so on?

MR. JORDAN: I'm puzzled if you have substitute language proposed, how the ordering of the voting works out.

GOVERNOR PARTEE: I assume that if one didn't like the exact wording here you'd vote no.

MR. NEAL: Vote no, that's what I would think, and then have a second shot at it.

DR. WEIDENBAUM: This is precisely why earlier I had suggested we vote on the amendments before we vote on the main motion.

MR. JORDAN: I would prefer to vote for the amended language first.

MR. REUSS: I think the Chairman is on the right
track. Why don't we vote? This first one can be by show of hands. I will not call for a roll call.

SECRETARY REGAN: Right, and then I would suggest that you could vote yes twice. You like this one, but if there's a better substitute you could also vote that way, for the substitute.

MR. REUSS: You lost me, Mr. Chairman, on that one. I don't think that's going to work.

MR. JORDAN: This is why the normal parliamentary procedure suggests that we may have a substitute, and that that vote might come earlier in the process.

MR. REUSS: Well, we know that you've very nicely given us copies of what you're going to propose, Steve, and we'll get to that momentarily.

SECRETARY REGAN: May I ask a technical question here. In voting in the Congress, which do you do first, your substitute or the original.

MR. REUSS: The substitute.

MR. WYLIE: Mr. Chairman, we don't really have anything before us until we adopt this, and then it's subject to amendment later on. I think your procedure is quite correct in view of our procedures in Congress. If we vote on Congressman Neal's motion first, then that would remove any vote on this. That would be the language that would have to be amended later on. There really isn't anything technically before us yet,
because we haven't adopted it.

MR. NEAL: Still, we can just go ahead and have a vote on this proposal, and either way the vote goes, we will be able to deal with it.

MR. WYLIE: Sure.

SECRETARY REGAN: Congressman Paul?

DR. PAUL: If we go and proceed with a substitute amendment, a substitute proposal, and vote on Congressman Neal's proposal, then I think it would be imperative that we do go through all the amendments prior to voting, say, on the majority recommendation. I for one find it quite difficult to accept the wording of the substitute, mainly because it more or less goes against what the intention was at the very beginning, that we would try to decide one way or the other on a coin and then have these different things dealt with separately. And, for instance, the legal tender status -- its committed in there, and then the question comes up, after we pass the substitute, can we go back and amend only those three words, the legal tender status, in his substitute. So, I think it's important if we do a substitute, we also do the amendments prior to a vote on the coin. I still think it would be quite proper to go along with the Secretary's suggestion that we vote on the majority recommendation first and then amend it as we see fit. It gets very confusing if we go into substitute amendments, substitute resolutions.
MR. REUSS: Since this will be the only thing Mr. Paul and I will agree on during these proceedings, I suggest we proceed.

SECRETARY REGAN: Let me have that once more, then to make sure. Everybody understands what we're doing here.

MR. WYLIE: I think you're right.

DR. PAUL: To go ahead and vote the majority recommendation as you suggested and then go and take the individual items afterwards, and amend it?

SECRETARY REGAN: Right.

Alright, I'm going to call for a vote. All in favor of the majority recommendation that the Chair just announced as written on page eleven of Dr. Schwartz's text signify by raising their hand... all in favor. One, two, three, four, five, six, seven, eight, plus proxies.

TREASURY STAFF MEMBER: Plus two proxies.

SECRETARY REGAN: Two? Three. Plus three proxies. Eleven. All opposed? One, two, three. Alright, we now have a majority recommendation. We will now vote on the minority recommendation. Minority recommendation is: We oppose Treasury issue of gold bullion coins. All in favor of that minority recommendation? Two. Opposed? The same vote.

MR. REUSS: What was it, Mr. Chairman?

SECRETARY REGAN: The vote was ten, I believe. Let's have another show of hands. One, two, three, four, five, six
over here, seven, eight, nine, ten, eleven.

MR. REUSS: Eleven to two.

SECRETARY REGAN: Eleven to two. Alright.

MR. NEAL: Mr. Chairman? I would like to offer a substitute for the majority recommendation, and I would like to point out that there is a grammatical error in line four. "Nor" should be "or" and there may be others.

MR. REUSS: You ask unanimous consent?

MR. NEAL: I ask unanimous consent that "nor" be stricken and that "or" be substituted.

SECRETARY REGAN: Any objections? You didn't hear what he said?

MR. COYNE: No, I thought you asked whether there were objections.

SECRETARY REGAN: Objections to his change?

MR. COYNE: To striking "nor" and adding "or."

SECRETARY REGAN: That's what I'm calling for. I said, are there any objections.

MR. COYNE: And I raised my hand.

SECRETARY REGAN: You do object?

MR. COYNE: I would like to ask a question in the nature of an objection. I don't understand the procedure whereby we have just had an eleven to three vote in favor of the majority recommendation which seems to me to be global in its scope which does not have the force of law, as this is not a law
making body, but rather making a recommendation, as I understand it, to the Congress. Why would we wish to sub-define such a broad recommendation on which there appears to be an overwhelming majority in favor when the questions are, as Congressman Neal put it just quite correctly in my view before, the issues and the ramifications are so complicated and so beyond, at least my power, to understand what the full force would be if we went this way or that. Why can't we leave it as the vote?

MR. NEAL: Would the gentleman yield?

MR. COYNE: Yes.

MR. NEAL: The Chairman only asked unanimous consent that we change one word in a proposed substitute for the majority recommendation, and it appeared to me that most people who voted for the majority recommendation did so with the knowledge that there would be this substitute offered, and that we would have the opportunity to adopt this wording if that is the will of this panel. And that then we have the opportunity to amend the substitute, if that's the will of this Commission.

MR. REUSS: Mr. Chairman, I make the point of order that the Commission is out of order, that it is discussing matters which have been duly adopted by recorded votes of the Commission -- there is no motion to reconsider. We are now on the Neal motion, which is perfectly proper. But criticism of the substance of what the Commission has just done is not only
out of order, because we have passed that point, but may offend against questioning the sanity of the Commission.

MR. NEAL: Would the gentleman withdraw his objection to changing that one word in the substitute?

MR. COYNE: What I was deposing is, that unless there is a clear view as to whether it should or it should not be legal tender, I'm understanding what all of the ramifications of that are, an understanding of which I do not...

SECRETARY REGAN: Well, Mr. Coyne, you understand what we're doing here now. We're a little bit off base here. What has happened is that we've voted on the majority recommendation. Mr. Neal now wishes to substitute another amendment for that. He is entirely within his rights in making this suggestion. The only thing that he has asked, though, is in his substitute, and you will recall that we put this in writing in order to make certain we knew what we were voting on, is that the word "nor" be changed to "or" for correct, grammatical use. We will then vote on that. If the Neal amendment is adopted by a majority, that is the wish of this Commission. If it is turned down may a majority, then we would revert to the original that we just voted on, eleven to three. That is the status of where the Commission stands at this point.

MR. NEAL: And Mr. Chairman, isn't it also true that the amendment would be subject to amendment?

SECRETARY REGAN: And the substitute amendment would
be subject to amendment, either in whole or in part.

MR. REUSS: I make a point of order against that, Mr. Chairman, on the ground that we have already, by a majority vote of eleven to three, duly recorded, adopted the majority recommendation. Mr. Neal has now been recognized to make an additional recommendation, but it is not a substitute recommendation. The Commission has acted -- I think unwisely -- but it has acted on the so-called majority recommendation. The time has passed . . .

MR. NEAL: I move for a substitute or an amended majority recommendation, whatever you want to call it. We're writing parliamentary rules as we go along today. Mr. Chairman knows.

MR. REUSS: Well, I would make a point of order against there being a substitute or an amendment. It is an additional recommendation.

MR. NEAL: Well, it's overruled. It's an additional recommendation, and I would overrule your point of order.

SECRETARY REGAN: I think, Congressman Reuss, that if we follow your line of thinking now we have definitely mislead this Commission and we'd better go back to square one, because we said that we would vote on the majority recommendation, on the minority recommendation, then on a substitute, and then on amendments. And we all agreed to that and you suggested they be put in writing. We paused in order to have that done. Now if
we're going to say, well, having voted for the majority recommendation, that is the majority recommendation -- and it cannot be expunged in any way by a substitute or an amendment, and it must stand on its own, and they'll be some with a second recommendation that would be somehow or other amended, amending that first one, we would not only confuse the Congress, but ourselves and the public, were we to submit two recommendations along the same line.

    MR. REUSS: Well, that's why I voted against the majority recommendation. The eleven who voted for it must answer at the bar of public opinion for their vote.

    GOVERNOR RICE: I thought I was voting for the additional substitute that Congressman Neal is going to make.

    SECRETARY REGAN: I agree with you, Governor Rice. That was the Chair's understanding also. And the Chair will exercise the prerogative here and suggest that we revert right to what we said. We will now entertain an amendment to the original from Congressman Neal. Congressman Neal?

    MR. REUSS: I register a point of order against that on the ground that we have voted on the so-called majority recommendation. There was no motion to reconsider. We have moved on to another matter, and it is therefore out of order to consider a substitute.

    SECRETARY REGAN: The Chair rules otherwise, and the Chair asks the Commission to vote here on whether it will
approve of what the Chair's ruling is in this case or not.

MR. REUSS: I haven't asked that the Chair be overruled. I've asked that the Chair make a ruling, and I have not heard that ruling.

SECRETARY REGAN: The ruling is that we will now vote on the Neal amendment. In the event that the Neal amendment carries, it will be substituted for the recommendation of majority, and it will be the recommendation of the majority of this Commission as far as gold coins are concerned. There would then be an order for the Neal amendment to be further amended by other people who have made suggestions, including yourself.

MR. REUSS: And hence my point of order that the Neal substitute amendment is not in order should be and hereby is overruled by the Chair. Is that correct?

SECRETARY REGAN: That is correct.

MR. REUSS: And I do not exercise my privilege of asking to overrule the Chair.

SECRETARY REGAN: Fine. Thank you, Congressman.

Congressman Neal, we have consent for your "nor" for "or," would you please make your recommendation.

MR. NEAL: I move the adoption of this substitute for the majority recommendation -- the substitute that you have before you, Mr. Chairman.

SECRETARY REGAN: You have before you a recommendation of Congressman Neal: We favor Treasury issue of
gold bullion coins of specified weights and without dollar
denomination or legal tender status to be manufactured from its
existing stock of gold and to be sold at a small mark-up over
the market value of the gold content, and recommend that the
Congress implement this proposal. All in favor of that signify
by . . .

MR. REUSS: Mr. Chairman, I object and raise a point
of order. You're cutting off amendments to it, and I ask that
the Chair follow the regular order and permit amendments to the
Neal resolution before it is voted on as the Chair said he would
do.

DR. PAUL: Point of order -- it is my
understanding...

MR. REUSS: May I have a ruling on my point of order
before we . . .

SECRETARY REGAN: Congressman Reuss, we agreed that
we would vote on this one first, and then I said that
recommendations for amending Congressman Neal's proposal would
then be in order.

DR. WEIDENBAUM: That is my recollection.

MR. REUSS: There was no agreement or any vote on
that, and until it's been put to a vote . . .

SECRETARY REGAN: The Chair ruled that way, and there
was no call for anyone to overrule the Chair, as I recall. And
accordingly, the Chair's ruling stands. I will now call for a
vote. All in favor of Congressman Neal's amendment, please signify by raising their hand. And are you voting three? One, two, three, four, five, six, seven, eight, nine, ten, eleven, twelve, thirteen. Opposed? Two.

Is there any further business now? The next one would be amendments offered by Mr. Reuss.

MR. COSTAMAGNA: Mr. Secretary?

SECRETARY REGAN: Yes.

MR. COSTAMAGNA: I think there are sixteen votes represented here, and I can't quite... 

SECRETARY REGAN: No, Congressman Dodd and... 

DR. SCHWARTZ: We're missing Paul McCracken's vote on this. Those are the two votes that we don't have.

SECRETARY REGAN: Let's have that count again. Would you mind -- we did get a little high on that count, I think.

DR. SCHWARTZ: No, you got sixteen, and Paul McCracken's. Thirteen to three.

MR. COSTAMAGNA: Mr. Secretary, may I just say that...

SECRETARY REGAN: There are two votes that are missing. The missing votes are Paul McCracken... 

DR. SCHWARTZ: And Dodd.

SECRETARY REGAN: And Senator Dodd.

DR. WEIDENBAUM: Mr. Chairman, I ask for a roll-call vote on that.
SECRETARY REGAN: Alright, roll-call is . . . would you call the roll please?

TREASURY COUNSEL: Mr. Costamagna.

MR. COSTAMAGNA: Here.

MR. REUSS: I ask unanimous consent that Mr. Costamagna be allowed to change his vote to "Aye."

MR. COSTAMAGNA: Being from California, I'm not used to these machinations in Washington, so you'll have to forgive me.

SECRETARY REGAN: Even being from Washington, I'm not used to them. What we're voting on here is a roll-call vote on the vote we just took by a raising of the hands. So would you please signify whether you are in favor of Congressman Neal's amendment or not.

TREASURY COUNSEL: Mr. Coyne.

MR. COYNE: Yes.

TREASURY COUNSEL: What was that?

MR. COYNE: Yes, aye.

TREASURY COUNSEL: Mr. Dodd?

SECRETARY REGAN: Senator Dodd's not voting.

TREASURY COUNSEL: Senator Jepsen.

MR. JORDAN: Yes.

TREASURY COUNSEL: Mr. Jordan.

MR. JORDAN: Yes.

TREASURY COUNSEL: Mr. Lehrman.
DR. PAUL: Yes.

TREASURY COUNSEL: Mr. McCracken's not present.

Congressman Neal.

MR. NEAL: Yes.

TREASURY COUNSEL: Governor Partee.

GOVERNOR PARTEE: Yes.

TREASURY COUNSEL: Congressman Paul.

DR. PAUL: Yes.

TREASURY COUNSEL: Congressman Reuss.

MR. REUSS: No.

TREASURY COUNSEL: Governor Rice.

GOVERNOR RICE: Yes.

TREASURY COUNSEL: Senator Schmitt.

MR. JORDAN: Yes.

TREASURY COUNSEL: Governor Wallich.

GOVERNOR WALLICH: Yes.

TREASURY COUNSEL: Chairman Weidenbaum.

DR. WEIDENBAUM: Yes.

TREASURY COUNSEL: Congressman Wylie.

MR. WYLIE: No.

SECRETARY REGAN: The Chair votes yes.

TREASURY COUNSEL: Thirteen in favor, two opposed.

SECRETARY REGAN: Thirteen and two. Alright, now the next order of business is the amendments by Mr. Reuss. The first amendment: Such a coin should not be convertible into
dollars on demand at the Treasury. We'll call for a showing of
hands on Congressman Reuss's amendment. All in favor, please
raise your hand. One, two, three, four, five, six. All
opposed, one, two, three, four five, six, seven, eight, nine.

Next: Such a coin should not be exempt from capital
gains taxation. All in favor signify by raising their hand.

One, two, three, four, five...

MR. NEAL: Mr. Chairman.

SECRETARY REGAN: I want to raise a question on this.

Unless it is specifically mentioned one way or the other, such a
coin would not be exempt from capital gains taxation. Such
coins would not be exempt under current law.

SECRETARY REGAN: Yes, but the gentleman has a right
to propose an amendment and we agreed we would vote on it.

MR. NEAL: Well, isn't it in order to discuss the
amendment for a moment or two? You know, we could add an
amendment that said that such coins would not be used to build
airplanes or something. I just can't see the relevance at this
point. That's my question. If we remain neutral on this
question, it would be something that would be dealt with at some
other time, and I'm trying to understand the need for this at
this time.

MR. REUSS: The subject of capital gains taxation has
been treated at length in the draft report presented us, it's
been treated at length in a Treasury memorandum. As for the
proposition that another body, namely the Congress, not this
Commission will be responsible for the ultimate disposition of
that -- happily that is true of everything we've been doing. So
I think we should vote.

SECRETARY REGAN: Any further discussion?
Incidentally, I don't mean to cut off discussion on this even
though time is getting on. So if any of these other amendments
coming up anyone wishes to discuss before we go to vote, would
you please signify.

DR. PAUL: Is it your thought, Congressman, that
since we have indicated this should not be legal tender that the
capital gains taxation question does not arise.

MR. NEAL: Not at this point.

DR. PAUL: Had we indicated it should be legal tender
it would very well have been in question, then, because
ordinarily, legal tender would not be subject to capital gains ...

MR. NEAL: I did not have the thought in my mind as
precisely as do you, but I believe your point is well made.

SECRETARY REGAN: Any further discussion? Alright,
then I'll call for a vote on the second amendment by Congressman
Reuss that such a coin should not be exempt from capital gains
taxation. All in favor? One, two, three, four. Opposed? One,
two, three, four, five, six, seven, eight, nine, ten, eleven.

Alright, we now come to Congressman Wylie's
amendment, and Congressman Wylie moves to amend the majority recommendation, well, it's actually now, the...

MR. WYLIE: It would still apply, though.

SECRETARY REGAN: It still applies to the Neal...

MR. WYLIE: That is the majority recommendation now.

SECRETARY REGAN: It is now the majority recommendation that where it is stated, "gold bullion coins" that the word "coins" be deleted and insert therein the word "pieces," so that it would read: "We favor Treasury issue of gold bullion pieces of specified weights, and without dollar denomination."

MR. WYLIE: Pieces of eight. I think that the word "coins" and "without legal tender" are mutually exclusive in our society. But if they're not mutually exclusive, then they create an ambiguity. A coin has always been held to be legal tender. A coin of the realm -- I think coin is a word of art, and it seems to me that up to now it has been accepted as payment for public debt in our society, and if we try to define another coin, which is what we're in essence doing, a coin without legal tender, then it seems to me as if we're creating an ambiguity which would be confusing to the public. And I think it would make us look foolish, frankly.

MR. NEAL: Would the gentleman yield?

MR. WYLIE: Yes.

MR. NEAL: I wonder if the gentleman would accept the
substitution of the word "doubloons."

MR. WYLIE: What?

MR. NEAL: The substitution of the word "doubloon" -- "doubloons" for "pieces."

SECRETARY REGAN: Is there any other discussion? Dr. Jordan?

MR. JORDAN: I sympathize with Congressman Wylie's concerns about the potential for confusion, because I am somewhat confused by the significance of this, and I was wondering if the Treasury's legal counsel could tell us what importance this issue is.

TREASURY COUNSEL: The present statutes do provide that all coins and currency issued by the United States are legal tender. The legislation that would authorize the issuance of these coins could state that these coins, and these coins only, will not constitute legal tender. But Congressman Wylie is correct in that the law now provides all coins issued by the United States should constitute legal tender.

MR. WYLIE: I'm not necessarily sold on the word "pieces," but I am sold on the fact that it should not be "coin."

MR. JORDAN: Even in a case where it may be stipulated that these specific coins, a description of a piece of metal that's stamped in a circle, are not legal tender, because of the potential for confusing the public?
MR. WYLIE: Exactly right.

MR. NEAL: Mr. Chairman.

SECRETARY REGAN: Yes.

MR. NEAL: I think it's a good point also. I'm just wondering if they might should not in fact be labeled as not legal tender. There shouldn't be some little inscription at some point on them that says "not legal tender."

MR. WYLIE: What's wrong with just changing the word from "coins" to "pieces" -- bullion pieces. You can call them something else later on if you want to, but I don't think you should call them bullion coins.

SECRETARY REGAN: I see. My own instinct is that if we use the word "pieces" in describing this, that we'll be misunderstood as to what we're trying to do in the majority recommendation, and we'd cause more confusion. But we would certainly leave it either to the current or a future Secretary of the Treasury or representative of the Treasury to discuss this with the Congress at such time, if, as and when the Congress were ever acting on this recommendation that it be very specific in law as to what it was doing.

MR. WYLIE: We have gold medallions right now. That's why I didn't change it to "medallions." We could change to "medallions" if we want to, and say that we recommend the present law be repealed and that we substitute these new medallions in its place, if we want to go that route. But
that's what these amount to -- they're medallions.

SECRETARY REGAN: Mr. Pieces, or is it Mr. Coyne?

Would you like to speak?

MR. COYNE: Well...

SECRETARY REGAN: I'm sorry about that.

