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

March 1982

Contents of the Commission’s Permanent Record

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-- New York Gold and Silver Futures Exchange, October 22, 1981.

-- Nordt, Paul W., North Caldwell, New Jersey, November 12, 1981.


-- Russell, Jim, B. L. Rhodes Company, Chardon, Ohio, November 9, 1981.


-- Silox, John, Bank of Hanover & Trust Co., Hanover, Pa., November 4, 1981.


-- Syms, Steven, U.S. Senator from Idaho, November 12, 1981.


-- Whelply, James, ISI Corporation, Oakland, Calif., November 13, 1981.


** Missing
Statement for the U.S. Gold Commission:

In 1974 I made a speech to the Men's Republican Club of Montgomery County, Maryland. It expressed the views of the International Institute for Resource Economics at that time. I believe it is still relevant. Here it is:

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

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

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

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

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

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

Very truly yours,

Wallace D. Barlow, P.E., Director
INTERNATIONAL INSTITUTE FOR RESOURCE ECONOMICS
A General Theory of Human Progress

100% MOTIVATION 100% CODIFICATION 100% SYMBOLS
100% POPULATION 100% TECHNOLOGY 100% CENTRALITY

Millions

Thousands

Hundreds

Billions

100% = MAXIMIZED HUMAN POTENTIAL OR ACTUALIZATION
0 = NO ABILITY TO UTILIZE HUMAN POTENTIAL

Developed by Professor Robert R. Blain, PhD, Southern Illinois University, Edwardsville, Illinois 62026, September, 1980
The General Theory of Human Progress, known to its developer as The ICL (Information Chain Length) Theory, is a statement of probable causal correlations observable in the evidence of past and present human societies. The evidence appears to show that human groups have prospered to the degree that they have attained high levels of development with respect to each of the six independent variables of the ICL theory, namely, large numbers of people, commitment motivation, electrical technologies, scientific and democratic methods of codification, high levels of population density, and meaningful and stable writing systems including those of numbers and money. These conditions make it possible for the members of human groups to communicate information maximum distances in minimum volumes. Conversely, the evidence appears to show that human groups have suffered hardship to the degree that they have remained at or regressed to low levels of development with respect to each of the six independent variables of the ICL theory, namely, small numbers of people, widespread use of coercion, manual technologies, traditional methods of codification, low levels of population density, and a spoken language unsupported by written symbol systems including those of numbers and money.

The Basic Paradigm

![Diagram of the Basic Paradigm of the ICL Theory]

The explanation for these correlations is to be found in the Basic Paradigm of the ICL Theory. In general, as information is communicated from person to person to person (forming an information chain), there is a tendency for information to become distorted, to undergo entropy. The six independent variables of the ICL theory vary systematically in their effects upon this rate of entropy. Similarly, these six variables affect the volume of information that it is necessary to process through the social system to bring about effective cooperation. High volumes of information create problems of information overload and congestion, making low volumes of information preferable for efficient cooperation.

In brief, the ICL Theory states that human progress depends upon the accurate and efficient communication of information the longest necessary social distances to support the largest scale of cooperation and thus the greatest potential for human fulfillment and actualization.
The Necessary Characteristics of a Monetary Standard

by

Robert R. Blain, PhD

Professor of Sociology

Southern Illinois University at Edwardsville

Presented to

The Gold Commission

Washington D.C.

November 24, 1981
The Necessary Characteristics of a Monetary Standard

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Any standard of weight or measure, including money, must possess certain characteristics. It is relatively easy to identify what these characteristics must be because we already have a large number of such standards including standards of length, weight, temperature, barometric pressure, volume, and time. Each of these standards has now been in use for many years and has proven itself in practice to work very well in providing its users with the means to effectively and efficiently, without government intervention, exchange goods involving their use. The only mechanism of economic cooperation and exchange that now fails to work adequately is money, hence the need to compare money to each of the characteristics that any standard must possess.

The characteristics that all successful standards possess are the following:

1. They are real. That is, they have an existence outside the minds of their users. None is purely subjective. All are tangible in some way. Length can be seen, weight can be measured on a scale, temperature can be felt and sensed by a thermometer, speed can be observed and measured with a speedometer, atmospheric pressure can be measured with a barometer. Objective existence is a necessary characteristic of any standard because only an objective standard can serve as an arbiter of a dispute between exchange partners. Were a standard of length, for example, only subjective, two people who
disagreed over the dimensions of a plot of land could never resolve their disagreement with mutual certainty.

2. All successful standards are stable. The function of a standard is to facilitate the cooperation and coordination of economic activities that take place among persons dispersed over wide geographic regions and over long periods of time. Any standard that itself changed dimensions from place to place or from time to time could not perform this function. The critical importance of stability is implied by the standard for yard as defined in 1854: "the distance between two lines crossing two gold studs set in a certain bar of platinum kept in London, the measurement being made when the temperature is 62 degrees Fahrenheit and the barometric pressure is 30 inches" (Funk and Wagnalls, 1950: 13,060).

3. All successful standards are system-wide. In order for a standard to facilitate the coordination of all parts of an economic system, all persons in the system must have access to that standard. Early measurement systems, such as the Roman, based on the human foot, the hand, or the distance from the nose to the end of the outstretched arm, involved measurement errors because these varied from person to person. Standardization meant establishing one and only one foot, hand, or arm as the standard to be used by everyone in the system.

4. All successful standards are appropriate. A standard must possess the quality that is being measured. A standard of length must have length, a standard of weight must have weight, a standard of temperature must vary with changes in temperature, etc. It would be inappropriate to use a weight as a standard of length, or a weight as a standard of time, etc.
Having identified the four characteristics that are in fact possessed by all known successful standards of weight and measure, we can test the validity of using gold as a monetary standard by seeing if gold possesses each and every of these characteristics. When this test is made, we find that gold meets in full only the first characteristic, that of being real.

1. **Is gold real?** Yes, gold is real. Gold has an observable, tangible existence. People can see it. Indeed, it is the reality of gold that recommends it as a monetary standard. By tying the value of money to a quantity of gold, it is thought that the money supply will be made objectively determinable.

2. **Is gold stable?** If we consider a particular piece of gold we must say that gold is stable. A piece of gold will remain exactly what it is over generations of time - assuming that it is not purposely altered by man. Gold, of course, deteriorates at the atomic level but at too slow a rate to be relevant to human economic relations.

   If we consider the total supply of gold, however, we find that its quantity is not stable. As gold is mined, the supply increases. As gold is used for industrial and cosmetic purposes, the supply decreases. Since gold is relatively rare, the rate of change is much slower than the rate for commodities such as wheat and corn. In this sense, gold is more stable than certain other things and a money system based on gold would be only relatively stable.

   When we consider the value of gold, we find it to be highly variable. The judgment of value tends to be highly subjective, dependent upon the person and the use made of it. Some persons place a high value on gold jewelry while others regard such a use as wasteful.
Therefore, we must conclude that gold does not meet the criterion of stability.

3. Is gold system-wide? Gold is system-wide only in the sense that everyone has heard of gold. Gold is not system-wide in the sense that very few people possess any gold, very few people can identify gold and unfailingly distinguish it from pyrite, virtually noone knows how to measure "karats" of gold. People could weigh a piece of gold, but an expert would have to certify the metal as gold and would have to assess its purity.

4. Is gold appropriate? Gold is measured by weight. The function of a monetary standard is to measure price. Is it appropriate to measure the price of a good or service by its weight? If it were, then the heaviest things would have the highest prices and the lightest things would have the lowest prices. Houses would sell for more than diamonds, iron ore would sell for more than precision surgical instruments, and all services - having no weight at all - would be free. Gold, clearly, fails to meet the test of appropriateness.

Therefore, when gold is judged by the characteristics possessed by all successful standards of weight and measure it fails to meet three out of four. Gold is real but it is not stable, it is not system-wide, and it is not appropriate. Given this almost total failure of gold to measure up to the characteristics needed by a monetary standard, we might pause to ask why has gold been so prominent as a candidate for a monetary standard? The answer lies in the history of the evolution of money.
Since the members of the Gold Commission are undoubtedly familiar with the evolution of money, I will not bore you with a lot of detail. In capsule form, the evolution of money progressed through the following stages:

1. Barter - goods and services directly exchanged.

2. Favorite commodity systems - where a third commodity mediated exchange. The commodities that emerged as favorites were mainly copper, silver, and gold. These metals did not rust, hence were goods "stores of value," they could be moved from place to place, and they could be added to or subtracted from so that items of unequal value could be exchanged.

3. Paper receipt systems - the commodity money was held in a safe place and paper receipts circulated in their stead. In this way, the paper came to be thought of as standing for the silver or gold "on reserve."

4. Fractional reserve systems - loans were made based on money on deposit so that the total money supply was expanded beyond the amount on deposit. Gradually the reserves ceased to be in gold or silver and we advanced to completely paper money systems, the situation we are in at present.

Why, then, is gold popular as a candidate for the monetary standard? Because in the past it served as such a standard and, in the context of primitive money systems, it worked tolerably better than anything else. However, does this mean that we should go back to gold? The question is somewhat like asking Should we go back to favorite commodity systems or back to barter? Should we turn back the clock of monetary evolution? The supply of gold in
the world and particularly the distribution of that gold among the countries of the world does not correspond with the supply and distribution of economic activities in the world. Therefore, to tie the money supply to the gold supply would contort, confound, and confuse economic relationships.

What we need is not to go back to gold; what we need is to go forward to yet another stage in the evolution of money. What we need is to find something that meets the four conditions that must be met by a monetary standard, something real, stable, universal, and common to all occupations and goods and services worldwide. Such a thing does exist. Unfortunately, the contortions that an unstandardized monetary system has already created will make the adoption of that "thing" difficult. Nonetheless, I believe it is the duty of our generation to face the truth as clearly and as squarely as our minds permit. We admire our forefathers for the special courage they manifested in fighting for our political independence; let them serve as models for us as we face the economic challenge of our time - identifying and adopting a monetary standard that logic and the facts impose upon us.

The "thing" that meets all four necessary characteristics of a monetary standard is time.

1. Is time real? Yes, time is real. Time is based on the rotation of the earth (hours and days) and the orbit of the earth around the sun (days, weeks, and years). The reality of time is not in the same form, for example, as the reality of a weight. The reality of time is more akin to the reality of speed. Time is measured by movement. We sense time by the rising and setting of the sun and by the change of the seasons. The modern understanding of time is relatively new, being at least post-Copernicus.
2. **Is time stable?** Time is as stable as the rotation of the earth on its axis and the orbit of the earth around the sun. As far as human economic activities are concerned, time is probably the most stable thing of all. Indeed, we measure the deterioration of atoms by time - their half-lives. Time is clearly more stable than gold.

3. **Is time system-wide?** Time is worldwide. All peoples all over the world keep time records. And the 24 hour day is universal. Clocks can be found in all but the most primitive cultures and even the latter have some form of clocks.

4. **Is time appropriate as a monetary standard?** There is a great deal of evidence that time is appropriate. The first body of evidence consists of all the ways we presently use time to organize and regulate our economic activities. We define the length of the working day in hours; we define the length of the work week in days; we define the length of the work year in weeks; we define the work career in years. We govern entry into the labor force by age; we govern exit from the work force by age. Apartment rent is charged by the month; interest is charged by the month and year; taxes come due annually. Depreciation allowances are defined by time; education is organized by age and years; economic planning is often done in man-hours. People are paid by the hour, by the week, by the month, and by the year. Seniority is a matter of time. Ironically, we measure inflation with time! If time were not appropriate as a standard for organizing economic activities, it would be difficult to explain its universal use.

Another kind of evidence for the appropriateness of time
as a monetary standard is people who have proposed its use as such. These include Benjamin Franklin who proposed in 1729 that time-in-production be used to set prices; the residents of New Harmony, Indiana who used time to set prices in their store; Josiah Warren of Ohio who proposed the use of time for prices in the nineteenth century; and the frequent use of man-hours by the government to compare the real cost of commodities over time.

Another kind of evidence for the use of time as a monetary standard is the universal language habit of linking time and money. In their daily conversations, in advertisements, and in public declarations, we constantly hear the phrases "spending time and spending money," "saving time and saving money," "investing time and investing money." The constant association of time and money suggests that the two have a great deal in common. Both time and money have a powerful disciplining effect on human activity.

Therefore, we have identified the four characteristics that all successful standards have in common and we have found that, where gold fails to meet these conditions, time meets them all.

**How might time be instituted as the monetary standard?** There is a relatively simple and reasonable method for adopting time as the monetary standard; namely, to divide the Gross National Product by the total number of hours worked by the labor force to produce that GNP. Since the GNP is in dollars and work time is in hours, the division would yield dollars per hour, the ratio for defining dollars in units of time.
For 1980, the calculation would have been as follows. The 1980 Gross National Product for the United States was $2,626 billion. The labor force in 1980 numbered 97.3 million persons. I do not know how many hours the labor force worked, so an assumption is introduced here to complete the illustration. Let us assume that everyone in the labor force worked 40 hours a week for 50 weeks, probably an overestimate, but useful for the present purpose. By that assumption the labor force worked 97.3m(40 x 50) = 97.3m(2000) = 194.66 billion hours.

\[
\frac{\text{Gross National Product}}{\text{Total Hours Worked}} = \frac{2,626 \text{ b}}{194.66 \text{ b}} = \$13.49 \text{ per hour.}
\]

This equation defines the ratio of dollars to hours by which the present dollars could be replaced by new Hour Dollars and the entire economy placed on the Time Standard.

The conversion equation has the advantage of being applicable to any nation in the world and of being adoptable at any time. Such a conversion could place international monetary relations on a stable and rational basis. International comparisons would reveal cases of price inequities and prevent such price abuses as the price increases of the OPEC cartel as the understanding spread that prices should reflect the time required to produce goods and services.

Money on the time standard would greatly simplify economic theory and economic practice. The setting of prices would become a matter of simple administrative routine. Inflation would be ended, for price increases would imply that more time is required for production, a dubious assumption in most cases.

Perhaps the greatest benefit of money on the time standard would be its effect on the relationship between government and the market. Today we
see an unprecedented involvement of government in economic affairs. This involvement has been made necessary by the economic chaos caused by money that has no real, stable, universal, and appropriate standard. In the absence of a monetary standard, the setting of prices has been a matter of trial and error, inflation has continued for generations, and economic planning for all units of the economy has had perverse and unpredictable results. The market cannot work with a money system that leaves everyone to guess what a dollar is worth. The free market can be free and work only where each person in the system has a known and reasonable yardstick for deciding how much to charge and how to pay for particular goods and services.

The question that naturally arises when the proposal to go on the time standard is made is Will everyone be paid the same amount of money per hour? Would, for example, everyone be paid the equivalent of $13.49 per hour?

Note, first of all, that a wage rate of $13.49 per hour, if received by everyone, would be a good living. At such a rate a large part of our taxes would already be paid. Such a rate provides for the payment of all government employees (they are included in the labor force), all public and private school teachers, police and firemen, etc. - everyone in the labor force would be paid. The only taxes that would be necessary would be transfer payments to support children, the disabled, and the retired. Each worker would need to support him or herself plus 1 and 1/3 other people. We produced enough in the United States in 1980 to provide an income of $11,619 per person in the society. (I am ignoring capital depreciation allowances partly because it is difficult to assess their accuracy - but if included they would not significantly reduce the per capita figure.)
The second point to be noted with respect to the question Will everyone be paid the same amount of money per hour? is this. The adoption of the time standard does not change anyone's income. It leaves the distribution of money unchanged. The only immediate effect is to give the money numbers a meaning that they presently lack. The people making a million dollars a year would continue to make the same amount of money relative to everyone else. The only change would be that the income would be expressed in hours and years.

If $13.49 equals one hour, a year is equal to 2000 times $13.49 or $26,980. One year equals $26,980. A million dollars, then, equals

$$\frac{1,000,000}{26,980} = 37 \text{ years.}$$

The millionaire's income would be expressed as 37 years.

The benefits of money on the time standard would begin to occur as people throughout the economy gained a new and real understanding of how much money they were receiving. They could then make their economic decisions accordingly. The millionaire, for example, might decide to retire after a few years, having earned enough to last more than a lifetime. The adoption of the time standard is meant to make the free market work; it is not meant to replace that market. Today the market is in chaos; the time standard would straighten it out through voluntary and gradual adjustments.

What is the alternative? Socialism is on the rise in the world because capitalism appears to be destroying itself. Free market cooperation can be saved only by adopting a rational yardstick of economic price. Gold fails to meet the necessary criteria; time meets all of them. Our intuition tells us repeatedly that time and money go together. Is it not interesting that the solution to inflation may be just a matter of time?

November 24, 1981
I am from Kansas. And in Kansas there are some wide open spaces and a favorite sport is sky-diving. It’s supposed to be safe, at least that is what one of my sky-diving friends told me until that fateful day he stepped out of an airplane and pulled his ripcord and nothing happened. Nothing happened!

Fortunately, he knew what to do next. He cut away the main chute and pulled the emergency chute. Again, nothing happened! Now my friend was becoming a little concerned as he plummeted towards earth, when he spied a gentleman who was coming up from the opposite direction! Not knowing what to do in his predicament and nearly completely beside himself my friend asked this gentleman, "Do you know anything about sky-diving?"

The gentleman replied, "No! Do you know anything about Coleman stoves?"

Gentlemen, Mr. Chairman, Members of Congress, Distinguished Commissioners this is the predicament our nation faces today. We are at a brink of a precipice and don’t know which way to jump.

As noble laureate F. A. Hayek puts it we can no longer afford a system that subjects the entire nation to the recurring bouts of acute inflation and deflation that have become accentuated during the past 60 years. To paraphrase Lewis Lehrman, Socialists, Communists, and Monetarists — men of all persuasion — have now agreed that the end of this predicament is at least an important, if not the preeminent goal that we all affirm.

The Members of this Commission and the nation as a whole agree on the problem. We disagree only on the solution.

Some members of this Commission have attributed great importance to the precise amount that the federal government should expand the money supply, others point to the level of the federal deficit, still others refer to a role of gold in the nation’s purchasing media and still others point to the importance that gold play no role in money at all. Some have even presented a combination of these ideas and ideas that I have not mentioned here.

Clearly it is evident that no two Members of this Commission can agree on what role gold should or should not play in the monetary realm. As Shakespeare put it, "There seems much ado about nothing." The Members of this Commission and the American public perceives that something is fundamentally wrong with our economy, yet no two citizens can agree on just what path this nation should embark.

Gentlemen, I submit that you — the Members of this Commission — are truly representative of our Republic and I want to take this moment to commend all of you for your diligence and
thoroughness in this monumental task. I only pray that our predicament is not so bad as that of our friends who met in mid-air or this historical event will wither into an academic footnote.

Are you familiar with the “little crackpot in the basement” theory of the future? In a nutshell the theory works like this: Forget the “great men” of our time — the statesmen, the presidents, generals, and kings. Instead watch for “the little crackpot in the basement” — the unknown, unheralded, hitherto “loser”, who will suddenly pull a rabbit out of the hat and change the world.

A mediocre civil servant named Einstein altered our concept of the universe. A down-at-the-heels handyman named Edison changed the way we live our daily lives. A pair of dropout brothers gave up repairing bicycles and gave mankind wings to fly. Then there was Henry Heinz, Clarence Birdseye, Gail Borden, Eli Whitney, Henry Ford — we could go on and on.

It is no mere coincidence that the tremendous advances during the past two hundred years evolved in the Western World instead of India, Africa, or South America. And the environment which made such spontaneous advances possible did not always exist. Only two hundred years before Edison, Galileo was considered a heretic and countless thousands of other dissidents were regularly burned at the stake.

My purpose is not to review the great history of American Freedom. Although I love to tell the story I am sure you equally appreciate our unique heritage. My point is that while historical evidence suggests that “the little crackpot in the basement” theory works, it can do so only in the context of a free society.

Throughout our history freedom has been this nation’s saving grace. Freedom unleashes America’s most powerful and reliable force that has always worked in a tight spot — good old American know-how.

The issue is not a gold standard. The issue is freedom. If gold is indeed a better monetary unit then we must not be afraid to subject it to the test of the marketplace. It must emerge by its own merits.

The obstacles we face are two-fold.

The first obstacle is the superstition that money is a function of government. This superstition is similar in nature to the concept of the divine right of kings held centuries ago.

The second obstacle is a very powerful bank-
who wishes to express monetary ideas in a unit other than paper dollars is a modern-day American dissident. The legalization of gold ownership in 1975 corrected this situation to some degree in that a primitive 100 percent gold standard has been free to evolve in competition with the paper dollar model. But while gold bullion storage, gold certificates, and gold coins have blossomed during the past five years, this success can not be attributed to the merit of a 100 percent gold standard but rather is due to an increasing failure of the paper dollar model.

Under present conditions the best reform that can be achieved is limited to the better of the two competing models and any improvements are limited to the whims of our money managers. While such a choice is better than no choice a constellation of gold based money, credit, banking, and financial services must be allowed to emerge in order to facilitate the flood of products to be marketed in a modern industrial society. Gold based insurance, sound commercial gold banking, gold based savings and loans, and other gold based financial arrangements are not allowed to emerge in order to foster by law all reserves for such services must be held in dollars.

The legalization of gold ownership without the freedom to develop its use in the infinite array of financial matters is much like the Catch-22 predicament of a Russian dissident who is granted an emigration pass to exit but then is arrested for not having a pass for domestic travel.

Today, we are the most technologically advanced civilization in the history of mankind, yet our money is based on superstition from the middle ages. We must begin to ask — what undreamed of discoveries lie ahead in the event of a 20th Century Free Money Movement?

Imagine for a moment a midwestern farmer with the freedom to choose between a gold standard, silver standard, wholesale commodities, or various other money and credit alternatives that could develop in the years ahead. By prudent diversification it would be possible to spread monetary risks among several managers.

Already multinational corporations and large investors do this with national currencies issued by central banks. But unfortunately, the global monopoly of money has relieved the need for governments to keep expenditures within revenues and this has precipitated spectacular
depreciation in all national currencies over the last 30 years. As a result international diversification is presently limited to the "lesser" of the evils and is akin to climbing the bow of a sinking ship. In addition, actual use of the various national currencies is limited to within the boundaries of the host countries. Eliminating government monopolies would greatly reduce barriers between international boundaries, thereby facilitating trade by reducing many costly middleman operations and foreign exchange risks. The midwestern farmer will have a unit of trade common with the consumer in Europe. Heretofore undreamed of avenues of international trade could flourish.

I submit that there is a uniquely American path, a path above petty squabbles over the correct monetary/fiscal/gold "mix" of government policy. Here is the neglected path of a genuine free market in gold.

With freedom of choice we can begin to transform economics from a priesthood to a science in that money managers will no longer be selected by their ability to align themselves with politicians, but will be selected by their performance in the marketplace.

We are all too familiar with the alternative. The chance of politicians to pass a workable formula is very slim and the possibility bureaucrats could carry it out is nil. This alternative is not only unscientific but contrary to our heritage.

President Reagan has let it be known that the restoration of gold deserves consideration. The Administration is interested in new options. At the same time the Administration recognizes that gold is not a panacea and we have to earn our way back to gold. Freedom of choice provides the avenue for the American people to do just that!

For centuries mankind held the belief that the world was flat and if one strayed too far from port he would sail into a vast abyss. This was reinforced when reckless men strayed too far and were never seen again. Yet Christopher Columbus secured provisions, used the wisdom of ages for his navigation, and set sail to discover a New World. We must now develop the vision, courage, wisdom and strength to again set sail on this unique American path.

What undreamed of discoveries lie ahead? I do not claim the wisdom to know. But it is only with freedom that we are allowed to find out.

Conrad J. Braun is president of Gold Standard Corporation and editor of Gold Standard News. Gold Standard Corporation was organized in 1976 shortly after the legalization of gold ownership and originally offered a gold bullion storage service. In 1978, GSC, at the request of its depositors, began minting gold coins and introduced the concept of a decimilized troy ounce unit of weight. The concept was so successful that the South African government dropped its Baby-Rand program and adopted a similar format subsidizing domestic dealers to the tune of over $20 million to launch the idea.

The coins produced by GSC include the Harwood Gold, Silver and Platinum Ounce bearing the inscription, SOUND COMMERICAL BANKING, the Hayek Gold and Silver Half Ounce bearing the inscription, DENATIONALIZATION OF MONEY, the Hazlitt Gold and Silver Quarter bearing the inscription, FREE CHOICE OF CURRENCIES, the Adam Smith TENPIECE bearing the inscription, WEALTH OF NATIONS and the Deak FIVEPIECE bearing the inscription, INTERNATIONALIZATION OF SOUND MONEY. Today Gold Standard Corporation is the largest private mint in the United States with over 500,000 coins in circulation.
RESCUING AMERICA

from

FALSE MONEY CONCEPTS

and

FALSE ECONOMIC CONCEPTS

which are producing

SOCIAL UNREST, VIOLENCE AND CRIME

instead of

SOCIAL AND ECONOMIC HEALTH

by

GEORGE L. BROWNING
14329 Chandler Blvd.
Van Nuys, CA 91401

October 15, 1981
The United States of America is a very sick nation. She is socially sick. She is economically sick.

In America almost eight million citizens who are able and willing to work are unemployed and cannot find jobs. This is true even though this nation has neglected and undone work projects which could beneficially use the labors of additional workers double the number of the unemployed. Unemployment, maldistribution of wealth and a lack of youth training are the rewards available for moral conduct -- these are dangerously stimulating the growth of social unrest, rebellion against authority, violence and crime. The former security protecting our families and properties is rapidly diminishing.

Until two decades ago, the American dollar was the king of all international monies. The dollar's ability to provide a dependable measuring stick for value, a safe storage house for funds or an acceptable worldwide medium of exchange was unquestioned. Today, in every way, the dollar is becoming more debased. It is losing value hourly.

Just a few years ago the United States was the major monetary gold holder of the World. Over half of the monetary gold recently held has been lost to other nations. America, until the last few years, was the most powerful creditor nation in the World. Today this nation is not producing and exporting enough goods and services
to pay for needed imports. Soon, America may be the largest debtor
nation in the World.

In recent years the heads of our government have been preaching
to the World the need for the protection of human rights. At the
same time our government was engaging in practices which were
robbing tens of millions of American citizens of "THEIR HUMAN RIGHTS
TO ECONOMIC SECURITY."

These citizens who have been robbed, believed words coming out
of Washington which stated that inflation was being brought under
control; that the dollar was sound, and that government and other
bonds and savings accounts were safe and profitable investments.
Believing these unjustified statements, tens of millions of American
citizens placed their earnings and accumulated wealth in fixed-
dollar-value investments. These investments now amount to over
three thousand billion dollars ($3,000,000,000,000.00).

These fixed-dollar-value investments exist in the forms of
currency, bank and savings deposits, government and other bonds,
insurance policy equities, annuities, trusts, mortgages and other
evidences of debt. These investments have no value, whatsoever,
above whatever purchasing power the dollars received may have when
the investments are converted into spending money and the money is
spent.

The Board of Governors of the Federal Reserve System provides
us with statistics which clearly show that if all dollars having
claims on the material wealth (goods and services) in the nation
immediately exercised those claims, it would be impossible for
each dollar to have a purchasing power greater than the purchasing power now possessed by one or two dimes.

These statistics reveal the facts that in 1933 the United States had in its money supply only $42.0 billion; that at the end of last year, 1980, that money supply had been inflated to $2,377.4 billion. This is a sum of dollars five thousand five hundred percent (5,500%) greater than the total dollars America possessed in 1933. Any quantity of dollars, exercising their claims on wealth, can never purchase more than the total quantity of wealth available for purchase. Since 1933, America's quantity of material wealth has been increased nearly 100 percent, but no more. The population has almost, but not quite, doubled. So has the quantity of consumable wealth. While acreage of land has not been increased, the physical quantity of structures and improvements on the land probably has been increased 100 percent. In sum total, there is no more than a 100% increase in physical quantity of material wealth to give value to a 5,500 percent increase in the quantity of dollars which has claims on that wealth.

The question arises: How then, has the dollar, up to this time, been able to retain so much purchasing power? The answer is simple. No money can bring about employment or production of wealth until it circulates. No dollars can cause price inflation until they circulate, until they make demands on material wealth. The Fed reports that at the end of 1980, out of the $2,377.4 billion in the nation's money supply, only $415.6 billion was fully active. These were in the forms of currency and demand deposits. The report
shows $1,916.8 billion rested in the forms of savings or time deposits. It is shown that demand deposits had an annual average turnover during 1980 of 201.6 times per year, while savings deposits turned over, on the average, only 4.2 times per year. Eighteen percent of the dollars are largely responsible for present price inflation.

The history of money quantity inflation in other countries discloses the fact that when the general public becomes aware of the fact that their money is doomed to ultimate death, all money goes into the spending field, circulating rapidly. The money is not consumed, but the spending reduces the relative quantity of material wealth available to give value to money. As a result, price inflation is higher and higher.

In 1923 I was in Germany studying the effects of money quantity inflation and price inflation. I was sponsored in my studies by the then Secretary of State, Charles Evan Hughes, Secretary of the Treasury, Andrew W. Mellon, and by Senator Robert L. Owen, the real father of the Federal Reserve System. Their documents, which I carried, opened doors to me which otherwise would have been closed. A personal experience of mine will illustrate what happens to the value of money which has been over-inflated.

In Germany I gave a dinner party for five. We had three bottles of good wine. I was liberal with my tips. The overall cost to me was over one hundred thousand German marks (about $20,000.00 had the marks been purchased in pre-inflation days). The people furnishing the dinner evaluated the mark by past
purchasing power, just as American citizens are now evaluating the dollar. I bought my marks on the morning of the dinner on the international money market. There the mark was being evaluated by its prospects just ahead. For the over one hundred thousand marks, which paid for a dinner for five, I paid only ninety-eight American pennies. The dinner for five, and all the trimmings, cost me less than one American dollar. A few weeks after the dinner, the then German mark was put to death and a new money system was brought into existence. It was my privilege to study with the great German economist, Dr. Hjalmar Schacht, the man who largely designed the new money system which enabled Germany to recover and to gain a position of economic eminence.

America's sickness; the destruction of the integrity of the dollar money system; the waste of the nation's manpower and material resources through unemployment; the promotion of social unrest, violence and crime -- these things are not due to any evil intent or wicked design on the part of any leader in government or in business. The sickness is entirely due to two false concepts. These false concepts invaded, captured and dominated the minds of America's economic managers during the past few decades — especially during the past two decades.

The first false concept attributes to money quantity powers which money quantity does not possess. This false money concept fails to recognize the laws which determine what is required to constitute good money. It is blind to the laws which control the proper uses of money in the economies of nations.
The second false concept dangerously distorts the commands of the United States Constitution regarding what powers and responsibilities are allotted to the Government and what powers and responsibilities are allotted to the private sector of the economy. This false economic concept permits the Government to escape carrying out responsibilities placed on the Government by the Constitution. Free Private Enterprise is expected to perform those duties, even though the terms of the Constitution makes it impossible for private enterprise to do so, legally. Later it will be shown why the Government is responsible for full employment; for maximum production of wealth, and for an equitable distribution of what is produced. It will be demonstrated what the Government must do to induce private enterprise to do its part. It will be detailed how full employment, maximum production, and economic health for all citizens can be achieved without economic cost to the nation. That economic health can be achieved with enormous gains for the government and for all citizens. But first, the money situation must be examined. 

Money, per se, is not wealth. Money, per se, cannot create wealth. That which is used as money may have, or may not have, a commodity value. Gold and silver coins have a commodity value. Paper currency and bank checks have no commodity value. 

Money is merely a mental thing. Money is based on faith — faith that the next fellow will accept that which is proffered as money in exchange for his goods or services. In the absence of that faith, not even gold would serve as good money.
Money's power for good or evil exists in its circulation. Aristotle, thousands of years ago, said "MONEY HOARDED AND NOT CIRCULATED IS STERILE AND NON-PRODUCTIVE". One trillion billion dollars locked up in a vault or in a time or savings deposit, without circulation, could not cause employment, wealth production or wealth distribution.

When money is circulated in the home economy, (not exported to a foreign economy), that circulation, that spending, consumes no money. No money is wasted and the money supply of the nation is not reduced one iota. This is true whether the purpose of the spending is constructive or destructive. Bad spending may waste precious manpower and material resources; it may impoverish the nation in material wealth, but it does not waste money. When politicians state otherwise, they are evidencing money use ignorance.

Money will not circulate without some force to propel it. When the Government fills large reservoirs with money, and then provides no means to force that money to flow into the dry, undernourished parts of the economy, they are demonstrating an intelligence on par with Farmer Retardo's intelligence. Retardo filled large reservoirs with water but did not provide any irrigation ditches or overhead sprinkling system to carry the water to those spots where the water was needed to give life.

During the past few decades the Government and the economic managers of the United States have ignored the fundamental laws of money and money uses. They have resorted to money quantity
inflation. They have foolishly, unthinkingly, trusted the newly created dollars to find their own way to the undernourished and starved parts of the economy.

A brief review of the money quantity history of this nation shows different money concepts among national leaders. Hamilton, Washington, Adams, and others, strongly believed that sound money and good credit were imperative if the nation was to successfully develop. They prevailed over Jefferson, Madison, Gallatin and others who believed that larger and larger quantities of money, freely issued by banks, would best serve to propel the new nation forward.

Holding to a sound money program, this commonwealth was quickly elevated from thirteen impoverished colonies to the position of the most powerful and wealthiest nation in the World.

In 1913, when Senator Owen and Congressman Carter Glass, with great wisdom and understanding of money's nature, led the fight which brought the Federal Reserve Banking System into existence -- then the total money supply of the nation was only about $19.0 billion. The nation's wealth and commerce had outgrown the money supply. More money was needed. The Federal Reserve Act provided excellent means for the manufacturing of new credit dollars, and each of those dollars was marvelously well protected in value by the discipline of gold reserves.

By 1929 America's money quantity had expanded to $55.7 billion. The rapid expansion in credit dollars had consumed that monetary gold in the nation which was available for reserves to back further
dollar quantity expansion. The Board of Governors of the Federal Reserve could have acted to stabilize the nation's money quantity at the then level and to stimulate the circulation of money. Instead the Board determined and acted to deflate the nation's money supply. This they did. In four short years the nation's money supply was deflated approximately twenty-five percent - from $55.7 billion in 1929 to $42.0 billion in 1933.

This money deflation brought on the panic and stock market crash of 1929. By 1933 the loss of confidence in the economy's future brought about a condition of money hoarding. Circulation of the money still existing was cut about half. This money deflation was the direct cause of the Great Depression of the 1930's.

In 1933 Franklin Roosevelt became President, promising to rescue America from its punishing depression. The World's greatest economic physicians were called in for advice. The great economist, Lord Keynes of England, and others, pointed out to President Roosevelt that the depression had been caused by money quantity deflation and by the slowing down of the circulation of the remaining money. They advised the use of a strong economic stimulant in the forms of new money and forced money circulation. Roosevelt took the advice and did rescue the United States from the depression.

One tragic failure was made by President Roosevelt and his advisors. They failed to warn oncoming generations that the money quantity inflation, which they had used to stimulate the depressed economy, was a dangerous, narcotic, addictive drug. That drug,
if long used, could do more harm than could be done by the sickness.

It is astounding to see to what extent present day economic managers have accepted the dangerous drug as a nourishing and beneficial food. After Roosevelt, the money inflation drug was continued in use, but for years not to the extent it has been fed to the American people during the past two decades. Following statistics reveal to what extent the United States increased its addiction during each presidential term, beginning with Roosevelt and ending with Carter.

The average annual dollar quantity increase during each presidential term in office was: Roosevelt, $9.7 billion per year; Truman, $11.1 billion per year; Eisenhower, $12.3 billion per year; Kennedy, $23.2 billion per year; Johnson, $34.4 billion per year; Nixon, $95.2 billion per year; Ford, $75.9 billion per year; Carter (HOLD YOUR HAT), $212.5 billion per year. During the past four years, on the average, the United States has increased its money supply, through the use of credit paper, almost as many dollars each month as the total quantity of dollars possessed by America in 1913 when the Federal Reserve System was created. It now takes only a little over two months for this nation, through the use of credit paper, to add to its money supply as many dollars as this nation created and accumulated through the efficient use of manpower and material resources in 137 years.

On June 12, 1965, Congress passed a law which cut the last cords which tied the American dollar deposit money to the
restraining hitching post of gold reserves. Then on March 18, 1968, Congress cut the cords which tied the dollar bank note currency to the gold discipline. These Congressional acts freed the dollar to run wild toward that suicidal cliff over which the overinflated German mark went to death in 1923; over which the overinflated French Assignat went to its death in the early years of the last century, and over which so many other overinflated currencies have found death.

No money system securely tied to gold through adequate gold reserve requirements has ever lost its virtue or value. Gold's value in money systems is purely psychological. As previously pointed out, money is merely a mental thing, based on faith in its continued purchasing power.

While gold is a beautiful and enduring metal, much desired throughout thousands of years, its great monetary strength lies in the fact that the production of gold has never far exceeded the production of material wealth in physical quantity.

There is no need for gold to circulate in private hands in the form of money. As reserves, gold fully performs its monetary function. All monetary gold should be retained in the hands of the government or governmental agencies and used for reserve purposes or for international trade purposes.

The first great American leader to show hostility to the gold discipline in money affairs was William Jennings Bryan. Long remembered will be the firey speech in which he said: "THOU SHALL NOT CRUCIFY MANKIND ON A CROSS OF GOLD".
Compared to some of today's leaders, Bryan's gold hostility was very mild. He only wanted free coinage of silver on a basis of sixteen ounces of silver to one ounce of gold. Had his plan been adopted, the nation's money supply would not have been increased over ten or fifteen percent; certainly not the five thousand five hundred percent brought on by our present-day gold haters.

In money affairs the Board of Governors of the Federal Reserve System is as powerful in the United States as the Supreme Court is powerful in the legal field. In my opinion two Chairmen of that Board have done more to destroy the integrity of the American Dollar and to bring chaos to the social and economic life of this nation than has been done by any other two men. The damage is the end product of their gold discipline hostility and hatred.

Both of these men have established a reputation for personal integrity and devotion to the nation's good, as they see it. They are rightfully recognized as belonging in the top echelon of national patriots. However, I do assert that their words and actions evidence a serious false concept of gold's power and benefits when that gold is used as a discipline, restraining credit money from engaging in runaway inflation.

The first economist and the former Chairman of the Board of Governors of the Federal Reserve System is the Honorable William McChesney Martin. Mr. Martin headed the Federal Reserve for many years.
Chairman Martin's hostility toward the discipline of gold in money matters, and his faith in large quantities of money to provide economic health in a nation, are amply demonstrated in one of his speeches. I shall quote from that speech.

Chairman Martin addressed the Financial Council of the National Industrial Conference Board on February 14, 1968 at the Waldorf Astoria in New York City. Two quotes from that address are here given.

The first quote: "I REFUSE TO ACCEPT THE CYNICAL AND DESPERATE VIEW THAT MAN MUST TURN BACK TO GREATER DEPENDENCE ON GOLD."

The second quote: "I HAVE BEEN QUOTED AS SAYING THAT GOLD IS A BARBAROUS METAL. BUT IT IS NOT GOLD THAT IS BARBAROUS: THAT WASN'T MY POINT. QUITE THE CONTRARY, GOLD IS A BEAUTIFUL AND NOBLE METAL. WHAT IS BARBAROUS, WHEN IT OCCURS, IS MAN'S ENSLAVEMENT TO GOLD FOR MONETARY PURPOSES".

Chairman Martin's power and great influence is revealed by the act of the United States Congress just one month after the date of Mr. Martin's address. On March 18, 1968, the Congress passed a law cutting the final cords which tied the American Dollar to the discipline of gold.

The gold discipline no longer can restrain the manufacturing of dollars out of credit papers. The only restraints left are the whims of politicians and money managers in power. The public still believes that dollars represent economic wealth. People constantly seek more dollars. Politicians want to stay in office. More dollars are supplied to voters.
The Honorable Paul A. Volcker, the present Chairman of the Board of Governors of the Federal Reserve System, seems to be even more hostile toward the discipline of gold in money matters than the hostility displayed by Chairman Martin.

Chairman Volcker today, and since he has been in office, has turned to "HIGH INTEREST RATES" as a disciplinary force to combat both money quantity inflation and price inflation. High interest rates have been as effective in putting out the fires of inflation as gasoline poured on a burning fire would be effective in putting out the flames. During last year, 1980, interest rates averaged higher than during any other year in America's history. Last year $227.3 billion new dollars were manufactured out of credit paper and further inflated the nation's already over-inflated prices and money quantity.

What did high interest rates accomplish? High interest rates prevented the building of homes which otherwise would have been built. High interest rates prevented the buying of much needed homes. Manufacturing plans were unable to expand. Wealth production was far below normal. Thousands of employees lost their jobs. Unemployment increased welfare costs. Social unrest, violence, crime and money quantity were the only things to be increased.

I ask you; which is better, to have our money quantity to be enslaved and kept in bounds by the discipline of gold or to be left free to devour the economic security of all of those who have trusted dollar investments to protect their economic security?
Three things are required to return the United States of America to a condition of good social and economic health and to the road of ascendancy.

First: A new money system of high integrity must be created. Second: Further dollar quantity inflation must be brought to an immediate end. The present dollar must be assured a continued life ranging from twenty to thirty years. This is to provide present fixed-dollar-value investors some opportunities to escape that loss which would be theirs if the dollar's life was brought to an end now. Third: The nation's present economic machinery which was designed for a simple agricultural economy must be restructured and perfected to where it can carry the load of the most complex, congested, rapidly moving industrial economy known to the mind of man.

Each of these objectives can be achieved by this nation without any cost to the national economy. It can be done in a manner to gain enormous economic and social benefits. The following proposals tell how this can be done.

It is proposed that the Congress of the United States, by proper legislation create a new money system along the following lines. The standard unit of money of the new system shall be called "GOLDER". One hundred Golders shall have a value equal to one ounce of fine gold. Gold reserves against golder notes and golder deposits shall be the same as that required for dollar notes and dollar deposits prior to the Act of Congress of March 3, 1965. This act changed gold reserve requirements against dollars.
Each Federal Reserve Bank and all banks and financial institutions in the United States handling deposit accounts shall be required to comply with reserve requirements. They shall carry both golder accounts and dollar accounts. For many years this nation has com mingled gold coins and silver coins without difficulty. The same can be done with golder money and dollar money.

For the Government to attempt to give the dollar a fixed value in gold or in golders would be an exercise in economic futility. The enormous disparity between present dollar quantity and gold quantity and purchasable wealth quantity would doom that attempt to failure.

The dollar's value in golders must be established in the international money markets where other nations' currencies find their gold value. If, on the international money market, it takes four hundred dollars to buy one ounce of gold, then it will take four dollars to buy one golder. If it takes eight hundred dollars to buy one ounce of gold, then it will take eight dollars to buy one golder.

To establish the new golder money system it will require no new governmental or private institutions. Costs would be practically nothing. While this nation has lost to other nations about half of the monetary gold recently held, America still has ample gold to back all the golders needed for domestic or foreign trade. All America needs is a little more brains and guts.

All banks and financial institutions in America handling deposit accounts and creating credit money through the extension
of loans - they must come under the supervision of the Federal Reserve Board of Governors. Otherwise, the nation will drift back into money quantity inflation.

The program to give the dollar an extended life of twenty to thirty years should include the following provisions. No bank or financial institution carrying dollar deposit accounts shall make a dollar loan which would increase the total dollar loans existing in that institution on the day the new law becomes effective. This will bring to an immediate end dollar quantity increases.

Each bank and financial institution should be required to reduce its dollar loans and dollar securities investments by at least four percent each year. This requirement should fairly well amortize the dollar's life over a period of about one-quarter of a century. With these provisions, golders and dollars should associate on very friendly terms. The name Golder will inspire faith in its enduring value because the name is a reminder of that commodity which, above all others, has retained its value since man reached a mild condition of civilization.

The preservation of the life of the Dollar is needed to ease the nation's struggle to meet its commitments and its legal obligations. It would not be within the power of the Federal Government, the State Governments or the local governments to satisfactorily meet their obligations with gold, with golders or with material wealth. The differences in quantity creates an impossibility.

Social Security, pensions, retirement pay, military obligations and a multitude of other commitments must be liquidated with dollars.
To attempt to meet these obligations with the present available real
wealth substance would invite a rebellion of a very dangerous nature.

The third major change needed to bring health back to America
is the restructuring and perfecting of the economic machinery in
America. This machinery uses money as blood to carry nourishment
to all parts of the economy. Let me again emphasize that America
must look to money circulation, rather than money quantity, if this
nation is to survive and prosper.

One hundred billion dollars could have achieved each and every
national objective, aimed at but not achieved, through the process
of producing and storing in reservoirs nearly two thousand five
hundred billion dollars. No means for the reservoir money to reach
the places where it was most needed was provided.

No economic concept is more dangerously false than that one
which believes that large quantities of dollars made available to
large industrial institutions will induce them to provide satisfactory conditions of employment, of wealth production and of
wealth distribution. Unlimited dollar supplies could not gain
the desired objectives.

The Preamble to the United States Constitution sets forth and
establishes six high national goals. The six are: 1) FORM A MORE
PERFECT UNION, 2) ESTABLISH JUSTICE, 3) INSURE DOMESTIC TRANQUILITY,
4) PROVIDE FOR THE COMMON DEFENSE, 5) PROMOTE THE GENERAL WELFARE,
and 6) SECURE THE BLESSINGS OF LIBERTY TO OURSELVES AND OUR
POSTERITY.
It is important to note that among the words naming the goals there are no words referring to Capitalism, Free Private Enterprise, or the Profit Incentive. These are economic tools provided in the body of the Constitution. These tools are intended for use in propelling the nation toward her goals.

The Government is made responsible for harnessing, controlling and directing the nation's manpower and material resources so that they will contribute to the nation's progress.

Also, the Constitution provides the economic tools to be used by the government in managing the nation's manpower and material resources. Private Industry is motivated by the profit incentive and will not function in any economic region where there is an absence of the profit incentive - (profit opportunity).

At this time the United States has no entity which is equipped or competent to assess and to determine the overall economic and social needs of this nation. The Government has no means to inform itself regarding the quantity, quality and best uses of its productive resources. The American Government's economic managers, in recent years, have permitted dollar quantity philosophy to displace the philosophy of earlier economic managers -- the philosophy which believed that the full and wise use of manpower and material resources is the only means available to reach the nation's goals.

If the American government is going to give up its foolhardy efforts to achieve social and economic health for this nation by printing credit dollars, and if it is going to wisely harness the
manpower and material resources now being wasted, the following things should be considered.

It is proposed that legislation be passed to establish the "FEDERAL ECONOMIC ASSISTANCE BOARD". This Board should have about the same number of members as those which constitute the Board of Governors of the Federal Reserve System. The Assistance Board should function in the economic field much as the Reserve Board functions in the field of finance.

The Federal Economic Assistance Board should be empowered and equipped to explore every economic community in the United States, to ascertain the quantity and quality of manpower and material resources in each community; to ascertain the social and economic needs of each community; to ascertain how those resources can best be used to promote the nation's well being, and to ascertain what is required to satisfy the needs of the community.

The Federal Economic Assistance Board should be empowered and equipped to explore and ascertain what opportunities for beneficial trade or investment exists in the various nations of the World -- especially opportunities for profitable exportation of goods and services produced by America's fully employed labor force.

When the Federal Economic Assistance Board is fully informed, it should establish National Economic Objectives, and establish priorities for those objectives. When the objectives and priorities are firmly established, then the Board should provide profit incentives which would induce Private Enterprise to do what is
needed to be done to reach the objectives in all of those regions where, by the nature of things, there are no profit incentives to activate private enterprise.

To illustrate this proposition, let us consider the unemployment situation which now wastes the productive power of nearly eight million citizens who are able and willing to work, but who, through unemployment are driven into hostility toward the government.

It is proposed that the Federal Economic Assistance Board's economic machinery shall guarantee a job for every American citizen who is able and willing to work, but who, otherwise, would be unemployed. Each person working under the guaranteed job plan would be paid the legal minimum wage regardless of his productive capabilities. The job and pay is to provide decent living conditions for the worker; to keep him off the welfare rolls, and to keep him from becoming a social liability.

No worker under the guaranteed job plan would be paid more than the minimum legal wage. This is to keep this labor pool from competing with private enterprise for labor. The moment private enterprise can pay five cents an hour above the minimum legal wage, private enterprise gets the man. Should any person who is unemployed and who has no means for self support, and who refuses to accept the guaranteed job employment, and then turns to crime to satisfy his desires -- still, that man should be housed, clothed and fed, in jail.

The Guaranteed Job Labor Pool will immediately absorb any labor released by private enterprise as a result of business
decline or for any other reason. When business is expanding, the labor pool releases to private enterprise any needed workers.

It is unthinkable that the Federal Economic Assistance Board, or any other governmental agency, should directly handle any work projects providing guaranteed jobs. For this purpose, the government is incompetent and unequipped. The government uses private enterprise in the production of war material and it must use private enterprise in the activities designed to combat dangerous forces in the homeland.

In all of the activities of the Federal Economic Assistance Board and in the activities of the job guarantee plan, there is absolutely nothing that will weaken free private enterprise; that will lessen private enterprise's freedom to explore, to expand and to make a profit. The guaranteed job plan will do much to prevent business recessions and depressions. Since no money is consumed when spent in the home economy, there is no money cost to the national economy. Since the employed would produce many needed things now not produced, America would gain.

The Federal Economic Assistance Board, through its international studies, can far better lead this nation in its overall foreign trade and investments. Presently our foreign activities are motivated and regulated by profit opportunities for private enterprise. Frequently profit advantages for private enterprise produces disadvantages for the nation as a whole and leads to activities which impede America's progress toward her high goals. The Economic Assistance Board would have the power to provide
profit incentives which would induce private enterprise to contribute to, rather than impede, this nation's progress.

To recapitulate: America's sickness is curable. To obtain that cure, false money concepts and false economic concepts must be abandoned. Money quantity increases must be recognized as a negative force rather than a positive force. Means must be provided which will carry money to the dry and undernourished parts of the nation's economy. That money must be free from inflation contamination and must have forced circulation.

This nation will return to the road of ascendancy; will again assume the role of a World leader, and will progress toward her established goals when wisdom and sound judgment replaces money quantity as a controlling factor in the management of the social and economic affairs of the United States.
The mandate of the U.S. Gold Commission, to examine the appropriate role for gold in the U.S. monetary system, has been interpreted by most commentators as "whether or not to fix the price of gold in terms of dollars." We submit, for your consideration, an alternative proposal: Let the American people have freedom of choice in currency; demonopolize the monetary system of the United States and let gold (or silver, or Swiss francs, or anything else chosen by individuals) circulate or be used as a lawful tender.

Mr. Costamagna offered a paper at the meeting of the U.S. Gold Commission on October 26, 1981, that would open the door to this idea. Rep. Ron Paul has openly advocated this idea, and we have noticed some measure of support for remonetizing gold in coin form to compete with the $3 billion per year Krugerrand/Gold Peso market in the domestic economy.

The Issue is Not a "Gold Dollar"

Advocates of a "gold standard" call for a dollar-as-good-as-gold, modeled on the 19th century Bank-of-England system that fixed the price of gold in terms of pounds sterling, and which resembled the defunct Bretton Woods system. Their theory is that "dollar" is really a unit of weight of gold, although its absence from the National Bureau of Standards does beg a fundamental question.

The larger issue, however, of how to stabilize the value of United States currency -- or to re-establish confidence that the monetary unit will have a half-life of more than three years [i.e. to reduce interest rates from the 20% range] -- is one that must address the meaning of the very words we use to write contracts.
Monetary Units and the Meaning of Words

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

In 1792, Congress passed the first Coinage Act (31 USC 371) which created our decimal coinage system. The U.S. dollar was defined as 416 grains of silver .89243 fine (the amount of pure silver was 24.056 grams). Because the new nation, for political reasons -- Article I, Section 8, of the Constitution -- was supposed to have a common currency, the Congress established a monopoly for the central government's coins. Under Article I, Section 10, however, it is clear that the intent of the Founding Fathers was for the U.S. monetary system to be based on silver and gold, not paper money. None of the Founding Fathers suspected that just 70 years later, Congress would pass the legal tender law and make the paper dollar our basic unit of money (12 Stat. 345).

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

Today the word "dollar" has a pronunciation, a spelling, a connotation -- but it has no meaning. Like all crimes of violence, the damage cannot be undone: it is impossible today to "put Humpty Dumpty back together again." This, unfortunately, is what the advocates of "a Gold Dollar" seem to want. There is no bill today in Congress to create a "gold dollar," although there is a bill to create a new Silver Dollar (H.R.

Monetary Units and Weights of Bullion

The Free Market Gold Coinage Act (Senate Bill S.1704 and House Bill H.R.3789) is a new initiative to re-establish the famous principle of honest money, as expressed by philosopher John Locke in 1695. He wrote, the "unit was and should be a definite weight of bullion, which must not be altered." Bullion -- pure "noble" metal. Definite weight -- the monetary system should emerge from the common system of weights and measures; it should not be "invented" by government as an artificial denomination of weight. It was an unfortunate historical accident that the common coin in the Thirteen Colonies was not precisely an ounce of silver, which might have gone by the name "One Ounce"
The transition from gold to fiat money will be greatly smoothed if the State has previously abandoned ounces, grams, grains, and other units of weight in naming its monetary units and substituted unique names, such as dollar, mark, franc, etc. It will then be far easier to eliminate the public's association of monetary units with weight and to teach the public to value the names themselves. Furthermore, if each national government sponsors its own unique name, it will be far easier for each State to control its own fiat issue absolutely. [p.941n]

The Issue is Freedom of Choice

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

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

If the government could change the definition of the word "dollar" in the past, what would prevent them from debasing the meaning of the word in the future? This is where the importance of "grams" and "ounces" becomes clear, because the Congress can not change the definition of those units. The kilogram is defined by an international treaty, and the ounce is defined by millions of other objects that weigh exactly one ounce. If the government tried to change the definitions of those words in order to inflate a bullion-weight monetary standard, people would just laugh and ignore the statute -- just as engineers and architects ignored the Indiana State Legislature in the 1890s when it tried to change the definition of pi from 3.14159 to 3.00000 to make the measurement of circles easier!

Yet, in the U.S. courts and in payment of taxes, the undefined word "dollar" is the unit of measurement. The Free Market Gold Coinage Act, and its sister legislation, the Free Market Silver Dollar Act, in Section 5, establish the principle that you can use [more]
gold bullion (or silver bullion) in courts and for the measurement of tax liabilities. The American Institute of Economic Research in Great Barrington, Mass., has analyzed the Free Market Gold Coinage Act as it was introduced in the House of Representatives and their valuable suggestions were incorporated in the Senate version, and in the Free Market Silver Dollar Act. The A.I.E.R. recommended that the use of the new coinage as money would require exempting transactions in gold and silver from discriminatory taxation, and lifting the legal tender monopoly presently enjoyed by paper dollars.

Support for the proposal of freedom of choice in currency has received additional impetus from Dr. Richard Rahn of the U.S. Chamber of Commerce, writing in The Wall Street Journal on Oct. 22. He had been introduced to the idea behind the Free Market Coinage Acts at the Arden House Conference of the Committee for Monetary Research & Education in March, 1981. Dr. Rahn also made the point that the use of gold as money would require that transactions denominated in gold would have to be exempt from discriminatory capital gains taxation. As long as the IRS were able to enforce a monopoly rule that businessmen had to use "dollars" for bookkeeping, there would not be an equal competition and freedom of choice in currency would be nugatory. Section 5 of the Free Market Coinage Acts would repeal the monopoly elements of the U.S. monetary system, so that gold and silver coins could compete on equal terms with paper dollars.

The Process of Currency Competition

Since the issue is really Freedom of Choice -- not just gold or silver coins versus paper dollars -- the repeal of all monopoly elements in current law is essential. The bills in Congress to achieve this would coincidentally permit Americans to use other national currencies also, if they chose; they could keep checking accounts in Swiss francs, German marks, or any other currency, as well as in ounces and grams of gold and silver.

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

If the principles of John Locke were good enough for Thomas Jefferson and Congress when the Declaration of Independence was signed in 1776, the principle of "bullion weight" must be the principle that will save the monetary system, and the free market economy, of the United States today!
November, 1981

TO: The Gold Commission

Re: Returning the United States to the Gold Standard

Ladies and Gentlemen:

My name is John P. Dessauer. I am a graduate of the Cornell Law School, formerly practiced law with the firm of Harris, Beach, Keating, Wilcox, Dale and Linowitz in Rochester, NY. Senator and late Ambassador Kenneth B. Keating, and U.S. negotiator Sol M. Linowitz were partners of that firm and both knew me and my work.

After leaving the practice of law in 1967 I began a career in banking and investments that led to my becoming the senior investment officer in Europe for Citibank's Investment Management Group. Citibank is the nation's largest commercial bank and has a large and successful money management operation in Europe.

Last year I began a new phase of my career in business for myself. I now publish a twice monthly investment letter devoted to the subject of international diversification and the application of classical investment techniques to private investment.

In the course of my work I have made observations and formed opinions on the subject of gold and its' role in
monetary affairs. It is in that connection that I submit this testimony in hopes that it will be of value in your determinations.

GOLD AND THE MONEY SUPPLY

Controlling the U.S. money supply has become the number one monetary problem in dealing with inflation, the value of the dollar and assuring a sound basis for productive economic effort.

Efforts on the part of the Executive, Congressional and Federal Banking branches of government have focused on the economic proposition that too much money chasing too few goods produces harmful inflation.

Continued growth of the broad money aggregates such as M-3 have shed doubt on the ability of government, without a gold standard, to effectively control the growth of money.

While I do not disagree with this logic I do wish to point out the difference between DILUTING the value of money and inflation. That difference is important in considering the gold standard.

Gold is more than a special, unique commodity. It is more than a convenient tool for use in regulating money supply. It has been and still is money for much of history and for much of the world. Looking at gold as money may seem archaic but it is essential to understanding the current monetary problems and the benefits and risks of returning to the gold standard.
Once gold is accepted as money it makes sense to examine prices in terms of gold. We have become aware of the differences in viewpoint that come up when things are priced in different currencies. Recently when the price of oil was declining in terms of dollars it was rising in terms of Swiss Francs, Deutschmarks and French Francs.

Gold is money that transcends all currencies. Gold is gold in Saudi Arabia, Dusseldorf and Paris as well as Washington. When we look at the world's most important commodity, oil, in terms of gold a startling picture emerges.

Back in the great depression the price for an ounce of gold was $35.00 and a barrel of oil cost $1.05. That combination produced a gold price for a barrel of oil of .94 grams of gold per barrel.

In January of 1980 when gold shot to $850 an ounce the official price for a barrel of Saudi crude oil was $25.50. That combination produced a gold price for oil of .93 grams per barrel, very close to the depression level.

Currently, as this is written, gold is selling for $400 and oil for $34. The present gold price for oil is: 2.64 grams per barrel or more than 260% greater than the price in 1980.

If world monetary experts judged inflation by looking at the price of oil in terms of gold they would conclude that we are in for trouble ahead because the gold price for oil has risen dramatically.
Instead we look at the U.S. dollar price alone and conclude that the dramatic rise in oil prices is over. That is our point of view as dollar based consumers.

The Sheiks and Shahs of the middle east where the dollar is not a valid currency and who have looked at gold as money for centuries would have a decidedly different conclusion.

Looking at gold as money and using gold to "see" the price of oil is one example of the complexity of the problem called inflation. Getting at the root of the money supply/inflation problem requires digging a bit deeper.

DILUTION VERSUS INFLATION

The value of money can be reduced by dilution as well as price increases.

Dilution is seldom addressed in the discussions of how to preserve the value of the dollar. If the subject were wine, dilution would be easily understood.

A glass of wine diluted by a quart of water is definitely less valuable that undiluted wine.

Increases in the monetary aggregates, i.e. the printing of more money that the economy requires, is a cause of dilution. But the real problem of dilution is one of quality rather than quantity.

Individual members of an economy through productive enterprise give money its value. Government adds to that value through exercise of its' classical powers such as the police power. Government also necessarily dilutes the value of money through social programs.
There is nothing wrong with sensible and well-considered dilution of value through social action. In fact it may well be the necessary result of any well-run government. The problem comes when the dilution proceeds faster than the additions to value from productive effort.

For purposes of reviewing the gold standard issue it is not necessary to resolve that question. It is enough to recognize its merit.

The main point is to admit that dilution is different from inflation and that dilution may be a given in any well-run social/economic system.

Excessive dilution is harmful to the economy. The present consideration of returning to the gold standard is a thrust toward stooping excessive dilution by making the connection between a currency, the dollar, that can easily be diluted and a money, gold, that cannot be easily diluted.

There is no doubt that the world's supply of gold is limited and that gold, therefore, could be helpful in guarding against excessive dilution of the dollar.

There is another part of the problem, price increases, that is not automatically treated through a mechanical connection between gold and the dollar.

My example of how a falling gold price INCREASES the oil price in terms of gold is designed to make the point that there are dangers in returning to the gold standard with only dilution in mind.

Fluctuations in the gold market, currency markets and commercial markets can and do affect the prices of world goods.
When the U.S. post office increases the cost of a first class stamp to 20¢, when General Motors increases the sticker price for a car, when the grocery store increases the cost of soap or napkins the product is inflation. Raising the price of things or services is inflation. That is quite different from dilution.

Understanding the difference is critical to the gold standard issue.

Returning the U.S. to the gold standard would be a direct handling of the issue of dilution but would not directly address the issue of inflation.

Prices, in terms of dollars, would not be directly affected by the gold standard.

Arguments that by controlling the quantity of money we would solve the too much money chasing too few goods problem ignores the difference between inflation and dilution.

Inflation has many causes. Black markets during World War II and in Vietnam should drive home the fact that inflation can run wild even when there is too little money around.

To embrace the gold standard believing that the problem of inflation would be automatically solved would be a grave mistake.

It is important to address the dilution problem and equally important to deal with inflation. But they are, to a large degree, separate problems and require separate solutions.

Some proponents of the gold standard point to 1971, the year when the past gold link was severed, and claim that it is more than coincidence that prices began their upward
climb shortly thereafter. That case is compelling but not proof that the gold standard would solve present inflationary problems.

It could be that the pre 1971 gold price was set too low. It may have acted like price controls and once released from gold prices rose to reflect the dilution that had been masked by the gold standard.

Perhaps the rapid increases in prices in the few years immediately following 1971 were much more the result of dilution than inflation.

This aspect of dilution can be seen through the example of a stock split. When a company is doing well and the price per share rises, management may decide to increase the number of shares. This is a stock split. What happens in the wake of that form of dilution is a fall in the price per share. When the dollar is "split" or diluted we get the same result in that the price of a dollar falls. We "see" that in terms of rising prices rather than the falling price of a dollar but the process is the same.

Refusing to admit the fact of a "split" by hanging on to a gold connection too long was the problem of the 1960s. The dilution of the value of the dollar went on but was masked by the dollar-gold connection. Once the connection was severed the fact of the dilution became all too evident. The severing of the link was forced by an outflow of U.S. gold that, in turn, is compelling evidence of this point and evidence of the risks in returning to the gold standard without recognition of the difference between dilution
Returning to the gold standard is not a simple solution to the problem called dilution. In fact the gold standard could be dangerous if it masked future dilution. Understating the extent of dollar dilution through the gold standard would set the stage for an outflow of U.S. gold, unstable financial markets and a re-run of past rampant inflation.

**GOLD AND INFLATION**

There is a common misconception that gold and inflation are linked. We often believe that lower gold prices mean lower inflation and that higher gold prices mean higher inflation.

Serious work done by economists such as Arthur Laffer, addressing gold as an appropriate vehicle for investment, conclude that gold and inflation do not correlate.

Gold relates to the level of world prices rather than the rate of change of world prices. That is the conclusion of the studies. And, that is an effective way of saying that gold is money.

As money gold should connect to prices rather than the rate of change of prices.

In fact falling gold can be inflationary. The 260% increase in the oil price argues to this conclusion. All the while gold has been falling, the price, in terms of gold, for a barrel of oil has been rising. That increase is apparent to many world economies. Those that can see the increase in their domestic currencies are well aware of these facts of economic life. Others that must borrow to buy oil are also
aware that their gold reserves will now buy less oil than before.

In the United States we recently faced a real economic threat from OPEC. There was a time when we worried that OPEC might refuse to accept dollars for oil. What would we have used as payment? Gold? Perhaps! If gold is seen as money, insurance, a fall back treasury for the United States we can understand that there should be great concern about the gold price for a barrel of oil. The cheaper a barrel of oil in terms of gold the more barrels our gold reserves would buy.

This commission should be concerned not only with inflation and the money supply but with the question, how much oil can we buy with our gold reserves. Obviously with oil having appreciated 260% in terms of gold since early 1980 we can now buy considerably less oil with our gold than a year or so ago.

This oil/gold discussion is one way of understanding the extent of misconceptions about gold. Returning to the gold standard while those misconceptions are so rampant would be fraught with problems.

WHAT TO DO?

It is important to begin a process of restoring value and confidence in the dollar. Confidence, will, I believe, follow actions that really do increase the dollar's value.

Rather than trying to find the "right" price for the dollar/gold connection and rather than trying in one step to introduce a system to assure the right price we should consider a cautious more gradual approach to gold.
The Treasury should be authorized to buy as well as sell gold. The intent should be to increase the stock of U.S. gold through net purchases in the open market. Sales can be made when the market runs and purchases when it falls. Good trading done over a period of years would assure that U.S. transactions did not overly influence the price.

There is no way to escape the fact that speculators will always try to anticipate government purchases and sales. That was true when we were on the gold standard and it is true today. In fact the recent declines in the gold price are, in large part, due to speculators anticipating that this commission will recomend returning to the gold standard at a low gold price. This is a fact of economic life that cannot be eliminated. Better to deal with it in a practical way through competent market transactions that to try and create a system to eliminate the role of speculators. Their actions will even out over time.

Other governments have already taken this step. Many have increased their gold reserves in an attempt to add to the value to their respective currencies. The USA should do the same.

Once our gold reserves are at a point where the dollar stabilizes on world markets a return to the dollar/gold link could be made. Under those circumstances there would be some measure of assurance that the connection would not be a huge distortion. Then, the problem would be to reduce dilution and to adjust quickly whenever dilution occurs.
The gold standard is not a simple solution to the problems of dilution and inflation. It could be a useful tool but only after the role of gold as money is clear, the interests of the U.S. with respect to such things as oil are clearly defined and U.S. gold reserves have been built to the point that the dollar stabilizes on world markets.

To reach for the gold standard as a quick or sure solution to the rapid growth of the money supply, inflation and the value of the dollar is a certain way to invite financial disaster.

Caution, and a heavy dose of respect for the power of the markets is required to set the stage for a pleasing outcome to the gold standard discussion.

Respectfully Submitted,

John P. Dessauer
American Market Needs New Tools

THE RECENT RETURN trip to 820 on the DOW has rekindled the old arguments.

Debate centers on stock performance during recessions and the interest rate connection. As valuable as these factors may be, they haven’t helped investors in the past few years. Stocks have risen while interest rates climbed and fallen on their decline, quite the opposite of conventional market rules. The problem with the old rules and the reason they haven’t been working lately is the internationalization of world markets, particularly stock markets. What investors need are some new tools.

Starting with this issue, I will devote this front page article to a detailed explanation of some of the new tools I have developed and how they can help in analyzing markets and producing profitable strategies.

The starting point for the story of these new tools is, as it should be, the present... 1981.

OFFICIAL U.S. Treasury statistics indicate that net foreign purchases of U.S. equities totaled $4.5 billion during the first six months of this year. As the chart on Page 2 shows, increasing net purchases by foreigners provided the support needed to carry the DOW industrials over 1,000 not once but four times.

The most significant question is: why did so many foreign investors pour so many billions into U.S. stocks in the face of gloomy business prospects and high interest rates? The answer to that question holds the key to understanding the current market and forming a sound investment strategy.

To Page 2

THE AMERICAN SCENE... Buy stocks, the ones recommended in this Journal, for gains and look at bonds for income, Page 3.

GOLD OUTLOOK... There are more negatives than positives on the issue that return to a gold standard would lick inflation and solve the monetary problem, Page 4.

WORLD PROGNOSIS... Fears of waning Capitalism are affecting all markets... U.S. dollar and interest rates continue to hold attention of traders, Page 5.

CURRENT SELECTIONS... Two low-priced "special situation" stocks are recommended for current purchases, Page 6.
NEW TOOLS

Dow Jones Industrial Average

From Page 1

Increased Foreign Buying Pushed Dow over 1,000

$586 Mil
$440 Mil
$636 Mil
$744 Mil
$936 Mil
1980 Monthly Average

During these six months, Henry Kaufman, noted economist for Solomon Brothers and influential market analyst, repeatedly warned of troubles in the credit markets and higher interest rates ahead. While rates did not cooperate with Dr. Kaufman’s forecast, they did remain high during the whole period.

Six-month Eurodollar rates, for example, ranged from a high of 19½% to a low of 14 3/16%, high enough to discourage any investor familiar with the rule that high interest rates spell low stock prices.

DESPITE HIGH INTEREST RATES, FOREIGN INVESTORS BOUGHT $4.5 BILLION IN U.S. STOCKS IN THE FIRST SIX MONTHS OF 1981.

Those foreign buyers are not naive, desert-dwelling sheiks who don’t care about money and they aren’t insensitive Europeans looking for political shelter at any cost. They are sophisticated financial experts with plenty of worldly experience.

RATHER THAN smugly pointing to the correctness of the bearish U.S. market forecasts, investors should make every effort to understand the motives of those foreign investors and assess the likelihood of those buying attitudes spreading to the U.S.

WHY DID FOREIGN INVESTORS BUY U.S. STOCKS?

AMERICANS TEND to be optimists when it comes to personal financial planning. It isn’t unusual to find a wealthy investor with 90%-100% invested in common stocks. With that huge stock position, worry naturally focuses on future stock market performance.

Foreign investors are very, very different. They are more conservative and tend to have 75% or more of their assets liquid, invested in short-term deposits and government notes. As a consequence, their worries are not stock prices but currency fluctuations, interest rates and buying power.

A wealthy European with say $500,000 would have $375,000 or more invested short term. In today’s world that would easily produce 10% or $37,500 in income. (Higher if invested in U.S. dollars.) Try to put yourself in that position with lots of cash and a high current income.

With inflation picking up in Europe, thanks to the stronger dollar, wouldn’t you begin to worry about protecting both your income and cash from rising inflation? Leaving money invested short-term has been in England and the U.S. the one sure way to lose during the past decade.

Because of the dollar’s decade-long decline, U.S. stocks look very cheap in terms of D-marks or Swiss francs. In fact, the Dow in D-marks is about one-third the cost in 1970.

CHEAP U.S. STOCKS, the chance for a gain on the stronger dollar and too much cash are powerful motives for investing a part of those assets liquid, invested in short-term deposits and government notes. As a consequence, their worries are not stock prices but currency fluctuations, interest rates and buying power.

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CHEAP U.S. STOCKS, the chance for a gain on the stronger dollar and too much cash are powerful motives for investing a part of those assets in common stocks. When you add gains on Japanese stocks, that foreign investor begins to emerge as a person with lots of reasons to buy U.S. stocks. That stands in sharp contrast to the domestic investor who is worried about the economic future and forecasts of a coming market crash.

Ironically, it was lower U.S. interest rates and recent short-term softness of the dollar that cooled foreign buying.
Scanning the American Scene

U.S. Stock Market Outlook

THE MARKET DID it! Maybe it was Halloween, goblins or witches, but the number 820 stopped the market's decline and set the stage for a spectacular rise on the final trading day of the month.

Better yet, the market's Oct. 30 surge was triggered by Federal Reserve action lowering the discount rate. And Henry Kaufman, the respected economist from Solomon Brothers, changed his forecast to indicate lower-short-term rates.

These events are exactly what my work has been indicating for some time.

U.S. stocks are undervalued and money has been piling up in short-term investments, but the long-term bond market is still suffering from a near total lack of confidence.

I expect stock prices to continue their advance with 910 being the next significant level. Short-term rates will now fall fast and furiously. The bond market will rally and the rally could last for a couple of months, but don't fall in love with bonds.

BUY STOCKS, the ones recommended in this Journal, for gains and look at bonds for income.

In previous issues I have pointed out that the Dow today is cheaper in terms of oil than it was during the Great Depression and that in terms of many currencies, such as the D-mark, the Dow is one-third its level in 1970. Now I would like to show how from a purely current and American point of view stocks can be seen as undervalued.

To make my point, I will use one of the stocks recommended repeatedly in this Journal, Chase Manhattan Bank. Chase is having a good year and will earn about $11.00 per share. That alone is good news and should account for a further rise in the shares. But the case becomes clearer when you take a look at Chase's past dividend policy.

From 1971 through 1979 Chase paid out between 40% and 45% of regular earnings. (I have left out the troubled year of 1976 when earnings fell and the payout became 67%).

If Chase returned to that policy, the dividend would be between $4.40 and $4.95. Rising earnings and rising dividends surely would produce a rising stock price. If the market called for a yield of between 6 1/2 and 7%, Chase's stock would sell for about $70.

THE REAL PUNCH line is that at $70 the stock would be near book value and provide Chase with ammunition to use in acquisitions or capital raising. For that reason I expect Chase to raise the dividend. When that happens, investors who saw Chase just a few years ago as stodgy, troubled or uninteresting will be forced to change their judgment.

A turnaround in a major company like Chase can be the predecessor for a turnaround in a lot of investor judgments on a whole range of stocks. That would send U.S. stock prices higher.

U.S. Interest Rates Outlook

NOW THAT THE Federal Reserve has caved in again, there can be little doubt about my claims that money has been flooding into the short end of the market and that the Fed's high rate, tight money, policy has done tremendous damage to the economy.

Now the Fed and other officials in Washington will manifest their panic of fear of a severe recession by trying to prop up the economy. Watch what they do and don't pay much attention to what they say.

Washington, particularly the Fed, has a big stake in trying to appear courageous and consistent. It will try to rationalize a change in monetary policy through denials and statistics. But money will be pouring into the banks in a rescue effort, setting the stage for higher inflation later on.

One way to watch what is happening is to keep score at the Monday 'T' bill auctions. Here is the recent score card:

<table>
<thead>
<tr>
<th>DATE</th>
<th>AMOUNT OFFERED</th>
<th>TREASURY NEED</th>
</tr>
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<tbody>
<tr>
<td>July Weekly Avg.</td>
<td>15.55 billion</td>
<td>$8.1 billion</td>
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<tr>
<td>Aug. Weekly Avg.</td>
<td>16.9 billion</td>
<td>$9 billion</td>
</tr>
<tr>
<td>Sept. Weekly Avg.</td>
<td>16.4 billion</td>
<td>$9 billion</td>
</tr>
<tr>
<td>Oct. 5 actual</td>
<td>18.1 billion</td>
<td>$9 billion</td>
</tr>
<tr>
<td>Oct. 9 actual</td>
<td>18.1 billion</td>
<td>$9 billion</td>
</tr>
<tr>
<td>Oct. 19 actual</td>
<td>21.7 billion</td>
<td>$9.4 billion</td>
</tr>
<tr>
<td>Oct. 26 actual</td>
<td>21.1 billion</td>
<td>$9.4 billion</td>
</tr>
<tr>
<td>Nov. 1 actual</td>
<td>19.3 billion</td>
<td>$9.4 billion</td>
</tr>
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</table>

The late October amounts tendered to the Treasury are records. The previous record was $19 billion in March of 1980. In April, May and June of 1980 short-term rates fell to below 10%. Now that new record levels of applications have appeared at the Monday auctions, investors should expect further softness in short-term rates but should keep a careful watch for any signs at reduced levels of applications.

LOWER SHORT-TERM rates will mean that bond dealers will pay less on loans to sustain long-term bond positions. They will also mean that some investors, trying to speculate or "nail down" high yields, will step up to the plate and buy bonds.

Remember that some big guns like Merrill Lynch are recommending bonds. This combination of dealer and retail buyers should give a nice rally in the bond markets. But watch out! There is little long-term confidence, and that is what it takes to sustain a bond market rally. It won't be long before rising inflation, caused by the recent high rate policy emerges to scare both investors and the Fed.

Then, the rally in the bond market will succumb and lower bond prices will follow. In the end we will see that a normal yield curve develops with short-term rates below long-term rates. But those long-term rates won't be much below today's levels.

Unless you are a nimble trader or need the income, avoid the bond market. Stocks offer ample opportunity for speculation with lower risk and good gains from conservative investment strategies.
The Gold Market Outlook

The Gold Pendulum
(Oil price expressed in grams of Gold)

OPEC Oil at $34
Changes the range for Gold
New floor—$408
Next stop—$500

THE MOST SIGNIFICANT long-term issue for the gold market is the growing feeling that returning the U.S. dollar to some form of gold standard would lick inflation and solve the monetary problem. There are more negatives than positives surrounding this issue.

Short-term gold is buoyed by reports of higher U.S. inflation and OPEC price consistency at $34.00 a barrel. The short-term negatives are continued high interest rates, lower gold mining profits and the potential for renewed technical strength in the dollar exchange markets.

My work indicates a floor under gold at $408 and immediate potential to $500. Recent upward momentum halted at $460. It is more than coincidence that 4 + 6 = 10 and 10 hundreds make 1,000. It is proof of the psychological power of numbers and the emotional nature of the recent decline from $460. It won't take much to penetrate $460 and clear the way for gold prices around $500 an ounce.

Economist Arthur Laffer proposes that the United States should return to the gold standard. The compelling nature of ideas from Laffer was amply demonstrated in the Reagan economic package.

Laffer is the father of the Laffer Curve and "the wedge". His work indicated that the U.S. government through high taxes and excessive regulation had become a wedge between natural American entrepreneurial spirit and solid economic result. It was Laffer who started the drive toward reducing this wedge and increasing incentives that culminated in the Reagan tax cuts.

HIS IDEAS SURVIVED intellectual assault and political emasculation. Now he proposes a quick return to the gold standard and supports his view with compelling evidence of the connection between leaving the gold standard in 1971 and subsequent inflation, money growth and high interest rates.

WHAT FRIGHTENS ME IS NOT LAFFER'S EVIDENCE AND NOT THE CONCEPT OF RETURNING TO THE GOLD STANDARD BUT THE PROSPECT OF A NATION, PANICKY OVER THE MONEY-INFLATION ISSUE, GRASPING AT A "GOLDEN" SOLUTION.

Gold has not, in recent years, been respected in the United States. Officially, it is viewed as an opponent that has caused inflation by rising to record levels. In the American financial community it is looked at as "just another commodity" endowed with primitive notions of value.

To be of genuine value, a gold standard must be based on a healthy respect for gold as the proxy of free market, trans-national expression. Without that respect, efforts to enact a gold standard will deteriorate into another destructive power play, demonstrating American potency in containing the gold monster while increasing the risk of financial chaos.

Because of the significance of the issue and my fear that Americans will succumb to the temptation of using economic power to reduce gold to a submissive servant I will be taking the question apart issue by issue and offering my views. Here is a summary of what I fear could happen:

1) The gold price will be fixed at the "low" end of the range. This will result in higher exchange rates for the U.S. dollar but they won't last.

2) The initial response to the gold standard and improvement in the dollar will be euphoric. Faith in the efficacy of the "new" solution to inflation will be accompanied by sharply higher stock prices and moderating interest rates.

3) Ultimately, the euphoria will end in disillusionment caused by a serious OUTFLOW of U.S. gold reserves. OPEC will recognize the low gold price as a high "real" price for their oil and will insist on payment in the yellow metal. This is embodied in the concept of "the gold pendulum" which shows how the "real" or gold price for oil has been rising as gold quotations have been falling. In the end, failure to understand this concept and failure to recognize money as a genuine store house of value will take its toll.

4) Outflows of U.S. gold will force either a devaluation of the dollar or a renunciation of the gold standard. Either result will produce higher interest rates, higher inflation and the threat of financial chaos.

This sweeping summary of my concerns will be explained in detail in future issues. For now remember that I am early in assessing this situation. The gold standard issue still isn't taken seriously in many circles. In the immediate future higher gold quotations will develop. From present levels ($440) the road to $500 seems clear.
WORLD MARKET PROGNOSIS

EXPERTS, preoccupied with Socialist political gains in Europe, are creating opportunities for investors willing to take a fresh look at the Capitalism versus Communism issue.

That is the background, or long-term analysis. Short-term or in the foreground of world markets, the dollar and U.S. interest rates continue to hold the attention of traders.

There is no clear trend for the dollar at the moment. Winning the AWACS sale to Saudi Arabia adds to the Reagan case for the dollar while falling U.S. interest rates act as a negative.

Watch the dollar versus the Swiss franc for the best indications of sentiment about the dollar. In that market the dollar was somewhat stronger as October came to a close but not strong enough to break the September down trend. The dollar spent most of October marginally below the September lows.

That tells me that the dollar is still weak. I look for that weakness to moderate in November but do not expect the dollar to show renewed strength. On balance, the dollar should remain weak for the time being. The weakness should appear in the yen markets before long.

INTEREST RATES for pounds sterling have been rising while dollar rates have been falling. This has closed the gap, and both currencies carried the same rate near the end of October. This is significant.

For years the pound required a higher rate than the dollar. But during the past few months, because of the radical American interest rate policy, the dollar actually has been paying investors more interest than the British currency. That, as I have written before, seemed completely unrealistic. Now things are returning to more realistic relative rates. Once the dollar has taken its proper place in the ranks of currency and interest rates, we should be able to get a clearer picture of world sentiment about the dollar.

That sentiment, in large measure, will be the product of feelings on the Capitalism versus Communism debate. Many experts see the Socialist victory in France as a move away from Capitalism to the detriment of investors and the predecessor of further Socialist gains in England and Germany.

Fears of waning Capitalism are affecting all financial markets. The picture, however, seems confused. Gold, for example, has not skyrocketed as you might expect. Investors truly afraid of Communism and expecting the demise of Capitalism should turn to the insurance afforded by gold.

I don't accept the explanation that high interest rates have been the lure keeping investors in paper currency and out of gold. In my view the gold market is showing that the common perception of the new Socialism is wrong. The gold market is responding to other factors such as the talk of returning the U.S. to a gold standard.

ON THE EQUITY markets two countries in the center of the debate, Italy and France, have not only not collapsed but have risen significantly. Italy's stock market rose 400% during reports of national economic trouble and increasing Socialism. France's stock market has recovered in the wake of the Mitterand victory and policies of nationalization.

Rising stock prices in France and Italy cannot be explained by the common, popular view that sees those countries as leaning left, away from Capitalism.

They can be explained by a different view of the political/economic world. There are tremendous opportunities for investors who have the courage to see events through this new perspective.

COMMUNISM AS AN ECONOMIC IDEOLOGY IS DEAD. IT DIED IN THE MID-70s. POLAND IS THE LATEST ECONOMIC CORPSE TO WASH ASHORE IN PROOF OF THAT VIEW.

This does not mean that Russia is impotent. On the contrary, it explains why Russia would build up its military power to COMPENSATE for the bankruptcy of the Communist economic idea.

IN THE NEXT ISSUE I will share with you reports from Switzerland on why so many aggressive companies are going to Northern Italy to cash in on the boom despite news reports of deepening economic problems. I also will offer my view of the emerging NEW CAPITALISM and how investors can profit in the current confusion.

For now remember that L'Oreal and Moet Hennessy are up 18% since the spring Socialist victory in France. Paribas, the other recommended French stock, has gained 35% and it is targeted for nationalization. Clearly, looking at the French situation through a new perspective already has produced significant gains.

This is only the beginning. The French stock market easily could boom as did the Italian market, not only recovering all the ground lost since spring but moving to new high ground.

The contrast between the popular views of the markets and this new perspective is even more apparent if you compare these French stocks with General Motors, Kodak or Xerox. Those American stocks in the land perceived as the last bastion of Capitalism have been falling while the French stocks, even after taking account of the French franc, have been gaining.

FRANCE

THE FRENCH FRANC was devalued versus the German mark in order to restore order within the EMS. The franc has not weakened versus the dollar as a result. In fact, the franc spent all of October comfortably above its September lows versus the dollar despite the realignment in the EMS.

I do not expect a significant upward move in the franc in the near term. More likely is continued vacillation amid all the confusion over nationalization and French Socialism. But I do not see increasing weakness either. The franc should be able to hold at present levels in the near term.

The French stock market, like the franc, is caught up in the nationalization issue. It will be difficult for the market to advance sharply until the air clears. Then
French stocks should surprise most outside observers by advancing on strength of improved profits in the smaller and medium sized companies as well as companies like L'Oreal and Moet Hennessy that have much of their business outside France.

ENGLAND

BY LATE OCTOBER six-month Eurorates for pounds and dollars stood at the same level, 16 5/8%.

This is a far cry from May of this year when U.S. rates were, for example, at 19% and British rates were 16%. Back then I felt that 3% more on dollars than on pounds was unrealistic. The U.S. Fed caused that bit of interest rate distortion and now the markets are finally correcting.

The British stock market is not taking this too well. The slide on London's stock exchanges continued through October. There were sparks of life and vitality but not enough to offset the negatives of a lower pound, higher rates and growing concerns about the health of British industry.

GERMANY

IT HAS BEEN rather dull in the German markets lately. The stock market spent October within its September limits and the D-mark did not overreact to the devaluation of the French franc within the EMS. Germans seemed to view this as the logical result of the extraordinary strength of the franc in early 1981. Now that score is back to even.

Investors should take note of Deutsche Bank. The stock continues to trade around 264dm while earnings are advancing. This is a situation where dividends could be increased triggering an upward reassessment of the shares.

JAPAN

THE NEWS FROM Japan is the yen and leverage. The yen has remained weak versus the dollar despite lower U.S. interest rates. Analysts are searching for an explanation. Recent trading seems at odds with general investor enthusiasm for everything Japanese.

My answer to the dilemma is leverage. First, you have to be aware of the fact that Japanese companies tend to borrow more than U.S. companies. Japanese companies, for example, borrow through bank loans and bonds about 40% of the funds they need. This compares to 25% for American companies. In a time when borrowing by governments and business is front page news it should not be a surprise that Japan is being looked at questioningly at the moment.

Leverage is also a factor on the Japanese stock markets. In fact, the recent declines of the Tokyo stock market directly are related to changes in margin regulation. Foreign investors provided the support that pushed the Nikkei Dow to record levels. The leverage question scares them. Their standoffish attitude accounts for the weaker yen and softness in Japanese stocks. I don't think this will last. The leverage storm will pass. That will allow higher stock quotations in Tokyo.

WHENEVER THE STOCK market declines, you hear more and more that it is a market of stocks rather than a stock market.

You can't buy the market is the usual opener for analysts defending their particular selection. Another "tag" used to avoid the issues of a market in a state of decline is "special situation". The idea behind that label is that there are companies whose fundamental financial picture is so strong that their stocks can go up even though the market is going down.

The concepts inherent in both market strategies are valid. They can be abused and substituted as crutches for stocks that should be sold. For that reason I don't often use the title, "special situation." This issue is an exception.

There are two stocks, both American, that deserve close attention. I'm calling them "special situations" to distinguish them from the pack, set them apart and alert you to their limited usefulness in a portfolio. Do not put all your eggs in either basket. But do put a few eggs in each to improve performance in the months ahead.

The two "special situations" are: TRITON GROUP, 40 cents per share traded on the Pacific stock exchange and carried in the Wall Street Journal under, "Other Markets", and WACHOVIA REALTY, 6 5/8 per share traded on the New York Stock Exchange.

TRITON GROUP stock falls in the "penny stock" category which ordinarily is consigned to the ranks of speculations for those who only have pennies. Worse, the company is the survivor of a 15-month workout under Chapter 11 of the bankruptcy laws. These two facts make ordinary analysts turn away and shun the stock. That is one reason the stock sells at 40 cents while the company has 25 cents per share in cash. There aren't many stocks around these days that have 2/3 of the share price in cash. That is what attracted me to the company. I have been looking for cash rich companies.

Triton has a fine pedigree. Back in the mid-70s it became popular to form REITs, real estate investment trusts. Some of the biggest and best banks sponsored subsidiaries with similar names. Triton once was named Chase Manhattan Mortgage and Realty Investment. Chase Manhattan, a stock recommended repeatedly in this Journal and one of America's biggest and most prestigious banks, was the sponsor of the original Triton.

When the real estate market fell on hard times in the 70s, this company suffered from rising interest rates, too much debt and falling real estate values. That combination led to serious financial trouble and bankruptcy under Chapter 11. During the workout debt was reduced, real estate sold off and the company reorganized.

THE NAME OF the company was changed so as to avoid embarrassing Chase Manhattan Bank with the failure of this financial child. By May of 1980 the workout successfully was completed and Triton emerged as a new company with new potential. Debt was down to a
fraction of net worth .4:1 in May of 1980 and .2:1 by May of 1981. By the end of the fiscal 1981 period book value was 64 cents a share.

There is another element to this story. The troubles of the past produced a huge loss amounting to $2.10 per share. Under the new tax laws this loss can be carried forward 15 years and used to offset future income. With all that cash and a loss carry forward, Triton is searching for an acquisition. It tried to buy a drug and food company, but the deal didn't materialize. The failure of that deal isn't important. What is important is the intention of management to make an acquisition and to use both the cash and the loss to generate future earnings.

Because of the loss Triton is also a candidate to be acquired. A profitable company could buy Triton and benefit from both the cash and the tax loss.

In either case it seems to me that Triton shares are worth closer to $1.00 a share. That is 125% higher than the current stock price. These shares, therefore, are attractive for speculation.

WACHOVIA is another REIT sponsored by a prestigious big bank. In this case the sponsor was Wachovia Corp., the bank holding company that is the real “blue suit” banking organization in the Winston-Salem region of North Carolina.

Wachovia Realty is in the process of being acquired by Old Stone Corp., a New England banking organization. The price is more than 25% over the current stock price and will be paid in January. That gives investors an opportunity to earn the equivalent of 134% per year by buying Wachovia Realty at 6 5/8 or better.

Why is this transfer from a southern to a northern banking company taking place? Wachovia Corp. has suffered with its financial child; it wasn't as painful as the Chase experience with Triton but painful nevertheless.

Wachovia also has other lines in the real estate water through a subsidiary of the bank holding company. It doesn't need the REIT and no doubt will be very happy to see a name change to Old Stone so that the troubles of the past can be forgotten. Old Stone, on the other hand, looks at this as a bargain way to get deeper into the real estate market and to have a foot in the fast growing North Carolina territory.

THE REAL WINNERS in the immediate future will be the shareholders of Wachovia Realty. They will receive one share of an $18.00 Old Stone convertible preferred with a $2.60 dividend for each Wachovia share. Assuming that interest rates are 15% in January, the preferred would have a market value of $17.00 giving a value of $8.50 to each Wachovia share. That is 28% above current quotations. If interest rates continue their decline, the return would be higher. For investors looking for income the Old Stone preferred wouldn't be a bad long-term holding.

This is a situation with minimal risk and attractive short-term potential. Just what the doctor ordered to cure the market gloomies! Wachovia Realty shares are recommended at 6 5/8 or better.

EXXON (30 1/2) reported third-quarter earnings down 20% from levels of a year ago. On that news and fears of further declines the stock sold off. In my view, the report provides good reasons for buying rather than selling Exxon.

In its report the company explained that foreign operations were the problem because the cost of crude rose faster than foreign prices, causing a profit margin squeeze. Rising crude costs, contrary to much of the news focusing on lower crude costs, is very much in line with the analysis of this Journal. The higher, interest rate driven dollar is causing rising prices.

That is also the exact opposite of the reasoning behind the fall, earlier this year, in the oil stocks. Now that OPEC has agreed on $34.00 a barrel, you can expect investors to take a new look at the oil stocks. This time they will focus on rising crude prices. That will produce higher oil stock valuations.

The profit margin squeeze is temporary. Retail prices will rise, and the dollar won't keep skyrocketing. The bad quarter will be offset later on by a good quarter. On balance, over the next 12 months I expect profits to grow modestly. That makes Exxon look undervalued at present quotations.

That view probably will be reinforced by a dividend increase that could take the yield to more than 11%. If management does hike the payout, the stock will trade at higher levels.

OCCIDENTAL PETROLEUM ($24) also reported lower third quarter earnings. Net income was down 13% compared to last year. Per share earnings showed a somewhat greater drop due to an increase in the number of shares. That increase came largely as a result of OXY’s acquisition of Iowa Beef.

The good news, however, was improvement in the coal division. This is very much in line with reasons for my recommendation of OXY. The Polish situation, with reduced coal production, will continue to provide a mild upward bias on coal prices. That marginal price improvement will add significantly to OXY’s coal profits.

Iowa Beef, the OXY reported, also added significantly to income. That may make the share dilution worth the current pain.

The news also carried word of another deal by OXY’s chairman, Armand Hammer. He is well known for his Russian connection and is now apparently using that to trade beef from OXY’s new Iowa Beef division to the food hungry Russians.

OXY may benefit from the Polish situation in two ways. First, from higher coal prices due to Poland’s problems and second, by helping with the solution in supplying badly needed beef.

I like OXY. At $24 with a $2.50 dividend the stock looks very attractive.

AIRLINES. The International Air Transport Association, meeting in Cannes, France, proposes a 10%
CURRENT EQUITY SELECTIONS

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<td>Chase Man. (12/80)</td>
<td>44 - 54 1/4</td>
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BANKING

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<td>Delta (2/81)</td>
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<td>Best Buy</td>
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<td>-</td>
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<td>Occidental (5/81)</td>
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<td>34 - 30 1/2</td>
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<td>Buy</td>
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<td>Cont. Data (8/81)</td>
<td>35 1/2 - 41</td>
<td>+15%</td>
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<td>Carolina P&amp;L (5/81)</td>
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<td>+3%</td>
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<td>Texas Util. (5/81)</td>
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<td>+11%</td>
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<td>3/8 - NEW</td>
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<td>WachoviaRlty (11/81)</td>
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<td>Buy</td>
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GERMANY

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JAPAN

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SWITZERLAND

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<td>Buy</td>
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<tr>
<td>Kloof (6/81)</td>
<td>32 3/4 - 27 1/2</td>
<td>-16%</td>
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<td>Gold (12/80)</td>
<td>600 - 431</td>
<td>-26%</td>
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| Silver (4/81) | 11.50 - 9.20 | -20% | Buy |

FOREIGN INVESTOR WATCH

**IF YOU ARE wondering why the Dow was able to stay above 820 during October in the face of gloomy economic news and forecasts of a coming market crash, take a look at the first-hour volume on the NYSE.**

Out of 22 trading days in October there were 13 days when first-hour volume was above the month's average. That indicates foreign investor activity on those days. On eight days the Dow was up during the hour, and on five it was down.

This means a presumption of buying on the up days and selling on the down days. October is, then, another month where foreign investors provided buying support for the U.S. market.

IN THE NEXT ISSUE: Details on how this indicator works.

DESSAUER'S DIVIDEND

CITIZENS & SOUTHERN CORP.'S stock price moved up over $8 since first recommended a few weeks ago. The move came on news of improved third quarter earnings.

C&S also announced the proposed acquisition of a small neighboring bank. This acquisition by itself is not significant. What is significant is that it is another in a chain of acquisition efforts. C&S obviously aggressively is seeking to expand its business.

The truly significant thing is that C&S was a troubled bank a few years ago. In 1978 C&S had a deficit in per share earnings and wouldn't have dared approach the regulators with acquisition proposals. Now in 1981 it has prepared five applications and has plans for more. That is a remarkable turnaround and deserves more investor recognition than the present stock price affords. C&S at $81/2 remains on my recommended list.

NEXT ISSUE: Nov. 25, 1981.

NEW TOOLS

Obviously, foreign buying or selling is extremely important to the future course of the markets. The U.S. Treasury Department publishes statistics monthly but it looks back three months.

We need a current proxy for foreign activity. That is why I developed the "First Hour Volume Indicator". The details of that new market tool and how you can use it will be the subject for the next issue.

NOTES

From Page 7

hike in air fares. That is exactly what I have been predicting. Higher air fares the world over.

CITICORP ($24) announced disappointing third-quarter earnings and the stock has been underperforming. Investors should note that the third quarter was HIGHER than the second quarter and the company has shown steady improvement in earnings since the fourth quarter of last year. This is being missed by the crowd. Citi is attractive at $24.
TO: All members of the GOLD COMMISSION
&: others including Anna Schwartz. Extra for press.

Respectfully submitted

BY: C. F. Dockstader, P. O. Box 19525, Denver, CO 303 934 1168

I have just concluded 34 pages of legal briefs in a suit against
the City of Denver (Pro Se) and feel somewhat of an authority on
the history of money in the U. S.. The suit attempts to prove
that Federal Reserve notes are not dollars and the only standard
today is embodied in 31 U. S. Code 314 and is the only possible
Money of Account of the United States as specified in 31 U. S. Code
371. Federal Reserve notes have never been declared the Money of
Account (period)

This offering is brief in interest of economy of my finances and
your time.

I have read all the reports available of your efforts and that of
Anna Schwartz. I believe you are on a good track. I am very disap­
pointed in the reference to the U. S. Constitution and intent of
the founding fathers. It is my belief that no statute should ever
be enacted or course recommended except it be in harmony with the
paramount law. It is very clear on this matter.

MY REPORT HERE IS IN DEFENSE OF THAT supreme law and of the intent
on its framers in regard to proper money.

From the beginning in the Colonies great chaos and loss of the fruits
of ones labor was the rule because of PAPER MONEY. No one could
anticipate a loan or do a job except under penalty of loss of value
of money (as today). Circulation of foreign-made coin was a night­
mare. Coin had different values everywhere and coiners were not
always to be relied on for value as stated. Commerce between States
was difficult at best. Paper cheated trustees right and left.

As early as April 19, 1776 debates started on the money question

(1) Over: Please read from bottom.
which lasted about one year; suspended during War; resumed 1782 and finally culminated in the 1787 Convention results, namely; the U. S. Constitution.

THE WAR could well have been lost except for hard money - just as our nation will be lost if we continue on the PAPER MONEY CHASE.

Here's the account of a significant development in the Revolutionary War to illustrate the evils of paper money.

The families of the men in the Army were in very bad straits; starving for need of a dependable medium of exchange to purchase supplies. You can imagine the moral of the men who loved these families could not be very good knowing this from far away.

After the "Christmas Victory" at Trenton in 1776, Robert Morris was able to save Washington's Army (get them to reenlist) by going house to house on New Year's day 1777 to gather $50,000 in gold donations in Philadelphia. The Continental Currency was worthless; gold saved the Army!

Out of the April 19, 1776 appointment by the Continental Congress to determine the value of the different gold and silver coins in circulation there came four reports written on money recommendations. They were by: Mr. Williamson (Journal of Congress), Friday May 13, 1785; Mr. Jefferson (July 24, 1784); Mr. R. Morris (Jan. 15, 1782); and Mr. G. Morris (Date not certain but in Papers of Continental Cong., No. 26, folio 557). These papers and reports can be found in The National Archives Microfilm Publications.

TWO SIGNIFICANT THINGS CAME OUT OF two of these reports:

Hugh Williamson in his report made the suggestion to establish the Unit or Money of Account as one dollar, a piece of silver. Later the Constitution was to mention "dollar" in two places and this established it as our trademark for our money. This cannot be changed by statute. Williamson was to use the term "imaginary money" to describe the fiat paper of those days.

Thomas Jefferson, who had his report published in the Providence Gazette and Country Journal of July 24, 1784, made a very significant statement which along with the Williamson report indicated that the MONEY OF ACCOUNT question did not just establish the arithmetic of it.

(2)
JEFFERSON STATED: "If we determine that a dollar shall be our unit, we must say with precision what a dollar is." It is useless to talk about arithmetic, except in theory, in the every day world unless you apply it to some concrete thing.

Later the Spanish Milled Silver Dollar's weight was established in the Coinage Act of 1792 as being the dollar unit. In Sec. 20 of that Act the MONEY OF ACCOUNT OF THE UNITED STATES is spelled out and became today's 31 U. S. Code 371 (not positive law) which reads:

"THE MONEY OF ACCOUNT OF THE UNITED STATES SHALL BE EXPRESSED IN DOLLARS OR UNITS, dimes or tenths, cents or hundredths, and mills or thousandths, a dime being the tenth part of a dollar, a cent the hundredth part of a dollar, a mill the thousandth part of a dollar; and ALL ACCOUNTS IN THE PUBLIC OFFICES AND ALL PROCEEDINGS IN THE COURTS SHALL BE KEPT AND HAD IN CONFORMITY TO THIS REGULATION."

At the time of the adoption of the Constitution Article I Sections 8.5 & 10.1 working together became the engenious devise by which "paper money was to be crushed forever". The framers did not anticipate the genius of people to misinterpret and the ignorance of the framers intent.

WITH SECTION 8.5 CONGRESS WAS DENIED THE POWER TO PRINT MONEY. But IN ORDER TO KEEP THE 'friends of paper money' FROM OBTAINING THE 'license' to monetize the United States debt, Secion 10.1 prohibited the States from Declaring irredeemable paper (or anything other than gold and silver coin) to be a tender in payment of debts.

The intent of the framers is clear; replete with quotations after quotation by men of that day that paper money was to be crushed. Space or your valuable time, does not allow me all the quotations but a list of the men is on page six. They spoke against paper money, wrote in favor of a metal economy or voted for same in the Constitution. That included those who ratified the Constitution. NO DISSenting voice was raised against Article I Section 10. No State required it to be expunged, nor did any State propose an amendment. It was universally received without exception.

A short explanation of the tie-in between Article I Section 8.5 and 10.1. is very ably set forth in the following Indiana case reproduced on the following page.
Constitutional Law.—1. At the adoption of the Constitution, all governmental power was in the States; and in the division of it made by the adoption of the Constitution, the Federal Government received only what was granted to it, the States retaining the residuum, except so far as it was extinguished entirely by prohibitions upon the States.

Same.—2. The prohibition of a power to the States did not of itself operate as a grant of the power to the Federal Government, but rather as an extinguishment of the power as a governmental one where a grant of it was not made in the Constitution to the Federal Government.

Same—Legal Tender.—3. The power to coin money is one power, and the power to declare anything a legal tender is another, and different power; both were possessed by the States severally at the adoption of the Constitution; by that adoption, the power to coin money was delegated to the Federal Government, while the power to declare a legal tender was not, but was retained by the States with a limitation, thus: "Congress shall have power to coin money," &c. "No State shall coin money"; and "no specie currency was secured in both the Federal and State Governments. There was thus no need of delegating to Congress the power of declaring a legal tender in transactions within the domain of Federal legislation. The money coined by it was the necessary medium.

Same.—4. The words delegating to Congress power "to coin money," regulate the value thereof and "of foreign coin," do not include the right to make coined money out of paper. If they do, then the States have a right to make such money a legal tender. It does violence to the language to give it such a meaning.

Same.—5. The power to declare paper a legal tender is not incidental to any power delegated by the Constitution.

APPEAL from the Boone Circuit Court.

Perkins, J.—This suit was instituted upon a promissory note of the following tenor:

"$500. March 26, 1862.
"Four months after date we promise to pay to Oel Thayer, or order, 500 dollars in gold, value received, without any relief whatever from valuation or appraisement laws.
"John W. Hedges,
Martin C. Kleiger."

The plaintiff prayed for a special judgment for the gold or its equivalent.

The defendant answered, alleging a tender of the amount due, before suit commenced, &c., in legal tender treasury notes, at their face.
Then came what I call the Banana Republic Decision of 1884; more precisely 110 U. S. 421 - Julliard v Greenman; because it was based not on our own U. S. Constitution but on "one of the powers of sovereignty in other civilized nations".

Here is what Paul Leicester Ford, Editor of the FEDERALIST, printed 1898, had to say in his introduction to the 85 separate commentaries by Hamilton, Madison and Jay written to introduce the new Constitution in 1787-1788: Emphasis added.

"Once only, by the third legal-tender decision, had the court markedly failed in the chief purpose for which it was created, and the failure is the more extraordinary, for none knew better than the judges that it was to prevent just such outrages as fiat money that the national government was created, and that the very words "legal tender", except as applied to intrinsic money for commercial and legal convenience, are a lie and a fraud, through which someone is to be robbed. To allege that the "right to make notes of the government a legal tender" has been deemed "one of the powers of sovereignty in other civilized nations," which were the grounds on which the decision was based, was to place our national government on par with those which have notoriously been planned for the benefitting of some at the expense of others, and to destroy the very pledge of justice that the majority gave to the minority in 1788 *. The pride of this country has been that elsewhere the majority or the minority, depending on the degree of power enjoyed by each, has abused the other, but that here they were equal before the law."

* To assign "banana republic" status to our nation has to be an affront to all thinking persons.

31 U. S. Code 371 quoted above is being violated by every state in that Federal Reserve notes or fiat coins have not been declared the Money of Account of the U. S. For those who get the impression that the CODIFIER with this title means anything like it seems to imply here is the answer to that:

Sometime after July 23, 1965, the date Congress passed public law 89-81, an act providing for "additional coinage" of cupronickel tokens, the MONEY OF ACCOUNT STATUTE was embellished by codifiers with the title "Decimal System Established." This title was never
part of the original bill, S. 2080; it was never debated, never voted on, was never enacted into law. Codifiers are not legislators, and the words of codifiers are not law.

The nearest thing to the MONEY OF ACCOUNT in which ALL ACCOUNTS IN THE PUBLIC OFFICE, etc. must be kept is embodied in 31 U.S. Code 314 wherein it is stated, "The dollar of gold nine-tenths fine... shall be the standard unit of value,...".

In other words we have never been off the Gold/Silver standard except based on statutes (in my opinion Unconstitutional) of Congress that have declared Paper Money, at least in words a "legal tender"; that ghastly fraud which Lexicographer Noah Webster called "the devil" and those who favor it "were counterfeiters, deserving of the gallows,..."

The Constitution did not use the word "legal" once, not even in respect to the word "tender" in Section 10.1.; for good reason.

Regarding Gold/Silver coins, if the Commission does decide to recommend them, I suggest they be stamped with the value in dollars to comply with Art. I Sec. 8.5. but that at the same time the weight of pure metal be stamped in grams or decimals of a gram which is the metric system and the forward standard which sooner or later will be set upon as the only logical course of weights & measures.

Since gold is necessary for a specialized society and division of labor (which means a high standard of living), and since gold production represents a consumption of capital, it would be advantageous to everyone to economize the use of gold.

The banking system has provided an ingenious solution to this problem: fiduciary media. Fiduciary media consists of 'claims to money' that are not backed by gold.

Therefore, I suggest reserve requirements be set at 20-25% gold backing. Experience has shown this to be a practical figure. I also suggest paper money be made convertible into gold to show trust in the American individual.

Cordially, C. F. Dobbslad

P. S. Here is a list of the founding fathers who spoke against paper money, wrote in favor of a metal economy or voted for metal.

- George Washington
- Robert Morris
- Gouverneur Morris
- Col. Mason
- Mr. Elseworth
- James Wilson
- George Read
- Sherman
- John Landgon
- James McHenry
- Luther Martin
- W. R. Davie
- Ben Franklin
- David Howell
- Abiel King
- William Hindman
- Joseph Platt
- Cook
- Charles Pinckney
- Melancton Smith
- William Houstoun
- John Beatty
- Gerry Elbridge
- Joseph Gardner
- John Vining

Sherman was the author of the 17 words at Article I Section 10.1: 10 STATE SHALL MAKE ANYTHING BUT GOLD AND SILVER COIN A TENDER IN PAYMENT OF DEBTS."
Mr. President,
Where Is Our Gold?

An Update On the Remarks Made By Edward Durell At Dr. Franz Pick's Two-Day Seminar In New York City June 29-30, 1981

Adapted For Publication
Privately Published In 1981
By
Edward Durell
Graduate of Princeton University
Captain In World War I
Industrialist To Present Date
Member of Board of Trustees,
Ohio Manufacturers' Association for
Over 40 Years

A copy of this pamphlet will be sent to those from whom we receive self-addressed business size envelopes containing $1.00 (U.S.) to cover postage and handling, sent to the author at;

P.O. Box 586
Berryville, Virginia 22611
Mr. President,  
Where Is Our Gold?  

This is the question I have been asking repeatedly over a period of seven years. There is sufficient evidence indicating that all of the gold that is reputed to be at Fort Knox is not there.  

Three Presidents (Ford, Carter & Reagan) and four Secretaries of Treasury (Simon, Blumenthal, Miller & Regan) have refused to order an independent inventory and assay of whatever gold exists in the hands of the U.S. Treasury and its agents. In addition, the Chairmen of the prestigious banking committees of the Senate and the House and the ranking minority leaders of these two committees have been importuned many times to take steps to determine whether the U.S. Treasury holds the gold it claims. All have refused.  

We have been stonewalled by the executive and congressional branches of government and ignored by the news media.  

FOUR MAIN ISSUES INVOLVED  

I believe the inclusion of facsimiles of the documents in the Exhibits in this pamphlet will convince you that:  

(1) Of the 219.5 million Troy ounces of gold that left Fort Knox alone during the operation of the London Gold Pool (1961-68), 165 million Troy ounces are missing. At $500 per ounce the missing gold would be worth $80 billion;  

(2) Whatever gold an independent, external, physical inventory and assay would disclose belongs not to the U.S. government, but to the Federal Reserve System;  

(3) The 12 regional Federal Reserve Banks are guilty of misfeasance in not ascertaining the existence of the gold collateralizing the gold certificates shown as an asset on their respective balance sheets; and  

(4) There exists an unbelievable control of the news... newspapers, magazines, radio, investment letters and T V... concerning this gold mystery.  

BACKGROUND  

When we learned in January 1968 that a bill was being introduced to remove the last 25% gold backing from our currency, my wife and I journeyed to Washington and New York in an effort to gain more time for consideration of the consequences of this bill. We felt that its enactment was going to increase the speed in which our currency's purchasing power would decrease.  

In March 1968, Congress passed this bill abolishing the 25% gold backing. It was signed by President Johnson very quietly, yet it radically changed the stability of the dollar. The first worldwide reaction to the removal of the gold backing came on August 15, 1971, when President Nixon closed the "gold window" which, in effect, told the world that the U.S. would not redeem its paper currency with gold when asked to do so by foreign central banks.
The next shock came when we read the cover story of a Chicago based tabloid, THE NATIONAL TATTLER, in July 1974, showing that the gold at the U.S. bullion depository at Fort Knox had been tampered with. Exhibit #1* shows the July 7, 1974, and August 18, 1974, front pages of THE NATIONAL TATTLER.

In the July issue, Dr. Peter David Beter, a Washington attorney and former counsel to the Export-Import Bank, stated that he was willing to go before a grand jury and prove the correctness of his charges.

Due to my long interest in sound money, as witnessed by my efforts in January-March 1968, to get a more orderly examination of the consequences which would result from the removal of the gold backing from our currency, I interviewed Dr. Beter and his story seemed to warrant an investigation.

Prior to this, I had correspondence beginning in February 1974, with the late Wright Patman, Congressman from Texas and then Chairman of the House Banking Committee, about reported sales of gold by the U.S. Treasury.

It may interest you to know that Wright Patman had tried unsuccessfully to secure an audit and inventory of the assets and liabilities of the Federal Reserve System during his long chairmanship of the House Banking Committee before his untimely death.

BUILDING THE CASE ON GOVERNMENT'S OWN EVIDENCE

Exhibit #2* is a letter from John Klossner, Acting Director, Office of Domestic Gold & Silver Operations, Department of the Treasury, stating that an annual physical inventory of the nation's gold was required under Title 31, U.S. Code.

Correspondence with Chairman of Federal Reserve System

In July 1974, Congressman John Rarick of Louisiana became interested in the situation and his letters to and from Arthur Burns, then Chairman of the Federal Reserve System, appeared in the CONGRESSIONAL RECORD of July 18, 1974. (pages E4827 & E4828).

Please note in Exhibit #3* the marked statement in Burns' letter to Rarick of June 28, 1974, stating, "...our system of audits and examinations would quickly disclose any unauthorized transactions in System assets, which, I repeat, do not include gold." However, the balance sheet of the Federal Reserve System dated March 27, 1974, showed that it carried an asset of $11.2 billion of gold in its "Gold certificate account" (figured at the official gold price of $42.22 per Troy ounce).

"Settlement Committee" 30-Day Exercise

Apparently Congressman Rarick's speech on the floor of the House and Dr. Beter's statements in the July 7th and August 18th NATIONAL TATTLER aroused enough interest in Congress that Mrs. Mary Brooks, then Director of the Mint, invited members of Congress and the news media to come to the bullion depository at Fort Knox, Kentucky, to see the alleged gold hoard. I have been informed by members of the General Accounting Office (GAO) that this was the first time such a visitation had been made since President Roosevelt was there on an inspection tour April 28, 1943.

One senator and six congressmen, along with 100+ members of the news media, went to Fort Knox on September 24, 1974, and were
shown the contents of only one of the thirteen cell-like vaults. They did not see the underground central core vault where the gold was originally stored.

The news media then advised the world that the gold was all there!

Exhibit #4* is a typical report published by the news media.

Mrs. Brooks at that time instituted a 30-day so-called audit by a settlement committee under the direction of the GAO which consisted of 15 men: two from the GAO and 13 from the Treasury. It was said they spent 30 days in the five U.S. bullion depositories, including Fort Knox. At Fort Knox, they said they handled 91,604 bars of gold weighing approximately 400 ounces each. There are 20 bars to a melt (a pouring or casting). Even a 10% sampling would have required 458 chip samples (one from each melt) to be assayed. In their report, they said they took only 100 chip samples and the assaying of these chips only covered 54 of the 100 samples. Also, note they did not take borings, only chip samples.

Although this 30-day exercise was completed on October 21, 1974, repeated attempts to secure a copy of this report were unsuccessful. The efforts to get these results were most inistent when it was announced that there would be an auction of some of the nation’s gold on January 6, 1975. In the fall of 1974, a bill was passed that would restore to the U.S. citizen the right to own gold as of December 31, 1974.

Unusual Events Surrounding Gold Auction

While this was going on, we secured a copy of a letter (w/enclosures) from then Secretary of the Treasury William Simon to Congressman J. Kenneth Robinson dated November 4, 1974, (see Exhibit #5, 6, 7*) in which Simon encloses a table of “Monetary Gold Stock Of The United States” listing 276 million Troy ounces at nine locations, including the five U.S. bullion depositories.

Note that Exhibit #7, one of the enclosures, is a breakdown of the fineness of the gold at the five depositories. Only 48 million ounces (or less than 20%) is known as “good delivery” gold suitable for international exchange. The coin melt could, of course, be refined; however, it is said the total known capacity in the U.S. for that process is only about two million ounces per year.

Also, note there are 24 million ounces of good delivery gold shown as being at Fort Knox, but when Secretary Simon testified before a subcommittee of Congress in December 1974, he stated that the gold to be sold at auction would not come from Fort Knox as the gold there was of inferior quality. (Exhibit #8*)

On December 9, 1974, the Treasury announced the closing of the Exchange Stabilization Fund and the transfer of its entire two million ounces of gold from that fund to the general fund of the Treasury. (See Exhibit #9*)

*(4) Article from SAN FRANCISCO EXAMINER dated 9/24/74 covering Ft. Knox Visit. See Page (14)
*(6) Attachment to above entitled “Monetary Gold Stock of U.S.” See Page (16)
*(7) Attachment to above entitled “Gold Holdings As Of 8/31/74.” See Page (17)
*(8) Article from THE WASHINGTON POST on Simon’s testimony of 12/4/74. See Page (18)
*(9) Treasury announcement on transfer of gold from Exchange Stabilization Fund to Treasury, dated 12/9/74. See Page (19)
Note that in this announcement Treasury states that “Gold certificates were then issued by the Treasury to the Federal Reserve System for all the ounces of gold held in the General Account for which such certificates had not been previously issued, and the Banks deposited $191 million to the accounts of the Treasury.”

This is a very important statement because it says that the certificates record the number of ounces rather than the market value of the gold in dollars as of that date. For some reason known only to the Federal Reserve System they have been unwilling to furnish me with even a typewritten copy of the legend on one of these certificates denominated in ounces.

The General Services Administration (GSA) announced the auction of two million ounces of gold on an “as is, where is” basis with no inspection available; a very unusual procedure. (See Exhibit #10.*)

During the month of December 1974 the news media put on a blitz trying to discourage Americans from owning gold and only 754,000 ounces of the two million offered were sold on January 6, 1975, with the price determined by the lowest accepted bid; another very unusual procedure.

Is it a coincidence that the gold transferred from the Exchange Stabilization Fund to the Treasury was the same amount, in round figures, that was offered at auction since Secretary Simon had said that Fort Knox did not have any good delivery gold even though the tally (see Exhibit #7*) showed 24 million ounces being stored there?

Due to the five hours difference in time zones, it seems a reasonable assumption that knowledge of this article was the cause of the General Accounting Office (GAO) hurriedly rubber stamping the date February 10, 1975, on their “Report To Congress (FOD-75-10)” which had been prepared much earlier and hand delivering it to Congress on the morning of February 11th.

Bear in mind this 30-day exercise, authorized by the Director of the Mint in September 1974, had been completed on October 21, 1974; however, the report was not released at that time. It is interesting to speculate why this report was not made public before the January 6, 1975, auction.

Exhibit #12* is the cover sheet of this “Report to Congress”. You can probably obtain the complete nine page report by writing to the General Accounting Office, 441 G Street, NW, Washington, DC 20548, and

* (7) Attachment to above entitled “Gold Holdings As of 8/31/74.” See Page (17)
* (10) General Services Administration announcement of sale of gold on an “as is, no inspection” basis dated 12/13/74. See Page (20)
* (12) REPORT TO CONGRESS (FOD-75-10) dated 2/10/75. See Page (22)

The Report states, among other things, that the settlement committee "believed" that the gold was all there and that the last inventory of the gold was taken in 1953 (on order of President Eisenhower.)

It is my opinion, and I have so stated many times, that this exercise was inadequate, incomplete and possibly fraudulent.

The Treasury held 21 auctions selling 17,053,900 ounces of gold between January 6, 1975, and November 1, 1979. These auctions and world events caused the price of gold to vary widely, but it now seems to have temporarily stabilized at $450—$500 per ounce, or about 14 times the price the government attempted to hold it at—$35 per ounce.

News Media Control

Those of us who have been questioning whether or not the Treasury has the gold it claims made vigorous efforts to get someone high up in government to interest themselves in the evidence that our correspondence and visitations were developing, but we had no success.

Exhibit #13* is an example and these are excerpts from my letter to W. Michael Blumenthal dated January 6, 1977. All we got from him was a two-hour visit to Fort Knox. The news media was supplied with his speech to the Louisville Chamber of Commerce (Page 1, Exhibit #14*), which was written before he left Washington, stating that the gold was all there.

Exhibit #15* is a copy of my telegram to President Jimmy Carter dated June 14, 1977, and is an example of our efforts to stimulate the Carter Administration to take an inventory.

165 Million Ounces Missing

Now my narration divides into two parts and I will first show you that during the operation of the London Gold Pool (1961-68), 165 million ounces of gold left Fort Knox, the destination of which is unknown.

You will recall that under U.S. law, the Federal Reserve Notes were to have a 42% gold backing. Our Congress reduced the gold backing to 25% which made it possible for them to increase the number of paper dollars per ounce of gold backing by 60%, from 87 paper dollars per ounce of gold to 140 paper dollars per ounce of gold.

Under Secretary of the Treasury Dillon, a bill was introduced in 1961 to take the balance of the gold backing away from our dollar. But on the morning that the first hearing was to be held when all those interested in hard money were to testify (among them Dr. Beter who was then General Counsel for the American Gold Association), word came from the Treasury that they had withdrawn their support of the bill and therefore there would be no hearing.

It was then that the so-called London Gold Pool arrangement was set up.

Exhibit #16 shows the Treasury's most recent description of that
arrangement. Note that they say it was an "informal and flexible arrangement" which seems like a very loose way to handle the nation's gold. No Congressional consent was sought. Strange?

I am confident that an unbiased examination of this operation would reveal some very interesting, if not illegal, acts by the Treasury and/or the Federal Reserve System.

Exhibit #17* is a copy of a tally of the shipments of gold from Fort Knox between January, 1961 and June 1974. This is a very revealing tally and worthy of your careful study.

This tally was mailed to me on April 11, 1975, by H.L. Krieger, then regional manager of the Washington office of the GAO. He and three other men from the GAO had come to my farm home to try to convince Dr. Beter and me that the 30-day exercise examining the Fort Knox and other four bullion depositories' gold would stand up in court as an accurate and satisfactory inventory.

Note that the last shipment of 14 million ounces was made just 29 days before President Nixon closed the so-called "gold window." Doesn't it seem odd that we would ship out 14 million ounces on July 9, 1971, when the Treasury and the President certainly knew that the world was going to be advised on August 15, 1971, that there would be no more redemptions of our currency with gold?

Referring to the writer's NOTE at the bottom, if you subtract that last shipment of 14 million ounces from the total 233 million ounces, you come up with 219 million ounces that left Fort Knox during the London Gold Pool period of operation.

Note that more than 9 million ounces was said to be sent to the New York regional Federal Reserve Bank. I will accept that as probably reaching its destination.

Secretary Simon wrote Congressman John Conlan on May 4, 1976, that during the operation of the London Gold Pool 45.2 million ounces constituted the net sales by the U.S. for the benefit of the Pool.

When you deduct these figures you get over 165 million ounces of gold where no satisfactory destination has been given. Where did it go?

The tally shows that it went to the New York Assay Office and Bullion Depository in New York City, but did it?

I question whether or not some of the shipments ever were received by the New York Assay Office because

(a) Between February 3, 1965, and March 24, 1965, the tally shows 97,000 bars having been shipped. It would take forty, 40-ton tractor-trailer loads carrying 2400 bars per load to move this quantity, or nearly six such shipments per week, which would have had to have been individually weighed and at least one bar out of every 20 assayed (the average number in a melt), then boxed for reshipment; this is an impossible task with the modest facilities available at New York;

(b) We discovered newspaper pictures of four tractor-trailer loads of gold which left Fort Knox on January 20, 1965, which shipment is not shown on the Treasury's tally, but was later admitted to having contained over 1.7 million ounces of gold; and

(c) also, the man that Treasury says receipted for this shipment was not on the New York Assay Office payroll.

The appended correspondence between Mr. Robert Carswell, Deputy Secretary of the Treasury, and Senator William Proxmire, (Exhibit #18*) as well as a letter from the author to Senator Proxmire on this subject, (Exhibit #19*) are both revealing and disturbing.

Federal Reserve Carries As Asset Gold Claimed By Treasury

Now let me turn to the issue that whatever gold is found to exist in the U.S. and stored by the Treasury, does not belong to the Treasury, but to the Federal Reserve System.

Since November 1980, we have been trying to pin the Federal Reserve System down to facts and figures, but we have met with little success. However, we have developed some very interesting information.

We first secured the balance sheets of the regional Federal Reserve Banks. Exhibit #20* is from the Richmond Federal Reserve Bank dated December 31, 1980. It carries on its asset side under the heading “Gold certificate account” $961 million. We find that the amounts of the 12 regional banks under this heading varies from time to time, but the total of the 12 is always carried on the statement of the Federal Reserve System as an asset under the heading “Gold Stock”. At the present time it is $11.2 billion (figured at the official gold price of $42.22 per Troy ounce).

Exhibit #21* is the balance sheet of the Federal Reserve System dated 2/11/81 which appeared in THE NEW YORK TIMES on 2/14/81.

At the same time, the Treasury carries on its balance sheet (Exhibit #22*) as a liability under the heading “Gold certificates, and credits payable therein” an equal amount of $11.2 billion (again figuring at the official gold price of $42.22 per Troy ounce).

Note that the balance sheet refers to several footnotes. Exhibit #23* illustrates Footnote 5 which refers to the heading “Gold certificates, and credits payable therein.” The last sentence reads “These obligations are fully secured by gold in the Treasury.” Would you not think that this footnote clearly meant that the $11.2 billion shown by the Federal Reserve System as an asset was collateralized by 264.3 million ounces of gold held by the Treasury?

Yet here again the government claims ownership of the gold.

In a letter by Jerry Nisenson, Deputy Director for Gold Market Activities, Office of Foreign Exchange Operations, Department of Treasury, in a letter to Mr. L. Hendricks dated March 13, 1981, (Exhibit #24*) states as follows: “As of January 31, the U.S. gold stock amounted to 264.3 million fine Troy

*(18) Letter from Robert Carswell to William Proxmire dated 12/19, 78. See Pages (28, 29)
*(19) Letter from Durell to William Proxmire dated 1/12/79 See Page (30, 31, 32)
*(20) Balance sheet of Richmond Federal Reserve Bank dated 12/31/80. See Page (33)
*(21) Federal Reserve System balance sheet dated 2/11/81 which appeared in THE NEW YORK TIMES of 2/14/81. See Page (34)
*(23) Footnote page from above report. See Page (36)
*(24) Letter from Jerry Nisenson to L. Hendricks dated 3/13/81. See Page (37)
ounces”. If the government does not hold the gold it claims, then this statement is not only erroneous, but deceitful.

I believe you will agree that since the gold in the Treasury is collateral to the certificates held by the Federal Reserve System, it cannot be owned by the United States government.

Let’s go back to the Richmond Federal Reserve balance sheet (Exhibit #20*). If you examine this statement, would you not believe from the heading “Gold certificate account” that the bank actually had in its possession certificates that were collateralized by gold figured at the official price of $42.22 per Troy ounce? I would.

But when we asked the regional banks if they had any evidence of ownership for the certificates, we were surprised how vague and confusing their responses were.

One bank president stated, “...With respect to the gold which underlies the gold certificates held by the Federal Reserve Banks, I have made no effort to eyeball that gold. I am prepared, with no reservations whatever, to accept the representations of those Government officials responsible for the gold that they do, in fact, have it under their surveillance and that the reported amounts are, in fact, there.”

One bank official stated that, “Included in our gold certificate account are $500,000 in definitive gold certificates, which our auditors verify to be in our possession.” Note here that the amount is stated in dollars, not number of ounces.

Another bank official states that, “These (gold) certificates are held at the Federal Reserve Bank of New York and are a minor portion of the collateral behind the Federal Reserve Bank notes. Each Reserve Bank has an undivided interest in the pool of certificates rather than ownership of any particular certificates.” What has become of these certificates?

One bank’s explanation entitled “Assets—Gold Certificate Account” (Exhibit #25)* explains that gold certificates are bookkeeping credits and that the Treasury “monetizes” its gold by issuing gold certificate credits to the Federal Reserve Banks.

When asked when was the last time anyone of the 12 regional banks or the Federal Reserve System had verified the existence of the gold allegedly held by the Treasury as collateral to these certificates, no satisfactory answer was given. Apparently the 12 regional banks and the Federal Reserve System, of which they are a part, have been satisfied to take the accounting procedure of the Treasury as to the existence of the gold.

Could it be, and I ask you these questions in all sincerity, that three Presidents, four Secretaries of the Treasury, and at least four highly placed members of Congress know that:

(a) It would be “unwise” to try and find out where the 165 million ounces of gold that left Fort Knox is now located; and

(b) It would be “unwise” to find out what gold may exist as collateral to the $11.2 billion carried as an asset on the Federal Reserve System’s balance sheet.

*(20) Balance sheet of Richmond Federal Reserve Bank dated 12/31/80. See Page (33)
*(25) Attachment entitled “Assets” from letter to Durell from president of one of the regional Federal Reserve Banks. See Page (38)
CONCLUSION

I believe the evidence I have presented to you raises strong presumptions that

(1) Of the 219.5 million Troy ounces of gold that left Fort Knox alone during the operation of the London Gold Pool (1961-68), 165 million Troy ounces are unaccounted for;

(2) Whatever gold an independent external, physical inventory and assay would disclose, belongs not to the U.S. government, but to the Federal Reserve System;

(3) The 12 regional Federal Reserve Banks are guilty of misfeasance in not ascertaining the existence of the gold collateralizing the gold certificates shown as an asset on their respective balance sheets, and

(4) There exists an unbelievable control of the news media concerning this gold mystery, even to the extent of controlling what information elected and appointed officials reveal to interested, tax paying citizens of the U.S.

What rights do we citizens have as depositors of money in our banks and other financial institutions which are associated with the Federal Reserve System and its regional banks? We have a legal right as creditors to demand that our money be secure in all respects and that if this gold mystery is not resolved, the Federal Reserve System will continue to lose credibility and our money will continue to be inflated.

So again I repeat,
Mr. President, Where Is Our Gold?
LIST OF EXHIBITS

(1) THE NATIONAL TATTLER front pages dated 7/7/74 & 8/18/74 (Page 11)

(2) Letter to Durell from John Klossner dated 8/27/74 (Page 12)


(4) Article from SAN FRANCISCO EXAMINER dated 9/24/74 covering Ft. Knox visit. (Page 14)


(6) Attachment to above entitled "Monetary Gold Stock of U.S." (Page 16)

(7) Attachment to above entitled "Gold Holdings As of 8/31/74." (Page 17)

(8) Article from THE WASHINGTON POST on Simon's testimony of 12/4/74. (Page 18)

(9) Treasury announcement on transfer of gold from Exchange Stabilization Fund to Treasury, dated 12/9/74. (Page 19)

(10) General Services Administration announcement of sale of gold on an "as is, no inspection" basis dated 12/13/74. (Page 20)


(12) Coversheet from REPORT TO CONGRESS (FOD 75-10) dated 2/10/75. (Page 22)

(13) Letter from Durell to W. Michael Blumenthal dated 1/6/77. (Page 23)

(14) Treasury news release of Blumenthal's speech in Louisville, Kentucky dated 7/28/77 (Page 24)

(15) Telegram from Durell to President Jimmy Carter dated 6/14/77 (Page 25)


(18) Letter from Robert Carswell to William Proxmire dated 12/19/78. (Page 28, 29)

(19) Letter from Durell to William Proxmire dated 1/12/79. (Pages 30, 31, 32)

(20) Balance sheet of Richmond Federal Reserve Bank dated 12/31/80. (Page 33)

(21) Federal Reserve System balance sheet dated 2/11/81 which appeared in THE NEW YORK TIMES of 2/14/81. (Page 34)

(22) Balance sheet of the Treasury from the 9/30/79 Annual Report of the Treasury (Page 35)

(23) Footnote page from above report. (Page 36)

(24) Letter from Jerry Nisenson to L. Hendricks dated 3/13/81. (Page 37)

(25) Attachment entitled "Assets" from letter to Durell from president of one of the regional Federal Reserve Banks. (Page 38)
International Monetary Expert Sounds Alarm:

No Gold Left In Fort Knox!


Who Has Missing Ft. Knox Gold?

Congressmen Demand Accounting • Accuser Will Go Before Grand Jury • Treasury Chief Promises Truth

EXHIBIT # 1
Mr. Edward Durell
Milton Valley Farm
Berryville, Virginia 22611

Dear Mr. Durell:

This is in reply to your letter of August 5 concerning your inquiries on gold.

In answer to your specific questions:

1. The Bureau of the Mint has primary responsibility for the protective custody of gold stored at Fort Knox and other Mint field facilities.

2. The attached statement shows where the stocks of U.S. gold are stored and the amounts.

3. Title 31, U.S.C. provides that at the Mints and Assay Offices there shall be made annually a general settlement of accounts under the immediate supervision of a committee appointed by the Director of the Mint, with a physical inventory of all bullion, coin, currency, etc.

Sincerely yours,

John Klossner
Acting Director, Office of Domestic Gold and Silver Operations

Enclosure
June 28, 1974

The Honorable John R. Rarick
House of Representatives
Washington, D.C. 20515

Dear Mr. Rarick:

So far as I know, the article on gold in the July 7, 1974 issue of the National Tattler, which you enclosed with your inquiry of June 25, is totally without foundation. Certainly, the comments contained therein about the Federal Reserve System are baseless. Specifically, 1) the Federal Reserve System has made no sales of gold to foreigners, nor would it be legally empowered to do so; 2) I am not serving on any Committee that is studying the question of legal title to the U.S. gold stock; 3) we have in no way been involved in the use of the nation's gold reserves "by a handful of international monetary speculators."

As I am sure you are aware, the United States Treasury is charged with accounting for the nation's stock of gold. None of it is held by the Federal Reserve, except for amounts that may be stored at the Federal Reserve Bank of New York in its capacity as a fiscal agent of the Treasury. The Treasury's Daily Statement, a recent copy of which is enclosed, reports that the gold stock is very close to its level of a year ago. I see no reason whatever for questioning this report.

Finally, the article states that the Federal Reserve System is not subject to accounting or government audit. Let me point out that each Federal Reserve Bank is subjected to strict internal auditing procedures and that each is examined every year by staff of the Federal Reserve Board, subject to the review and advice of an independent national firm of certified public accountants. I am confident that our system of audits and examinations would quickly disclose any unauthorized transactions in System assets, which, I repeat, do not include gold.

Yours very truly,

Arthur F. Burns

Enclosure
Yup, that thar gold is sure thar, at Knox

Associated Press

FORT KNOX, Ky.—They were stacked from floor to ceiling: 36,236 golden bars valued at $499,823,244.58.

"It's a sight to take your breath," said Mary Brooks, director of the Mint, who led a delegation of congressmen and newsmen through the U.S. gold depository here yesterday.

It was the first time since the two-story vault was built in 1936 that "unauthorized personnel" have been permitted inside. President Franklin D. Roosevelt saw the gold in 1943, but even he had to ask permission.

Mrs. Brooks said the inspection was arranged so that the Mint "can clear away the cobwebs and reassure the public that their gold is intact and safe."

The question had arisen last July when Rep. Philip M. Crane, R-Ill., quizzes Treasury Secretary William Simon about recent reports that the vault was empty.

Crane suggested that some members of Congress might want to take a look at the gold and Simon obliged.

What Crane saw at the depository was enough to convince him that the reports were unfounded.

The audit will take about 90 days and is being conducted by the Treasury Department and the General Accounting Office.
Dear Mr. Robinson:

This is in further reply to your letter of October 9 concerning the statue of the United States gold stored at the Fort Knox depository.

First, I would point out that the gold reserve of the United States is stored in several depositories, the largest of which is in Fort Knox, Kentucky. For your information I have enclosed a list of the federal depositories and the amount of gold stored in each one.

In response to your query regarding foreign claims on the U. S. gold reserve, I can state categorically that no foreign government has any claim whatever on any portion of the gold stored in Fort Knox or any other federal depository. The popular misconception on this point possibly arises from confusing the gold stock of the United States with the gold held by the Federal Reserve Bank of New York on behalf of many foreign governments. The New York Fed presently acts as custodian for over 400 million ounces of gold owned by the International Monetary Fund and more than 50 countries throughout the world. The gold held in these foreign accounts is totally separate from the gold reserve of the United States and is not included in any listing of U. S. Government assets.

In response to your question on the gold bars stored in Fort Knox, I have enclosed a table showing the distribution by weight and fineness of the approximately 368,000 gold bars stored at that depository. The United States Bureau of the Mint is responsible for the accuracy of these figures, and I can assure you that the integrity and technical competence of the Mint personnel and the quality of the equipment available to them is not surpassed in any of the world's great financial institutions.

Sincerely yours,

William E. Simon

The Honorable
J. Kenneth Robinson
House of Representatives
Washington, D. C. 20515

Enclosures

EXHIBIT #5
## MONETARY GOLD STOCK OF THE UNITED STATES

(in millions of ounces)

<table>
<thead>
<tr>
<th>Account of the U. S. Treasury</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Fort Knox</td>
<td>147.4</td>
</tr>
<tr>
<td>Denver Mint</td>
<td>54.9</td>
</tr>
<tr>
<td>New York Assay Office</td>
<td>54.1</td>
</tr>
<tr>
<td>San Francisco Assay Office</td>
<td>10.6</td>
</tr>
<tr>
<td>FRB New York - Special Custody Acct.</td>
<td>4.2</td>
</tr>
<tr>
<td>Bank of England</td>
<td>1.3</td>
</tr>
<tr>
<td>Bank of Canada</td>
<td>1.4</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>274.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exchange Stabilization Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>276.0</td>
</tr>
<tr>
<td>Fine Gold in Good Delivery Form</td>
<td>Other Fine Gold</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>- 0 -</td>
</tr>
<tr>
<td>Denver</td>
<td>2,176,047</td>
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<tr>
<td>San Francisco</td>
<td>3,369,839</td>
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<tr>
<td>New York</td>
<td>18,088,698</td>
</tr>
<tr>
<td>Fort Knox</td>
<td>48,045,724</td>
</tr>
</tbody>
</table>

Source: Bureau of the Mint

Note: (1) Converted to ounces from dollars
(2) Rounded to the nearest ounce
The U.S. government plans to sell 3 million ounces of gold at a public auction on Jan. 6. The surprise announcement was made yesterday by Secretary of the Treasury William E. Simon in testimony before the House International Finance Subcommittee.