MR. COYNE: Mr. Secretary, as long as you put it that way, I'd like to say with respect to Congressman Wylie, as he suggests that these should not be gold coins, I would like to suggest they should not be called "Wylies."

MR. WYLIE: I'll buy that.

SECRETARY REGAN: Congressman Paul?

MR. COYNE: I'm sorry, that was not the point of my... As these coins are being contemplated in terms of their providing the American public with an alternative store valued to Federal Reserve notes or other assets, I would suggest that the use of a term other than "coin" would simply tend to defeat the object of the exercise. If there were one single feature that makes the U.S. medallion program unsuccessful more than any other feature -- and it has a great deal of competition in that respect -- it would be the use of the word "medallion" or such a term: "piece" or anything other than "coin" would seem to me to be a decision to make it not work. There appears to be in the marketplace an inhibition about the transferability of an item of jewelry rather than an item which is supposed to have some private monetary significance.
MR. WYLIE: Would the gentleman yield? The point I'm making here is if you're going to issue gold bullion, whatever you call them -- if you call them "coins" then they ought to have legal tender -- if we decide to go that route. I don't know of any other country in the world that issues a gold coin without legal tender.

MR. COYNE: In almost every country I can think of off hand which issues what we normally think of as a gold coin, as a gold bullion coin, namely, the Canadian Maple Leaf, South African Kruggerand, the Russian Chevaunets, the Austrian Corona...

MR. WYLIE: Yet you present all those countries in payment of public debt...

MR. COYNE: In some of those countries, in one of those countries, in the Soviet Union, it is in fact illegal for a citizen to own that coin, forgetting about the question about using it as payment for public debt.

MR. WYLIE: I certainly don't want to go the route of the Soviet Union.

MR. COYNE: No, I'm saying that so far is it from the use as legal tender -- even though it is designated as legal tender, it is not legally holdable by citizens within the country itself. In South Africa the Kruggerand is not usable for the payment of private debts, nor is it in Canada, nor is the Corona in Austria, nor is the Mexican peso coin, or any...
other Mexican coin in Mexico. That is to say, it is not only
that there is not -- I'm sorry, let me put it more directly --
there is no single country, to the best of my knowledge, in
which a gold bullion coin -- even those designated as legal
tender by the law of that country -- which is usable for the
payment of private debts within those countries, and in at least
one country it's not even legal to own that coin.

SECRETARY REGAN: Governor Wallich and then Dr.
Jordan.

GOVERNOR WALLICH: I was trying to make the point
that if it is very important to people to have the object that
is issued called a "coin" rather than "medallion" there may be
some element of misunderstanding on people's part. They may
think these in effect have legal tender and can be used in
payment, even though we've decided not to.

SECRETARY REGAN: Dr. Jordan?

MR. JORDAN: As Mr. Coyne has indicated, a Maple Leaf
is a coin if people so view it as being a coin. Whether we say
it's a coin in this resolution or a piece or a medallion, it in
fact looks like a coin, it feels like a coin, it must be a coin.
And it will become referred to as something like the American
Eagle, maybe, or something. And so whether we put in this
resolution or not that we call it a coin here, legal counsel's
advice is that can be separate from the issue of legal tender.
And I think that we shouldn't conclude here that us referring to
it as a coin says something about its legal tender status when it doesn't.

SECRETARY REGAN: Congressman Paul?

DR. PAUL: I see the need to change this word as totally unnecessary. I think the fact that it does not have legal tender status takes care of it. I think that this is just totally needless to take a coin -- it is a coin -- and call it something else. It doesn't seem to add up, so I would strongly urge that we just leave the wording as it is.

SECRETARY REGAN: Any further comments? Then I'll call for a vote on Congressman Wylie's recommendation that we delete the word "coins" in Congressman Neal's amendment and to state that we favor Treasury issue of gold bullion pieces of specified weights and without dollar denomination, and so forth. All in favor of that substitution, please signify by raising their hand. One, two. Opposed to that substitution. One, two, three, four, five, six, seven, eight, nine, ten, eleven, twelve.

Alright, we now have four amendments from Congressman Paul. The first amendment: The coins shall be accepted in payment of debts if so specified in contracts. Congressman Paul?

DR. PAUL: May I just make a comment. I think this would certainly satisfy my concern about not having a coin legal tender. I'm not interested in having it legal tender, and I think this more or less conforms with what most people think
is already in the law — that if you have a contract that you pay in whatever you contracted in — and this is just to clarify that and for us to take a position that we believe in contracts, and the rule of contract is still the most important thing that occurs in the free market. So I would hope that everybody could endorse this type of language.

SECRETARY REGAN: Any other comments on this?

Governor Wallich.

GOVERNOR WALLICH: I think this is an extremely dangerous provision because innocent people might be illegal in making a contract in which they had to pay in gold, and on top of that be charged an interest rate, for instance on a loan, in which case they'd be paying more interest than they should be. They'd be paying the gold appreciation that may occur over time, plus the interest. This is exactly the same reasoning that underlies the idea of a government-backed gold bond. It needs little or no interest because it gets the appreciation of the gold. Here a possibly naive borrower might be exposed to paying double interest.

SECRETARY REGAN: I'm asking our counsel to give us a little instruction here. As a non-lawyer, I'd like to know a little bit about contract law and what the significance of this would be.

TREASURY COUNSEL: Essentially, anyone can contract and have a provision in the contract that payment be required
only by payment in gold coin, or in gold. The normal result would be that that contract would be valid and binding. And as discussed at the last meeting, on the issue concerning a breach of that provision by the debtor, and the creditor took the debtor to court, the court normally would award damages rather than specific performance of a contract provision. So it's up to the courts to decide what the remedy for the breach, whether it orders performance or orders monetary damages, an amount adequate to compensate. What Congressman Paul's statement here is on its face is merely a statement of present law that a contract provision which specifies payment in gold or in gold coin is to be honored, and that's true of any contract.

SECRETARY REGAN: Congressman Paul.

DR. PAUL: In a way I think that's exactly right -- that it is a statement of what is current law -- until you get to the point of the breach, and this is the whole point. A contract -- when everybody follows through voluntarily -- that's all fine and good. But the reason you have a contract is if there is a breach and a breaking down of the contract. Then there has to be a settlement. And in the past, the systems have been abused, especially the paper systems have been abused, because people have been forced to accept worthless paper. This would not, as she says, change law, but just take a position in saying that we feel that if you do have a contract, that we should consider maybe the changes in the law that are necessary
that people ought to have the right to free contract. What she is saying is correct -- that when the breach occurs, yes -- then there's a breakdown. What I'm suggesting is that if there's a breach of contract, that the contract is still in effect and that we're not forced to pay off in Federal Reserve notes.

SECRETARY REGAN: Any other comments on this?

Alright, I'll call for a vote here on: The coins shall be accepted in payment of debts if so specified in contract.

All in favor signify by raising their hand. One, two, three, four, five. Opposed? One, two, three, four, five, six, seven, eight.

Alright, next amendment: The coin shall be exempt from capital gains tax.

DR. PAUL: I volunteer to remove that. I believe we voted on that.

MR. REUSS: No, I insist on a vote, Mr. Chairman. It has been placed before us, and I move the previous question.

DR. SCHWARTZ: The original amendment by Mr. Reuss was voted down, that your coin should not be exempt from capital gains taxation.

MR. REUSS: This, however, is a different amendment, because this would put it into the recommendation of the Committee and I think we should have a vote and I call, Mr. Chairman, for a vote.

SECRETARY REGAN: Any other comments?
MR. NEAL: I call for a record vote -- yeas and nays on it.

SECRETARY REGAN: A recorded vote this time. Would you please signify in answer to your name whether you are in favor or not: The coins shall be exempt from capital gains taxes. Would you call the roll.

TREASURY COUNSEL: Mr. Costamagna.

MR. COSTAMAGNA: Yes.

TREASURY COUNSEL: Mr. Coyne is absent at the present, Senator Dodd is absent, Senator Jepsen.

MR. JORDAN: Yes.

TREASURY COUNSEL: Mr. Jordan.

MR. JORDAN: Yes.

TREASURY COUNSEL: Mr. Lehrman? A proxy for Mr. Lehrman?

DR. PAUL: Here, yes.

TREASURY COUNSEL: Mr. McCracken is absent, Congressman Neal?

MR. NEAL: No.

TREASURY COUNSEL: Governor Partee.

GOVERNOR PARTEE: No.

TREASURY COUNSEL: Congressman Paul.

DR. PAUL: Yes.

TREASURY COUNSEL: Congressman Reuss.

MR. REUSS: No.
TREASURY COUNSEL: Governor Rice.
GOVERNOR RICE: No.
TREASURY COUNSEL: Senator Schmitt -- proxy?
MR. JORDAN: Yes.
TREASURY COUNSEL: Governor Wallich.
GOVERNOR WALLICH: No.
TREASURY COUNSEL: Chairman Weidenbaum.
DR. WEIDENBAUM: Yes.
TREASURY COUNSEL: Congressman Wylie.
MR. WYLIE: No.
TREASURY COUNSEL: Mr. Chairman?
SECRETARY REGAN: The Chair votes yes.
TREASURY COUNSEL: Eight in favor and six against.
SECRETARY REGAN: Eight in favor, six against.
The third amendment: The coins shall be exempt from sales taxes. Any discussion?
MR. JORDAN: Yes, is this where we would recommend that all states that have sales taxes abolish them? I'm not sure what this recommendation says.
SECRETARY REGAN: Congressman Paul.
DR. PAUL: I would suggest that we look at this like issuing a federal stamp -- the post offices or states don't charge sales tax on something the government issues. I would just say that we recommend to the Congress that these coins be exempt from sales taxes.
MR. JORDAN: On primary issue by the Treasury.

DR. PAUL: On the coin that we're talking about.

MR. JORDAN: On the primary issue. On the initial issue by the Treasury, but not necessarily on subsequent transactions. If a state government levies a sales tax on a dealer that is holding coins and sells them are we saying...

DR. PAUL: I'm talking mainly about the purchasing of the coins. You walk into a bank and you buy a coin for four hundred dollars -- you don't pay a four percent sales tax -- the sales tax on the coin.

SECRETARY REGAN: What about a subsequent dealer who buys those and somebody walks into the dealer and buys a coin?

DR. PAUL: Any sale.

SECRETARY REGAN: Any sale.

DR. PAUL: Yes.

DR. WEIDENBAUM: If you buy postage stamps from a dealer do you pay a sales tax on it? Can anyone provide information on that?

SECRETARY REGAN: I don't think that dealers normally deal -- oh I guess they do. I suppose you could take a commemorative issue and buy it from a dealer. The Assistant Secretary reminds me that stamps can be sold in machines and there's a mark-up over the -- he's not sure if that's a sales tax or what it is. I'm sorry, nobody...

GOVERNOR WALLICH: I think this coin has the
character of a security, Mr. Chairman.

SECRETARY REGAN: Counsel seems to think that in regard to postage stamps, that this would be considered the same as all U.S. Treasury issues are exempt from sales taxes, and a postage stamp would be considered as a Treasury issue. And the coin would be fit into the same category.

MR. JORDAN: Is that suggesting that it's not necessary to vote on this -- that it would automatically be exempt?

TREASURY COUNSEL: No, it would not automatically be exempt, but this coin could be regarded as a federal instrumentality which the Congress would state is not subject to state sales tax and other city taxes.

SECRETARY REGAN: Again I remind you we're not making law, we're making recommendations to the Congress. Further discussion? I'll call for a vote then, by roll-call. On: The coin shall be exempt from sales tax. Would you call the roll.

TREASURY COUNSEL: Mr. Costamagna.

MR. COSTAMAGNA: Yes.

TREASURY COUNSEL: Mr. Coyne.

MR. COYNE: Yes.

TREASURY COUNSEL: Senator Jepsen.

MR. JORDAN: Yes.

TREASURY COUNSEL: Mr. Jordan.

MR. JORDAN: Yes.
TREASURY COUNSEL: Mr. Lehrman?

DR. PAUL: Yes.

TREASURY COUNSEL: Congressman Neal?

MR. NEAL: Yes.

TREASURY COUNSEL: Governor Partee.

GOVERNOR PARTEE: Yes.

TREASURY COUNSEL: Congressman Paul.

DR. PAUL: Yes.

TREASURY COUNSEL: Congressman Reuss.

MR. REUSS: No.

TREASURY COUNSEL: Governor Rice.

GOVERNOR RICE: Yes.

TREASURY COUNSEL: Senator Schmitt.

MR. JORDAN: Yes.

TREASURY COUNSEL: Governor Wallich.

GOVERNOR WALLICH: Yes.

TREASURY COUNSEL: Chairman Weidenbaum.

DR. WEIDENBAUM: Yes.

TREASURY COUNSEL: Congressman Wylie.

MR. WYLIE: No.

TREASURY COUNSEL: Mr. Chairman?

SECRETARY REGAN: The Chair votes yes.

TREASURY COUNSEL: It's thirteen to two.

SECRETARY REGAN: The vote is thirteen to two.

The fourth amendment by Mr. Paul: The coin shall be
minted in quantities sufficient to meet public demand. Any
discussion of that? Chairman Weidenbaum.

DR. WEIDENBAUM: That strikes me as the kind of
specific instructions to the Treasury that I very frankly find
uncomfortable in a policy report of this nature.

SECRETARY REGAN: Governor Partee.

GOVERNOR PARTEE: Well wouldn't this -- that could be
unlimited. That could exceed the gold stock of the
world -- Wouldn't this be subject to control and review and
reports by the Treasury as to how it was going to Congress, so
that it could be stopped, or something like that? I mean it
seems to me this is a little different than saying you should
limit specifically the thing to a million ounces or two million
ounces. It's very unlimited.

SECRETARY REGAN: Mr. Paul.

DR. PAUL: Theoretically you're correct, it could be
infinite, but that would only occur when the dollars debt goes
to zero, because all the Federal Reserve notes would be turned
in and everybody would seek to have a gold coin. But I think if
we don't accept something like this we will be not doing
anything -- so to speak -- because if we issue say five hundred
thousand, or one hundred thousand and the demand is one million
and you don't meet it, there is immediately a premium built in
to it. I mean, if we only minted one hundred thousand and the
demand was for one million, I think that the whole program would
break down.

GOVERNOR PARTEE: Yes, well my point is simply, it's the unlimited character that's the trouble, not the idea that you have in mind there should be a substantial...

DR. PAUL: I think there's been pretty firm expression here that one of the things we don't anticipate, or have not anticipated -- there was not a great demand for gold medallions. There may or may not be a great demand for this coin, but I think that if we don't say that we should satisfy the public demand, we will have this premium built into it immediately. A Kruggerand then immediately would replace the sale of the American Eagle. You would walk in, even though...

GOVERNOR PARTEE: A further devaluation though the dollar is no longer tied to gold, and there is that thought that it might be interpreted internationally. I have to believe that's why the original majority recommendation was that we are...

DR. PAUL: I think we need to address the subject.

SECRETARY REGAN: First Dr. Jordan, then Congressman Neal.

MR. JORDAN: I sympathize somewhat with Congressman Paul's concerns. However, I would feel more comfortable with having no limit if I thought that these were simply medallions or baubles or something. But if these are to serve as money and people may view them as an alternative money, then I would be...
opposed to having any statement to say that the U.S. Treasury or
the Federal Reserve is going to supply the public's unlimited
demands for money balances -- whether it's Federal Reserve notes
-- which I think should be constrained, whether it's all forms
of money. And since I believe that there should be constraints
on the creation of money, then I have trouble with this. In one
sense there is no requirement, I guess, as far as legal, that
the number of fifty-cent pieces or any other form of money or
coin in a specific denomination be limited.

DR. PAUL: How do you handle the problem, though, of
the limited supply of a hundred thousand versus the demand of
one million? How do you take care of that problem?

MR. JORDAN: I don't know how to handle the problem,
but for us to specifically say that particular form of money
shall be -- that the demand for it shall be unlimited -- I do
have a problem with that.

DR. PAUL: Of course, the demand will be related to
the availability of Federal Reserve notes, so you can limit the
demand for gold coins if you have people who are less desirous
of abandoning Federal Reserve notes, so...

MR. JORDAN: Once we put the limit on the quantity of
Federal Reserve notes then I'll feel more comfortable with that.

SECRETARY REGAN: Congressman Neal first, then
Governor Wallich, then Mr. Reuss.

MR. NEAL: It was pointed out earlier that if we
added this, that there would be an internal inconsistency in our
proposal, that is, if you will recall, we have a mandate that
these coins be manufactured from its existing stock of gold.
And even though I think it's clearly only a theoretical
inconsistency, I just don't see any sense in adding it. It
seems to be somewhat redundant. It's the Treasury's job to
fulfill the demand for fifty-cent pieces and quarters, and so
on, and they do it very well. And I would just say, leave it to
them. Sometimes they overfill the demand, as in the case of the
Susan B. Anthony dollar.

SECRETARY REGAN: Governor Wallich.

GOVERNOR WALLICH: I think the demand will depend on
the mark-up. If the mark-up is the same as that on other gold
coins, it's roughly predictable -- the demand is roughly
predictable from the experience of other coins. If it's higher,
the demand will be very little. What I would worry is if the
Treasury were to mint large amounts and find that they suffered
the same as the Susan B. Anthony dollar, and then reduce the
mark-up in order to get rid of them. I am uneasy about meeting
all demand regardless of stating the price.

SECRETARY REGAN: Mr. Reuss.

MR. REUSS: In the interest of moving on I'll waive
my remarks and move the previous question and ask for a vote.

SECRETARY REGAN: Anyone else? Alright. The
amendment before us now is that the coins shall be minted in
quantities sufficient to meet public demand. All in favor of that please signify by raising your hand.

MR. REUSS: Roll call.

SECRETARY REGAN: Roll call again. By answering "yes" if in favor, or "no" on the roll call. Would you call the roll.

TREASURY COUNSEL: Mr. Costamagna.

MR. COSTAMAGNA: Yes.

TREASURY COUNSEL: Mr. Coyne.

MR. COYNE: Aye.

TREASURY COUNSEL: Senator Jepsen.

MR. JORDAN: No.

TREASURY COUNSEL: Mr. Jordan.

MR. JORDAN: No.

TREASURY COUNSEL: Mr. Lehrman?

DR. PAUL: Yes.

TREASURY COUNSEL: Congressman Neal?

MR. NEAL: No.

TREASURY COUNSEL: Governor Partee.

GOVERNOR PARTEE: No.

TREASURY COUNSEL: Congressman Paul.

DR. PAUL: Yes.

TREASURY COUNSEL: Congressman Reuss.

MR. REUSS: No.

TREASURY COUNSEL: Governor Rice.
GOVERNOR RICE: No.
TREASURY COUNSEL: Senator Schmitt.
MR. JORDAN: No.
TREASURY COUNSEL: Governor Wallich.
GOVERNOR WALLICH: No.
TREASURY COUNSEL: Chairman Weidenbaum.
DR. WEIDENBAUM: No.
TREASURY COUNSEL: Congressman Wylie.
MR. WYLIE: No.
TREASURY COUNSEL: Mr. Chairman?
SECRETARY REGAN: The Chair votes no.
TREASURY COUNSEL: It's eleven to four against.
SECRETARY REGAN: Eleven to four against. Now those are all the amendments that I have, and is there anyone that has been taking notes that would care to read back what we have just done so that we understand what we have done before we break for luncheon?
I just want to make sure that if you all care to take Congressman Neal's copy and then we can write into that whatever amendments have carried. I've sort of lost track here.
DR. SCHWARTZ: I can...
SECRETARY REGAN: You have it?
DR. SCHWARTZ: Okay, are we simply tacking on the amendments that were carried to Congressman Neal's...
SECRETARY REGAN: Well, yes, unless there are
substitute words.

DR. WEIDENBAUM: The first one's a substitute. Congressman Neal's is a substitute.

SECRETARY REGAN: Right. So it's Congressman Neal's substitute, but the question that Dr. Schwartz asked was whether these are just tacked on at the tail end.

DR. SCHWARTZ: Are we then adding the things that carried subsequently?

MR. NEAL: Mr. Chairman, I would suggest, I'm trying to remember. I don't think there was an amendment adopted that we could not incorporate into the substitute so that we had one readable paragraph. And that would be my recommendation.

SECRETARY REGAN: Well, that's what I'm trying to get.