According to Simon, gold will be sold for the present only in bars weighing 400 troy ounces (27.5 pounds), worth approximately $75,000 apiece. A troy ounce is about one-tenth heavier than an ordinary ounce. At current world prices of $315.75 per troy ounce, the total value of the gold offering would be around $365.5 million. By law Americans will be able to own gold bullion for the first time since 1934 starting Jan. 1.

Anticipating a "gold rush," Simon said, he made the decision with President Ford's approval to "testify to a small fraction of the United States' gold reserves of 276 million ounces.

Dr. Simon observed, "We would lower the value of the U.S. dollar in relation to foreign currencies."

"There would be a clearly adverse effect on our efforts to bring inflation under control," he added. "The government intends to use the profits from selling gold to its citizens at the prevailing market price (the official U.S. rate is still pegged at $35 an ounce) to reduce its need for short-term borrowing to run the country. Simon said this would leave more money in circulation for private investment in industry, housing and other activities.

Treasury officials denied the move was also intended to "drive the price of gold down from record prices on world markets although that will be one inevitable result of yesterday's announcement.

The announcement came as a shock to subcommittee Chairman Henry B. Gonzalez (D-Tex.), who had called a hearing on his bill to postpone lifting restrictions on gold ownership for six months.

"This is catapulting the American public into a pit, placing the country in its short-term borrowing to run its foreign currencies. This is undermining the credibility of our position and of our currency," he said.

Rep. Albert W. Johnson (D-Pa.) expressed the fear that Arab nations might "gobble up" U.S. gold. Simon assured the committee that, although anyone would be free to bid, it was unlikely that foreigners, who have long been able to buy gold, would want to buy U.S. gold at prevailing market prices and pay to have it shipped to their countries.

The Treasury Secretary also sought to allay fears of any sale of gold being part of our "national patrimony." He noted that the U.S. gold was being sold to U.S. citizens and in "small, small amounts that could in no way threaten the availability of gold needed for military and industrial purposes related to national security.

For years the United States has been trying to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system. We're the government to de-emphasize the role of gold in the international monetary system.
STATEMENT OF THE U.S. TREASURY ON CONSOLIDATION OF GOLD ACCOUNTS ADMINISTERED BY THE TREASURY

At the opening of business today there were three different gold accounts administered by the Treasury.

The General Account of the Treasury held 271,438,135 ounces of gold, valued at $11,460 million at the par value of the dollar in terms of gold, against which gold certificates had been issued to Federal Reserve Banks in exchange for dollar deposits for the account of the Treasury at those Banks. The gold certificates represent a pledge by the Treasury of a corresponding amount of gold until such time as the certificates are repurchased for dollars by the Treasury.

The General Account also held 2,510,528 ounces of gold, valued at $106 million at the par value, against which no gold certificates had been issued.

The Exchange Stabilization Fund administered by the Treasury held 2,020,264 ounces of gold, valued at $85 million, which had been acquired by the Fund prior to August 15, 1971, when the Fund engaged from time to time in gold transactions with foreign monetary authorities and with the market for the purpose of stabilizing the value of the dollar relative to gold.

In view of the likelihood that the Exchange Stabilization Fund will not be engaging in further transactions to stabilize the value of the dollar relative to gold the gold held by the Fund was sold today to the Treasury at its par value.

Gold certificates were then issued by the Treasury to the Federal Reserve Banks for all the ounces of gold held in the General Account for which such certificates had not previously been issued, and the Banks deposited $191 million to the accounts of the Treasury. The Treasury now holds gold in only one account, that is 275,968,927 ounces, valued at $111,652 million, against all of which gold certificates have been issued.

The transactions undertaken have had no direct effect on any individuals or institutions apart from the Treasury, the Exchange Stabilization Fund, and the Federal Reserve Banks. The additional deposit balances of the Treasury in the Federal Reserve Banks will be available for the use of the Treasury.

In future when sales of gold are to be made by the Treasury the corresponding gold certificates will be redeemed by the Treasury prior to transfer of the gold to its purchasers.

000
NOTE: This gold is being sold by GSA on behalf of the Department of the Treasury.

Sale

GOVERNMENT PROPERTY

Caution to Bidders - Late Bids

See paragraph 5 of Special Terms and Conditions, Entitled "Late Bids and Modifications or Withdrawals."

GOLD

PAGE NO. 1 OF 12 PAGES OF
INVITATION NO. MET-219
DATED December 13, 1974

Sealed bids in original
subject to the terms and conditions set forth herein, for the purchase and removal of the Government-owned property listed in this Invitation, will be received until the time, date, and at the place indicated below, and then publicly opened.

Local time at the
TIME OF OPENING 11 A.M., place of bid opening
DATE OF OPENING January 6, 1975
PLACE OF OPENING Bid Room 1701 7th & D Streets, SW,
Washington, DC 20407

BID DEPOSIT OF 5% OF TOTAL AMOUNT OF BID IS REQUIRED.

INSPECTION INVITED BETWEEN AM AND PM.
No inspection permitted except as indicated.

ARRANGE WITH Telephone
ISSUED BY Office of Stockpile Disposal
General Services Administration
Address 2000 L Street, E.W. Washington, DC 20036
Property Located at see page 9.

EXHIBIT #10
Fort Knox gold—
the 'plot' thickens

BY C. GORDON TETHER

WHEN William Safire, New
York Times columnist, nomi-
nated "the great gold robbery"
as one of the year's four poten-
tial top news stories in a 1975
horoscope, he was not thinking in
terms of a mammoth American
bullion raid in the tradition of
our own Great Train Robbery.
The "sensation" to which he was
alluding would seem—if it ever
were to break—from what has
come to be known as the "Fort
Knox gold mystery." And, its
domestic and international
reverberations would be such,
according to one American news-
paper that has taken a special
interest in the matter, that it
could well come to be rated as
"the financial scandal of the
century."

When Dr. Peter Beter, former
counsel to the U.S. Export-
Import Bank, made the astonish-
ing allegation in the middle of
last year that the considerable
part of the American gold stock
held in Fort Knox had been
largely spirited away, no one
took him very seriously. It is
probably true to say that not
many do so even now. But what
is apparent is that there is an
increasing willingness to concede
that there may well be something
in what he says.

Suspicion

How is one to explain that
growth of the suspicion that
there really is a discrepancy—
and one of potentially worrying
magnitude—between the published
statistics for American gold
stocks and the physical reality?
It seems, to begin with, that the
U.S. Treasury's decision to take
the American gold stock audit
in the autumn of 1974, in the
hope of disposing of the Beter
cases, turned out to be
counter-productive.

It is not only that it had the
effect of generating a lot more
questions than it answered. It
also that the subsequent
efforts of such seekers after the
"Fort Knox truth"—as Congress-
men Robinson and Crane and Mr.
Edward Durrell, the industrialist,
who asked the Administration to "come
clean"—produced new
information about the quality of
the American gold stock that was
not only unhelpful to the official
contention that all was as it
should be.

For its implications were that,
at best, Washington was so
confused about the extent and
fitness of the official holdings that
it couldn't make its figures add
up in several important senses and,
at worst, was guilty of
deliberately deceiving the public.

The disclosure that four-fifths
of the gold in Fort Knox is of
inferior quality in the sense that—
being "coin metal"—it is not
of good delivery for international
settlements, purposes, caused a
particularly unfortunate
impression.

And this was compounded
a month or so later when the
Treasury Secretary, in an effort
to explain why the supplies
needed for the January auction
had to be taken from the
Exchange Stabilisation Fund's
measures stock, appeared to be
saying that there is no "good
delivery" gold at all in Fort
Knox.

All this has naturally
encouraged those who maintain
that Washington has something
to hide to press home the attack.
And they have been furnished with
additional firepower by the
curious way—in which the U.S. authorities have
behaved in relation to the gold
stock audit which the General
Accounting Office, an arm of the
U.S. Government responsible to
Congress, was asked to undertake
after some Congressmen had
indicated that their suspicions
had not been set to rest by the
officially conducted tour of Fort
Knox.

For one thing, the speed at
which the operation was com-
pleted was such as to provide
grounds for the charge that it
could not have been of the deep-
probing character that would be
required to provide the basis for
an accurate assessment of the
truth about Fort Knox. For
another, although the Director of
the Gold and Silver Operations
Office announced as far back as
December 11 that the GAO audit
had been completed and would
be published in January, it has
still failed to surface.

Consequences

Close observers of the "Fort
Knox mystery" assure me that
this—so far unexplained—official
procrastination, read in conjunc-
tion with other circumstantial
evidence, strongly suggests that
it is no longer a question of
whether there is a discrepancy
between the figures and the
physical reality but what the size
of the gap is.

It is hardly necessary to point
out that, if it does become
apparent that the Treasury has
itself been the seat of a scandal
of Watergate-type proportions,
the consequences for America in
general and her dollar in partic-
er could be very serious. The
pressing thing is why the Admin-
istration is not hastening to
demonstrate that there is no
cause for concern if it is in a
position to do so.
REPORT TO THE CONGRESS

Accountability And Physical Controls Of The Gold Bullion Reserves

Department of the Treasury

BY THE COMPTROLLER GENERAL OF THE UNITED STATES
January 6, 1977

OPEN LETTER BY CERTIFIED MAIL

Mr. W. Michael Blumenthal
Secretary-designate of the U.S. Treasury
c/o Bendix Corporation
Bendix Center
Southfield, Michigan 48076

Dear Mr. Blumenthal:

As Secretary-designate of the U. S. Treasury, you will soon assume the great responsibility of protecting many assets, including all of the "bullion, coin, currency, etc." belonging to the citizens of the United States. The gold is allegedly stored in U. S. bullion depositories, Mints, the New York Assay Office, the Federal Reserve Bank of New York and other locations here and abroad.

Thirty months of research, starting in August 1974 with U. S. Attorney General William B. Saxbe, has convinced me that the U. S. Treasury does not have the gold reserves it claims.

According to a statement contained in a Report to the Congress by the Comptroller General of the United States dated February 10, 1975 (R-87620), the Acting Comptroller states - "The last inventory of the Treasury's gold reserves was taken in 1953." This Report was signed by Acting Comptroller General R. F. Keller. This document includes an "audit" of the U. S. Bullion Depository at Ft. Knox and the other four depositories conducted between September 23 and October 21, 1974.

For over thirty months, the writer has tried to determine five things:

(a) How, when, by whom and by what authority the nation's gold was removed from the U. S. Bullion Depository at Fort Knox from 1961 to 1974.

(b) Why and by what authority was the gold in Fort Knox transferred from the maximum security underground vault (referred to as the Central Core Vault) to "13 sealed compartments" at Fort Knox.

(c) Exactly where the alleged gold reserves of the United States are now located, both here and abroad.

(d) How to bring about a return of this gold that has left the United States from 1961 to date if it is found to have been taken illegally or under color of law or cloak of authority.

(e) Why it is not possible to bring about an audit and inventory of the nation's gold reserves by a non-government, impeccable firm of accountants.

I am confident that I can convince you that you would be well advised to protect yourself and President-elect Carter by assuring the Senate Committee responsible for your confirmation hearings that you will, immediately upon taking office, order and carry out the physical inventory and that you will have this audit taken by a non-government and impeccable firm of accountants following the best procedure for determining the weight and fineness of the bars.

I further suggest, as one businessman to another, that the assaying of the barings from the bars not be done by the government's own assaying office.

I stand ready to cooperate with you in any way I am able.

Sincerely yours,

Edward Durell

January 6, 1977

OPEN LETTER BY CERTIFIED MAIL

Mr. W. Michael Blumenthal
If I appear a bit dazzled I hope you'll forgive me. I've just been down the road to inspect the nation's gold stock at Fort Knox.

First, I can report it's still there. If that comforts you, think what it does for me -- the man who has legal responsibility for its security.

Second, it's beautiful and impressive. But I couldn't help but reflect that the great pile of gold there is a monument to a by-gone era in monetary policy and economic thinking.

Today it plays no role at all in U.S. domestic monetary policy -- and virtually every country in the world has agreed to reduce its role in the international monetary system.

In the old days of commodity money, people believed that the strength of a currency depended on the country's stock of gold or other monetary commodity. But we understand today that the value of our currency, at home and internationally, depends not on our holdings of those metals, but on our fundamental economic performance. That means we must concentrate on those fundamentals in order to assure a strong dollar -- and a strong dollar is of major importance not only to the United States but also to the rest of the world. By concentrating on fundamentals, I mean that the way to assure the strength of our currency, and the only way to assure a strong dollar, both at home and in international money markets, is by following sensible economic policies, by keeping inflation under control and introducing an effective
I respectfully remind you that I have written you three letters dated January 6, January 26 and February 22 and followed these letters with three Mailgrams dated April 28, May 18 and May 31. The message which these documents conveyed was as follows:

1. A suggestion that you protect yourself by instigating an immediate and complete audit and inventory of the nation's alleged gold reserves held in this country and abroad.

2. That you appoint a Presidential Commission of Inquiry to carry out this program.

3. That such an inquiry might eliminate one of the uncertainties now curtailing business expansion. Such expansion could reduce unemployment.

Again I respectfully request a personal response from you.

Edward Durell
PO Box 586
Milton Valley Farm
Berryville VA 22611

1154 EST

MGMCOMP MGM

EXHIBIT #15
April 23, 1981

Dear Mr. Robinson:

I am pleased to respond to your letter of March 23 to Secretary Regan requesting information concerning the London "Gold Pool" which operated between 1961-1968.

The London Gold Pool was an informal and flexible arrangement among the United States, Belgium, France, Germany, Italy, the Netherlands, the United Kingdom and Switzerland. Each member undertook to supply an agreed proportion of gold sold in the London free market by the Bank of England acting as agent for the Pool in order to stabilize the price at about the $35 per ounce official monetary price. During that time, there was an effort to maintain official currency par values in terms of gold, and the objective of Gold Pool operations was to avoid the development of a significant differential between the price of gold in the private market and the official monetary price.

During the period of the Pool operations, the United States sold a net total of 45.2 million ounces of gold in the London market through the Pool arrangement. The transactions were reflected during that period in the U.S. Government's regularly published statistics on gold. This, and the gold provided by other members of the Pool, was sold in the market by the Bank of England, and we have no information on the identity of individual purchasers.

I hope this information will be helpful to you.

Sincerely,

(signed)

Dennis Thomas
W. Dennis Thomas
Assistant Secretary
(Legislative Affairs)

The Honorable
J. Kenneth Robinson
House of Representatives
Washington, D.C. 20515

EXHIBIT #16
<table>
<thead>
<tr>
<th>Shipment Date</th>
<th>Destination</th>
<th>No. of Bars</th>
<th>Fine Ounces</th>
<th>Value at time of shipment ($35 per troy ounce)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1961</td>
<td>U.S. Assay Office, N.Y.</td>
<td>24,534</td>
<td>10,005,848.009</td>
<td>350,204,680.33</td>
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<td>8-17-62</td>
<td>U.S. Assay Office, N.Y.</td>
<td>34,987</td>
<td>14,375,277.124</td>
<td>503,134,699.42</td>
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<td>4-26-63</td>
<td>U.S. Assay Office, N.Y.</td>
<td>21,341</td>
<td>8,676,727.019</td>
<td>303,685,473.65</td>
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<tr>
<td>4-26-63</td>
<td>Federal Reserve Bank of N.Y.</td>
<td>14,192</td>
<td>5,736,753.372</td>
<td>200,786,367.97</td>
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<tr>
<td>2-3-65</td>
<td>U.S. Assay Office, N.Y.</td>
<td>25,048</td>
<td>10,308,492.599</td>
<td>360,797,240.90</td>
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<td>3-24-65</td>
<td>U.S. Assay Office, N.Y.</td>
<td>36,203</td>
<td>14,455,737.781</td>
<td>505,950,822.32</td>
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<td>4-26-66</td>
<td>U.S. Assay Office, N.Y.</td>
<td>42,497</td>
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<td>602,971,609.29</td>
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<tr>
<td>9-7-66</td>
<td>U.S. Assay Office, N.Y.</td>
<td>35,644</td>
<td>14,484,435.037</td>
<td>506,955,226.35</td>
</tr>
<tr>
<td>12-3-67</td>
<td>To London via Federal Reserve Bank of N.Y.</td>
<td>35,991</td>
<td>14,289,517.149</td>
<td>500,133,100.24</td>
</tr>
<tr>
<td>1-29-68</td>
<td>U.S. Assay Office, N.Y.</td>
<td>70,398</td>
<td>28,698,040.664</td>
<td>1,004,431,423.25</td>
</tr>
<tr>
<td>3-22-68</td>
<td>Federal Reserve Bank of N.Y.</td>
<td>11,102</td>
<td>3,558,023.973</td>
<td>124,530,839.04</td>
</tr>
<tr>
<td>6-3-68</td>
<td>U.S. Assay Office, N.Y.</td>
<td>45,436</td>
<td>14,424,295.394</td>
<td>504,850,338.78</td>
</tr>
<tr>
<td>7-9-71</td>
<td>U.S. Assay Office, N.Y.</td>
<td>64,835</td>
<td>14,292,245.793</td>
<td>500,228,602.73</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td><strong>605,610</strong></td>
<td><strong>233,723,565.676</strong></td>
<td><strong>$8,180,324,798.68</strong></td>
</tr>
</tbody>
</table>

**SPEAKER'S NOTE**
- Less 1971 shipment: 210.3
- Less 2 shipments to N.Y. Fed.: 9.2
- Less shipments to London Gold Pool: 45.2
- Total - Destination UNKNOWN: 165 Million Ounces
Dear Mr. Chairman:

Last year you brought to the attention of the Secretary certain allegations of improper procedures at the U.S. Assay Office in New York. These allegations were withdrawn, a cursory investigation revealed no improprieties and you were so advised.

Subsequently, we pursued other questions that had been raised about the New York Assay Office, which is part of the Bureau of the Mint, and I must now inform you that there have been significant irregularities in accounting and management procedures in the New York Assay Office that appear to go back a number of years. In particular, the Bureau of the Mint's internal auditors have concluded that there was an unrecognized loss of an aggregate of perhaps 5200 fine Troy ounces of gold from 1973 through 1977, and possibly beyond. More than half of these indicated losses may have been incurred as part of the normal melting and refining processes of the Assay Office; an additional percentage may be recovered at such time as the building is dismantled and equipment purged. However, we cannot eliminate the possibility that theft may have accounted for some part of the loss. The full truth may never be known because of the inadequate records kept over the years.

Obviously, this is a situation which requires immediate and positive action. We have taken the following steps to ensure there will be no further unexplained losses or irregularities in the New York Assay Office:

1. The U.S. Secret Service has completed a security survey of the Office and the recommendations of that survey are being implemented under the direction of Stella B. Hackel, Director of the Mint, who assumed her office in November, 1977.

2. The newly appointed Superintendent of the New York Assay Office, Manuel Sanchez,
has assumed direct responsibility, with technical support from the Secret Service, for security, accounting and related matters at the Office.

3. The Director of Security of the Bureau of the Mint has been temporarily detailed to the Office to assist Mr. Sanchez in the security area.

4. Ms. Hackel and Mr. Sanchez are making management changes to ensure the efficient and secure operation of the Office.

In addition, the Secret Service is continuing its investigations to establish whether any violations of law or regulations of the Bureau of the Mint were committed by present or former employees of that Bureau. Should such violations be established, they will be referred for prosecution or appropriate personnel action taken by the Department.

I should also note that earlier this year, an employee at the New York Assay Office was apprehended attempting to leave the premises with gold concealed on his person; he is now in prison. Immediately after the employee was apprehended, Ms. Hackel ordered an extended shutdown of refining operations until an inventory of operations was completed and security tightened. This was accomplished by the end of July. At that time I directed the Secret Service to reassess the entire security situation at the Office and the possibility of other thefts. When the Office of Inspector General was established in the Treasury Department three months ago, I directed Leon Wigrizer, on the day he was appointed to the post, to oversee the investigations involving the Assay Office, and report directly to me.

The possible loss of a significant amount of gold in the New York Assay Office is a very serious matter. You should understand, however, that all indicated losses have taken place not in a storage area but in the melting and refining division, where a "normal" operating loss occurs when unrefined and impure gold is converted to finished gold bars. Any gold melting and refining operation necessarily incurs losses through oxidization and other chemical and/or metallurgical reactions. Such "normal" losses were not accurately accounted for by the procedures of the Office, and they account for a significant portion of the shortfall. Permanent storage or vault areas are not involved in these irregularities.

We will keep you advised of any developments in this situation, and appreciate your earlier drawing it to the Department's attention.

I am sending copies of this letter, for their information, to Senators Javits and Moynihan and Representative Murphy, in whose district the New York Assay Office is located, and to the Chairman of the Treasury Appropriations Subcommittees in both the Senate and the House.

Sincerely,

Robert Carswell

The Honorable
William Proxmire
United States Senate
Washington, D.C. 20510

EXHIBIT #18
MILTON VALLEY FARM
P. O. BOX 586
BERRYVILLE, VIRGINIA
22611

January 12, 1979

Dear Mr. Chairman:

This letter is sent to you in the belief that you will do your country a great service if you will hold hearings to get the answers to many questions arising from the handling of the nation's alleged gold reserves by the department of the Treasury.

In September 1975, the Director of the Mint, Ms. Mary Brooks, ordered an examination of the U.S. bullion depository at Fort Knox and other depositories. The General Accounting Office furnished 2 men and the Treasury 13 men to make up the "settlement committee" that undertook this examination.

This 30 day examination or "audit" was finished October 23 but the Comptroller General (titular head of the GAO) did not furnish Congress with his report until February 10, 1978. FOD-75-10, (B-87620), although numerous attempts were made to secure the copies before the first auction of the nation's gold, January 6, 1975. This "audit" was inadequate, inaccurate, and possibly fraudulent. Example, it is stated therein, the settlement committee was credited with "visually inspecting noninventoried compartments". — Without breaking the seals on solid iron doors!

If the U.S. Assay and Depository in New York was one of those depositories checked in 1975, apparently, from the enclosed newspaper clippings, i.e. New York Times, Washington Post, Daily News, New York based Newsday and Staten Island Advance, the examination there must have been completely inadequate.
May I briefly summarize these newspaper stories:

a) That you were advised of the situation at the Assay Office about a year ago;

b) That the former employee who wrote this letter to you later signed an affidavit stating the letter was a forgery;

c) In May 1978, Robert Davis, an employee, was caught, convicted and sentenced for attempting to take another brick of gold from the Assay Office worth over $20,000;

d) That according to Joseph Laitin, Assistant Secretary of the Treasury (Public Affairs), as reported in Newday, December 21, 1978, "...The full truth may never be known because the records are so poor. Because of rather antiquated management and accounting procedures (at the Assay Office), it is very difficult to ascertain the facts."

e) Later in the same article Mr. Laitin is quoted as saying "...Internal Auditors...seemed to come up with some disturbing information. They couldn't ascertain this or that...it's very technical and complicated."

f) Secret Service investigators found "security was rather lax."

g) The Staten Island Advance in New York, December 26, 1978, carries a story of a "kitty" or "slush fund" which has been used at the Assay Office for years to cover up discovered losses.

The article also says "the 'whistle-blowers' at the Assay Office have written numerous letters to the Treasury Department, the Civil Service Commission, the Justice Department and other government agencies in an effort to bring alleged improprieties, lax security and mismanagement to their attention."

The above statements and facts are directly contrary to previous Treasury comments on the proposal for a gold audit, inventory and assay.

May I refresh your memory and remind you that during the operation of the 'London Gold Pool' (1961-1968), at least 49,450 bars totaling more than 196,648 million troy ounces of gold were shipped from Fort Knox to England and passed through the New York Assay Office. It is hard to believe that this could have been done with the "antiquated management and accounting procedures" without some "errors" and possible shortages resulting.

In closing, I earnestly urge you to immediately hold a congressional hearing on this whole subject. I await with interest your early response.

Sincerely,

Edward Durell
433 Pounds of U.S. Gold Missing in NY—Maybe

By Peggy Brown

New York—The U.S. Treasury Department announced yesterday that more than 433 pounds of gold, worth $1.1 million, is unaccounted for at its New York assay office, the only place in the country where the government refines and melts the metal. And, a Treasury spokesman says, investigators aren't sure if the gold will ever be found. "The full truth may never be known because the records are so poor," he said. "Because of rather antiquated management and accounting procedures at the assay office, it is very difficult to ascertain the facts." Unaccounted for, Laitin said, is 5,200 troy ounces of gold. Troy weight, the standard measure for gold, is based on a pound of 12 ounces. The disappearance, Laitin said, seems to have occurred between 1973 and 1977. But investigators also are looking into 1976 and the years before 1973. "As of now, the investigation indicates that perhaps 5,200 ounces are unaccounted for—but it could be a lot more and it could be less," he said. The investigation began about a year ago, Laitin said, when a former employee of the New York assay office wrote a letter to Sen. William Proxmire (D-Wis.), "charging irregularities and naming names." Even though the ex-employee eventually signed an affidavit saying he had nothing to do with the letter, Laitin said, "It set some machinery in motion and raised a lot of questions." Auditors at the assay office conducted an internal audit, Laitin said, which "seemed to come up with some disturbing information. They couldn't ascertain this or that... it's very technical and complicated." It is possible that the gold was stolen, Laitin said. "Nobody's been charged with anything yet, but we're not overlooking the possibility of theft," he said. Secret Service investigators found "security was rather lax." One employee was arrested walking out the door with some gold. He soon has been convicted of theft and is in prison. Since then, security has been tightened, Laitin said. If the gold was stolen, it may be the largest theft of government-owned gold from a federal facility in the country's history. The only other known theft of gold from a government facility was in 1955, when 1,800 ounces was discovered missing from the Denver Mint and was traced to a clerk. "There's a formula which says that for so many ounces of gold you refine, you will lose so many ounces," Laitin said. It is possible, though, that up to half of the 5,200 ounces was lost in the normal refining processes. "There's a formula which says that for so many ounces of gold you refine, you will lose so many ounces," Laitin said. The New York assay office, at 32 Old Slip St. in the Wall Street area, stores gold in addition to smelting it. The storage facility is not under investigation. About 55 million ounces of gold—more than one-fifth the nation's total reserves—is stored there. About 86 employees work in the smelting facility, Laitin said. "They melt it down and purify it and, once it's turned over to storage, they have nothing to do with it anymore," he said. "There's no amount of gold that's in process right now it's 50 million ounces," he said. At today's gold price, that is worth more than $1 billion. Besides security changes, there have been some management changes, Laitin said, and more are expected. In September, Treasury Secretary W. Michael Blumenthal appointed Leon Wigrizer as the department's first inspector general. "His immediate assignment was to coordinate the investigation of the New York assay office and to do whatever was necessary to find out what the problem was," Laitin said.
## FEDERAL RESERVE BANK OF RICHMOND
### COMPARATIVE STATEMENT OF CONDITION

#### ASSETS:

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 1980</th>
<th>December 31, 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold certificate account</td>
<td>$329,000,000.00</td>
<td>$1,292,576,481.10</td>
</tr>
<tr>
<td>Special Drawing Rights certificate account</td>
<td>229,000,000.00</td>
<td>161,000,000.00</td>
</tr>
<tr>
<td>Coin</td>
<td>42,937,198.60</td>
<td>44,639,596.20</td>
</tr>
</tbody>
</table>

#### LOANS AND SECURITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 1980</th>
<th>December 31, 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to depository institutions</td>
<td>189,185,000.00</td>
<td>164,909,000.00</td>
</tr>
<tr>
<td>Federal agency obligations</td>
<td>717,839,368.03</td>
<td>672,851,758.16</td>
</tr>
<tr>
<td>U. S. Government securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bills</td>
<td>3,588,486,743.19</td>
<td>3,705,423,089.10</td>
</tr>
<tr>
<td>Notes</td>
<td>4,823,099,366.01</td>
<td>4,626,870,992.09</td>
</tr>
<tr>
<td>Bonds</td>
<td>1,387,546,400.29</td>
<td>1,191,854,543.41</td>
</tr>
<tr>
<td><strong>TOTAL U. S. GOVERNMENT SECURITIES</strong></td>
<td>9,799,132,509.49</td>
<td>9,524,148,624.60</td>
</tr>
<tr>
<td><strong>TOTAL LOANS AND SECURITIES</strong></td>
<td>10,706,156,877.52</td>
<td>10,381,909,382.76</td>
</tr>
<tr>
<td>Cash items in process of collection</td>
<td>3,034,877,202.14</td>
<td>2,821,954,663.42</td>
</tr>
<tr>
<td>Bank premises</td>
<td>88,547,571.76</td>
<td>83,446,999.67</td>
</tr>
<tr>
<td>Furniture and equipment, net</td>
<td>11,135,218.00</td>
<td>7,758,728.35</td>
</tr>
<tr>
<td>Other assets</td>
<td>495,748,049.87</td>
<td>326,310,848.43</td>
</tr>
<tr>
<td>Interdistrict settlement account</td>
<td>218,946,955.13</td>
<td>-361,656,862.10</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$15,788,349,073.02</td>
<td>$14,737,939,837.83</td>
</tr>
</tbody>
</table>

**EXHIBIT #20**
# Federal Reserve

### In millions

<table>
<thead>
<tr>
<th></th>
<th>Latest week</th>
<th>Previous week</th>
<th>Year ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>M-1B (one week lag) †</td>
<td>$415,100</td>
<td>$413,300</td>
<td>$412,600</td>
</tr>
<tr>
<td>M-1A (one week lag) †</td>
<td>366,900</td>
<td>367,400</td>
<td>n.a.</td>
</tr>
<tr>
<td>Adjusted Monetary Base (Fed-Res-Wash) †</td>
<td>159,122</td>
<td>160,300</td>
<td>n.a.</td>
</tr>
<tr>
<td>Adjusted Monetary Base (Fed Res-St. Louis) †</td>
<td>162,500</td>
<td>162,200</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

### Reserve Position—All Member Banks

<table>
<thead>
<tr>
<th></th>
<th>Daily averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required Reserves</td>
<td>36,926</td>
</tr>
<tr>
<td>Total Reserves Held, including vault cash</td>
<td>39,156</td>
</tr>
<tr>
<td>Excess (Deficit) Reserves</td>
<td>230</td>
</tr>
<tr>
<td>Less: Non-seasonal Borrowing at Federal Reserve Banks</td>
<td>1,113</td>
</tr>
<tr>
<td>Equals: Free (Net Borrowed) Reserves</td>
<td>(853)</td>
</tr>
</tbody>
</table>

### Reserve Position—Eight Major New York Banks

<table>
<thead>
<tr>
<th></th>
<th>Daily averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess (Deficit) Reserves</td>
<td>16</td>
</tr>
<tr>
<td>Borrowings at Federal Reserve</td>
<td>21</td>
</tr>
<tr>
<td>Net Federal Funds Purchases</td>
<td>9,714</td>
</tr>
<tr>
<td>Basic Reserve Surplus (Deficit)</td>
<td>(9,719)</td>
</tr>
</tbody>
</table>

### Federal Reserve Credit Outstanding

<table>
<thead>
<tr>
<th></th>
<th>Daily averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governments and Agencies Held Outright</td>
<td>124,906</td>
</tr>
<tr>
<td>Governments and Agencies Under Repurchase</td>
<td>0</td>
</tr>
<tr>
<td>Float</td>
<td>3,502</td>
</tr>
<tr>
<td>Other Assets</td>
<td>10,397</td>
</tr>
</tbody>
</table>

### Other Factors Affecting Reserves

<table>
<thead>
<tr>
<th></th>
<th>Daily averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Stock</td>
<td>11,159</td>
</tr>
<tr>
<td>Special Drawing Rights</td>
<td>2,518</td>
</tr>
<tr>
<td>Currency in Circulation</td>
<td>131,724</td>
</tr>
<tr>
<td>Treasury Deposits</td>
<td>3,926</td>
</tr>
</tbody>
</table>
### Table 57: Stock of bullion, coin and currency, selected dates, June 30, 1945-75, and Sept. 30, 1977-79

[In thousands of dollars, except percentage of gold to total stock]

<table>
<thead>
<tr>
<th>Classification</th>
<th>1945</th>
<th>1965</th>
<th>1975</th>
<th>Sept. 30, 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bullion and coin</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gold*</td>
<td>20,212,973</td>
<td>13,934,083</td>
<td>11,619,862</td>
<td>11,227,675</td>
</tr>
<tr>
<td>Silver bullion (at monetary value)</td>
<td>1,520,295</td>
<td>1,267,417</td>
<td>(?)</td>
<td>(?)</td>
</tr>
<tr>
<td>Dollars*</td>
<td>493,943</td>
<td>484,720</td>
<td>862,431</td>
<td>816,019</td>
</tr>
<tr>
<td>Fractional coin (subsidary)</td>
<td>825,798</td>
<td>2,375,327</td>
<td>6,518,193</td>
<td>8,143,488</td>
</tr>
<tr>
<td>Fractional coin (minor)</td>
<td>303,539</td>
<td>853,388</td>
<td>1,699,012</td>
<td>2,264,096</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>23,356,548</td>
<td>18,914,934</td>
<td>20,699,698</td>
<td>23,451,278</td>
</tr>
<tr>
<td>Less: Gold, silver bullion, and standard silver dollars held as security for, or redemption of outstanding paper currencies*</td>
<td>20,079,777</td>
<td>14,715,025</td>
<td>11,620,037</td>
<td>11,227,675</td>
</tr>
<tr>
<td>Total bullion and coin (net)</td>
<td>3,276,771</td>
<td>4,199,909</td>
<td>9,079,661</td>
<td>12,223,603</td>
</tr>
</tbody>
</table>

**Currency:**

| Gold certificates, and credits payable therein* | 18,106,600 | 13,670,235 | 11,620,037 | 11,227,675 |

Less: Amount included in collateral held by Federal Reserve agents for Federal Reserve notes | 10,968,000 | 6,295,000  | 11,596,264 | 11,227,675 |

| Subtotal                                      | 7,138,600  | 7,375,235  | 3,334,673  | 3,439         |
| Gold certificates prior to Series of 1934*     | 1,815,988  | 889,176    | 210,638    | 206,516       |
| Silver certificates*                          | 1,150      | 42         | 11         | 11            |
| Treasury notes of 1890*                       | 346,681    | 322,681    | 322,539    | 322,539       |
| U.S. notes*                                   | 23,650,975 | 37,347,185 | 77,003,198 | 122,457,371   |
| Federal Reserve notes*                        | 533,979    | 69,703     | 50,150     | 49,239        |
| Federal Reserve bank notes*                   | 123,715    | 22,723     | 19,206     | 18,552        |
| National bank notes*                          |           |           |           |               |
| **Total paper currency (net)**                 | 33,699,588 | 46,018,735 | 77,637,583 | 123,057,667   |
| **Total stock**                               | 36,785,360 | 50,238,644 | 86,713,044 | 135,281,270   |

| Percentage of gold to total stock            | 54.80      | 27.74      | 13.40      | 8.30          |

Footnotes on next page.
Value of gold holdings at $35 per fine troy ounce through 1970, and at $42.22 for 1974 through 1979. Amount for 1970 is exclusive of gold deposited with the United States by the International Monetary Fund.

Excludes bullion carried at monetary value but released for coining use.


Comprises the security for: Gold certificates and credits payable therein (100 percent in gold); U.S. notes (gold to the extent of the reserve required by law (31 U.S.C. 408); and silver certificates and Treasury notes of 1890 (100 percent in silver bullion or standard silver dollars). Since enactment of the Old Series Currency Adjustment Act (31 U.S.C. 912-916) on June 30, 1961, gold certificates prior to the Series of 1934, silver certificates issued before July 1, 1929, and Treasury notes of 1890 have been payable from the general fund. The requirement for a gold reserve against U.S. notes and Treasury notes of 1890 was repealed by Public Law 90-269, approved Mar. 18, 1968. Silver certificates issued on and after July 1, 1929, became redeemable from the general fund on June 24, 1968 (31 U.S.C. 403a-3). The amount of securities shown on this line for years after those dates has been reduced accordingly.

Consists of: Gold certificates outside of the Treasury (issues prior to Series of 1934 are included through 1961), and credits with the Treasury of the United States payable to the Board of Governors, Federal Reserve System, in gold certificates. These obligations are fully secured by gold in the Treasury.

Federal Reserve banks secure Federal Reserve notes by depositing like amounts of collateral with Federal Reserve agents. The Federal Reserve Act, as amended (12 U.S.C. 412), authorizes the use of the following assets for this purpose: (a) gold certificates or gold certificate credits; (b) certain discounted or purchased commercial paper; (c) securities issued by the United States; and (d) special drawing rights certificates issued by the Exchange Stabilization Fund. Federal Reserve notes are obligations of the United States and are a first lien on all assets of the issuing Federal Reserve bank.

Pursuant to the Old Series Currency Adjustment Act of 1961, funds were deposited by the Federal Reserve banks on July 28, 1961, with the Treasurer of the United States for the redemption of all series of Federal Reserve notes issued before the Series of 1928. The amount shown for 1979 includes $687,388 or such series as Federal Reserve bank notes at issuance were secured by direct obligations of the United States or commercial paper. Since termination of their issuance on June 12, 1945 (12 U.S.C. 445 note), the notes have been in process of retirement, and lawful money has been deposited with the Treasury of the United States for their reissue.

National bank notes at issuance were secured by direct obligations of the United States. From Dec. 23, 1915 (12 U.S.C. 441) these notes have been in process of retirement, and lawful money has been deposited with the Treasury of the United States for their redemption.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220
March 13, 1981

Dear Mr. Hendricks:

This is in response to your recent letter to Secretary Regan urging an audit of the United States gold stock.

I can assure you that there is no gold missing from the U.S. gold stock. All of the transactions, including those involving gold certificates, have been reflected in published U.S. Government statistics, with these transactions fully accounted for on the books of the Treasury. As of January 31, the U.S. gold stock amounted to 264.3 million fine troy ounces.

You may be pleased to learn that an audit is now in process which, when completed, will cover all United States-owned gold for which the Treasury is accountable. This continuing audit, together with a special audit in 1974 of part of the gold in Fort Knox by the General Accounting Office, has covered 72 percent of the gold stock as of February 28, 1981. No discrepancies in our records have been found with regard to any gold in permanent storage.

A complete audit is a very time consuming task because of the enormous quantity of gold to be handled, the highly specialized manpower skills required, and the security precautions involved. In performing the audit, the gold bars are physically removed from one vault to another. During this operation, the melt numbers and the number of bars in each melt are verified with an inventory listing, and one in fifty melts is randomly selected for weighing and test assay. The results of the assays are given to the audit committee to compare with the fineness shown on the inventory listing. The procedure is one which the General Accounting Office has followed and observed and to which it has taken no exception. Although the 1953 gold audit, to which you referred, was also performed in accordance with accepted auditing standards, it was only a partial audit covering 5 percent of the U.S. gold stock.

I hope this information will be helpful to you.

Sincerely yours,

Jerry H. Nisenson
Deputy Director for Gold Market Activities
Office of Foreign Exchange Operations

Mr. L. Hendricks
4430 A
Lincoln, NE 68510
**Assets**

1. **Gold Certificate Account**

Gold certificate credits held by the Federal Reserve Banks.* Some credits are pledged with Federal Reserve Agents** as collateral for Federal Reserve notes issued.***

Except for some actual gold certificates that Federal Reserve Banks use for public education displays, all “gold certificates” are bookkeeping credits.

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* When the Treasury purchases gold and needs to replenish its dollar balances, it “mone­tizes” the gold. The Treasury issues gold certificate credits to the Federal Reserve Banks and an equal amount in dollars is credited to its account at the Reserve Banks. If the Treasury wishes to sell gold that has already been monetized, it must first return the gold by redeeming gold certificate credits issued to the Reserve Banks. When redeeming credits, the Treasury pays by reducing its balances at the Reserve Banks.

In August 1971, the U.S. suspended virtually all Treasury buying and selling of gold. In 1972 and 1973, Congress raised the U.S. official gold price and the Treasury issued gold certificates against the increased value of the U.S. gold stock. In 1974, the Treasury monetized the last, small, remaining amount of nonmonetized gold.

On December 31, 1974, the 41-year old legal prohibition against Americans buying, selling and holding gold ended, and, in January 1975, the Treasury sold gold to the public, redeeming gold certificates held by the Reserve Banks.

** The Federal Reserve Agent is the Board of Governors’ representative at each Reserve Bank. The Agent and the Reserve Bank have joint custody of the Bank’s unissued Federal Reserve notes. To obtain the release of notes, the Reserve Bank is required to pledge collateral at least equal to the amount of notes it wishes to issue.

The Federal Reserve Act (Section 4) specifies that the Board of Governors shall designate one of the three “Class C” directors of each Federal Reserve Bank (directors appointed by the Board) as Chairman of the Board of Directors and Federal Reserve Agent.

*** Statutory minimum gold reserve requirements against Federal Reserve deposit liabilities and notes were abolished on March 3, 1965 and March 18, 1968, respectively. However, each Reserve Bank must maintain collateral equal to the amount of its Federal Reserve notes outstanding. This collateral may be gold certificate credits or Special Drawing Rights certificate credits, U.S. Government securities, or collateral received in making loans. Most Federal Reserve Banks continue to pledge a portion of their gold certificate credits as collateral against these Federal Reserve note liabilities.

Each Reserve Bank receives a share of the total gold certificate credits in the account equal to the percentage of total Federal Reserve notes outstanding that it has issued. Redistribution of credits is made on or about each January 15, beginning in 1976, to reflect changes in the percentages of notes issued by individual Reserve Banks during the previous year.

Until April 30, 1975, Federal Reserve Banks used gold certificate credits to settle daily amounts due one another from the movement of checks and wire transfers of securities and funds between districts. To effect settlements, a pool of gold certificate credits was established that was not available for use as a collateral against Federal Reserve notes issued. With the ending of the practice, the gold certificate credits in the entire pool became available for pledging as a collateral against Federal Reserve notes. Thus, at present, Federal Reserve Banks settle amounts due one another with “debit” and “credit” asset entries. Each Reserve Bank records on its own Condition Statement, in a separate “Interdistrict settlement account” item, the net balance “due to” or “due from” other Reserve Banks. The item appears directly below “other assets” in the separate condition statements, but does not appear on the Consolidated Statement because the sum of the “due to” and “due from” balances of the 12 Federal Reserve Banks always nets out to zero.

As transactions are made between Reserve Banks, each Bank’s “Interdistrict settlement account” is increased (debited with a “due from” entry) or reduced (credited with a “due to” entry) as appropriate, on a daily basis. “Due to” and “due from” settlements are netted against one another; there is no corresponding liability adjustment. This asset item, therefore, is reported as a negative number when “due to” balances exceed “due from” balances.

Each year, on the last business day of

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continued on next page

**EXHIBIT #25**

38
Mr. President,
Where Is Our Gold?
WHY NOT BELL THE CAT?

TESTIMONY offered to the Gold Commission has, it appears, concentrated upon the problem of the Federal Reserve Bank, viz. how to maintain the value of the currency. This, however, is a problem that has no solution which can be set down, once and for all, by legislation: if currency is in circulation, then by its very nature it may be at par, or it may be at a discount, or it may (conceivably) be at a premium -- just as a cat, by its very nature, may be asleep on the mat, or lapping milk, or looking for trouble.

But it does not follow that nothing is to be done. On the contrary, the mice would be better off if they knew when the cat was on the prowl, and the markets would be better off if they knew when the currency was appreciating or depreciating. It is only right and proper that Congress should regulate the value of coin, so that fluctuations of the currency could be observed and discounted.

This may appear to be, today, impractical, since every current coin is heavily over-priced; 10 troy ounces of copper coins -- 100¢ -- will buy 1-1/8 lb. of copper. Nevertheless, it is herein argued that Congress could resume the minting of gold coins and, by so doing, stabilize the currency as the market now stands. Coins could be minted, not freely, but for a seigniorage, IN CURRENCY, equal to the face value of the coin (e.g. the charge for minting a double eagle would be $20 currency); then any depreciation of the currency would result in more gold being coined, and, in the limit, a collapse of the currency would restore free coinage.

Brian W. Firth,
206 West Robinson,
Carson City,
Nevada  89701
SCOPE

This study is confined to one question only: what exercise of the powers of Congress to coin money, and regulate the value of (its own and foreign) coin, is appropriately to be made by the 97th Congress? The reason for so restricting the enquiry will appear.

THE PROBLEM SITUATION

The popular perception is, that the currency (i.e. the notes of the Federal Reserve Bank) is unpredictable in value. This is no doubt true; but the questions arise, why is this remarkable? and, why is this important? Banks are engaged in the demanding and difficult tasks of safe-keeping money and lending money: no-one would expect banks to be free from the risks attached to doing business. And we know that the States united in anticipation of contingencies, such as war, that would as a matter of course shut down all banks; a bank cannot exist unless the courts are open, unless creditors have a remedy at law.

And indeed we see that the Federal Reserve Bank has not been charged with failing to cash out its notes in U. S. coin. All the complaints against the F. R. Bank would be plainly misconceived if we could believe that the Congress had succeeded in regulating the value of U. S. coin.

Any failure of the Congress to regulate the value of coin must, it would seem, give rise to grievances on the part of those who have either borrowed from, or deposited in, the banks.

CURRENCY, COIN, AND COMMODITY

Today, it is assumed that currency and coin are at par, one can be exchanged for the other without loss. This, however, is true only at this time and where the Congress has legislation, since it stems from the F. R. notes being legal tender.

In general, the relationship between currency and coin is an inequality:

\[ \text{currency} \leq \text{coin} \]

This merely expresses the fact that, if the currency rises to a premium greater than, say 103%, coins will take the place of currency.

A coin, at least under the holdings of the courts of the U. S., is composed of metal, a commodity (e.g. Legal Tender Cases, 1884, 4 S. Ct. 122, 137.) It follows that the coin must be capable of buying as much of the commodity as it contains (except in special circumstances, e.g. in the Republic of South Africa gold is contraband):

\[ \text{coin} \geq \text{commodity} \]

The coin may very well be worth more than the commodity; for the mint to be "open" is a special case.

These two relationships may be combined:

\[ \text{currency} \leq \text{coin} \geq \text{commodity} \]
We may now make two deductions:

(1) Coin is the link between currency and commodity. "Convertibility" between currency and commodity (advocated by many "gold standard" theoreticians) is an extraordinary special case where:

\[ \text{currency} = X \cdot \text{coin}; \quad \text{coin} = \frac{1}{X} \cdot \text{commodity} \]

The only plausible manner to establish these conditions would be to make \( X \) equal to unity. In words, the legislature would institute free coinage and leave the banks exposed to common-law liability (deny them the privilege of bankruptcy.)

In today's circumstances, "convertibility" is not to be attained simply.

(2) The situation of the States today is, to say the least, delicate. Coin it is which holds the monetary system together, but the most valuable coin in circulation, the cent of 0.1 tr. oz. copper, is worth, as a commodity, only 60% of its face value. In other words, the price of copper is today \( 85^\circ \) per lb., but only because there is a shortage of coin is it below \$1.45. Obviously, other coins are far less valuable, since the dime is about the same size as a cent but has ten times the face value.

This means that even a discussion of a "gold standard" is fraught with danger; if the market tests the value of U. S. coin, it will find that coin is over-priced. Thus any reform which involves any change in the coins, as distinct from merely a regulation of their value, is ipso facto objectionable.

This analysis thus leads to a clear conclusion: that the first requirement is for the Congress to regulate the value of coin. If it can, in so doing, also stabilize the currency, that would be a secondary benefit.

THE SOLUTIONS

The problem has been narrowed down to, regulating the value of coin. But the answer to this problem is known -- it is, in a word, specie, viz. coins valuable only for their metal content. (This strict use of the term can be justified by remarking that John Randolph proposed to the constitutional convention that the States reserve the power to make any "specie a tender in payment of debts." )

Thus what is required is to make at least one coin available in unlimited quantities.

Three means to this end can readily be perceived. The first is for the Congress to transfer the status of legal tender to the cent of 1/10th. tr. oz. copper, 95% fine (where it has legislation.) There would then be no prospect of the coin ever being worth more than 1$, coins would no longer be "hoarded" (in bottles rather than banks), and normal minting would quickly achieve equilibrium. Such is allowable, since the Congress is not prohibited from impairing the obligation of contracts, and in any case the currency would go to a premium, since a note is more convenient than ten ounces of tiny coins. There are, however, two disadvantages. Such a devaluation would give rise to a surge of wholly illusory profits; and copper is a poor specie, since the cost of making coins is relatively high (notice that the States rejected it in favor of gold and silver.)
The second is for the Congress to resume the minting of 900 parts silver coin, the cost of coining which is low enough for there to be free coinage. Then, every day that the Mint was open, it would be ascertained how much currency was required to purchase a coin (today, it would be about $9 currency to $1); any tendency for the credit of the F. R. Bank to deteriorate would be made apparent. The advantage of this option is that the States have traditionally used a silver standard, de jure from 1792 to 1871 and de facto from 1934 to 1964; the disadvantage is that silver is a volatile commodity, since it is mined mainly as a by-product of other metals.

Thirdly, the Congress could resume the minting of gold coins (the word resume is used to emphasize that the American Arts medallions are not, properly, coins; not one State has legalized them.)

Today, a gold coin, as specie (i.e. disregarding any scarcity value) is worth, in currency, 20 times its face value, i.e. a double eagle would be worth $400 in currency. But this is to say that the face value, in currency, is 5% of the cost of the metal: and we know that this is more, but not much more, than the premium on American Arts medallions and foreign coins.

Thus the Congress could mint the coins for a seigniorage, payable in currency, equal to the face value, without disturbing the market for bullion coins, and yet expect to mint a significant number of pieces -- double eagles trade at a premium of 40% or more.

Once the minting of coins for a seigniorage of the face value, in currency, is an institution, then not only would there be an unquestionable specie coin, but also the currency would be stabilized. Suppose the currency fell until the price of gold was $850 currency per tr. oz.; then the seigniorage would be 2.4%, U. S. coins would be the lowest-premium gold mintage, and gold owners all over the world would want F. R. notes to pay for coining. If, on the other hand, the currency returned to par and the price of gold was $20.67 -- as when coins were circulating -- the Mint would still be open; there would surely be at least one collector who would want a double eagle dated 2002, even though it would cost him $40.

The currency-as-seigniorage institution would, plainly, establish the veridical relationship between currency and coin; if F. R. notes became valueless, all that would happen would be that the States returned to free coinage of gold.

CONCLUSION

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

The institution of the currency-as-seigniorage system would mean that, so long as gold continues to be mined and coins to be traded, there would be a demand for currency -- or, if the currency collapsed, the States would again have free coinage.
GOLD The rally in the price of gold carried the spot metal to the $450-$460 area, with an intraday high of $459.70 reached on September 14 on Comex in New York, and a high London fix of $459 on September 17. Therefore long gold positions, which were acquired at an average price of $393, and then again at $415, should have been liquidated at an average price of $454.50, for a profit of $61.50 and $39.50 per oz. respectively. As of this writing, September 18, the afternoon fix in London was $447 and spot gold on Comex closed at $450.90.

The question now arises where to enter the market again. We believe that one should try to buy back in the $433-$438 area basis spot, for a potential rally to the $470-$480 area. However should the price of gold decline below $410, we would abandon long positions. On the other hand, if a rally starts from current levels without any further pullback, we would be inclined to buy if the London fix or spot gold in New York exceed their recent highs (intraday high on Comex), in which case we would look for a $15-$20 profit only. With one caveat, as mentioned in previous issues: should the Soviet troops enter Poland, by "invitation" or otherwise, then we would maintain long positions without any specific objective, or, if not yet long, we would buy at the market.

On September 17, 84,885 contracts of gold were traded on Comex, the largest volume this year and the third largest volume ever. Despite this substantial volume having been posted on the downside, the on-balance-volume figures are still constructive and point to an extension of the rally after some consolidation. As of this writing, the open interest on Comex stood at 202,342 contracts, out of which 8,118 were in the nearby October delivery. On IMM in Chicago, as of September 17, the open interest stood at 58,767 contracts. As of September 18, gold stocks in Comex-approved warehouses stood at 2,781,735 oz.

During the month of August, South Africa's gold production amounted to 1.80 million oz., which compares with 1.79 million oz. in July and 1.82 million oz. in August of last year. South Africa's production during the first 8 months of this year amounted to 14.12 million oz., versus 14.58 million oz. in the same period of last year. During the month of August, South Africa sold not only its entire new production, but an additional 19,000 oz. from its reserves as well. In August the Soviet Union was a net seller of gold to the West; so far this year Soviet sales are estimated at about 70 tons, which compares with 90 tons in the entire year 1980, and 200 tons in 1979. The fact that half of the Soviet sales this year happened during the last six to eight weeks indicates that some were made just about at the time when prices were bottoming out before the current rally.

The sales of U.S. gold medallions are going very poorly, and the Treasury is considering changing the sales procedure; in the future the medallions may be made available through banks and dealers, rather than through U.S. post offices as is the case now.
On September 18, the 17-member U.S. Gold Commission held its second meeting; a clue to what can be expected from its deliberations is the fact that the panel is even split on whether to extend the deadline for the Commission’s report to Congress from October 8 to March 31 or June 30, 1982...

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

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

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

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

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

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

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

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

SILVER In our last Comments, when spot silver was selling at $10.00, we specified that the objective for the upmove was $10.78 basis spot. That objective was not only reached but exceeded, when on September 14 spot silver traded at an intraday high of $11.35 on Comex. Therefore short term traders are presumed to have taken profit on their long positions, and are now looking for another point of entry. Long term positions should be maintained until the price of silver exceeds $16, which we expect to happen some time in 1982.

After establishing its new intraday high of $11.35, spot silver on Comex declined to an intraday low of $9.60 on September 17, on the "news" that GSA would start auctioning silver in October. Whoever was in the silver market and did not know that Congress had approved a bill authorizing the sale of 46.5 million oz. of silver in fiscal 1982, which starts October 1, deserved to lose his money... But what made the incident more bizarre was that the news was first published on September 16, without causing much of a ripple, since on that day the price of silver declined only 19.7c. It was only when the news was repeated on September 17 that spot silver collapsed to $9.60, for a decline of $1.24, or 11.2% in one session. On September 17, all other months beside the spot month declined by the permissible daily 50c limit, and then by another limit on September 18. There may still be some pressure from margin calls on Monday, September 21, but after that the pressure should be off and the market should embark on some kind of a sideways move before the next upward leg begins. Short term traders can now go long again. We expect that once the market has bottomed out, the price will move swiftly to the $13 level; after establishing long positions traders should maintain them until that objective is reached.

As far as GSA's auctions are concerned, 1.25 million oz. of silver will be offered each week; the minimum allowable bid should be for 8,000 oz. The silver to
be auctioned is currently stored in Government facilities in West Point, New York and San Francisco. The bars weigh 1,000 oz. each and are of .999 fineness. The first auction will probably not take place before October 21, since GSA still has to print the bid forms, mail them to potential bidders, and give them some time to respond. Despite the fact that the weekly amount offered for sale will be 1.25 million oz., instead of 1 million oz., as originally contemplated, the total amount to be offered for sale in fiscal 1982 will remain the same, 46.5 million oz. Also, GSA will have to announce what will be the minimum deposit required for bidders, in order to prevent "fancy" bids from being submitted such as were submitted during GSA's previous silver auctions.

There were rumors flying around that if the United States proceeds with its auctions, Mexico and Peru would withhold 50 million oz. of silver from their new production. It was then stated that during the summit in Grand Rapids between Mexico's President Portillo, Canadian Prime Minister Trudeau and President Reagan, the matter of silver sales would be discussed, but no details are available as yet. Peru's Minister of Mines, Mr. Pedro Pablo Kuczynski, disclosed that President Portillo would propose to President Reagan that the United States postpone its sales of silver, in which case Mexico and Peru would try to stabilize the market by refraining to export part of their new production. Mexico and Peru believe that their stabilization efforts could bring the price of silver to about $20 per oz., at which level they suggest that the United States could start gradually selling its stockpile silver; at that level, they too, would gradually dispose of the silver withheld from the market.

On September 17 the daily trading volume on Comex reached this year's high of 14,105 contracts. It was the highest trading volume since 34,622 contracts were traded on March 28, 1980. As of September 18, silver stocks in Comex-approved warehouses stood at 77.7 million oz., and the open interest amounted to 34,686 contracts, out of which 1,295 contracts were in spot September. On the Chicago Board of Trade, as of September 17 the open interest stood at 20,380 contracts in the old 5,000 oz. contract, and at 7,079 contracts in the new 1,000 oz. contract. The combined silver stocks in CBT-approved warehouses amounted to 21 million oz. as of September 17. On September 15, Comex increased the silver margin for speculative accounts from $3,000 to $3,500 per contract, and for hedgers from $1,800 to $2,500. During the month of August, 17.1 million oz. of silver were traded on the London Metal Exchange, which compares with 18.2 million oz. in August of last year. The cumulative volume for the first 8 months of this year amounted to 201.9 million oz., versus 290.1 million oz. in the same period of last year. In August the average price of spot silver on the LME was 488.8 pence per oz.

According to the Silver Institute statistics, in July the U.S. production of refined silver declined to 10.4 million oz. from 11.5 million oz. in June. The monthly average production for the first 7 months of this year was 11.5 million oz., which compares with 15.5 million oz. in the same period of last year. As of the end of July, silver stocks held by U.S. refiners dropped to 2.3 million oz. from 3.5 million oz. at the end of June. As of the end of July, silver stocks of foreign refiners increased slightly to 6.8 million oz. The monthly average production rate of foreign refiners for the first 7 months of this year was 18.8 million oz., versus 21.9 million oz. in the same period of last year.

The gold/silver ratio, which declined from 51 to 1 to 41 to 1 recently, as of September 18 had widened to 45.5 to 1. However we expect that this ratio will narrow again, to somewhere between 32 - 35 to 1, by the end of next year.
SILVER  On October 14, GSA held the first silver auction in the 1982 fiscal year, despite last minute efforts to stop it by the Governor and Congressional representatives of the State of Idaho. Against most expectations -- although not ours -- the auction was extremely well bid, and GSA received bids for 5,856,000 oz., while it was offering only 1,250,000 oz. (see details on page 2). Excluding two "jokers," who bid for 8,000 oz. each (the minimum allowable) at $1.82 and $2.00 respectively, semi-serious and serious bids were in the range between $7.00 and $9.41.

It is our opinion that all those who bid below $9.00 did not really want to buy, and submitted their bids merely for the fun of it, or perhaps because they had a poor idea of the strength of the silver market and hoped to get some bullion at bargain prices. As far as the serious bids are concerned, they were in the range of $9.00 and $9.41, and amounted to a total of 3,768,000 oz.

At 11 o'clock on October 14, when the bids were opened, spot silver on Comex traded at $9.35. Therefore it is surprising that GSA decided to sell only 160,000 oz. at prices ranging from $9.3310 to $9.41, for an average of $9.38. Republic National Bank of New York was one of the only two successful bidders, who was awarded 104,000 oz. at $9.41; Mocatta Metals Corporation, the other one, was awarded four lots of 8,000 oz. each at $9.371, $9.361, $9.351 and $9.341, and 24,000 oz. at $9.331, for a total of 56,000 oz. However the 1,250,000 oz. offered by GSA could have been sold at prices ranging between $9.41 and $9.20, which is only 13 cents lower than the cutoff price decided upon by GSA: there were bids for 1,432,000 oz. between $9.20 and $9.41. Of course we realize that GSA, mindful of the criticism from the mining industry in this country and of the ire of Peru, Mexico and Canada, was anxious to prove that it did not really want to disrupt the market by accepting prices that were too low, but to decide not to sell the entire amount offered because of a 13¢ differential appears to be slicing it a bit too thin. Besides, this is a kind of judgment that only few of the most experienced silver traders could make, and we doubt that such experienced silver traders work for GSA.

The net receipts from the auction amounted to $1,501,976, whereas if the total had been sold at a cutoff price of $9.20, the proceeds would have been $11.6 million. GSA's action in selling only 160,000 oz. also placed the serious bidders in a precarious position, because once the bids had been opened those who had put in reasonable bids figured what they thought would be the likely cutoff price and immediately hedged the silver they expected to be awarded by selling on Comex. It was only after the close that they discovered that because the cutoff was much higher than anticipated, they had bought nothing and found themselves with net short positions on Comex. As it happened, no harm was done, because on the next day the price of silver declined by 20¢, so presumably they all were able to cover their shorts with profit.

After the results of the auction were announced, Idaho state officials disclosed that they would monitor the silver auctions and might take action if they felt
that the sales are hurting Idaho's interests. An aide to Congressman Larry Craig (R-Idaho) suggested that the cutoff price at the first auction should now be considered the minimum acceptable price by GSA, adding that if that minimum price should drop in subsequent weeks Idaho officials would sue the Federal Government or take other legislative action. Not to be left behind, the Silver Users Association announced that it, too, planned to closely watch GSA's silver auctions, and implied that the cutoff price at the first auction was too high. Rarely, if ever, have we agreed with Walter Frankland, SUA's Executive Director, but this time we do not want to argue with him for a 13¢ difference...

There were some grumblings among traders that if GSA continues to sell only a portion of the 1,250,000 oz. offered every week, then the accumulating excess would present a new overhang problem, because GSA must sell 46.5 million oz. in this fiscal year. That is not correct. First, there are 52 weeks in a year, and at the rate of 1,250,000 oz. a week, only 37 weeks would be needed to sell the entire amount adjudicated for sale this year. Secondly, as William Campbell, Deputy Commissioner of GSA remarked, GSA is under no legal obligation to sell the 46.5 million oz. during fiscal 1982.

<table>
<thead>
<tr>
<th>Bidder's Name</th>
<th>Amount Bid (oz.)</th>
<th>Price Bid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monex International, Ca.</td>
<td>96,000</td>
<td>$9.260 - $8.888</td>
</tr>
<tr>
<td>Bank of Nova Scotia, Toronto</td>
<td>160,000</td>
<td>$9.018 - $7.810</td>
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<td>Gold Standard Corp., Mo.</td>
<td>24,000</td>
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<td>J.W. Harris Co. Inc., Ohio</td>
<td>200,000</td>
<td>$8.400 - $7.350</td>
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<td>Rhode Island Hospital Trust National Bank</td>
<td>40,000</td>
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<td>Metal Traders Inc., NY</td>
<td>120,000</td>
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<td>S. Habib, NY</td>
<td>8,000</td>
<td>$7.300</td>
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<tr>
<td>Continental Coin Co., Ca.</td>
<td>416,000</td>
<td>$9.263 - $9.033</td>
</tr>
<tr>
<td>Republic National Bank, NY</td>
<td>568,000</td>
<td>$9.410 - $8.410</td>
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<tr>
<td>SCI Container Service, Maine</td>
<td>8,000</td>
<td>$8.282</td>
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<tr>
<td>Credit Suisse, NY</td>
<td>48,000</td>
<td>$8.700 - $7.900</td>
</tr>
<tr>
<td>Samuel Montagu Metals, Inc., NY</td>
<td>96,000</td>
<td>$9.000 - $7.000</td>
</tr>
<tr>
<td>Sabin Metals, NY</td>
<td>1,200,000</td>
<td>$9.050</td>
</tr>
<tr>
<td>Mocatta Metals, NY</td>
<td>472,000</td>
<td>$9.371 - $9.231</td>
</tr>
<tr>
<td>Metals Quality Corp., NY</td>
<td>488,000</td>
<td>$9.221 - $9.121</td>
</tr>
<tr>
<td>J. Aron &amp; Co., NY</td>
<td>1,200,000</td>
<td>$9.260 - $8.430</td>
</tr>
<tr>
<td>Joseph P. Gibson</td>
<td>8,000</td>
<td>$1.820</td>
</tr>
<tr>
<td>S. Alexander</td>
<td>8,000</td>
<td>$2.000</td>
</tr>
</tbody>
</table>

Total Amount Bid For 5,856,000
On October 15, the Peruvian Congress began a debate on how best to protest GSA's silver sales. It was disclosed during the debate that Peru had asked the United States to postpone sales until such time as the price of silver exceeded $12.00 per oz., and then to spread the sales over a 5-year period, instead of over a 3-year period.

On October 15, the Senate Banking Committee voted to approve a bill to mint $425 million face value coins to commemorate the 1984 Olympics. However the bill as approved authorizes the use of silver left over from the minting of the Eisenhower silver half-dollars. There are 38.7 million oz. of silver left in the Mint, which would be more than enough for the proposed $10 silver Olympic coins. Since in our silver price projection for this year and next we took in account the demand for the minting of Olympic coins, we will have to modify our projection, but for the moment subscribers should maintain previously established long positions; traders should take profit between $14 and $14.50, and long term investors should patiently sit on their positions until the price of silver exceeds $16. As of this writing, October 16, spot silver on Comex closed at $9.41.

As of October 16, the open interest on Comex, which at the beginning of the month stood at 29,063 contracts, had climbed to 31,021 contracts, out of which 12,402 were in the nearby December delivery. As of the same date, silver stocks in Comex-approved warehouses stood at 76.1 million oz. On the Chicago Board of Trade, as of October 15 the open interest in the old 5,000 oz. contract stood at 15,656 contracts, and in the new 1,000 oz. contract at 6,974 contracts. As of the same date, silver stocks in CBT-approved warehouses stood at 21.02 million oz.

On October 15, silver trading began on the Sydney Futures Exchange in Australia. The first day of trading showed a reasonable volume of transactions. Prices were at a premium of about 25 cents over the Comex close. The Sydney contract represents 1,000 oz. of .999 quality.

During the month of September, 29.5 million oz. of silver were traded on the London Metal Exchange, which compares with 41.9 million oz. in September of last year. The cumulative volume so far this year amounted to 231.4 million oz., versus 332.1 million oz. in the same period of last year. During the month of September, the average price of spot silver on the LME amounted to 533.48p.

A few months ago, we stated that the marketing of the 1-oz. silver "Sunshines" would start in August. However production has been delayed, and we have been informed by the company that the silver Sunshines will now be available only some time before Xmas.

GOLD Subscribers are long gold at an average price of $435 basis spot. Our objective remains the same, $505 basis the London fix, and a little higher for spot gold in New York. However we would take profit between $480 and $500, and raise the stops from $420 to $431 basis the London fix or the Comex close for spot gold. The reason for increasing the stop protection is the sluggish performance of gold in the last two weeks, despite the assassination of President Sadat and the heightened tension in the Middle East. The on-balance-volume figures are now negative, and gold is merely following the path of silver or of Treasury bills, rather than acting on its own. Still, we are not willing to give up the long side of the market unless stopped out as indicated above, in which case we would stay aside. On the other hand, if a rally brings the price to the $480-$500 level, where long positions should be sold with a profit, we would think in terms of establishing short
positions between $490 and $505. As of this writing, October 16, the afternoon fix in London was $443.75 and spot gold on Comex closed at $440.20.

As of October 16, gold stocks in Comex-approved warehouses amounted to 2,689,607 oz., and the open interest stood at 193,722 contracts, out of which 841 were in the spot October delivery. On IMM in Chicago, as of October 15, the open interest stood at 51,078 contracts, out of which 7,368 were in the nearby December delivery.

On October 5, Mexico introduced a new series of 1-oz., ¼-oz. and ½-oz. gold coins in order to better compete with the South African Krugerrand. Since 1977, when aggressive marketing of the 1.2-oz. Centenario gold coin began, its share of the market, by comparison to the Krugerrand, was 6%, whereas this year it was running at about 40%. With the three new units, Mexico hopes to at least share the U.S. market equally with the Krugerrand. During the first three quarters of this year, the sales of Krugerrands represented 2.46 million oz. of gold, which compares with 1.86 million oz. in the first three quarters of 1980, and 3.75 million oz. in the same period of 1979.

As of the end of September, South Africa's official gold holdings amounted to 12.36 million oz., an increase of 116,000 oz. during that month, which means that the South African Reserve Bank withheld that much from new production. As of the end of September, the total value of South Africa's official gold holdings amounted to Rand 4.64 billion, accounted at the average of the last ten London fixes less 10%, and converted into Rands at the prevailing foreign exchange rate (1 Rand = $1.05).

On October 6, Senators Steven Symms (R-Idaho); Barry Goldwater (R-Ariz.); Jesse Helms (R-NC); and James McClure (R-Idaho) introduced legislation to mint gold coins of four different sizes: 1 troy oz. (31.1 grams); 1 oz. (28.3 grams); 10 grams and 5 grams. The 1-troy oz. coin would bear the likeness of John F. Kennedy; the 1-oz. coin that of Abraham Lincoln; the 10-gram coin that of Thomas Jefferson, and the 5-gram coin that of Adam Smith, with the words "Liberty", "In God We Trust", and the year of minting. The reverse of each coin would bear the inscriptions "E Pluribus Unum" and "United States of America", with the indication of the coin's weight. This is the same bill that was introduced by Congressmen Ron Paul (R-Tex.), and Daniel Crane (R-III.) in the House on June 4, 1981, HR 3789, entitled "Free Market Gold Coinage Act."

Our readers certainly remember that we severely criticized another bill introduced by Senator Jesse Helms to restore the gold standard, based on the fantasies of Professor Arthur Laffer. However the Free Market Gold Coinage Act is an improvement, even though parts of it must be changed, particularly the paragraph referring to how the Treasury should compute the price of gold when buying or selling the coins, and it could help reduce inflation by absorbing excess liquidity (if and when there is one). The Treasury would use its 264 million oz. gold hoard to mint the coins, which would be sold at the market value of gold. The bill could be amended to provide for use of the proceeds to balance the Federal budget, and theoretically the Treasury could collect over $100 billion from the sale of those coins. However the difficulty is to determine the price at which the Treasury should be selling or buying those coins at any given time, and whether it should be entitled to a seignorage, and if so, how much. There is one more question to ponder: if the Treasury is obliged to buy any quantity offered or to sell any quantity demanded, wouldn't that be like giving the Treasury the major say in what the actual price of gold will be? On balance, the reintroduction of U.S. gold coins is an acceptable idea, provided that the Treasury will just mint them, and will not be obliged to maintain a market (i.e. will not have to buy them back).
SILVER  On Thursday, October 29, silver made a key reversal on bar charts and other technical indicators, thereby giving a major buy signal. The on-balance-volume figures are now positive, the daily trading volume is expanding on rallies and shrinking on declines, and the open interest is increasing. As of October 30, it stood at 31,597 contracts on Comex in New York, out of which 11,929 were in the nearby December delivery. On the Chicago Board of Trade, as of October 29, there were 14,882 contracts open in the old 5,000 oz. contract, and 7,183 contracts open in the new 1,000 oz. contract. Spot silver on Comex, after declining to an intraday low of $8.95 on October 27, rallied to an intraday high of $9.27 on October 29, and as of this writing, October 30, closed at $9.15.

We believe that we are now on the verge of a major upside move in silver, and consider the prevailing skepticism about silver's upside potential as reassuring. The best bull markets have always been built on skepticism, and by the time the last bear will have disappeared from the horizon, it will be opportune to get out of the market. Traders should sit on their long position until the $14.00 - $14.50 level is reached; long term investors should patiently maintain their position until such time as the $16.50 level is exceeded, some time next year. Day-traders should now trade from the long side only, buying into occasionally recurring weakness.

On October 28 GSA held its third silver auction, and sold 448,000 oz. at an average price of $9.023. The range of all submitted bids was $8.60 to $9.075. The details of the three auctions conducted so far are reproduced on page 2; they make for very interesting reading. The first observation is that the total amount bid for declined from 5.8 million oz. at the first auction to 2.7 million oz. at the third auction. However at the first auction only 160,000 oz. were sold, whereas at the third auction 488,000 oz. were sold. But those two factors are not really important. What is important is that at the first auction the differential between the high and the low bid was $7.59; at the second auction, it was $1.22; and at the third auction, it was only 47c. This shows that the bidding is getting more competitive and that people who at the first auction were looking for bargains have now given up on the idea.

The study of the results of those three auctions also shows that GSA made a major error, which we pointed out in our last Comments, setting the cutoff price too high at the first auction. During the three auctions, a total of 832,000 oz. was sold at an average price of $9.07, whereas if, at the first auction, GSA had accepted bids between $9.41 and $9.20, as they should have, they would have sold at the first auction already 1.25 million oz. at an average price of $9.25. The price per oz. received would have been higher, and the amount of silver sold larger. Be that as it may, we still expect the auctions to proceed at a "brisk" pace, with gradually larger sales at higher prices at each consecutive auction.

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Despite the fact that Congress authorized the sale of 46.5 million oz. during fiscal 1982, it is possible that the auctions will be stopped, since the General Accounting Office (GAO), the investigative arm of Congress, is presently working on a report on the subject of the silver sales, to be submitted to Congress before the end of this year; preliminary findings indicate such a possibility. One of the suggested options is to use the silver in the stockpile for minting legal tender silver coins (in addition to and separately from the $10 Olympic coins), which would generate more money for the Government than bullion auctions, would prevent any complaint from friendly silver-producing countries, and would afford the public at large a better chance to purchase silver. GAO maintains that Congress intended small investors to participate in the silver sales, but the minimum lot size of 8,000 oz. per bid restricts the auctions to bullion dealers and other professionals only.

On October 22 the Peruvian Senate passed a motion stating that the U.S. sales of silver from the stockpile constitute "an aggression to the Peruvian economy". Peru intends to protest the sales by accusing the United States of violating the international trade agreement (GATT) which provides that accumulated government supplies of minerals can only be sold after consultation with producing nations. In the case of the U.S. silver sales, the decision was unilateral.

Interior Secretary James Watt, after recently visiting Idaho and the soon to be closed Bunker Hill smelter in Kellogg, let it be known through a spokesman that at the next meeting of President Reagan with his Cabinet he would suggest that the silver sales be postponed, because of the "low silver prices" at present.

On October 28, Eastman Kodak disclosed that it has the technology to build an electronic camera, but that the company had not yet decided whether such a device could be commercially exploited. Our readers certainly remember that about two months ago Sony made a similar announcement. The electronic camera makes still photographs which are displayed on a television screen rather than printed on photographic paper. Since it does not use film, the electronic camera could reduce the demand for silver if it ever became popular. However it would take at least until the second half of this decade before such a camera could be mass-produced, and most experts doubt that it would make big inroads into the sales of film-using cameras, because on a TV set people expect to see moving pictures, not still photographs. Therefore the scare created among silver traders, first by the Sony announcement, then by Kodak's, was, to say the least, premature. Basically, we expect that during this decade the increased demand for films will more than offset any lower consumption of silver which may be caused by use of the electronic camera.

On October 28, the speculative margin requirement for silver on Comex was reduced to $3,500 from $5,000 per
contract, and to $2,500 from $3,000 per contract for hedgers. As of October 30, silver stocks in Comex-approved warehouses stood at 75.8 million oz., and those in CBT-approved warehouses were 20.9 million oz. During the month of October, the average price of spot silver on the London Metal Exchange was 502.26p, which compares with a September average of 533.48p. On page 4 our readers will find the silver statistics for the first three quarters of this year, as compiled by the Silver Institute.

GOLD Subscribers were long gold at an average price of $435 basis spot and were advised to liquidate their long position should spot on Comex close at $431 or below. On October 23, spot gold on Comex closed at $430.30; therefore long positions are presumed to have been liquidated, at a loss of approximately $5.00 per oz. At present, we would prefer to stay aside, and to use the funds freed by the liquidation of the long gold position for the purchase of silver. Gold is still technically weak, but if basis London the recent low fix of $422.25 is not broken on the downside, then some kind of a rally could be expected. Basically, for those who "have to" trade gold, it can be bought if and when spot on Comex exceeds $431, or when the London fix is over that level, with a stop at $421, where we would also go short. On the other hand, we would liquidate long positions acquired above $431 between $470 and $480. As of this writing, October 30, spot gold on Comex closed at $427, and the London afternoon fix was at exactly the same price.

On October 26, the U.S. Gold Commission held its second public meeting, and the majority or the panel showed its color -- which was not yellow! No individual tally of the members was made, but the majority endorsed the continuity of the current exchange rate system and opposed the reintroduction of the gold standard. The Commission agreed to a suggestion by Federal Reserve Governor Henry Wallich that its report, to be prepared by March 31, 1982, should break down the various gold policy options into those that would: 1. reduce the role of gold; 2. increase the role of gold; and 3. maintain the status quo. The next meeting of the Commission, at which public hearings will be conducted, will take place on November 12-13. Those who wish to comment are invited to write to The Gold Commission, c/o Mr. Ralph Korp, Director Office of International Monetary Affairs, Room 5050, Treasury Department, Washington DC 20220.

During the month of October, 765,951 contracts of gold were traded on Comex, which compares with 1,063,449 in September and 863,537 in October of last year. The cumulative volume for the first ten months of this year amounted to 7,433,455 contracts, which compares with 6,038,285 in the same period of last year. As of October 30, the open interest on Comex stood at 204,678 contracts, out of which 45,026 were in the nearby December delivery. As of the same date, gold stocks in Comex-approved warehouses stood at 2,598,218 oz. In October, the average monthly price of gold on the London afternoon fix was $437.76, which compares with $443.75 in September and $661.14 in October 1980. On October 28, Comex reduced the speculative margin for gold from $2,200 to $1,500 per contract, and from $1,500 to $1,000 per contract for hedgers.

Because of low gold prices, the South African Rand continues to be under pressure, and as of October 30 it stood at $1.03 to one Rand, a 23% depreciation against the dollar during this year. The pressure on the Rand and the balance of payments deficit that South Africa will have this year may force the South African authorities to resort to gold swaps, as they did in 1976 and 1977, when they made two gold swaps of about 4 million oz. each. If new gold swaps are concluded in the near future, it may be beneficial for the price of gold, since rather than selling its entire gold production, South Africa may then be able to withhold a large part of it from the market. Incidentally, the Soviet Union, which last year sold only 90 tons of gold, has already sold over 200 tons this year.
# LATEST SILVER INSTITUTE REFINING STATISTICS

Production and Disposition of 999 Silver Bars by All Known Refiners in the United States

<table>
<thead>
<tr>
<th>TROY OUNCES</th>
<th>MILLION TROY OUNCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>THESE REFINERS' PRODUCTION, BY SOURCE</td>
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</tr>
<tr>
<td>From Primary (ores &amp; concentrates)</td>
<td>4,051,341</td>
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<tr>
<td>From Coins</td>
<td>33,965</td>
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<tr>
<td>From Old Scrap (used photo film &amp; other products)</td>
<td>4,464,089</td>
</tr>
<tr>
<td>From New Scrap (in-plant clippings, waste)*</td>
<td>1,983,288</td>
</tr>
<tr>
<td>TOTAL PRODUCTION</td>
<td>10,532,683</td>
</tr>
<tr>
<td>TOTAL PRODUCTION Less New Scrap*</td>
<td>8,549,395</td>
</tr>
</tbody>
</table>

ABOVE TOTAL PRODUCTION, BY OWNERSHIP

| From Refiners' Own or Purchased Materials | 7,590,391 | 7.6 | 8.1 | 8.2 | 9.4 | 9.2 |
| Refined on Toll for Others | 2,942,292 | 2.9 | 2.0 | 3.0 | 5.1 | 4.7 |

DISPOSITION BY THESE REFINERS

| Converted in Plant (consumed in fabricating, etc.) | 2,889,718 | 2.9 | 3.1 | 3.3 | 4.8 | 4.9 |
| Shipped Out: Own materials | 5,291,122 | 5.3 | 4.7 | 5.0 | 4.8 | 4.5 |
| Against Tolls | 2,390,684 | 2.4 | 2.0 | 2.8 | 4.9 | 4.5 |
| TOTAL DISPOSITION | 10,571,524 | 10.6 | 9.8 | 11.1 | 14.6 | 13.9 |
| TOTAL DISPOSITION Less New Scrap* | 8,588,236 | 8.6 | 7.8 | 8.1 | 11.9 | 11.1 |

RESULTING CHANGE OF THESE REFINERS' STOCKS (Production Minus Disposition)

| THESE REFINERS' STOCKS AT END OF PERIOD | 2,573,003 | 2.6 | 2.6 | 2.6 | 0.8 | 1.1 |

Production and Disposition of 999 Silver Bars by All Known Refiners in Australia, Canada, Mexico, Peru, South Africa and Sweden; and some other Refiners in Europe and Asia.

<table>
<thead>
<tr>
<th>TROY OUNCES</th>
<th>MILLION TROY OUNCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>THESE REFINERS' PRODUCTION, BY SOURCE</td>
<td></td>
</tr>
<tr>
<td>From Primary (ores &amp; concentrates)</td>
<td>12,497,398</td>
</tr>
<tr>
<td>From Coins</td>
<td>80,312</td>
</tr>
<tr>
<td>From Old Scrap (used photo film &amp; other products)</td>
<td>4,383,612</td>
</tr>
<tr>
<td>From New Scrap (in-plant clippings, waste)*</td>
<td>800,467</td>
</tr>
<tr>
<td>TOTAL PRODUCTION</td>
<td>17,761,789</td>
</tr>
<tr>
<td>TOTAL PRODUCTION Less New Scrap*</td>
<td>16,961,322</td>
</tr>
</tbody>
</table>

ABOVE TOTAL PRODUCTION, BY OWNERSHIP

| From Refiners' Own or Purchased Materials | 15,373,969 | 15.4 | 15.4 | 15.6 | 17.5 | 17.2 |
| Refined on Toll for Others | 2,387,820 | 2.4 | 2.1 | 2.9 | 3.9 | 3.8 |

DISPOSITION BY THESE REFINERS

| Converted in Plant (consumed in fabricating, etc.) | 4,091,450 | 4.1 | 4.8 | 4.9 | 7.5 | 7.0 |
| Shipped Out: Own materials | 12,075,296 | 12.1 | 11.4 | 11.0 | 10.3 | 10.4 |
| Against Tolls | 2,578,063 | 2.6 | 2.0 | 2.8 | 3.3 | 3.3 |
| TOTAL DISPOSITION | 18,744,809 | 18.7 | 18.2 | 18.8 | 21.1 | 20.8 |
| TOTAL DISPOSITION Less New Scrap* | 17,944,342 | 17.9 | 17.3 | 17.8 | 19.7 | 19.3 |

RESULTING CHANGE OF THESE REFINERS' STOCKS (Production Minus Disposition)

| THESE REFINERS' STOCKS AT END OF PERIOD | 5,287,133 | 5.3 | 6.3 | 5.3 | 7.7 | 7.6 |

* PRODUCTION From New Scrap is 999 silver made from in-plant clippings, spillage, sweepings, etc., generated during manufacturing processes; since it is in continuous cycle from new scrap to 999 silver, to new scrap, some like to see the production and disposition totals after deducting the new scrap from both.
November 18, 1981

Gold Commission
C/o Mr. Ralph V. Korp
Director, Office of International Monetary Affairs
Room 5050
Treasury Department
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Gentlemen:

The following statement is submitted in response to the Commission's general invitation of October 22nd for comments on its task.

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

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

As a resolution of this Institute, taken by its trustees in 1970, states:

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

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

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

5. A reformation of the monetary system demands restoration of credibility to U.S. monetary policy. This requires the following actions:
   a. Abolition of the Federal Reserve System with its power to create legal tender currency based on debt.
   b. Reopening of the mint to the free coinage of gold, as existed from 1792 until 1934, with the establishment of a gold coin standard of value, at a mint value of the dollar at somewhat more than the current world market price of gold.
   c. Constitutional amendment declaring only gold coin, or official warehouse receipts for gold held in government depositories, as legal tender in payment of public dues or private obligations denominated in dollars.
   d. Constitutional amendment declaring monetary gold to be free of government seizure except in payment of taxes duly levied by Congress.

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

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

Sincerely yours,

Elgin Grosé close
Executive Director
Dear Sir or Madame,

As good as gold

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

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

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

The result would be a stable currency and stability of values. The gold-producing countries would not get any richer (you can't eat gold) whereas countries with exports of commodities or manufactures, instead of suffering from "lack of hard currencies" would find that their products are as good as gold.
This desirable state of affairs would continue as long as the supply of coins was adequate to satisfy the needs of international commerce. However the rate of increase of the net worth of the world is historically greater than the rate of increase of gold production and is likely to remain so. In this situation the remedy would be to have a periodic re-valuation of the value of the coin. Clearly this value is going to tend upwards and, as a concomitant, the numbers on the price tickets will go down - the very reverse of inflation. Gold thus produces capital gains.

The return to gold usage (rather than a gold standard) will thus have far more than a romantic or emotional appeal. It would provide a solution to currency and exchange problems and, since the money supply would be finite, a cure for inflation and a clear directive for monetary policy.

Yours faithfully,

John H. Harris

John H. Harris
It is extremely important that the Gold Commission's studies should rest throughout on a sound theoretical basis. Unfortunately, there is a danger that the Commission will get off to a seriously misleading start if it accepts the definition and explanation of the gold standard submitted to it by Dr. Anna J. Schwartz on October 6, 1981.

That we are on slippery ground is evident in the first page of her memorandum (numbered paragraph 1 at the bottom):

"Do they (members of the Gold Commission) favor a return to an international gold standard? Will they recommend convening an international monetary conference to obtain the 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 as a fixed gold weight? How would the fixed price of gold be determined? Will gold coinage be restored?"

Several questions must be raised immediately about Dr. Schwartz's questions. The central problem being posed to the Gold Commission is whether it favors a return to a gold standard -- not necessarily an "international" gold standard. The Commission could consider also the restoration of a gold standard in the United States whether or not this will be later adopted by other countries. Dr. Schwartz's second set of questions takes for granted the necessity for convening an "international" monetary conference under specific rules. It speaks of restoring "a fixed price for gold" though it also speaks of "the definition of each currency as a fixed gold weight." Her next question raises the first word again: "How would the fixed price of gold be determined."
The belief that establishing a gold standard means setting a fixed "price" for gold is a serious misconception. What is being fixed is not a "price" at all, but a conversion rate. When the so-called "price" of gold is set at $35 an ounce, for example, this is merely a misleading way of saying that the paper dollar is being defined as one-thirty-fifth of an ounce of gold. This is a conversion weight, not a price. The word "price" embodies an additional misconception. This is that the "price" of a gram or an ounce of gold is being fixed in terms of the paper money. It suggests that the value of gold is being stabilized by nailing it to the value of the paper money. This is turning the gold standard upside down. When a fixed conversion rate between a paper money unit and a round weight of gold is fixed, what is being fixed is the value of the paper unit in terms of gold, not vice versa. The paper unit now has a definite and stabilized value in the market, but only because it is now convertible on demand into gold at that fixed legal rate.

In our Civil War, after our government had suspended gold conversation of banknotes, a gold-market grew up. The prices of gold bullion changed every day, and went up at one time to more than double what it had been. But nobody outside the United States thought that the real value of gold there was wildly fluctuating every day, nor did any informed person inside the British United States. In terms of pounds and other gold currencies, the "price" of gold remained stable throughout the period. It was recognized on both sides of the Atlantic that it was the paper dollar that was wildly fluctuating. The world commodity value of gold was not at a dramatic premium; the paper dollar was at a dramatic discount.
once having presented a false conception of what a gold standard means, Dr. Schwartz attempts to apply it consistently, and so falls into deeper and deeper confusions. Thus in the two paragraphs at the top of her numbered page 2, under the head "International Gold Standard" she writes:

"The international gold standard is a mechanism to ensure uniformity of price level movements between countries and hence to constrain the monetary policy of any one country."

This is a strange definition. The international gold standard was not adopted as any "mechanism" to insure "uniformity of price level movements between countries". It was adopted to fix a dependable value for the currency of the country that chose it. The gold standard did not insure any uniformity of "price levels" (which are merely a statistician's fiction) but it did insure a recognizable equality of prices of the same commodity. For example, with a gold standard in both countries, a bar of silver or a bushel of wheat would have the same value in England and the United States (transportation costs and foreign exchange conversions allowed for) because both would be priced in gold and the gold would have the same value in both countries. The money policy of each country is "constrained" primarily to insure the continuance of gold conversion in each, but not to preserve any "price level uniformity" between the two countries. "Price level uniformity" exists simply because prices, given free markets and the same weight of gold in the currency unit, are the same in both countries (allowing for differences in transportation costs). Price "levels" are "uniform" only because individual prices are in effect the same. But price "levels", as such, cause nothing; and nothing is gained by dragging in the concept.
One sentence of Dr. Schwartz's memorandum reads: "The external value of the currency under such a /gold/ standard is fixed in terms of gold." I quote this merely to remark that a gold standard does nothing to the "external" value of a currency that it does not also do to its "internal" value. Both values are, in fact, the same — in the absence of legal tender laws or currency controls.

But now Dr. Schwartz launches on a sentence which reads as if she had suddenly seen the light:

"Consider the reason the external value of a dollar in terms of a pound sterling was $4.8665 before World War I and from 1925 to 1931. The dollar was defined as 23.22 grains of fine gold and a pound sterling as 113.0016 grains of fine gold, hence 4.8665 was the multiple of the weight of gold in a pound sterling compared with the weight of gold in a dollar. This was a fixed exchange rate because the gold weight of each currency was fixed or, equivalently, the price of gold per ounce was fixed."

The only change it is necessary to make in the foregoing excerpt is the omission of "or, equivalently" and the phrase following it.

But just when we think that Dr. Schwartz is at last on the right track she goes on to write: "If the United States had adopted one price of gold and the British another price, obviously, the equivalence between the exchange rate and the respective weights defining each currency would have disappeared. A variable price of gold among countries would have meant variable weights of gold represented by each currency."
Here is where her error in substituting the phrase "price of gold" for "weight of gold" throws her off entirely. If we keep in mind that her word "price" really means weight, and nothing else, then all that has happened is that one country, say England, has fixed a different weight for the paper pound unit than before. But all this means is that Britain has adopted a different definition for the pound. If the comparison of the values of the two currencies is then made again, the pound goes in at a different rate and therefore has a different value in dollars. But the difference in value is determined entirely by the difference in gold weight.

If we substitute the word "weight" for "price" in Dr. Schwartz's sentence beginning "A variable price of gold", we get a mere tautology: "a variable weight of gold among countries would have meant variable weights of gold represented by each currency."

So Dr. Schwartz's belief — which unfortunately seems to be the belief of most "monetarists" — is that the gold standard consists not in the undertaking to convert paper promises on demand into specific weights of gold, but in fixing "the price of gold" in terms of paper. This makes it look as if the gold standard consisted in a mere legal technicality, and as if it were the government that was giving value to gold by making it worth so-and-so-many dollars.

But the monetarists, by this concept, are confusing mainly themselves. No matter what "prices" are fixed for "gold" in any two countries whose currencies are convertible into gold, they will differ in value from each other precisely by the difference in their officially defined weight of gold, no more, no less.
About Tom Holt

THOMAS J. HOLT is the Editor-in-Chief of *The Holt Investment Advisory*. He is also the President of T. J. Holt & Company, Inc., one of the fastest growing firms in the entire investment and business advisory field.

Born in Hong Kong and educated abroad and in the U.S., Mr. Holt holds college degrees in both economics and engineering. "Perhaps because of my engineering training", he once said, "I can't tolerate fuzzy thinking and doubletalk. To effectively research economic and monetary prospects, one must analyze free-market forces with logic and common sense."

Before he left Shanghai for the U.S. in 1947, Mr. Holt witnessed firsthand runaway inflation devastating the Chinese currency. As a result, he is probably more aware of the pitfalls of proliferating paper monies than most American observers.

But he has also uncovered a basic difference between the American economy today and the situation in China then, as well as those in France and Germany a couple of generations back. Thus, while some soothsayers now talk of a total collapse of both the U.S. economy and the U.S. currency, Mr. Holt has repeatedly stressed that it is "simply impossible for a severe depression in this country to go hand-in-hand with runaway inflation" in the coming decade. (In fact, for months Holt has been advising his readers to phase out Inflation strategies and start anticipating Deflation ahead.)

In the late 1940's, young Holt suddenly found himself a refugee having to borrow to continue his education. The Communists took over China and his family lost all its belongings. From the bottom, Holt worked and learned his way up in the world of investment and economic research.

**Responsible Alternative**

By 1967, he was convinced that the conventional wisdom had become obsolete. To provide a Responsible Alternative, he started publishing *The Holt Investment Advisory*. Through the semimonthly, he called attention to developing changes in the economic and investment climate and advised investors how to implement a more flexible capital-building program therein.

This flexible approach was so well received that many investors urged Holt to broaden his services to include personal portfolio management. In response, he launched Strategic Money Management in 1971.

A few years later, he launched a low-cost newsletter for the general public—*The Holt Executive Advisory*—which analyzes not only economic and financial movements but also national and international developments of importance to the decision maker.

More recently, Holt has completed a new book—*How To Survive and Grow Richer in the Tough Times Ahead* (Rawson, Wade Publishers, $11.95)—thoroughly setting forth his economic and investment thinking along with his clear-cut forecasts and projections through the 1980s.

If you'd like to know more about any or all of Holt's services, just write: T.J. Holt & Company, Inc., The Holt Building, 290 Post Road West, Westport, Conn. 06880.

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**Courage to Stand Alone**

HOLT ON GOLD:

- Back in 1967, foreseeing a long decline in the U.S. dollar and a breakdown of the $35 fixed gold price, Holt publicly predicted that "the gold price must soar"—a prediction jeered at by most Establishment experts.
- In September 1976, after gold had dropped from about $200 to $100 and when many gold advocates began throwing in the towel, T. J. Holt & Company, Inc. backed up its conviction by buying gold bullion at the IMF auction for its own account.
- In early 1980, after 13 years of consistently recommending gold investments, Holt advised subscribers to sell all gold holdings. While both conventional experts and hard-money advocates were talking about $1000 or $2000 targets, Holt stated, "the $850 peak reached in January 1980 will stand as the high for gold bullion for a long, long time." He went on to predict an extended retreat to the $250-350 area.

HOLT ON BONDS:

- In spring of 1980, when private and institutional investors were rushing to buy bonds to "lock in" record high yields, Holt stood almost alone in warning that interest rates would go still higher and bond prices still lower. Holt stressed that "... a monumental crunch still lies ahead. For now cash is king."
- A year later, in May 1981, powerful voices on Wall Street started heavily promoting bond purchases. But again Holt stated: "The surge in interest rates won't abate any time soon. It's way too early to move into bonds."
Too Early For Gold

ONLY TEN YEARS after President Nixon was forced to close the gold window, discussion about going back to a gold standard has suddenly become respectable. Preliminary meetings of the U.S. Gold Commission have sparked a flurry of debate in the media. But given the membership of the commission, no one really believes that it will make a favorable recommendation.

Still, the idea that something must be done to restrain the inflationary habits of politicians has gained an acceptance that was unthinkable just a few years ago. It is not difficult to see why. Since the last ties between gold and the dollar were severed in 1971, consumer prices have increased by 130%, the money supply has tripled, interest rates have skyrocketed, real income and savings have declined, unemployment has risen, and the total debt burden has climbed to almost $5 trillion.

Advocates of a gold standard believe that only by reestablishing the link between gold and the dollar can we reverse the postwar trend of an ever-increasing rate of inflation. Once convertibility of the dollar into gold at a fixed price is restored, they say, inflationary expectations would quickly fall. Prices would then stabilize, interest rates decline precipitously, and real growth return to the economy.

Discipline. We do believe strongly that a monetary system built on a “hard” base is the only way to prevent the Government from printing money willy-nilly. The base could be almost any non-perishable, widely-accepted commodity. But as it has in the past, gold—being durable, storable, portable, easily divisible, and above all, scarce—can probably play this role in the future better than anything else.

Besides restraining politicians, gold—being a commodity money—has the added advantage of enabling free-market forces to maintain relatively stable prices over the long term. Should the purchasing power of gold in terms of other goods rise too high, for instance, the marketplace would shift resources into new gold production while non-monetary gold would be melted down and converted into money. The resulting increase in the monetary gold stock would then lower the purchasing power for the metal.

Conversely, should the purchasing power of gold fall too low, much gold production would be directed to non-monetary uses. Such a decrease in the monetary gold supply would then restore the purchasing power of bullion.

Practicality. The fact that the gold standard is desirable, however, does not mean that it can be reinstated any time soon. One must take into full consideration the current monetary condition and, more importantly, how such a state has come about to begin with.

Actually, the seed for the recent inflationary mess

During the period 1834-1933, when a gold standard existed, and when the gold price was $20.67, the Producer Price Index averaged 38. They are now eight times higher. A similar increase for gold would peg its price at only $165. In terms of all commodities, therefore, the metal is still overpriced.

had been sowed long before Nixon closed the gold window. Under the modified gold standard, the Government was restrained from inflating the money supply by the legal requirement that 25% of Federal Reserve liabilities be backed by gold. But in 1965, the gold cover for Federal Reserve deposits was lifted. Three years later, that for Federal Reserve currency was eliminated. It was those moves that paved the way for the subsequent credit expansion excesses.

Excessive credit expansion hasn’t resulted only in rampant inflation. It has also brought acute illiquidity to both the private and the public sectors. Until these imbalances are corrected, reinstating the gold standard can do more harm than good.

What price? For the sake of argument, let’s assume for a moment that we can indeed return to gold at present. The question then is what should the gold price be. The best way, of course, is to let the free market set the price.

In this vein, one proposal now receiving some attention would have the Government announce a set date several months hence when it would start to buy and sell gold at a fixed price. That official rate would be based on the market quotation prevailing just before that deadline. During the interim period, supposedly, the free market would do its thing.

The problem with such a plan is that no free market for gold would really be in existence during this interim period. For one thing, the huge supply held by central banks wouldn’t be available for sale. Meanwhile, speculators could drive the price sky high by buying as much of the gold as possible, knowing full well that at the end of the period, they could unload their hoardings to the Government at huge profits. There’s no risks involved whatsoever.

Super inflation. Note, moreover, that when the Government absorbs this vast influx of gold at lofty prices, it would inject billions of dollars of new reserves into the monetary system. Banks could then use these additional reserves to effect a new wave of credit expansion. The money supply would then skyrocket, and runaway inflation would surely follow.

If no true free market is available to set the right price, can’t the Government simply fix a rate high enough to support the dollars now outstanding or to cover the nation’s foreign liabilities? Not really. For one thing, such an arbitrary rate must be set far above recent market quotations. It would have the super-inflationary effects noted earlier. The economy cannot go through a runaway inflation without risking a total collapse thereafter.

Moreover, as noted earlier, the current illiquid state is the result of decades of excessive credit expansion. Freezing the existing condition into a new monetary system would in effect prevent the free market from correcting the mess.

Fairly low. In the final analysis, a return to the gold standard is possible only if the metal is fairly priced relative to all commodities. This is the only way the purchasing power of gold—and, therefore, of the money it backs—can benefit from the self-stabilizing feature of a hard money system discussed at the outset.

What, then, is a fair price for gold in terms of its purchasing power, relative to all commodities? Since 1934, when gold was fixed at $35 an ounce, producer prices have increased by about 670%. A comparable increase for gold would give us a price of $270 an ounce.

For those who prefer to look at gold over a much longer period of time, the 100 years when gold was fixed at $20.67 an ounce may be a more appropriate base period. During that century, the producer price index (1967=100) averaged 38.4. Currently standing just below 300, it has multiplied roughly eightfold. A similar increase for gold would bring a price of only $165 an ounce.

In terms of its commodity purchasing power, then, the next official gold price should be somewhere in the range of $150-$300 an ounce.

How would a return to a gold standard now at such an official rate affect the economy? Terrribly disruptive. Right now, the public is still highly inflation-conscious. If the Government agreed to sell the metal so far below the current market price, it would surely lead to a run on the U.S. stockpile. Tens of billions of dollars could thus be drained out of the banking system, sharply decreasing the monetary base on which the nation’s money supply is rested. In short: The overall effect on the economy would be drastically deflationary.

It goes without saying that Washington will never willingly deflate the economy to such a degree. Hence, restoring the gold standard in the near future is out of the question.

Natural deflation. All this does not mean that some kind of gold standard won’t eventually be re-established. The last time this country severed gold from the monetary system, in 1861, inflation also became rampant thereafter. But by 1878, free-market developments had pushed commodity prices downward by more than 50% from their Civil War peaks. The U.S. was then able to return to the gold standard and put an end to the so-called “greenback era.”

A similar opportunity may present itself late this decade. Free-market forces are now already at work to bring about a switch from inflation to deflation. Widespread price declines are now a fact for all financial assets, including gold and collectibles. And they are beginning to emerge in the real estate sector. Soon, this deflation will spread to other sectors of the economy.
Some time later in this decade, deflation, along with credit contraction and a worldwide depression, will have run its course. The price of gold may well have dropped to its fair value—perhaps below $200. Governments all over the world will then be more than anxious to reflate their economies. And they may well decide that the gold standard should be restored to purposely effect inflation. They will want to buy gold, thereby pumping money into the system. An official price that's higher than the then current quotation will have to be set. Still, chances are that the next official gold price will be less than $300 an ounce.
Mr. Chairman and Members of the Commission:

I am Dr. Martin A. Larson, Tax Policy Consultant of LIBERTY LOBBY. I appreciate this opportunity to submit for the record my views on this subject on behalf of LIBERTY LOBBY’s 30,000-member Board of Policy, as well as for the approximately 1 million readers of its weekly newspaper, The SPOTLIGHT.

Historic Role of Specie Currency

No doubt the role of gold, and to a lesser extent, that of silver, has been fundamental in the monetary systems of all countries since the dawn of civilized society. This remains true because a reliable and stable medium of exchange is a basic necessity in every economy, especially in one consisting of advanced and sophisticated production. Gold and silver alone have ever served in this crucial capacity.

Abuse of Fiat Currency and Results

We note two historical facts:

1. No nation or monetary authority has ever had the power to issue fiat money without abusing the power and thus causing destructive inflation; and

2. Such abuse has always been succeeded by the most serious consequences. Sometimes, the result has been a dictator or the utter breakdown of the social order. In others, where wisdom and statesmanship have supervened, reforms were effected which placed the nations involved, not only on the course of recovery, but gave them long periods of prosperity and tranquility.

One of the first great monetary crises in recorded history occurred in ancient Athens. However, it was resolved when the great lawgiver Solon, about 594 B.C., instituted monetary reforms which established a solid currency consisting of precious, metallic coins. As a result, Athens enjoyed several centuries of unparalleled power and glory.

In Sweden, the military adventures of King Karl XII in the early 18th century virtually bankrupted the nation and created a ruinous inflation. Then monetary reforms were accomplished under the leadership of Emmanuel Swedenborg which placed its
Wisdom of Our Founding Fathers

Perhaps the most important historical instance of great statesmanship was that of our Founding Fathers, who had, from bitter experience, learned the inevitable results of inflation (in that case unavoidable because of the Revolutionary War). After the various irredeemable currencies issued by the colonies or states, as well as the Continentals, fell below a ratio in value of 40 to 1, they ceased to circulate; and those who prepared our Constitution were determined that no such devastation should ever recur in the U.S.

They therefore enacted two provisions in that instrument, one of which states, "Congress [alone] shall have power to coin Money, regulate the Value thereof, and of foreign Coin;" and that "No State shall . . . make any Thing but gold and silver Coin a Tender in the Payment of Debts." This means simply that there shall be no currency except specie issued by Congress (or notes redeemable in such medium); and that every state must pay its obligations with solid metal.

Federal Reserve Act Unconstitutional

The Federal Reserve Act is therefore unconstitutional since it confers upon a private banking system the power to issue our currency; and, since there is now none other except the fiat notes it issues, every state is in violation of the Constitution whenever it disburses any payment whatsoever.

Tragedies of Inflation

Let us consider the devastation caused by inflation not subsequently solved by statesmanlike reform. Perhaps the most important example is that of the decline and fall of the Roman Empire. As its powers waned and tributes no longer flowed in from the conquered provinces, there was no employment for millions of slaves who had previously produced goods for export or served in the mansions of the wealthy. Once emancipated, they had to be supported and entertained; thus, bread and the circus.

However, since taxes were insufficient to pay for such welfare, the government attempted to meet the problem by issuing vast amounts of debased currency; and, although Draconian laws were enacted to compel its acceptance at face value, it ceased, in due course, to circulate at all. This was one of the basic causes leading to the period known as the Dark Ages, during which life expectancy fell to 30 years and the entire population of Europe was threatened with extinction.

In 1717, the French Regent adopted a scheme proposed by William Law under which lands in America were to become reserves for huge issues of currency. Within two years, France was in a state of almost universal starvation, and forced to adopt the most drastic reforms.

After the Revolution of 1789, the French National Assembly began issuing fiat Assignats under the belief that the recently confiscated lands could guarantee their exchange value. However, by 1797, when they had fallen to about 1% of face, they were burned in city bonfires, and Napoleon took over as dictator. While marching his armies all over Europe for 16 years, he met all his obligations in gold, which certainly proved that there was no shortage of this metal even under those conditions.

In 1922-23, a destructive inflation occurred in Austria and Germany, which finally increased the price of a loaf of bread to a trillion marks. However, anyone with an American $20 gold piece could purchase a hotel or a shopping center; the middle class was utterly impoverished, a development which brought Hitler to power and gave the world the Second World War, with costs beyond comprehension.
After that war, inflation in France and Italy destroyed the assets of the middle classes and caused the proliferation of communist movements in both countries, which threaten to overthrow the last vestiges of republican or responsible government.

Irresistible Temptation to Inflate

As long as any monetary authority has the power to issue fiat currency, the temptation to abuse the power is almost irresistible. It is so much easier to print paper money to be used for wasteful and extravagant expenditures, than it is to extract taxes from an angry and restive populace. We recall how Mr. Carter promised early in his incumbency to give us a balanced budget in his fourth year, but how the deficits grew ever greater and greater. Mr. Reagan ran largely on his assurance that he would balance the budget by 1983 or 1984; but now the information is gradually leaked to the media that the same failure that occurred under Carter will probably recur—at least, unless there are massive new tax programs.

This is the road to national suicide!

Preceding are only a few of the lessons of history which it behooves Congress to consider carefully, for upon it alone rests the responsibility for the future welfare of this nation.

Can a Managed Fiat Currency Avoid Inflation?

Some economists and honest members of the federal legislature believe that, in order to avoid inflation, we need only limit the federal budget to current income, restrict the issuance of currency to actual need, and exercise a strong fiscal restraint. But, as we have noted, we know of no historical instance in which any monetary authority has had the power to issue fiat currency without abusing that power.

There was inflation in this country during World War II and it continued thereafter. But it became much worse after the last silver coins were minted in 1964; and after the gold window was slammed shut even on foreign banks in 1973, our rate of inflation soared to unprecedented heights—and has continued ever since.

For example, a room in a hospital could be had for $8 in 1940; now, similar accommodations are sometimes priced at nearly $300. A house which sold for $25,000 in 1960 is now generally priced at $150,000. A hotel room which rented for $2 a night in 1925 may now bring $60, with taxes added which far exceed the total cost when the hostelry was new.

In the meantime, taxes and interest rates have gone into the stratosphere. In 1940, only $5,481,000,000 of Federal Reserve notes existed; in 1980, the total was about $140 billion. At the former date, every such note could have been redeemed in gold four times over; in 1980, the total gold reserve in the hands of the Federal Reserve System was about $11 billion, at $42.23 an ounce.

Monetary Principles of Jefferson

The writings of Thomas Jefferson, certainly the greatest American statesman, are studded with declarations proposing and supporting a solid and dependable currency. He proposed the system of coinage which Congress adopted in 1792, under which our official unit of exchange, a silver dollar, was established, containing 412.5 grains of standard silver. Throughout his life, he considered that:

- A debt-free national government was one of its highest priorities;
- It alone should have the power to issue currency;
- This should be in the form of specie or in notes so redeemable;
- During war or in other national emergencies, the government should have
power to issue interest-bearing notes, and, if necessary, others also, in small denominations, bearing no interest. Following this policy, he was convinced that the federal government could fight any war and meet any other situation without borrowing money or imposing any additional taxes.

In a letter to his son-in-law, Rep. John W. Eppes, dated Nov. 6, 1813, he declared:

One of the great advantages of specie as a medium is that, being of universal value, it will keep itself at a general level...

... The banking companies have banished all our gold and silver medium, which, before their institution, we had without interest, which never could have perished in our hands, and would have been our salvation in the hour of war; instead of which, they have given us $200 million of froth and bubble, on which we are to pay heavy interest, until it shall vanish into air...

Specie is the most perfect medium, because..., having intrinsic and universal value, it can never die in our hands, and it is the surest reliance in time of war; that the trifling economy of paper, as a cheaper medium, weighs nothing in opposition to the advantages of the precious metals; that it [a paper currency] is liable to be abused, has been, is, and forever will be abused, in every country in which it is permitted; that it is already at a term in these states, which has never been reached in any other nation, France excepted, whose dreadful catastrophe should be a warning against the instrument which produced it...

On Sept. 30, 1820, he declared in a letter to Charles Pinckney:

I should say, put down all banks [which issue paper currency], admit none but a metallic circulation that will take its proper level with like circulation in other countries, and then our manufacturers may work in fair competition with those of other countries...

Ludwig von Mises on Fiat and Paper Currency

The great monetary scholar Ludwig von Mises declared in his Theorie des Geldes, first published in Austria in 1913 and in translation in the U.S. in 1950: "The eminence of the gold standard consists in the fact that geological conditions strictly limit the amount of gold available. This has, up to now, made the operation of the gold standard possible." He added that gold achieved its historic monetary predominance by an automatic and inevitable development, for the simple reason that it met all social and economic needs and was the only element known to man that could do so. Two classes of people, he declared, oppose the use of sound money: first, the impractical moralists to whom all life-processes appear in monetary form, and who, therefore, blame all crime on the existence of money. Even less worthy of consideration, however, are the arguments of those who insist on substituting fiat for specie currency.

The fact is, he continues, that the gold standard did not collapse, as pro-inflationist propaganda would have us believe. It was abolished by schemers who violated our Constitution and used the government to accomplish their nefarious objectives by deceit, force, and violence. Some day the gold standard must return because it will become a social necessity.

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

Thus it is that Wall Street pundits and Washington politicians oppose a return to the gold standard, because it will prevent their manipulation of the economy, enrichment of themselves, enslavement of the people, and their own perpetuation in power and office.

**Philosophy of Henry Hazlitt**

Henry Hazlitt, for a long time a well-known syndicated columnist, published a book in 1963 called *What You Should Know About Inflation*, in which he defines the phenomenon simply as an increase in credit and the money supply. Fiat money, he declares, means slavery; a redeemable currency means freedom, together with a thrifty and responsible government. He states:

The monetary managers are fond of telling us that they have substituted a "responsible monetary management" for the gold standard. But there is no historic record of responsible paper-money management ... The record ... is one of hyperinflation, devaluation, and monetary chaos. And as for any integrity in paper-money management, we need merely recall the record of Sir Stafford Cripps, who, in a two-year period preceding his devaluation of the pound sterling on Sept. 18, 1949, had publicly denied any such possibility no fewer than a dozen times.

This is what happens under monetary management without the discipline of the gold standard ... which is important ... as an integral part of the whole economic system. Just as a "managed" paper money goes with a statist economy in which the citizen is at the mercy of bureaucratic caprice, so the gold standard is an integral part of the free-enterprise economy under which governments respect private property, economize in spending, balance their budgets, keep their promises, and above all refuse to connive in inflation ...

Mr. Hazlitt then suggests four steps by which inflation may be halted and five others by which a return to the gold standard may be achieved without injury to anyone or a disruption of the economy.

**To halt inflation:**

1. The budget must be balanced;
2. The banking system must no longer be permitted to buy or peg government securities at fixed prices, or be used as a dumping ground for new issues;
3. The Federal Reserve must impose discount rates to penalize borrowing by member banks; and
4. A legal gold reserve of 40% must be re-established.

**To restore the gold standard,** he offers these suggestions:

1. The administration should announce its intention of such restoration by a series of steps, of which the first will be the establishment of a free market in gold (this was done in 1976);
2. The government must then announce the rates at which gold convertibility will occur;
3. On and for six months after such date, all holders of current dollars will be permitted to convert them into gold bars;
4. At the end of this period, the country will return to a full gold bullion standard; and
5. One year later, the country will return to a full gold-coin standard by minting such specie and permitting their free conversion.
Many other leading scholars, economists, and institutions have set forth in detail their contentions that a return to the gold standard is imperative. Among these are Edwin Earl Groseclose, Percy L. Greaves, Harry Browne, the American Institute for Economic Research, and the Constitutional Alliance, Lansing, Mich.

However, we can here take time only to discuss the proposals of Paul Bakewell, who wrote extensively on the subject and whose 13 Curious Errors about Money certainly ranks as a classic in the field. He proposed that a national commission be established by Congress for the purpose of recommending legislation, or, if necessary, an amendment to the Constitution which would:

(a) Require Congress to "fix" a permanent metallic standard of value;

(b) Require Congress to coin money and regulate the value of all coins by measuring their value by the pure metal contained in them against that of a fixed standard;

(c) Limit legal tender to coins of full value, or the currency which the government redeem upon demand, in coins of full value.

Such legislation or amendment, if enacted, declares Bakewell, "would restore the system of coined money mandated by the Constitution, and under which the nation prospered. They would prevent a recurrence of the existing situation. They would abolish the system of managed, but unredeemable paper currency, which has brought the greatest inflation the U.S. ever had."

Writing in 1962, when inflation had approximately doubled prices as measured in gold dollars containing 15-5/21 grains of gold, Bakewell proposed that:

1. Paper currency be recalled and exchanged for new currency having a face value 50% less than that surrendered, but redeemable upon demand in gold coin;

2. All existing obligations at that time be dischargeable in new currency upon payment of 50% of their face value with new currency;

3. Wages, salaries, etc., should be paid in fixed rates at 50% of their former amounts, in the new currency; and

4. All domestic obligations contracted after the specified date be discharged by payment of the specified amounts of the new currency.

The economy of the nation would, he declared, quickly adjust itself to the new medium of exchange, and such adjustment would be reflected in new prices based upon gold.

Returning to the Gold Standard

Now, of course, proposals like those of Bakewell would involve new dollars worth probably 10 times as much as those recalled. Or, as a variation, new redeemable currency could be issued, to replace the old, having a unit gold-value of perhaps 1.5 or at most 2 grains of standard metal. Old obligations and new contractual debts would be discharged in the manner described by Bakewell.

After many years of study and research in this field, I find myself in agreement with those who advocate the gold standard; and I can see no impediment to its return except the opposition of powerful political and economic interests who wish to continue the present manipulation of the currency in a monetary system which permits and encourages the continuation of unbridled inflation and the gradual destruction of all personal intangible assets.

Let us see how this could be accomplished. At present about $140 billion of currency exists, of which, however, about $30 billion is held in reserve by the Fed for its member banks. In 1979, Federal Reserve notes totalled $125.9 billion,
including about $30 billion held in such reserves. This left about $95 billion of
notes outstanding, in addition to about $10 billion in minor and other coin—with
a total of about $105 billion in circulation.

At the same time, the Fed held about $11.4 billion in gold certificates with a
metallic value pegged at $42.23 an ounce, which, at present market of at least $425
an ounce, would make it worth about $114 billion. Thus, every fiat dollar presently
in circulation could be redeemed at full value and still leave the Fed with a
reserve of unused metal.

In addition, we know that American citizens are now holding an amount of gold
in private hoards probably equal to, or exceeding, what still remains at Fort Knox.
Thus it is obvious that there is no shortage of gold in the U.S.

Under a proposal similar to that of Mr. Bakewell, new currency with gold re­serves of 100% could be issued to replace the present circulation of Federal Reserve
notes, including all subsidiary coin.

Under a system in which everyone would be able to exchange notes for gold, no
one would store or hoard this metal (or at least very few) for the simple reason
that doing so involves various costs and risks and offers no return whatever on the
investment, except in the case of further and drastic inflation. We can be certain,
therefore, that millions of individuals would exchange their gold for gold certifi­cates, issued by the Treasury, which are easy to handle, can be put to an infinity
of uses, and be made to pay handsome and constant returns without the slightest
danger of devaluation.

Thus, we would soon have not only a stable, but also an ample currency.
There would be no danger of inflation even if there were more gold certificates
and coin than are necessary to carry on all the usual functions of trade, 
business, and government, for the simple reason that, as Jefferson and many
others have pointed out, gold retains its constant value, which is determined
by the amount of labor and capital necessary for its current production or
replacement. As we noted earlier, in 1940, the gold reserve was then four
times as great as all the Federal Reserve notes in existence; yet prices
were even lower than in the 1920's, when the notes and their reserves stood
at an approximate equilibrium.

As a member of LIBERTY LOBBY, I offer herein only my personal conclusions
and convictions. The organization as a whole has not taken a position on this
controversial question, and there are sincere and well-informed members who may
differ. But I believe that if this issue were put to a vote, the majority would
agree substantially with my position.

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

Thank you again for the opportunity to submit this statement for the record.
A PERMISSIVE WAY TO ACHIEVE A GOLD STANDARD
WITHOUT PRIOR FIXING OF THE DOLLAR PRICE OF GOLD

To object to the gold standard because it will not bring serenity, freedom from poverty, unemployment, depression and war, is surely the setting up of a straw man easily demolished. A gold standard, like a huge flywheel, gives stability to the monetary system and helps prevent dilution of the monetary unit by government.

The permissive way to a gold standard is to authorize (not to require) banks to accept a new type of account denominated in weights of gold, alongside their present dollar accounts. A gold unit, or g-unit, might be one-fifth hundredths of an ounce, which, when the current gold price is say $420 an ounce, is worth 90c.

At the same time anyone is permitted to buy gold from the U. S. Treasury (his bank would do so at nominal charge) at the market price, provided he pays for it in currency (paper dollars) which are simultaneously destroyed. The purchaser is given the choice of gold, gold certificates or a check in g-units. The gold certificate is backed 100c by gold; the check when deposited is backed by gold reserves at the Fed to the same degree that dollar deposits are now backed at the Fed.

These steps at first would cause no immediate clamor to open gold accounts except on the part of a relatively few who see at once that when dollars lose say 10% of their purchasing power yearly, a gold deposit in a savings institution, even at no interest, is a better investment.

Soon bank loans would be made in gold at much lower rates of interest. As this proceeds, and gold takes the place of dollars, the number of dollars would shrink enormously, since they are the creation, largely, of bank loans. Corporations would borrow from the public at much lower rates when interest and principal are payable in gold. There would be problems until prices and wages are paid in gold, and with long-term dollar commitments which might be resolved by a final fixing of the dollar price of gold or by mutual agreement between the parties.

To the argument that more monetary units are needed with the growth of population, the answer, in the worst case, is that prices will slowly fall, which is not so bad. To the argument that other countries might be adversely affected, the answer is: Go thou and do likewise.

Just imagine the effect of much lower interest rates on mortgage loans and on auto loans.

The concept is simple: it requires two moneys for awhile. It is true that it is complicated. It deprives the Fed of most of its powers. But how can anyone object to the free play of the marketplace?

November 14, 1981
Mitchell S Lurio
Brookline, MA
Gold Commission,  
c/o Ralph V. Korp,  
Office of International Monetary Affairs,  
Room 5050,  
Treasury Department,  
15th and Pennsylvania Avenues, N.W.,  
Washington, D.C. 20220

Dear Gold Commission Members:

Enclosed are my comments on the proposal of a gold standard to revitalize our economy:

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

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

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

What we have now is "legal tender" paper that can be exchanged for other "legal tender" paper -- in other words for nothing. But we use this "nothing" as falsely representing a resource of nature that isn't there to plunder another resource of nature that is there but it won't be there long at the rate we are plundering it. Our blind fascination with this "legal tender" bad paper carries us to our self destruction. Young eskimos were given so much bad paper as payment for working on the Alaskan Pipe Line that they went and bought out their own whaling fleet to plunder the endangered Bowhead whale with the latest weapons of destruction and carnage. The elder eskimo whaling captains were so appalled at this paper funded war on whales that they set up their own organization to control it -- they were closer to a barter economy or value oriented economy. The eskimos claim that they need the whale to survive but bad paper led some to destroy the very basis of their survival.

The rain forests of the world are being destroyed by the leverage of bad paper. The rain forests give us our oxygen -- the natives call them the "lungs of the world."
In parts of South America where unbacked paper money is dropped like confetti inflation is so rampant that tourists have their eye glasses torn right off of their faces by the natives for the gold content of the frames.

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

So to boost their religion they are seeking gold relics and turning to the "gold cross" of the infidels and their barbaric worship. To help them do this they got a "bail out" insurance to give their confetti, they just can't seem to give up this "opiate of the bankers,"substance in the form of the Bank Control Act. Now they have a direct path to Fort Knox.

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

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

Nature-ly yours

Tony Mallin
PHILIP H. MANN
7737 North Kendall Drive #C201
Miami, Florida 33156

November 3, 1981

Gold Commission
% U.S. Treasury
Washington, D.C. 20220

Gentlemen:

Before reading this presentation, please read the attached resume, Exhibit 1 of the writer's 60 years extensive business experience in U.S. and world Commodity markets, and in financial markets.

I understand your commission's duty is to make a comprehensive study with the view of deciding whether the U.S. should return to the Gold Standard.

My presentation will consist of three parts:

Part I  Events leading to our going off the Gold Standard, March 1933 - Gold was then $20.67 per ounce.
Part II  The inflation that followed at first slowly, then with increased velocity, finally resulting in record-breaking high interest rates causing slump in home building, automobile sales, etc.
Part III  Suggestions for returning to the Gold Standard.

PART I

EVENTS LEADING TO OUR GOING OFF THE GOLD STANDARD - MARCH 1933

During 1928-29 business was good but there was terrific speculation in the commodity and stock markets. In September 1929 the Dow-Jones Industrial Average high was 386. Bank credit had reached dangerously high proportions. I was aware that AT&T sent their large stockholders a special fort-nightly letter on the entire U.S. economy and was able to procure such correspondence on a regular basis commencing in August 1928. I was impressed with their opinion that bank credit was greatly overextended and would have to be drastically reduced. Each AT&T letter continued to stress the importance of further liquidation of bank credit. Finally, in their letter of July 1932 their opinion was that bank credit was thoroughly...
liquidated. The end of the great U.S. and world depression was July 1932, details of which will be discussed further in this presentation.

Now reverting to that period 1928/29 to 1932 - some think the stock market is simply a gigantic gambling pit and hasn't the ability to forecast future business conditions. The Dow-Jones 30 industrials represent 30 large corporations, and most are the largest in their particular industries; i.e., AT&T, IBM, General Motors, Exxon, General Electric, etc. Although approximately 1,800 stocks are traded daily and the Dow-Jones 30 Industrials represent less than 2% of the number of companies traded; in Dollar value they represent approximately 33 1/3% of the total Dollar value of all stocks traded. Moreover, the top management of these Dow-Jones companies are in touch with business conditions daily and plan their operations and investments of new capital years in advance. So disregarding daily or weekly fluctuations, and watching the main trend, the Dow-Jones stocks do forecast future business conditions. From the September 1929 high of 386, the average declined to a low of 41, a decline of 89 1/2%, and the low was reached July 8, 1932, coinciding with the low of the depression.

The conditions at that time showed that all basic indices were at depression lows, such as automobile production, electric power produced, steel production, paper production, carloadings, retail store sales, building construction, lumber production, wholesale food prices index, and consumer price index. Specific prices such as wheat was 35 cents per bushel; raw sugar, 1 cent per pound; cotton, 5 cents per pound; cotton print cloth, 3 cents per yard; cocoa, 3 1/2 cents per pound; and rubber, 3 1/2 cents per pound. Most important, bank credit was thoroughly liquidated by July 1932 and unemployment was at a record high rate.

During July/August 1932 the recovery commenced, and, as usual, this recovery continued month after month. By September 7, 1932 the Dow-Jones Industrial Average had recovered to 80 -- an advance of 100% over the July 1932 of 41. Prices of commodities also made sharp recoveries - cotton print cloth, for example, moved to 6 cents per yard, an advance of 100%. All basic indices likewise shared in this recovery. Their message was loud and clear: The backbone of the great depression was broken; the economy had started its recovery. And as usual, when the economy starts a recovery from such a low depression level, that recovery continues for a long time.

This is the picture of how things stood four days prior to President Roosevelt's inauguration, March 4, 1933. On that day he made his inaugural speech by radio. It lasted about three hours. Some salient points taken from his first inaugural speech were:

-2-
A. The U.S. would go off the Gold Standard.

B. The official price of gold was increased from $20.67 to $35 per ounce. (At $20.67 per ounce the Dollar has 23.222 grains of gold backing; at $35, 13.714 grains. This represented a devaluation of 40.943% or a Dollar with a reduced value of 59.057 in terms of its gold backing.)

C. The U.S. repudiated its promise to pay in gold to; holders of its gold certificates.

D. The U.S. Government ordered all citizens to turn over to the U.S. Treasury all gold certificates, gold coins, and all gold in their possession, with threats of indictments and imprisonment for non-compliance.

Senator Carter Glass of Virginia, who was regarded as the top man in the U.S. in monetary affairs, and who was credited with the formation of the Federal Reserve System in 1913, was shocked at President Roosevelt's action in going off the gold standard. He delivered a most eloquent speech on the floor of the senate stating that such action was immoral and unjustifiable.

There were no qualifying conditions printed on those gold certificates; what was printed was, "The U.S. Government will pay bearer on demand $20 gold". During my 12 years experience as a purchasing agent, only in very rare cases was "force majeure" invoked by any seller. Such rare cases would be caused by unexpected extenuating circumstances such as outbreak of war, etc. But in March 1933 there were no extenuating circumstances to justify such shameful repudiation of a written promise by our government. The facts indicated that the world depression was ended by July 1932 and the economy had started a vigorous recovery. And the pity of this departure from the Gold Standard was the beginning of inflation because the redeemability of U.S. Dollars into gold was officially revoked. The great printing presses started then and have continued to this day.

PART II

INFLATION THAT FOLLOWED AFTER OUR DEPARTURE FROM THE GOLD STANDARD - MARCH, 1933

For the past thirty years, I have closely watched, and have been greatly concerned with the rapid acceleration of inflation and the depreciation of the U.S. Dollar. During that period I have read numerous books and magazines on inflation. I consider the best is the one entitled "Fiat Money Inflation in France", written by Dr. Andrew White (Cornell University), distinguished American scholar, author and diplomat covering the events leading up to and the depression that followed the French Revolution.
It is interesting to note some important remarks made during the great debate during September 1790:

A. By the French statesman Mirabeau on irredeemable currency - "a nursery of tyranny, corruption and delusion; a veritable debauch of authority in delirium; a loan to an armed robber; that infamous word paper money ought to be banished from our language".

B. Articles in the leading Paris newspaper Monitor - "It is then evident that all paper money which cannot, at the will of the bearer, be converted into specie, cannot discharge the function of money. Moreover paper money is the emetic of great states".

C. Dupont de Newours in a pamphlet to the Assembly - "Doubling the quantity of money or substitutes for money in a nation simply increases prices, disturbs values, alarms capital, diminishes legitimate enterprise and so decreases the demand both for products and labor, the only persons helped by it are the rich who have large debts to pay".

In 1933 the price of gold was officially increased from $20.67 per ounce to $35. In 1968 Congress eliminated the requirement that the Federal Reserve hold Gold Certificates equal to at least 25% of the value of Federal Reserve Notes. This removed the last tenuous domestic connection between the Dollar and gold. Then, in 1971 Foreign central banks began demanding U.S. Monetary Gold in exchange for their Dollar deposits with the Federal Reserve. When their demands became insistent, President Nixon, in August 1971, declared that the Dollar would no longer be redeemed in gold. This removed the last tenuous foreign connection between the Dollar and gold. Gold, silver and other domestic and foreign commodities started to skyrocket.

1971-80 Note the following steep advances:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Research Bureau Futures Index (27 markets)</th>
<th>Chart A</th>
<th>248%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reuter's Price Index</td>
<td>Chart B</td>
<td>273%</td>
</tr>
<tr>
<td></td>
<td>B.L.S. Wholesale Prices Index (2000)</td>
<td>Chart C</td>
<td>155%</td>
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<tr>
<td></td>
<td>Gold</td>
<td>Chart D</td>
<td>233%</td>
</tr>
<tr>
<td></td>
<td>Silver</td>
<td>Chart E</td>
<td>240%</td>
</tr>
</tbody>
</table>

Note the following comparisons:

<table>
<thead>
<tr>
<th></th>
<th>(Billion Dollars)</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>37.2</td>
<td>252.3</td>
</tr>
<tr>
<td></td>
<td>17.0</td>
<td>21.0</td>
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</table>
C. Federal Spending - since 1965 U.S. Federal spending has increased more than fivefold. The largest portion of the increase has been caused by skyrocketing welfare transfer payments (note the following):

D. Welfare Spending (Billion Dollars)

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<tbody>
<tr>
<td></td>
<td>20.0</td>
<td>60.0</td>
<td>95.0</td>
<td>158.0</td>
<td>200.0</td>
</tr>
</tbody>
</table>

E. Deficits - except for 1969, we have had deficits every year since 1960. The total deficits for the past ten years is $348.0 Billion. Moreover, the deficit figures shown on Chart I attached are only the tip of the iceberg "official deficits". They do not include "off budget" borrowing and spending, which since the early 1970's have increased from a few billion Dollars annually into high double digit billions. Also, the official do not include unfunded Federal liabilities for military and civil service pensions, etc. aggregating hundreds of billions of Dollars annually. The real Federal debt is in excess of $1,000.0 Billion. Congress recently raised the debt ceiling.

F. See the following Charts:

1. Federal spending - 1970-81 Chart F
2. Depreciation of the U.S. Dollar Chart G
3. Inflation - 1749-1974 Chart H
4. Consumers Prices - 1972-81 (June) Chart I
5. Prime interest rates - 1974-81 (Oct) Chart J

G. Total Private and Government Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>$500.0 Billion</td>
</tr>
<tr>
<td>1976</td>
<td>$3 Trillion</td>
</tr>
<tr>
<td>1981</td>
<td>$5 Trillion, which is three times more than the value of all common and preferred stocks listed on all stock exchanges in the U.S. By comparison, in 1968 the total value of all common and preferred stocks listed on all stock exchanges in the U.S. was equal to the total private and government debt.</td>
</tr>
</tbody>
</table>

How ironical that 190 years after the great French inflation of 1790, the catastrophic results of which are well known to all our leading economists, that despite this, we have followed, and are still following the same path as France followed. Naturally, the end results for the U.S. will be the same as France, unless we take immediate steps to break the back of this inflation.
PART III
SUGGESTIONS FOR RETURNING TO THE GOLD STANDARD

Why is the Gold Standard so important?

Because it assures that only a definite percentage (decreed by Congress) of redeemable paper money can be issued against the government gold holdings. Thus, it prevents the government from printing and circulating unlimited quantities of paper money.

Why is gold considered so important?

Because for the past 300 years, it has maintained a stable purchasing power. Of interest are the remarks made by Vermont Royster in the October 28, 1981 issue of the Wall Street Journal, "Thus, history makes a solid argument for a return to a gold standard. Wherever and whenever it's been held to, the people have prospered. They're induced to save money, trusting it to retain its value. Commerce is encouraged because a price bargained today will be good tomorrow. Industry more readily expands because it can calculate today the cost of a plant to be finished five years hence. The laborer knows today's wage will suffice for tomorrow's food." See the following excerpts from my letter of July 26, 1980:

You may be interested in some facts about gold, related in Times of London December 12, 1979.

1. In 1900 average weekly earnings of British workers were equal to one half ounce gold.
2. In 1979 (after two world wars, a world slump, a world inflation) the British worker's average weekly earnings were equal to one half ounce of gold, the same as in 1900.
3. Professor Roy Jastram of University of California has calculated, on an index with 1930 as 100, that the purchasing power of gold in England was 124.8 in 1600 and 129.2 in the year 1900. Note the stability during those 300 years.
4. The recent movement of gold price suggests that gold and oil prices are closely linked at somewhere between 17 and 19 barrels of oil to one ounce of gold.
5. Since 1968, the price of gold in terms of dollars, has risen about 12 times; therefore the value of the dollar in terms of gold has declined by more than 90% in 12 years.
6. The forces which have knocked the dollar down against gold, are far
stronger at the beginning of the 1980's than they were at the beginning of the 1970's.

7. It is expected that the purchasing power of the dollar in 1990 will be 50% less than it is today, which means an inflation rate compounded 7% each year for the next ten years."

We realize that no country in a world community can unilaterally establish a new monetary policy that does not take account of the international economic system of which it is a part. No country can dissassociate entirely its monetary system from that prevailing in other countries. Therefore, if the U.S. decides to return to the Gold Standard, it should do so in association with other important countries, such as Great Britain, West Germany, France, Switzerland, Italy, Belgium, Holland, Canada, Japan, etc.

The facts have clearly demonstrated the breakdown of monetary discipline after the U.S. departed from the Gold Standard in March, 1933, and finally closing the Gold Window in August, 1971. Please note also the following:

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</thead>
<tbody>
<tr>
<td>Foreign Exchange</td>
<td>13.3</td>
<td>18.5</td>
<td>45.4</td>
<td>300.0</td>
</tr>
<tr>
<td>Gold</td>
<td>33.8</td>
<td>37.9</td>
<td>37.0</td>
<td>600.0</td>
</tr>
<tr>
<td>Total</td>
<td>47.1</td>
<td>56.4</td>
<td>82.4</td>
<td>900.0</td>
</tr>
<tr>
<td>Euro currencies - (est.)</td>
<td>10.0</td>
<td>25.0</td>
<td>163.0</td>
<td>1,600.0</td>
</tr>
</tbody>
</table>

(Above from Wall Street Journal 9/30/80 - Robert A. Mundell's article) - Exhibit 2

Since the breakdown of the U.S. Gold Standard, the U.S. monetary system has produced more dollars than in the entire previous history of the U.S. Never before in U.S. history has the Treasury had to pay 15% for 30 year bonds year bonds, implying an incredibly pessimistic outlook with respect to inflation. It is these considerations that prompt a most careful study of the policies needed to restore convertibility of the U.S. Dollar to gold.

Recently, I have read newspaper and magazine articles stating the Soviet Union would have a strangle hold on the Western economies, if we decided to return to the Gold Standard. To refute this is a splendid article by Professor Roy W. Jestram, School of Business Administration, University of California. This article appeared in the Wall Street Journal, August 6, 1981, a copy of which is attached hereto as Exhibit 3.

Should the U.S. decide to return to the Gold Standard, it is most important to determine the stabilization of the Dollar price of gold. Attached are three Charts, K,
L, and M, showing gold prices from January 1968 through August 3, 1981. Note the record high of $850.00 on January 21, 1980. That same day, London P.M. fixing for spot silver was 2150d or $50.00, thereby establishing that day a gold/silver ratio of 17 to 1.

From August 1979 ($300.00 per ounce) to January 21, 1980 ($850.00 per ounce) terrific speculative trading took place, finally resulting in a steep reaction to a low of $388.50 (August 3, 1981). Many small moves have since taken place, and will continue to do so, until ultimately gold will settle down. At that time we can determine the stabilization of the dollar price for gold. One thing is certain; when gold does settle down, it will continue to reflect its stable purchasing power in relation to basic commodities.

There are two indicator to watch:

2. Reuter's Daily Index - for internationally traded commodities; see chart B; from 1971 to 1980 - index advanced from 500 to 1866 - an advance of 273%.

Reuter's Commodity Index during 1932/33 was 125 (1931 base is 100); its high of 1866 on January 21, 1980 was 14.93 times its 1932/33 price; its recent low of 1666 on October 15, 1981, 13.33 times the 1932/33 price.

The average price of gold in 1932/33 was $27.83½ per ounce. The high of $850.00 on January 21, 1980 was 30.54 times its 1932/33 average price; the low of $388.00 on August 3, 1981, 13.94 times. Note the proximity of the Reuter's low on October 15, 1981 to the gold low on August 3, 1981.

The Possibility of Establishing a Bi-Metal Gold/Silver Standard

In 1925 I received from Handy and Harman and assembled separately the silver and gold production figures in periods of 5, 10, 20, 40, 60, 80 and 100 years. I then compared silver and gold production for each of the above periods. To my surprise in every period the ratio of silver to gold production was 16 to 1. I then remembered Bryan, the perennial presidential candidate and his famous "Cross of Gold" speech. He was advocating a bi-metal standard - gold/silver using the ratio of 16 to 1. On January 21, 1980 record high gold $850.02, silver $50.02 or a ratio of 17 to 1.

When we return to the Gold Standard there will be times, wars or political upheavals in other countries, which will cause sharp advances in commodity markets. Our government might then proclaim an emergency and temporarily suspend the Gold
Standard for the "duration". In such events, the government could fall back on silver as a substitute just for the "duration". They could use a basis of about $20.02 for silver. In this way, during the "duration" paper Dollars could be redeemed for silver, which would maintain the principle of redeemable paper Dollars.

CONCLUSIONS

Why is a Gold Standard so important?
Why is gold considered so important?