MR. REUSS: Adding at the end the words "the coin shall be exempt from capital gains taxes and from sales taxes" I believe would ...

DR. SCHWARTZ: And also "such a coin should not be convertible into dollars on demand at the Treasury" -- that carried, didn't it?

TREASURY COUNSEL: Yes.

MR. REUSS: What is that one?

DR. SCHWARTZ: Such a coin should not be convertible into dollars on demand at the Treasury.
SECRETARY REGAN: That did not carry?

TREASURY OFFICIAL: Six in favor, nine against.

DR. SCHWARTZ: Oh, that did not carry.

SECRETARY REGAN: Counsel, would you tell us, since you were recording the vote, which ones carried.

TREASURY COUNSEL: Okay, the Congressman Neal substitute carried. The first amendment by Mr. Reuss did not.

SECRETARY REGAN: No, which ones did.

TREASURY COUNSEL: Just the ones that did.

SECRETARY REGAN: Just the ones that did, so we can handwrite into our own copies.

TREASURY COUNSEL: The coin shall be exempt from capital gains tax, the coin shall be exempt sales tax, and that's all.

DR. SCHWARTZ: May I ask a question? Since unlimited coinage was voted down, is there a parallel amendment saying there shall be a limit on the issue of gold coins?

MR. REUSS: No.

SECRETARY REGAN: Let me see if I can read this out now -- what we have finally done -- and see if you all agree with me so that before we break we have a general agreement. If you will follow along on Congressman Neal's Text. "We favor Treasury issue of gold bullion coins of specified weights and without dollar denomination or legal tender status to be manufactured from its existing stock of gold and sold at a
small mark-up over the market value of the gold content and recommend that the Congress implement this proposal. The coin shall be exempt from capital gains tax. The coin shall be exempt from sales tax."

MR. WYLIE: There was one other amendment -- the coins shall be accepted in payment of debts if so specified in the contract.

SECRETARY REGAN: How did that vote go?

TREASURY COUNSEL: No, that did not carry.

SECRETARY REGAN: That did not carry.

MR. WYLIE: Oh, that did not carry. Okay.

MR. NEAL: Mr. Chairman, we would work in the phrase, "shall not be subject to capital gains or sales taxes" somewhere in the text if that were the will of the body. And I would suggest right after the words "legal tender status."

SECRETARY REGAN: I think I would rather add after the word "proposal," "further" or "furthermore the coin shall be exempt from capital gains tax and the coin shall be exempt from sales tax." I think that's the order in which we did it, and would show the content of what we did do here this morning. If you would allow the Chair to insert the word "furthermore" -- "the coin shall be exempt from capital gains tax."

Oh, "Furthermore we recommend that the coin shall be exempt from capital gains taxes." Is that wording agreeable to everybody, or shall we put it to a vote. "Furthermore we
recommend that..." Alright, we'll put it in that way.

Alright, thank you very much. We'll now break.

MR. REUSS: Mr. Chairman. I would be delighted to
have the matter end here, but we haven't adopted anything yet.
We've adopted the Neal substitute. The question, I would think,
is whether we now adopt the majority recommendation as amended
by the Neal substitute, as amended. Otherwise we will have done
nothing, which, I might add, would have been a far better thing.

SECRETARY REGAN: Well, that's your opinion. Some of
us think otherwise. Shall we then have, Mr. Coyne...

MR. COYNE: I'm sorry, I thought you were finished.

SECRETARY REGAN: No, I am asking for opinions from
the members and also, may I first of all ask Counsel, have we
done anything yet?

TREASURY COUNSEL: Well, I think based on the rules
as you had stated them initially, we have. But an extra vote I
don't think will overturn that.

MR. NEAL: I'm so moving, Mr. Chairman.

SECRETARY REGAN: You're moving the Reuss motion?

MR. NEAL: Yes.

SECRETARY REGAN: We'll now have a final, final vote
on the majority recommendation concerning gold coins, as will be
as follows: The recommendation of this Commission regarding gold
coins will be: "We favor Treasury issue of gold bullion coins
of specified weights and without dollar denomination or legal
tender status to be manufactured from its existing stock of gold and to be sold at a small mark-up over the market value of the gold content, and recommend that the Congress implement this proposal. Furthermore we recommend that the coin shall be exempt from capital gains taxes and the coin shall be exempt from sales taxes.

Now I'll call for a vote, roll-call vote on that one as the recommendation of this Commission concerning gold coins. Will you please call the roll.

TREASURY COUNSEL: Mr. Costamagna.
MR. COSTAMAGNA: Yes.

TREASURY COUNSEL: Mr. Coyne.
MR. COYNE: Aye.

TREASURY COUNSEL: Senator Jepsen.
MR. JORDAN: Yes.

TREASURY COUNSEL: Mr. Jordan.
MR. JORDAN: Yes.

TREASURY COUNSEL: Mr. Lehrman.
DR. PAUL: Yes.

TREASURY COUNSEL: Congressman Neal.
MR. NEAL: Yes.

TREASURY COUNSEL: Governor Partee.
GOVERNOR PARTEE: Yes.

TREASURY COUNSEL: Congressman Paul.
DR. PAUL: Yes.
TREASURY COUNSEL: Congressman Reuss.

MR. REUSS: No.

TREASURY COUNSEL: Governor Rice.

GOVERNOR RICE: Yes.

TREASURY COUNSEL: Senator Schmitt.

MR. JORDAN: Yes.

TREASURY COUNSEL: Governor Wallich.

GOVERNOR WALLICH: No.

TREASURY COUNSEL: Chairman Weidenbaum.

DR. WEIDENBAUM: Yes.

TREASURY COUNSEL: Congressman Wylie.

MR. WYLIE: No.

TREASURY COUNSEL: Mr. Chairman.

SECRETARY REGAN: Yes.

TREASURY COUNSEL: Twelve in favor, three opposed.

SECRETARY REGAN: Twelve in favor, three opposed. So that is the majority recommendation.

DR. SCHWARTZ: And the minority recommendation stands the way it appears on page eleven, is that correct?

SECRETARY REGAN: Yes. Anything else before we break? Alright we are adjourned until two o'clock. Lunch will be served.

(Whereupon there was an adjournment until two o'clock.)
DR. SPRINKEL: Would you take your seats, we will continue the meeting. Secretary Regan will not be here this afternoon and I will be Chairing in his place. One question I would like to ask before we go through the remaining questions. Is there any interest on the part of the Commission members of going back now to the gold medallion issue, now that you have voted to issue a gold coin?

MR. REUSS: Well, Mr. Chairman, we haven't voted on that, and we're stuck with a large supply of gold medallions. I would suggest we go back and that we support the recommendation.

DR. SPRINKEL: Are there any other discussions on that issue? The recommendation was that the Gold Commission supports the improvement of the program of medallion sales along the general lines of the Treasury plans. And is that acceptable to each member of the Commission, or would you like to discuss it or take a vote on it?

MR. REUSS: I move we accept it, Mr. Chairman.

DR. SPRINKEL: Alright, we will do so.

The next major recommendation for consideration relates to the issue of Treasury gold-backed notes or bonds. The majority recommendation was that we oppose the issue of Treasury gold-backed notes or bonds as prejudicial to the national interest, and there was a minority recommendation that the Treasury should consider issuing gold-backed bonds or notes with a low coupon as a way of reducing interest payments on
public debt and thus current budget deficits. Is there a
discussion of those two issues, and then we'll take a vote on
each of them.

    MR. REUSS: I move we adopt the majority
recommenda­tion.

    DR. SPRINKEL: It's been moved, do I hear a second
that we adopt the majority recommendation?

    MR. WYLIE: Second.

    DR. SPRINKEL: If everyone's agreeable to that we
will do so. Yes sir, Mr. Costamagna.

    MR. COSTAMAGNA: The language is as prejudicial to
the national interest. I'm just questioning why that has to be
in there. Can't we just say we oppose the issue of Treasury
gold-backed notes or bonds, period? There are many reasons. I
don't think that is an all and conclusive...

    DR. SPRINKEL: Congressman Reuss accepts that
amendment. Is that agreeable to the other Commission members?

    MR. WYLIE: Yes.

    DR. SPRINKEL: And we will retain the minority
recommendation as stated. Is there any support for the minority
recommendation? There was at one point. Okay, we'll strike it.

    DR. SCHWARTZ: No minority recommendation?

    DR. SPRINKEL: No minority recommendation. No one
indicated support of it. They must have at one time.

    DR. WEIDENBAUM: Are any of the absent members on
record as supporting the minority position?

DR. SPRINKEL: Could you tell us how the initial vote was to see who did support it initially?

DR. SCHWARTZ: There were five who supported Treasury issue of gold-backed notes and bonds, ten were opposed.

MR. REUSS: Mr. Chairman, they all have proxies here, and this earlier sampling was not really a vote.

DR. SPRINKEL: Would you like to have a vote on the minority recommendation?

MR. REUSS: No

DR. WEIDENBAUM: No, I'm part of the majority -- not so silent majority. I just wanted to make sure ...

DR. SPRINKEL: I would agree with that, but there is no one here voting, I gather, that wants to include it as a minority recommendation.

DR. WEIDENBAUM: Okay, fine.

DR. SCHWARTZ: Then we will change that to "The Commission recommends..."

DR. SPRINKEL: That's the way the vote came out this afternoon. The next subject deals with the accounting, the public accounting of the gold stock. The majority recommendation was that we are satisfied that the Treasury is meeting the requirements of 31 U.S.C. 354 regarding annual settlements of account and that the Treasury's continuing audit of the government-owned gold stock, when completed in 1984, will
provide full verification of the accuracy of inventory records. The minority recommendation was that the Treasury should assign adequate manpower to complete a one hundred percent audit of the gold stock every year.

MR. REUSS: Move adoption of the majority recommendation.

DR. SPRINKEL: Is there a second to that? Mr. Costamagna?

MR. COSTAMAGNA: Could we discuss this a moment?

DR. SPRINKEL: Yes sir.

MR. COSTAMAGNA: I have problems with this "when completed in 1984." I don't see how we can certify something now that hasn't been completed. I think we can only certify what has been completed.

DR. SPRINKEL: It merely says you're satisfied, I believe.

MR. COSTAMAGNA: Yes, satisfied. Because suppose they find a discrepancy. Are we then satisfied?

DR. SPRINKEL: Satisfied they found it.

MR. COSTAMAGNA: I mean in the next few years.

DR. WEIDENBAUM: I think if we dropped "when completed in 1984" we don't lose anything.

DR. SPRINKEL: Is there a proposal for a change?

DR. WEIDENBAUM: I move that we strike that phrase. If the Treasury wants to extend it or hasten the process, I
don't think we can get involved in that sort of operating
detail.

DR. SPRINKEL: You're suggesting strike "when
completed in 1984"?

DR. WEIDENBAUM: Yes, Mr. Chairman.

MR. REUSS: That's satisfactory to me.

DR. SPRINKEL: Is that satisfactory to other members
of the Commission?

GOVERNOR PARTEE: I was thinking along the lines of
maybe what we ought to say ... (inaudible)...the phrase ...
(inaudible) ... "provide satisfactory basis for full
verification of the accuracy of inventory records and to
emphasize the process."

MR. REUSS: That's alright with me, too.

MR. COSTAMAGNA: Yes.

DR. SPRINKEL: Are we making a record of these
changes. They're talking about the process now.
(inaudible)

DR. SPRINKEL: That's agreeable with Commission
members? That will be then accepted as the majority
recommendation. Does anyone want to speak to the minority
recommendation?

DR. SCHWARTZ: It's just been called to my attention
that we have -- we are satisfied that the Treasury is and
provides a satisfactory basis. Can we get a substitute for
"satisfactory"?

MR. REUSS: No, it's alright, isn't it, to say that we're satisfied that the continuing audit provides a satisfactory basis for full verification. If the Treasury screws up, well that's too bad, but we've got basis.

DR. WEIDENBAUM: An adequate basis.

DR. SPRINKEL: Is there any support for the minority recommendation; namely, that the Treasury should assign adequate manpower to complete a one hundred percent audit of the gold stock every year?

DR. PAUL: Yes.

DR. SPRINKEL: So we have Congressman Paul supporting that minority position?

DR. SCHWARTZ: Yes.

DR. SPRINKEL: So it will be included as a minority recommendation.

DR. SCHWARTZ: That's right.

DR. SPRINKEL: The next recommendation is that we believe that the Treasury and Federal Reserve are following appropriate procedures in reporting Federal Reserve claims on the Treasury represented by gold certificates and payable in dollars. This issue came up because it was contended by some that the procedure was not appropriate, but I think all members of the Commission are agreed that it is. Are there any questions about that?
GOVERNOR PARTEE: Do we have a report? (inaudible)

DR. SPRINKEL: Yes, is that correct Nancy?

TREASURY COUNSEL: I think that's set forth right here, right in the text that precedes.

MR. COSTAMAGNA: I can't hear down here, I'm sorry.

TREASURY COUNSEL: Oh, I'm sorry. I think the procedure is merely described in the text immediately preceding the recommendation. It was just confusion at one of the meetings as to who owned the gold stock and how gold certificates were issued. And I think there was a feeling that this would at least give an accurate and complete record.

MR. REUSS: A question, Mr. Chairman, on the previous recommendation, there is a majority recommendation in which all except, I think, Mr. Paul agreed, and then there was something called "B" on which just Mr. Paul agreed. We aren't going to call those things minority recommendations are we? It seems to me that they are dissents from the majority and the dissenter has a full right, by footnote or otherwise, to state his point of view.

DR. SPRINKEL: We had on other occasions had both majority recommendation and minority recommendations whenever there was someone supporting a contrary point of view. Is two enough?

MR. REUSS: Have we, in fact? I'm not aware of any so far.
DR. WEIDENBAUM: Oh yes, on a report there was a case in which the distinguished Congressman from Wisconsin was in the minority and we included your minority...

MR. REUSS: Well, I really wish you wouldn't, because I'll dissent with gusto and panache all by myself. You don't need mine a minority recommendation. I just think it's a queer thing to talk about minority recommendations. They're dissents -- perfectly proper.

DR. WEIDENBAUM: Aren't we following the procedure that the distinguished body on the other end of Pennsylvania Avenue follows -- minority reports, majority reports? Aren't you on the Joint Economic Committee, for example?

MR. REUSS: Yes, but we don't, in the Joint Economic Committee, list majority views and so-called minority views cheek by cheek. We give the majority view and then the various vagrant minorities have their say in bold-faced type at the end. Otherwise you produce this monstrosity with all kinds of majority and minority recommendations. The fact is that one member of the Commission differs with us. That's his right and that's fine, but let's not call it a minority recommendation.

DR. SPRINKEL: It's up to the Commission as to how you would like to handle that. Would you like to have a vote on that. I presume you would say a "minority view" instead of a "recommendation" -- is it the word "recommendation" that is bothering you?
MR. REUSS: No, I think the Commission should come up with its recommendations -- whatever gets a majority -- and then the dissenters which include on certain issues myself, should have a full opportunity by either footnote, asterisk or separate view to say that we differ on that.

DR. SCHWARTZ: Would you object to what's being cheek by jowl, as you say with the ...

MR. REUSS: Right, why call it a minority recommendation? This is a dissent from the majority. Dr. Paul thinks that the majority is wrong and that we should have an audit every year. Fine. Let him state that in a dissenting view, or if he prefers, in a footnote to that point in the body of the text.

DR. SPRINKEL: What's the desire of the Commission on this issue?

GOVERNOR PARTEE: I think Mr. Reuss has made great progress here. You will recall that our original thoughts were that there might be questions of ...

DR. SCHWARTZ: I can't hear.

GOVERNOR PARTEE: You will recall that our original thought, months ago, was that we might have such a divided -- we couldn't agree on a set of recommendations. If in fact the dissents are not going to be terribly numerous, well then I think they can be handled as dissents rather than as minority recommendations. So I would support the Congressman.
DR. SPRINKEL: Would you like to have a vote on that issue? How would you like to resolve it?

MR. WYLIE: When you get into matters of degree here, how many constitute a minority? Does one constitute a minority, or two, or six? I don't have any hang-up about calling it a minority recommendation.

MR. REUSS: I'm content to let you and Chairman Regan and Dr. Schwartz decide what's a good format.

DR. SPRINKEL: We certainly do not want to headline the minority position, especially if it's a very low minority position, and I think that's the point you're making.

The next majority recommendation that I see, and I believe there are some substitute motions to be offered, relates to the auction sales designed to dispose of the gold stock held by the Treasury, and it recommends that while no precise level for the gold stock is necessarily right, substantial stocks should be maintained against various contingencies. There is a minority viewpoint -- two minority viewpoints -- printed here. One, that we're opposed to auction sales of the gold stock held by the Treasury and recommend that the stocks be maintained unchanged at its present size. And the second minority recommendation, should a gold cover requirement be adopted at some future date, hearings should be held by the Congress to determine whether the existing gold stock is adequate in light of the proposed...
ratio of gold to the money supply. I believe, Congressman Reuss, you have a proposal.

MR. REUSS: I have a substitute amendment which goes to the majority recommendation, which if it's in order I'll offer right now. This has been placed in writing in your hands some days ago, but I'll read it. I would substitute for the majority recommendation slightly different language. The reason I would do that is that the language of the majority recommendation opposes any auction sales which the Treasury is under the law unable to conduct, and I'm not advocating to conducting them or not conducting them, but I see no point in taking away that right from the Treasury. So I think, of course, that there needs to be a safeguard so that we don't unduly deplete our enormous gold stock. Therefore, my substitute is: We recommend that while no precise level for the gold stock is necessarily — quotes — "right" — closed quotes, the Treasury continue auction sales of gold at its discretion provided adequate levels are maintained for contingencies. It's very alike, the only difference from the majority is that the majority really changes the present law which says that the Treasury can, if it deems it in the national interest, auction small amounts. And my substitute would require that the Treasury not hold auctions that would bring the stock of gold below levels needed for contingency. So I think it's self-explanatory and I ask for debate and a vote.

DR. SCHWARTZ: There was another proposal by Mr.
Coyne. Your proposal in your letter of January 27? Shall I read it?

MR. COYNE: Go ahead.

DR. SCHWARTZ: The Commission recognizes that the U.S. gold stock constitutes an important strategic and monetary reserve and recommends to Congress that these gold stocks be maintained at or near present levels. While modest variations in these stocks may be acceptable for various policy purposes, it is the intent of this recommendation that there be no appreciable depletion of these stocks in the long run.

DR. SPRINKEL: Mr. Coyne.

MR. COYNE: Paul McCracken...

DR. SCHWARTZ: I can't hear you.

MR. COYNE: Paul McCracken says that he feels happy having our current gold stocks and would feel unhappy if we didn't have it, and he doesn't know that he would be able to explain his feelings reasonably or rationally, but he knows that that is the case. And I guess that also represents my view. I agree with Mr. McCracken in that respect that it would seem to me that there should be some type of reasoned decision that goes into the serious depletion of the gold stocks, and it should not be done casually. I would, while I'm on the microphone, I would also like to respond to one aspect, or object -- one aspect of Congressman Reuss's proposal only with respect to the word "auction." I wonder why the Treasury should be required to
sell its gold if it chooses to sell its gold in a way that's different from the way it sells or buys other foreign exchange reserve assets when the auction system appears to me, at least, to be designed to drive the price of the object that we're trying to sell lower.

MR. REUSS: Would the gentleman yield? I think he makes a good point and I'm prepared to accept his improvement as I'm prepared to accept an improvement just suggested by Governor Partee so that my substitute would read: We recommend that, while no precise level for the gold stock is necessarily "right," the Treasury should retain the right to conduct sales of gold at its discretion, provided adequate levels are maintained for contingencies. That has both Partee and Coyne in it. I think it's an improvement, and I'll offer that with the amendments in it.

MR. COYNE: Thank you, sir. I'm wondering then whether you would be able to support the proposal which I also submitted in writing which seems to be approximately the same thing but perhaps said from a different end of the tunnel -- that is, does this Commission believe -- I propose that this Commission should recommend that although we do not know whether our current gold stocks are exactly right, that we should in fact not make any substantial depletion or additions to them until some competent body studies the issue and makes a serious proposal regarding whether we should or should not substan-
tially reduce our gold stocks or add to them or whatever else, or what our program should be regarding not only our largest single reserve asset, but virtually our only reserve asset, and certainly the only thing that is our monetary base -- any reserve asset other than in our own currency.