I have submitted much data to justify a return to the Gold Standard. Senator Carter Glass of Virginia considered highly knowledgable in monetary affairs and who was credited with the formation of the Federal Reserve System in 1913, was a firm believer in the Gold Standard. Also Dr. Andrew D. White of Cornell University, in his book "Fiat Money Inflation in France" outlined the evils resulting from departure from the Gold Standard. The latter was strongly opposed to irredeemable paper money. There are many economists here and abroad who also firmly believe in the Gold Standard and a balanced budget.

I am not a college graduated economist, but just a pragmatic business man who has learned his economics through the college of hard knocks. During the past 60 years I have done considerable research work on practical business problems. There is no substitute for experience. Over a period of time, one can acquire much knowledge in various fields. But this knowledge must be combined with wisdom or good old fashioned horse sense. So when problems arise, one tries many possible solutions until he finds the right solution by trial and error. The bottom line is whether it works. If any method after being fully exploited should fail, it should be discontinued.

Common sense and prudent business judgment call for an immediate drastic change. That change should be to the Gold Standard.

Past history proves that it works very well indeed, forcing a monetary discipline upon governments. When money is anchored to gold, the Gold Standard governs the governments. It limits their political power because they cannot manufacture all the money they would like to spend. Moreover, a return to the Gold Standard will serve as the indesctructible foundation upon which will be built the powerful superstructure, a truly reborn U.S.A.

If I can be of any assistance to your Committee, please do not hesitate to call upon me.

Respectfully submitted,

[Signature]

-9-
PHILIP H MANN

1901 Born, London, England

1909 Emigrated to New York City

1924 Became member National Association of Purchasing Agents;
Bought for 10 large Cuban sugar mills (freight cars, locomotives, jute sugar bags, etc.)
Purchases made on international markets located in India, Burma, Indo China.

1936 Vice President, General Manager, largest sugar firm in New York City.
Chartered 225 ships for transportation of sugar annually.
Dealt with 5 largest New York City banks.
Handled foreign exchange in connection with sugar dealings.

1943 Retired.

1951 Reentered business world as commodity specialist for Merrill Lynch in Havana, Cuba.

1960 Transferred by Merrill Lynch to their Madrid, Spain office.

1962 Retired.
It was his aim to elucidate

Keynes's assumption of a closed economy let him sidestep discussion of the foreign sector, the merits of fixed versus flexible exchange rates or of the degree to which international credit positions, trade imbalances, reserve losses or speculation would alter the real wage, employment and output positions which it was his aim to elucidate.

Nevertheless he recognized explicitly the need for flexible exchange rates in an open system if money was to be stabilized, as the following passage shows:

"In the light of these considerations I am now of the opinion that the maintenance of a stable general level of money-wages is, on a balance of considerations, the most advisable policy for a closed system; whilst the same conclusion will hold good for an open system, provided that equilibrium in the rest of the world can be secured by means of fluctuating exchanges."

Keynes explicitly rejected, however, the idea of fixing the quantity of money or its rate of growth:

"If, indeed, labor was always in a position to take action and were able to do so, whenever there was less than full employment, to reduce its money demand by counteraction to whatever point was required to make money so abundant relatively to the wage-unit that the rate of interest would fall to a level compatible with full employment, we should, in effect, have monetary management by the Trade Unions, aimed at full employment, instead of by the banking system.

"Nevertheless while a flexible wage policy and a flexible money policy come, analytically, to the same thing, inasmuch as they are alternative means of changing the quantity of money in terms of wage-units, in other respects there is, of course, a world of difference between them..."

Keynes's system thus takes into account the wage rate, the money supply, the price level and the exchange rate, and the need to anchor the system by choosing a "numeraire" or a "standard"; he chooses wage rates. This accounts for the support of "wage policy" by his influential disciples.

By contrast, Friedman's system, while endorsing flexible exchange rates rejects the idea of wage policy and, after an earlier flirtation with 100% reserve money expanding or contracting with budget deficits and surpluses) now focuses attention on fixing the rate of growth of the supply of money.

There are several arguments against the Friedman policy system. One is that money is too elusive a concept to define, measure and predict, and is therefore of little use as a guide for rational expectations of future prices and incomes, whether reserve money alone, M1, M2, M3 or other definitions are used. None of these measures takes explicit account of the liquidity of dollars created in the offshore markets despite the confirmed role these markets play in contributing to inflation.

More important, the facts have clearly demonstrated the breakdown of monetary discipline after the collapse of the gold exchange standard. Eurodollars increased from $150 billion in 1970 to more than 10 times that amount in 1981. A comparison of the weak gold discipline of the Bretton Woods period with the floating rate period is even more revealing in connection with international reserves:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Exchange</td>
<td>13.3</td>
<td>15.5</td>
<td>45.4</td>
<td>300.0</td>
</tr>
<tr>
<td>Gold</td>
<td>33.8</td>
<td>37.9</td>
<td>32.0</td>
<td>600.0</td>
</tr>
<tr>
<td>Total</td>
<td>47.1</td>
<td>53.4</td>
<td>77.4</td>
<td>900.0</td>
</tr>
<tr>
<td>Eurocurrencies (est.)</td>
<td>10.0</td>
<td>25.0</td>
<td>163.0</td>
<td>1,600.0</td>
</tr>
</tbody>
</table>

Since the breakdown of the U.S. gold standard the U.S. monetary system has produced more dollars than in the entire previous history of the republic. The prices of gold, oil and silver and other commodities have risen by about tenfold, and, barring a drastic change in the monetary system, prospects are for more of the same in the future.

Never before in U.S. history has the Treasury had to pay 15% for 30-year bonds, implying an incredibly pessimistic outlook with respect to inflation. It is these considerations that prompt a consideration of the policies needed to restore convertibility of the U.S. dollar to gold.

If there is a stable international money, there is no conflict between fixed exchange rates and the goal of internal price stability for a single nation state. Under fixed exchange rates the price level of the individual nation state has to converge to the price level of the world as a whole provided that commodity markets are sufficiently integrated internationally.

The monetary authorities of small countries have usually observed this fact and accepted its implications. Purchasing power parity areas, where the Law of One Price holds, imply a geography of inflation rates based on currency areas. Currency areas determine common inflation rates and interest rates. On a map of the world common inflation rate zones correspond to zones of fixed exchange rates.
EXHIBIT 2 (cont'd.)

If there is a stable external currency, a country has the convenient option of fixing its own currency to it, or scheduling its exchange rate at a pre-arranged rate of devaluation or appreciation. In the world of the 1980s, countries that have historical inflation rates above that of the U.S. would benefit by fixing their currencies to the U.S. dollar and adapting their monetary policy to make that exchange rate an equilibrium one.

This assignment implies a monetary approach to the balance of payments, with the central bank allowing its purchase and sales of foreign exchange reserves to reduce automatically the high-powered money base of the banking system. The monetary approach to the balance of payments does not leave much room for neutralization or sterilization operations; the idea instead is to take full account of international impulses in the formulation of domestic monetary policies.

Our experience with this kind of system is instructive, since it was precisely this kind of monetary arrangement that constituted the Bretton Woods system from 1948 to 1971. Except for the great devaluations of 1949, the quarter century of this regime was exemplary in its stability, growth and world economic development, perhaps unmatched at any time outside an imperium, such as the Roman Empire. There was never any doubt that the central tendency of the Bretton Woods era was the U.S. economy, and the dollar was the dominant currency.

The Bretton Woods system broke down for two reasons. First, the gold base of the system, at a price of $35 an ounce, had become too narrow to sustain the mounting liquidities in the U.S. and outside in the Euro, Asian, and Caribbean-dollar markets. Gold had been artificially in surplus after 1934 because Americans had been deprived of the right to own or hold gold, but the "surplus" vanished as a result of World War II inflation.

After the Korean War inflation, gold became undervalued, and after the opening of the London gold market in 1954, dollar interest rates had to rise steadily to tempt central bankers and foreigners from holding gold and reaping the capital gains expected when the anticipated upvaluation of gold occurred. Thus interest rates, which in 1916 had been less than 4% rose above 10% by 1969.

The second reason why the Bretton Woods system broke down was the revolt against U.S. leadership that occurred in Europe, partly because of the Vietnam war. The Détente led movement toward the gold standard in the 1960s had wider support than within Europe, the German objections to holding the overhang of excessive dollars, however, were suppressed by the U.S. counter-threat of troop withdrawals.

What Britain's Prime Minister Wilson described as a "monetary war" broke out in the open when in the spring and summer of 1971 the Europeans stuffed excess dollars into the Eurodollar market while the U.S. grumbled the U.S. money supply to inflate its economy out of the 1970-71 recession in preparation for the 1972 presidential election. President Nixon killed the limping gold standard on Aug. 15, 1971, and the price of gold shot up to $200 an ounce as a consequence.

Mr. Mundell is professor of economics at Columbia University.
Russia's Gold Will Not Clobber a Gold Standard

By Roy W. Jastram

With the appointment of Mr. Hiss to the Gold Commission, we are likely to hear a more serious discussion of a return to a gold standard than we have for 50 years. Every time this possibility comes up in a popular forum, the Red Peril will be advanced to counter the gold discipline. The fear is that Russia will clobber the new monetary system with vast outpourings of gold.

Most recently, one of our news magazines had this to say: "The Soviet Union holds an estimated 60 million ounces of gold and has unmined reserves of perhaps 250 million ounces more. At today's prices that would give the Soviets a $146 billion stranglehold on the Western economies." Such figures are supposed to carry the day without further proof. But let us put them in their proper proportion by taking a look at the gold holdings of the major central banks, excluding China, the USSR and associated countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Gold Holdings (tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>8,227</td>
</tr>
<tr>
<td>Canada</td>
<td>657</td>
</tr>
<tr>
<td>Austria</td>
<td>657</td>
</tr>
<tr>
<td>Belgium</td>
<td>1,063</td>
</tr>
<tr>
<td>France</td>
<td>2,546</td>
</tr>
<tr>
<td>German Federal Republic</td>
<td>2,961</td>
</tr>
<tr>
<td>Italy</td>
<td>2,074</td>
</tr>
<tr>
<td>Japan</td>
<td>754</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,367</td>
</tr>
<tr>
<td>Portugal</td>
<td>689</td>
</tr>
<tr>
<td>South Africa</td>
<td>274</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2,590</td>
</tr>
<tr>
<td>U.K.</td>
<td>584</td>
</tr>
<tr>
<td>OPEC</td>
<td>1,207</td>
</tr>
<tr>
<td>Other Asia</td>
<td>607</td>
</tr>
<tr>
<td>Other Europe</td>
<td>1,209</td>
</tr>
<tr>
<td>Other Middle East</td>
<td>461</td>
</tr>
<tr>
<td>Other Western Hemisphere</td>
<td>631</td>
</tr>
<tr>
<td>Rest of world</td>
<td>320</td>
</tr>
<tr>
<td>Unspecified</td>
<td>113</td>
</tr>
<tr>
<td>Total</td>
<td>29,110</td>
</tr>
<tr>
<td>IMF</td>
<td>3,217</td>
</tr>
<tr>
<td>European Monetary Cooperation Fund</td>
<td>2,664</td>
</tr>
</tbody>
</table>

On the important matter of the net outflow of gold from the Communist sector they give the following figures in tons for the last decade:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Outflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>-3</td>
</tr>
<tr>
<td>1971</td>
<td>54</td>
</tr>
<tr>
<td>1972</td>
<td>213</td>
</tr>
<tr>
<td>1973</td>
<td>275</td>
</tr>
<tr>
<td>1974</td>
<td>220</td>
</tr>
<tr>
<td>1975</td>
<td>149</td>
</tr>
<tr>
<td>1976</td>
<td>412</td>
</tr>
<tr>
<td>1977</td>
<td>401</td>
</tr>
<tr>
<td>1978</td>
<td>410</td>
</tr>
<tr>
<td>1979</td>
<td>199</td>
</tr>
<tr>
<td>1980</td>
<td>90</td>
</tr>
</tbody>
</table>

The highest figure in recent times was for 1978 when net outflow from the Russian sphere amounted to 1.2% of the governmental holdings of the free world. Last year this percentage was hardly worth calculating.

Astute analysts of Russian gold activity believe that net outflows from that region occur only to obtain essential foreign exchange. When the Soviets can fund their foreign exchange needs from other exports, they prefer to do so.

Looking directly at production, Consolidated Gold Fields estimates that in 1969 the annual output of the Russian gold mining industry for all purposes was 600 to 650 tons. South Africa could produce at this upper figure for a century and just build up to the quantity of gold the central banks of the free world already hold.

But what if Russia wished to step up its gold producing capabilities in order to "wreck" a gold-based monetary system? How much could it gain by increasing the tons of ore processed? One answer is suggested by data from South Africa.

In 1969 South Africa milled a record 90 million tons of ore, from which 615 tons of gold was obtained. This amounts to 0.24 ounces per ton, a nationwide average for perhaps the most efficient producer of them all.

The point is, Russia is not likely to be able to swamp the world with gold even if it stars to divert its valuable industrial resources. 

Mr. Jastram is a professor at the School of Business Administration, the University of California at Berkeley.
WHAT IT CAME — It came by seeking a remedy for a comparatively small evil in an evil infinitely more dangerous. To cure a disease temporary in its character, a corrosive poison was administered, which ate out the vitals of French prosperity.

It progressed according to a law in social physics which we call the "law of accelerating issue and depreciation." It was comparatively easy to refrain from the first issue; it was exceedingly difficult to refrain from the second; to refrain from the third and those following was practically impossible.

WHAT IT BROUGHT — It brought, as we have seen, commerce and manufactures, the mercantile interest, the agricultural interest, to ruin. It also brought on the same destruction which would come to a Hollander opening the dykes of the sea to irrigate his garden in a dry summer.

HOW IT ENDED — It ended in the complete financial, moral and political prostration of France — a prostration from which only a Napoleon could raise it. Later, when Napoleon was hard pressed financially, and it was proposed to resort to paper money, he wrote his minister, "WHILE I LIVE I WILL NEVER RESORT TO IRREDEEMABLE PAPER." He never did, and France, under this determination, commanded all the gold she needed.

If we glance at the financial history of France during the Franco-Prussian War and the Communist struggle, in which a far more serious pressure was brought upon French finances than our own recent Civil War put upon American finance, and yet with no national stagnation or distress, but with a steady progress in prosperity, we shall see more clearly the advantage of meeting a financial crisis in an honest and straightforward way, and by methods sanctioned by the world's most costly experience, rather by yielding to dreamers, theorists, phrase-mongers, declaimers, schemers, speculators, or to that sort of "reform" which is "the last refuge of a scoundrel."

There is a lesson in all this which it behooves every thinking man to ponder.
Please note the following Table showing the prices of Gold per troy ounce, starting with the Coinage Act of 1792 enacted nearly 200 years ago:

<table>
<thead>
<tr>
<th>No. of years</th>
<th>Price Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>1792-1834</td>
<td>$19.42</td>
</tr>
<tr>
<td>1834-1934</td>
<td>$20.67</td>
</tr>
<tr>
<td>1934-1971</td>
<td>$35.00</td>
</tr>
<tr>
<td>1971-1977</td>
<td>$38.00 to $165.00</td>
</tr>
<tr>
<td>1977-1980</td>
<td>$131.00 to $850.00</td>
</tr>
</tbody>
</table>

For centuries, especially during times of turmoil, gold was sought after by people throughout the world as a means to preserve capital. That's because for centuries, the price of gold was remarkably steady. A few years ago, however, bullion started rising smartly and then-coinciding with the upsurge of rampant inflation in the U.S. PROCEEDED TO GO "CRAZY", (the above from HOLT'S Market letter) - March 1981.
Federal Spending, 1970-81

CHART F


DEFICITS

CHART G
Depreciation of the U.S. Dollar
INFLATION RATE
15-YEAR CENTERED MOVING AVERAGE OF WPI GROWTH.

INFLATION - 1749-1974

White, Wild & Co.
The price of gold

Dollars per ounce,
London afternoon fixing

Record high
$825
Jan. 22, 1980

CHART L

$507.75
Feb. 20, 1981

CHART M

GOLD PRICES
(Dollars per ounce)

Daily closing
Aug. 3
Close:
$388.50
THE GOLD STANDARD:
RETROSPECT AND PROSPECT

A Statement Prepared for
the Gold Commission

Will E. Mason

Professor Emeritus of Economics
The Pennsylvania State University
University Park, Pennsylvania
November 27, 1981
A reconstituted gold standard is being proposed by "supply-siders" as the only means of giving the central bank the power over the money supply presumed by monetarists. It is also advocated as the way to strengthen our national defense without "busting the budget" and aggravating inflation. The latter paradox is resolved by the decline in the purchasing power of gold that is expected to follow adoption of the gold standard. Never mind the domestic deflation this implies; it would, allegedly, constrict the "foreign adventurism" that the post-gold-standard rise in the price of gold permitted the Russians to pursue.\footnote{Such partisans (whose names will be mercifully forgotten) are apparently unaware of their own inconsistency, as the purchasing power of gold (which is, incidentally, not exclusively produced by the Soviet Union) would not fall, to the extent that other prices fell, too. The fact is, that the fall in the price of gold is linked to that of other prices (i.e., to the rise in the goods value of money).} In short, the gold standard is offered as the salvation of capitalism, the cost of which will be born by communism!

Before we allow such fantasies to lead us through the looking glass, we had better take another look at the gold standard and see what it has meant—and might mean in the real world of today. It is not clear whether revival of the gold standard always was the keystone in the "supply-siders'" economic arch, or suddenly became a desperate expedient to salvage their crumbling edifice. The "gold bugs" are coming out of the woodwork to feed on the litter left by the apparent failure of Reaginomics and the consequent disintegration of the monetarist/"supply-side" axis. They are encouraged and legitimized by the support of some reputable economists and the availability of the prestigious forum of the Congressionally mandated Gold Commission. Something can certainly be learned from the venerable
history of the gold standard, and the current situation may be desperate enough to justify its re-institution. Serious reconsideration of the gold standard is in order, but it is profoundly to be hoped that the efficacy of the effort will not be destroyed by the excesses of fanatics. There is no psychological miracle or costless mechanical gadget available to solve all our problems without sacrifice by anyone. The word "economics" is derived from the necessity for economizing our resources in order to maximize our satisfactions. Economic progress involves decisions as to what we are willing to give up to get what we want. Wasn't it the Republicans who used to insist, "There is no free lunch"?

MYTH VERSUS REALITY

The following pages will demonstrate that "the gold standard" is a euphemism for a variety of arrangements involving an increasingly loose connection with gold that became less well understood with the passage of time. As the relationship between gold and money became more ambiguous, the monetary system became more volatile. Gradual inadvertent de facto severance of the connection between gold and money led to de jure abrogation. Crises were followed by collapse. The alleged automaticity of the gold standard, which some people think will solve our problems for us, is a myth.

Historical experience includes several different gold standards. The customary classification, embracing the gold coin, gold bullion, and gold exchange standards, is purely mechanical. Based on substance, we can distinguish the pre-classical, classical, neoclassical, and pseudoclassical gold standards in a descending order of precision. One of the reasons for the ultimate failure of the gold standard was the confusion of mechanics and substance that increased with time. The nature of the gold standard was not precisely known because no one had
bothered to ask the prior question, namely, what is a monetary standard? The species of the monetary standard were identified before the genus, and we are still paying the price for this elemental mistake in scientific procedure. Metallic standards (including gold) antedated the science of economics, and economists have been struggling (unsuccessfully) to catch up with the facts ever since.

GOLD STANDARDS:
A STUDY IN CONCEPTUAL DETERIORATION

Definitions of species, in context, will, however, imply the generic concept the author had in mind. Perusal of the contemporary literature will reveal the changing—and progressively amorphous—nature of the monetary standard represented by "the gold standard" (Mason 1963, pp. 13 ff.).

The pre-classical monetary standard was the material constituting standard money. From antiquity to modern history gold, silver, copper, and other coins circulated as media of exchange (money) for large, intermediate, and small payments. Legal designation of standard money determined the coin to be used in settling contracts that did not specify the means of payment. The monetary standard question prior to the eighteenth century was a mere matter of convenience (Mason 1963, p. 39).

By "monetary standard," the English classical school of the nineteenth century meant the material constituting the standard of value. The issue was not merely one of convenience for classical economists, but, rather, one of substance, namely, which metal would be more stable in value—particularly with respect to labor, which they regarded as the standard measure of value. By this time the precious metals had triumphed over others on grounds of convenience (particularly portability), and the issue of the monetary standard had shifted to the relative
stability of value of gold and silver (Mason 1963, p. 32). Because of the stable technology of mining and refining gold, a given amount of gold represented, for classical authorities, the closest approximation to a given quantity of labor. Gold was, therefore, regarded as the nominal standard of value representing the real standard measure of value, labor, in the day-to-day transactions of the marketplace (Mason 1982, pp. 6-7). This implied that wage rates should be stable and that the fruits of the improved productivity of labor in producing things other than gold should be distributed via lower prices instead of higher wages (Mason 1982, pp. 7, 9).

Formulation of the principle of marginal utility in the 1870s rendered the classical notion of the standard of value obsolete (Mason 1982, p. 10). If the value of something is diminished merely by acquisition of additional units of it, then nothing can be a standard measure of value because nothing can possess a given amount of value, as it can a certain weight or length. The difficulty was circumvented by the implicit postclassical view of the monetary standard as the material constituting both standard money and the standard of value. Here standard money (i.e., specie, or full bodied gold coin) was the standard of value for other moneys rather than for goods. Thus, the value of nonstandard money was presumed to be determined by standard money in accordance with the quantity theory of the value of money, the quantity of which was explained by the cost of producing (or obtaining) money, defined as specie (Mason 1963, pp. 34-35, 37, 55).

Classicists would have had no trouble with this doctrine because they denied that either the government or central bank could affect the aggregate volume of exchange media in the long run (Mason 1977, pp. 479-482). They argued that as long as convertibility of nonstandard money into standard money (gold coin) was maintained, issue of credit money would, via the quantity theory, raise domestic prices (discouraging exports and encouraging imports) until the increased credit
money was offset by diminution of standard money through exportation of gold to pay for the net imports, which would return the domestic value of money to status quo ante. When neoclassical economists recognized that credit money supplemented, as well as substituted for, standard money, their quantity theory compelled them to recognize (if not acknowledge) that the causal order between the values of standard and nonstandard money was the reverse of the classical assumption (Mason 1963, pp. 36, 37; 1982, p. 13). This precluded the view of the monetary standard as the material used as both standard money and the standard of value. The concept of a standard of value could no longer be applied to money any more than to goods (Mason 1963, pp. 35-37).

In the confusion that resulted from these developments, the term monetary standard became synonymous with "monetary system" (Mason 1963, pp. 64 ff.). The standard was, therefore, confused with policies associated with it. For example, in neoclassical literature the gold standard was defined as a monetary system characterized by (1) a fixed mint price for gold, (2) unlimited treasury purchases and sales at the fixed price, (3) unlimited convertibility of all moneys into gold, and (4) unlimited exportation and importation of gold. The purpose of all these policies was to ensure that the money supply was determined by the gold stock; consequently an additional policy was required to implement the gold standard. That was the absence of any policies that would obstruct denomination of the money stock by the supply of gold. The universal failure to list this requirement among the policies alleged to identify the gold standard represented a misspecification of the standard, confounding the standard with its policies and forgetting the purpose of the policies (Mason 1982, pp. 10-11).

In this intellectual environment the classical distinction between the monetary unit (dollar, franc, etc.) and the monetary standard (gold), was lost, and money, per se, became the conventional "standard of value." In short, the standard of value became nothing more than the abstract unit of account (Mason 1982, pp. 13-14). This was precisely what the antibullionists had argued for in
opposition to the classical school’s determination to restore the gold standard after the Napoleonic Wars (Mason 1963, pp. 24-25). Thus, the neoclassical gold standard lost its specificity. It no longer linked the quantity or value of money with either the quantity or value of gold. In sum, the distinction between a gold standard and a paper standard was, in effect, erased while people thought they were on a gold standard. The so-called "paper standard" advocated by opponents of the gold standard has always been a negative concept meaning only the absence of a concrete standard of value or identifiable criterion of monetary policy (Mason 1963, pp. 18-19, 105).

ABANDONMENT OF GOLD STANDARD:

DE FACTO AND DE JURE

The gold standard, which in classical analysis was a proxy for the labor standard of value, was inadvertently replaced by a goods standard of value (Mason 1977, pp. 485-486). The goal of stable prices triumphed over that of stable wages, and productivity gains became increasingly reflected in rising wage rates instead of falling prices (Mason 1982, p. 10). This shift was facilitated by declining price competition and organization of labor, business, and agriculture (Mason 1958, pp. 154-158). In due time stable prices gave way to rising prices as well as wages, and this was permitted by a growing elasticity of the money supply accounted for by financial innovations circumventing the gold standard limitation on the money stock concomitant with a waxing fuzziness of the limitation. "... Instead of constituting the standard, gold was being made to conform to some other unspecified standard, which... amounted to a de facto departure from the neoclassical gold standard the classical gold standard having already been abandoned despite the apparent maintenance of the mechanics of convertibility (Mason 1982, p. 15).
Recurrent depressions aggravated by prolonged periods of deflation resulting from reimposing the prewar gold standard after the Napoleonic Wars in England and the Civil War in the United States, reoriented people generally to look with favor on the stimulus of rising prices. This attitude was reinforced by the reflation following gold discoveries in Alaska and South Africa, which fortuitously settled the bimetallic issue in favor of gold and temporarily associated the gold standard in the public mind with rising prices and prosperity (Mason 1977, p. 485). By the time production of goods overtook the production of gold, other criteria of monetary policy had replaced gold so that the latter was not allowed to deflate prices in accordance with the falling real costs due to improved productivity. Ways were found to make gold "more efficient"—support more money by a given volume of gold reserves. An example was the innovation of the gold exchange standard in the twenties, which enabled the then less developed countries to enjoy the advantages of a gold standard without the cost of acquiring and maintaining gold reserves. Increasing the demand for an asset is a strange way to overcome its scarcity, and this hastened the day when the gold reserves were insufficient to pay the gold-denominated debts.

Predictably, but unexpectedly, the gold standard collapsed in the 1930s. The only reason the gold standard lasted as long as it did was that bank demand deposits were not recognized as money till well into the twentieth century; therefore, they were not subject to the limitation of the gold standard till other ways of getting around the restriction were discovered (Mason 1977, p. 482; 1982, pp. 14-15).

The collapse of the gold standard and its catastrophic effects were results of ignorance. By this time, neither the public nor its public servants knew even what the gold standard was supposed to be, let alone what it was. It is generally thought that the gold standard was terminated by its breakdown and legal abrogation.
This was merely the formal burial of the corpse that had been dead for some time. People thought we were on the gold standard as long as the mechanics of currency convertibility were legally available. When circumstances motivated mass conversion into gold in the thirties, it could not be done. Gold reserves were adequate where unneeded but inadequate where needed. De facto departure from the gold standard began in the nineteenth century as nations increasingly interfered with the specie-flow, price-level-shift mechanism for equilibration under the gold standard, obstructing determination of national money stocks by national gold reserves. Without acknowledgment—legal or otherwise—monetary systems became managed more and more on criteria other than gold (Mason, 1977, pp. 483-484). So much for the objective, nondiscretionary automaticity of the gold standard that some people think can now solve our problems for us (Mason, 1977, pp. 482-483). This false hope is the result of a persistent confusion of the gold standard with a truncated view of the policies necessary for its implementation.

Of the nations that left the gold standard in the thirties, only the United States made any pretense to return to it. After devaluation of the dollar in 1933, the U.S. established what was called an administratively controlled gold bullion standard. Its relationship with gold was purely pro forma—a partial revival of some of the mechanics of limited external convertibility of currency into gold. Substantively, the money supply was managed independently of our gold reserves, and the effect of international gold movements were offset by sterilization and open market operations. We had been able to afford this ever since World War I when we acquired a substantial share of the world's gold supply, which was later augmented by the flight of capital from Europe in anticipation of World War II. When gold losses in connection with our balance-of-payments difficulties in the fifties and sixties finally threatened to require a reduction of our money stock which might aggravate recession and/or preclude inflationary financing of the Vietnam War, we
forthwith terminated the last formal connection of our money supply with gold by eliminating the heretofore required gold-certificate cover for Federal Reserve notes and deposits.

Meanwhile it was--and still is--thought that the International Monetary Fund (IMF) Agreement established a new version of the gold-exchange standard (Mason 1977, p. 486). Because the Agreement defined the currencies of the member nations in terms of gold and the American dollar, which was, in turn, defined as a certain quantity of gold, it sounded like an atavistic return to the preclassical notion of the monetary standard as the material constituting standard money.

Some might have regarded this provision as an international salvaging of the concept of standard money that had disappeared from the domestic scene. Gold was--and still is--the nearest available approximation to international money, but the IMF Agreement had neither the purpose nor effect of specifying gold--or anything else--as either the international standard money or standard of value. Even with a fixed price of gold and pegged exchange rates, wide disparities of price-level movements made a mockery of the concept of an international standard of value. Furthermore, the price of gold (gold content of the monetary units) and the pegged exchange rates were to be adjusted for the purpose of removing fundamental disequilibrium. The criterion of international monetary policy embodied in the IMF Agreement was balance-of-payments equilibrium, not gold. The implicit monetary standard was a balance-of-payments standard, not a gold standard (Mason 1963, p. 107). The Agreement related to gold (and exchange-rate) policy, not to a gold standard (Mason 1963, p. 118).

However, until the War-devasted economies of Europe and Asia were rebuilt, determination of equilibrium exchange rates was impossible. Consequently, no attempt to adjust exchange rates for this purpose was made until 1958. By this
time the international financial bureaucrats in the Fund and the member-nation central banks had become accustomed to the pegged exchange rates. Their reluctance to modify exchange-rate parities was not removed by this experience.²

Exchange rates became more pegged than adjustable, reviving the illusion of a gold standard. But this eliminated the equilibrating mechanism for meshing the international financial gears because the IMF did not have the power to impose the domestic monetary discipline on member countries that would have been called for by a gold standard. The result was chronic balance-of-payments deficits of some countries and surpluses of others, which should have been removed by parity adjustments. Although the Fund was designed to provide credit to cover only temporary deficits, it came to extend credits to cover chronic imbalances, which required recurrent enlargement of the Fund. Neither expanding nor supplementing the Fund with "paper gold" (which turned out to be "fools' gold") was enough to preserve the IMF as the ersatz gold standard it had inadvertently become (Mason 1963, p. 117).

CONCLUSION

Institutional developments made the gold standard increasingly inoperable throughout the latter nineteenth and early twentieth centuries. Waxing fuzziness of conception precluded workable adaptation of the gold standard to the changing circumstances. The priority of external over internal stability represented by

²A former IMF officer once confided to me that his (their) opposition to flexible exchange rates was based on the fact that he (they) did not know how to administer such a system. They have since been forced to learn how to do so, but unfortunately my friend did not live long enough to participate.
the maladministration of the IMF was incompatible with the peoples' preference for internal stability. An international financial system, operated for the convenience of its appointed bureaucrats rather than the welfare of the people who paid their salaries, could not be expected to last. About all we can be thankful for is that the so-called "gold-exchange standard," which the IMF had come to represent, came to an end before OPEC oil "hit the fan"!

Is the gold standard, presently promoted to salvage the supply-side economic miracle, any more compatible with contemporary institutions than before? If so, its partisans must have something different in mind, and if that is so, they are obliged to specify what it is.

Can the gold standard be revived in a world of noncommodity money? If not, "can we find a market-determined rule to guide monetary policy in place of the 'golden rule' of the past . . ." (Mason 1977, p. 487)? Can we find a workable compromise between the internal stability universally desired by the public and the external stability preferred by official "monetary authorities"? Can we learn from past experience? Experience indicates a negative answer (Mason 1977, pp. 487-488). H. G. Wells suggested that man (in modern terms, person) learns only from unmitigated catastrophe. If so, the learning should begin any time now.
REFERENCES

Details and documentation of the author's ideas may be found in the following sources, which have been referred to here and there in the text:


———, "Reactions to Weintraub's Proposal for Restoring the Gold Certificate Reserve" (available from author).
A Gold Policy To Stop Depression

Even at this late hour, the re-introduction of gold into the world monetary system can prevent a major financial crisis and economic depression. The Federal Reserve's incompetent, destructive monetary policy has already pushed the U.S. economy into the second stage of a depression that began immediately after Chairman Volcker's "Saturday Night Massacre" of Oct. 4, 1979. Between now and year-end, unless appropriate countermoves are adopted, the U.S. financial system will endure a liquidity crisis on a scale worse than that of 1929-33.

This is a war for the survival of the United States, not—as the Fed has argued—payment for the past sins of largesse committed by previous administrations. America's banking system is already under the dictatorial control of the "offshore" money markets, which the Fed has transformed into the only source of liquidity available to American borrowers. Remonetization of gold is the step required to win the war on behalf of American productivity and living standards.

Step one is to remove the gold issue from monetarist incantations over "market perceptions," "inflationary expectations," and "monetary control." Those disciplines which the American financial system requires may be reduced practicably to a single overriding constraint: we must restrict the expansion of credit to those uses which will improve productivity, output, and exports. That is, we must do the opposite of the Federal Reserve's supposedly "restrictive" program, which has added $25 billion per year to federal debt service costs and deficit financing needs, and a debt service burden to the private sector that forced a 35 percent annual rate of credit expansion during the first eight months of this year.

The proper use of gold is to build such a constraint into our financial system, through our financial relations with other nations. The specific measures required to bring about this arrangement are straightforward and clearly understandable to a majority of the American population, once we agree that monetary controls exist to address the real problem, the state of the economy's productive base.

Below, we outline the requirements of a return to gold-based monetary stability, and explain why the competing monetarist versions of the gold standard have no hope of success.

1. Remonetize American Treasury gold reserves at $500 per ounce or the market price, whichever is higher.

   In current capital-goods and labor costs, $500 per ounce is the marginal price of gold, i.e., the price at which new gold mines may be brought into production on a sufficient scale to assure an adequate supply of new monetary gold.

2. Establish the value of the U.S. dollar as a fixed weight of gold, e.g., 1/500th Troy ounce of gold, and agree to exchange gold in payment for current account deficits or surpluses with nations who follow a similar monetary policy.

   By agreeing to exchange gold with nations to balance our current account payments (merchandise trade plus shipping, insurance, tourism, and similar services), we are making a commitment to pay our own way in international trade.

   However, we will do this only with nations that adopt the same program. In practice, there is little question that most of the nations that now belong to the European Monetary System, a gold-reserve and fixed-currency agreement among the eight leading European countries, as well as Japan, would join such an agreement enthusiastically.

   By making the dollar as good as gold on international markets, this action would immediately bring down interest rates, by eliminating hundreds of billions of dollars in currency speculation and hedging in foreign markets, which consumes the biggest portion of credit generated worldwide.

3. Issue a new series of U.S. Notes against our gold reserve, through participations in productive-investment credits in the banking system.

   To make good our promise to pay gold to cover our international accounts with our trading partners, we must simultaneously ensure that the credit we issue at home expands productivity and output. At present the Federal Reserve "prints money" by adding funds to the New York money market, i.e., to the large international banks. Under this system the American banking system opened up $49 billion in credit lines for inflationary, speculative corporate takeovers, but lent on net virtually nothing to basic industry.

   The Federal Reserve's method of creating credit is inflationary. We propose, instead, to return to the monetary policy of the Lincoln administration—U.S. Notes issued for productive purposes, and backed by America's
ability to back the dollar with gold.

Instead of an independent agency with unlimited discretionary powers to create money, the Federal Reserve should be reduced to a mere agent of the U.S. Treasury, by amendment to the Federal Reserve Act. All discussion at the Federal Reserve or otherwise about "monetary targets" and "desired rates of money growth" at the Federal Reserve or elsewhere is pure bunk. We can create as much credit as we want, provided that Americans can absorb it into new investments in industry, agriculture, mining, construction, and transportation, i.e., activities that add to the nation's tangible wealth.

The Treasury will lend out U.S. Notes at 6 percent interest for investment or working-capital purposes in manufacturing, agriculture, mining, construction, and transportation, according to this procedure: any private banker may apply to the local Federal Reserve banks, acting as the Treasury's agents, for a U.S. Notes' participation in a credit for these designated areas. Only when a private corporation will initiate such investment, and a private bank will take at least half the credit risk, will the Treasury issue U.S. Notes.

There is no great complexity or threat of bureaucracy in this program. Presently, local bankers have to turn to the mirror-world of the money centers, e.g., overnight repurchase agreements, federal funds, correspondent loans, and so forth to raise funds, and turn their operations upside-down with every new patch of regulation or "de-regulation" introduced by the Fed or Congress. We will reduce bankers' sources of funds to two: deposits generated by business activity in their localities, or direct infusions of low-interest loans of U.S. Notes where required.

Although monetarists will throw up their hands at a distinction between "productive" and "nonproductive" credit, despite the insistence upon such a distinction in all economics up through and including Adam Smith and David Ricardo, every local banker will understand precisely what is involved. Any intelligent banker knows that certain types of business put "real tax-base" into a community, e.g., manufacturing, agriculture, and mining. He knows that a community which invests exclusively in fast food restaurants, high-rise office towers, and the other staples of the late 1970s U.S. economy will go broke.

Gold backing for this credit issue constitutes a basic discipline on our actions. America's slippage into trade deficit during the 1970s is a consistent and accurate measure of our declining productivity, brought on largely by the malfeasance of the Federal Reserve. Correction of these policies and restoration of our productivity growth will also revive our export potential; otherwise our gold will flow out to foreign nations.

4. Prevent inflationary credit from undermining the U.S. Notes program.

The principal source of inflationary credit in the U.S. economy is not the "printing-press" money of the Federal Reserve but the accumulated "book-money" of the Eurodollar market. With no reserve requirement, the foreign branches of the Wall Street banks, along with the British and Canadian international banks, create unlimited book-credits among each other. This $1.5 trillion mass of fictitious paper is the world's principal source of inflation. Inflows of Eurodollar book-credit account for virtually all the speculative credit lines for corporate takeovers in the U.S.

Monetary inflation can be eliminated overnight by two simple, long-overdue measures:

(1) The Federal Reserve shall cease to be a net issuer of credit, and act only as the Treasury's transfer agent for U.S. Notes. U.S. Notes will gradually replace the unconstitutional issue of Federal Reserve notes as circulating currency of the United States of America.

(2) The Treasury shall institute a policy of transparency of sources of credit to prevent the influx of inflationary, Eurodollar book-credits. One rule will suffice: as a matter of simple banking safety, no standard paper will be permitted to circulate in the American banking system. A Eurodollar loan to an American company is a right to draw on a Eurodollar account unbacked by any reserves, contrary to American banking law. No such fictitious money may be lent into the United States, period.

Such action will immediately break the stranglehold over world credit now exercised by the Anglo-Canadian banking cartel, the main beneficiary of the Federal Reserve's unconstitutional policy of money issue.

5. Except for participations in productive credits, the Treasury shall institute a policy of transparency of sources of credit. No U.S. monetary policy shall be subject to the whims of gold speculators.

Since the basis for determining the fixed price of gold is the required production-price of new gold supplies, this price fixing will endure—provided that credit issue contributes to anti-inflationary gains in productivity. Any attempt by speculators to push the price above the level at which central banks exchange gold among each other might, temporarily, produce a "two-tier" gold price of the type seen between 1968 and 1971. However, we have no doubt who would come out the victor in this sort of economic war.

The flaw in the various monetarist proposals for gold restoration (e.g., Laffer, Lehrman, Wanniski, Ron Paul) is elementary. The United States must conduct a form of economic warfare against an international financial cartel whose principal objective is to have the carcass of the U.S. economy to pick over. Their ally is the Federal Reserve, and their chief operator is Federal Reserve Chairman Paul Volcker. Without the two fundamental safeguards described above, i.e., transparency of sources of credit, and priority for productive credits, the United States monetary authorities will have little say in the management of the monetary system relative to the London and Cayman Islands offshore centers. Either, as the Federal Reserve proposes, the monetary authorities will bring about a deflationary collapse of the credit system by tightening credit to prevent gold outflow, or the U.S. will simply lose its gold stock to speculators.

By making the dollar "as good as gold" through the above plan, the United States can return to international economic pre-eminence.

Authorized and paid for by the National Democratic Po
United States Gold Commission Commissioners:

Enclosed please find Environmental Impact Statement. Such Statement was distributed to this nation's judiciary and no one else. This mailing is the first of 5 mailings the above honorable commissioners will receive from the undersigned in the hope that their assembly will provide the world further proofs of constitutionally constituted governments unique ability to meet disaster and crisis.

The remaining material on this page refers to innovative financial system (%70 government owned) operating since 1972 for the purpose of providing the constitutionally constituted governments comprising the United States of America income in excess necessary to operate all its governments.

Jan Van Moore temp org dir

THE JOURNAL OF COMMERCE, Wednesday, October 29, 1980

NEW YORK Exempt Commodity Futures Exchange
Inc NYS 74
Telex: XCNY 22040 UR
Tel: (212) 736-6638
Prices for Oct. 1980

APPLES (NYS) bushel...$4.95
Firewood, %-80 Cord
STEEL: rolled $17.50
1000-wp struct $18.50
COAL: (coal) stove $5.80
CEMENT: bag built $34.50
PLYWOOD: pallet $49.50
NOTICE: 3-1/2 post checks $200 min.
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ACCIDENTAL DISCOVERY OF FATAL
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The diet practised universally since pre-historic times has been negated by accidental discovery which reveals for the first time in recorded history that most of the world's ills are attributable to a heretofore unknown dietetic flaw. (Please see Exhibit A2).

The proofs submitted in support of this discovery are plain and simple. When the diet common to all civilizations since pre-historic times is abandoned and another called Trudiet is observed an epidermal process of opening wrinkles, skin lines and pores occurs, ultimately revealing the soft pink skin of youth (Photos of process attached). (photo 1)

The substances all society has heretofore ingested under the mistaken belief that such was food precipitates a demonstrable process which causes among many other things, a peculiar epidermal pathology to ensue. The process is typified by wrinkles, skin lines, and pores involuting, shrinking and compacting over the years, superimposing layer upon layer of such structures over the skin of youth. This process also occurs internally, fatally clogging and obstructing every cubic centimeter of the ingestees body.

Since the substances of Trudiet are not available in our markets unauthorized release to the public of the substances comprising Trudiet would conceivably cause unalterable world panic for nutratives that visibly and literally rejuvenate.

The world's first Rejuvenatarium has been built and is standing on Greenman Hill Road in West Stephentown, New York, ready to receive those members of the judiciary and such ministerial agents of constitutionally constituted government as care to regard it their duty to take cognizance of all things portending encyclical social change. Directions to the Rejuvenatarium: New York State Highway called Route 20 to N.Y.S. Route 66 North, right at Hoags Corners and right at Greenman Hill Road to sign bearing, "Greenman Hill Rejuvenatarium". Telephone 518 794 - 8922.

World-wide implementation of Trudiet will require fundamental restructuring of commerce, transportation and agriculture.

For example:
The hills comprising the basin East of the Adrondack Mountains will be cleared, the wood sold off to an international market in firewood through the New York Firewood Exchange (Established 1980) and the reclaimed land planted with sufficient Trudietary items for a world market.

Current transportation systems can not transport the substances of Trudiet. A new transportation system operating exclusively on repelling magnetic forces will carry Trudietary cargo at speeds in excess of 1000 miles per hour. (Exhibit A4).

To finance the implementation of Trudiet, the new Isolite City-form, the United States Repelling Magnetic Fields Transportation System, Truhanded Education, Truposture, Trurespiration and Trubody Mechanics all referred to herein-above, it seemed necessary for the innovator of these systems to acquire access to world surplus capital earmarked for investment. Accordingly in 1972 said innovator established in law and commerce, through Collins & Day Co. trading, for the first time in recorded commercial history, contracts for deferred delivery of commodities exempt from government regulation: Coal, Plywood Cement, Rubber, Petroleum, Chemicals, Firewood, New York State Apples, Gold, Silver, Steel, Copper etc. The incredible success said innovator enjoyed from an unbelievably vast, new and untapped market was soon eclipsed by the Collins and Day' workers, all of whom the innovator summoned before the New York State Supreme Court. County of New York, in proceedings for receivership and accounting after they determined to use the company's profits for their own personal gain rather than for charitable purposes. On April 30, 1973, said innovator filed a common law trust with the County Clerk of the County of New York, indexed M517-73 MACANCO; Manager and Controller of Non-Regulated Commodity Trading System Trust), (Exhibit A14); and in 1973 and 1974, filed with the Secretary of State of New York, certificates of incorporation for a system of exchanges for exempt commodities replete with clearing houses, an appointed Federal
The on-going gold and silver market was created by the above innovator for the previously stated purposes. However, instead of being the orderly determinative mechanism for world currency prices and said innovative Commodity Futures Exchange prices, unauthorized entities selling gold and silver entered the precious metals market with manipulative practices and succeeded in bringing the world economic system to its current perilously inflated position.

History records more nations falling into inflation than from any other cause.

In order to aid constitutionally constituted government surmount the on-going inflationary dilemma caused by unauthorized competitors daily raising the price of precious metals to cover their previous days sales the above innovator, in Federal case. Civ 1020 80 USDC SDNY transferred to the United States of America. 70% of the New York State Corporation franchised in 1974 to manage and control gold and silver futures trading: The New York Gold and Silver Futures Exchange.

At the present time the above innovator, hoping to spare the world from the economic and financial rape entertained by those who seek to wrest such innovative and lucrative financial system from the innovator for non-charitable self serving purposes, has instituted actions in the New York States Supreme Courts and the United States District Court, Southern District of New York against the following entities who plainly collude with one another to deprive said innovator and the world of the financial system singularly created to fund benign changes in world societies.

2. Comex, which refuses to answer orders of the New York State Supreme Court to show cause why it should not be restrained from selling futures contracts in precious metals.
3. The Daily News and the New York Times, who plainly and manifestly colluded with the Securities Division of the New York State Attorney General’s Office to debase such innovator in the eyes of the public by printing demonstrable falsehoods about said innovator.
4. The New York Stock Exchange, which claims, in effect, that it has the authority to usurp the name said innovator has widely publicized as the innovative system’s name.

The enormity of the impending benign improvements to be wrought by Trudiet upon world society are without precedent. Firstly world agraria, and it’s food processing systems must adjust to transport, produce and process Trudietary substances that have never before entered into commerce.

We are about to witness 50 to 100 years of earthlife being devoted mainly, almost exclusively to the task of removing the effects of degenerate diets described in the American Psychonautranalysts Association’s “Report on Discovery of Fatal Universal Dietetic Flaw” Exhibit A2.

It will take a minimum of 30 years to provide world society with sufficient supplies of Trudietary substances.

A benign compassionate psychology will have to be created to induce world society to abandon an infantile addiction for orally stimulative non-nutritives which dement the psychic with hate, delusion and obsession and suffocate the bodily life processes with a buildup of myridinal adhesive, involutive shriveling, shrinking minute structures which alone are responsible for the chronic disease inexplicably rampant in all societies since pre-historic times.

Our current city form must be altered to accommodate shifting our techo-city-form to an agrarium city form. Isolite Cities are manifestly superior to any structure heretofore erected. Mass production of Isolites to accommodate the forth coming agrarianization of society presents no special problems except one, their placement.

The United States Repelling Fields Magnetic Transportation System, which alone is capable of adequately transporting Trudietary cargo presents no engineering problems, mainly, because it is capable of constructing it’s own rail bed.

World populations will experience a critical upsurge once the major cause of ageing and chronic non-congenital disease (degenerate diets) is removed.

Our need for hospitals, prisons, mental institutions and police forces will disappear proportionately to Trudietary supplies.

Our revered prophets and current therapeutic systems, both of which encouraged ingestion of non-nutritives which dement the mind and fatally disease the body, are about to be confronted by a world mass made irreverent and disrespect...
of them by the rejuvenative effects of Trudiet. Nurses carried out a therapeutic system based on total error exempt from changing attitudes.

consideration that should remain foremost in our minds the fact that man, not woman, is weak and easily corrupted. The body of literature of degenerate should be sealed in all libraries otherwise the evidence of the causes effect of degenerate will be expurgated and destroyed by authors. New libraries should be created to contain influx of massive new literature reflecting society’s reaction from the subnormalizing effects of degenerate diets.

singular and solitary defence this civilization had against action by Science, Politics, Commerce and Social Custom which encouraged ingestion of non-nutratives which devastated world societies with increasing severity over the centuries there is society’s body of laws administrated by a brave judiciary.

where in history has this world’s rampant hate, delusion, fixation and noncongenital diseases been attributed to Nor has anyone in all history, except the innovator in possessed irrefutable proof that the diets practiced universally since pre-historic times are demonstrably fatal.

To advise the world mass of the constituents of Trudiet and its rejuvenative effects would serve only to create serious and irreversible panic for rejuvenative nutratives not as yet available.

Rapid Social and Technological advancement will accompany increased production of Trudietary substances.

With the implementation of the United States Repelling Magnetic Fields Transportation System our dependance on petroleum powered vehicles will become obsolete. Our laudable system of highways will be converted into Pedestrian Roads funneling Trudietary production to the United States Repelling Fields Magnetic Transportation System. It is suggested that the oncoming new age called “RE-JUVENAGE” allow any one to own as much land as they can put under cultivation of Trudietary items. This means that the owning of land for speculative financial purposes may become unhealthy. At this time it appears that the best development of a Trudietary Agraria would begin from along the edge of our roads and highways proceeding inwards to the interior.

THANK YOU
An astounding, incredible discovery of unparalleled magnitude supported by plain visible proof is hereby claimed in the name of the United States of America, which establishes for the first time in recorded history that abstention from the diet common to all civilizations since pre-biblical times and ingestion of another called “trudiet” causes skin lines to open revealing a hitherto unseen and unknown pathogenic process of myridinal compactions of minute, pinpoint size, involuting, dry, scaly, adhesive structures pitting the center of the opened skin line which burst open releasing a softer, lighter skin that had heretofore been shrunken—INVOLUTED—inside such pitted structures since earlier years.

After opening, the wrinkle which springs apart revealing such thin, hard chalky line of myridinal adhesive pitted structures also presents, on the walls of the open wrinkle, an exhumation of other similarly constituted wrinkles, which had been submerged by adhesiogenic processes of seeming dietic origin, these also burst open exhuming more wrinkles of like construction.

After these compactions are removed we are confronted with the soft, supple primal skin of youth.

ETIOLOGY

An apparent life-long effusion of animate, inorganic, adhesiogenic, hostlike particles of broken-down ingested non-nutritives emitted from surface epidermal pores and canals (SKIN LINES) of the perspiratory system adhering to the adjacent epidermal surface, chronically, by their adhesiogenic nature, draw the skin adjacent to the particle over the particle thus superimposing layer upon layer of obdurate-dry adhesive structures over the soft supple primal skin of youth.
The unusually dry and scaly appearance of skin liberated from the adhesion suggests that the particles, whose existence is an assumption, are HIGHLY water absorbent.

**INSIGHT OF CAUSE OF EPIDERMAL DISFIGUREMENT CALLED AGING**

This pathogenic process, of seeming dietary origin, which makes its appearance after an adhesive substance coating the wrinkle is removed and which presents itself as a dry, flaky, thin, crystalline-hard, razor-thin line consisting of myriadal adhesive pits of involuted shrunken skin causes, aside from mortal vascular and perspiratory impairment; aside from life-long subliminal neural agony engendered by these hard, dry adhesive structures oppressing underlying neural structure, a cosmetic disfigurement which makes surface skin appear dark, ruddy, dry, scaly and hard.

**CRITICAL AREAS OF PROLIFERATION**

*Cuticles*

This suspected dietary adhesiogenic process is in greatest and minutest density under and around the entire edge of the fingernail with the cuticles' corners presenting the greatest density of compactions. It is from the cuticle corners that a complex network of clogged perspiratory canals fan out into the fingers and entire epidermus suggesting that the cuticle corner's perspiratory systems are major eliminatory organs. It is from these cuticle corners that the removal of the adhesive pitted structures must begin.

*Joints*

The joints, next to the cuticle corners, seem to be the second primary sites for the greatest density of these minute adhesive structures.

**CHRONIC DISEASES**

The following phenomena concerning these adhesive structures point to a dietetic component for the etiology of arthritis (a) thermal responses are dramatically improved in joint areas where these adhesions are removed; (b) the removal of these adhesive structures around joints improves their flexibility and tactile perception.

Such adhesions, when opened over a varicosed vein, collapse the unsightly protrusion and restore vascular function and appearance.

Abstention from the common diet and ingestion of trudietary items causes a life-long obstruction to sight and mentation to dissolve, improving vision and mentation noticeably. Return to the common diet causes these impairing conditions to return.

**ENLARGING WOUNDS WITH A FETID DISCHARGE**

The dietetic discovery herein indicates that chronic enlarging wounds emitting a fetid discharge are pores converted into excretory organs ejecting noxious non-eliminable ingesta-ables erosive of non-endothelial-lined perspiratory pore passageways: that submission to trudiet stops the fetid discharge and closes the once-enlarging wound.

Such enlarging wound with a fetid discharge appears a mild inconsequential dietetic disorder compared to an epidermal perspiratory system mortally clogged by myriadal pathological adhesive structures that do not respond as favorably or as rapidly to trudiet as does the enlarging wound with its fetid discharge.

The healed enlarging wound with it's fetid discharge presents the usual characteristics of scar tissue (discoloration and shrivelling) however, examination reveals the composition of the healed wound to be the same as that mentioned herebefore and, that when these adhesive shrunken pitted structures are removed the unsightly shrivelling and discoloration is trans-
Benign tumors of the skin that commonly present themselves as unsightly, hard enlarging nodules, as well as corns and callouses, when examined in the light of the discovery herein appear identically structured and similarly disintegratable as the pathology hereinbefore mentioned.

From earliest times until now researchers have continuously reported the inexplicable filtration of an adhesiogenic agent which permeates the entire internal organism welding tissue to organ, organ to bone and bone to issue such that autophysical examination of the jed invariably shows heart, lungs, kidneys, adder, intestines, stomacha welded together in mass that made the continuation of life possible.

DISORDERS OF THE THROAT

Among the many chronic disorders benignly acted by trudiet are those diseases of the oat whose etiology heretofore did not consider effects of a tongue, reversed in correct oral mechanics, coated with noxious, uneligible, non-nutritive abrasive substances vitally lashing and abrading adjacent throat oral muscosa with trigeminal hunger excitation until the protective tissue is added exposing the trigeminal nerve to injury.

Before us are indications that knowledge of fat was available in pre-biblical times and presumably lost when society abandoned the special, natural mechanic for holding the tongue at "rejuvenative rest" in preference for trigeminal lingual delights of ingesting neuroexciting non-nutritive substances. Accordingly a point in time is fixed—predating the abdication of trudietary laws—where loss of edge of the physical mechanics for holding tongue in its natural rejuvenative rest position occurred.

Historically interesting to those who search fast for error is the possibility that humanity deprived them of their natural aversion for the revulsive, degenerative, lingual practices they delight in nowadays.

No mention appears in our healing arts literature concerning the correct position for the tongue at rest.

If we examine oral trigeminal pathways we find one set present on each lateral edge of the tongue and another corresponding set directly beneath each lateral edge of the tongue running on the floor of the mouth into the throat. Management of these nerves, which react to hunger by exciting the tongue to rub against the trigeminal nerves in the floor of the mouth and throat and, which transmit to us immense sensual impressions, appears to be the most urgent need of humanity. For in fulfilling and satisfying their demands have we been brought to suffer worldwide dietary disorder. Since administration of the law requires considerable use of the tongue and since the judiciary are scheduled to be the first recipients of a new and improved healing system called rejuvenology, which healing system is the exclusive proponent and practitioner of a novel and benign therapeutic concept called GROSS SYNAPTIC MECHANICS FOR THE TONGUE, RECTUM, GENITALS, and EYES, it is here recorded to the end that each administrator’s function be improved:

GROSS SYNAPTIC MECHANICS

TONGUE

REJUVENATIVE REST POSITION

The tongue achieves its natural rest position when its lateral edges are held a hair's breath apart and the underside of the tongue's tip is cupped under the posterior nasal opening catching and absorbing occasional droplets falling from a region in the root of the nasal cavity corresponding to the location of the pinial gland. During the course of this rejuvenative mechanic the shoulders are held back, down and together, the chin is held pressed against the throat (© Rejuvenology 1977).

SUBJECTIVE EXPERIENCES

After a short period of abstention from the,
common diet the abstainers’ daily experiences with hate, rage and like negative emotionalism subside and realization occurs that contact with non-abstaining society is now occasioned only by an intense awareness that they are dietetically depraved and suffer grossly from chronic dietary negative emotionalism; that the peril of our time ensues from our own dietetically demented personalities; that all civilizing systems fail from unending dissidence and discord when its members are directed to ingest psychopathogenic substances; that adequate world production and processing of trudietary items, now almost non-existent, will take at least forty years; that this nation would be imperiled were anyone to disclose trudiet publically.

Trudiet’s unauthorized release to the public will precipitate (1) perilous public demand for items now exceedingly scarce, (2) massive expurgation of literary matter from our libraries by authors of pre-rejuvenage material, (3) benign restructuring of society’s psychology, health, intelligence, aspirations and technology.

The substances society has been directed to ingest depress the psychic such that death becomes society’s unremitting aspiration and concealment of that aspiration its persistent purpose. When the judiciary realizes that society is manically depraved from a heretofore unknown dietetic psychopathology, they will (a) prepare society and commerce for fundamental changes which benignly terminate an unbelievably long age of degrading dietetic error, (b) prepare for an age where benevolence rather than malevolence is the subject of the law, (c) sequester the literary body of law in libraries designed to discourage expurgation, (d) consider a general amnesty for all prisoners clearing and preparing land for the monstrous agrarian needs of rejuvenage, (e) prepare for full world employment in preparing the earth for the staggering agrarian needs of rejuvenage, (f) consider means by which to prepare society to meet the proofs that the dietetic instructions of their venerated prophets were in manifest and mortal error, (g) prepare for massive influx of higher knowledge from intellects liberated by trudiet from the subnormalizing influences of the common diet.
TO ALL FIRMS AND INDIVIDUALS EMPLOYED IN CONTEMPORARY TRANSPORTATION SYSTEMS:

PLEASE BE ADVISED THAT AN IMPROVED AND NOVEL SYSTEM FOR VERTICAL AND HORIZONTAL TRANSPORTATION HAS BEEN CONCEIVED AND FILED WITH THE UNITED STATES PATENT OFFICE, AND THAT YOUR PARTICIPATION IN ITS DEVELOPMENT, MANAGEMENT, AND CONTROL WILL BE REQUIRED.

U. S. DEPARTMENT OF PATENTS D. C.
UNITED STATES DISCLOSURE DOCUMENT
NUMBER 096737 of January 5th 1981

Repelling Magnetic Fields - Transportation System
whereby a cargo carrier consisting of one electromagnet [A] resting on a plurality of identical electromagnetic trestle sections [B] is —

1 Suspended in a frictionless magnetic field of repelling magnetic forces when electrical current is supplied to the electromagnetic coil in the cargo carrier and the trestle section beneath.
2 Propelled by augmenting the current in the trestle sections directly behind the cargo carrier, and
3 Stopped by increasing the current in the trestle sections ahead of the oncoming cargo carrier.
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Introduction

An erroneous idea has been circulated among us under the name of education and civilization, the practice of which cripples us physically, retards us mentally and dooms us all to premature unnecessary deaths.

This paper is to alarm humanity of that error and to correct it.

The abandoned concepts of bloodletting as a cure for disease, of a square earth and of human sacrifice, recall how other civilizations impeded their evolutionary progress by embracing ideas which were false.

Those who have labored to determine the origins of the idea of right-handedness fix the Bronze Age as the time humanity first began that practice.

Before that, pre-bronze age people used their hands in a manner not fully known. All that is known to us is that they were neither right- nor left-handed and that they used their left hands as much as their right.

Today 94% of the world population is right-handed, 4% left-handed, the rest ambidextrous. The first two types, having trained only one of their two hands to perform skilled work, are called unidextrous. The ambidexter can use either hand, but not both simultaneously performing two unrelated manual tasks.

Right-handers are regarded as those who conformed to the pressures of the right-handed myth. Left-handers as those who rebelled against it and ambidexters as those who by choice preferred a more balanced use of their hands.

Truhandedness

For the first time in human history it is here stated and shown how these manual types are wrong and predispose toward mental retardation and disease.
Also introduced to human thought for the first time is a fresh concept of handedness; truhandedness. It means that both hands are used simultaneously to perform different skilled tasks.

Examples of truhandedness may be had by observing any primate or infant. A primate, for example, may be observed using one hand for eating a banana, the other to probe for a flea. An infant likewise may explore the bristles of a hair brush with one hand while the other is shaking a rattle.

All mankind is endowed with truhandedness at birth. Truhandedness remained unreported to us until this historical moment.

The Human Brain
Development Function and Disorder

The human brain is composed of a right and a left half. The left half controls the right side of the body and the right half controls the left side of the body. In infancy both brain halves (hemispheres) are balanced in size and function. Each can work independently of the other as indicated by the child playing with the hair brush and rattle.

Each brain half has centers which control sight, hearing, memory, speech, etc., which are operative in the infant brain. Once a person becomes one handed he or she also becomes one-brained. This means that these centers are active in one brain half, inactive in the other.

It is known that brain development and function are related to hand training.

It is known that speech loss from disease or injury to the active speech center is regained by stimulating the inactive speech center to function, through training the unused hand.

No one is born left-or right-handed.

The infant is truhanded until the tenth month of life.

After the tenth month of life there is a decline in infant truhandedness. This, incidentally, is the time the infant begins to imitate its parents and the time parents are able to influence the child, consciously and unconsciously in the manner of their own hand habits.

It is not publicly known that regression of infant truhandedness is accompanied by disorder. It is true that 80% of all children in their nursery years go through a period of brain dysfunction characterized by tics, stuttering, epileptic-like seizures and blocking of neuro-muscular co-ordination.

Alarmed parents of these affected children and specialists in neuromuscular disorder stand in the shadow of ignorance when one convinces the other that the child's symptoms of brain dysfunction will disappear when one of the child's two brain halves becomes more dominant than the other through continued unidextrous training.

This view maintains that unidexterity does disrupt equal hemispheric function; that such disruption is necessary to make the child "civilized" and that while such disruption is occurring symptoms of brain dysfunction will manifest themselves.

This view is wrong.

Both brains were intended to function in balance.

This general acceptance of half brain dominance as a necessary natural condition is mistaken and serves only to perpetuate the greatest disorder a total humanity has ever submitted itself to; demobilization of one hand and its related hemisphere.

The suffering caused by this calculated imbalancing of brain function by civilization's unjustified insistence upon unidexterity does
not stop with the appearance of disorder among 80% of all children.

That is only the beginning.

Next the child is submitted to the educative process where its remaining endowment for truhandedness is methodically suppressed by insistence on unidextrous training.

Again symptoms of brain malfunction occur; tics, stuttering, epileptic-like seizures and blocking of neuromuscular co-ordination.

Again worried parents are assured that these disorders will subside after the brain half related to the hand being trained becomes the dominant of the two.

Children who never go to school do not usually experience these disorders.

When the child leaves the educative process it no longer has the equally functioning hemispheres of its infancy. Only the brain related to the trained hand is active. The other inactive.

Other Organs

Neither does the child, after leaving the unidextrous training process, have the equally functioning hemispheres, the eyes, ears, legs, hands, arms, fingers, speaking and swallowing mechanisms of its infancy. It now thinks mainly with its left hemisphere, sees mainly with its right eye, hears mainly with its right ear, walks mainly on its right leg, uses its right arm, hand, and fingers, for most manual tasks, speaks and swallows on the right side of its throat.

The deeper unseen picture reveals a similar set of facts; the entire half of the body on the side of the preferred hand is larger than the other in every single known anatomical aspect.

This means that all the bones, muscles, glands, organs, etc., on the preferred side of the body are larger and stronger than those on the non-preferred side. In infancy there is no asymmetry in any of its members.

Speech, memory and intellectualization have operating centers on each of the infant brain halves. However, once hemispheric dominance occurs, these faculties along with many others operate only on the dominant or "active" hemisphere.

The Neural System

The Neural System, for example, on the preferred side of the body responds more quickly to stimulus than those of the non-preferred side.

The abhorrent asymmetry is most noticeable in the face. An honest examination of facial structure will reveal that the preferred side of the face is noticeably larger than the other.

The extent of our lopsidedness is staggering. In truth one side of us is over-developed and overactive, the other dwarfed, and paralyzed.

It is a basic law of life that growth occurs with exercise.

Unidexterity exercises only half the brain. Consequently those centers in the exercised brain which control body size, sight, hearing, swallowing, etc., experience growth, while the non-preferred brain experiences growth equal to the training of the non-preferred hand.

Unidexterity writing is the exclusive factor responsible for our lopsided civilization.

All who have considered the art of writing seem to have overlooked one very elemental fact, and that is the basic falseness of the art itself.

Writing with one hand is just as unnatural as hopping about on one foot.
In the beginning mankind was not endowed with knowledge of writing. It grew out of his need to communicate by means other than sound. He fulfilled that need with the perfection of the art of writing. That art however is not invested with inscrutable sanctity, or complete success, for by it and through it we prolong a habit which impairs all of us.

Watch a tennis player or baseball pitcher swing or throw and observe how the non-preferred arm hand and fingers are held in the same awkward position that they are during the act of writing; the fingers clenched, the arm bent.

Similarly when anyone holds a match, turns a door key, or does any one handed act, the unused arm, hand, and fingers are frozen in the same posture used for writing; fingers clenched, arm bent.

This freeze of the non-preferred arm, hand, and fingers truly gives us a picture of what’s going on in the non-dominant brain; nothing.

Yet what other co-ordination can be expected of a civilization which insists its members sit at a desk week after week, month after month, year after year, training one hand while the other is kept frozen and immobile.

Had endowment for truhandedness not been suppressed these manual acts would be accompanied by that grace and balance which comes when the unused arm, hand, and fingers move in counter motion to the used hand, and fingers.

Niemi Institute

As already indicated, the Niemi Institute approached the enigma of disease along lines of inquiry never before explored.

Science is determined to prove by classical anatomical proofs the relations between hand difference, brain dominance and lopsided growth and function. Two hundred years of research have failed to provide us with that evidence.

Since the Niemi Institute conceived of humanity perishing from disease caused by unidexterity before those proofs were uncovered, it became imperative for them to seek a different approach.

They started by establishing for the first time in human history, the heretofore unknown fact that death comes to almost all of us from diseases that destroy the preferred side of the body first.

Next the Niemi Institute endeavored to ascertain whether any of these diseases subsided with a change of preferential use.

Diseases

For example as previously stated, the majority of people who are right-handed are also right eyed, in that they see mainly with their right eye. Almost all suffer a disorder called crooked eye (strabismus). This means that only the preferred eye fixes on the object of sight, while the non-preferred eye is held weakly and crookedly in its socket. The researchers of the Niemi Institute were satisfied with the merit of their approach when they discovered that the accepted theory underlying the correction of this disorder was based on the idea of wearing an eye patch over the preferred eye thus forcing the weak crooked eye to focus.

Next they theorized that that portion of the brain which controls the preferred hand should be the first to undergo degenerative change from over-work. Their research confirmed this. It is a matter of fact that stroke, the major degenerative disease of the brain, almost always affects the left hemisphere in right-handed persons and vice versa for left-handed persons. Stroke is typified by
paralysis of the entire preferred side of the body and loss of speech. Sight, hearing, swallowing and kidney function on the preferred side are also affected. They were again satisfied with the merit of their approach when they learned that the accepted treatment for restoration of lost function in stroke is based on training the non-preferred hand which admittedly activates undeveloped centers in the non-dominant hemisphere.

Hearing was next examined and it is true that the majority of people who are right-handed hear mainly with their right ear and the weak non-hearing ear can be improved by wearing an ear plug in the preferred ear.

Next examined was preference for swallowing and speaking on the preferred side of the throat. It is a fact that most right-handed people swallow and speak on the right side of the throat. It is also a fact that vocal polyps and contact ulcers, precursors of serious degenerative changes such as a cancer, are almost always found on the preferred side. Further confirmation as to the worth of the approach was obtained when patients were relieved of such polyps and ulcers after learning to swallow and speak on the non-preferred side of the throat.

Our research also uncovered another new body of facts which is unknown to the world: Bronchogenic carcinoma, all the major degenerative diseases of the lung, glomerulonephritis and toxic goiter are diseases which almost always affect the preferred side of the body.