DR. PAUL: I have a question about procedure. When we had a question of voting for a substitute we voted first on the majority recommendation. Then we went to the substitute. Is that the procedure we're going to follow right now?

DR. SPRINKEL: Well, I just checked with our attorney to see which way I should do it. I was well aware of the concerns and she told me to do it the other way. Now I'm willing to go either way. I'm perfectly happy to go with the majority as written, if that's what the Commission wants. My attorney says that the proper way is the other way, but let's go with the majority recommendation.

DR. PAUL: Okay, I need a chance before we vote, after you find out what the majority wants, I would like to make another comment.

MR. COSTAMAGNA: What?

DR. PAUL: Okay, my concern is, I'd like to change one word, either in the substitute or in the majority recommendation. I'm concerned about the word "gold stock." If we recommend that we don't promote sales of all gold stocks,
that might be interpreted to mean you can't sell any gold in
order to sell the coins, and I think the word "stock" should be
changed to "bullion" and I was wondering if we could get that
inserted in place of gold stock.

MR. REUSS: I think that, less this get out of hand,
I would, while of course reserving the right of Mr. Paul to make
any additional recommendations he wants, I would ask for a vote
on my substitute amendment which I will reread: We recommend
that -- comma -- while no precise level for the gold stock is
necessarily -- quote -- "right" -- closed quotes -- comma -- the
Treasury retain the right to conduct sales of gold at its
discretion -- comma -- provided adequate levels are maintained
for contingencies. And I ask for a vote.

DR. SPRINKEL: Is the Commission prepared to vote on
that particular proposal? Yes, Congressman Paul.

DR. PAUL: I would like to just make one point -- I
do believe when we took a preliminary vote earlier, a month or
two ago, I think it was unanimous that we did not endorse any
continued bullion sales. That was an unanimous preliminary
vote.

DR. SCHWARTZ: And that's why the recommendation
is...

DR. PAUL: That's why you came up with the
recommendation. It was logical.

DR. SPRINKEL: Mr. Coyne?
MR. COYNE: Sir, one question and one point. The question is, is it not appropriate for us to vote first on the majority recommendation rather than an alternative to the majority recommendation? And my point is, with respect to the recommendation, I would argue that the phrase, for contingencies, is an argumentative phrase.

MR. REUSS: That's in both the majority recommendation and my substitute. If you want to improve on it, it is in order to move to amend my substitute.

MR. COYNE: Well, I am confused by the difference between adequate levels for contingencies and substantial stocks against various contingencies. I don't know what the implication of one is as against the other. What I am thinking is, that until somebody reasons why we should reduce our stock substantially or increase our stock substantially, we should not do so, and that is what I would think of as the issue here, and I would welcome comments from other members of the Commission.

MR. REUSS: Would it reduce the swelling if I put substantial instead of adequate?

MR. COYNE: Well, sir with respect, I did not wish to discuss semantics so much as understand what the substantive thinking is of the other members of the Commission on the subject of whether in fact we should maintain our gold stocks at our current levels and have some competent body understand in fact what types of gold stocks this country should carry against
its monetary and strategic and other reserves. And it is to
that question that I would ask for comment.

DR. SPRINKEL: Governor Wallich.

GOVERNOR WALLICH: Well, gold is a reserve. Reserves
are there to be used when there is a need for doing so. What
troubles me about the provision that would leave gold auctions
in place is that a decision might be made to dispose of this
gold regardless of any need to use reserves simply in order to
get gold outside our system. We did that at one time and I
wasn't happy about it. I'm very reluctant to deprive the
Treasury of freedom to maneuver with respect to gold or anything
else, but I think we need some type of language that would say
that auctions should not be conducted simply in order to dispose
of the assets.

MR. NEAL: Mr. Chairman?

DR. SPRINKEL: Yes, sir.

MR. NEAL: I'm sorry, I was concentrating on
something else and missed some of this discussion. Is the
essential question whether or not we're going to recommend at
this point that the Treasury be allowed to sell more gold than
it ordinarily might sell?

DR. SPRINKEL: Yes, there is a majority
recommendation and there have been two substitute proposals, one
of which increases flexibility of sale, Congressman Reuss's; one
of which limits.
MR. NEAL: May I express concern and then ask the question which one of these proposals I should support -- and I'm sorry to do this to you, but it'll just take a moment. My concern is that we might, if we were to encourage the greater sale of gold at this time, that that might offer a great temptation to the Treasury to use that as a method of gaining revenue to lessen the discipline that I think is needed on all of our parts in our economy. So it would not be my desire to make it any easier for the Treasury to sell off gold to reduce the budget deficit or to finance any other aspect of government outside of the normal legislative processes. That being my feeling on the subject, is it the Committee's recommendation that would come closest to that?

MR. REUSS: Not really. My recommendation is more gold-preserving than the present state of affairs. Under the present state of affairs the Treasury in its discretion may sell gold at auction or otherwise to a level lower than that adequate for contingencies. I think that's a mistake. There we should reign in the Feds. But I don't see why we should remove the Treasury's present power.

DR. SPRINKEL: Mr. Costamagna, you had your hand up a few moments ago, and you have something you want to say?

MR. COSTAMAGNA: Well, I think that in response to Mr. Coyne's request to get the feelings of other members, I have to believe that the three proposals are trying to say somewhat
the same thing, but I believe Mr. Coyne's expression of it in his amended majority recommendation is much more positive in its wordage. It is a positive statement of what we believe, whereas the others seem to have negatives in them and say what we don't believe. For that reason I like his expression of this idea.

DR. SPRINKEL: I need some guidance. Yes sir, Mr. Wylie?

MR. WYLIE: Mr. Chairman, thank you. I haven't participated in discussion on this majority recommendation because I was one of those who recommended the minority recommendation, number one, and I realize that's a little too -- what I really wanted to say there was that I was opposed to auction sales of the gold stock held by Treasury under the circumstances as we now find them, or something like that -- not to say that I would be opposed to auction sales ad infinitum. That doesn't quite say that, but I think that I want to reiterate that I'm anxious to keep as much of our gold in reserve as possible given the circumstances, and I think in view of the fact that there will be gold bullion coins minted that I'm even more anxious to see something like the minority recommendation number one be incorporated. I may only be a minority of one, but that's my position.

DR. SPRINKEL: I need some guidance from the Commission members. Do you want to go in the sequence we used this morning, that is, you can set the rules -- go to the
majority recommendation and then vote on the substitutes, or do
you want to vote on the substitutes first? We'll go either way.
It's your call, but I can't do both.

MR. COYNE: Inasmuch as no one else is answering,
could I suggest that we keep to the same procedure that we used
this morning? It seemed at least to get us through with a clear
cut vote at the end, that we vote on the majority, minority and
then we take up the amendments in turn.

DR. SPRINKEL: Is that agreeable to the Commission
members? If so, we'll vote first on the majority
recommendation, namely: We are opposed at this time to auction
sales designed to dispose of the gold stock held by the Treasury
and recommend that while no precise level for the gold stock is
necessarily "right", substantial stocks should be maintained
against various contingencies.

Subsequent to that, we will vote on the other two
proposals, Congressman Reuss's and also the one made by Mr.
Coyne.

Could I have a show of hands on the votes for the
majority recommendation?

(Whereupon there was a showing of hands).

DR. SPRINKEL: Eleven. Against?

(Whereupon there was a showing of hands).

DR. SPRINKEL: Two against.

Now, could we take up Congressman Reuss's proposal?
MR. REUSS: Well, I'll not press mine because I'm obviously --

DR. SPRINKEL: Well, but yours is not too much different from this, and this morning wasn't the procedure -- the one that followed the majority of the first recommendation that carried -- that was in lieu of the first one. Wasn't that the way that it was done this morning?

MR. REUSS: Well, yes, it was a parliamentary system unknown to man.

DR. SPRINKEL: I asked which way you would like to go.

GOVERNOR PARTEE: I do agree that there isn't much difference. I think that in the thing that just carried which was the majority, there has to be an awful lot of weight on the reading of the phrase: designed to dispose of the gold stock. That is, if it's designed to do anything other than dispose of the gold stock it presumably is not in contravention of this. And I think that's really what Mr. Reuss's ...

DR. SPRINKEL: Alright, sir. Would you read it, please?

MR. REUSS: We recommend -- and this contains the Partee and the Coyne improvements. We recommend that, while no precise level for the gold stock is necessarily "right," the Treasury retains the right to conduct sales of gold at its discretion provided adequate levels are maintained for
contingencies.

DR. SPRINKEL: Could I have a show of hands?

MR. COYNE: May I ask what we're voting on? Are we
voting on this as an addendum, or is this a substitute?

DR. SPRINKEL: This is a substitute.

MR. COYNE: A substitute.

DR. SPRINKEL: The majority asked that we vote on the
majority recommendation first and then go to the substitutes,
which is different from most procedures I grant. But you can
set your own ground rules. Now we're voting on the substitute
motion. Could I have all of the aye's in favor of Congressman
Reuss's proposal?

(Whereupon there was a showing of hands.)

TREASURY OFFICIAL: One, two...eight.

DR. SPRINKEL: How many against Congressman Reuss's
proposal?

(Whereupon there was a showing of hands.)

TREASURY OFFICIAL: Six.

DR. SPRINKEL: Six against.

MR. REUSS: Others may be substituters. I thank the
gentleman for his parliamentary errors.

DR. SPRINKEL: I'm going by your rules, not mine.

Mr. Coyne, do you want to offer your proposal?

MR. COYNE: Yes sir, I propose, although I realize
that all of the things we're saying are substantially the same,
there is the clear difference in tone and perhaps even in
intention in them. I am proposing as follows: That the
Commission recognize that the U.S. gold stock constitutes an
important strategic and monetary reserve and recommends to
Congress that these gold stocks be maintained at or near present
levels. While modest variations in these stocks may be
acceptable for various policy purposes, it is the intent of this
recommendation that there be no appreciable depletion of these
stocks in the long run.

DR. SPRINKEL: Is there any discussion?

GOVERNOR PARTEE: I'd like to just point out --
having approved of our number two recommendation that says that
we will have a production of gold coins manufactured from the
domestic monetary stocks, it seems to me that acceptance of your
proposal is inconsistent with our acceptance of the earlier
proposal.

DR. SPRINKEL: It puts a considerably greater
restraint on the ability of the Treasury to sell gold, it seems
to me.

GOVERNOR PARTEE: But more than that I would say that
if we were to agree to this you couldn't have an appreciable
reduction in your monetary gold stock. But as you coin gold you
would have to buy it on the market in bullion form in order to
replace what you've lost, which you cannot do under our
resolution. It's the opposite of what Congressman Neal had in
MR. WYLIE: Mr. Chairman?

DR. SPRINKEL: Yes sir, Mr. Wylie.

MR. WYLIE: I think his amendment is even more restrictive than mine. Yours wouldn't permit any appreciable sales at any time, and I'm suggesting that maybe the minority recommendation number one might be closer to where you're coming out if we added the words, after the word "recommend" in the second line, and recommend that under circumstances similar to those that presently exist, the stock be maintained unchanged.

DR. SPRINKEL: Are you prepared to vote on Mr. Coyne's proposal? All in favor of Mr. Coyne's substitute proposal...

MR. COYNE: I'm just thinking of how I could respond. I realize, as Governor Partee says, I realize as we were talking about the coin issue earlier, that this inconsistency would arise, and I would not have allowed us off this subject without surfacing it myself. There was within the recommendations on the minting of the gold bullion coins the intention for the statement that we would not recommend minting unlimited quantities. That gave me some comfort. If in fact one is talking about minting one or two or three million ounces of coins a year, then there is no problem. If in fact one were talking about minting, to name a deliberately ridiculous number, thirty or forty or fifty million ounces a year, then I wish to
surface during this particular discussion the simple fact that we would then have depleted our gold stocks in three and a half years, or I'm sorry, whatever it is -- four and a half years. And moreover, we would have done so on a scale which would have had the effect of enabling the Treasury to finance its budget deficit to the extent of the difference between forty-two, twenty-two and whatever the price of the coins which are sold to the public. Now I'm sorry that we can't close the loop so late on Friday afternoon more readily, but this is a problem and I can't necessarily tell you so quickly what the solution is other than I think that I've sensed throughout these meetings the general idea that there were members on this Commission that believed that we should not substantially reduce our gold stocks and I think this is the time to clarify what our true intention is.

DR. SPRINKEL: Mr. Jordan?

MR. JORDAN: Mr. Coyne, under the circumstances where the people are converting dollars into gold in the Treasury, in the one sense we are not depleting our gold stock, we're just changing the direct ownership from government hands to individual's hands, but your proposal would require that Congress appropriate money to the Treasury to go into world markets to acquire additional gold under circumstances where people were trying to get rid of dollars in exchange for gold. And I don't see where the discipline in the system comes from
with that constraint.

    MR. COYNE: I'm saying that we should either limit
the sale of coins or ...

    MR. JORDAN: No, we should limit the printing of
dollars.

    DR. SPRINKEL: Are we prepared to vote on Mr. Coyne's
substitute proposal? All in favor, please say "aye." Maybe we
should have a show of hands, I thought I heard two. Is that
correct?

    (Whereupon there was a showing of hands.)

    DR. SPRINKEL: Two in favor? Three. We've got
three.

    All against please raise your hands.

    (Whereupon there was a showing of hands).

    DR. SPRINKEL: Now we still have a minority
recommendation. Is there any support for that minority
recommendation?

    MR. WYLIE: Yes sir.

    DR. SPRINKEL: Mr. Wylie.

    MR. WYLIE: May I make a request a la Ron Paul
suggested a little while ago on the minority recommendation,
apparently I'll be the only one on it. But I'd like this to be
changed just a little bit and put in as a minority
recommendation which would say: We are opposed to auction sales
of the gold stock held by the Treasury and recommend that under
circumstances similar to those that presently exist the stock be
maintained at its present level.

DR. SPRINKEL: So we have two minority
recommendations at this point, right?

MR. NEAL: May I raise a question?

DR. SPRINKEL: Yes sir.

MR. NEAL: What do you mean by "circumstances"?

MR. WYLIE: I mean circumstances can change and there
may be a time when Treasury ought to have a right to sell some
at an auction. I don't think the time is now, though, and I
want to have some restrictive language in there which indicates
that I am opposed right now to auction sales, but I don't want
that to continue on forever, ad infinitum as I said before.

MR. NEAL: Well, does the second part of your
recommendation, that the stock be maintained unchanged, conform?

MR. WYLIE: I took out the word "unchanged" in my
modification.

MR. REUSS: Mr. Chairman, again I express
bewilderment at this procedure. Mr. Wylie has an absolute right
to state his views. So does Dr. Paul, so does anybody else. As
much as I oppose them, I will defend to the death their right to
say them. But why are the rest of us asked to vote on them?

DR. SPRINKEL: I'm merely asking if these minority
recommendations should be included in the report in some form or
other.
MR. REUSS: Well, Mr. Wylie has a well thought-out minority recommendation and of course he will include it by asterisk, by footnote or by dissenting view as he sees fit.

DR. SCHWARTZ: But why is this presentation unacceptable? I don't see what difference it makes if it's in the body of the report or if it's at the bottom of the page.

MR. REUSS: Well don't call it a minority recommendation -- call it a recommendation from Mr. Wylie or from whoever its from.

DR. SCHWARTZ: We haven't identified anybody in these changes in majorities we've had or the change in minorities.

MR. REUSS: Well let's identify.

MR. WYLIE: I think we get hung-up on words, Mr. Reuss. As I asked before, what is a minority? Is it one or two or three or four or five? You know what I mean, it's a matter of degree. And Dr. Paul has been able to put in his minority recommendation which was fine with me, and I might be afforded the same privilege.

DR. SPRINKEL: Mr. Jordan?

MR. JORDAN: We have a majority position. If there is any member of the Commission that wants this particular phrasing of minority included, then I think it should and we shouldn't vote to not let them do so, or any other minority recommendation, and get on with that.

DR. SPRINKEL: I agree with that, and we have two
that I still do not know whether -- we certainly have one from Mr. Wylie's proposal, and it should be included. Do we have any support for this second minority recommendation that's listed in our text? If so we'll include it and if not, we will not.

MR. REUSS: Well, again, if one of our worthy Commissioners at any time prior to the locking up which I guess will occur on March 8 has a second thought, I want that person to be able to express his dissent.

DR. SPRINKEL: That's all I'm asking. Does anyone want that second one mentioned with the possibility of a dissent from the majority recommendation? I gather not, so let's move on if we may.

MR. COYNE: Could I ask what was accepted as the majority recommendation?

DR. SCHWARTZ: Congressman Reuss's version.

MR. COYNE: Would you tell me, please, what the vote was on that.

DR. SPRINKEL: Eight-Six.

MR. COYNE: And what was the vote on the original majority recommendation?

TREASURY COUNSEL: Eleven to three.

DR. SPRINKEL: Eleven to three.

MR. COYNE: There is a confusion in my head as to a vote of eight could override a vote of eleven.

DR. SPRINKEL: Well, the agreed-upon rule -- your
rules -- were that you could have a substitute motion which, if carried, would prevail.

    GOVERNOR WALLICH: Propose another substitute with a similar wording and it will pass eleven to three.

    MR. REUSS: No motion to reconsider having been made, there is now before us, Mr. Chairman, the next item.

    MR. COYNE: Excuse me, sir, is it still in order for me to speak?

    DR. SPRINKEL: Yes, if you have something to say, certainly.

    MR. COYNE: I am much more at home on a debating floor than a discussion of parliamentary techniques. But, would it be appropriate to ask whether there in fact is a majority in favor of the original majority or in favor of the substitution proposal before the original majority?

    DR. SPRINKEL: I asked the Commission for their advice on how we set up the rules, and it was decided that we should do the same as this morning, is what I heard. And what we did this morning was voted on the majority recommendation and then the substitute. If the substitute carried, it was in lieu of the original proposal. And that's what I did.

    DR. PAUL: Mr. Chairman.

    DR. SPRINKEL: Dr. Paul.

    DR. PAUL: I would like to insist that the regular is as we followed this morning as Congressman Reuss insisted. But
after we voted on the substitute he required another additional vote to say that we really did do something, so in that line, to be consistent it will require another vote according to Congressman Reuss's rules.

MR. REUSS: I make the point of order that the gentlemen makes out of order. We've already passed that point.

DR. PAUL: Then this is exactly correct and I think we should have another vote.

MR. COYNE: Do I infer -- please excuse me, but I truly -- I don't understand, so please excuse me if I'm saying something that's inappropriate, but is it appropriate for me then to propose an additional amendment which is that we should re-vote on the subject of the majority recommendation? If that is in order, I would wish to....

DR. PAUL: All I can say is ....

MR. REUSS: I have made that point of order repeatedly that we have passed that point. Subsequent business has intervened, no motion to reconsider was made timely, and we are not considering the next item which is managing the gold stock.

MR. COYNE: May I propose a third recommendation, in that case? Is it in order for me to make an additional recommendation?

DR. SPRINKEL: Yes, Congressman Paul.

DR. PAUL: All I would like to do is try to make my
point clear. This morning after we voted on the substitute Neal amendment, Congressman Reuss insisted that we vote on it as a completion of business and voted on it again because we only voted on it as a substitute. To be consistent we would do the same, and I object also that we have not moved on to the next business. We're still talking about this subject and to pass this the same way we did the recommendation this morning, it would require another vote, and it would also allow amendments. We followed-up with amendments afterwards this morning -- after the recommendation was passed.

DR. SPRINKEL: I have asked our attorney what I should do in this situation. She says she would like to have one more vote on Congressman Reuss's proposal, which would be in line with an action taken this morning, and then we'll move on to other....

MR. REUSS: Mr. Chairman, this whole thing is so abysmally rigged and so unrepresentative that I shall now absent myself from further proceedings and oppose what is done.

DR. SPRINKEL: Could you read the proposal?

TREASURY COUNSEL: The question is whether the majority: We recommend that while no precise level for the gold stock is necessarily right, the Treasury retain the right to ...the gold...(inaudible)...provided adequate levels may be maintained.

DR. SPRINKEL: Could I have a vote on that please,
then we'll move on to the next issue. All in favor, raise your hand, please.

(Whereupon there was a showing of hands.)

DR. SPRINKEL: All against?

(Whereupon there was a showing of hands.)