Also the most common disorder of the spine is typified by a spinal curve which is almost always related to the preferred hand.

Epilepsy

The enigma of epilepsy has never been considered as being a disorder caused by disruption of equal hemispheric function.

It is hoped that the following submission of facts will spur others into the conclusion that restoration of truhandedness and its accompaniment, equal hemispheric function, might eliminate epilepsy.

The age of onset of epilepsy coincides with the age of on set of unidextral training. In other words, epilepsy starts after disruption of truhandedness.

The most prominent brain symptom in epilepsy is an asymmetrical discharge of electrical brain waves. The dominant hemisphere producing the great electrical discharges. In infants of unaltered handedness these waves are symmetrical. They become asymmetrical after the onset of unidextral training.

The epileptic attack begins in the dominant hemisphere and manifests itself with convulsions which appear on the preferred side of the body first.

Epileptic-like behaviour occurs in cases where a shift of handedness is required as a result of injury or amputation of the preferred hand.

Stuttering and crooked eye, disorders long associated with handedness and extreme cerebral dominance, are very common among epileptics.

"Epileptic children may ride bicycles, play games, run, hop, skip and jump, but, sit them down to write and they have one attack after another." That writing should precipitate epileptic attacks indicates that unidexterity is involved with this disorder.

Cystic fibrosis, a fatal disease which mainly affects children is typified by the non-dominant lung's weak, lethargic removal of phlegm.

In right-handed children the attack is almost always initiated in the weak left lung and vice versa for left-handed children.
The association between the weak lung's removal of phlegm and the weak eye, ear, leg, hemisphere, and side of the throat compels the Institute to suggest that a nose plug worn in the preferred nostril might have the same positive effect in strengthening the weak lung as the eye patch has for strengthening the weak eye.

The glands on the preferred side of the body are larger than those on the weak side. Size is an indication of productive capacity. What part does such unbalanced glandular production play in those diseases characterized by asymmetrical glandular function: Diabetes, leukemia, etc.

Lit here for all humanity is a bright new light into a dark unexplored corner of disease and human suffering. The restoration of truhandedness could possibly eliminate much disease and suffering and produce a race similar to those who practiced a form of truhandedness; Leonardo Da Vinci, Michelangelo, Holbein, Morse of the Morse Code, Lenbach, etc.

Personality Disorders

The final consideration of this paper is perhaps more worthy than those previously submitted namely the possibility that restoration to truhandedness and equal hemisphere function might eliminate that large group of personality disorders generally referred to as the product of an unbalanced mind. A brain balanced by truhandedness may not function like the common mind of today, obsessed by one idea, but might function in such a way that obsessions become opposed by balancing counter thoughts.

There is a new world coming, a world restored to the lost truths of balance and symmetry. What will flower from the spread of truhandedness remains to be seen. One thing is certain; the world we know is about to change.

Those who fear that restoration to truhandedness might have some ill effect on human behavior should know that surgeons and physicians compassionately train themselves in a similar art in order that they might perform dextrous feats of life saving in the operating and examination rooms that would otherwise be impossible.

Some of humanity's most cherished men and women condemned unidexterity and pleaded for equal training of both hands. Some are known, most unknown. The unknowns are about 200 valiant surgeons and physicians (1865-1974), who tirelessly strove to grasp what we now hold. Truly toward these, should our love, honor and gratitude flow, for they were the first to question that which no one else dared question: the myth of right-handedness.

The knowns are:

JESUS CHRIST

"Let not one hand know what the other is doing when giving." (A little reflection will show that every manual act involves giving something to ourselves or others.)

PLATO

"We are crippled when we are taught unidexterity." 

BENJAMIN FRANKLIN

"A Petition of the Left Hand"

I address myself to all the friends of youth, and conjure them to direct their compassionate regards to my unhappy fate, in order to remove the prejudices of which I am the victim. There are twin siters of us; and the two eyes of man do not more resemble, nor are capable of being upon better terms with each other, than my sister and myself, were it not for the partiality of our parents, who make the most injurious distinctions between
us. From my infancy, I have been led to consider my sister as a being of a more elevated rank. I was suffered to grow up without the least instruction, while nothing was spared in her education. She had masters to teach her writing, drawing, music, and other accomplishments; but if by chance I touched a pencil, a pen, or a needle, I was bitterly rebuked; and more than once I have been beaten for being awkward, and wanting a graceful manner. It is true, my sister associated me with her upon some occasions; but she always made a point of taking the lead, calling upon me only from necessity, or to figure by her side.

But conceive not, Sirs, that my complaints are instigated merely by vanity. No; my unseasonableness is occasioned by an object much more serious. It is the practice in our family, that the whole business of providing for its subsistence falls upon my sister and myself. If my indisposition should attack my sister, — and I mention it in confidence upon this occasion, that she is subject to the gout, the rheumatism, and cramp, without mention of other accidents, — what would be the fate of our poor family? Must not the regret of our parents be excessive, at having placed a perfect difference between sisters who are perfectly equal? Alas! we must perish from distress; for it would not be in my power even to scrawl a suppliant petition for relief, having been obliged to employ the hand of another in transcribing the request which I have now the honour to prefer to you.

Condescend, Sirs, to make my parents sensible of the injustice of an exclusive tenantry, and of the necessity of distributing their care and affection among all their children equally. I am, with a profound respect, your obedient servant,

THE LEFT HAND

LOPSIDED GENERATIONS
by Dr. Hollis

The question why we use our right-hand in preference to our left will occasionally force itself upon the minds of thinking men, and the answer is and always must be unsatisfactory.

The larger number of our organs are in duplicate, and even such as are single in man have frequently traces of such duplicate formation (e.g. the nose, ear, brain, and liver). In a paper of this popular kind it will be unnecessary to examine this subject in all its bearings, and it will be sufficient for us to know that our right lung, kidney, liverlobe, and limbs exceed in size those on the left side. This increased size of the right organs implies both a greater amount of tissue-structures in their composition, and also a larger supply of nerves and blood-vessels for their nutrition. It is a well-ascertained fact, that a man overtaken by a dense fog whilst waiting on a common or other open plot of ground invariably figures with his footsteps the segment of a circle. The direction he takes is to the left, if he be right-handed, and is fixed by the circumstance that the right leg naturally takes a somewhat longer stride than the left. In the ordinary course of life our eyes unconsciously guide and regulate the length of our footsteps and enable us to walk in a straight line. This increased length of the right stride is probable due to a greater amount of muscular development in the lower limb on that side, and to an increased activity in its contraction. It frequently happens among blacksmiths and others accustomed to wield heavy hammers with their right-hands, that the greater muscularity of the limb causes the shoulder on this side to be considerably higher than upon the other side, and gives such a man the appearance (when stripped of his clothes) of having a lateral curvature of the spine. The increased size of the right arm is in such a case palpably due to the greater amount of work it undertakes, and we might be disposed to
fancy without deeper investigations that dexterity, acting in accordance with the laws of natural selection, has gradually brought about the enlargement of viscera on the right side of the body, as is shown by anatomy—the reverse process is probably nearer the truth, as I shall presently show.

Dexterity appears, as far as my observations go, to be confined to the human race. The monkey tribes, the present representatives of our Simian ancestry (if such they may be), use their right and left limbs indiscriminately to grasp any object offered to them. I have tried experiments with specimens of the Rhesus monkey, the bonnet monkey (macacus radiatus), the macacus silenus and the m. eynomologus; and I have been unable to detect, as the result of several experiments in each case, any preference for the use of the right limb. The thoracic viscera of some specimens of monkeys preserved at the Museum of the Royal College of Surgeons clearly prove that the right lungs of these animals bear about the same relations to their left, as regards their volumes, as do our own. The marmot again I have observed to use its left limbs as readily as its right, and yet there is a greater difference between the proportions of its right and left lungs than there is even in man, whilst in the little musk-deer the right lung is twice the capacity of the left. On the other hand, a species of seal (Phoca vitulina), the zebra-wolf (Thylacinus cynocephalus) and Manatus australis appear to have lungs of about equal capacity on either side. The conclusion is, that the greater size of the right viscera, although possibly determining in some way the primal selection of the right-hand in man, does not necessarily conduce to dexterity as shown by the actions of monkeys and other animals.

Dexterity is palpably confined to the higher and more elaborate muscular actions of the limbs, and this is another reason why it can only be developed to any great extent in civilised man. We can grasp an object as readily with the left-hand as with the right.

Most of us have experienced the awkwardness of attempting to use a pen or hurl a ball with the left-hand. The cause of this peculiarity in man must be sought in that part of his system, wherein he manifestly excels the lower animals, and that is the brain. No other animal can so arrange and modify the various muscles in a part of its body, as to thread a needle, or to articulate a rapidly following intelligible series of words, for such sounds are produced by the careful mutual adjustment of numerous muscular actions.

The left side of the brain in mankind is larger than the right, and it is this side which through a decussation of crossing of its fibres at the upper part of the spinal marrow supplies the right side of the body with volitional powers. The investigations of pathologists, confirmed to a great extent by some recent physiological experiments, have shown that the power of articulation in the right-handed is confined to a certain convolution on the left side of the brain. We thus arrive at the curious fact, that in speaking and thinking (for we mostly think in words) we use the left side of our brain to the exclusion of the right, just as we do when we write or throw a ball. I believe that I can show how unfair to ourselves and to others is this result of dextral education.

Medical men of late years have had their attention frequently directed towards certain peculiar brain-aflfections implicating the powers of speech. A man whose intellectual powers are otherwise apparently unaffected may suddenly be attacked by a disease called 'amnesia', in which he loses his memory of words, or by 'stroke', and finds that although he remembers the words, he cannot utter them. In such cases we now know that such a man, if he be 'right-handed', suffers from a
lesion affecting the articulatory convolution of the left side of his brain before mentioned. On the other hand, however, should the patient be left-handed, a corresponding spot upon the right side of the brain is diseased.

Further, we have the statements of two eminent physiologists to the effect that stroke can be recovered from by exercising the opposite side of the brain for articulatory purposes. The gradual return of the powers of speech in such cases is frequently observed; if, therefore, we admit this explanation of their recovery, and I think that it is the only probable one, the inference is, that had these patients used both brains equally, the disease would not have occurred when it did. Closely allied to this disease is the hammerpalsy, observed, according to Mr. W. Frank Smith, to affect knife-forgers and other hammermen. It consists of more or less loss of power over the right limbs, combined occasionally with symptoms of aphasia. A pen-knife-forger frequently delivers as many as 28,800 accurate strokes with his hammer in the course of a day. "The rapidity and accuracy with which these blows rain upon the slender piece of iron is wonderful to the onlooker. Supposing he works three hundred days in a year, and to continue this for ten years, he will in that period have delivered eighty-eight million four hundred thousand strokes, and just so many discharges of nerve-force will have occurred in the motor ganglia which calculate the distance and judge of the amount of force necessary to be evolved." The palsy, which occasionally follows this excessive wear and tear of nerve-tissue in hammermen, is still more frequently seen as a result of much writing. The scrivener’s palsy or writer’s cramp, as the disease is called, consists in a gradual loss of prehensile power, and in subsequent wasting of the muscles of the right arm and hand. The clerk, who is affected by this paralysis, finds an increasing difficulty in holding the pen, until he eventually becomes quite unable to do so. In the earlier stages of the ailment to abstain from writing for a few weeks will effect a cure; not so, however, when the wasting of the paralysed muscles has commenced; the disease is then incurable as far as the right-hand is concerned. There are still hopes for the patient, however, if he learns to write with his left-hand he may continue his previous employment. We cannot doubt that had such a person from his childhood learnt to write readily with either hand, the paralytic seizure would have been postponed.

That many worthy lives have fallen a sacrifice to this Moloch of education is undoubtedly true. Such cases as these, to the exclusion of many others which might be adduced, show how active energetic brains break down by overwork, or rather, by ill-balanced work. It is perhaps too much to say, that none of these attacks would have taken place had the patients allowed each side of their brains to participate equally in their work, but speaking with some reservation, I believe it is probable that the disease would have been indefinitely postponed had their education been other than ‘lopsided’. Physicians have long since learnt to educate each eye and each ear equally to aid them in the diagnosis of disease, and as workers at the microscope or stethoscope they can testify to the relief which is given to a wearied organ by employing for a while its fellow. Why should we not thus educate our hands?

In the days of our forefathers when work was not performed at the present high-pressure speed, and the struggle for existence was proportionately less, the dextral flaw in our education was of little or no importance; now, however, the time has arrived when our posterity must utilize to the utmost every cubic line of brain-substance, and this can only be done by a system of education which will enforce an equal prominence to both sides of the brain in all intellectual operations.
Two handed Nations

Sythai (1220 B.C.)
The Scythians were a people who by law; were enjoined to exercise both hands alike, without partiality either for right or left.

"Very few of them dies in sickness. In general they lived to a good old age." (Herodotus)

"Their women are affirmed to have been so well trained to riding and shooting that they did not fall short of the men in those exercises." (Lucian)

Theft among them was rare. (Josephus)

They "were a nation fierce in war and of prodigious strength who could so control their passions that they made no use of their victories." (Justin)

What is more wonderful, those virtues which the Greeks in vain endeavored to attain by learning and philosophy were natural to them, and they reaped those advantages from their ignorance of vice, which the other could not derive from their knowledge of virtue. (Pliny)

"They were remarkable for their fidelity and friendships, which they esteemed and gloried in above all things...and when such a friendship was contracted, there was no danger or death which they would not expose themselves to for one another." (Justin)

"Upon the whole such was their strength and courage wherever they entered into an offensive or defensive war, no nation either in Europe or Asia could equal them for strength, valor, or conduct." (Thucydides)

Correction

The non-preferred hand should be trained to perform every and any task that the preferred hand can perform. The important thing here is to occupy the unused hand' arm, and fingers in meaningful counter-balancing activity.

Once truhandedness is restored the choice of what hand to use will then be a matter of which is most convenient and efficient.

Legs. Leg preference means that a person steps up and down with the same leg, starts to walk, jump, run, and kick with the same leg, that one leg takes a longer stride than the other and that the body's weight is carried on that leg more than the other.

Almost all suffer such imbalanced use of their legs. It is little wonder that the hip of the preferred leg is the first to undergo degenerative change.

Correction of imbalanced leg use begins with awareness of leg preference. Once such preference is recognized, step up and down with the non-preferred leg, start off to walk, run, jump, and kick with the non-preferred leg, take a longer stride with the non-preferred leg and a shorter stride with the preferred leg. Most important is to carry the body's weight on the non-preferred leg.

This calculated asymmetrical use of the legs should be carried on for a period of time equal to about half the time leg preference was in effect, or until that time that the weak leg's bone, muscles and nerves become symmetrical in size and function. For most of us this will take years.

Eyes and ears. Almost all right handed people are right eyed and right eared. This means that they mainly use their right ear and eye for sight and hearing.

Correction of this condition or rather strengthening of the weak dormant centers for sight and hearing in the non-dominant brain half. However an eye patch worn over the preferred eye and an ear plug in the preferred ear will force these weak organs of sense into a state of strength. The length of time these devices should be worn depends on
factors of age, which cannot be calculated at this time. Six weeks should be the minimum amount of time they are used.

Almost all right handed people swallow and speak on the right side of the throat. This condition is easy to correct.

Swallow a few small sugar balls in succession and note that one side of the throat did the swallowing. Once asymmetrical swallowing is recognized, proceed to swallow and speak on the non-preferred side of the throat. Here again the amount of time anyone should do this depends on age and how much rest the preferred side needs.

The final aim of all this asymmetry is the balanced use of these organs and members.

Exercises

Following are five exercises for restoration of truhandedness through simultaneous use of both hands on different manual activities.

The arrows indicate the directions that the hands should move.

Great care should be taken to fix and hold the sight on the "X" between the drawn figures for only then will the two objects being drawn come into simultaneous focus.

Shifting sight from one hand to the other is an error which makes truhanded writing impossible.

A transparent plastic writing board standing on an artist's tripod and colored marking pens are the suggested materials to use.

Approximate time for lesson one is one week, of lesson two, two weeks, lesson three, four weeks, lesson four, eight weeks, lesson five, sixteen weeks.

Please note that in exercise three the alphabet is drawn with one hand, while a circle alternating with a square is drawn with the other.

The natural way to write left handed is backward.
LESSON FOUR
Each letter of the alphabet with a numeral.

<table>
<thead>
<tr>
<th>X</th>
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<th>1</th>
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<tbody>
<tr>
<td>D</td>
<td>d</td>
<td>a</td>
</tr>
<tr>
<td>F</td>
<td>f</td>
<td>a</td>
</tr>
<tr>
<td>G</td>
<td>g</td>
<td>a</td>
</tr>
<tr>
<td>H</td>
<td>h</td>
<td>2</td>
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<tr>
<td>I</td>
<td>i</td>
<td>2</td>
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<td>J</td>
<td>j</td>
<td>3</td>
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<tr>
<td>K</td>
<td>k</td>
<td>3</td>
</tr>
<tr>
<td>L</td>
<td>l</td>
<td>4</td>
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</table>

LESSON FIVE
Left hand Right hand

<table>
<thead>
<tr>
<th>2x2-4</th>
<th>2x2-4</th>
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</thead>
<tbody>
<tr>
<td>2x3-6</td>
<td>2x3-6</td>
</tr>
<tr>
<td>cat</td>
<td>cat</td>
</tr>
<tr>
<td>2x4-8</td>
<td>2x4-8</td>
</tr>
<tr>
<td>cat</td>
<td>cat</td>
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</tbody>
</table>

GOOD LUCK!!!
The DayTrader

Daily Journal of Exempt Commodity Futures Trading

World Benefits of New Exchange Mechanism

Exempt Commodity Futures Trading is a newly established program whereby the principles of commercial transactions have been further refined to remove from the Exempt Commodity Futures contract market place, representatives of speculative capital interests and to replace them with entities whose inherent interest in this new and vital industry, though written and difficult to exercise, far surpasses speculative interests to appreciate capital.

These entities are: Governmental Taxing Agencies, Governmental Agricultural Ministers, Judicial and Executive branches of Government, for recommendation to Lawmakers, producers, Processors, Manufacturers, Ecologists, Conservationists and selected charitable foundations to provide human workers.

Introduction into world commerce of a valid Exempt Commodity Futures Contract - one executed by a certified broker, stored on a duly established Exempt Commodity Futures exchange and guaranteed for performance by the Exempt Commodity Futures Exchange Clearing House, should utilize present economy buoyed up on futures contracts manufactured without a valid exchange mechanism.

At the inception of a viable and sound Exempt Commodity Exchange Mechanism, one which adequately meets commercial, charitable and charitable needs, did not arise from any governmental agency but, by nature and had to be fashioned by those who need it for the normal conduct of a new and vital industry: Exempt Commodity Merchants.

Three exchanges have been established in America to exact exempt commodity futures trading. They are: the New York Exempt Commodity Futures Exchange, the United States Exempt Commodity Futures Exchange and the International Exempt Commodity Futures Exchange.

These exchanges are organized like the stock markets; exchanges are public in the sense that anyone can trade. Orders are not made the necessary arrangements with member brokerage firms. Thus, you don’t have to be in the carrot business to buy and sell carrots, or in the metals business to metals, etc.

International businessmen who produce and process exempt commodities use the exchanges primarily for hedging activity. In this area, Exempt Commodity Futures are an important and special economic needs which cannot be justly met by banks, stock exchanges and other financial institutions.

Seven other Exempt Commodity Futures Exchanges have been established to serve the financial nerve pulses of the world. London, Istanbul, Medina, New Delhi, Bankok, Peking and Moscow.

These exchanges are run like the stock exchanges. They are membership organizations. Most members are businessmen engaged in producing, marketing or processing Exempt Commodities, and brokerage firms whose principal activity is to execute orders for others. Nonmembers trade through brokerage firms, which hold membership through partnership or officers. The exchanges are supported by dues and assessments on members.

Dues payable to respective national ministers of Agriculture maintain and control the exchange systems’ direct communications media. Members accrue an indebtedness of one percent (1) of the total cost of each futures contract; one-half of which is payable to charitable foundation managers for recompense for providing the systems documentation workers. The remainder maintains the exchange mechanism. The United States’ Departments of Agriculture and Justice policies the entire Exempt Commodity Futures Industry, with authorization to institute swift process against violations and violators.

Exempt Commodities are bought and sold through the medium of Exempt Commodity Futures Contracts. These contracts are standardized. They list the exempt commodity to be traded and the date of delivery. Thus the contract for carrots on the New York Exempt Commodity Futures Exchange involves 90,000 lbs. The Exchange requires that one percent (1) of the total cost of the carrot contract be furnished by the broker before registering the trade.

The United States of America, which possesses an abundance of the most sought-after exempt commodities, will finally enjoy control over the exchange mechanism whereby its resources are tapped.

All employees of the Exempt Commodity Futures Industry are safeguarded from the onus of unjust enrichment by guaranteed salaries, with profits directed to charitable and governmental agencies equipped to employ such profits to their fullest limits.

Unemployment pools are expected to evaporate as surplus capital now drained off into unjust enrichment is redirected by the Exempt Commodity Futures industry into production, development and stability.

In lieu of laws authorizing governments to act within dynamic systems created in advance of legislation, Section 23, of Macoecof Trust, filed: April 30th, 1973, Index No. 517-D, provides: “that the United States Secretary of Agriculture may enter at will and without notice, any Exempt Commodity Futures contract market under management and control of said trust to inspect, observe and make such rules and orders is necessary, and to institute actions in the United States Court of Appeals, upon the latter’s failure to comply with its rules and orders.”

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Daily Journal
Exempt Commodity Futures Trading

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Price</th>
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<tbody>
<tr>
<td>1</td>
<td>Hot Rolled Steel Coils</td>
<td>US $180.00</td>
</tr>
<tr>
<td>2</td>
<td>Cold Rolled Steel Coils</td>
<td>Commercial quality, SAE 1008 Rockwell hardness 880 Max. Width: 36” 48” only. Gauge: #14 and/or heavier.</td>
</tr>
<tr>
<td>3</td>
<td>Galvanized Barbed Wire</td>
<td>JIS G3533 (IOWA type) G #12.1/2, 3 points 4”-6” spacing.</td>
</tr>
<tr>
<td>4</td>
<td>Galvanized Iron Wire</td>
<td>JIS G3532-SWMGI G #8-22.</td>
</tr>
<tr>
<td>5</td>
<td>Mild Steel Plate, ASTM A36</td>
<td>A283 GRADE C, 3000 Lbs. to 26,000 Lbs.</td>
</tr>
<tr>
<td>6</td>
<td>Deformed concrete Reinforcing Bar, ASTM A-615 Grade 40, 3/8”-1/2” dia. 10-40” in length.</td>
<td>US $180.00</td>
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<tr>
<td>7</td>
<td>Round concrete Reinforcing Bar, JIS G3112 Grade 40, 6mm-7mm dia. 10-40” in length.</td>
<td>US $180.00</td>
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<tr>
<td>8</td>
<td>Steel Square Bar, ASTM A36, 1/4”-1” square, 20’ length max.</td>
<td>US $200.00</td>
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<tr>
<td>9</td>
<td>Steel Plate, ASTM A36, 1/8”-5/8” in thickness, Width: 1/2”-1”. Length: 20’ max. ASTM A-36 Steel Angle Bar (Equaled), ASTM A-36</td>
<td>US $200.00</td>
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<tr>
<td>10</td>
<td>Galvanized Electric Resistance Welded steel pipe, in accordance with B.S.S. 1387/67, length: 20mt. both ends screwed, one end socketed, other protected.</td>
<td>US $305.00</td>
</tr>
<tr>
<td>11</td>
<td>Glass Light: 1/2”, 3/4”, 1”</td>
<td>US $300.00</td>
</tr>
<tr>
<td>12</td>
<td>Ditto, but Medium class</td>
<td>US $305.00</td>
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<tr>
<td>13</td>
<td>Galvanized Electric Resistance Welded steel pipe, in accordance with B.S.S. 1387/67, length: 20mt. both ends screwed, one end socketed, other protected.</td>
<td>US $285.00</td>
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Medicinal herbs

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<tr>
<th>Name</th>
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<tbody>
<tr>
<td>Acacia indica</td>
<td>US $2.00 per kg</td>
</tr>
<tr>
<td>Adhatoda vasica</td>
<td>US $2.10 per kg</td>
</tr>
<tr>
<td>Aegle marmelos</td>
<td>US $2.20 per kg</td>
</tr>
<tr>
<td>Aloe indica</td>
<td>US $2.10 per kg c&amp;f Franco</td>
</tr>
<tr>
<td>Argemone mexicana</td>
<td>US $3.70 per kg</td>
</tr>
<tr>
<td>Aristochia chinensis</td>
<td>US $4.90 per kg</td>
</tr>
<tr>
<td>Alpinia galanga</td>
<td>US $2.00 per kg</td>
</tr>
<tr>
<td>Butea fraxinifolia</td>
<td>US $2.00 per kg</td>
</tr>
<tr>
<td>Boerhavia diffusa</td>
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<tr>
<td>Bondocinia caspia</td>
<td>US $4.20 per kg</td>
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<tr>
<td>Calotropis gigantea</td>
<td>US $4.20 per kg</td>
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<tr>
<td>Cassia fistula</td>
<td>US $2.90 per kg</td>
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<tr>
<td>Castor seeds</td>
<td>US $2.90 per kg</td>
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<tr>
<td>Catha communis</td>
<td>US $2.90 per kg</td>
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<tr>
<td>Cephalbia indica</td>
<td>US $2.90 per kg</td>
</tr>
<tr>
<td>Citrus x leonii</td>
<td>US $2.00 per kg</td>
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<tr>
<td>Datura stramonium</td>
<td>US $2.00 per kg</td>
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**Note:** The above prices are as of the last update, and may vary based on market conditions. For the latest information, please refer to the nearest market exchange.
DAILY EXEMPT COMMODITY SPOT & FUTURE PRICES.

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<th>LAST BID</th>
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<td>4.60</td>
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<tr>
<td>Re-bar, No. 5's</td>
<td>34.20</td>
<td>35.20</td>
<td>36.50</td>
<td>36.00</td>
<td>12 Contracts</td>
</tr>
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Tuesday - 10 to 2:00 EDT.
Domestic U.S. Cement, Min. 25 Tons.
Cement Spot: 50.50
Cement Future (190 days): 50.75

WORTHINGTON & MOORE,
GOLDTHWAITE & BARCLAY,

MEMBERS:

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<table>
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<td>New York Leaf</td>
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signed; x ................................
John Luomala; Bx 658 nyc 10013

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USDC SDNY

SWORN TO BEFORE AT OCT. 18, 2001
TO THE GOLD COMMISSION  
November 12, 1981  
Paul W. Nordt, Jr.  
32 Maple Drive  
North Caldwell, New Jersey 07006

The American system of government has been based on a philosophy expressed over the years as one containing "checks and balances". Most of us learned this term back in high school civics classes, or what we in NJ called "problems of American democracy". I wonder today, however, whether enough of us truly learned what the framers of our Constitution believed about the nature of mankind, making imperative the need for the safeguards built into our U.S. Government, referred to as the "checks & balances".

In the days of Madison, Hamilton and John Jay there was an acute awareness of the frailties (the weaknesses) of all humankind, characteristics within all of us which, if left unchecked, could allow the powers of government to destroy the freedom sought after by all who left their homelands to come to America. If we are honest with ourselves, we must acknowledge at least two basic human traits that must be held in tight rein, lest competent and moral government go down the drain.

To put it bluntly, all of us are capable of avarice. Surely, it takes very little historical research to uncover glaring examples of government suffering because of persons in power who were allowed to exercise these unfortunate traits that are in all of us.

One function of government, tho, has been allowed to run free of the checks and balances operating elsewhere. Since the 1930's most Americans have virtually no way of keeping a checkrein on the dollar, and since 1971 the whole world has been victimized by unchecked tampering with our unit of currency. For over ten years now the dollar has been an utter fiction, utterly devoid of any tangible or specific definition! What is today's dollar? Sadly, it is nothing more than a meaningless name on a piece of paper!

If a holder of a dollar, a paper dollar, believes the issuing government has corrupted its value, he has no recourse to demand of that government something tangible, pledged by the government, to assure its value.

(over)
If one were to take his dolorous dying dollar to the Treasury and declare one's loss of confidence in its value, demanding something of intrinsic value in exchange for this piece of printed paper, all you'd get, possibly, would be another newer piece of the same kind of printed paper. You could search the printing on the piece of paper, looking for a pledge of some kind by the government as to its value, and you'd find not a word, saying only that it's legal for payment of debts. Is it not small wonder you can buy anything with it?!

That's a good question. If the dollar has no backing, no pledge of value by the U.S.A., maybe it really is worth even less than the value of the paper it's printed on. Americans are proud of their nation's past and still remember the expression: "Sound as a dollar". This past glory for "the buck" lingers on, thanks to our naive loyalty to a monetary "check and balance" no longer existing. There was a time, earlier than most of our memories, when an American, or anybody, could take his paper dollar to the U.S. Treasury and exchange it for about 1 2/3 gms of .9 fine gold, but here in 1981 our dollars are so poorly regarded that you'd hesitate to accept twenty paper dollars for that same chip of gold, which would be like a dime, only 1/3 as thick.

My whole purpose is to stress how horrible is our money plight, trying to rescue our economy with fictitious, undefined paper dollars. We should know, by even the most casual study of our country's history, you cannot entrust, unchecked, even the best of us, (even Paul Volcker) with the management of our money unless the rest of us have the power, via redeemability in specie, to demand some form of tangible convertibility!

The true issue before the Gold Commission is not "gold vs. no gold", it is the more crucial issue: Can we ever hope to stop inflation with undefined and fictitious dollars? All of history points to the answer: A flat "No!". Whether the dollar is defined in terms of bushels of wheat, packs of cigarettes, bales of cotton or cinder blocks, anything is better than nothing!

I implore you, do not let a blind anti-gold prejudice prevent you from seeing the urgently crucial nature of our plight. Your only valid choice: Define the dollar in terms of gold or some superior tangible substance. To leave our dollars as an undefined fiction is to ignore an essential, basic to a free government.
Summary of the Paper

A. What Economists Know

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

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

B. What Is Honest Money?

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

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

C. Civil liberties and the Gold Standard

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

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

D. Guarding the Guardians

1. Specialists can speculate against the Treasury's promises

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

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

B. Freedom does not threaten the free society
THE MORAL ISSUE OF "HONEST MONEY"

Gary North

Because of the nature of the economics profession -- "guild" might be a better word -- it is necessary to put quotation marks around the words, "honest money." Economists will go to almost any lengths to avoid the use of moral terms when they discuss economic issues. This has been true since the seventeenth century, when early mercantilistic pamphlet writers tried to avoid religious controversy by creating the illusion of moral and religious neutrality in their writings. This, they falsely imagined, would lead to universal agreement, or at least more readily debatable disagreements, since "scientific" arguments are open to rational investigation. The history of both modern science and modern economics since the seventeenth century has demonstrated how thoroughly unreconcilable the scientists are, morality or no morality.

Nevertheless, traditions die hard. Economists are not supposed to inject questions of morality into their analyses. Economics is still supposedly a "positive" science, one concerned strictly with questions of "if . . . then." If the government does A, then B is likely to result. If the government wants to achieve D, then it should adopt policy E. The economist is completely neutral, of course. He is just an observer who deals with means of achieving ends. The economist can therefore deal with "complete neutrality," with this sort of problem: "If the Nazis wish to exterminate 50,000 people, which are the most cost-effective means?" No morality, you understand, just simple economic analysis.

The problem with the theory of neutral economics is that people are not neutral, effects of government policies are not neutral, social systems are not neutral, legal systems are not neutral, and when pressed, even economists are not neutral. Because societies are not neutral, the costs of violating a society's first princi-

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ples have to be taken into account. But no economist can do any more than guess about such costs. There is no known way to assess the true costs to society of having its political leaders defy fundamental moral principles and adopt any given policy. And if the economists guess wrong -- not an unlikely prospect, given the hypothetical moral vacuum in which economists officially operate -- then the whole society will pay. (This assumes, of course, that policy-makers listen to economists.)

The inability of economists to make accurate cost-benefit analyses of any and all policy matters is a kind of skeleton in the profession's closet. The problem was debated back in the late 1930's, and a few economists still admit that it is a real theoretical problem, but very few think about it. The fact of the matter is simple: there is no measuring device for balancing total individual utility vs. total disutility for society as a whole. You cannot, as a scientist, make interpersonal comparisons of subjective utility. The better economists know this, but they prefer not to think about it. They want to give advice, but as scientists they cannot say what policy is better for society as a whole.¹

This is why politicians and policy-makers have to rely on intuition, just as the economists do. There is no scientific standard to tell them whether or not a particular policy should be imposed. Without a concept of morality -- that some policy is morally superior to another -- the economists' "if . . . then" game will not answer the questions that need to be answered. Without moral guidelines, there is little hope of guessing correctly concerning the true costs and benefits to society as a whole of any policy. The economist, as a scientist, is in no better position to make such estimations than anyone else. If anything, he is in a worse position, since his academic training has conditioned him to avoid mixing moral issues and economic analysis. He is not used to dealing with such questions.
What Is Honest Money?

Honest money is a social institution that arises from honest dealings among acting individuals. Money is probably best defined as the most marketable commodity. I accept a dollar in exchange for goods or services that I supply only because I have reason to suspect that someone else will do the same for me later on. If I begin to suspect that others will refuse to take my dollar in exchange for their goods and services in the future, I will be less willing to take that dollar today. I may ask the buyer to pay me a dollar and a quarter, just to compensate me for my risk in holding that dollar over time.

A currency unit functions as money -- a medium of voluntary exchange -- only because people expect it to do so in the future. One reason why they expect a particular currency unit to be acceptable in the future is that it has been acceptable in the past. A monetary unit has to have historic value in most instances, if it is to function as money. Occasionally, meaning very rarely, a government can impose a new currency unit on its citizens, and sometimes this works. One good example is the introduction of the new German mark in November of 1923, which was exchanged for the old mark at a trillion to one. But normally the costs are so high in having people rethink and relearn a new currency unit that governments avoid such an imposition.

The question policy-makers must ask themselves is this: To avoid the necessity of imposing a totally new currency unit on a population, what can be done to convince people that the future usefulness of the currency in voluntary exchange will remain high? What can be done to improve the historic value of money in the future? In other words, when people in a year or a decade look back at the performance of their nation's currency unit, will they say to themselves: "This dollar that I'm holding today buys pretty much what it bought back then. I think it's safe for me to continue to accept dollars in exchange for my goods and services, since people trust its buying power. I have no reason to believe that its purchasing power will fall
in the future, so I can take the risk of accepting payment in dollars today." If people do not say this to themselves, then the dollar's purchasing power is undermined. People will demand more dollars in payment, meaning prices will go up, if they suspect that prices will go up. This, in turn, convinces more people that the historic value of their money has been unreliable, which then leads to higher prices.

The economist will tell you that prices cannot continue to go up unless the government, working with the central bank, accommodates price inflation by expanding the currency base. The economist is correct in the long run, whatever the long run is these days, or will be in a few years. But governments have a pernicious tendency to accommodate price inflation. Dr. Arthur Burns was forthright about this back in 1976:

These days the Federal Reserve is now and then described as pursuing a restrictive monetary policy. The Federal Reserve is described as being engaged in a struggle against inflation. The Federal Reserve is even charged with being more concerned about inflation than about unemployment, which is entirely false. It is by generating inflation, or permitting inflation, that we get unemployment on a massive scale eventually. But let us in the Federal Reserve ask this question: Are we accommodating inflation at the present time or not? The answer -- the only honest, professional answer -- is that, to a large degree, we are accommodating the inflation; in other words, are making it possible for inflation to continue.

So we get a kind of self-fulfilling prophecy. The government expands the money supply in order to finance its deficits, or create a temporary economic boom, or whatever, and the prices for goods and services rise. Everyone in the "great American auction" has more dollars to use in the bidding process, so prices rise. Then the public gets suspicious about the future value of money, because they have seen the loss of purchasing power in the past. They demand higher prices. Then the Federal Reserve system is encouraged by politicians to accommodate the price inflation, in order to keep the boom going (to keep the "auction" lively). The dollar loses its present value,
because it has lost its historic value, which encourages people to discount sharply its future value.

The secret of retaining the public's confidence in any currency unit is simple enough: convince users of the money that the issuers are responsible, reliable, and trustworthy. Government and its licensed agents have a monopoly of money creation. Private competitors are called counterfeiters. Sadly, in our day, it is very difficult to understand just what it is that counterfeiters do, economically speaking, that governments are not already doing. Fiat money is fiat money. (Perhaps the real legal issue ought to be the illegal use of the government's copyrighted material. Copyright infringement makes a much more logical case for Federal prosecution than counterfeiting.)

There is an ancient question that every society must answer: "Who guards the guardians?" Or in more contemporary usage, "Who referees the referees?" The public needs an impersonal guardian to restrain the actions of those who hold a legal monopoly of money creation: the government, the central bank, and the commercial banks. The public can guard the guardians if citizens have the right to go down to the local bank and receive payment in gold, silver, or some other money metal. The issuers of money need only stamp on the paper money (or check, or deposit book entry) that the holder of the currency unit has a legal right to redeem his warehouse receipt for a stated weight and fineness of a specific metal. Whenever the issuing agencies begin to issue more receipts than they have reserves of metal, the public has the option of "calling the bluff" of the issuers, and demanding payment, as promised by law. It is this restraint -- implicit economically, but explicit legally -- which serves as the impersonal guardian of the public trust.

The government can always change the law. Governments do this all the time. Whenever there is a major war, for example, governments suspend specie payments. They also suspend civil liberties, and for the same reason: to increase the power of the state at the expense of the citizens. Governments in peacetime are frequently
unwilling to re-establish pre-war taxes, pre-war civil liberties, and pre-war convertibility of currencies, even after the war is over. Civil libertarians have not generally understood the case for a gold standard as a case for civil liberties, despite the obvious historical correlation between wartime suspension of civil liberties and wartime suspension of specie payments.

When the authorities declare the convertibility of paper into specie metals "null and void," it sends the public a message. "Attention! This is your government speaking. We are no longer willing to subject ourselves to your continual interference in our governmental affairs. We no longer can tolerate illegitimate restrictions on our efforts to guard the public welfare, especially from the public. Therefore, we are suspending the following civil right: the public's legal right to call our bluff when we guarantee free convertibility of our currency. This should not be interpreted as an immoral act on the part of the government. Contracts are not moral issues. They are strictly pragmatic. However, we assure you, from the bottom of our collective heart, that we shall never expand the money supply, or allow the historic value of the currency to depreciate. It will be just as if we had a gold standard restraint on our printing presses. However, such restraints are unnecessary, and besides, they are altogether too restraining."

Critics of the gold standard (and this includes virtually all Ph.D-holding, card-carrying economists) tell us that the value of any currency is dependent on public confidence, not gold. But what the critics refuse to admit is that the existence of the civil liberty of redeemable money is an important psychological support of the public's confidence in money. Even when the public does not understand the gold standard's theoretical justification -- an impersonal guard of the monopolistic guardians -- citizens can exercise their judgment on a daily basis by either demanding payment in gold (or silver, or whatever) or not demanding payment. Like the free market itself, it works whether or not the bulk of the participants understand the theory. What they do understand is self-interest: if there is a
profit to be made from buying gold at the official rate, and selling it into the free market (including foreign markets) at a higher price, then some people will enter the markets as middlemen, "buying low and selling high," until the government realizes that its bluff has been called, and it therefore is forced to reduce the expansion of the money supply.

What is the morality of a gold standard? Simple: it is the morality of a legal contract. A government's word is its bond. A government promises to restrain itself in the creation of money, in order to assure citizens that the monopoly of money-creation will not be abused by those holding the monopoly grant of power. The gold standard is very much like a constitution: an impersonal, reliable institution which has as its premier function the counterbalancing of potentially damaging monopolistic power.

"Flexible" Money

Flexible money is a euphemism for the government's ability to increase (but, historically speaking, rarely to decrease) the money supply. The degree of flexibility is determined by the political process, not by the direct response of those affected, namely, individual citizens who would otherwise have the right to demand payment in gold. Flexible money means monetary inflation. Very flexible money means a whole lot of monetary inflation. Monetary inflation means, within 24 months, price inflation.

Civil libertarians instantly recognize the danger of "flexible administrative law," or "flexible censorship," or "flexible enforcement of speed traps." Yet they have great difficulty in recognizing precisely the same kind of evil in "flexible monetary policy." The threat comes from the same institution, the civil government. It comes for the same reasons: the desire of the government to increase its arbitrary exercise of monopolistic power over the citizenry, and to limit public resistance.

The inflationary implications of "flexible monetary policy" can be seen in a revealing exchange between Arthur Burns and Henry Reuss:
DR. BURNS: Let me say this, if I may: the genius of monetary policy — its great virtue — is that it is flexible. With respect to the growth ranges that we project for the coming year, as I have tried to advise this committee from time to time -- and as I keep reminding others, including members of my own Federal Reserve family -- our goal at the Federal Reserve is not to make a particular projection come true: our goal is to adjust what we do with a view to achieving a good performance of the economy. If at some future time I should come to this committee and report a wide discrepancy between our projection and what actually happened in the sphere of money and credit, I would not be embarrassed in the slightest. On the contrary, I would feel that the Federal Reserve had done well and I would even anticipate a possible word of praise from this generous committee.

CHAIRMAN REUSS: You would get it, and the word of praise would be even louder and more deeply felt if you came up and said that due to the change in circumstances you were proving once again that you were not locked on automatic pilot and were willing to become more expansive if the circumstances warranted. Either way you would get praise beyond belief.

Praise beyond belief! Who wants anything less? Just take the monetary system off "automatic pilot," and turn it over to those whose short-run political goals favor a return of the inflation-generated economic boom, once the boom has worn off because the printing presses are not accelerating the output of fiat money -- fiat money being defined as former warehouse receipts for metal, in which even the pretense of a warehouse has been abandoned. Gold is a tough-minded automatic pilot.

Politically, there is a great deal of flexibility in monetary affairs. Few people even pretend to understand monetary affairs, and most of those who do really do not understand the logic of the gold standard. The logic is very simple, very clear, and universally despised:

It is cheaper to print money than it is to dig gold.

Fiat money is indeed more flexible than gold, especially in an upward direction. Fiat money allows the government to spend newly manufactured money into circulation.
It allows those who gain early access to the newly created fiat money to go out and buy up scarce economic resources at yesterday's prices -- prices based on supply and demand conditions that were being bid in terms of yesterday's money supply. But this leads to some important problems:

1. Yesterday's prices will climb upward to adjust for today's money supply.
2. People will begin to have doubts about the stability of tomorrow's prices.
3. Producers and sellers of resources may begin to discount the future purchasing power of today's dollar (that is, hike today's prices in anticipation).
4. The government or central bank will be severely tempted to "accommodate" rising prices by expanding the money supply.
5. And the beat goes on.

Paying for the Guards

It is quite true, as Milton Friedman has stated so graphically, that the gold standard is expensive. We dig gold out of the ground in one location, only to bury it in the ground in another location. We cannot do this for free. Wouldn't it be more efficient, meaning less wasteful of scarce economic resources, Dr. Friedman asks, just to forget about digging up gold? Why not keep the government or the central bank from expanding the money supply? Then the same ends could be accomplished so much less wastefully. Save resources: trust politicians.

This is a very strange argument, coming as it does from a man who understands the efficiency of market processes, as compared to political and bureaucratic processes. The gold standard is the way that individual citizens acting to increase their own personal advantage, can profit from any monetary inflation on the part of the monetary authorities. They can "buy low and sell high" simply by going down and exchanging paper money at the undervalued, official exchange rate, and hoarding it in expectation of a higher price, or selling it into the free market at a higher price. Why is the price higher? Because individuals expect the government to
go back on its promise, raise the official price of gold (that is, devalue the currency unit), or close the gold window altogether. Citizens can become future-predicting, risk-bearing, uncertainty-bearing speculators in a very restricted market, namely, the market for government promises. It allows those who are skeptical about the trustworthiness of government promises to take a profit-seeking position in the market. It allows those who trust the government to deposit money at 6% or 10% or whatever. Each side can speculate concerning the trustworthiness of government promises concerning redeemability of the currency, or more to the point, government promises concerning the future stability of the currency unit's purchasing power.

Defenders of the commodity futures markets -- and this includes Dr. Friedman -- argue that the existence of a market for future delivery and future payment of commodities smooths out market prices, since it opens the market to those who are willing to bear the uncertainties of predicting the future. Those who are successful predictors increase their profits, and therefore increase their strength in establishing market prices according to the true future conditions of supply and demand. Those who are less successful soon are forced out of the futures markets, thereby passing along capital to those who are more successful predictors. The public is served well by such markets, for obvious reasons. Prices adjust to future consumer demand more rapidly, since accurate future-predictors are being rewarded in these markets.

Then why not a market for future government promises? Why not a market which can test the government's willingness to deliver a stated quantity and fineness of gold or silver (but preferably gold, given international exchange)? The monopolists who control the money supply then are faced with a market which offers rewards to those who are willing and able to "call the monopolists' bluff" and demand gold for the government's warehouse receipts.

Why not just rely on the standard commodity contracts for gold in the commodity futures markets? Won't skeptics be able to take their profits this way? Why bring in
the "spurious" issue of a convertible currency? The answer is simple enough: once
society has given a monopoly to the government to create money, then the full redeem-
ability of the currency unit is a direct, immediately felt restriction on government
power. Of course the free market in commodities allows speculators to take advantage
of monetary inflation, if their timing is correct. But this does not mean that the
public at large will exercise effective action to force a political change in present
monetary policy. There is no immediate self-interest involved in expending resources
in what could prove to be a fruitless, expensive campaign to stop the inflation. After
all, very few citizens are so wrapped up in a cause that they will do what I am doing
now, namely, sit down and take time to submit a position paper to a gold standard
committee that is staffed with members who generally are opposed to a gold standard.
Average citizens have better things to do with their time. But with full redeemability,
the average citizen can help to restrain the inflationary tendencies of government
by being allowed to "take a contract" on the other side of the bureaucrats and the
politicians. The average citizen can speculate against the big spenders who want
more goodies from government, but lower taxes (at least on themselves). The average
citizen "shorts" the government's promise (implicit or explicit) not to debase the
currency unit, while the Treasury Department is forced, by law, to "go long" against
any and all citizens who decide to go short.

In the commodities market, one investor wins, and one investor loses (unless
the price stays the same, in which case only the broker wins). By establishing the
gold standard -- full redeemability of gold on public demand -- the government forces
the Treasury to risk becoming an immediate, measurable loser. It forces the Treasury's
officials to come back to the politicians and announce, "Folks, we have lost the bet.
The public has called our bluff. They have drained us of our gold. We can't go on
much longer. We have to stop the inflation. We have to convince the public to start
trusting the currency, meaning that they should start trusting our competence in
securing them a currency with a future. We have to balance the budget. Stop inflating!"
An open commodities market in gold is desirable, of course. But it is no substitute for a gold standard, if the state has a monopoly of money creation (along with its licensed subcontractors, the banks). Unless there is full redeemability, the Treasury is not forced by law to "go long" on its promises whenever anyone else wants to "go short." The Treasury, meaning the government, can keep on shorting its own promises, despite the response of organized commodities markets, until an expensive and successful political campaign can be launched to stabilize the money supply. As free market analysis tells us, these campaigns are expensive to launch because of such factors as information costs, costs of organizing pressure groups, and the lack of an immediate, short-run pay-off to "investors" who contribute money to such a program. Full redeemability allows market forces to work. Self-interested forecastors can speculate in the government promises market. The public never has to be told to vote, or send letters of protest, or do anything. The self-interested speculators -- a small but well-capitalized elite -- will do the "policing" job for the citizens free of charge. (Well, almost: there are transaction costs.)

So when we are told that it is inefficient to dig gold out of the ground, only to deposit it in a vault, we are not being told the whole story. By tying the currency unit to that gold -- which is wonderfully expensive to mine, as any monetary brake should be and must be -- the body politic enlists a cadre of professional, self-interested speculators to serve as an unpaid police force. This police force polices the trustworthiness of government monetary promises. The public can relax, knowing that a hard core of greedy capitalists is at work for the public interest, monitoring Federal budgets, Federal Reserve policies, and similarly arcane topics. By forcing the Treasury to "go long" in its own promises market, the guardians are guarded by the best guards of all: future-predicting, self-interested speculators whose job it is to embarrass those who do not honor contracts -- their own contracts.
Conclusions

I suppose I could invest more time in presenting graphs, or faking some impressive-looking equations, or citing innumerable forgotten defenders of the gold standard. But I think I have reached the point of diminishing returns. The logic of the gold standard is really fairly simple: Treasury monopolists, like all other monopolists, cannot be trusted to honor their promises. Better put, they cannot be trusted at zero cost. The gold standard is one relatively inexpensive way to impose high costs on government monetary officials who do not honor their implicit contracts with the body politic to monitor and deliver a reliable currency unit that will have future value -- a trustworthy money system. There are moral issues involved: honoring contracts, preserving social stability, providing a trustworthy government. There are civil liberties issues involved: protecting citizens from unwarranted taxation through monetary inflation, protecting citizens from arbitrary (read: "flexible") monetary policies, and restricting the expansion of government power. There are economic issues involved: designing an institutional mechanism that will bring self-interest to bear on political-economic policies, stabilizing purchasing power, increasing the spread of information in the community, increasing the political risks of money monopolists. No doubt, I could go on, but these arguments seem sufficient.

The real question is more fundamental: Do we trust governments or the high costs of mining precious metals? William McChesney Martin, Dr. Burns' predecessor as Chairman of the Federal Reserve Board, gave us the options back in 1968, in the midst of an international monetary crisis:

It's governments that you have to rely on. Basically, you can't rely on a metal for solvency.7

Those of us who cannot bring ourselves to trust the government with the monopoly over the control of money prefer to trust a metal. It may not be the best thing to trust, but it is certainly more reliable that governments.
The case for a gold standard is the case against arbitrary civil government. While politicians may well resent "automatic pilots" in the sphere of monetary policy, if we had a more automatic pilot, we would have less intensive "boom-bust" cycles. When the "automatic pilot" is subject to tinkering by politicians or Federal Reserve officials, then it is not automatic any longer.

The appeal of specie metals is not the lure of magical talismans, as some critics of gold seem to imply. Gold is not a barbarous relic. Gold is a metal which, over millennia, has become acceptable as a means of payment in a highly complex institutional arrangement: the monetary system. Gold is part of civilization's most important economic institution, the division-of-labor-based monetary system. Without this division of labor, which monetary calculation has made possible, most of the world's population would be dead within a year, and probably within a few weeks. The alternative to the free market social order is government tyranny, some military-based centralized allocation system. Any attempt by the state to alter men's voluntary decisions in the area of exchange, including their choice of exchange units, represents the true relic of barbarism, namely, the use of force to determine the outcome of men's decisions.

The gold standard offers men an alternative to the fiat money systems that have transferred massive monopolistic power to the civil government. The gold standard is not to be understood as a restraint on men's freedom, but just the opposite: a means of restraining that great enemy of freedom, the arbitrary state. A gold standard restores an element of impersonal predictability to voluntary exchange -- impersonal in the limited sense of not being subject to the whims of any individual or group. This predictability helps to reduce the uncertainties of life, and therefore helps to reduce the costs of human action. It is not a zero-cost institution, but it has proven itself as an important means of reducing arbitrary government. It is an "automatic pilot" which the high-flying, loud-crashing political daredevils resent. That, it seems to me, is a vote in its favor.
When I began to prepare this paper, I had two possible audiences: economists, or people with some authority. I decided to write for the latter group. For the benefit of non-economists who may wish to discuss some of these points with the economists, you need to know the following. An economist, in the final analysis, is a person who knows six words, divided into two three-word phrases. Virtually everything in economics is the outworking of these two phrases. The first phrase is a question. The second phrase is the answer to the question. The phrases are:

**Question:** "At what price?"

**Answer:** "Supply and demand."

This is the alpha and the omega, the law and the profits, in economics. Any economist, if he is a serious economist, looks at a supposed economic problem, and asks, "At what price?" Is there a "glut"? At what price? Is there a "shortage"? At what price? And when asked how to set the appropriate price, he responds: "Supply and demand."

I would contend that most of the success of the so-called Chicago School of economics, which includes Dr. Friedman, is based on the ingenuity of the Chicago School economists in discovering creative, or at least clever, ways of asking the question about pricing (meaning costs), and answering their question by an appeal to supply and demand. Furthermore, most of the failures of modern political economy can be traced to an unwillingness on the part of politicians to ask themselves, "At what price (cost)?" and finding the solution by an investigation of supply and demand.

Therefore, it is imperative that those of us who advocate a return to a gold standard specify just what kind of gold standard we are talking about. We have to ask ourselves the critical question: "At what price should we re-establish full convertibility?" Second, we should look for our answer in terms of supply and demand.
The Price of Gold

Can you have a true gold standard without a fixed price of gold, which the Treasury would guarantee to honor in buying or selling gold? Can we achieve some degree of monetary stability -- pressure on the Treasury to reduce monetary inflation -- apart from a fixed price set by law? Apart from re-establishing a 100% gold reserve standard, where a paper dollar (warehouse receipt) is completely backed by a stated quantity of gold, and where no fractional reserve banking is permitted, can we achieve a purely definitional price for gold, meaning so many paper dollars are by law defined as an ounce of gold? Can we reasonably expect to be able to reimpose a 100% gold-backed currency system overnight? Can anyone even say what such a system would resemble, or what the social costs would be to achieve such an unknown state? Yet apart from a 100% gold-backed dollar, without fractional reserve banking, have we adopted a truly reliable, predictable, enforceable gold standard? These are real problems.

There are problems of allocating the "windfall profits" to the Federal Reserve System. With gold's official price hiked to, say, $422 per ounce (close to what it is on the free market as I write this paper), from $42.22, there would be a ten-fold increase in the value of the Federal Reserve's holdings of gold. Would this become part of the monetary base? With 264 million ounces, we are talking about a net increase in value of about a hundred billion dollars ($422 times 264 million, minus $42.22 times 264 million). One plausible suggestion: place the additional $100 billion into a "sterile" account unconnected to the monetary base. Then, as the public buys gold for currency, use the income to retire the Federal debt.

If monetary conditions change as a result of the re-establishment of a fixed price for gold, will the fixed price prove supportable over decades? Will deflation and bank runs make the price too high, encouraging the public to sell gold for cash? Will the Treasury have to increase the supply of dollars in order to buy the gold, and will it again become the owner of the bulk of the world's gold reserves? Is it wise to concentrate this kind of monetary asset in the Treasury?
Economists feel safer when they leave pricing to the market. "At what price?" Answer: supply and demand will tell us. I am proposing a three-stage revision of the law, which would not deliberately disrupt present monetary aggregates, or threaten the banking system with monetary deflation. Yet it would remove the most important threat to civil liberties, namely, the government's monopoly over the money supply. My program would allow market responses to the demand for money, but without counterfeiting. The program:

1. Repeal the legal tender laws for all future contracts.
2. Allow the private minting of "gold dollars" and "silver dollars."
3. Establish full gold coin redeemability at market prices.

Legal Tender

Forcing the public to take paper money, either from public debtors or private debtors, is an infringement on the right of contract. Also, it passes enormous power to the government, which then has the legal right to inflate the money supply and require all creditors to accept the debased currency from debtors. The government can define the monetary unit which it requires for the payment of taxes, or which it uses in making purchases, but to allow the state to impose its currency on all sellers and creditors is an invitation to monetary debasement and the misuse of power. The great increase in Federal power that took place during the American Civil War was reinforced by the suspension of specie (gold) payments in late 1861, and the establishment of legal tender laws in February of 1862.8

By permitting citizens to make voluntary agreements regarding the means of payment, the abolition of legal tender would increase human freedom. Men could still contract in fiat dollars (and probably will, unless mass inflation or price controls lie ahead). Nevertheless, they are given the legal option of escaping fiat dollars, should they choose not to truth the promises and assurances of politicians concerning the future purchasing power of the dollar.
The abolition of legal tender removes a bludgeon carried by the government. Men are free to escape the depreciating currency unit. This threat serves as a warning to government officials not to inflate the currency. Freedom is a means of limiting the expansion of government. It does not force anyone to accept payment in a currency not to his liking.

Past contracts can be honored. Contracts established while legal tender laws were in force can be tied to the dollar. But contracts written after a specific date need not be written in terms of dollars, nor may debtors require creditors or sellers to accept fiat dollars. They can only try to convince them.

**Trademark**

The word "dollar" is the government's trademarked property. The government should now proceed to allow private mints to issue "gold dollars" or "silver dollars," if they meet the law's specifications of weight and fineness. Perhaps it is time to redefine a "gold dollar" as one troy ounce of gold, .999 fine. A "silver dollar" might be redefined as one troy ounce of silver, .999 fine. Any company wishing to issue "gold dollars" or "silver dollars" should be allowed to do so. Companies that issue them should be required to register with the Treasury Department, in order to make it easy for citizens or other interested parties to trace the source of a particular coin (the counterfeiting problem), but no license should be required, only registration.

No legal exchange ratio should be established, either between "gold dollars" and "silver dollars" (the ancient problem of bimetallism and Gresham's Law), or between the government's fiat dollar and the metal dollars. Parallel standards, with the exchange rates (prices) set by the free market, should prevail. This keeps "bad money" -- money artificially overvalued by law -- from driving "good money" -- money artificially undervalued by law -- out of circulation.

Another feature of the private minting of coins is the requirement that all
warehouse receipts for the "gold dollars" and "silver dollars" be 100% backed by the
specified quantity of coins. There must be no fractional reserving of specie-coin
substitutes. If counterfeiting is illegal, then the issuing of unbacked specie money
substitutes should also be illegal. This makes it illegal to expand the coin-based
money supply, except by mining and minting processes, which are expensive. The goal
here is to stabilize the private money supply, that is, the monetary systems that may
grow up parallel to the prevailing, fiat-dollar-based monetary system.

Private individuals can use or ignore the specie-dollar standards, as they see
fit. But the existence of legal alternatives to the government's fiat money system
can serve as another limitation on the unwarranted, inflation-financed expansion of
Federal sovereignty over the citizens. If the benefits, in the minds of the partici­
pants, outweigh the costs of creating an alternative money system, then men are free
to choose different standards. The government will no longer use compulsion to make
men use its fiat money system.

**Redeemability**

The U. S. Treasury Department will stand ready, by law, to buy gold U. S. gold
coins at, say, two percent below the prevailing cash ("spot") price of gold, and to
sell U. S. gold coins at two percent above the spot price. The coins will be in
ounces or fractions thereof: one ounce, half-ounce, quarter-ounce, and tenth-ounce,
.999 fine, plus an alloy for resistance to scratching. A full gold-coin standard
is established, so that the average citizen can participate in the market. Bullion
can be made available upon demand, but those desiring coins must be accommodated.
A somewhat higher price for small transactions can be imposed, but not exceeding
prevailing market commission rates. The Treasury will make these coins available to
commercial banks, Federal Reserve banks, and private mints or coin dealers.

This avoids the problem of the fixed price of gold, and the inevitable temptation
by government officials to change the price from time to time. This allows the public
to buy back the gold that was confiscated from an earlier generation of Americans. The public can transfer the gold back into private hands. If the government begins to run out of gold, and the expansion of money is not halted, then at least the public has the option of shifting to an alternative exchange system, one based on gold coins. The legal sanction is made clear by the existence of U.S. gold coins. There will be no question of the right of citizens to "vote with their pocketbooks" against the prevailing monetary policies of the state. Of course, other citizens also have the right of voting for the state, by selling their gold coins back to the state (or to a coin broker) and depositing the money in interest-bearing accounts. The option is the public's, not the state's.

Market-priced redeemability still puts pressure on the Treasury to advise the government and the Federal Reserve Board to adopt policies of monetary restraint. In a serious inflation, the public will withdraw the gold, and the Treasury will be hard-pressed to buy it back. The government will find it difficult to convince sellers to sell their coins, if sellers know that the government is simply printing up the money to make the purchases. Full redeemability may not become a serious threat to the government's monetary policies except in a crisis, but the possibility of the public's responding to a monetary crisis by demanding the Treasury's gold is an incentive for the government to adopt different monetary policies before the crisis hits. And this, after all, is what the gold standard is all about.

Conclusion

These three steps would not necessarily disrupt the prevailing monetary system. It is not clear just how the public would respond. The point is, the individual citizen should be given the right to decide what currency he wishes to use, so long as he is protected from fraud (in the case of 100% reserve requirements for specie-metal substitutes). Let the average citizen decide which monetary system to trust. Freedom of choice should not be regarded as a threat to the free market economy.
1. For those who are curious about this great debate over the impossibility of making interpersonal comparisons of subjective utility, see the exchange that took place between Sir Roy Harrod and Lionel Robbins: Roy F. Harrod, "Scope and Methods of Economics," The Economic Journal (Sept., 1938) and Lionel Robbins, "Interpersonal Comparisons of Utility: A Comment," The Economic Journal (Dec., 1938). For some "new left" conclusions concerning the results of this debate, see Mark A. Lutz and Kenneth Lux, The Challenge of Humanistic Economics (Menlo Park, Calif.: Benjamin/Cummings, 1979), pp. 83-89. For my own observations on its implications, see Gary North, The Dominion Covenant: Genesis (Tyler, Texas: Institute for Christian Economics, 1982), ch. 4.


5. Writes Prof. Friedman: "My conclusion is that an automatic commodity standard is neither a feasible nor a desirable solution to the problem of establishing monetary arrangements for a free society. It is not desirable because it would involve a large cost in the form of resources used to produce the monetary commodity." Capitalism and Freedom (Chicago: University of Chicago Press, 1962), p. 42.


Mr. Donald Regan, Chairman
U. S. Gold Commission
Dept. of Treasury

Subject: Flexible Gold Convertability

Dear Mr. Regan

By the year 1967, it had appeared inevitable to me that we would soon be forced to refuse, to honor our "fixed price" pledge to redeem dollars for gold. It also seemed important that some advance consideration be given to a monetary system other than the free floating paper money system which has always had a bad reputation for encouraging inflation and disrupting foreign trade. For these reasons, I spent considerable time and effort designing a hybrid system which would have some of the major benefits associated with both the fixed price gold and the free float system, but which would avoid the worst defects of each. The result was the paper entitled "Post Devaluation Monetary Police" a copy of which I am enclosing for your consideration.

Although I was unable to obtain any wide spread acceptance of this proposal at the time, (every official stoutly maintained that there would never be any devaluation of the dollar) my predictions have proved accurate. We did devalue the dollar, and we are now suffering the consequences of a free floating paper money system.

I think that you and the other members of the Commission will find this paper quite interesting. Although I personally consider this hybrid system as the practical optimum, it may also appeal to those who would consider it as a step toward a fixed price system. In any case, it would confer some important benefits, and it would be much easier to establish, as compared to jumping all the way to a fixed price gold standard.
Please note that the original curve in Fig. 1, which is retained in the text for historical reasons, should be updated by the revised Fig. 1 (attached) which shows how the system would operate if started in 1982. It may be noted also that a condensed version of this paper was included in Chapter II of my book "Compassion and Common Sense" which was published last year by MCP Books in Germantown Md zip 208740273.

If I can be of any further assistance, please let me know. My new office phone is 353-4263. No charge or obligation, of course.

Sincerely yours

[Signature]
Gold Price Relationship

\[ \frac{dP}{P} = -2 \frac{dI}{I} \]
Post Devaluation Monetary Policy
by Carl E. Ockert, 3-9-68

.1 Introduction

This paper assumes that there is a strong possibility that the U.S. government will soon decide to increase the official price of gold, despite present (and necessary) assurances to the contrary. It follows that we will then be in desperate need for a rational policy that will restore confidence and, if possible, guarantee against any future recurrence of balance of payments problems.

The necessity for devaluation is generally believed to be due to the inability of the government to "balance the payments", that is, to persuade foreign holders of dollars to spend their dollars for our goods and services, rather than hoarding them, and cashing them in for gold. However this inability is the direct result of permitting the official "fixed" price of gold to become unrealistically low with respect to the free market price. Thus the basic cause of the balance of payments problem is that the price of gold has been fixed, while every thing else has been rising at about 3.5% per year.

Failure and bankruptcy result when promises exceed ability. History shows that no person, family, corporation, bank, nation, or bloc can permanently fix the price of anything, including the price of gold. Thus solemn promises to fix the price of gold "forever", are regularly broken, not because of lack of purpose, but simply because of lack of power.

In order to fix the price of anything, the price fixer must have complete control of either the supply or the demand. Theoretically it would seem that a national government would have this required degree of control over the quantity of paper currency which it issues. Actually this control is an illusion, since in practice the adverse effects of contracting the money supply will endanger the existence of the government itself. In plain language, the people will not tolerate widespread unemployment just to bring the "actual" value of their paper money back to its "promised" value. This is the basic reason why most governments have abandoned the fixed price gold standard money system.

II Requirements for an Internationally Useful Currency

If the fixed price approach offers no permanent solution to the recurrent balance of payments problem, what would? What kind of a monetary system would avoid these recurrent crises, and still meet the basic requirements for orderly domestic and international trade?

Let us first list these requirements and objectives in order of their importance....

1. Short Term Predictability
The value of the currency should not vary significantly over a short period of time, and it should be possible to rather accurately predict its value over a somewhat longer period of time. This is
required so that both the buyer and the seller can accurately predict any changes in the value of the currency during the time between the placing of the order and final payment. If this is not possible, trade will diminish, since both the buyer and the seller must take additional risk, or incur the additional cost of purchasing a "future" in gold.

2. Non-Manipulatability
It must be patently obvious that no one man, or any organized group of men, can possibly manipulate the value of the currency. This follows from the previous requirement.

3. Acceptability
The currency should be acceptable any place in the free world, without red tape, and without significant discount.

4. Convertability
The currency should be universally convertible into other currencies, and also into gold, and these exchange rates must be predictable. This right must be available to everyone, including citizens of the U.S.A. Universal convertability assures universal acceptability.

5. Automatic Self Regulation
The system should be such that the price of gold automatically follows the long term trend of the free market, avoiding short term fluctuations, and the system should maintain a relatively constant inventory of gold in the Treasury.

6. Automatic Balance of Payments
The system should operate such that essentially all of the dollars obtained by foreigners are eventually spent for purchase of goods and services in the U.S.A.

7. Long Term Storage of Value
This objective is expendable, and the system recommended does not provide a currency that is guaranteed to perform this service. Those who have this purpose as their prime objective could accomplish their purpose by hoarding gold bullion, which would be legal (but uneconomic) under the system described below.

III The Automated Gold Standard

The system will appear to be relatively simple. All that is needed is to incorporate the following provisions as an amendment to House Bill HR 14743.

1. The price at which the United States sells gold will be fixed by the following formula:

\[ P = P_0 \left( \frac{I_0}{I} \right)^2 \]

where "P" is the selling price of gold, and "I" is the inventory of gold owned by the U.S. Treasury. \( P_0 \) is the initial price of gold at the start of the program, and should be set at $70 per oz. \( I_0 \) is the approximate inventory of gold at the start of the program, and could be
assumed to be 300 million ounces. (It will be noted that this formula forces a 2% increase in the price of gold whenever the inventory decreases by 1%. If the inventory increases by 1%, the price will automatically decrease by 2%.)

2. The price at which the U.S. will buy gold will be exactly 1% less than the selling price calculated above.

3. The Secretary of the Treasury is required to maintain tabulations showing the official buy and sell prices according to this formula, and to report daily purchases, sales, and inventory levels. All orders received during any one day will be executed at the price determined by the inventory existing after all orders for that day have been filled.

This formula is shown in graphical form in Figure 1.

IV Operational Characteristics

The system will operate similarly to the natural procedures followed by any shopkeeper. For example, consider a dealer in antique furniture. He desires to maintain a certain level of inventory. If his inventory is too small, he loses sales. If his inventory is too large, he pays a large interest charge. How does he keep a constant inventory when the market demand for antique furniture varies from month to month and from year to year?

Whenever he sees the inventory getting too large, he lowers both his bid prices and his sales prices. This encourages more people to buy from him and reduces the number of items offered to him. Both effects lower his inventory. Conversely, if demand increases and his inventory drops, he corrects the situation by raising both his buy and his sell prices. Thus he stays in business and keeps a fairly constant inventory. He makes his profit by his markup, regardless of rising or falling price levels for antique furniture.

The automated gold standard does the same thing. When demand for gold increases, a small movement of gold out of the Treasury raises the price. If demand falters, a small amount of gold moves back into the Treasury, and the system automatically balances itself at a slightly lower price level.