TREASURY COUNSEL: It's seven to five.

DR. SPRINKEL: Okay, let's move on to the next proposal. The next majority recommendation on which the Commission may want to take a position is as follows: We are opposed to revaluing United States gold stock at a higher price. There is the minority recommendation that we favor revaluing the U.S. gold stock at a higher price, the price to be increased annually by some moderate amount. We also recommend that the U.S. Treasury conduct a study of the valuation of official gold stocks and report its findings to the Congress with any formulas it deems appropriate for valuing gold at market-based prices. Only some of us favor the suggested uses of the revalued gold stocks.

DR. SCHWARTZ: Mr. Coyne has a substitute version of the minority recommendation.

MR. NEAL: Mr. Chairman.

DR. SPRINKEL: Yes sir.

MR. NEAL: I'd like to move the adoption of the majority recommendation.

DR. SPRINKEL: Is there any discussion of the
majority recommendation? All in favor of the majority recommendation, please raise your hands.

(Whereupon there was a showing of hands.)

DR. SPRINKEL: All against the majority recommendation, raise your hands.

(Whereupon there was a showing of hands.)

DR. SPRINKEL: So the majority recommendation did not carry, is that correct?

DR. SCHWARTZ: I believe it carried.

TREASURY OFFICIAL: I counted five in favor, three against.

DR. SPRINKEL: Could we have the yes votes again in favor of the majority recommendation.

TREASURY OFFICIAL: Four.

DR. SPRINKEL: And the votes against the majority recommendation?

TREASURY OFFICIAL: Four.

DR. SPRINKEL: Four and four. We're not all voting, is that correct?

MR. JORDAN: Mr. Chairman, I move we vote on the minority recommendation as the substitute for the majority recommendation.

DR. SPRINKEL: Could we have a vote? The majority recommendation did not carry. Can we have a vote on the minority recommendation which would be a substitute to the
initial majority recommendation. Is there any discussion.

GOVERNOR PARTEE: I don't quite understand that last sentence.

DR. SPRINKEL: Anna, would you elaborate?

DR. SCHWARTZ: Well, the discussion of revaluing the gold stock went on to consider what might be done with the valuation profit.

GOVERNOR PARTEE: It seems to me, especially if its going to be a majority recommendation, that it's awfully vague -- that last sentence.

DR. SPRINKEL: Would you like to clear it up, Governor Partee?

GOVERNOR PARTEE: Did you have a substitute, Emmit, did you have a substitute wording for this? May I ask Governor Rice? I thought I saw one earlier that dealt specifically with this question of uses of profit. Somebody had it.

GOVERNOR RICE: I had one earlier, but I thought Mr. Coyne....

DR. SCHWARTZ: Mr. Coyne has a substitute.

GOVERNOR RICE: Which was just like mine.

DR. SPRINKEL: Well this is being considered as the majority recommendation now, and we will consider Mr. Coyne's as soon as this is over.

DR. WEIDENBAUM: Any discussion?

DR. SPRINKEL: Yes, I am inviting discussion.
DR. WEIDENBAUM: On this minority recommendation, I didn't vote in favor of it the first time around, very frankly. If I read it correctly it says no matter what is the market price in the future for all time, we're going to increase annually the price of the gold stock. I don't think that is a carefully worded recommendation.

MR. JORDAN: Mr. Chairman, I would suggest that Mr. Coyne's wording includes this minority recommendation and is superior to it. It doesn't have some of the problems that Mr. Weidenbaum is referring to and I would withdraw my earlier suggestion and suggest we substitute Mr. Coyne's wording.

DR. SPRINKEL: Could that be read, please. Mr. Coyne, could you read your recommendation?

MR. COYNE: Yes. Is it appropriate to propose a minority recommendation?

DR. WEIDENBAUM: Propose the recommendation and we'll see, sir.

MR. COYNE: I propose that the Commission recommend that the United States move toward valuing gold realistically at market-related prices rather than at an out-dated, fixed price. This change should be subject to the legislative constraint that the proceeds of this new valuation not be monetized by the Treasury or in any way used to enhance the government's spending power. The Treasury Department should be asked to develop a formula and time table for valuing U.S. gold stocks in a manner
realistically related to gold market value.

DR. SPRINKEL: Is there any discussion of that proposal? Dr. Wallich?

GOVERNOR WALLICH: What happens if we raise the price of gold over time to the market and the market then goes down. Does this imply that we carry it above market, or that we put in money from the budget to make-up the loss, assuming that we've meanwhile spent the difference?

MR. COYNE: Well, sir, if there is any chance of our spending the difference, then I would vote against my own proposal.

GOVERNOR WALLICH: But that surely is inevitable because the money has to be parked somewhere.

MR. COYNE: I'm suggesting that we sterilize the differential so that in fact the money cannot be spent.

MR. JORDAN: I don't see the problem that Governor Wallich is referring to because the gold stock and the gold certificates related to that are also related to the Federal Reserve's holdings of U.S. government securities, and if the gold stock is valued at market prices and the market price goes down, then I would expect the official value to also be adjusted down according to this formula that would be developed.

MR. NEAL: And market related.

MR. JORDAN: And that that would be reflected in the Central Bank's holdings of government securities as the
off-setting entry to make sure that it's not monetized in either direction.

GOVERNOR WALLICH: In other words you assume that the money will be used, namely, to reduce public debt, which then leads, of course, to budgetary expenditures because....

MR. JORDAN: No, it will not reduce public debt. It would have no effect on the net Treasury debt outstanding. It would have an effect on the Central Bank's holding of the debt, but then those bonds are not part of the real public debt, anyway.

DR. SPRINKEL: Mr. Costamagna?

MR. COSTAMAGNA: In years gone by when the official price of gold was raised, it was interpreted -- it was in fact a devaluation of the dollar, and I'm thinking that this may well be interpreted a further devaluation, even though the dollar is no longer tied to gold. There is that thought that it might be so interpreted internationally. I have to believe that's why the original majority recommendation was that we are opposed to devaluing the United States gold stock at a higher price.

DR. SPRINKEL: But it did not carry.

MR. COSTAMAGNA: Oh I know it just did not carry.

DR. SPRINKEL: Mr. Coyne?

MR. COYNE: Approximately thirty-three and a third percent of the nations and curiously about thirty-three and a third percent of the gold held by monetary authorities, if I
remember my facts correctly, are in fact carried at market-related prices now, and they're adjusted on the basis of different formulas that each different country has for gold. It could be perhaps, for example, eighty-five percent of the average London fixing price for the last three months and the prices are continually adjusted to some market-related price that relates to the value of the underlying object rather than an arbitrary price that has no more than a -- that is no longer any more than an historical fiction -- and gold could be revalued, in fact, in the same way that presumably deutsche mark or Swiss Frank holdings are currently revalued -- it is an asset valued at market. The point it would seem that was essential here would be to carry the increased value as part of our reserve assets rather than to use it either to spend more money at the Treasury or to finance the public debt or to finance our current budget deficit.

DR. SPRINKEL: Governor Partee?

GOVERNOR PARTEE: Well, I was going to say, I agree with Mr. Jordan that what would happen here, that is, using this construction of the Coyne proposal that as the time table of the procedure for valuing gold -- for revaluing gold upward occurred without in any way monetizing it or using it to affect the government's printing power, that would mean that there would be substitution of a gold entry on the Federal Reserve books for a government securities entry. And I think that as long as it
goes along at a modest rate I think that's perfectly okay. But I don't, I guess, Jerry, much like the idea of putting that right on the market price and valuing it down and valuing it up, you know, very, very frequently in response to changes in market prices. I believe the thing that leads us to that concept here is the way you stated your first sentence of your recommendation where you say: at market related prices rather than at an out-dated fixed price. Well, I think out-dated fixed price is rather invidious in the first place, and I would think if you said, towards valuing gold realistically at something more closely approximating market prices, that you would have the thrust of your recommendation without capturing the thought that there is a need to have it quite close to the market. I move it back and forth, and I just wondered what you thought about that, Mr. Coyne.

MR. COYNE: I'd completely agree with you, and my apology is strictly on the basis of semantics. I intended to get to that by using a phrase, market related, rather than, market prices.

GOVERNOR PARTEE: You see, if market were related as eighty percent of market and the devaluation occurs every three months or something like that, there will be continuous changes. And it depends on what you mean by the term, market related.

MR. COYNE: Yes, I see. I see. I was thinking, in fact even as you spoke, that three months would be a long time
rather than a short time, so I've grown up in an environment
where long-term planning is, what are you going to have for
lunch?

DR. SPRINKEL: Are you accepting Governor Partee's
change in the language, if I understand that correctly?

MR. COYNE: Yes I am. I mean I certainly am not
implying I think that the right percentage is a hundred percent
as against seventy percent or the right time change is one month
as against six months. Only that the general concept is some
sort of relationship to the value of the asset should be....

GOVERNOR PARTEE: My precise recommendation was that
instead of the second phrase following the comma of your first
sentence, we would say, instead, at something more closely
approximating market prices.

DR. SPRINKEL: Congressman Neal?

MR. NEAL: Let's wait until they finish with this
other -- have they finished with this other matter?

DR. SPRINKEL: I think so. Are you finished with
that discussion?

MR. NEAL: Well, I wanted to ask Mr. Coyne or anyone
else who would respond how that if we were to do this, this
would serve the national interest. What are we gaining by this,
what are we accomplishing by this? I just don't see anything
clearly that we're accomplishing at all.

DR. SPRINKEL: Would anyone like to respond to
Congressman Neal's question?

   GOVERNOR WALLICH: Yes.

   DR. SPRINKEL: Yes, Governor Wallich?

   GOVERNOR WALLICH: I see a very great danger here. We now seemed to have arrived at a situation, that is, at a proposal that could substitute gold certificates for the full value of the Federal Reserve present portfolio. This is an asset that over ten years has gone from thirty-five to eight hundred and from eight hundred back to three hundred sixty, and that would be the assets of the Federal Reserve instead of Treasury bills and bonds at the present time. Now in a very theoretical way, I suppose somebody might say, what difference does it make. The currency that is issued is outstanding and doesn't depend on the value of those assets. A great many of the people are concerned, however, about the value of our currency, including those interested in the work of this Commission, I think, would worry greatly if the assets of the Central Bank backing the currency had fallen way below the value of the currency.

   DR. SPRINKEL: Henry, did your remarks take account of the statement that the higher priced gold not be monetized? I understood in Mr. Coyne's proposal that it was not to be monetized.

   GOVERNOR WALLICH: It is not to be monetized, but from Mr. Jordan's remarks I understood that as we raise the
value we put these increased valued gold certificates into the Federal Reserve, take out government debt, and eventually at the market price the Federal Reserve has only gold certificates and no interest bearing government debt.

DR. SPRINKEL: That would be monetized.

GOVERNOR WALLICH: We would not be monetizing. There's no spending by the Treasury. It would be simply debt redemption. It may lead to bigger expenditures by the government, being freed of that much debt -- but then Mr. Jordan says it really isn't government debt anyway, what the Federal Reserve holds.

DR. SPRINKEL: Mr. Jordan?

MR. JORDAN: What the Federal Reserve holds is not a part of the true outstanding government debt. The previous two occasions where the official price of gold was changed there was no constraint on the use of the proceeds, and in fact it did turn out to be used as a source of financing government expenditures, so this language would constrain it so that whereas now the Federal Reserve holds something I think about a hundred and thirty-five billion dollars of U.S. government securities or so, over time as the official value of gold was increased, some of that Federal Reserve held debt would be extinguished. At the present time the national income account report that all interest expense of the Treasury is just that even though a share goes to the Federal Reserve -- thirteen or
fourteen billion dollars probably last year of interest income received by the Federal Reserve, which is then over and above their expenses paid back to the Treasury and counted as other income.

And this really overstates true federal budget outlays and receipts, and in accounting for instance for corporate profit, the way the current accounting system is set up, income of the Federal Reserve is counted as corporate profits before taxes. What the Federal Reserve pays back to the Treasury in effect is counted as taxes and it reduces after-tax corporate profits. And over time this is driving a wedge to the extent of the interest and net interest income of the Federal Reserve, and this sort of a change would gradually wean us off of that kind of accounting anomaly. It would have no effect on the Federal Reserve's ability to conduct its open market operations. It would still have a significant cushion of income from its portfolio of government securities, the revaluation of the gold stock in the direction of market values, especially if it's done in a gradual way over time would not impair the Federal Reserve's independence and authority to conduct its operations.

GOVERNOR WALLICH: Mr. Chairman, the numbers I have before me indicate that at a gold price of four hundred ninety-six dollars the entire Federal Reserve portfolio could be off-set by gold certificates. At a price of eight hundred as
was reached, clearly we could have a market-related price of six hundred or seven hundred and still the entire portfolio could have been absorbed. And if thereafter the price fell back to where it is now, the assets would not be sufficient to cover the liabilities.

GOVERNOR PARTEE: Well, it is certainly true that if one imagined, Jerry, that gold went to a thousand and if the construction of the thing was that then the dollar value of the gold held by the Federal Reserve would have to go to a thousand, and you would more than extinguish the account, which is why I wanted to have in mind a final figure that was a considerable discount from the market price, as well as, I think it would look bad to reverse the procedure that you just talked about in case gold goes down. You say, it goes down substantially and so as it goes down the Federal Reserve would have to add to it's security holdings, and there would certainly be many charges that the monetary base was being de-based as paper was being substituted for gold.

MR. JORDAN: I think that there should be flexibility in the system and we ought to take some care in developing the formula and the time table, but we do know that the Central Bank's balance sheet will always balance, and if something dramatic is happening on the assets we would want to take into account how we interpret that -- what is happening on the liability side at the same time. But I think it can be done
carefully over, lets say a decade's time of revaluing gold without ....

   DR. SPRINKEL: Are there any further comments?
   MR. WYLIE: Are we voting on Mr. Coyne's proposal?
   DR. SPRINKEL: Yes, we're prepared if there are no further comments.
   MR. NEAL: I'd just like to make one further comment if I could.
   DR. SPRINKEL: Yes, sir.
   MR. NEAL: I'm afraid I haven't had a chance to think this all the way through. I certainly don't feel very comfortable about the possible ramifications of this. I would personally feel a lot better about it if we would take the old Congressional out and recommend a little further study of this question before making a very solid recommendation. It seems to me that it's a complex subject and there may be some dangers lurking here that we're not aware of, and I don't see the benefits are so clear in this proposal, or so overwhelming, that we might not give it a little bit more thought. That would be my own feeling about it.
   DR. SPRINKEL: Are there any comments on Congressman Neal's observations?
   GOVERNOR RICE: I'd like to support Congressman Neal on that. I was all prepared to support Mr. Coyne's substitute motion, but having just heard the discussion that has taken
place now I'm a little unsettled in my mind as to where I come out, and I'm not now prepared to support it. I think I would like to see some further study. I'd like to see the issues as discussed between Mr. Jordan and Governor Wallich.

DR. SPRINKEL: Congressman Wylie, did you have your hand up?

MR. WYLIE: Yes, thank you Mr. Chairman. This is a very tricky area as far as I'm concerned, and I must admit that I don't understand all of the considerations going on here and I would think that Congressman Neal...

DR. SCHWARTZ: I can't hear you, Congressman.

MR. WYLIE: I was saying that to me this is a very tricky area and I'm not really sure that I understand all I've heard here, and I think that Congressman Neal may have given me an option that I like. So I think further study is recommended.

DR. SPRINKEL: Congressman Paul?

DR. PAUL: Thank you, Mr. Chairman. I had planned to propose a little bit later a recommendation, but if this recommendation fails to come up with something, possibly the recommendation that I have here might suffice. What I have planned to propose, and I will if this goes down, is: We recommend a continued study of the role of gold in the monetary system and urge Congressional hearings on the subject, and all these other questions that we have raised and what-not, so I would suggest that.
DR. SPRINKEL: Are there any other observations before we vote?

MR. COYNE: Yes, I must also say that the common sense aspect of Congressman Neal's comments are simply too important to be overlooked. As I was listening to Governor Wallich's reservations, which I understood to be anxieties rather than conclusive objections, how could one at this point make a determination of this importance. How could we reflect Congressman Neal's comments in such a way as to ask for a study on this issue so that at some appropriate later point the issue could be determined on the basis of our understanding it as an important issue which must be understood and settled.

DR. SPRINKEL: One possibility and I'm just suggesting, that you could withdraw your proposal and substitute something along the line recommended by Congressman Neal, if that's what the Commission would like.

MR. COYNE: I would wish to do that.

MR. JORDAN: You could accomplish the purpose by inserting in Mr. Coyne's proposal as amended by Governor Partee that the Commission recommends that the Federal Reserve and the Treasury conduct studies of the issue of moving towards valuing gold realistically, etc.

DR. SPRINKEL: That is including keeping the initial proposal that Mr. Coyne made with that further amendment.

GOVERNOR PARTEE: With a further recommendation of a
study rather than the doing.

MR. JORDAN: Yes, that the Treasury and the Federal Reserve conduct studies of this issue.

DR. SPRINKEL: Are there any further observations, in which case we will have that read before we take any vote, but are there any other observations that anyone wants to make? Tom or Nancy? Tom may have it.

TREASURY STAFF MEMBER: The Commission recommends that the Treasury and the Federal Reserve conduct studies of issues that would be involved in a move towards valuing gold realistically, at something more closely approximating market prices, and I assume that the following sentence would be dropped, and that would be the totality of the recommendation.

MR. JORDAN: Well, I would think we would keep the following sentence but drop the last sentence from the recommendation.

TREASURY STAFF MEMBER: Alright, the second sentence is: This change should be subject to the legislative constraint that the proceeds of this new valuation not be monetized by the Treasury or in any way used to enhance the government's spending power.

MR. JORDAN: Well, I would say that the last sentence could be modified to say the studies should consider the development of a formula and time table, then anyone subsequently really addressing this issue would have the formula
and time table to consider as options or proposals.

GOVERNOR PARTEE: I do believe, Mr. Chairman, that that captures the essence of the Commission, that is, I believe that there is no member of the Commission, regardless of the technical studies that are conducted, who would want to see the profits from gold revaluation used to finance budget deficits or otherwise. And therefore that middle sentence could remain and I think we would all have in mind that regardless of the technical studies it would be a time table rather than something that was done next Saturday morning, and so I would accept what Mr. Jordan said, leaving the last sentence but that as an area for study.

DR. SPRINKEL: We will read this one more time to make sure that everyone understands what we're proposing.

TREASURY STAFF MEMBER: The Commission recommends that the Treasury and the Federal Reserve conduct studies of issues that would be involved in a move toward valuing gold realistically -- comma -- at something more closely approximating market prices. This change would be subject to the legislative constraint that proceeds of this new valuation not be monetized by the Treasury or in any way used to enhance the government's spending power. The studies should develop a formula and time table for valuing U.S. gold stocks in a manner realistically related to gold market value.

DR. SPRINKEL: Did everyone hear that amended
proposal? Are you prepared to vote on the proposal? Could I have a show of hands of all those in favor of the proposal?

(Whereupon there was a show of hands).

DR. SPRINKEL: A show of hands of those against the proposal.

(Whereupon there was a show of hands).

DR. SPRINKEL: Twelve to one.

DR. SCHWARTZ: Governor Wallich, do you want to retain the minority recommendation? The former majority that's now the minority? We are opposed to revaluing the gold stock at a higher price.

GOVERNOR WALLICH: I don't like the minority recommendation any more. I like the majority recommendation which you can adapt to be the one-man minority recommendation.

DR. SCHWARTZ: Right.

DR. SPRINKEL: If we could move on now to the next major recommendation, page twenty, I believe. The majority recommendation is: We do not favor innovative uses of the gold stock, since the objectives sought by adding gold to the policy instruments of the monetary and fiscal authorities are attainable without such use and the side effects of so using gold may be undesirable. And there is a minority recommendation: We favor innovative uses of the gold stock rather than maintaining it in immobile form. Could I have a discussion on those two proposals?
GOVERNOR PARTEE: One hates to be opposed to innovation. I wonder if there's some term, word, other than innovation that might be more neutral that could be used.

DR. SPRINKEL: Well, it covers such things as swaps, leases, other arrangements.

GOVERNOR PARTEE: I understand what's covered.

DR. SPRINKEL: You would prefer a different word?

GOVERNOR PARTEE: Yes, than innovative.

GOVERNOR RICE: Alternative uses -- alternative uses of the gold stock.

DR. SPRINKEL: Alternative uses of the gold stock.

Mr. Coyne?

MR. COYNE: I would propose as follows: The Commission should recommend that the Federal Reserve and the Treasury conduct studies to consider different ways in which gold can be used as a helpful policy instrument. It seems implausible to keep our vast gold stocks completely idle if worthwhile uses can be developed which do not entail depleting these stocks. Some suggestions that had been made in earlier meetings included the use of gold as part of foreign exchange intervention operations should the administration during that period of time in the future ever re-engage in such operations, etc.

I would like to mention parenthetically at a recent meeting in Rome on the subject of gold sponsored by the Banko
del Logoro (phonetic) at which several members of this Commission were in fact speakers, there was a speech given by Professor Meehuns (phonetic) of the University of Dearn (phonetic) which, to my surprise dealt at some length on precisely this issue -- that is to say, ways in which gold -- he was talking of course from the international rather than the United States point of view -- could and should be used as part of the monetary policy implementations of central banks, and his paper has been published. I presume Dr. Schwartz and Governor Wallich have seen it.

DR. SPRINKEL: Are you proposing that as a substitute majority recommendation?

MR. COYNE: Well, I guess I'm proposing it as a substitute minority recommendation, however I'm proposing that the Commission recommend that the Federal Reserve and the Treasury conduct studies to consider different ways in which gold can be used as a helpful policy instrument on the basis that it seems implausible to keep our vast gold stocks completely idle if worth-while uses can be developed which do not entail depleting these stocks and which, in fact, the Treasury desires to use to implement its then current policy objectives.

DR. SPRINKEL: Is there any further discussion?

According to the rules you adopted we vote first on the majority recommendation and then the substitute recommendation. Is there
any further discussion? If not we vote on the majority
recommendation which says: We do not favor innovative use --
well, you did change a word, is that correct?

DR. SCHWARTZ: Alternative isn't the right word.

DR. SPRINKEL: Pardon?

DR. SCHWARTZ: Alternative isn't the right word.

But there is a better word, I'm sure, than innovative.

DR. SPRINKEL: Other. You said other uses, didn't
you. We do not favor, Chuck, what word?

DR. SCHWARTZ: Extraordinary?

DR. SPRINKEL: I said, well I didn't have a word. I

said alternative was the one.

DR. SCHWARTZ: Extraordinary uses. They are
extraordinary -- they're not normal uses of gold.

DR. SPRINKEL: Well, we've got to agree on the
wording of that proposal. Auxiliary uses? Is that

satisfactory?

MR. JORDAN: What is the suggestion?

DR. SPRINKEL: Auxiliary uses. They don't like the

word innovative.

MR. JORDAN: Well, I'm a little bit uncomfortable
with saying that I'm in favor of not doing some unspecified
thing I don't know what that is. Can we say nontraditional
uses?

DR. SCHWARTZ: Extraordinary.
DR. SPRINKEL: Nontraditional uses. What's the view of the Commission on this? Do you want to go with the wording as stated or do you want to substitute one. Are you agreeable to vote on the majority recommendation as stated?

DR. SCHWARTZ: Use nontraditional for the time being.

GOVERNOR RICE: Yes, and if you can think of a better word later.

DR. SPRINKEL: Yes, if we can think of a better word, we understand the sense. All of those in favor of....

MR. JORDAN: What will be the word included?

DR. SCHWARTZ: Nontraditional.

MR. JORDAN: Nontraditional?

GOVERNOR RICE: Perhaps at the next meeting there can be a better word, but for the moment, nontraditional.

DR. SPRINKEL: Could I see a show of hands on those in favor of the majority recommendation?

(Whereupon there was a show of hands.)

TREASURY STAFF MEMBER: One, two, three? Two for.

DR. SPRINKEL: All those against?

(Whereupon there was a show of hands.)

DR. SPRINKEL: Eleven to two.

I believe that you had a proposed, you said minority, but, ... minority recommendation.

DR. SCHWARTZ: A substitute for it.

DR. SPRINKEL: It would be a majority recommendation.
It would be a substitute for that.

DR. SCHWARTZ: It would be a substitute for the minority.

MR. COYNE: Well, I guess that whatever it is, and inasmuch as I seem to represent the minority view, I would say that simply flushing out what I mean by innovative, or what is meant by innovative would be accomplished in the phrase that I suggested in the letter which I sent to each of you, which is in the language -- I've already read it twice -- that studies be conducted to consider different ways in which gold could be used as a helpful monetary policy instrument, etc.

DR. SPRINKEL: Are you proposing this as a substitute motion or as a minority recommendation.

MR. COYNE: As a minority.

DR. SPRINKEL: As a minority recommendation?

MR. COYNE: Yes.

DR. SPRINKEL: Then we could, I think, according to the rules we adopted -- correct me if I'm wrong -- we go to the minority recommendation that was stated and then the one that was stated by Mr. Coyne. Yes.

DR. PAUL: I have a question. I have an amendment to the majority recommendation, so if that's the case, possibly we'd want to vote on that before we go to the minority.

DR. SPRINKEL: Yes sir, I didn't know you had that.

DR. PAUL: Okay, and what I'd like to add is the
recommendation I read a few moments ago. It would say: We recommend the continued study of the role of gold in the monetary system and urge Congressional hearings on this subject.

DR. SPRINKEL: Is there any discussion of that proposal?

DR. SCHWARTZ: Where does that come?

DR. PAUL: I thought we could put that in as part of the majority recommendation -- an amendment to it. Does anybody want me to read that again?

DR. SCHWARTZ: Yes.

DR. PAUL: We recommend the continued study of the role of gold in the monetary system and urge Congressional hearings on this subject.

DR. SCHWARTZ: Do I hear a second to that proposal?

(Whereupon the proposal was seconded.)

DR. SPRINKEL: Is there any discussion? Yes, Dr. Weidenbaum.

DR. WEIDENBAUM: In view of the extended deliberations of the present, I'm not prepared to support the worthy Congressman's amendment and would vote against it.

DR. SPRINKEL: Are there any further discussions?

DR. WEIDENBAUM: On the grounds that these deliberations have been inadequate.

DR. PAUL: May I make just one point?

DR. SPRINKEL: Yes sir.
DR. PAUL: These would be Congressional, not this particular Commission.

DR. SPRINKEL: Yes.

DR. PAUL: We will be disbanded.

MR. NEAL: May I just make one suggestion, just on wording. We say we do not favor nontraditional uses, and so on. It does seem to me that if you're going to make that a part of that you might want to say we do favor continued...

DR. PAUL: Instead of recommend? Do favor is okay with me.

MR. NEAL: Just to keep it consistent with that kind of wording.

DR. SPRINKEL: Is there any further discussion before we vote on the amendment to the majority recommendation? If not, could I see a show of hands of those in favor of the amendment?

(Whereupon there was a show of hands.)

DR. SPRINKEL: Seven. Could I see a show of hands of those against the amendment?

(Whereupon there was a show of hands.)

DR. SPRINKEL: It carried seven to six, if the count is correct.

Now we've got the minority recommendation as stated and then the one proposed by Mr. Coyne.

MR. JORDAN: The one that's stated is automatically
dropped unless some Commission member supports it.

DR. SPRINKEL: If no one supports it we will go
directly to Mr. Coyne's proposal as a minority recommendation.

DR. SCHWARTZ: Yes, I would agree.

DR. SPRINKEL: Mr. Coyne, would you read it one more
time, and then we vote.

MR. COYNE: If this is the minority recommendation
and I am a minority of one, may I ask who else is eligible to
vote?

DR. SPRINKEL: Would you make sure that we get the
proper wording. You can just pass it to us, if you'd like.

MR. WYLIE: Mr. Chairman?

DR. SPRINKEL: Yes sir.

MR. WYLIE: We haven't been able to come up with a
word for innovative yet or alternative?

DR. SPRINKEL: There were several offered.

MR. WYLIE: Maybe we could find another definition
for leverage. That's really what we're talking about. Maybe we
could look in the dictionary for something along those lines.

DR. SPRINKEL: We will search for an appropriate
word that catches the sense of the Commission.

Now we move to domestic monetary policy arrangements.

MR. NEAL: Mr. Chairman, I have a question.

DR. SPRINKEL: Yes sir?

MR. NEAL: When we polled the Commission, as I recall
the vote on this question was very close. It was within one
vote, and I understand that it is possible that some other votes
have come in since that time, and I want to ask the question, is
it still true that we—quote—favor no change in the domestic
monetary policy arrangements?

DR. SPRINKEL: Anna, can you answer that? We also
have some proposed proposals by Senator Schmitt.

MR. NEAL: And I have one also.

DR. SPRINKEL: And you have one also.

MR. NEAL: Yes sir, which I'd like to have passed
out.

DR. SPRINKEL: Can you answer the first question?

DR. SCHWARTZ: Yes. On, do you favor continuation of
the present system for managing U.S. monetary policy, it's still
a majority that favors it.

DR. SPRINKEL: There is a proposed majority
recommendation that we favor no change in the present domestic
monetary policy arrangements. Is there any discussion of that
issue before we vote on it?

MR. JORDAN: I have a substitute majority
recommendation to enter on behalf of Senator Schmitt first of
all that's being circulated to you now. And then I also have a
recommended amendment to Senator Schmitt's language, and I
should also declare that on this issue I also am holding the
proxy of Paul McCracken.
MR. NEAL: Mr. Chairman?

DR. SPRINKEL: Yes sir.

MR. NEAL: It might be useful, if it would be in order for me to very briefly read a proposal I've got also, just so we might consider them all in the same context.

DR. SPRINKEL: Alright, please do so.

MR. NEAL: You recognize me for that at this point? Thank you. I may put this in just a little bit different form than some of our other proposals. I wanted to support it with a couple of whereas clauses. Please forgive me, it's a little bit longer than others, but it's not very long. Whereas the majority of those who supported the creation of the Gold Commission did so with the hope of finding a method for better insuring consistent and persistent price stability and, whereas the inflationary process is ultimately related to excessive growth in money, and whereas it is clear that inflation cannot persist over the long run in the absence of excessive monetary growth, then the Commission recommends that the Congress, by legislation, establish a rule specifying that the growth of the nation's money supply be maintained at a steady rate which insures long-run price stability. That's the proposal.

DR. SPRINKEL: Thank you. I think you all have copies now of the proposal by Senator Schmitt that the Commission recommends that Congress and the Federal Reserve study the usefulness of the money rule and domestic money supply
management, and a proposed change by Mr. Jordan changing after
the word "study" insert the words, merits of establishing a rule
specifying that the growth of the nation's money supply be
maintained at a steady rate which insures long-run price
stability. Governor Wallich?

GOVERNOR WALLICH: Mr. Chairman, in view of the
amendments that are being proposed, I am taking the liberty
of circulating some numbers which would have a bearing on the
effectiveness of a rule. They show the rate of growth, a
rate of change of velocity, quarter by quarter, and they do
this on a contemporaneous basis, and also following the
advice I received some time ago from Under Secretary
Sprinkel, from yourself, Mr. Chairman, that I do that on a
lag basis -- on a two-quarter lag. Now you'll see from this
data that velocity is an extremely unstable variable and that
any rule requiring money supply to be maintained at a steady
rate will run into this variability of velocity. I just
thought you might want to see these data when you discuss
whether a rule, a fixed rate of growth for the money supply
for long periods makes any sense. I do have an amendment of
my own which has been circulated and I hope you have that
before you. It looks like this, covering the whole page.

DR. SPRINKEL: Would you like to read it, Henry?

GOVERNOR WALLICH: I will read it. For the domestic
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?
GOVERNOR PARTEE: I really don't know. I think Congressman, you're quite right. We ought to follow the legislative mandate and use the word system. So I would move that we amend Governor Wallich's amendment to the majority recommendation by substituting the word "system" for "arrangements" at the end there.

GOVERNOR WALLICH: That would be agreeable to me.

DR. SPRINKEL: Could you tell me how you prefer to handle this. The way we've been doing it is to go to the majority recommendation. Now there has been Senator Schmitt's proposal as a substitute for the majority recommendation, there's been Congressman Neal's proposal as a substitute for the listed majority recommendation, there's been Henry Wallich's amendment, I believe, to the original majority recommendation, and unless you prefer otherwise, we'll go first to the one that's written and then go to Schmitt and Neal and Wallich. Is that what the Commission would like -- the procedure we've been pursuing before? I'll read the majority recommendation: We favor no change in the present domestic monetary policy arrangements. Is there any discussion on that before we vote? Mr. Costamagna?

MR. COSTAMAGNA: I just have one question as it relates to what we did this morning in terms of coins. Are we saying that that is not a part of monetary policy arrangements?

DR. SPRINKEL: The coins? Mr. Jordan discussed that
some this morning.

MR. JORDAN: But he's asking whether voting for this
majority would be contrary to that, and I don't know the answer
to that question. It could be construed as such, but I don't
know.

MR. COSTAMAGNA: This talks about....

MR. JORDAN: I think the thing to do is to vote with
me against this.

DR. SPRINKEL: Are we ready for a vote on the listed
majority recommendation?

GOVERNOR PARTEE: This, of course, was the charge to
the Committee, that is as we talk about alternates we talk about
things that the Committee was not asked to study. And you could
even conceivably have this statement and then have another
statement if you wanted to proceed on the rule questions.

DR. SPRINKEL: If you're prepared to vote, I'll ask
for a show of hands of those that agree with the recorded
majority recommendation saying we favor no change in the present
domestic monetary policy arrangement. Those in favor raise your
hands, please.

(Whereupon there was a showing of hands.)

DR. SPRINKEL: Those against the listed majority
raise your hands please.

(Whereupon there was a showing of hands.)

MR. WYLIE: Mr. Chairman, I want to be recorded as
voting in favor so I can vote for Governor Wallich's.

DR. SPRINKEL: Did you count him?

GOVERNOR WALLICH: I now have the proxies on this topic of Congressman Reuss and Senator Dodd. Senator Dodd via Congressman Reuss.

DR. SPRINKEL: We'll have to recount, then. Could we have a show of hands in favor of the majority recommendation.

(Whereupon there was a show of hands.)

TREASURY OFFICIAL: That's seven.

DR. SPRINKEL: Now, against the majority recommendation.

(Whereupon there was a show of hands.)

MR. COYNE: Please excuse me. I'm not sure what we're voting on. There's an amendment.

DR. SPRINKEL: We haven't gotten to that yet.

DR. WEIDENBAUM: No, we haven't gotten to that yet.

MR. COYNE: I understand we haven't gotten to that yet. I'm asking, there's a vote on this substitute.

DR. SPRINKEL: So this one failed nine to seven. Is that correct? The first substitute that I heard was the one Jerry Jordan suggested concerning Senator Schmitt. And could we have that now?

MR. JORDAN: Okay, I think that it's necessary that I recommend it be voted on in two parts -- first as Senator Schmitt originally proposed it and then with my suggested
further amendment to Senator Schmitt's statement. And his is:
The Commission recommends that the Congress and the Federal
Reserve study the usefulness of a monetary rule in domestic
money supply management.

DR. SPRINKEL: Is there any discussion?

GOVERNOR PARTEE: Is that any different from what is
now done in the Humphrey-Hawkins presentation and oversight
hearings?

MR. JORDAN: The question your raising is the reason
why I had additional language to also....

GOVERNOR PARTEE: I wouldn't think that you would say
that that's a rule. The rule is, we're going to try to have
growth between x and y. The Congress studies it and the Federal
Reserve studies it and there's commentary on it.

MR. JORDAN: That's why my additional language gives
a little more precision, I think, as to what the recommendation
would be.

GOVERNOR PARTEE: It certainly gets a lot of study,
there's no question about that. It's a lot of press.

MR. WYLIE: Where does the role of gold come in to
this. I don't see that.

MR. JORDAN: That would be up to the Congress and the
Federal Reserve in their studies as to whether or not they would
have a role of gold such as, say, something like the Weintraub
proposal. I really don't know.
DR. SPRINKEL: Yes, Congressman Paul.

DR. PAUL: I would just like to ask Congressman Neal if we go ahead and pass Senator Schmitt's proposal along with Jerry's amendment, will you feel compelled to have yours added. It seems it's a shame we can't get that message together and vote one time.

MR. NEAL: Well, I know we are proceeding in a most awkward way, as you know. We've been doing that all day, but I don't know any alternative at this point other than to vote up or down on these issues as they come and then sort of sort it all out once we've finished it all up. Our procedure normally is better where we offer something and then a substitute and amendments to the substitute and then work our way back through it. But we're not following that kind of procedure. My own view is that this issue has been studied considerably over a considerable period of time and I would hope that we might be able to recommend something stronger than a study. But if we do not recommend something stronger than a study I would want us to recommend another study.

DR. PAUL: Okay, I see.

DR. SPRINKEL: Congressman Wylie?

MR. WYLIE: It seems to me -- I asked that question a little while ago that I didn't see anything in here about the role of gold, but this goes way beyond the charge of the statute which said that we were to ascertain the role of gold in the
conductor of monetary policy. I think this stands beyond the
parameters that were ever anticipated in the statute which
created it.

DR. SPRINKEL: Are there any comments on Congressman
Wylie's observations? Yes, Mr. Jordan.

MR. JORDAN: Not on his observation, but I was going
to say to speed things up I'd be prepared to go ahead and make
my amendment to Senator Schmitt's proposal as one to be voted
together rather than having to vote separately on the two, and I
could read it as an amendment.

DR. SPRINKEL: Okay, if you would do that.

MR. JORDAN: As a recommended majority position, the
Commission recommends that the Congress and the Federal Reserve
study the merits of establishing a rule specifying that the
growth of the nation's money supply be maintained at a steady
rate which insures long-run price stability.

DR. SPRINKEL: Is there any discussion?

DR. WEIDENBAUM: I wonder if counsel could respond to
Congressman Wylie's observations.

DR. SPRINKEL: Yes sir.

TREASURY COUNSEL: Well, the mandate of the
Commission is to study and make recommendations regarding the
role of gold in domestic and international monetary matters.
There is very little legislation on that. I think Congressman
Paul probably speaks to the history better than anyone as one of
the two members of the Congress who had introduced this legislation. There is considerable flexibility on how you interpret the mandate, and of course if Congress receives recommendations that it finds unnecessary or beyond your mandate it can disregard them.

MR. WYLIE: I think I might just for the record make a point of order that it's beyond the scope of the statute which created this.

DR. SPRINKEL: Are there any further comments?

GOVERNOR PARTEE: I would like to join the Congressman.

DR. SPRINKEL: Alright, there are two that had a right to be noted as being beyond the purview, three. Three.

MR. NEAL: Well, let me just make one point. I think it's clear from the record that those who supported this had in mind supporting it for the reason that there was a concern about the rate of inflation over a long period of time in this country and with the goal in mind that we might find some better way to deal with this problem. I don't think there was any other purpose, as a matter of fact. It wasn't just sort of academic exercise that was in the minds of the people that proposed this. It certainly wasn't in the mind of the people on the Senate side that proposed it or on the mind of Congressman Paul, I'll promise you, and he introduced it in the House side.

This was added as a non-germane amendment to an
international monetary fund bill and when it was sent back over to the House I was managing the bill, the International Monetary Fund Bill, and we accepted this amendment. And certainly I had in mind when I agreed to accept it the idea that we might be doing something positive about the problem of inflation in this country. I certainly didn't have in mind that the idea of this Commission would be to sit around and discuss some arcane subject unrelated to anything that is important to the everyday life of the people of this country.

So I think it's clear that the people that support the idea of this Commission had in mind doing something about inflation, and if we are to make some positive recommendation in that regard, that would be a valuable service to the people of this country -- to the government of this country, and I don't think anyone should think that we're about anything else. I hope we don't end up with the reputation that we just sat around all this time to talk about gold medallions. That wasn't my purpose.

DR. SPRINKEL: Governor Wallich?

GOVERNOR WALLICH: Mr. Chairman, if this is a Commission that is to deal with inflation, then we certainly have been very delinquent. We have implied that the only way of dealing with inflation is via gold and maybe via a monetary rule. Now there's absolutely no basis for limiting the instruments to be used against inflation to this very narrow
range of devices and of course we all know that there are other things. There's the budget, there's the possibility of income policies, tax oriented or otherwise, there's deregulation. And we say here we're, in effect, a Commission on inflation and we're going to solve the problem with a rule. I invite you to take a look at my numbers here. The velocity of M-1 fluctuates between ten and minus four, approximately, and doing it your way it fluctuates eleven and minus six. In other words the instability of the relationship of money to income is overwhelming. We cannot rely on that as our weapon against inflation alone, as important as monetary policy is.