Every time the price reverses, the government makes a 1% profit. This is necessary to inhibit attempts to manipulate the price. It also reduces the activity required by the Secretary of the Treasury to a bare minimum. Most of the actual buying and selling of gold would take place on the free market. The only time that the government would be asked to buy or sell gold would be as a result of some accumulation of inflation (or deflation) activity which would cause a long term drift in the price level of gold.

Short term predictability is obtained, since the total inflation that is likely to occur over a period of a few months is generally less than 1%. The "automatic" feature takes all decision power out of the hands of government officials, and this eliminates the unpredictability associated with the human factor.
The Self Adjusting Gold Inventory

\[ \frac{P}{P_0} = \left( \frac{1}{1 + t} \right)^2 \]
\[ \frac{dP}{P} = -2 \frac{dt}{t} \]

1 (inventory of gold, millions of troy oz.)

Figure 1

Carl E. Ockert, 3-9-68
Since the daily inventory and price data is published, the trends of these variables could be charted and studied analytically. Accurate probabilities could be established for the price trend, variances, etc. Thus traders would be able to accurately estimate the risk of using dollars over any given period of time, and could discount their agreed price such that the risk was equalized. Alternatively, they could hedge by purchasing futures at a minimum premium, since the speculator would be able to minimize his risk by proper use of the published data.

The inventory and price data would also provide an excellent "inflation index", one that could not be falsified by juggling the commodities selected for analysis. The record of the governments inflation, or deflation, or stability, would be universally available in its true light.

Universal acceptability and free convertability would exist, since anyone could immediately cash in his dollars for gold at the free market price, anywhere in the world. The exchange rate would be known in advance within close limits. This convertability would maximize the usefulness of the dollar throughout the world, and our prestige and power would be favorably affected, similarly to the situation enjoyed by the British pound in the 19th century.

Self regulation is automatic, since anytime the free market price changes by more than 1%, the official price will also follow along, as the result of a small movement of gold. Thus the official price and the free market price can never diverge significantly, and there will never be any "pressure", or speculative activity against the dollar. In effect, the dollar is continuously revalued, instead of once every 20 or 30 years.

Payments likewise are automatically balanced, since the bulk of the dollars obtained by foreigners cannot be spent for gold. Foreign efforts to buy large quantities of gold would quickly become uneconomic by the automatic rise in the price of gold produced by such activity. In the end, the vast majority of the dollars received by foreigners would be spent for our products and our service, not our gold.

V Summary

Devaluation crises are caused by unsolvable balance of payments deficits, which result from the inability of governments to keep the free market price of their currencies at the fixed "official" values. A useful solution to this problem is to abandon all fixed price formulas, and obtain the benefits of predictability, convertability, and universal acceptability, by tying the price of gold to the inventory of gold bullion in the Treasury. The formula recommended sets the price close to the free market valuation, and then keeps it there. Depletion of the inventory automatically raises the price by 2% for every 1% loss of gold, and this automatically stops continued losses when the price rises significantly above the normal free market value of gold. In a similar manner, excessive accumulation of gold is prevented by an automatic lowering of the price of gold.
With the official price of gold always at or near the free market price, normal consumption demand for gold would be met by current gold production. Consequently, no balance of payments problem would appear, and dollars earned by, or given to, foreigners, would all be spent to purchase our products and our services.

Thus by promising a type of gold convertability which can be delivered, our nation can eliminate the chaos that results from promising a convertability that cannot be maintained. The sole sacrifice is in the elimination of currency as a vehicle for the long term storage of value, and this function can be conveniently accomplished by hoarding gold itself, where such action appears desirable.

Dated March 9, 1968

Carl E. Ockert
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19008
Telephone 215-353-1447

NEW ADDRESS

CARL E. OCKERT
8818 HIGDON DRIVE
VIENNA, VA. 22180
353-4263
MEMORANDUM NO. 2

To: Members of the Gold Commission.

From: Edward E. Popp.

Date: October 24, 1981.

Subject: The coinage and use of full bodied gold and silver coins.

THE PURPOSE

To outline a practical method whereby full bodied gold and silver U.S. coins can be made and used as payments.

THE BENEFITS

The American people will be given the opportunity to make and receive payments in standard U.S. full bodied gold and silver coins.
IT IS PRACTICAL TO MAKE FULL BODIED GOLD AND SILVER COINS
AND USE THEM TO MAKE PAYMENTS

At the present time the U.S. government coins and sells full bodied gold coins called, medallions, in one ounce and in one-half ounce coins.

These coins are sold to the public directly at the market price of their metal content on the day the sale is made.

To make these coins serve in our economic system as payments, the Congress should declare these medallions to be standard gold coins. (A standard gold coin is a coin with the specifications to which all other U.S. made gold coins must conform.)

Congress is to declare that these gold coins will be received as payments for all taxes and other charges due the U.S. government in amounts of $500 or more.

Just as the government now sets the exchange value of the medallions to the market value of their metal content on the day of sale, the government is to set the exchange value of the medallions to the market value of their metal content on the day it receives them as payments.

When the American people learn that the U.S. government will receive these full bodied gold coins as payments at the then currently quoted market value of their metal content, they will also use them as payments in private transactions.
Anyone can obtain from the U.S. government the current market value of the gold medallions by dialing the toll-free number 1-800-368-5510.

The next step the Congress should take is to authorize the mint to make silver coins in one ounce and in one-half ounce pieces. These coins are also to be declared to be standard silver coins. They are to be sold directly to the public in the same manner the gold medallions are now sold. That is, they are to be sold at the market value of their metal content on the date of sale.

Congress is to declare that these full bodied silver coins will be received as payments for all taxes and other charges due the U.S. government in amounts of $100 or more. The government is to receive them at the market value of their metal content on the day it receives them.

There is one more step for Congress to take. It should authorize the mint to accept from the public gold and silver in any acceptable form (coins, bullion, nuggets, etc.), make it into the current gold and silver coins and charge the owner of the metal a fee sufficient to cover the total cost of the minting process. Then give the newly minted coins back to the person who brought the metal to the mint.

If Congress follows the above steps and does not put a fixed price on the coins, the coins will serve both the public and the government very well as one means of making payments.

Edward E. Popp
543 North Harrison Street
Port Washington, Wisconsin 53074
MEMORANDUM NO. 3

To: Members of the Gold Commission
From: Edward E. Popp
Date: October 29, 1981
Subject: To stop increasing the U.S. government's interest-bearing debts.

HOW

By using the gold and silver medallion coins as payments.

THE BENEFITS

1. There will be no need for the U.S. government to borrow.
2. When there is no need for the U.S. government to borrow, the interest rates will be lowered for other borrowers.
The news media has just reported that the Treasury Department intends to borrow between eight and nine billion dollar's worth of bank credit. Such action is not necessary.

To avoid borrowing, the government can continue to make and sell the gold medallion coins it is now making. But in addition to selling the coins to the public, it can use these coins as payments to its employees and as payments for some of the goods it purchases.

As outlined in my memorandum No. 2, dated October 24, 1981, the government can also mint silver coins and use them as payments in the same manner as the gold medallion coins are used.

When the government declares that it will receive the gold and silver coins at the market value of their metal content as payments for taxes and other charges due it, the employees and the public will be happy to accept the coins for the payments due them. They in turn will use the gold and silver coins as payments to each other at the market value of their metal content.

When the credit lenders see that it is not necessary for the U.S. government to borrow, they are very apt to lower their interest rates to other borrowers. Thus, the result will be that the U.S. government interest-bearing debt will stop being increased and the interest rates will be lowered for other borrowers.

Edward E. Popp
543 North Harrison Street
Port Washington, Wisconsin 53074
Chapter XV
THE MOST SUCCESSFUL MONEY SYSTEM

There is much for which we must thank the Greeks. Not the least of which is for their monetary system. They used metal coins, but they did not think of money as wealth. To them wealth was houses, cattle, olive groves, land and other goods which could satisfy their needs. Their metal coins were used as a medium of exchange, and the Greeks were sometimes quite proud of their quality. One of the city state rulers found that his coins lacked a few trams or having as much value as those of Athens. He ordered that his coins be brought up to standard.

The coins of the different city states were near enough of the same value so the money of each city circulated in all the other city states the same as their own coins.

When a city state would try to cheat by offering coins of less value, the people of the other states would refuse the inferior coins. The damage this did to the trade of the dishonest state was a disciplinary force that helped maintain a most convenient monetary system. There was no such thing as a balance of payments problem. A buyer paid a seller in any coins he had. Political boundaries could be ignored as long as the coins were of equal value.

The same system of using interchangeable money with coins of the same value was used for several centuries by the Arab and Byzantine empires. The denarius was a coin or gold that the Arabs copied from the bezant used by the Byzantines. The two coins simplified trade between the empires. Again there were no balance of payment
problems. Anyone from either empire could pay anyone in the other empire with either kind of coins.

It was with the bezant that Constantinople became a center of trade for the known world. Traders carried it from England to Persia to Abyssinia (now known as Ethiopia).

Constantinople continued with sound money until near the end of the eleventh century when a ruler began to cheat by reducing the amount of metal in the money by which he paid his bills. He still tried to collect taxes in good money. When character crumbles, money soon follows.

Another place that interchangeable money helped the users to become prosperous was in Northern Italy. The people of Florence coined the gold florin in 1252 A.D. The Venetians coined the ducat 24 years later. It contained the same amount of gold as the florin. This made them interchangeable. By the end of the century all the cities of Northern Italy had made their coins of the same value and all circulated freely and interchangeably. Without doubt, interchangeable money, made possible by standard values, helped Northern Italy become famous as a financial and banking center in the fifteenth Century. Italian bankers financed the transportation of goods from the far east to Europe so successfully that Italian traders enjoyed a monopoly. It was to break this monopoly so as to get goods more reasonably that Prince Henry the Navigator encouraged his students to find the way around Africa to the East. It was
also because of this monopoly that Columbus sailed west to find the East and stumbled onto America.

More than four centuries later in 1855, an association for promoting unity in weights, measures and coins was founded and worked to promote its principles. The Congress of 1863 was held in Berlin and adopted a series of important resolutions. Its report advocated the superior convenience of a gold system with subsidiary coinage of silver. The millesimal (thousandth) scale of 900 as the fineness of the higher coins was also approved, as well as the definition of the weight of coins in the metric system.

Advantages of universal coinage are: 1. Makes travel easier.
2. Greater ease in international trade. 3. Improved currencies of developing countries. 4. More easily understood price lists.
5. More easily understood international statistics. 6. Much wider development of smaller trade transactions. 7. Tends to apply pressure on those countries who deprecate their currencies.
8. Eliminates problems of balance of payments.

Each country when making its own money, should plainly mark the country that made it so worn bills or coins may be returned to the country of origin to be replaced by new ones.

The one disadvantage would be the inconvenience of changing from the present systems to a universal one. When the United States changed to smaller bills, old bills were taken in at banks, and only
small bills were given out. The change was made so quickly that no one had any use for the purses that had been manufactured to accommodate both sized bills. Taking in our present dollars and giving out new bills representing grams at the rate of perhaps 20 to 1 should be no problem. Other countries would exchange their moneys according to its worths.

The one problem that seems to have stood in the way of the adoption of standard money was the choice of a coin. With the wider use of the metric system this problem is solved. The association for promoting unity in weights, measures and coins recommended use of the metric system more than a hundred years ago. The unit of value would be one gram of gold.

The Latin Monetary Union was formed as an outgrowth of the work of this association. It was founded by Belgium, France, Italy and Switzerland in 1865, and was joined by Greece in 1867. The separate countries adjusted their coins to have the same values.

By the laws of each participating country it coined 3,100 units of money from each kilogram of gold and 200 units from each kilogram of silver. Each country kept its own name for its coins. This applies the metric system, scientifically created, to the monetary units.

Another outgrowth of the effort to promote universal coinage was the Northern or Scandinavian Union. This union was formed by Denmark and Sweden in 1873, and joined by Norway two years later. The crown or krona was their unit of value. In 1900, for
all practical purposes, it could be said that the three countries
of Norway, Sweden and Denmark had a single monetary system.

Neither the Latin Monetary Union nor the Northern Union survived
World War I, although the Latin Monetary Union was not officially
dissolved until 1926.

We do not know of any effort to make the monies of other
countries freely used, but foreign coins circulated in United States
for many years.

The first United States law by which our monetary system
was established did not come until 1892, the third year of George
Washington's administration. The bills printed by the Continental
Congress had become worthless, and the first citizens of the United
States were bartering and using such commodities as beans and
tobacco for money. They supplemented these with foreign coins,
the most famous was a silver Spanish coin after which our dollar
was copied. This Spanish coin circulated in the United States for
another half century - another case of using the money of another
country when its value is trusted.

President Arthur, who led the world conference at which
international time zones were adopted, advocated interchangeable
money for the Western Hemisphere to make trade easier.

It was never adopted.

Older textbooks list the qualities needed for a substance
that is to be used as money.

To be useful as money a commodity should have: 1. general
desirability so it will be accepted in exchange: 2. treat value in small bulk so it may be easily carried: 3. durability so it will not be easily damaged or lose value by deterioration as it is transported or stored: 4. uniform quality so anyone can judge the value by the quantity without having to have it examined by a specialist: 5. divisibility so it will not be damaged by dividing it into suitable amount: 6. Cognizability so anyone can easily identify it: 7. Stability of value so it will not gain or lose value while in anyone’s possession.

It is easily seen that gold meets these requirements better than any other commodity. The instability of the price of gold in the 1970’s is not because of an irregular supply. The fluctuation of prices reflect a fluctuation in the public’s trust of money. In other words, it is the value of money that is fluctuating rather than the value of gold.

We are frequently told that there is not enough gold - that trade has increased so much that the gold stock is inadequate. This is the kind of myth that has no basis in fact. The same technology that has increased production and business has speeded up the velocity with which money changes hands. Most purchases are made by bookkeeping transactions. In the decade before 1977, velocity of money in the United States increased at the annual rate of 2.7%. With an absolutely constant amount of currency, prices would still rise slightly. The same money could do more because it traveled faster. This has the same effect as increasing the amount of money.
Chapter XV

It raises prices.

There are those who say fiat or unbacked paper money has value because it can be exchanged for goods of value. It has this power because of government order. A government that has this power invariably uses it to increase the amount of money. Increasing the amount of money causes destructive inflation. Every possible device has to be used to make the abuse of power to produce money as difficult as possible.

Adhering to the principle that it is dishonest to give title to property that does not exist is an essential safeguard. The possibility of establishing a universal currency without its being based on a commodity is hopeless. Unbacked paper currency was tried by our American colonists and our Continental Congress. Their failure shows how hopeless it is to establish a standard value with fiat or unbacked money. Some of them weren't even accepted at face value at the time of issue. Their acceptance varied tremendously.

To make commodity, interchangeable money serve successfully over a long period of time, cheating must be prevented so a paper that says the bearer owns a certain amount of gold must mean what it says. There needs to be a watch dog system for checking on the honesty of those who manage money.

If the amount is increased, prices will rise even though it represents a commodity of real value. Due to increased mining of gold, the greater amount of money coined by the United States
before World War I caused inflation. Again, there should be continual international discussion of the wisdom of increasing the amount coined or printed following adoption of a universal standard.

There is no governmental body with authority to control a world wide currency, and there should never be one. The Roman Empire had a custom of government coinage, and when the government became dishonest, there was no built-in control. When each country acts separately, the honest people can bring pressure to bear on the dishonest. Good money is built on the integrity of the people who manage it.

What would happen to the billions of dollars held by foreigners as deposits in the United States banks if people all over the world traded their money for interchangeable bills based on trunks of gold? The billions of dollars held by foreigners would immediately become usable in any part of the world where commodity, interchangeable money had been adopted.

What happens when people of a poor country deal with people from a rich country? It would be the same as when poor people within a country trade with rich people within the same country. The people from unproductive parts of a state of the United States have found that those from prosperous cities like Detroit and Flint, Michigan, in the early days of the automobile industry, not most of the money. They ran it because they produced and sold cars. Those from less productive areas would raise low because and inefficient goods.
not afford to pay much. Money flowed into more productive areas without any balance of payments problems.

President Arthur was right in advocating interchangeable money for the Americans as a means of helping trade. He should have gone further and promoted it for the world when he promoted the establishment of standard time zones.

Every country which is inflating its currency faces the problem of how to stop. Inflation is like having a tiger by the tail. Fortunately, business and industry can adjust to two or three percent of change without a great deal of trouble. Also it is fortunate that there are advantages as well as disadvantages to changes in either direction—to a decrease in inflation the same as to an increase. The President and chairman of the board of the Central Bank of Peru told us that when they stopped increasing the amount of currency, people put more money in banks because it did not lose value through inflation while there. The additional deposits helped business and industry by providing more loans.

Whatever the cost, stopping inflation is better than the destruction of business, industry and agriculture and sometimes having revolution that comes to those who let inflation run its course.

The first step in stopping inflation is to make a surplus quiet. To this is a systematic procedure. Start with a record of the last year's expenditures as a base to what is needed. Start, count the true figures or cut off some small amount to be
Chapter 17

maintained as a surplus to be paid on the debt. When list the most necessary item found on last year’s expenditures. It will probably be interest on the debt. Move on to the next most necessary item. Reduce it if possible. Proceed with the most necessary of remaining budget items, trying to reduce each. After going all the way through the list, go back and reduce the least necessary items until the total budget is no more than the amount of taxes that are expected for the year. All this requires statesmanship, sterling character and determination, but it has to be done to remove the necessity for inflation the currency. The history of inflation shows very clearly that printing, or otherwise increasing the amount of currency, is used to remove debt. Removing debt by taxes, as John Maynard Keynes advised for sound financing and as the United States did under the guidance of Alexander Hamilton, is a much better way.

When the necessity for inflating the currency has been removed, the Central Bank can start slowing the amount of inflation by reducing the speed of printing money. The speed of increasing the amount can be slowed by one percent each year to six months. If a country is increasing the amount of its currency by ten percent, reduce that to nine percent. After four to six months, reduce it to eight percent. This gradual reduction can continue until the increase reaches zero percent.

To avoid any unfavorable reaction, make the transition when the economy is strong. When prices are rising, this gradual reduction
Chapter XV

in the speed of printing will tend to retard the rapid rise in prices which many economists are inclined to favor during an economic boom.

In making a change in the speed of printing money, we must remember that it takes from about nine months to two years or longer for prices to change after a change in the rate of printing. Also it is even more important to provide plenty of publicity so people can plan for a stable economy. The American public is so anxious to see an end to inflation that they would be happy to make all necessary adjustments.

When stability arrives, the next step is to exchange our fiat money for one hundred percent gold backed bills based on one gram of gold as the unit of value. One economist is recommending a change of twenty dollars for one of gold backed money. This procedure is standard throughout the world so making the change is not a problem. The only problem is to determine how many dollars must be exchanged for one gram. There are about 1 billion 300 million ounces of gold in the possession of Central banks. With twenty-eight and one-fourth grams to the ounce we have about 77 billion grams. The United States conducts perhaps one-third of the world's business. This figure is only approximate. At this rate the United States needs about 12 billion grams. We might need to buy some gold. If there are 120 billion
dollars of United States currency, ten dollars would need to be exchanged for a one gram bill fully backed by gold. This figure is illustrative and is changing with the amount that the currency is being inflated before stable money will be established.

In Germany after World War I, one trillion old marks were exchanged for one new one. We hope people in the United States make the change before reaching that stage.
The recently announced $100 million Sunshine silver-indexed loan offering, which is described in the following paragraphs, represents a historical turning point in our monetary system.

"Andrew G. Racz, an authority on silver and President of Racz International, New York, called the move 'the historical turning point in legitimatizing gold and silver as backing for currency.'"  
- The New York TIMES  
Tuesday, February 5, 1980  

**SUMMARY OF OFFERING**

<table>
<thead>
<tr>
<th>Issue</th>
<th>$100,000,000 of % Silver Certificates Due March 15, 1995 (the &quot;Silver Certificates&quot;).</th>
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<td>Payment of Interest</td>
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<td>Indexed Principal Amount</td>
<td>For each $1,000 face amount Silver Certificate, the greater of $1,000 or the price of troy ounces of Silver (determined as provided in the Indenture).</td>
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<td>Redemption</td>
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* * *

The Swiss franc and the Deutschmark are no longer safe havens for excessive dollar holders -- the flight from paper currencies is on.

Editor: Andrew G. Racz  
Associate: Steven Bayern  
Circulation Mgr.: Jo Tortorici
The recently announced $100 million Sunshine silver-indexed loan offering, which is described in the following paragraphs, represents a historical turning point in our monetary system.

Floating currencies became the rule of the day on or about October, 1973 -- shortly after the fourfold increase in oil prices. World acceptance of floating currencies was a historical turning point -- world trade and international monetary transactions were no longer conducted at fixed exchange rates. Accordingly, the Breton Woods Agreement collapsed. Under fixed exchange rates international interest rates were closely co-ordinated. Interest rates in different currency denominations began to show a wide divergence -- rate differentials being drastically influenced by currency fluctuations.
Sunshine Planning Sale
Of Silver-Backed Notes

By ROBERT J. COLE

The Sunshine Mining Company, the nation's largest silver producer, said yesterday that it planned to raise $50 million to expand operations by selling $1,000 certificates redeemable into either cash or silver.

The interest-bearing certificates, to be traded on the New York and Pacific Stock Exchanges in much the same way as bonds, will be the first silver-backed obligations of any kind since the United States withdrew silver backing on paper currency in 1963.

They will be offered publicly in about a month through a Wall Street investment syndicate to be managed by Drexel Burnham Lambert Inc.

Andrew G. Racz, an authority on silver and president of Racz International, New York, called the move "the historical turning point in legitimizing gold and silver as backing for currency."

As proposed by Sunshine, investors would be unable to collect silver for their certificates for at least the first five years. After that, at Sunshine's option, investors would receive either silver, its value in cash at that time or the $1,000 face value, whichever is greater.

The company, announcing it had filed papers for the offering with the Securities and Exchange Commission, said the certificates would become due March 1, 1995.

"The principal amount of each certificate whenever due shall be the greater of $1,000 or the price of a certain number of troy ounces of silver bullion," the company said in a statement. "They would be freely negotiable in the meantime, however. The amount of silver to be offered and the interest rate to be paid — both of which depend on market forces — will not be made public until shortly before the offering.

One well-placed Wall Street source asserted that the importance given silver as an inflation hedge would help set the interest rate Sunshine will pay. He maintained that the rate might be substantially less than Sunshine would normally pay to raise funds.

As for the amount of silver backing, this source explained that, if silver sold for, say, $40 an ounce at the time of the offering, $1,000 worth would mean Sunshine might back the certificate by 25 ounces. But, he said, Sunshine might decide to back it by only 20 ounces, which, in turn, would mean that the company expected to pay a higher interest rate.

Silver bullion stood at $45 an ounce at the start of 1979 and soared as high as $50 an ounce in the middle of last month. As measured by the February futures contract, silver closed yesterday at $33 an ounce.

Sunshine's novel offering — the first of many expected to be made by other companies with large silver holdings if this one is successful — emerged in London last month after company officers told investment analysts there that they envisioned issuing as much as $300 million in silver certificates to finance expansion. Industry sources seriously doubted whether Sunshine would later offer more than the present $50 million.

Explaining how the new certificate appeared to him, Paul Sarnoff, New York commodities research director for Conti Commodity Services, said: "You've got yourself a way of investing in silver. You're getting a return on your money, and you have a chance for growth with the rise in the price of silver."

In its prepared statement, Sunshine said that proceeds from the $50 million sale would be used in part to finance silver exploration and development on the company's properties, situated in the Coeur d'Alene mining area of northern Idaho. They also would be used, it added, to complete a second mine shaft and to develop a pilot refining plant.

TUESDAY, FEBRUARY 5, 1980
The background of this financing may best be illustrated by the following reproduction of an article in FORBES Magazine in which Sunshine's management's thoughts and future actions are described.
Sunshine Mining's president is putting all of his eggs in one basket. A silver basket.

Michael Boswell and his Arab friends

Sunshine Mining President G. Michael Boswell

Getting out of distractions like manufacturing to bet everything on silver.
vesting a staggering $300 million in new silver properties. Where is all that money coming from? Boswell is selling Sunshine's manufacturing subsidiaries—fence maker Anchor Post Products Inc. and electronics firms Piezo Crystal and Premier Metal Products—to a newly formed company run by the former managers of these operations. He will raise $28 million from the sale. Beyond this, Boswell has some novel ideas. If his financial advisers can successfully negotiate their way through a morass of SEC and IRS regulations, he intends to sell either silver-backed securities or silver-backed debt issues to both U.S. and international investors.

He got his idea in part from the Mexican government, which has issued 1,000-peso bonds pegged to the price of oil, and will continue to increase in price. There are risks in all this, both for the investor and for Sunshine. If silver drops in price, the investor would be left holding a piece of paper with a low interest rate and of relatively low quality. Could silver drop in price if inflation continues? Of course, it could. What goes up also comes down, and silver went up last year. Remember what happened to gold back in 1976. It dropped from nearly $300 an ounce to $100 an ounce while inflation raged.

Yet another problem: Should runaway inflation develop, Sunshine's cost of production could increase to the point where it would be extremely burdensome to deliver the promised silver. On the other hand, should the price of silver rise as handsomely as Boswell thinks it will, the promise to deliver silver at a fixed price would penalize future profits. Nevertheless, Sunshine's lawyers are currently deciding which of the two instruments is the more desirable and are devising an array of downside protections for both the company and the investor. Boswell hopes to launch the first $50 million of these instruments in 1980, possibly offering them first to his investors. If silver drops, Boswell will give them a free rein in running the company. Here's the story:

Boswell is a tall, native Texan, born near Dallas, schooled in finance and law at Southern Methodist University and the University of Notre Dame. He was originally put in charge of Sunshine by Nelson Bunker and William Herbert Hunt, the Dallas petromagnates who took the company over in a bloody 1977 tender offer, which left them with 28% of the 6 million shares of common stock. Last June, however, Boswell bought out the Hunt interests with money borrowed from the company when the tender offer stalled short of a full takeover. Now Boswell has sold the Hunt stock to the Luxembourg-based Arab Investor Group, which consists of Saudi and Kuwaiti private investors. Why Arabs? "Because," he replies, "we were looking for a very stable long-term equity investor who would not seek to control Sunshine but merely be satisfied to see his investment appreciate in a fashion that we've outlined to him in advance." Looking pleased with himself, Boswell calls the Arabs "silent partners."

Boswell has gotten some flak for the Arab deal from Andrew G. Racz, president of Racz International division of the New York securities firm Philips, Appel & Walden, Inc. A minority investor in Sunshine, a metals analyst and a bull on silver, Racz gives Boswell high marks for putting Sunshine Mining on the road to becoming the only totally integrated silver company in the U.S. But he flunks Boswell for concluding his deal with the Arabs in only two days with little or no dickering while both the price of silver and the price of Sunshine stock were climbing dramatically. He is particularly miffed that Boswell turned down his offer on behalf of U.S. investors that was $1 per share higher than the Arabs' deal. "For $33 million Boswell is handing over the American silver market to the Arabs," he gripes. Racz is appealing to influential congressmen to stop the deal. But Boswell considers the matter closed: "It's a little unfortunate that the gentleman had to take an adverse position in this transaction," he says in an unusual moment of understatement.

Mike Boswell clearly has giant ambitions. Can he fulfill them? That question can only be answered with another question: What's going to happen to the price of silver? We're not brash enough to answer that one. ■

FORBES, JANUARY 21, 1980
Much effort by the world's leading Central Bankers -- and later as the currency crisis became more acute, even by the President of the United States and the leaders of Germany, France and England -- has been devoted to restraining currency fluctuations and co-ordinating monetary policies and international interest rates as well.

Speculations in the Swiss franc, Deutschmark and Gold had a devastating effect on the dollar.

The steps outlined in President Carter's historical and tragically ill-informed speech in November, 1978 were an attempt to stabilize the dollar. The effort failed. The "age of the floating currency system" was ending.

The floating exchange rates, which govern our financial and trade transactions, represent changing values in currencies and debt securities in various currency denominations. A set of tables from the international monetary markets serves as a guideline in terms of deposit rates and interest rates that investors and borrowers can expect when transferring monetary deposits from one country to another.

EXCHANGE CROSS RATES

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<td>Swiss Franc</td>
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<td>2.853</td>
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<td>Dutch Guilder</td>
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<td>127.2</td>
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<td>81.3</td>
<td>2.380</td>
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<td>Italian Lira, 1,000</td>
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<td>2.160</td>
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<tr>
<td>Canadian Dollar</td>
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<td>0.862</td>
<td>1.497</td>
<td>209.8</td>
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<td>Belgian Franc 100</td>
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EURO-CURRENCY INTEREST RATES

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<td>15.0-15.5</td>
<td>10.0-11.5</td>
<td>714 714</td>
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<td>7 days notice</td>
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<td>Month</td>
<td>1714 1714</td>
<td>15.0-15.5</td>
<td>15.0-15.5</td>
<td>11.5-12.5</td>
<td>714 714</td>
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<td>12.12</td>
<td>12.12</td>
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<td>Three months</td>
<td>1714 1714</td>
<td>15.0-15.5</td>
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<td>Six months</td>
<td>1714 1714</td>
<td>15.0-15.5</td>
<td>15.0-15.5</td>
<td>11.5-12.5</td>
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<td>One year</td>
<td>1714 1714</td>
<td>15.0-15.5</td>
<td>15.0-15.5</td>
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<td>12.12</td>
<td>12.12</td>
<td>15.0-15.5</td>
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SOURCE: London FINANCIAL TIMES, 2/15/80
The international Eurobond market (which is an integral part of the Eurocurrency market, that has grown from $73 billion in 1973 to $1,000 billion by the end of 1979) partially developed in the 1970s as a result of the growing offshore dollars and the offshore currency trade that had resulted due to vast increases in the OPEC billions. Drastic changes in historical trade relations and the re-orientation of East-West trade -- a scramble for the world's diminishing resources -- has followed.

To a certain extent, the Eurocurrency bond market is an unfamiliar issue to most American investors. Eurocurrency bonds are traded mainly in the international money centers; in London, Zurich, Frankfurt, Singapore, Hong Kong and Tokyo. The bonds are issued by governmental agencies and corporations which trade in convertible debentures. (Selected examples and descriptions appear on the following chart.)
The list shows the 200 latest international bond issues for which an adequate secondary market exists. For further details of these or other bonds see the complete list of Eurobond prices published on the second Monday of each month.

### U.S. DOLLAR

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<td>79 80</td>
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### OTHER STRAIGHTS

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<td>Cr. Foncier 10 84 C$</td>
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### DEUTSCHE MARK

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<td>BFCE 8 95</td>
<td>100</td>
<td>97 97</td>
<td>97 97</td>
<td>+0 0</td>
<td>+0 0 41</td>
<td></td>
</tr>
</tbody>
</table>

### FLOATING RATE

<table>
<thead>
<tr>
<th>NOTES</th>
<th>Spread</th>
<th>Bid</th>
<th>Offer</th>
<th>C.dte</th>
<th>C.cpn</th>
<th>C.yld</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allied Irish Bk. 5 87</td>
<td>0%</td>
<td>97 97</td>
<td>97 97</td>
<td>12 7 14 41</td>
<td></td>
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<tr>
<td>Banco di Roma Int. 6 87</td>
<td>0%</td>
<td>99 100</td>
<td>100 100</td>
<td>13 5 16 79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banco Urquijo 6 86</td>
<td>0%</td>
<td>97 98</td>
<td>97 98</td>
<td>13 3 11 67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Ireland 9 89</td>
<td>0%</td>
<td>95 95</td>
<td>95 95</td>
<td>13 1 19 69</td>
<td></td>
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</tr>
<tr>
<td>Bank of Tokyo 5 89</td>
<td>10%</td>
<td>97 98</td>
<td>97 98</td>
<td>14 2 14 88</td>
<td></td>
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</tr>
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### SWISS FRANC

<table>
<thead>
<tr>
<th>STRAIGHTS</th>
<th>Issued</th>
<th>Bid</th>
<th>Offer</th>
<th>day</th>
<th>week</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina 5 89</td>
<td>80</td>
<td>92 82</td>
<td>92 82</td>
<td>-0 0</td>
<td>-0 62</td>
<td></td>
</tr>
<tr>
<td>Aumar 5 89</td>
<td>60</td>
<td>92</td>
<td>92</td>
<td>+0 0</td>
<td>+0 8 21</td>
<td></td>
</tr>
<tr>
<td>Australia 3 89</td>
<td>250</td>
<td>87 87</td>
<td>87 87</td>
<td>+0 0</td>
<td>+0 5 37</td>
<td></td>
</tr>
<tr>
<td>Bergen, City of 4 91</td>
<td>40</td>
<td>91 92</td>
<td>92 92</td>
<td>-0 0</td>
<td>-0 5 76</td>
<td></td>
</tr>
<tr>
<td>SNSE 5 89</td>
<td>75</td>
<td>92 93</td>
<td>93 93</td>
<td>+2 0</td>
<td>+2 8 81</td>
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</table>

### CONVERTIBLE

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</thead>
<tbody>
<tr>
<td>AGA Akt'bolag 7 85/10 79</td>
<td>145</td>
<td>97 97</td>
<td>101 101</td>
<td>+0 6 11 72</td>
</tr>
<tr>
<td>Alinomo 7 85</td>
<td>2 60</td>
<td>97 97</td>
<td>95 95</td>
<td>+0 0 5 37</td>
</tr>
<tr>
<td>Alco Int. Fin. 9 94</td>
<td>7 100</td>
<td>96 96</td>
<td>96 96</td>
<td>+0 0 5 37</td>
</tr>
<tr>
<td>Aashi Optici 7 84</td>
<td>11 79</td>
<td>90 90</td>
<td>90 90</td>
<td>+0 0 9 91</td>
</tr>
<tr>
<td>Canon 6 94</td>
<td>8 79</td>
<td>570 100</td>
<td>104 104</td>
<td>+1 2 6 88</td>
</tr>
</tbody>
</table>

* No information available—previous day's price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions.

Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (3 three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

---

* Only one market maker supplied a price.

<p>| | | | | |</p>
<table>
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<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions.</td>
<td>Change on week = Change over price a week earlier.</td>
<td>Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (3 three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.</td>
<td>Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.</td>
<td></td>
</tr>
</tbody>
</table>
These Eurocurrency bonds are issued with descriptive material which is somewhat similar to a prospectus in the United States; however, because of the brevity and the lack of restriction on their contents, they are usually not qualified under SEC regulations and are not eligible for private American purchase.

Let us now look at certain characteristics of the Eurocurrency bond market:

1. They are usually issued in a tax-free haven such as Luxenbourg;
2. They are in bearer form, which means that the name of the owner is not registered;
3. The dividends and interest are sent without withholding tax to the owner; and
4. They are deposited with one of the major international clearing houses, which are usually large, international banks.

Efforts to list some of the Eurocurrency bonds on a recognized United States exchange are underway. The writer of this report has been in contact with one of the leading listed exchanges in order to work out the technicalities whereby Eurocurrency bonds could be traded in the United States. It is interesting that American investors cannot be solicited to buy these Eurocurrency bonds even though a large number of these bonds are issued by well-known American-based international corporation and many multi-national corporations. These bonds are, in fact, available for purchase by American investors in an unsolicited form ninety days after the issue period.

<table>
<thead>
<tr>
<th>U.S. DOLLAR STRAIGHTS</th>
<th>Issued</th>
<th>Bid</th>
<th>Offer</th>
<th>Change on Day</th>
<th>Change on Week</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avco O/S Cap 10-1/4 87</td>
<td>40</td>
<td>82</td>
<td>82-1/4</td>
<td>- 0-1/8</td>
<td>+ 3-1/2</td>
<td>14.34</td>
</tr>
<tr>
<td>Dome Petroleum 10 94</td>
<td>50</td>
<td>78-1/8</td>
<td>78-5/8</td>
<td>+ 0-1/4</td>
<td>- 0-1/2</td>
<td>13.45</td>
</tr>
<tr>
<td>ITT Antilles 9-1/2 89</td>
<td>75</td>
<td>78-3/4</td>
<td>79-1/4</td>
<td>+ 0-1/2</td>
<td>- 2-3/8</td>
<td>13.61</td>
</tr>
<tr>
<td>Kennecott Int 9-1/2 86</td>
<td>100</td>
<td>79-3/4</td>
<td>80-1/4</td>
<td>+ 0-1/4</td>
<td>- 0-1/2</td>
<td>14.55</td>
</tr>
<tr>
<td>Warner-Lambert 9 84</td>
<td>100</td>
<td>86-5/8</td>
<td>87-1/8</td>
<td>+ 0-3/8</td>
<td>+ 0-5/8</td>
<td>13.08</td>
</tr>
</tbody>
</table>
This explanation may have been necessary to bring this issue closer to home. The trillion-dollar Eurocurrency market, which now forms the basis for recycling the petrodollar surplus and the basis for keeping the underdeveloped nations (the non-oil-producing countries) afloat, leans very heavily on the Eurocurrency market both in the banking and the bond sector. These are the vehicles through which money is being raised and refinanced to pay for exports, particularly for oil and food. The inherent danger that the Eurocurrency market is getting overextended is well illustrated by the views of the Chairman of the Bank of England, Mr. Gordon Richardson. Mr. Richardson has given a firm warning that the $100+ billion Eurocurrency OPEC surplus, expected this calendar year, may not be easily recycled in 1980, not to mention the potential $150 billion surplus, with interest, that will be available from the OPEC nations in 1981.

1980 oil surplus ‘will top $100B’

By our Business Staff

Mr. Gordon Richardson, Governor of the Bank of England, last night forecast a collective current account surplus of 100 billion dollars ($43.9 billion) for the oil exporting nations in 1980.

Speaking to the Overseas Bankers’ Club, he emphasised the renewed burden on the world banking system, in attempting to re-cycle those funds prudently and profitably. He pointed particularly to the need to re-cycle petrodollars to oil-importing countries that were suffering deficits on the current account of the balance of payments because of higher priced oil.

Although deficit countries needed to take remedial action, Mr. Richardson said that however vigorous the adjustment effort, imbalances in payments could not be quickly reduced and many countries would still need finance on a considerable scale.

He added: “Well before the end of the 1970s, the debts service commitments of the non-oil developing countries were growing more rapidly than their exports. Now, with maturities closely bunched, world trade slowing down and interest rates high, the debt-service ratio for many must be rising—and will go on rising—uncomfortably fast.”

The Common Market Commission has confirmed that the European Community is proposing to help finance projects in deprived areas of Britain, to ease the country’s burden of payments into the EEC budget.

The executive body’s proposals to the nine member governments, made public yesterday, said the scheme would be in addition to a system to reduce the sum Britain pays into the Community’s treasury.

Britain’s net contribution this year of 22 billion dollars is higher than that of any other country, despite its weak economic performance, and Britain wants it reduced.

The Commission said the extra aid to Britain would promote the Community’s aim of ironing out differences between member-states’ economic performances. British sources in Brussels said the idea was an important step forward, but that the Nine still had to agree on figures and hard bargaining was expected.

Ministers were expected to begin discussing the proposals soon, in the hope that a decision might be taken at the next EEC summit, likely to open in Brussels on March 31.

SOURCE: London FINANCIAL GUARDIAN, 2/5/80
Furthermore, leading international banks could be the casualties of the currency overextension, including the American banking system. Thus, as an issue closer to home, the weakening of the Eurocurrency market simply cannot be disregarded by what we call the domestic provinciality which prevails more in the United States than in Western Europe.

From the point of view of the dollar holder, let us now examine the potential of an investment in a Deutschmark-deposited bond.

ASSUMPTION

1. Current exchange rate $1.00 = 1.737 DM
2. 1-Year interest on DM deposit 8.5%
3. Exchange rate 1 year later $1.00 = 1.900 DM
4. U.S. Inflation 12%

$1,000 investment

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current exchange rate</td>
<td>DM 1,737</td>
</tr>
<tr>
<td>Interest after 1 year (8.5% return)</td>
<td>DM 49</td>
</tr>
<tr>
<td>Total value</td>
<td>DM 1,786</td>
</tr>
<tr>
<td>Reconversion (1.9 DM rate)</td>
<td>$ 940</td>
</tr>
<tr>
<td>Discounted by 12% U.S. inflation</td>
<td>$ 839 *</td>
</tr>
</tbody>
</table>

Actual Loss

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ terms</td>
<td>$ 161</td>
</tr>
<tr>
<td>% of original holdings</td>
<td>16.1%</td>
</tr>
</tbody>
</table>
The idea, of course, is not to make the picture frightening to American investors who are interested in diversifying into foreign assets. It should be pointed out that the OPEC nations at the time of this writing will receive an estimated $300 billion oil income in dollar denominations in 1980. If, therefore, the trend to diversify away from the dollar -- which has been the most important issue in international finance by Arab investors in 1977, 1978, and 1979 -- continues, then the original dollar owners (namely the OPEC nations) would lose their incentive to diversify into DMs and Swiss francs due to the depreciation of those currencies against the dollar. In addition, there would also be a loss of purchasing power (U.S. inflation) for the OPEC nations which would be added to the currency risk. Although this combination (currency risk + inflation) worked in their favor in the late 1970s, it could work against them in the 1980s.

.... and this is the Crux of the Matter!!!

By the end of 1979, currency diversifications away from the dollar became pure speculation; and if anything, downright risky.

The Swiss franc and the Deutschmark are no longer safe havens for excessive dollar holders -- the flight from paper currencies is on.

THUS: GOLD AND SILVER

Accordingly, the $50 million silver-indexed loan by Sunshine Mining has set a precedent for:

1. The ending of the "paper-based" floating currency system; and

2. The beginning of the remonetization of Gold and Silver.

The concept of bringing Gold and Silver into the picture is startling. Consider the single issue of a $100 million silver-indexed loan and an acceptable interest rate as low as 10% for this loan. This well-publicized 10% interest rate is contrasted with the pure dollar-denominated Eurodollar loans where yield today commands 13%. Suppose that the silver-index is pegged to a $30 or $35 silver price. If over a period of two years silver goes to say $60, then the price of the silver bond will increase 100% to 150%. The proposed "Sunshine bond" has a convertible feature against all paper currencies provided that silver appreciates against the dollar and simultaneously appreciates against the weighted average index of other leading paper currencies. This unique convertibility feature would make the 10% dollar-denominated interest rate cheap and would, consequently, create a drastic contrast to ordinary dollar-denominated bond holders.
Let us now examine a theoretical evaluation of investors holding for a one-year period a silver-indexed bond with a 10% coupon, a dollar-indexed bond with a 13.5% coupon, and a DM-indexed bond with an 8% coupon. The assumptions are listed within the exercise.

<table>
<thead>
<tr>
<th>Interest</th>
<th>DM Bond*</th>
<th>Silver Bond* (backed by 25 ounces/$1,000; interest payable in dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Rate of Return</td>
<td>0%</td>
<td>-2%</td>
</tr>
</tbody>
</table>

Silver increases from $40 to $60 in one year 50% Capital Gain
48% Total Return

*(All denominations $1,000; assume no change in $U.S./DM exchange rate.)

Following the previously enunciated concepts, it is, of course, obvious that if such a scenario presents itself, then an entire series of financing in silver- and gold-indexed bonds could be marketed at low-coupon, low-interest costs and could be redeemed in gold and silver. The popularity of such "metal-backed" bonds would render the redemption features highly favorable to the issuer. At the same time, in terms of comparison, the regular Eurocurrency bond interest rates to be paid in paper currencies (particularly dollars) could increase considerably.

The concept now reaches mammoth proportions if we assume that gold- and silver-indexed bonds will grow from the original $100 million Sunshine silver-indexed offering into the hundred- and eventually billion-dollar range should other mining houses and corporations follow. Needless to say, with two billion ounces of gold in total above-ground circulation (of which at least 700 million ounces are in investment hands) and substantial above-ground holdings in silver (either coins and other ingot format) the owners of these precious metals are in a lucrative position to deposit the required amount of hard currency assets in an appropriate corporate vehicle and float low-coupon bonds in any currency denomination against their metal holdings.
CUMULATIVE WORLD GOLD PRODUCTION AND ITS DISTRIBUTION

Million Ounces

ESTIMATED STOCK DISPOSITION MID-1977 (MILLION OUNCES)

- UNDETERMINED OR LOST: 263
- JEWELRY DECORATIVE & RELIGIOUS: 560
- PRIVATE HOARDING AND INVESTMENT: 600
- CHINA: 15
- U.S.S.R.: 100
- CENTRAL BANKS: 1,016
- IMF & BIS: 146

CUMULATIVE WORLD GOLD PRODUCTION

TOTAL OFFICIAL STOCKS: CENTRAL BANK, IMF & BIS


Chart prepared by J. Aron Precious Metals Research Department
In point of fact, I had suggested a similar plan in 1976 to the South African government.

"As gold slips below $120 an ounce -- its lowest level in two years -- it is perhaps worth considering how South Africa's interests might be better served in the marketing of our gold.

"At present total gold output is sold by the mining houses to the Reserve Bank which pays them the 'official' price of $42 an ounce. Once the gold is disposed of on the free market (largely through Swiss banks) by the Reserve Bank an agterskot, known in the market as the premium, is then apportioned out among the mining houses.

"In terms of understandings with the International Monetary Fund, South Africa does not 'play' the gold market and, in any event, this would be extremely difficult given our chronic balance of payments problems.

"Coupled with this is the fact that Russia, due to climatic and managerial disasters, is also a heavy seller.

"Certainly South Africa wants to maintain its untarnished image of respectability in the corridors of the IMF while any toe-nadering with Russia -- not a member of the IMF -- is on the face of it out of the question.

"However, there are ways and means whereby South Africa can mobilize its gold production and at the same time protect the free market from the constant and heavy flow of our bullion to it.

"One of these measures was the recent R147.5-million gold swap which was essentially a short-term measure: in due course the Swiss will give us back our gold at the previously agreed price and take their money.

"How much better it would be to structure truly long-term finance at reasonable rates using our gold to link such loans to an attractive speculation.

"A New York investment expert, Andrew Racz, suggested in Johannesburg this week the following proposition: a Eurobond issue by South Africa carrying a coupon of 10 per cent and a term of 20 years with the bonds, denominated in R1,000 units, each carrying an option to buy five ounces of gold at a price of $145 at maturity in 20 years."
"Racz suggests that such bonds be denominated in Special Drawing Rights thus eliminating currency risks and that the gold required to service the options be deposited in a Swiss bank thus reducing any political risk investors might fear.

"His view is that this technique would provide long-term finance for the development of South Africa and at the same time be a catalyst for recovery in bullion.

"The gold market, he states, is run by professional traders of the financial capitals of the world. With the two major suppliers in financial trouble, the traders are operating against them, particularly in the futures market.

"Amateurs, he says, can't compete with professionals and he insists that South Africa should now involve itself in the rapidly developing futures market for bullion by giving birth, through gold-linked bonds, to a new and virile options market in bullion.

"One would suggest that Pretoria would be well-advised to seriously consider innovative approaches to the marketing of our bullion -- or perhaps they should leave it to the private sector to get rid of its own gold."

SOURCE: The South African SUNDAY TIMES, 7/18/76

The purpose of this article is not to talk about the potential "Silver Cartel". However, it is obvious that at the current turbulent market price of $35 to $50 for an ounce of silver, large amounts of silver could disappear into unregulated hands. This silver could eventually reappear in corporate or private hands in almost any part of the world, and Eurocurrency loans at favorable interest rates could be floated against such silver or gold holdings. With a development of this kind, the gold and silver segments of the Eurocurrency table would increase in population and create further distortions of the Eurocurrency market which at its current rate of growth should reach the two-trillion-dollar mark by the year 1985 or 1986. With such success, it is an almost obvious conclusion that speculators would find it more than convenient to take delivery in gold and silver. They can leverage their holdings by issuing cheap paper money against the gold and silver that they acquire on the open market and eventually create an entirely new monetary system through the following steps:
A. Acquisition of gold and silver;

B. Taking delivery; and

C. Leveraging on their existing holdings by establishing sound international depository agencies and utilizing the issuing houses of international repute in the Eurocurrency market.

Needless to say, three dynamic conclusions can be drawn at this point:

1. The process we have described is almost inevitable because of the lack of respect for paper currencies;

2. It's the automatic follow-through to the floating currency market; and

3. Gold and silver would attain greater significance; and because of its favorable utilization through leveraging on the Eurocurrency market, the price would increase substantially -- maybe even 100% from the current price -- which is currently considered by most monetary experts as excessive.

In my own lifetime, from Hungary to England, and then to South Africa and eventually to New York, I saw:

(a) Hyperinflation in Hungary in 1945/46;

(b) A decline in the British Pound from $2.80 to $1.55;

(c) Gold go from $35 to $875 per ounce; and

(d) The dollar decline from 4 S.Fr. to 1.5 S.Fr.

It may be too early to talk about the first corporate silver-indexed loan as a harbinger of a total revitalization and change in our monetary system. However, it can be argued that a new process has been set in motion which legitimizes the gold and silver assets in the international monetary circles; but more than legitimizing it, it brings about a new monetary system where individuals and corporations set their own currencies based on internationally uncontrolled assets (namely precious metals) and create their own pitfalls (safe havens) or simply create an exchange of values in what we call the precious-metal-based monetary system.

LIKE IT OR NOT -- IT IS THE NEW MONETARY SYSTEM!!!
ADDITIONAL INFORMATION AVAILABLE ON REQUEST

THIS REPORT IS TO PROVIDE OUR CUSTOMERS WITH GENERAL INFORMATION AND IS NOT TO BE CONSTRUED AS AN OFFER OR SOLICITATION TO BUY OR SELL ANY SECURITIES. THE INFORMATION CONTAINED HEREIN IS OBTAINED FROM SOURCES CONSIDERED RELIABLE, BUT THE ACCURACY THEREOF IS NOT GUARANTEED BY US. THIS INFORMATION IS NOT INTENDED TO, AND SHOULD NOT BE RELIED UPON AS COMPRISING A COMPLETE REPORT OR ANALYSIS. NEITHER THE INFORMATION OR ANY OPINION WHICH MAY BE EXPRESSED CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES REFERRED TO HEREIN. PHILIPS, APPEL & WALDEN, INC., ITS OFFICERS OR EMPLOYEES MAY FROM TIME TO TIME HAVE A POSITION, EITHER LONG OR SHORT, IN SOME OF THESE SECURITIES AS PRINCIPALS OR AGENTS. WE DISCLOSE THIS TO YOU SO YOU MAY JUDGE THE POSSIBILITY AND EXTENT OF BIAS ON OUR PART.
September 17, 1981

THE GOLD STANDARD

Recommendation to the Presidential Commission for the Possible Establishment of the Gold Standard

by Andrew G. E. Racz, President and Chief Executive Officer of A. Racz & Co., Inc., Member of The New York Stock Exchange, Inc.
1. BACKGROUND

Current analysis of the possible return to the gold standard originates in my opinion from a false conception of America's strengths and weaknesses. Gold can play a vital role in re-establishing America's realistic role in the world of power and monetary politics and can offset the re-emergence of the 20-year decline in America which began with the monetary mismanagement under the Kennedy and Johnson Administrations, the Vietnam War, the "guns and butter" policy and the tremendous increase of approximately $1 trillion in overseas liabilities against American reserves.

My analysis starts with different assumptions. It is my original thesis that the United States today is strong. Out of the monetary turmoil unleashed on the world by the oil price increase, with the creation of the $1.2 trillion Eurocurrency market (which was basically $50 billion at the time of August 15, 1971 when President Nixon stopped the outflow of U. S. dollars, or when he closed the gold window) and with the $30+ per barrel price of oil (which necessitates that non-oil producing countries, including the IDCs, hand over between $300 billion and $350 billion to the OPEC nations every year) is a deficit for the IDCs, the Soviet Union and Eastern Europe. Even with record-high interest rates in the United States and all over the world and with the so-called military superiority of the Soviet Union, America today is still stronger than ever, not by design but by default. We are stronger and more powerful and have more room to maneuver than any other nation in the world. Today America could dictate to the world instead of politicking and practically begging. The road -- the solution to international problems -- is in Washington. The keystone of this theory is our monetary strength, namely:

(1) The strength of the dollar;

(2) The determination of the Federal Reserve and the President of the United States backing the original policy of Chairman Volcker;

(3) Our ability to finance, if necessary, and deliver, if necessary, a $1.5 trillion defense budget over the next five years;

(4) The integrity of our monetary and banking system as opposed to the monetary system of any other country (even though the strength of our monetary system today is not as strong, and in effect is much weaker than it was 20 years ago); and

(5) Our ability to utilize gold as a monetary weapon in international negotiations.
My analysis, as I stated, starts from strength. These strengths have been overlooked. They have been overlooked, because since 1973 the American public and its political leaders have undergone a series of self-analyses, useless, childish and impractical. It began with the now defamed and deplorable Ervin Committee hearings...coupled with corporate witchhunting (which toppled foreign governments and drove people to suicide)...with the election campaign in 1976 and the moralistic attitude of Jimmy Carter which left the dollar in 1978 in the hands of foreign speculators...with our inability to stop a weak nation like Cuba (living totally on borrowed foreign resources) from making an attempt to change the whole surface of Central America and Africa...with our guilt feelings toward other nations...with our inability to look at a realistic picture -- that it is the goal of the United States to drive the price of oil down and break up OPEC -- that it is our long-range policy as stated by President Truman in the famous Truman Doctrine (which concerned mainly the Balkans, Greece and Turkey) to break up if possible the Soviet Empire, weaken Eastern Europe and use every conceivable power necessary.

Let's go back to the last time American power was used effectively. A few weeks after President Eisenhower had been inaugurated, he let it be known through the Indian ambassador to the United States, Krishna Menon, that if the Korean peace treaty was not signed within a matter of weeks, all American military alternatives would be reviewed. The words "atomic bomb" were not mentioned, but the peace treaty was signed six weeks later.

This is where my narrative begins. American power today means military power, MX missiles, B-1 bombers, troops in Germany and a $1.5 trillion potential defense budget. We are now experiencing the re-emergence of the American spirit and our monetary power, including gold. As part of our strategy, we have monetary power which must be used ruthlessly, intelligently and imaginatively. It should be aimed directly at the two forces which put the American public in jeopardy and the free world into insecurity: 1) the price of oil; and 2) the miscalculation of the Soviet Union that this is helpful to their imperialistic aims.

I am hereby recommending that we use monetary power as part of our national reserves in line with the strengths of the Pentagon. I call upon the Treasury of the United States of America to consider that our monetary power be used just like the Pentagon's reserves in a war condition, against the two most hideous but visible political foes we have: the price of oil and the determination of the Soviet imperialistic leaders to upset the tranquility of the free world and threaten Western interests and American interests all over the globe. Gold and monetary power are no different than nuclear weapons, Sputnks, atomic bombs or man-made bombs, except that is subtle. Its force, however, is irresistible in the world. People today respond to monetary pressure more than at any other time in our history.
The civilized world has had peace for 40 years. Wars have been marginal and out of the reach of civilization, except terrorism. The standard of living since 1945 rose steadily until probably the mid-70s. The demand of ordinary citizens from Siberia to Cairo, from Warsaw to Lagos, from Paris to San Francisco, has been rising steadily. The power of politicians to break the expectation is virtually nil. The Polish revolution is not an anti-Soviet revolution, it's a revolution from the middle class and the lower-middle class for a decent standard of living. This political force is translated into a demand for money and the goods that money can buy. The common word which politicians fight is inflation. The power, therefore, rests in the hands of those who control money. The world's money today is controlled by the President of the United States of America.
2. THE EVENTS OF THE LAST TEN YEARS

August 15, 1971 was a date whose significance and circumstance has not been properly analyzed by either monetary theorists or politicians. The political negligence, of course, is understandable because we have learned to live in a world, much to my regret, which has been critical of any decision which President Nixon and his cabinet made on domestic matters, regardless of historical merit. Consequently, it is vital that we make some reflections on that date and how that decision -- the closing of the gold window, which ended the fixed currency system -- happened.

In 1971 the Eurocurrency market virtually did not exist; therefore, dollars were held in the United States and the overseas dollar holdings (the so-called Eurodollar market and the Eurocurrency market), are relatively minor but still threatening to the U.S. gold reserves. That window was closed by President Nixon. I think that decision was vital, presidential and important. Had the gold window not been closed -- with the resulting monetary explosion followed by OPEC's decision in October, 1973, to increase the price of oil tenfold -- our gold reserves today would be practically nil.

Today we still have more than 264 million ounces of gold. This figure, when it is compared to the world's gold reserves of other nations and with world gold production, is a magnitude of international significance. Today, the floating currencies, the homeless currencies -- the so-called Eurocurrency market -- is about $1.2 trillion, and fixed exchange rates are a thing of the past. At any time a run on the dollar could lead to a run on gold, provided our gold reserves are not protected. Accordingly, any classical gold standard, which could not withstand the vissicitudes of the times of the 1960s and early 1970s, is insignificant compared to the tide which can be unleashed on American reserves in the 1980s.

The very conceit of a conventional gold standard almost at any price - $500 an ounce, $1,000 an ounce - is totally ridiculous. World events can change so rapidly that the resulting damage to American monetary, and therefore political strength, could disappear overnight. If Saudi Arabian oil production is cut by two to three million barrels per day, and the price of oil goes to $50 or $60 per barrel, the run on gold in an open monetary system with fixed parities could not survive a matter of weeks.

Before returning again to the famous Nixon decision, let us look at some other figures. The OPEC nations in the last ten years have taken in close to $1.0 trillion from the Western and under-developed nations. Today their revenues are in the vicinity of $350 billion per annum. We must now compare with American monetary reserves, the so-called M1 and M2 bank reserves, and realize the tremendous liquid resources held in hard but convertible currencies which we either fear or utilize for our monetary and political objectives.
It is customary in all democratic countries that when new leaders are elected and administrations change hands, they bring in their own experts and their own theories. Everything which has happened in the past is considered a mistake and new theories are expected to solve mankind's basic problems; namely, the improvement of the standard of living, strengthening of their currencies, and a better economic system to live in. I think it was 1958 or 1959 when I listened to a speech in London from former Prime Minister Mendes-France: "In physics you can experiment, in politics you cannot; you have to make decisions. I made a decision that De Gaulle is now the leader of France and a good leader of France; therefore, I support him."

In the United States, more than in any other civilized country, we have a habit of discarding politicians every four or eight years. We throw out the parties and their experience, and we start from scratch with new faces, at a tremendous cost to the continuity of our institutions. On numerous occasions I see in Sir Winston Churchill's speeches -- when he defended Western civilization and when he fought during the Second World War for the English-speaking world and everything it stood for -- the phrase, "the continuity of institutions."

In our 200 years of American history, there was no other time when the American people discarded their systems so rapidly as in 1974. The resignation of President Nixon made almost everything that had happened in six years of a Republican Administration wrong, harmful, not to be mentioned, and not to be analyzed. We discarded not only the President -- who is considered an intellectual leader in the Western world today -- but we also discarded a group of intelligent people. Today they are leaders of industry, finance and politics. These people were present in 1971 when a decision was made on gold and the dollar which in my opinion saved the Western monetary system, Western civilization and world civilization during the subsequent monetary turmoil. Those people today are alive, and their experience is absolutely essential to any constructive move which may lie ahead. To name a few, the former Secretary of the Treasury, John Connally; the Secretary of Commerce, Mr. Peter Peterson, currently Chairman of Lehman Bros. Kuhn Loeb; the right honorable George Schultz, President of Bechtel Corporation; Henry Fallow, currently partner of Goldman, Sachs; His Excellency Arthur Burns, U.S. Ambassador to Germany, the former Chairman of the Federal Reserve; and last but not least, or rather first, President Richard M. Nixon. and a whole list of intelligent, accomplished people.

My first recommendation is to appoint a council of so-called "Wise Men" (a council such as President Lyndon Johnson used in March 1968 during the Viet Nam War), to bring back the experience of the people who formed the monetary policy of the United States in 1971, and who on August 15 of that year came to a momentus decision. Let's get all the data from the Treasury, the recommendations, the alternatives, and the inside facts on how the decision was arrived at and implemented. That was the last major decision on gold. Not to draw upon that experience and information, not to draw upon the process and the thinking as to how that major monetary change came about, is
simply an insult to intelligence. No academician who researches a major topic -- a topic which could change the life of every American and foreign citizen whose life is tied to monetary stability -- would begin his work without first exploring a topic of vital importance which happened only ten years ago, especially when the major characters of that decision are still alive. That council to the President of the United States should be formed immediately and their report, if necessary in secrecy, should be submitted to the Oval Office. This recommendation is imperative.
3. THE CURRENT PROBLEM

The Reagan Administration is facing problems which have obviously accumulated over 20 years of Democratic, or liberal, neglect. Problems such as: a $1.0 trillion debt economy; 15% of the national budget covered by interest expenditure; a 20% prime rate; an interest rate structure all over the Western world which creates economic strangulation; an antagonistic attitude from Western governments who blame high American interest rates for their economic ills; an aggressive Soviet Union in Afghanistan, Angola, Poland, shortly in Rumania, and in Central America, which necessitates a $1.5 trillion U.S. defense budget. A tax cut, coupled with a not-too-large and insufficient budget cut, has created turmoil in monetary markets. Corporations are unable to raise money. The equity market is experiencing the biggest massacre since 1974; and because of high interest rates the stock market may not function for several months and possibly for a year. Personal and corporate fortunes are disappearing because of the declining commodity stock prices and the possibility of collapsing real estate prices. The nation's savings and loan industry simply doesn't function, in fact, it doesn't exist on its own anymore.

The recovery program at the moment, economic and monetary, is left in the hands of a new theory, the so-called supply-side economics. If it works, of course, it would solve some of our problems, if not, it could end up as a disaster. It is, as Mendes-France defined some 20 years ago, "an experiment," hopefully one which will work. I would agree with what President Reagan said on many occasions: "Money in the hands of the people is more valuable than money in the hands of the Government." However, our monetary markets seem to be in total turmoil. High interest rates simply do not fit with the American and Western economies; certainly not at our current rate.

Since October 6, 1979, when Chairman Paul Volcker left the IMF meeting in Belgrade in a hurry, he embarked on a restrictive monetary policy which slowed down the money supply in the United States and declared an unconditional war on inflation. Today, the money supply is declining, inflation is declining; but our monetary woes are unlikely to go away.

Theories have been put forward that the growth of the money supply can no longer be left to political decision makers. It seems that the old maxim has been called into being: Money supply is too important an issue to be left in the hands of the politicians. A classical gold standard, with a fixed rate of exchange between gold and monetary aggregates outstanding would cut permanently the growth of the money supply within a relatively narrow range, and create a semblance of fixed exchange rates between leading currencies and the dollar. The new monetary era would begin where inflation, under
classical theories, would be more manageable. The propagators of such a gold standard brought in the example of the 1950s and other decades (going back even a hundred years) when the gold standard and a limited money supply created economic prosperity.

Unfortunately, today such parameters alone do not apply. The currency reserves of foreign countries, the economic power of the OPEC nations, the dangers of the Middle East, the aggressiveness of Soviet imperialism, and the necessity of abnormally high defense budgets, makes us think that in terms of monetary policy, monetarist or supply-side alone, the problems of today are different than can be defined in classical economic theories. To reiterate:

(1) The rapid increase in the money supply all over the world, and the resulting hyperinflation in the growth of money and currencies, is directly related to the OPEC nations' drastic rise in the price of oil and resulting world inflation.

(2) Aggressive attitudes from the Soviet Union which have been demonstrated in the last five years (ever since America crippled itself because of the so-called Watergate Hearings), have created Somalia, Ethiopia, Afghanistan, Iran, El Salvador, Nicaragua, Poland, and shortly Rumania, Angola, and other problems of its kind.

It is not overlooked that in the last eight years, while American political power has been declining, our military power has weakened correspondingly. Our defense forces must be rebuilt, this is -- on a national level -- a first priority. However, we don't have $1.5 trillion to spend during the next five years, unless we accept intolerably high interest rates and the declining purchasing power of the dollar.*

* In such a gloomy setting -- like in the dark days of 1978 and 1979 -- the price of GOLD can rise dramatically. I am not afraid of a high GOLD price -- under certain circumstances it can be construed as favorable to the United States, provided we recognize that GOLD is a monetary weapon and, in fact, a political power base of the United States.
4. GOLD AS A RESERVE CURRENCY

Theoretically speaking, the establishment of a gold reserve could be construed as opening the door to the actual depletion of our reserve assets. I want to interpret GOLD as one of our monetary assets. A more practical thought, therefore, is to mobilize gold for our monetary needs!! Later on in this chapter I will try to explain how monetary objectives actually coincide with the political needs of the United States. The idea of gold- or silver-backed bonds has been around; some experimentation has been carried out and, of course, silver-backed bonds gained some widespread publicity with the so-called Hunt-silver transactions in late 1979 and 1980.
The recently announced $100 million Sunshine silver-indexed loan offering, which is described in the following paragraphs, represents a historical turning point in our monetary system.

"Andrew G. Racz, an authority on silver and President of Racz International, New York, called the move 'the historical turning point in legitimatizing gold and silver as backing for currency.'"

- The New York TIMES
  Tuesday, February 5, 1980

**SUMMARY OF OFFERING**

<table>
<thead>
<tr>
<th>Issue</th>
<th>$100,000,000 of 4% Silver Certificates Due March 15, 1995 (the &quot;Silver Certificates&quot;).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of Interest</td>
<td>March 15 and September 15.</td>
</tr>
<tr>
<td>Indexed Principal Amount</td>
<td>For each $1,000 face amount Silver Certificate, the greater of $1,000 or the price of troy ounces of Silver (determined as provided in the Indenture).</td>
</tr>
<tr>
<td>Redemption</td>
<td>Callable at the Indexed Principal Amount on or after March 15, 1985, if such amount is $2,000 or more for a period of 30 consecutive days.</td>
</tr>
</tbody>
</table>
By the end of 1979, currency diversifications away from the dollar became pure speculation; and if anything, downright risky.

The Swiss franc and the Deutschmark are no longer safe havens for excessive dollar holders -- the flight from paper currencies is on.

**THUS:** GOLD AND SILVER

Accordingly, the $50 million silver-indexed loan by Sunshine Mining has set a precedent for:

1. The ending of the "paper-based" floating currency system; and
2. The beginning of the remonetization of Gold and Silver.

The concept of bringing Gold and Silver into the picture is startling. Consider the single issue of a $100 million silver-indexed loan and an acceptable interest rate as low as 10% for this loan. This well-publicized 10% interest rate is contrasted with the pure dollar-denominated Eurodollar loans where yield today commands 13%. Suppose that the silver-index is pegged to a $30 or $35 silver price. If over a period of two years silver goes to say $60, then the price of the silver bond will increase 100% to 150%. The proposed "Sunshine bond" has a convertible feature against all paper currencies provided that silver appreciates against the dollar and simultaneously appreciates against the weighted average index of other leading paper currencies. This unique convertibility feature would make the 10% dollar-denominated interest rate cheap and would, consequently, create a drastic contrast to ordinary dollar-denominated bond holders.
The United States is the largest owner of gold among all countries with some 264 million ounces.

GOLD STOCKS IN SELECTED COUNTRIES AND REGIONS

<table>
<thead>
<tr>
<th>Country</th>
<th>Million Troy Ounces</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Bank Reserves</strong></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>264.0</td>
</tr>
<tr>
<td>Germany</td>
<td>117.9</td>
</tr>
<tr>
<td>France</td>
<td>101.3</td>
</tr>
<tr>
<td>Switzerland</td>
<td>83.3</td>
</tr>
<tr>
<td>Italy</td>
<td>82.6</td>
</tr>
<tr>
<td>Other</td>
<td>354.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1003.4</td>
</tr>
<tr>
<td><strong>International Organizations</strong></td>
<td></td>
</tr>
<tr>
<td>IMF</td>
<td>140.6</td>
</tr>
<tr>
<td>BIS</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Communist Countries (Est.)</strong></td>
<td></td>
</tr>
<tr>
<td>U.S.S.R.</td>
<td>100.0</td>
</tr>
<tr>
<td>China</td>
<td>15.0</td>
</tr>
<tr>
<td><strong>Private Hoardings (Est.)</strong></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>200.0</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>30.0</td>
</tr>
<tr>
<td>Middle East</td>
<td>50.0</td>
</tr>
<tr>
<td>Far East</td>
<td>40.0</td>
</tr>
<tr>
<td>India</td>
<td>120.0</td>
</tr>
<tr>
<td>United States</td>
<td>100.0</td>
</tr>
<tr>
<td>Other</td>
<td>60.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>600.9</td>
</tr>
</tbody>
</table>
My proposal is for the Treasury to put aside less than 8% of its assets, some 25 million ounces, and issue long-term five- or ten-year gold-backed bonds with an 8% coupon in $1,000 denomination, with a conversion value of 20% to 25% above the market price.