DR. SPRINKEL: Yes, Governor Partee?

GOVERNOR PARTEE: I understand Congressman Neal's concern -- the feeling of frustration about this, but it does seem to me, as I read the mandate that we were to study the question of whether gold could be useful. Now we have made, we did agree earlier this morning to make recommendation -- that some members, perhaps most members feel will be at least marginally useful as an indicator of the public's attitude toward the value of the money and very possibly as some kind of lever that will be used in monetary policy formulation.

But I believe that the Commission, after hearing much evidence from very many experts agreed that it was not practical to incorporate the elements of a gold standard into a modern system, and it seems to me that that is the conclusion that we
have reached. And I agree with Governor Wallich that to go beyond that opens up a whole avenue of alternative procedures -- a wide variety of alternative procedures for dealing with inflation that don't involve the use of gold. And we have not covered them. We have not heard the evidence. We do not have the information behind us to support a different recommendation than the one essentially that is here, that we have found no use for the role of gold -- no added use for the role of gold in the domestic monetary system.

MR. NEAL: Would the gentleman yield to me on that one? Mr. Chairman, thank you.

I quite agree with what you've said, but it does seem to me that since the Commission has found it, as you say, impractical to go to a gold standard or, I think the finding might be possibly stated that it is the opinion of the panel that returning to a gold standard or going to a gold standard -- however that might be stated -- is not in the opinion of the overwhelming majority of this Commission, a useful procedure in the fight against inflation, that we might be of some service in suggesting, after having spent some time on this subject, both during the deliberations of the Commission and at other times, in recommending something that in fact might be. And at the very least it seems a very modest proposal of Mr. Jordan's and Senator Schmitt's that at the very least we think that it's certainly worthy of studying this other alternative proposal

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which we think might have great merit.

Now if the majority of this Commission votes in this direction, I think that's a very important and valid signal. If that passes, or even if it doesn't, I'm going to make another proposal that would be a little stronger -- even suggest that we go a little bit further. And that may not pass. But at least it would be there as a minority proposal. But if this proposal of Mr. Jordan's and Senator Schmitt's passes, I think that would send an important signal to the Congress -- that by golly even though gold is not the answer, we can maybe suggest something else that might be the answer. And if someone else would like to put into the report a minority view that we should go to a wage and price control policy or whatever else was suggested, fine. Put it in there as the minority view. I won't support it and I don't think it'll get broad support from this panel, but why not make it clear that there is one person maybe on the panel that thinks wage and price controls is the way to control inflation.

GOVERNOR WALLICH: Forgive me, I did not recommend wage and price controls. My position is very clear from a great deal of testimony before the Congress.

MR. NEAL: I'm not trying to suggest that, Henry my friend, I know you don't, but I'm just saying -- there was another member who might have suggested that that would have been a good idea. If he wanted that in there as a minority
report -- a minority of one -- put it in. But if we could get a
majority to say that yes, we don't think that going to a gold
standard makes a lot of sense, but by golly we do think that
there is something that could maybe go to the heart of this
problem. Let's suggest it, let's get a vote on it, let's see if
there is, in fact, a majority of this distinguished panel that
might think that there is something we can do about this most
serious problem of inflation.

DR. SPRINKEL: Are there any other comments? If not
I believe we're prepared to vote up or down the proposal made by
Mr. Jordan, and would you read it one more time so there is no
doubt?

MR. JORDAN: The Commission recommends that the
Congress and the Federal Reserve study the merits of
establishing a rule specifying that the growth of the nation's
money supply be maintained at a steady rate which insures
long-run price stability.

DR. SPRINKEL: All of those in favor of Mr. Jordan's
proposal please raise your hand.

(Whereupon there was a showing of hands.)

TREASURY OFFICIAL: Eleven.

DR. SPRINKEL: All of those against, please raise
your hand.

(Whereupon there was a showing of hands.)

TREASURY OFFICIAL: Three.
DR. SPRINKEL: Now Congressman Neal, what would you propose?

MR. NEAL: Well Mr. Chairman, I'm proud of what we've done so far. I think it sends a very positive signal, but I would like to, even though I doubt that I have the votes, mention this other proposal one more time. And if you don't mind, I'll read it.

DR. SPRINKEL: Do you want this as a substitute to the one we just adopted?

MR. NEAL: I will offer this as a substitute, and if it's defeated as a substitute, I would like it included in the report as a minority view -- even if it's a minority of one. And there may be others who would like to join in on these minority views. And if you will indulge me I will read it one more time.

Whereas the majority of those who supported the creation of the Gold Commission did so with the hope of finding a method for better insuring consistent and persistent price stability and, whereas, the inflationary process is ultimately related to excessive growth in money, and, whereas it is clear that inflation cannot persist over the long run in the absence of excessive monetary growth, then the Commission recommends that the Congress, by legislation, establish a rule specifying that the growth of the nation's money supply be maintained at a steady rate which insures long-run price stability. And I
apologize for the awkwardness of the wording.

DR. SPRINKEL: Is there any discussion of this proposal?

MR. WYLIE: I raise a point of order, Mr. Chairman.

DR. SPRINKEL: Pardon me, Mr. Wylie?

MR. WYLIE: I raised a point of order.

DR. SPRINKEL: Yes sir. Is there any further discussion? Could we have a vote on Congressman Neal's proposal. All in favor, raise your hand.

(Whereupon there was a showing of hands.)

TREASURY OFFICIAL: Six.

DR. SPRINKEL: All against, please raise your hands.

GOVERNOR WALLICH: I'd like to have three votes counted.

DR. SPRINKEL: You have three, Henry?

GOVERNOR WALLICH: I have two proxies plus my own.

DR. SPRINKEL: Be sure and count them. Could I see the hands again that are voting no.

TREASURY OFFICIAL: One, two, three, four, five, six, seven.

DR. SPRINKEL: That was defeated, is that correct?

TREASURY OFFICIAL: I think I miscounted the first one.

DR. SPRINKEL: You want to have a vote again on those voting positively, that is yes, on Congressman Neal's proposal.
We missed the count.

TREASURY OFFICIAL: Seven.

DR. SPRINKEL: What's the final count?

TREASURY OFFICIAL: Seven.

DR. SPRINKEL: Seven-seven?

DR. WEIDENBAUM: Can I read another iteration and perhaps it deals both with Congressman Neal's desires and Congressman Wylie's concerns. The Commission concludes that under present circumstances restoring the role of gold does not appear to be a fruitful method of dealing with the continuing problem of inflation. Rather we believe that the control of the money supply is the key to reducing inflation. Therefore the Congress and the Federal Reserve should study ways to improve the conduct of monetary policy, including such alternatives as a monetary rule.

DR. SPRINKEL: Is there any discussion of Chairman Weidenbaum's....

DR. WEIDENBAUM: I'm not wed to the language, obviously, but does that thought...

DR. SCHWARTZ: Is that another substitute?

DR. SPRINKEL: Well, he hasn't made it yet, he may make it, I don't know.

MR. COYNE: May I request that Chairman Weidenbaum reread that?

DR. SPRINKEL: He hasn't made, at least I understand
you have not yet made this as a proposal.

MR. COYNE: But I would still like to hear it again.

DR. SPRINKEL: Yes sir.

DR. WEIDENBAUM: As I say, I'm not wedded to the specific language, but I'm trying to meld a few items here. The Commission concludes that under present circumstances restoring the role of gold does not appear to be a fruitful method for dealing with the continuing problem of inflation. Rather, we believe that the control of the money supply is the key to reducing inflation. Therefore the Congress and the Federal Reserve should study ways to improve the conduct of monetary policy including such alternatives as a monetary rule.

MR. WYLIE: I like the first part of it except when it gets to the rather. I'm not sure that I agree that the conduct of monetary policy weighs that heavy as far as inflation is concerned. I think fiscal policy weighs more heavily myself.

MR. NEAL: Mr. Chairman.

DR. SPRINKEL: Yes sir.

MR. NEAL: May I ask the result of the vote on the proposal I made a few minutes ago.

DR. SPRINKEL: Seven and seven, I believe.

MR. NEAL: And, in that seven against, was a vote for Mr. Dodd cast?

GOVERNOR WALLICH: Yes, he authorized it.

MR. NEAL: He authorized it?
GOVERNOR WALLICH: He gave it to Reuss and Reuss passed it on.

MR. NEAL: Mr. Chairman, that's a most unusual procedure -- one I've never encountered before, I'll have to say.

GOVERNOR WALLICH: There's a market for proxies.

MR. NEAL: You know, this is an awfully close vote to lose by the vote of a second-hand proxy. By the way, I certainly think your proposal is of great merit, but it's still not as strong as the proposal that we voted on and which I'm not convinced that we lost on, as a matter of fact. We're just going to have to seek a ruling of the Chair in this case. Mr. Chairman, are you entirely comfortable with....

DR. SPRINKEL: Well, we have permitted proxies so that that's no question. The question is, as you said, proxies passed on.

MR. JORDAN: Mr. Chairman, if it would be appropriate for the report to indicate that there was an equal split for and against Congressman Neal's recommendation being more specific, then I think that that would be a good compromise. If not, then I would be prepared to exercise one of the remaining proxies I'm holding.

DR. SPRINKEL: Oh. Why didn't you vote it the first time?

GOVERNOR PARTEE: I'd like to see the proxy
exercised, myself.

DR. SPRINKEL: Well it seems to me that we do have something where we're evenly divided and that it would be fair for it to show that.

MR. NEAL: Do you want to record it that way? Is that the Commission's wish? I would argue very strenuously if I thought that it meant that this would end up in the law, but since this is a recommendation I think it would certainly be fair to show that there was an even split on this question. And there is a lot of strength for it from this gentleman.


DR. SPRINKEL: That passed.

DR. SCHWARTZ: That passed, so this doesn't supersede it?

DR. SPRINKEL: No. So that where we stand now, as I understand it, is that the Schmitt-Jordan proposal did pass, and it will be reported that the vote on Congressman Neal's proposal was a stand-off, seven to seven.

DR. SCHWARTZ: Yes.

DR. SPRINKEL: Now where do we come on yours now, Murray.

DR. WEIDENBAUM: I only really made that suggestion to try to entice Congressman Wylie and I determined it wasn't successful, so....
MR. WYLIE: Well, you were on the first sentence. When you started with rather, then...

GOVERNOR PARTEE: I do believe, Mr. Chairman, that we ought to have the sense of the first sentence of Weidenbaum's recommendation somewhere in the report, because it's that first sentence that we were asked to study, and we have nowhere a conclusion regarding the principal mandate to the Commission.

DR. WEIDENBAUM: I'll offer it.

MR. NEAL: Excuse me, would you offer it as instead of a substitute or a minority view, offer it as an additional view so that we might have it in its entirety.

DR. WEIDENBAUM: In addition, the Commission concludes that under present circumstances restoring the role of gold does not appear to be a fruitful method of dealing with the continuing problem of inflation. Rather we believe that the control of the money supply is the key to reducing inflation. Therefore the Congress and the Federal Reserve -- is that redundant? Is that therefore redundant? Therefore the Congress and the Federal Reserve should study ways to improve the conduct of monetary policy including such alternatives as adopting a monetary rule.

DR. SPRINKEL: Is there any discussion of Dr. Weidenbaum's suggestion?

MR. WYLIE: There are two different concepts there.

DR. SPRINKEL: Sir?
MR. WYLIE: I think there are two different concepts there. Would it be possible to separate them into two?

DR. SPRINKEL: Yes, yes.

MR. WYLIE: I'd like to vote for the first sentence, but I can't bring myself to vote for the whole thing in its entirety.

DR. SPRINKEL: Governor Rice?

GOVERNOR RICE: I'd like to support Congressman Wylie on that. To put the entire burden of fighting inflation on monetary policy as this statement does, that is making it the key and ignoring all the other complimentary measures that really should be taken if they're not, I think is unacceptable, and I don't think we ought to state that in a report of this kind. So I would not accept that statement.

DR. SPRINKEL: Governor Wallich, did you have your hand up?

GOVERNOR WALLICH: Yes, I want to make the same point as Governor Rice. I think that by stating that the control of the money supply is the only needed cure for inflation would be disavowing what I think a large majority in this country believes. We have no basis for factual studies here on the table that we've made and it simply is a declaration of opinion that I think would discredit this Commission.

DR. SPRINKEL: Are there any other observations? Mr. Jordan, you had your hand up?
MR. JORDAN: I think that the language of the role of gold is a little bit broader than what the sense of the Commission has been, especially with the actions we took on gold coin. What we seem to have concluded, both in the surveys and what we've done so far is that at this time returning to a fixed-price gold standard is not a practical matter, but we have really not said that the role of gold should not be...

DR. WEIDENBAUM: Restoring a gold standard -- that's what I had in mind.

MR. JORDAN: Gold standard, in the usual sense of that word at this time, but also the language suggesting study of monetary policy sweeps a little broader than, I don't know what all might be included in that compared to the recommendation that we already have moved on. And I'm a little bit uncomfortable with it.

DR. SPRINKEL: Mr. Costamagna?

MR. COSTAMAGNA: My sentiments are with Jerry Jordan exactly in terms of the first half of your statement there, because I do think we did something this morning that does reflect a role for gold.

DR. WEIDENBAUM: I'd be willing to accept this change from restoring the gold standard. That's fine. That's an improvement.

DR. SPRINKEL: Yes, Governor Partee?

GOVERNOR PARTEE: Well, what I thought I would
suggest is that after we've voted on the whole of the proposal I would want to offer as a substitute the first sentence of that proposal. And I think that's consistent with what Congressman Wylie said, and just so that we would know that there would be a chance to vote on a substitute, I would intend to offer that, using the gold standard terminology that you now have.

MR. NEAL: Mr. Chairman?

DR. SPRINKEL: Yes sir, Congressman Neal.

MR. NEAL: As I heard the proposal, it did not say that the only important consideration for our economy was monetary policy. It said the key to controlling inflation is monetary policy. Did I not hear that correctly?

DR. WEIDENBAUM: That's correct.

MR. NEAL: Well, I certainly have no objection to that.

GOVERNOR RICE: To say it's the key without referring to other anti-inflation instruments that may be used is to in effect place the entire burden of fighting inflation on monetary policy.

MR. NEAL: Well, that was not to say, though, that fiscal policy is not important.

GOVERNOR RICE: Well, then, let him say it.

MR. NEAL: Let the record show that no one here thinks that fiscal policy is not important, or international trade is not important, or so on.
GOVERNOR RICE: I don't agree.

DR. WEIDENBAUM: If the phrase, "the key" is offensive, the most important factor....

GOVERNOR RICE: That's equally offensive.

DR. SPRINKEL: Are there any further discussions?

Now before we vote I want to make sure, Murray, how you're offering this. I understood you to say this is not a substitute for the preceding motions, but how do you characterize it?

DR. WEIDENBAUM: It's an additional statement.

DR. SPRINKEL: It's an additional statement.

DR. WEIDENBAUM: It's a supplement.

DR. SPRINKEL: Okay, a supplementary statement. Any further discussion? Could we have a show of hands of those in favor of the supplementary additional statement?

COMMISSION MEMBER: Can we hear it once again?

DR. SPRINKEL: Yes, we can.

DR. WEIDENBAUM: In addition, the Commission concludes that under present circumstances restoring the gold standard does not appear to be a fruitful method for dealing with the continuing problem of inflation. Rather we believe that the control of the money supply is the key to reducing inflation. Congress and the Federal Reserve therefore should study ways to improve the conduct of monetary policy, including such alternatives as adopting a monetary rule.

DR. SPRINKEL: Governor Wallich?
GOVERNOR WALLICH: Those who don't believe this, will they have a minority opinion?

DR. SPRINKEL: We're going to go to the minority as soon as we get off of this particular discussion, including any that you may want to suggest.

GOVERNOR PARTEE: I will be recommending a substitute to Murray's amendment....

DR. SPRINKEL: Additional statement.

GOVERNOR PARTEE: ....right after this that if carried will be a part of the majority.

DR. SPRINKEL: Mr. Coyne?

MR. COYNE: Excuse me for asking still again, but could you just read the one sentence including the phrase that refers to the growth of the money supply?

DR. WEIDENBAUM: We believe that the control of the money supply is the key to reducing inflation. And I'd be amenable to adopting revised language in the spirit of that, if that would help.

MR. COYNE: My sense is that what you've offered is an important thing for us to include in our report. But with respect to that one sentence, that implies inclusion based upon analysis of the situation that is just from my personal point of view outside of my competence and my knowledge. I don't know whether that's so. I would have no basis for knowing whether that's so, and I sense difference of opinion among serious
people for whom I have great respect at this table. Is it
possible that that sentence is separable from the balance of
your statement and subject to being voted on separately?

DR. WEIDENBAUM: Well let me suggest -- the answer is
yes -- and that going from the first sentence to the third we
then can have an amendment. I'll walk the amendment by in a
second, but let me offer instead a rough statement: In
addition, the Commission concludes that under the present
circumstances restoring the gold standard does not appear to be
a fruitful method for dealing with the continuing problem of
inflation. We do urge the Congress and the Federal Reserve
System to study ways to improve the conduct of monetary policy,
including such alternatives as adopting a monetary rule.

DR. SPRINKEL: Any further discussion of that
proposal? Are you ready to vote on this added statement in the
Commission report? All in favor raise your hands?

(Whereupon there was a showing of hands.)

TREASURY STAFF MEMBER: I count nine.

DR. SPRINKEL: All against? Henry you've got three,
right?

TREASURY STAFF MEMBER: Eight.

DR. SPRINKEL: It carried, by one, is that correct.

GOVERNOR PARTEE: Now I'd like to offer an amendment.

DR. WEIDENBAUM: I had suggested an amendment.

DR. SPRINKEL: Yes you did. Are you going to amend
your own one that just won?

DR. WEIDENBAUM: Yes, oh sure. Now I'd like to put
back in a middle sentence: Rather we believe that the control
of the money supply is the key to reducing inflation.

DR. SPRINKEL: In addition to the remainder of the
statement?

DR. WEIDENBAUM: That goes in the middle, in between
the first sentence.

DR. SPRINKEL: Does everybody understand what Murray
is proposing? He is proposing to strengthen it by putting in a
statement that money supply is the key concern. Are you
prepared to vote?

MR. WYLIE: I'll raise a point of order on this one
for the record.

DR. SPRINKEL: Those in favor of the amended
statement please raise your hands.

(Whereupon there was a showing of hands.)

DR. SPRINKEL: Those against?

(Whereupon there was a showing of hands.)

DR. SPRINKEL: Eight to seven in favor, if we counted
properly. Now, Governor Partee?

TREASURY STAFF MEMBER: Dr. Wallich, how many votes
were you to cast.

GOVERNOR WALLICH: Three, always.

DR. SPRINKEL: Could we have the no votes again,
TREASURY STAFF MEMBER: One, two, three, four, five, six, seven, eight, nine. Nine to eight the other way.

DR. SPRINKEL: Are you sure you got the count right? Are you agreed on the count, or must we do it again.

TREASURY STAFF MEMBER: Would you mind taking the no vote one more time?

DR. SPRINKEL: Could we have the no vote on that proposal one more time.

MR. COYNE: This is to the amendment?

DR. SPRINKEL: Yes, that's the stronger statement -- the no vote. Get it right -- nine against, eight for.

GOVERNOR PARTEE: Now, Mr. Chairman, may I suggest my amendment which is to accept the first, in substitution of the Weidenbaum -- which should I refer to it -- the first amendment?

DR. SPRINKEL: Yes.

GOVERNOR PARTEE: In substitution I would like to amend that to only include the first sentence, which reads, again, how Murray?

DR. WEIDENBAUM: You mean you want to strike out the second sentence?

GOVERNOR PARTEE: That's right. I want to have the reference to the gold standard as not being useful in present circumstances.
DR. WEIDENBAUM: You move to strike out the second sentence?

DR. SPRINKEL: You want to strike out all sentences except the first one, is that correct?

GOVERNOR PARTEE: Except the first one.

DR. SPRINKEL: There are only two. So, would you read the first sentence, Murray?

DR. WEIDENBAUM: The Commission concludes that under present circumstances restoring the gold standard does not appear to be a fruitful method for dealing with the continuing problem of inflation.

DR. SPRINKEL: Is there any discussion? Governor Partee is suggesting that that be included in the statements or in lieu of Murray's -- a substitute for Murray's proposal which won. Any discussion?

All in favor of Governor Partee's substitute motion please raise your hand.

(Whereupon there was a showing of hands.)

DR. SPRINKEL: All those who oppose Governor Partee's proposal raise your hand.

(Whereupon there was a showing of hands.)

DR. SPRINKEL: What's the vote?

TREASURY STAFF MEMBER: Six to ten.

DR. SPRINKEL: Six to ten against Governor Partee's proposal.
Now, the next question I must ask before we move on, is there any support for the minority recommendations that are listed here? Should they be included in the Commission's report in some form, or not.

DR. SCHWARTZ: Well, I'm fairly certain that minority recommendation three represents Mr. Lehrman's viewpoint.

DR. SPRINKEL: The first one reads: We are opposed to a role for gold in the domestic monetary system and favor a monetary rule governing ....

DR. SCHWARTZ: That's been satisfied.

DR. SPRINKEL: Oh, that's been satisfied, okay.

Number two, we favor a role for gold as a cover for a monetary aggregate, the value of the gold cover to fluctuate with the market price, that's one. Is there any support for that? Shall we include that in the Commission's report in some form? If there's anyone that wants it included, please raise your hand. There is none.

The next one: We favor the restoration of a gold standard with a fixed price of gold. It is the means to achieve discipline in the U.S. money base which will then increase or decrease with gold purchases and sales by the monetary authority.

I'm looking at the minority recommendations, Congressman Paul -- I'm on page twenty-three by mine. And the question is, do we want to include that one as a minority?

DR. SCHWARTZ: Unless you're not going to represent
Lehrman's view.

DR. SPRINKEL: Has he voted on that?

DR. SCHWARTZ: He hasn't voted on anything, but this is the point that he made during the meetings when he was present.

DR. PAUL: Yes, and I think it should be....

DR. SPRINKEL: Well, certainly Congressman Paul wants it included as a minority recommendation.

Now if we could move on to the next majority recommendation dealing with the international policy arrangements, the majority recommendation was: We favor no change in a flexible exchange rate system because in a world with varying inflation rates in most countries, maintaining permanently fixed rates is not possible. Mr. Jordan?

MR. JORDAN: I would recommend we amend this to delete beginning with the word because and everything after that.

MR. COSTAMAGNA: I second that.

DR. SPRINKEL: Is there any discussion of the proposed deletion?

DR. SCHWARTZ: Henry Reuss wanted to change it to: We favor no change in the role of gold in the international monetary system.

DR. SPRINKEL: In this particular section?

DR. SCHWARTZ: Yes.
DR. SPRINKEL: We favor no change in the role of gold in the international monetary system.

GOVERNOR WALLICH: Mr. Chairman?

DR. SPRINKEL: Yes sir.

GOVERNOR WALLICH: I have one that is essentially the same as the Henry Reuss -- I don't want to push it, if Mr. Reuss's vote was there -- it says: We favor no change in the usage of gold in the operation of the present exchange rate arrangements.

DR. SPRINKEL: Fairly similar to what Congressman Reuss -- and we want to get your sentiment on all these issues. Now the question is, does anyone prefer keeping the majority recommendation as it is rather than deleted as Mr. Jordan suggested?

GOVERNOR WALLICH: I think there is no good purpose served leaving the majority if it is substituted by either Reuss's or mine. So subject to that substitution, I see no need to vote on it, but I would like to be sure that a substitute is offered.

DR. SPRINKEL: Well, we'll make certain that the substitute is offered. The rule that you established earlier was that we vote on the majority recommendations and then the substitutes to the majority recommendations.

The majority recommendation has been changed by deleting each word after the phrase "exchange rate system." Are
you prepared to vote on that.

GOVERNOR PARTEE: It has no reference to gold.

DR. SPRINKEL: It has no reference to gold as stated here. No necessary role.

All in favor of the majority recommendation as amended, please raise your hands.

(Whereupon there was a showing of hands.)

DR. SPRINKEL: How many votes, Henry?

GOVERNOR WALLICH: Three.

TREASURY STAFF MEMBER: Twelve.

DR. SPRINKEL: Twelve in favor.

Could I have the no votes, please?

(Whereupon there was a showing of hands.)

DR. SPRINKEL: Two no votes.

DR. WEIDENBAUM: Do I need to make a motion to get the "a" changed to "the"? We favor no change in the?

DR. SPRINKEL: I don't think you need a motion for that.

Now we have a proposed alternative, I believe.

Henry, did you want to offer yours as an alternative or an added statement?

GOVERNOR WALLICH: As an alternative.

DR. SPRINKEL: Okay.

GOVERNOR WALLICH: Do you want me to read it?

DR. SPRINKEL: It's a substitute for.
GOVERNOR WALLICH: It's a substitute for what we just voted on.

DR. SPRINKEL: Would you read it again, please.

GOVERNOR WALLICH: We favor no change in the usage of gold in the operation of the present exchange rate arrangements.

DR. SPRINKEL: And that's very close to what Congressman Reuss wanted to say.

GOVERNOR WALLICH: Only words that were different -- not meaning.

DR. SPRINKEL: Is there any discussion? Yes sir, Congressman Wylie.

MR. WYLIE: I'm going to support that because he refers to gold. It seems to me that we've gotten far afield in the last few votes of our charge, so since it refers to gold, I'm going to vote for it.

MR. JORDAN: Is this being proposed as a substitute for what we've already voted on?

DR. SPRINKEL: That's what I understood Governor Wallich to say. Is that correct -- this is a substitute for the one just voted up. That is, it's a substitute for the statement that we favor no change in the flexible exchange rate system. He wants to vote upon this as a substitute for the one already passed. Mr. Costamagna?

MR. COSTAMAGNA: I'm just wondering if from all the prior discussions that we've had about the international
arrangements, if both of these thoughts cannot be expressed on one recommendation that we favor no change in the flexible exchange rate system and what Governor Wallich is proposing.

DR. SPRINKEL: I asked Governor Wallich if he wanted it as an addition or a substitute and he stated he wanted it as a substitute.

GOVERNOR PARTEE: Let's try it as a substitute, and if it fails then I'll offer it as an addition.

DR. SPRINKEL: Okay. Are we agreed to vote upon it as — yes, Mr. Coyne.

MR. COYNE: A question -- how would this relate to the former vote we took that asked for further study on a monetary rule? No relationship?

DR. SPRINKEL: No direct relationship. Any further comments? Could we now vote on Governor Wallich's proposed substitute motion relating to a statement that there should be no change in the role of gold in the international monetary system. Are you ready to vote?

All in favor of Governor Wallich's proposal, raise your hand, please.

(Whereupon there was a showing of hands.)

GOVERNOR WALLICH: Three, please.

DR. SPRINKEL: All against Governor Wallich's proposal raise your hand.

(Whereupon there was a showing of hands.)
GOVERNOR PARTEE: Mr. Chairman, I would like to offer the Wallich proposal as an addition to the recommendation that was previously accepted.

DR. SPRINKEL: Okay, it's now being proposed by Governor Partee that the Wallich proposal be offered as an addition to the proposal that was accepted, and the proposal that was accepted stated we favor no change in the flexible exchange rate system — period. You're suggesting now that in addition we should say, as a Commission, we favor no change in the usage of gold in the operation of the present exchange rate arrangements. Is that understood now? This is in addition to. All in favor of that addition, please raise your hand.

(Whereupon there was a showing of hands.)

MR. COYNE: We're voting to put back what we originally voted for, in effect?

DR. SPRINKEL: I thought I stated -- but I'll state it again, and perhaps I did not state it precisely. We voted on this particular proposal as a substitute for the one that was passed, and it failed. We are now voting on it as an addition to the one that passed.

MR. COSTAMAGNA: So it would read: We favor no change in the flexible exchange rate system and no change in the international role gold, or whatever?

DR. SPRINKEL: That's correct. Now we know that we're voting on the addition as proposed by Governor Partee, the
statement made by Governor Wallich. An addition to the initial one that passed.

Could I have a show of hands in favor of, please.

(Whereupon there was a showing of hands.)

DR. SPRINKEL: Those against?

(Whereupon there was a showing of hands.)

DR. SPRINKEL: Okay, twelve to two.

Now we do have some minority recommendations. What support do we have for those minority recommendations? Should they be included? Yes sir?

DR. PAUL: On the first one, I would request that it be included for the benefit of Mr. Lehrman.

DR. SPRINKEL: Alright, is there anyone that cares to express a comment on opposing action by the United States to seek a distribution of the IMF gold to member countries.

DR. PAUL: I would like to express my dissenting view on that.

DR. SPRINKEL: This is a majority recommendation that we're coming into now, but you will have an opportunity to vote against it, I would presume. Governor Wallich? Oh, someone had his hand up, I thought is was Governor Wallich.

GOVERNOR WALLICH: I have some language here, but it's not substantive and if I may give it to the Secretary later that would be alright.

DR. SPRINKEL: Are we prepared to go to a discussion
of the distribution of IMF gold to the member countries? There is a majority recommendation: We oppose action by the United States to seek a distribution of IMF gold to member countries. Is there any discussion? Could I have a show of hands on this issue. Those in favor of the proposed majority recommendation, please raise your hands.

(At which time there was a showing of hands.)

TREASURY OFFICIAL: Eight yes.
DR. SPRINKEL: You've got three, Henry?
GOVERNOR WALLICH: Three, yes.
DR. SPRINKEL: Could I have a show of hands against the majority recommendation?

(At which time there was a showing of hands.)

TREASURY OFFICIAL: Three against.
DR. SPRINKEL: Eight yes, three no.

There is the majority recommendation and I presume you would like to...

DR. PAUL: May I be recorded with two votes on opposition to that?

TREASURY OFFICIAL: Eight yes, five no.
DR. SPRINKEL: I thought something was wrong there. So we include recognition of the fact that there is a minority that proposed distribution of gold.

DR. PAUL: Mr. Chairman, may I have an opportunity to present an additional recommendation?
DR. SPRINKEL: Yes sir.

DR. PAUL: I have expressed concern during some of the Commission hearings about a problem that has existed in the past, and that is the legal implications that the authority that the Secretary of the Treasury has to compel delivery of gold to the Treasury under conditions of economic emergencies. I would like to make a recommendation along these lines. We favor the repeal of the power of the Secretary of the Treasury to compel delivery of gold to the Treasury under economic emergency conditions.

DR. SPRINKEL: Could we have some discussion of that proposal?

DR. PAUL: I would like to just start off the discussion by saying that everything that we have done would be a moot point if that power is not eliminated, because in the past we have known that in wartime conditions and economic emergency conditions, governments have traditionally taken this freedom away from the people, and I think that if there's any one time that we can come down on the side of the marketplace and a free society, it would be under these conditions to urge that type of an authority be repealed.

DR. SCHWARTZ: Under what statute is that authority?

DR. PAUL: I understand it's under the Gold Reserve Act of 1934 as well as the Federal Reserve Act of 1913.

DR. SPRINKEL: Congressman Paul, I believe you
requested a paper by Treasury which unfortunately did not get
finished by this meeting. If it would be satisfactory by you,
we will make absolutely certain it is available before the next
meeting and then we could take up your proposal at that time if
you would be willing to do that. And we should have gotten the
paper this time if we could have, but there are some problems.
But we will get it between now and the next meeting and make
certain that you have an opportunity to make your proposal at
that time, if that's agreeable.

DR. PAUL: Satisfactory.

MR. COSTAMAGNA: May I take up a matter, Mr.
Chairman?

DR. SPRINKEL: Yes sir, Mr. Costamagna.

MR. COSTAMAGNA: I don't have an amendment or a
proposal. I just would like us to consider the insertion of two
or three words here in the conclusion. In the second full
paragraph from the top it begins: The majority of us at this
time favor essentially no change in the present role of gold.
Yet we are not prepared to rule out a role for gold at some
future date. If we fail to restore price stability -- and this
is what I request we include -- if we fail to restore price
stability and confidence in our currency in the years ahead, we
believe that those who advocate an immediate return to gold will
grow in numbers and influence. If we do succeed in restoring
price stability and confidence in our currency, etc.
I would appreciate your consideration of adding that phrase: and confidence in our currency. And I think that same language is used in the introduction somewhere, and I would also request, if we agree that that entire phrase be used there also.

DR. SPRINKEL: Mr. Jordan?

MR. JORDAN: Referring to the same paragraph as Mr. Costamagna, it's not clear to me that the majority view is as stated here in the vague sense of the present role of gold, rather than the majority has not favored an immediate or anytime in the near future return to a gold standard. But that does not necessarily mean that we have rejected a change in the present role of gold, as our decision on gold coins would indicate.

DR. WEIDENBAUM: I think that change is well taken.

DR. SCHWARTZ: Well, we just accepted the amendments that Governor Wallich and Mr. Reuss suggested: No change in the role of gold in the international monetary system.

GOVERNOR WALLICH: Usage of gold, I think it was.

DR. WEIDENBAUM: In my supplemental insertion, as Dr. Jordan suggested, no return to gold standard.

MR. COSTAMAGNA: I think the distinction there is internationally versus domestically, because adopting the coin is domestically. There is some recognition of a change.

DR. SPRINKEL: If the Commission is agreeable, we'll move on to the third part of our agenda.

MR. NEAL: Mr. Chairman?
DR. SPRINKEL: Yes sir.

MR. NEAL: I'm sorry, I had to leave the room for a minute, but there are a couple of comments I'd like to make at this point if I may. You've been considering page twenty-six of your report as I understand it, and maybe you've covered this, but I was just a little bit troubled with some of the language there, and I won't dwell on it, but I'd like your consideration of a couple of things here. Under the conclusion -- in the second paragraph in line one, two, three, four, five, you say, the report says, we believe those who advocate an immediate return to gold will grow in numbers and influence. And I just ask the question why. It seems to me that this implies, wrongly I think, that this would be beneficial. And I just don't see any reason for leaving that kind of impression in the report. Then the next sentence says: If we do succeed in restoring price stability, tighter linkage of our monetary system to gold may well become unnecessary. That seems like a gratuitous kind of comment to me. I don't see the relationship and I don't frankly see why we want that in the report. I would just ask that maybe we work on that language just a little bit.

And I'd also like to make one more comment before we move on to the final aspect of our agenda, and that concerns some earlier comments on the role of monetary and fiscal policy and so on. And I certainly did not want to leave the impression that my comments -- no one has suggested to me that I did -- but...
in -- just in thinking about it while on the phone with someone else, I didn't want to leave the impression that I was trying to be overly critical of our most distinguished Federal Reserve Board.

What I was trying to say -- and I hope none of them took it that way, because I hold them in the highest regard and the greatest respect -- and I think the real thrust of what I was saying is that we can attribute the recent reductions -- very impressive recent reductions -- in the rate of inflation to the Federal Reserve Board. And if money growth had not been restrained over the last couple of years I think it is quite clear to me that we would not have seen the real reduction in the rate of inflation that we have seen and I would just like to commend them for that, thank them for that, and I just want the record to show that that is consistent with the view that we ought to continue that kind of restraint.

I guess I would have to throw in a caveat lest the record be misread, and that is I think that all of the credit for the recent sustained reduction in the rate of inflation can be attributed to the Federal Reserve Board. I think that there has been a certain inconsistency in the policy that resulted in some of the recessionary trends that we've seen also, but I also wanted not to leave the impression that I thought or that I think that anyone else on this panel thought that fiscal policy was not important. I think it certainly is extremely important.
in this whole mix and that the reason that interest rates remain
high in the face of this lowering in the rate of inflation is
largely because of the great concern about these deficits in the
out years and I certainly would not want to minimize the impact
of those deficits, and hope that we will act much more
reasonably to control them.

I thank you for indulging me in these comments.

DR. SPRINKEL: Are there any other comments? Are we
ready to go on to the next point of the agenda which was
initially meant to be a discussion of Draft Chapter Three of the
Unfortunately you received the copy today, not prior to today,
and it's not fair to ask you to comment on it now. But if each
of you would take a look at it and send your comments directly
to Dr. Schwartz it would be very helpful, because it is
important that we move along to get it finished as quickly as
possible. Yes, Congressman Paul?

DR. PAUL: I have one comment in general. I think
earlier we had discussed the subject, I believe at our second
meeting, and had made the request to describe, as well, a
parallel standard, and I see we have a short section in here, a
paragraph or two on radical proposals, dealing somewhat with the
high-tech proposal, and I would suggest and request again that
we deal in a little bit more depth with the parallel type of
standard where dollars would be competing more or less with what
might be coming about by the very action that we have taken here, by allowing gold coins to exist, and I would ask again that that be included as a section and not just deal with this in the more radical terms of competing paper currencies. Because I think that is more radical than what has been suggested.

DR. SPRINKEL: Mr. Coyne?

MR. COYNE: Mr. Chairman, just before going off the draft that we just finished, I hope you'll excuse me for just a few seconds if I express my congratulations to Dr. Schwartz on her draft. I really commend her personally for accurately reflecting and putting in workable order the views that were expressed over these past several months -- especially allowing us to be able to come to grips with the diverse and various and frequently changing opinions of this group of people, and it was the fact that we wound up today with a workable document speaks most clearly of the job she did, and I just wish to say thank you.

MR. NEAL: I'd like to echo that.

DR. SPRINKEL: Before we discuss the final point which is our date for the next meeting, are there any other issues that any member of the commission wants to bring up? Nothing else, is that correct?

We agreed at our last meeting to schedule a future meeting on March 8, and at that time we hope to have a complete
draft of the report before us and they'll get an opportunity, I
presume, to read it before we actually come here March 8. So I
would like for us to confirm this date at this time, if that's
still your intent, and determine whether another meeting in
March is likely to be needed in order for us to complete our
report, and that's up to you. If so, if you decide that you may
want another date, from my point of view we would suggest
Friday, March 26. And this would just barely permit enough time
for typing, editing and reproduction before the end March due
date for transmittal to the Congress. So I would like to hear
your comments on this. Yes, Murray?

DR. WEIDENBAUM: Is there an active market for
proxies, because I'll be in New York, but I'll be glad to....

MR. COSTAMAGNA: Is there a possibility of changing
March 8?

DR. SPRINKEL: Well, I think it was checked out
pretty carefully, and agreed on, at least tentatively. What
facilities do we have for changing this, if any?

DR. WEIDENBAUM: We would have to check schedules.

There were problems with March 5. The eighth was the least
worst day in March.

DR. SPRINKEL: I think that's correct.

MR. COSTAMAGNA: I can be here, but I will have to
fly all night to get here.

DR. SPRINKEL: Oh goodness.
MR. COSTAMAGNA: I'll do it. There's no problem.

DR. SPRINKEL: The eighth is a Monday.

MR. COSTAMAGNA: I might mention I'm flying all the way from Hawaii.

MR. COYNE: Perhaps we could fly out to be with you.

DR. SPRINKEL: Even though the eighth date isn't ideal, apparently it's the least worrisome, so if we can agree that our next meeting will be on the eighth. Now what is your desire concerning the possibility of holding another date open in case we need it? It's up to you.

GOVERNOR PARTEE: Well, I think we very well may need it. I would certainly think we ought to find a date that we could hold open. Hopefully we won't have to use it, but we might very well need it.

DR. SCHWARTZ: We'll have to agree on some point where further changes can be made because I won't be able to accommodate if I'm first going to get changes as late as the twenty-sixth. You will have to have your changes in before that date so that you will see how I attempted to revise something in response to changes made earlier. So if March 26 is really a final version report....

DR. SPRINKEL: Does the Commission want to hold the alternative, the second date open in the event it becomes necessary and desirable?

GOVERNOR WALLICH: That would be very wise.
DR. SPRINKEL: Okay, if there is no objection we will confirm the March 8 date, which will be the next meeting of this Commission, and we will hold open the possibility, if needed, of meeting for the last time on Friday, March 26.

Thank you very much for your persistence and hard work. We will look forward to seeing you on March 8.

(Whereupon, at 5:15 o'clock p.m. the meeting was 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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