### 5 YEAR 8% CV. GOLD DEB.

- **Conversion price:** $600/ounce
- **Total ounces:** 41.7 million
- **Annual interest:** $2.0 billion
- **5-year total interest:** $10.0 billion

### VS.

5-Year 16-1/8% Treasury Bond - $25 billion issue

<table>
<thead>
<tr>
<th>Friday, Sept. 11, 1981</th>
<th>Bid</th>
<th>Asked</th>
<th>Change</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>13-7/8s 1986 Nov......</td>
<td>92.14</td>
<td>92.18</td>
<td>+.8</td>
<td>16.05</td>
</tr>
<tr>
<td>16-1/8s 1986 Nov......</td>
<td>101.0</td>
<td>101.5</td>
<td>+.23</td>
<td>15.72</td>
</tr>
<tr>
<td>9s 1987 Feb......</td>
<td>77.20</td>
<td>77.28</td>
<td>+.30</td>
<td>15.12</td>
</tr>
</tbody>
</table>

- **Annual interest:** $4 billion
- **5-yr. total interest:** $20 billion.

### Savings on Cv. Gold Deb.

- **Annually:** $2 billion
- **After 5 years:** $10 billion.
10 YEAR 8% CV. GOLD DEB.
$25 billion issue

Conversion price: $600/ounce
Total ounces: 41.7 million
Annual interest: $2 billion
10-year total interest: $20 billion

VS.

10-Year 14-7/8% Treasury Bond - $25 billion issue

<table>
<thead>
<tr>
<th>Friday, Sept. 11, 1981</th>
<th>Bid</th>
<th>Asked</th>
<th>Change</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>14-1/2s, 1991 May.......</td>
<td>97.9</td>
<td>97.13</td>
<td>+1.7</td>
<td>15.02</td>
</tr>
<tr>
<td>14-7/8s, 1991 Aug.......</td>
<td>99.3</td>
<td>99.7</td>
<td>+1.9</td>
<td>15.03</td>
</tr>
<tr>
<td>4-1/4s, 1987-92 Aug.......</td>
<td>75.9</td>
<td>76.9</td>
<td>+0.5</td>
<td>7.47</td>
</tr>
</tbody>
</table>

Annual interest: $3.72 billion
10-yr. total interest: $37.2 billion

Savings on Cv. Gold Deb.

Annually: $1.72 billion
After 10 years: $17.2 billion.
Let us now analyze this hypothetical transaction in detail.

(1) For the owners of gold who intend to hold gold if they are investors for at least five years, the cost of carrying gold is approximately 18% per annum. If they can buy 5% bonds with a conversion price of about $600 and allocate an interest of 8%, the actual owner of the debenture who at some stage, five years later, would like to convert it into gold, would fare better than buying the gold bullion today on the open market.

(2) By stretching the conversion of all or part of the issue to ten years and dividing up the $25 billion into various parcels, a different interest rate may be lower or a different conversion rate may be higher could be obtained.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Matures in</th>
<th>Price/Ounce at Maturity</th>
<th>Total Interest Paid On Gold Deb.</th>
<th>Trea. Bond</th>
<th>Net Savings to Gov't</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8 bil.</td>
<td>5 yrs.</td>
<td>$550</td>
<td>$10 bil.</td>
<td>$20 bil.</td>
<td>$10 bil.</td>
</tr>
<tr>
<td>$8 bil.</td>
<td>10 yrs.</td>
<td>650</td>
<td>20 bil.</td>
<td>37.2 bil.</td>
<td>17.2 bil.</td>
</tr>
<tr>
<td>$8 bil.</td>
<td>20 yrs.</td>
<td>800</td>
<td>40 bil.</td>
<td>70 bil.</td>
<td>30 bil.</td>
</tr>
</tbody>
</table>

**Total Net Savings to U.S. Government**

- 5 years: $10.0 billion
- 10 years: $17.2 billion
- 20 years: $30.0 billion

(3) By quoting an interest rate of say 8% on a ten-year issue as opposed to 16% which currently prevails on a five- or ten-year Treasury bill rate, if we can actually sell $25 billion debentures, would save approximately an interest rate of $2 billion if the $25 billion bond is on aggregate convertible at $600 per ounce.
(4) The United States can give the option of having the bonds redeemed in dollars almost any time -- after all the Treasury would be doing nothing but borrowing money at 8% as opposed to 16%. Alternatively, it could permit the bond to fluctuate with the gold price and honor its obligation to redeem either in gold or in dollars at the expiration of the bond.

(5) It should be mentioned that nations other than the United States could, of course, come out with similar issues. Should Germany, Switzerland, the Bank of International Settlement in Basle, follow the American example, the net effect would simply be to absorb excess liquidity which today commands an interest rate both in the United States and overseas in various denominations higher than a gold-backed 8% bond, and consequently would stimulate economic activity and result in important interest savings. Gold-backed bonds in DM-denomination issued by the Bundesbank are by no means a negative for the monetary system.

<table>
<thead>
<tr>
<th>1 YEAR 6% CV. GOLD DEB.</th>
<th>1 YEAR 12-1/2% Deutsche Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5 billion issue</td>
<td>$5 billion issue</td>
</tr>
<tr>
<td>Conversion Price: $600/ounce</td>
<td>Annual interest: $300 million</td>
</tr>
<tr>
<td>Total ounces: 8.3 million</td>
<td></td>
</tr>
<tr>
<td>Annual interest: $300 million</td>
<td>Annual interest: $625 million</td>
</tr>
<tr>
<td></td>
<td>Interest on Cv. Gold Deb. $300 million</td>
</tr>
<tr>
<td></td>
<td>Interest on Deutsche Mark 625 million</td>
</tr>
<tr>
<td></td>
<td>Savings on interest payments $325 million</td>
</tr>
</tbody>
</table>
(6) Let us now look at the Russian example. Russians mine gold and sell gold in order to finance their exports and their balance of payments deficits. Can the Russians float let's say a $5 billion dollar-equivalent value bond at 8%? The difficulties are quite insurmountable.

**Major World Gold Producing Countries**

*(Gold output metric tons p.a.)*
MAJOR WORLD GOLD PRODUCING COUNTRIES

![Table](image)

It has to be denominated in dollars or some other hard currency, as the Russians clearly have not obtained the creditability of permitting the conversion in rubles which the international banking community simply does not trust. Exchange rates of the ruble are artificial and can be manipulated. An 8% gold-backed bond that on the last resort the owner might end up holding 50% depreciated rubles, is not a good international exercise. Can they resort to a dollar-denominated bond and reinvest the proceeds in high-yielding Treasury bills? Of course they can, and a $5 billion 8% bond, if it’s invested at a 16% rate in U.S. Treasury bills, going from dollars into dollars, would result in a $400 million annual savings for the Soviet Union. But can they do it? Can they afford to? If the Russians need the gold from the proceeds of the sale of gold to balance their balance of trade deficits, they cannot at the same time hold their gold and deposit it in the Bank of International Settlement in Basle and play with the proceeds in the U.S. money markets, as $400 million is substantially less than the $5 billion that they would obtain through the actual sale of the gold, even though selling bonds at the higher conversion price would provide more money. We can assume that if the Russians have plenty of gold and plenty of money, they would not risk the economic collapse of Poland and they would not silently go along with the risk of slow bankruptcy in Rumania.
The Next Poland?

Bankers are laying odds on which will be the next East European state to be forced to seek a rescheduling of its commercial debt to the West. In private, they reluctantly admit it looks like Romania. And this isn't simply because of general pessimism resulting from their experiences with Poland (see this month's cover story).

Romania is finding it more and more difficult to raise money from Western commercial banks. It has managed only two syndicated loans this year, one an $85 million oil-import facility from Arab banks — this for a country that used to be Europe's leading oil producer — and the other a $200 million co-financing by commercial banks and the World Bank for a canal project.

Romania is a member of the IMF. That is, it has an extra cushion to fall back on, which Poland did not have. But this may prove something of a mixed blessing.

When the fund granted Romania loans totalling nearly $1.5 billion in June, what evidence did it have that Nicolae Ceausescu's regime, notoriously corrupt and incompetent, was changing its ways?

No doubt the IMF was given statistics. All East European statistics have somewhat slender connections with reality. In Romania, it seems, they give one set of statistics to their Comecon allies and another to the IMF.

Whatever set of figures you take, the Romanian sums fail to add up. The hard-currency current account deficit looks like being $3 billion this year, and another $3 billion next year, on top of $2 billion last year. Hard-currency debt, which was over $9 billion at the end of last year, will be $16 billion by the end of next year, and $19 billion by the end of 1983. Even more worrying is the concentration of debt in the shorter maturities. Roughly half of what Romania owes Western banks is at maturities of a year or less.

The regime has, so far, kept up its debt service payments. But exporters to Romania are experiencing delays in payment.

This is one tell-tale sign. There are others. There has already been industrial unrest and shortages of basic commodities in the shops. The shortages are caused not only by shortcomings in production, but by the switching of supplies destined for the domestic market into exports as Romania desperately tries to increase its foreign currency earnings.

The usual hounding out of scapegoats has taken place. This year the planning boss and the finance minister have been sacked. (There have been three planning bosses in three years.) Yet the leadership continues on its way, not seeming yet to see the severity of the crisis or the bankruptcy of its own policies. The failure to meet the growth targets in the 1976-1980 plan, culminating, in 1980, with the worst economic performance of any year since the Second World War, seems to suggest that more than individual incompetence is to blame.

In obtaining a three-year credit from the IMF, the Romanian Government agreed to raise domestic prices and slow down state investment, in order to reduce the swelling current account deficit. But some observers feel that the fund was far too lenient. The danger, as they see it, is that the IMF action will be taken as an endorsement of Romania's economic policy.

According to Wharton Econometric Forecasting Associates, "the IMF loan decision will allow the Romanian leadership to continue its present policies — until a new and more serious economic crisis takes place." Wharton sees this crisis as probable within the next year or two. Some bankers put the time as nearer than that.

For the bankers, to have one sick client in Eastern Europe is painful enough. To have two will put a severe strain on their balance sheets.

And there are even more dangers in the knock-on effects of the Polish and Romanian economic crises. Poland's troubles have resulted in missed deliveries of goods and components to its Comecon allies, forcing their comrades to buy from the west instead and deplete still further their precious stocks of hard currency. Romania is less central to the interdependence of the socialist economies than Poland, but any reduction in purchases from its neighbours as it tightens its belt will add to Comecon's problems.

Economic ills may yet rot the guts out of the East European economy in a way that no political subversion could.
Poland owes $30 billion to the West; it is a political issue as far as the Soviet Union is concerned, and the resulting monetary damages through partial bankruptcy can be incalculable. Rumania, from its $9.5 billion deficit in 1980 is estimated to run to $19 billion in 1983. In 1981 Rumania managed to borrow with great difficulties somewhat less than $400 million on the international Euro-market, part of the money coming from the Eurobank, the Paris-based Russian bank which has total assets of $8.5 billion only.

Poland, of course, is not only the case study of an international monetary basket case -- but the real first Chapter II of the Cold War. Let us cheer!!! The West is winning.
The Secrets of the Polish Memorandum

The memorandum which western commercial bankers have agreed to present to Poland is extraordinary in that it would give the bankers an IMF role in directing the Polish economy.

A banker sat in a Paris café, stirring the remains of an espresso round and round in his cup. The topic for discussion over lunch had been Poland, but he had lapsed into silence. Abruptly he spoke. “You know, we bankers are going to lose our money on Poland.”

Few of his fellow bankers were willing to admit that. Commercial bankers from 12 countries had gathered in Paris in late June to try and agree on an orderly restructuring of Poland’s 1981 debt. The two-day meeting resulted in an extraordinary document which, as Euromoney went to press, still had to be approved by all the national banking groups and Poland itself before it could come into effect. It is unprecedented in the role it would assign to commercial bankers in monitoring the rebuilding of the Polish economy.

The Polish financial crisis is the biggest shock yet to hit the Euromarket. The country is not a member of the IMF and its debts are larger by far than those of any country that has had to reschedule.

The details of the secret memo put before Poland

As a condition of the lead-in agreement, Poland will be asked to retain a technical adviser, acceptable to the western banks, to act as assistant to the Polish authorities. If accepted, this step will mark a sharp departure in the relationship between Poland and western commercial banks. This is the closest the banks have yet come to assuming an IMF-type role.

Poland will be required to provide any economic and other information the banks request not later than November 1, and a Polish representative who can confirm the accuracy of the economic information.

What happens if Poland doesn’t meet the conditions to the satisfaction of the banks? This has been left unclear. Many bankers doubt Poland’s ability to fulfil the conditions of the lead-in agreement completely, but most of those who spoke to Euromoney felt that it was worthwhile to inject some conditionality into the rescheduling. As one put it: “If you don’t ask you don’t get; if you do ask you might not get but you will at least have tried to get.” Or be seen to have tried, he might more aptly put it.

Scepticism runs deep about Poland’s ability to provide reliable information. As one American banker admitted privately: “Poland is not in a position to come up with reliable data, because the assumptions it would be founded on are simply changing from day to day. They will disappear the day after the plan is written.”

How the overdue FRN was paid with Russian money

The Soviet Union subsidizes the Poles through preferential trade terms. It has also provided hard currency loans, over the past year, of at least $1.5 billion. Insiders have suggested that Poland has had an open credit line of as much as $5 billion since February 1980. There was evidence for this in mid-July, when Poland’s deputy foreign minister, Marian Dobrosielski, was reported to have said that Poland had received $4.5 billion in aid from the Soviet Union since last summer, though not all in hard currency. The Paris memorandum demonstrates clearly how anxious are western bankers to know the exact extent of Soviet aid to Poland. One of the difficulties inherent in any rescheduling agreement is that it must be lenient enough not to strangle Poland’s economic recovery, and yet tough enough to give the Soviet bloc the message that western banks were not going to bail out Poland alone. The Soviet Union, for its part, is signalling to the west. Analysts have suggested that the Soviet Union let Poland know in the first quarter of 1981 that there would be no more hard currency available until the fourth quarter of 1981, a message apparently intended to spur on western bankers. But insiders are certain that there has been money available to Poland to draw on to cover its interest payments and short-term debt. One bank economist said: “There is no doubt about the Soviet Union’s ability to provide short-term assistance, but they are naturally reluctant to enter into a long-term open-ended commitment.”
The numbers, the convenience, easily put the United States in monetary confrontation in a different league, separated from the Soviet Union. A clear monetary superiority is already established by the marketplace. Only our interpretation, our resolve, is missing. By changing our attitude, "The Power of Positive Thinking", we would increase not only our prestige, but the buying power, monetary power, and economic power accruing to the West.

Let us now diverge for a minute from the gold-backed bonds to the so-called Eurobond market. In London, in Singapore, in the so-called Asia dollar market, in Hong Kong, in Frankfurt, in Zurich, huge markets have evolved in Eurobonds and Euronotes. Interest rates vary, banking transactions made easy, and today approximately $200 million is held in Eurobonds, making international borrowing by corporations and particularly by government agencies easier. The resulting interest rate differentials today are the highest in Canada and then the United States, the lowest in Swiss francs, has accommodated the free flow of capital and enabled corporations, government agencies, governments and the World Bank to soak up extra liquidity and mobilize capital to the needs of modern civilization.
The following compilation is international bond issues for which there is a secondary market - priced as of September 7, 1981.

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Issued</th>
<th>Bid</th>
<th>Offer</th>
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<td>95-1/4</td>
<td>95-3/4</td>
<td>10.75</td>
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<td>96-1/2</td>
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<td>84-5/8</td>
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<tr>
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<td>90</td>
<td>91</td>
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<td>79-3/4</td>
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<td><strong>Yen Straights</strong></td>
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<td>84-1/2</td>
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<td>11.54</td>
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<td>Utd. Mex. States 14 '85</td>
<td>FF 150</td>
<td>87-1/4</td>
<td>88-1/4</td>
<td>18.76</td>
</tr>
</tbody>
</table>
5. THE VALUE OF GOLD

Assuming that the Treasury and President Reagan in full cooperation with the Federal Reserve made a decision to launch gold as a monetary weapon (monetary because we have value which we don't need for settling our international debts) we would place the United States into a class of our own. This issue does not apply to 95% of the countries. We have gold, which the Eastern bloc does not have. We have gold that the OPEC nations do not yet possess. If the price of gold goes higher, it is by no means a negative for the dollar and the actual reserves of the United States increase and, therefore, our monetary superiority becomes clearer.
The above table illustrates what percentage of our total national debt can be met should we monetarize our total gold reserves. For example, at $600 an ounce, we could realize approximately $160 billion and meet instantly 16% of total debt owed by the nation. At $750 that figure rises to near 20%.
There is no doubt in my mind that President Reagan and his Administration came to office with the strong desire of establishing the soundness of the dollar, to establish -- or rather, to re-establish -- the economic and monetary supremacy of the United States. Candidate Reagan promised that the United States would re-establish the military might and superiority of the United States versus the Soviet Union. The Soviet Union is our enemy. In the military field it is now forcing us to a $1.5 trillion expenditure which affects every American citizen through high interest rates via the overcrowding of bank borrowing. The Soviet Union is our enemy because it has threatened the Middle East through Afghanistan, Central America through Cuba, Africa through Cuban and East German proxy forces, and Western Europe via Poland and potential bankruptcies of other Eastern European nations. If our defense budget were to decline $100 million over the next three years, interest rates would drop, economic activity would pick up, the Reagan supply side economics could gain quicker and more visible effect. World-wide interest rates would decline. What hurt us in the 1970s and is still hurting were the high oil prices. Oil prices are crumbling today, but the Soviet Union is still the most dangerous enemy the United States has had since the end of World War II.

Monetary superiority via Gold! The policy of America unfortunately has been neglect, shortsightedness, and the mistaken theories which were put into practice by previous Administrations. The so-called forced gold sales of the 1970s, which originated from an otherwise talented Secretary of the Treasury's theory that gold has no place in the monetary system, has been a failure. Bill Simon, Secretary of the Treasury under two Republican Administrations, has resulted in utter failures by forcing the International Monetary Fund to sell 25 million ounces of gold and distribute another 25 million ounces to the so-called "poor nations." The policy wasted international assets -- 50 million ounces of GOLD for no good reason, selling American gold on the open market at a price not much higher than $200. It resulted in a waste of national assets, a decline in our prestige in providing leadership of international monetary affairs.
IMF SALES

A cumulative summary of sale of gold in U.S. Dollars:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1976</td>
<td>$320.0 million</td>
</tr>
<tr>
<td>December 1977</td>
<td>$964.0 million</td>
</tr>
<tr>
<td>December 1978</td>
<td>$2.04 billion</td>
</tr>
<tr>
<td>December 1979</td>
<td>$3.45 billion</td>
</tr>
<tr>
<td>May 1980</td>
<td>$4.64 billion</td>
</tr>
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</table>

Average total auction price... $186

If blame is to be thrown around, we could paraphrase the famous words, "The best and the brightest" have participated in the total disregard of the real value of Gold and the real monetary and, indirectly, political interest of the United States of America. However, let us close this chapter and recall the famous words of Sir Winston Churchill in his first speech to Parliament when he became Prime Minister in May 1940:

"If the Present will sit in judgement upon the Past, it will lose the FUTURE."

If we accept the principal that Gold and Silver, as well as strategic metals, just as oil and gas, are national assets and monetary values and therefore monetary assets, we of course can easily conclude that all those constitute in aggregate the political power for every country. This paper deals with activating American interest and American monetary power!! How to make American political power, through activating American monetary credibility!! President Reagan was elected on the mandate to restore national dignity, monetary and military and political power of the United States, which were in decline since the sad days of the early part of 1973. Historians will argue, but I am in the affirmative, that the mandate of 1980 is a continuation of the mandate the Republican Party overwhelmingly received in 1972 when unfortunate political events took away the power from the Executive branch for political leadership. If Watergate was an incidental Russian and direct OPEC victory -- let the monetization of GOLD be the source of planned overwhelming American political triumph!! In a period of eight years of indecision, the country has been brought near to monetary turmoil and has seen American political prestige at its lowest level of perhaps its entire history.

This chart contrasts the movements in the bullion market and in the gold share prices. The bullion price based on the daily London fixing is given in both American dollars and Swiss francs. Movements in the share markets are represented by the Mining Journal Gold Mines’ Index, which is based on the international market whilst the Johannesburg market is shown by the South African Financial Mail Gold Mines’ Index. The latter has been replaced by the Financial Mail All-Gold Mines’ Index as from January 1980.

MINING JOURNAL—Quarterly Review of South African Gold Shares
MOVEMENTS IN EXCHANGE RATES

UNITED STATES EFFECTIVE EXCHANGE RATE INDEX

BELGIUM EFFECTIVE EXCHANGE RATE INDEX

CANADA EFFECTIVE EXCHANGE RATE INDEX

FRANCE EFFECTIVE EXCHANGE RATE INDEX

GERMANY EFFECTIVE EXCHANGE RATE INDEX

U.S. CENTS PER BELGIAN FRANC

U.S. CENTS PER CANADIAN DOLLAR

U.S. CENTS PER FRANC

U.S. CENTS PER CANADIAN DOLLAR

U.S. CENTS PER GERMAN MARK

LATEST DATA PLOTTED: DOLLAR EXCHANGE RATE - 2ND QUARTER
EFFECTIVE EXCHANGE RATE INDEX - 1ST QUARTER
PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS
MOVEMENTS IN EXCHANGE RATES

U.S. CENTS PER
ITALIAN LIRA

ITALY

EFFECTIVE EXCHANGE RATE INDEX

U.S. CENTS PER
JAPANESE YEN

JAPAN

EFFECTIVE EXCHANGE RATE INDEX

U.S. CENTS PER
DUTCH GULDER

NETHERLANDS

EFFECTIVE EXCHANGE RATE INDEX

U.S. CENTS PER
SWEDISH KRONER

SWEDEN

EFFECTIVE EXCHANGE RATE INDEX

U.S. CENTS PER
SWISS FRANC

SWITZERLAND

EFFECTIVE EXCHANGE RATE INDEX

U.S. CENTS PER
BRITISH POUND

UNITED KINGDOM

EFFECTIVE EXCHANGE RATE INDEX

LATEST DATA PLOTTED: DOLLAR EXCHANGE RATE - 2ND QUARTER
EFFECTIVE EXCHANGE RATE INDEX - 1ST QUARTER
PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS
Gold, as we have illustrated earlier, is becoming an active monetary asset if we raise money against our gold reserves. No other country can do it on the scale we can. Let us now look at the practicalities. The U.S. Treasury can set a trend and sell small quantities of gold-backed bonds and see the effect. If the gold price declines, we are as a country quite at liberty to increase our gold holdings at lower prices. Subsequently, the Treasury can float, if required, either dollar-denominated bonds without gold backing, (where the net cost to the Treasury has actually been reduced by the lower cost of gold-floated bonds) or float at a more propitious time with different maturity, additional gold bonds with an even lower coupon. In each case, provided with the lower price we could replenish our own inventory, as obviously the previously floated bonds require the required gold reserves to be put aside either in Fort Knox or, if necessary, in Switzerland (in an internationally acceptable reserve deposit). The net effect of a declining gold price after floating one, two or as many gold-backed bonds, would simply be a lowering of cost of borrowing for the United States. Borrowing at lower rates certainly does not constitute an increased but rather creates a decreased liability to the Treasury.

Let us now continue the above analysis. Even if gold prices remain the same after floating let's say five or ten million ounces equivalent of gold with appropriate premium, the Government can authorize the U.S. Treasury or the General Services Administration to increase gold and silver holdings by propitious purchases in the open market. By recognizing the value of monetary assets, we are simply increasing our inventory and floating the appropriate debentures at our convenience. The gain for the United States from such an operation is obvious. Do we hurt our Western allies? Hardly; we have simply lowered interest on gold-backed U.S. Treasury bonds. Do we hurt the under-developed nations? Undoubtedly not; we are indirectly probably helping them to give greater value to their commodities which is the prime export earner for most of the countries. Do we help the South Africans? Undoubtedly; by mobilizing gold we are strengthening that nation undergoing a major political transformation. With the vast economic problems South Africa will face in the next two decades vis-a-vis their non-white population, the stronger and closer South Africa is to the United States, the speedier will be the economic development of Black Africa. Again, the stronger the United States monetarily and militarily, the greater the influence we can exert on South Africa.
7. AMERICAN GOLD POLICY AND THE RISING PRICE OF GOLD

Should the popularity of gold-backed bonds, the elimination of some gold from sale on the day-to-day London and Swiss cash market and the recognition of gold as a monetary asset lead to a higher gold price, a scenario would present itself which we would have to analyze with great care.

(1) From the point of view of the United States, the higher gold price would simply permit the sale of additional bonds at an even higher premium and higher price than let's say the original $600, and lower interest rates. Also, some of our gold reserves can disappear by conversion; the resulting savings in Treasury bank borrowings could be considerable. Furthermore, by allocating 10% of our gold reserve initially to gold-backed bonds, the limit to which we are willing to part from our gold reserves can be set by Congressional action, modified by Presidential decree, of course. The flexibility in this approach is absolutely essential.

(2) The higher gold price would increase the monetary value of our reserves and, consequently, by activating gold the value of our reserves would gain greater monetary significance. No doubt it would also strengthen other countries.

(3) Would an increased gold price lead to inflation? It seems to me that the Federal Reserve Bank's policy of restricting the money supply is by no means tied to the price of gold. Since Chairman Volcker's restrictive money policy went into effect October 1979, the price of gold has fluctuated somewhere between $200 an ounce and $850, back to $380, and now stands at $440. It seems to me that the price of gold, the price of silver and the growth of the money supply are tied together only by the imagination of corporate journalism or by the gold bugs who want something which is attainable -- I'm talking about the gold bugs and the hard currency advocates who talk incessantly of fixed exchange rates -- but whose desires and views are totally unprofessional and should not be considered by our monetary and political authorities.

(4) In fact the higher gold price would put the United States in stark contrast with the OPEC nations. They do not possess gold, and the higher it goes the more they have to pay for it. Furthermore, the economic structure of the world oil market simply does not permit a drastic increase of the net surplus spending power of the OPEC nations. If anything, the trend is opposite. However, a higher gold price and initial issue gold-backed bonds would create greater credibility to international savers, the largest of which are the OPEC nations. Confidence in America's ability to activate all its monetary reserves, namely gold, and by strengthening the dollar via the strengthening of the American monetary system, they would find greater interest to invest in the United States their surplus dollars and thereby even accept a lower oil price and even increase oil production. If they feel
that their savings could be exchanged with viable alternatives, oil production could even increase. Lower or even stable oil prices are highly favorable for inflation. Obviously, the depreciating currencies of the last five years, the depreciating value of the dollar, and loss on Treasury bills purchased prior to the end of 1980, did not give them too much encouragement for savings.

(5) Accordingly, I would even encourage the private placement of low-coupon, gold-backed bonds with various OPEC nations. This would enable them to exchange assets in the ground, namely oil, for gold-backed bonds which have the alternative to be converted again either into dollars or into gold. We will open the avenue for Kuwait, for Venezuela, for Indonesia, and particularly to Saudi Arabia, to value not only the money they earn for oil, but the money which they save. It would, therefore, result in a new monetary and eventually political relationship between constructive members of OPEC and leave those who wish to use the oil price for the destruction of economic trade out in limbo. Let it be said loud and clear -- The U.S. should not make such deals with Colonel Quadaffy or the Ayatollah Khomeni!!
8. GOLD AND THE POLISH DEBT

One of the potentially most explosive issues facing the Western world today is the so-called debt of the Eastern European countries, namely Poland, Rumania, Eastern Europe, and of the Soviet Union. Can a higher gold price help the Russians to be more liquid? The answer is undoubtedly "yes". Does it hurt the Western world? The answer is not as simple as some of the previous theories, but to a certain extent the Soviet Union may also practice its old dogma put forward by Chairman Kruschev after the Hungarian Revolution when he introduced the concept of what is called "Gulash" Communism, saying, "People with full stomachs do not make revolutions."

However, should the American Government or rather the Treasury obtain $20, $30, $40 or $50 billion through gold- and silver-backed bonds, it may not be a totally mistaken idea to combine monetary forces with political objectives. I recommend that under certain circumstances the U.S. Treasury should start exchanging the bad debt of Western banks given to Poland with U.S. Treasury bonds which we obtain through the floating of gold- and silver-backed bonds in the American market. The President could put tremendous pressure on the Soviet Union. The theory would no longer be valid that if we don't roll over the Polish debt, if we don't roll over the Russian debt or the Rumanian or Eastern European debt, it would lead to bankruptcies for some of our leading banking institutions. The blackmail effect would disappear, and the trump card would be passed through monetary and political levels to the hands of the President of the United States! THAT IS WHERE POWER BELONGS!! Do I advocate the use of monetary weapons to obtain political objectives? Definitely. I would rather create inflation in Eastern Europe and inflation or economic stagnation in the Soviet Union than here at home in the United States of America.

In plain English, I would advocate that if the American Government can raise without jeopardizing budget deficits or budgetary trends an additional $5 to $10 billion through gold- or silver-backed bonds or via the purchase of lower priced gold and the refloating it at lower interest rates, should we substitute the bad debt of the Soviet Union in the major Western banks in order to obtain political leverage? The answer is definitely "yes." Do I believe in using monetary power to obtain political objectives? The answer is definitely "yes." Did I approve of President Nixon's utilizing the linkage theory to use economic weapons to obtain political concession from the Soviet Union in Viet Nam? The answer is definitely "yes."

It is, however, vitally important to remember that when former President Nixon negotiated with the Soviet Union, he had no monetary weapons at his fingertips. Gold was selling at $35 an ounce, and it did not surface as a monetary weapon. The Eurocurrency market basically did not exist. The Western countries did not make Eastern Europe and
the Soviet Union debtor countries. I have recently read a criticism in EUROMONEY Magazine (a leader in its field) that the countries and the banks of the Western world are responsible for the monetary weakness and large borrowing of the Eastern European countries. If so, they were probably right; we have lulled Eastern Europe into easy money, easy credit, made them debtors and, therefore, it is high time that through monetary means we exert utmost pressure on Soviet imperialism and make them withdraw their proxy forces from the Western Hemisphere, from Africa, and give up the idea of the military occupation of Eastern Europe and tend to their own business. Otherwise, we can call in their bad debt, replace it with cheaply obtained U.S. Treasury bonds, and create economic chaos within the Soviet Empire. It is a good, plausible and commendable American objective.

History may even give us credit for such objectives; credit in GOLD!!
I have analyzed the idea of silver- and gold-backed bonds many times in the past. In the summer of 1976 I was a front-page story in the Johannesburg SUNDAY TIMES by recommending that South Africa should sell gold-backed bonds instead of flooding the market with cheap gold because of their economic needs.
"As gold slips below $120 and ounce -- its lowest level in two years -- it is perhaps worth considering how South Africa's interests might be better served in the marketing of our gold.

"At present total gold output is sold by the mining houses to the Reserve Bank which pays them the 'official' price of $42 an ounce. Once the gold is disposed of on the free market (largely through Swiss banks) by the Reserve Bank an agterskot, known in the market as a premium, is then apportioned out among the mining houses.

"In terms of understandings with the International Monetary Fund, South Africa does not 'play' the gold market and, in any event, this would be extremely difficult given our chronic balance of payments problems.

"Coupled with this is the fact that Russia, due to climatic and managerial disasters, is also a heavy seller.

"Certainly South Africa wants to maintain its untarnished image of respectability in the corridors of the IMF while any toadying with Russia -- not a member of the IMF -- is on the face of it out of the question.

"However, there are ways and means whereby South Africa can mobilize its gold production and at the same time protect the free market from the constant and heavy flow of our bullion to it.

"One of these measure was the recent R147.5-million gold swap which was essentially a short-term measure: in due course the Swiss will give us back our gold at the previously agreed price and take their money.

"How much better it would be to structure truly long-term finance at reasonable rates using our gold to link such loans to an attractive speculation.

"A New York investment expert, Andrew Racz, suggested in Johannesburg this week the following proposition: a Eurobond issue by South Africa carrying a coupon of 10 per cent and a term of 20 years with the bonds, denominated in R1,000 units, each carrying an option to buy five ounces of gold at a price of $145 at maturity in 20 years.

"Racz suggests that such bonds be denominated in Special Drawing Rights thus eliminating currency risks and that the gold required to service the options be deposited in a Swiss bank thus reducing any political risk investors might fear.

"His view is that this technique would provide long-term finance for the development of South Africa and at the same time be a catalyst for recovery in bullion."
"The gold market, he states, is run by professional traders of the financial capitals of the world. With the two major suppliers in financial trouble, the traders are operating against them, particularly in the futures market.

"Amateurs, he says, can't compete with professionals and he insists that South Africa should now involve itself in the rapidly developing futures market for bullion by giving birth, through gold-linked bonds, to a new and virile options market in bullion.

"One would suggest that Pretoria would be well-advised to seriously consider innovative approaches to the marketing of our bullion -- or perhaps they should leave it to the private sector to get rid of its own gold."
I have also hailed the idea of silver-backed bonds as a new monetary instrument and I evaluated Mr. Hunt's original plan of printing their own money cheaply when the U.S. Treasury would have to pay a much higher rate for its own borrowings.

The issue of this thesis is to help American monetary policies, but at the same time it would not be a bad idea to have the thinking of the Hunt brothers regarding silver-backed bonds. Let us consult Nelson Bunker Hunt! Here is a man who did something with this idea and almost carried it to fruition. If gold- and silver-backed bonds will ever be listed in the London Financial Times or in The Wall Street Journal, if it ever becomes a reality, how can we neglect the thinking of a man who was the pioneer of an idea?

Let us recall that the silver price collapsed because, as Mr. Hunt said in Congressional testimony, "the gentlemen of COMEX changed the rules." Mr. Hunt is no friend of the Soviet Union; he is a patriotic American. He did think about the idea of backing currencies with silver. In a recent three-hour conversation with me in Dallas (on September 10, 1981), he favored gold-backed bonds and commended the concept as favorable for the United States. Can we, therefore, neglect the whole concept of gold- and silver-backed bonds and go into the 1980s with the idea that the prices of gold and silver and the currency exchange rates of the dollar can indecisively fluctuate? Can we enter a world where not the gentlemen of the COMEX (who are after all American citizens, accountable to American authorities), but some foreign powers, some foreign interests, could change the rules of the game? America should remain a monetarily independent nation; it should survey all of its resources of which Gold is not the only but is one of the most important. Let us change our long-range thinking about Gold; let us have no dreams of an imaginary gold standard. Let us activate gold -- gold is an active reserve currency, an active monetary asset, an active American asset. It is monetary power, and in the hands of President Reagan and the Republican Party, hopefully, it is already an instrument of political power.

Respectfully submitted,

Andrew G. E. Racz
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Gold: The Solution to Our Monetary Dilemma

BY GEORGE REISMAN
Anyone who has followed the vagaries of the government’s economic policy in recent years, it is clear that we are confronted with a monetary dilemma.

The nature of our dilemma is that our government is faced with a choice between a 1929-style depression and a 1923-German-style currency collapse. The dilemma arises from the fact that it has been pursuing a policy of inflation and credit expansion—that is, of money creation—for several decades without any serious interruption. In this period, the economic system has become geared to the continuation and acceleration of inflation.

Like a drug addict, it’s gotten “hooked” on inflation. It needs bigger and bigger doses, and to stop or cut down the dosage now must produce terrible withdrawal symptoms—a depression.

I don’t think there can be any doubt which way the government will choose. It is not only hooked on inflation, it has the key to the drug cabinet—it’s got an unlimited ability to create money. Thus, it will go on inflating at an accelerating rate. (For the same reason, I don’t see any possibility of a so-called soft-landing—or of a gradual deceleration of inflation—because even a modest decline must produce enough pain to send the government running back for the money needle.)

The ultimate outcome must be a hyperinflationary currency collapse, with paper money being dumped in the streets as so much litter. I’d like to explain how I think this terrible dilemma might, in principle, be eliminated—how, in other words, inflation might be stopped cold without the necessity of a depression.

Simply put, my solution to our monetary dilemma would be the adoption of a 100% reserve gold coin standard at an appropriately high price of gold. (Actually, silver coins, too, would have to play a prominent role, alongside gold. But for the sake of simplicity, I will ignore silver.)

Under such a gold standard, gold coins would form a substantial portion of the circulating money supply that passes from hand to hand. All paper and checkbook money would be 100% backed by gold coins payable on demand.

Such a system, I believe, not only is the ideal monetary system for the long run, because it would permanently eliminate the threat both of inflation and deflation, but is the only system potentially capable of solving the terrible dilemma we are faced with today.

In order to explain how the adoption of this system could solve our dilemma, I must explain in some detail why stopping inflation under our present paper money system would cause a depression. The analogy to a drug addict who gets “cold turkey,” while accurate, is not sufficient. We must understand the inner nature of the inflation addiction, so to speak, and thus exactly what it is about stopping an inflation that produces a depression. Only then can we understand how the adoption of the 100% reserve gold coin standard could serve as an appropriate remedy.

So let me try to briefly explain the inflation-depression process under paper money.

The most important thing to realize is that inflation undermines the need and desire to own money balances. As a result, it causes a more rapid spending of money—a rise in what economists call “the velocity of circulation of money.”

This occurs in a variety of ways. One way is that as inflation proceeds, people get accustomed to rising prices and come to expect them to go on rising. When that happens, they start buying sooner, before prices rise further. Another way that inflation leads to a rise in the velocity of circulation of money is that it raises interest rates; it makes it worthwhile for people to lend out short-term sums of money that otherwise would have remained in cash holding. A third way is that the prospect of easily obtaining loans manufactured by the banking system through the creation of new money leads businesses to invest their cash reserves, since they expect that when they need money they can obtain it from their banks.

In these ways inflation of the money supply brings about an even greater inflation of the volume of spending in the economy. Spending rises not only because there is more money, but also because the increase in the quantity of money leads to a more rapid spending of money.

Now observe that the other side of spending is people’s revenues and incomes, since one man’s spending is another man’s receipts. Obviously, in super-inflating the volume of spending in the economy, inflation also super-inflates people’s revenues and incomes.

Inflation also does something else. It encourages people to pile up a mountain of debt that they can pay only so long as their revenues and incomes hold up; indeed, only so long as their revenues and incomes go on increasing.

One way that inflation encourages debt is simply by leading people to borrow in anticipation of rising prices and as a hedge against further inflation. Housing purchases today are a prime example of the influence of inflation. People go heavily into debt to buy houses at already inflated prices, because they expect prices to go on rising. The same thing happens with business spending for plant and equipment and inventories.

But even before rising prices become taken for granted, inflation encourages borrowing by holding down the rate of interest in relation to the rate of profit. I have said that inflation raises the rate of interest, and it does. It does so because as new money enters the economy and gets spent, it drives up sales revenues and profits. It thus raises the rate of profit, and that pulls up the rate of interest. But to the extent that inflation takes place in the form of credit expansion—the creation of new loanable funds—the rate of interest, even though rising, lags behind the rise in the rate of profit. As a result, inflation makes borrowing exceptionally profitable; and the more so, the more leverage the borrowing provides.

In sum, we’ve got inflation doing two critical things: It super-inflates people’s revenues and incomes, and it leads them to pile up heavy debts against those revenues and incomes.

This is what sets the stage for a depression if inflation stops. Because, then the causes of a low need and desire for money balances are removed. People then start trying to rebuild their money balances. As a result, spending and the velocity of circulation fall. So people’s money revenues and incomes fall. Then they can’t pay their debts. Mass bankruptcies occur. In the process, banks fail and the money supply actually gets reduced.

This, I believe, is the essence of the inflation-depression process. The critical factor is the contraction in spending and revenues, following the end of inflation, which leaves people with no means of paying their debts.

Now this contraction in spending and the consequent bankruptcies are what the transition to a 100% reserve gold coin standard could avoid, while representing a complete halt to all further inflation.

Let me explain what I mean. To do so, I have to go back again to our present paper money system and look at things the way they stand in concrete dollars-and-cents terms. Right now, we have a money supply of roughly $400 billion. We also have a gross national product of about $2,500 billion. Gross national product, or gnp for short, can be taken as an indication of total spending in the economy. (Actually, it’s a lot smaller than total spending, but it can serve as an indication nonetheless.)

Because gnp is $2,500 billion, while our money supply is $400 billion, the velocity of circulation of money—the kind economists call income velocity—is a little more than 6. It’s just gnp divided by the money supply. And, of course, it represents the number of times in a year that the average dollar or unit of the money supply is spent in a way that counts in gnp.

If we froze the money supply at $400 billion, and especially if the money supply actually started dropping, as it did from 1929 to 1933, velocity might easily fall to 3, or even less. In most of the ’30s, it was significantly less than 3.

Obviously, to whatever extent velocity fell, even with a money supply of $400 billion, gnp would fall, people’s revenues and incomes would fall, and there would be mass bankruptcies. The banks would be under pressure, and if not bailed out by the government, they would fail too, reducing the money supply as they went.
It is possible to stop inflation cold, and yet avoid the contraction in dollars spent that would otherwise result from a greater need and desire to hold money, simply by making the gold stock equal to enough dollars.

But now, to begin to understand how gold could save the situation, imagine that our $400 billion money supply consisted of gold coins. Imagine that to bring this about, the government took its present gold holding of 265 million ounces and priced it high enough to make it equal $400 billion. A price of about $1,500 per ounce would accomplish this.

Imagine that the government physically distributed this gold to the people: it called in all the paper currency, amounting to about $100 billion, and gave out gold coins in exchange; and it turned the remaining $300 billion of its gold over to the banks, to place their checking deposits on a 100% gold reserve basis.

For the sake of maximum simplicity, we could think of the money supply as now consisting of 265 million one-ounce gold coins. (Obviously, smaller denominations would be necessary, but let's think of it this way.) Imagine that on one side of each of these coins it said “one ounce of gold,” and on the other side “$1,500.” The money supply could then be looked at as being either 265 million gold ounces or 400 billion dollars.

People would certainly want to hold this gold money supply very tightly. Because the possibility of inflation would now be over for sure, since the money supply would actually be gold and thus there would physically be no way for the government to increase it. People would hold the money not as dollars, but as pieces of gold.

Let's imagine that people wanted to hold this money supply so tightly that its velocity of circulation would be only 2. The effect would be that in terms of dollars, gnp would fall all the way to $800 billion. In terms of gold, gnp would be just twice the 265 million ounces of gold, or 530 million ounces.

Now let's make a change in our example. While the gold money supply remains at 265 million ounces and its velocity remains at 2—because it is gold that people are holding—let's see what happens if we plug in a higher prices of gold. Imagine that on the dollar side of each of the one-ounce gold coins that constituted the money supply, it said not “$1,500,” but “$3,000.”

Observe. The gold money supply remains 265 million ounces and the gold gnp remains $30 million ounces. But the dollar money supply now becomes $800 billion—twice as large. And the dollar gnp now becomes $1,600 billion—also twice as large.

Let's carry this a step further. At a gold price of $4,500, the 265-million-ounce gold money supply becomes equal to a dollar money supply of $1,200 billion, and the $300-million-ounce gold gnp becomes equal to a $2,400 billion gnp. Just one more small step, and a gold price of a little more than $4,700 per ounce yields the original dollar gnp of $2,500 billion.

The gold can be distributed to individuals and businesses, would certainly go a long way toward solving the problem of excessive debt, without further harm to creditors.

Now we have to introduce an important complication into the discussion, which is the fact that the United States is only one country in the world economy. If the United States went to gold at $4,700 per ounce, or even $1,500 per ounce, and were the only country to do so, it would experience an enormous increase in its gold stock. It might attract half or even much more than half of the world's monetary gold, for until sufficient gold came in, its value would be higher here than anywhere else.

Estimates of the world's gold stock vary between two billion and three billion ounces; some may even go higher. Thus, even at a price of $1,500 per ounce we might end up with a gold stock of well over a billion ounces and thus a substantial increase in gnp in terms of dollars. Furthermore, the country could be exhausted in producing the exports needed to import all this gold. And even if we could overcome this problem, there could be a further problem. Namely, what if the American economy became geared to the use of such a substantial proportion of the world's gold, and then other countries began going over to gold? At that time, we'd begin experiencing mass outflows—we could have a kind of deflation in gold.

This leads to the conclusion that any kind of reasonably smooth transition to a 100% reserve gold coin system would have to be accomplished internationally. It would have to be undertaken simultaneously by as many of the world's economically important countries as possible. It would need the cooperation of the Common Market countries, Japan, the Middle Eastern countries, the larger Latin American countries, and the former British dominions, as well as the United States.

If this were done, then it would probably be possible for the United States to adopt the system at a gold price of no more than about $2,500 per ounce in terms of today's buying power. I arrive at this figure on the conservative assumption of a world gold stock of two billion ounces and the further assumption that the American economy represents about one-fourth of the world. As a
result, I estimate our potential gold money supply under a world-wide 100% reserve system as 500 million ounces. Assuming a velocity of two, our gold gnp would be one billion ounces.

Given today's gnp of $2,500 billion, gold would have to be priced at $2,500 per ounce to make it possible for the billion-ounce gold gnp to represent an unchanged dollar gnp and thus avoid a contraction in dollar revenues and incomes.

Next year, of course, the appropriate gold price would be higher. The principle is simply to price gold in such a way that the prospective gold-ounce gnp of the country is made to equal the country's gnp in dollars at the time the transition is to be made.

Of course, even if the system were adopted internationally, a great deal would depend on the accuracy of the estimates of the world's gold stock, the relative share of it that an individual country could expect to attract, and the prospective velocity of gold money in that country. These would obviously be crucial to determining the appropriate price of gold for that country. Major errors would certainly be possible.

I, for one, would favor erring on the side of too high a price of gold, rather than too low. This at least would avoid mass bankruptcies, which, given the inability of our judiciary to keep pace even with its current case load, would probably take a decade or more to get sorted out; which would mean that in the interval the economy would be largely paralyzed, because no one would know just who owned what.

But no matter what errors might be made in picking the right price of gold, the adoption of the 100% reserve gold coin system would have to represent an improvement over our present, paper money system. And this is true even in the event of our having to adopt it unilaterally.

For suppose too high a price of gold were selected. That would be equivalent to a burst of additional inflation from the perspective of dollars. But whatever the size of this burst, the paper money system will soon produce much more inflation, for it continues to inflate and does so at an accelerating pace, while the burst would be non-repeateable on the gold system.

Suppose the price of gold were set too low and a depression did occur. The debt-paying power of the gold in terms of dollars could then be raised. But the crucial thing would be that the government would not be able to inflate the physical gold stock, which by then would be the actual money of the country. Thus, it would not be able to go on with the destruction of money and of the whole division of labor system, which depends on money.

Finally, even if we adopted the system unilaterally, and did import a vast quantity of gold in exchange for our goods, our loss as individuals would be no greater—in fact it would be a lot less—than under the paper money system. Under the paper money system, every year each of us in effect imports paper money in exchange for goods or services. For each of us almost always finishes the year with a larger holding of paper money (including checking balances) than he began it; and we have had to trade away our goods and services to do so.

But unlike gold, with paper money there is no end to the process, short of the destruction of the paper money in a currency collapse. If we had to import excess gold, not only would there be an end in sight, but we could probably count on later exporting the gold at a higher value, so that our loss on that count would not be permanent. In fact, if we used most of the excess gold coming in from a unilateral adoption of the system to build up our cash holdings, and did not gear the operation of the economy to it, we might actually profit in the long run by being the first country to adopt gold. For we would acquire gold at a relatively low value, when only we wanted it, and then give it back to the rest of the world at a much higher value, when everyone else wanted it as well.

To summarize, the essence of my idea is simply this. We can stop inflation cold by switching to a 100% reserve gold coin system, which the government lacks the physical power to inflate. And to stop this from producing a depression, we call the country's gold money supply the equivalent of enough dollars so that no matter how tightly it is held, there is no contraction of spending calculated in dollars. Thus the critical factor in producing a depression is removed. At the same time, the upward revaluation of gold and the massive transfer of gold assets to the banking system make possible a large-scale cancellation of bank debt, thereby substantially reducing the overall debt burden in the economy and avoiding the mass bankruptcies characteristic of a depression.

As a final note, it cannot be stressed too strongly how vital is the 100% reserve coin element if gold is to be used to solve our dilemma. If the attempt were made to go to gold without this element, that is, with the government continuing to hold the gold and the people using paper, the effect of a sharply higher price of gold would merely be more inflation, and an actual increase in the velocity of circulation of money. For then, people would experience merely an increase in the quantity of paper dollars, that could be endlessly repeated. On the 100% reserve gold coin system, what they are holding is not dollars, but gold. The velocity of money is then determined by the fact that the pieces of money are gold. The pieces of gold are held tightly and the number of dollars the pieces are called is then unable to affect the rate at which the money is spent.

I'd like to indicate the connection of my proposal with an even wider program of reform.

I believe that if we could solve our monetary dilemma in the way I have explained—by ending inflation in an environment of great financial liquidity, that is, of large holdings of gold money relative to spending—we could also radically reduce the size of the government's budget and the scope of government activity, without fear of causing mass unemployment or a depression.

It is widely believed that if we seriously cut back government spending, we would cause an enormous problem of adjustment and probably a depression; and thus we just couldn't do it.

All this is probably true under present monetary conditions, where the debt structure stands like a house of cards and the least failure of demand anywhere in the economic system is capable of producing a wave of bankruptcies. But it would not be true if our economy possessed the high degree of liquidity that a 100% reserve gold coin system could give.

If firms possessed large cash reserves and smaller debts relative to their revenues and incomes, they would be able to ride out the kind of temporary, localized failures of demand that would accompany slashing the government's budget. They would be in a position of financial strength comparable to what they enjoyed in 1946.

It's been forgotten, but between 1945 and 1946—a period of just one year—federal government spending in the United States was reduced by about 60% (from $85 billion to $35 billion) and more than ten million government employees were dismissed! This was the conversion from the war economy to a peace-time economy.

At the time, many people feared that the result would be mass unemployment and a resumption of the depression. The actual effect was not unemployment, but a rapid and radical change in the type of employment. The millions of former soldiers and sailors and war workers quickly changed jobs and began producing goods and services of value to the lives and well-being of individuals. The net effect was simply an enormous rise in the standard of living.

All this was possible because the tremendous financial strength of the economy—indicated by a velocity of circulation of money of less than 2 in 1946—guaranteed that as government spending fell, private spending would increase correspondingly. For there was simply no need to build up liquidity any higher than it already was.

If we could achieve comparable financial strength today, as I believe we could with a 100% reserve gold coin standard, then I am convinced our economy could experience a far more dramatic improvement than it did in 1946. In 1946, our improvement came from disbanding a virtual American army that had fought on foreign soil in the defense of the United States. Today, our improvement would come from disbanning a virtual enemy army that operates on our own shores against the American people—I mean the massive government bureaucracy that redistributes and consumes the American people's wealth while doing its utmost to stop them from producing it. Disband this enemy army, and our output of goods and services must skyrocket.

Thus, as I see it, the 100% reserve gold coin standard is a critical element in the economic reconstruction of the United States. It could stop inflation without depression and set the stage for the rapid and radical reduction of government activity.
November 9, 1981

Donald Regan, Secretary  
United States Department of the Treasury  
Chairman, United States Gold Commission  
15th and Pennsylvania Ave.  
Washington, D.C. 20220

Dear Mr. Regan:

Will you please accept and present the following as my public testimony to the Gold Commission:

The proud company on whose letterhead I write will close its doors at the end of this harvest season. A miserably short crop of apples in northeast Ohio this year will have proved to be the cup of hemlock, but the demise of the business has been inevitable for some time. Management (that's me) is unable to cope with the decades-long government policies of inflation and usurious interest rates.

In this huge and complex economy the loss of Rhodes Cider Mill will be no more noticed than the death of a sparrow. A few diabetics who have discovered that they can enjoy our sweet apple jelly that is made without sugar may decry the loss of the last American mill producing this venerable product. Those customers who think our fresh cider is the best in the world will have to look elsewhere.

The loss of my very own business will mean the loss of a degree of independence in which I once reveled. (Lately, concern and fear have smothered the happier emotions.) With few assets and a growing family, I will have to go to work on someone else's ideas and ambitions. I expect the transition will not be easy for I have not worked for anyone but myself since I was discharged from the Army in 1961.

By the scales on which I measure freedom, mine will be severely encumbered. I have driven myself to work as many as 120 hours a week in my own employ with the knowledge that only God or the devil could make me work harder. Now I will have to work for someone else (and my creditors), and even 40 hours a week will be drudgery. I feel a tremendous loss of individual liberty. I am certain that my loss was no accident, but rather the careful contrivance of people within my own government.
Inflation benefits but a few at the expense of many. A cursory knowledge of human nature leads to the inevitable conclusion that those who benefit have been culpable in the continuance of this policy for decades. Only a blind fool would believe otherwise.

As an exemplary victim of this monetary policy of inflation, I demand that it be halted forthwith. I will no longer allow people of special influence to steal my assets and destroy my liberty by reducing the value of my money. I insist on a monetary system that allows me and my fellow citizens to understand precisely how the value of our money is determined. Don't ask me to trust the value of my money to men. I want money that is free from policy. Men and money with a value that is determined by policy are what brought me to my low estate, and it enriched those men in the process.

Give me a system of money that I can understand. Give me gold, and I will give you back your worthless Federal Reserve notes.

I want a monetary system that can be explained to the majority of American citizens in 300 words or less. It must be a system that they can comprehend fully lest they continue to be cheated.

If you can explain the current system of fractional reserve banking to the average citizen in less than a month, I will eat my hat. I have asked numerous senators and congressmen to explain the system to me in their own words, but not one has been able to do so. Determining the factors that effect the value of money under our current system is so complex as to defy the most astute citizen and provide a classic prescription for cheating. That is precisely what is happening.

I want money that will be worth tomorrow what I labored to earn today. Give me gold, or get the hell out of my government.

Sincerely,

Jim Russell, President
B. L. Rhodes Company
329 Park Ave.
Chardon, Ohio 44024
Mr. Ralph V. Koope
Director, Office of International Monetary Affairs
Treasury Department
Washington, D.C. 20220

Dear Mr. Koope:

Very belatedly, I have received a notice of public hearings by the Gold Commissioner.

I enclose a copy of an article entitled "The Essentials of a Sound Currency System." I would have sent you the requested twenty copies if I had learned of the hearings in time. If you can make any use of it at this late date, please feel free to do so.

I have already sent copies of a stream-lined version of the article to Commission members Jacob, Paul, and Wallich.

I enclose also a short summary of a booklet entitled "The Failures of Monetarism." I have sent copies to eight members of the Gold Commission and a goodly number of senators and representatives of appropriate committees.

As an old-line economic historian, it is almost incomprehensible to me that so many professional economists have fallen for the new quantity theory of money.

Sincerely,

Robert R. Russell
Professor Emeritus
A return to the gold standard could beat inflation

By ROBERT R. RUSSEL

This country's number one economic problem is high and accelerating inflation. The rate of inflation has been increasing for the last 13 years. The general level of consumers' prices has increased in that period by 180 percent. One dollar now will buy no more than 36 cents would buy in 1967.

Such inflation of prices, such a decline in the purchasing power of our dollar, have worked vast inequities between creditors and debtors, have created great uncertainties for businesses and for public fiscal authorities, and have given us the highest interest rates in the history of the republic.

Consumer prices have increased in that period by 180 percent. One dollar now will buy no more than 36 cents would buy in 1967.

In our own national history there have been three other times when our government felt it necessary to issue legal-tender paper currency that could not be redeemed in standard coin or bullion; they were during the American Revolution, in the course of the War of 1812 and in early years of the Civil War. In the history of the world there have been scores of cases of governments being forced by mismanagement or uncontrollable circumstances to suspend specie payments (as the phrase used to be) for their paper currencies; and in every such case, depreciation of the exchange value of the paper currency promptly set in and proceeded at an accelerating rate.

From Jan. 1, 1879 to early March 1968 this country was undeniably on the gold standard, and during that period our paper dollar had precisely the same purchasing power that the gold standard-dollar had. Prices commonly went up somewhat in good years and down somewhat in poor years. Only in wartime and big booms did an inflation rate exceed 1 or 2 percent.

Since the country went off the gold standard, we have had a high inflation rate every year, good, bad or indifferent! And inflation is cumulative. Consider this little bit of simple arithmetic: If we take 1967 as a base year and call the price level then 100, our present price level is 280. If, as some hope, the inflation rate can somehow be held to 8 percent next year, that would add $22.40, not just $8, to the price of a representative item that cost $100 in 1967.

As we all know, high inflation and its consequent economic and social ills have not been confined to the United States. In the last eight to 20 years, every other free-enterprise nation in the world has also experienced high inflation and all the accompanying ills. Only a few of them have had lower inflation than the United States.

Every one of them had been on the gold standard, at least for a while; and every one of them had been forced, or believed it was forced, by circumstances and events to abandon the gold standard and attempt to carry on with inconvertible paper currency. Space will not permit telling how these wholesale departures from the gold standard, all within a short period, came about. (Briefly, they came from the breakdown of the Bretton Woods International Monetary Accord.)

And it is not impracticable to restore the gold standard. It is true that during the long halt a lot of gold has gone into the hands of speculators and hoarders. But fortunately and wisely the governments of free world nations have kept their gold reserves pretty well intact. The United States has by far the largest reserve of all; and the 10 free world nations have kept their gold reserves pretty well intact.

In former times, before the present crisis, in every case of intolerable inflation following a resort to greenbacks, the inflation was eventually brought under control by re-establishing a standard of value and convertibility of paper currency into standard coin or bullion. In a few instances "resumption of specie payment" was achieved with the same weight of gold or silver in the standard dollar, pound, franc, or other unit of value that there had been in it before suspension. In the great majority of cases, however, the paper notes had depreciated so greatly that they were either repudiated altogether or redeemed at a small fraction of face value and replaced with new.

In view of all this evidence, it seems to me, we can only conclude that there is no way to bring inflation under control and stabilize the economy without first re-establishing a standard of value and convertibility for our paper currency. And, in view of the experience of highly commercialized nations during the last century and more, it also seems clear that the standard must be gold.

And it is not impracticable to restore the gold standard. It is true that during the long halt a lot of gold has gone into the hands of speculators and hoarders. But fortunately and wisely the governments of free world nations have kept their gold reserves pretty well intact. The United States has by far the largest reserve of all; and the 10 free world nations have kept their gold reserves pretty well intact. The United States has by far the largest reserve of all; and the 10 free world nations have kept their gold reserves pretty well intact.
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There is no way under the sun to bring the present rampaging inflation under control without first re-establishing a standard of value for our paper currency; and, unless specialists can quickly devise a better one, the standard had best be gold.

*   *   *   *   *   *   *   *   *

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THE ESSENTIALS OF A SOUND CURRENCY SYSTEM

The United States is now relying on a wholly Greenback currency, and so, for that matter, is every other country in the free-enterprise world. "Greenback" currency is paper currency issued solely on the credit of a government, made legal tender for all debts public and private, and not convertible per unit of face value into a standard amount of some commodity of great intrinsic value and world-wide use, such as gold or silver.

The United States abandoned such convertibility in actual practice in 1968 and by law in August 1971. Some other countries abandoned it before the United States did; others including most of this country's principal trading partners did so only after this nation had definitely ended convertibility.

In our own national history there have been three other times when our Government and people were forced or felt forced to resort to inconvertible paper currency. In the history of the world there have been scores of cases of governments being forced to or choosing to suspend convertibility and resort to Greenbacks. In every such case the purchasing power of units of the Greenback currency has rapidly depreciated with consequent rapid rises in prices, i.e. "rocketing" inflation. History has repeatedly shown that people rapidly lose confidence in inconvertible paper currency even though it is issued by their own government and is made legal tender for all debts public and private. And in all good sense why should people not lose confidence in such "unbacked" currency?

Rapid inflation has a very unsettling effect upon the working of an economy. Everyone who makes a contract requiring payment more than a month or two ahead has to gamble on the rate of inflation. For example,
money lenders, in determining what interest rate to charge, add to what was the usual rate back in normal times, say 5 or 6 percent, what they guess the inflation rate will be during the time until the loan is due. Rapid inflation creates vast inequities as between creditors and debtors, employees and employers, and the poor and the affluent.

In no case of a resort to a greenback currency has a government been able to maintain stability in its nation's economy while still relying on such currency. But, it should be noted, national economies are quite resilient systems. Currency disorders unsettle them and may slow economic activities, but such disorders never bring an economy to a halt.

It has been possible to mitigate to some extent the inequities worked by rapid inflation; by increasing the dollar (or other units-of-value) amounts of pensions and welfare payments, for example. But the inequities that remain far exceed those mitigated.

Up to now every case of forced or chosen reliance on an inconvertible paper currency has eventually ended in the reestablishment of convertibility. In a few instances, that of our Civil War greenbacks for one, convertibility was restored after a number of years at face value into coin or bullion of the same weight per unit that had served the purpose before the suspension. In the great majority of cases, however, the greenbacks have depreciated in purchasing power so greatly that they have either been repudiated altogether or redeemed in specie at a fraction of face value and withdrawn from circulation.

I do not believe our people generally are sufficiently acquainted with the simple facts of history stated above, or sufficiently understood the importance of a stable unit of value to the good working of a nation's economy, or fully understand how difficult it has been at times to maintain a high
degree of stability in the purchasing power of the dollar, or are sufficiently aware of the events and developments that led or forced our government to abandon the gold standard for our currency, after the country had been on that standard uninterruptedly for eighty-nine years.

This country has not had a thorough going debate on the essentials of a sound currency system for over a generation; in fact, not really since that of 1896-1901. The debate evoked by the designing of the Federal Reserve System, 1908-15, turned almost altogether on the issue of who should control banking and how. The debates at the time of the devaluation of the standard gold dollar, 1933-34, were quite superficial. If during the last half century, any objective history of currency in general or of United States currency in particular has been published, it has escaped my notice and certainly has not been cited in the recent extensive discussions of the causes of our present inflation and how to control it.

In the remaining pages of this article, I sketch the history of United States currency. I am certain that the history of our currency supports and illustrates the statements I have made above about the history of currencies in general. I believe that, if there had been a more widespread knowledge of our economic history in general and, more particularly, of our financial history among our more thoughtful citizens, our people would have been better prepared to understand what has happened to them in the last thirteen years and, indeed, that it might not have happened at all.

I want readers to understand in advance, though, that I have not concluded from my long study of economic history that our abandonment of, or our having been forced off, the gold standard is the sole cause of the present inflation; only that it is the principal cause. I do not conclude that the re-establishment of convertibility will by itself end inflation; only that it
is a necessary condition for a practicable control of prices and wages. I do not conclude that a gold standard of value is a perfect standard; only that during the last century or so it has been found the best one available in free-enterprise, highly commercialized societies.

During the American Revolution, our fledgling central government, having no revenue system and having little credit at home or abroad, issued approximately $240 million, face value, of "Continental (paper) currency" and pledged that in due course the several Thirteen States each would redeem its quota in specie. This they never did. In fact, most of the state governments also issued paper currency in large amounts, bringing the total, United States and state issues combined, to the neighborhood of $400 million face value. All of this currency rapidly depreciated and became virtually worthless. During Washington's Administration, provision was made for the redemption of the Continental issues at one cent on the dollar. Of the original $240 million only about $6 million was brought in for redemption, and, so, the cost to the Treasury for acquitting all claims was about $60,000.

The framers of our Constitution, in 1787, having an enlightened view of the advantages of a common currency throughout a nation and having had first-hand experience with the inconvertible currency just described, put provisions in that document giving Congress the power to coin money and fix the value thereof and of foreign coin and forbidding the states to "coin money; emit bills of credit [or] make anything but gold and silver coin a tender in payment of debts." Whether or not the framers intended this latter provision to also forbid Congress to issue bills of credit and make them legal tender does not clearly appear. However, this question became an issue in cases before the Supreme Court some eighty years later, and the Court held that there are no constitutional limitations on the power of Congress in providing
Congress under the new Constitution early provided for both a standard silver dollar and a standard gold dollar, that is, for bimetallism, and technically we had bimetallism until 1900. Practically, because the gold in the standard gold dollar was worth more than the markets of the world than the silver in the silver dollar, little gold came to the mints or into the country and we had a silver standard for many years. In 1834 Congress changed the relative weights of the metals in the two standard dollars from 15 (silver) to 1 (gold) to approximately 16 to 1. That, as it soon turned out, undervalued silver, silver dollars shortly disappeared from circulation, gold coins replaced them, and the country was, for practical purposes, on the gold standard.

From 1789 to 1862, except for a few small and temporary issues, we had no legal-tender paper currency. We did have a growing volume of bank notes, mostly issued by state-chartered banks. They were not legal tender, but the banks were required by law to stand ready at all times to redeem their respective notes in specie. Generally they did. But there were frequent defaults and suspensions of such payment by individual banks and occasional general suspensions throughout the country or whole regions thereof. Such suspensions always caused derangement in prices, wages, and interest rates, worked inequities between debtors and creditors and between wage earners and employers, and in general adversely affected the state of the economy.

Our most notable experience with suspensions of specie payments prior to 1968-1971 came during our Civil War and a period of fourteen years thereafter. After the Civil War started, several New York City banks that had extended large loans to Southern firms were hard hit by their inability to collect

1 Knox v. Lee and Parker v. Davis (1871) in 12 Wallace, 457.
such loans and, in December 1861, suspended specie payment of their bank notes. Shortly, as if by one accord, all the other banks in the loyal states east of the Rockies followed suit. In doing so they all were violating their charters and the laws of their respective states but assumed, correctly as it turned out, that, if all violated the law, none would be penalized. Neither the state authorities, who under the existing set-up had the prime responsibility, nor the Federal authorities, who had very little control over state banks, could prevent suspension or force resumption. Soon the Union government, faced with unusually large expenditures, having not yet devised an adequate tax system, and finding it impossible to borrow the needed funds, wisely or unwisely issued about $450 million, face value, of non-interest-bearing notes, commonly called greenbacks, and made them legal tender for most payments. The Federal Government at the time could not keep its promise (printed on the notes) to pay holders in standard dollars on demand. Somehow the failure to even begin to redeem the notes came to be called "suspension of specie payments." The gold dollar remained the legal standard of value, and the Government paid the interest on its bonds in gold, and promised to pay the principal in gold when the bonds should mature, and continued to collect duties on imports, the principal form of Federal taxes, in gold. But because of uncertainty as to when, if ever, the Union government could and would "resume" specie payments, the greenbacks soon began to depreciate in purchasing power, or, in the parlance of the day and of most historians, gold "went to a premium," in terms of greenbacks, that is. Since they were legal tender, everyone in his right mind paid his bills in greenbacks, the cheaper money. The greenbacks, accordingly, became the common currency in the loyal states and the money of account. Banks were allowed to keep their reserves in greenbacks and, in order to keep their bank notes in circulation, had to stand ready to redeem them on demand in greenbacks.

As greenbacks continued to circulate below par in terms of gold, the inevitable tribe of speculators tried to turn an honest penny by speculating on
PREMIUM ON GOLD, 1862-1879
(Measured in greenbacks)
the price of gold in terms of greenbacks; that is, in reality, on the future of the greenbacks. They set up a "gold room" in New York, and the price of gold there was quoted from day to day by all the media of the time, pretty much as the price of gold in terms of various paper currencies is now being quoted by all our present-day media. During the War the price of gold in the gold room fluctuated rather violently with the fortunes of the Union military forces and the state of public expectations as to the outcome of the War and the economic consequences of victory or defeat.

General prices of goods and commodities in paper currency rose as the purchasing power of the paper dollar declined. They also fluctuated with changing fears and hopes, but not so widely as the speculative price of gold. The general trend of prices during the War was upward until near the end of the struggle. Wages increased also but not as rapidly as prices of goods did. Interest rates rose to abnormal heights. People on fixed incomes were hardest hit by the inflation. When legal-tender prices during the War are translated into prices in gold as set in the markets of the world, it is found that there was no notable inflation of such prices until the final year of the War.

The Confederate experience with irredeemable legal-tender currency was far worse than that of the Union. The Confederate government had much greater difficulty in marketing bonds and collecting taxes and had to rely excessively on the issuance of legal-tender notes. The notes depreciated rapidly in purchasing power as prospects of Confederate independence waned and in the later

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2 See The graph on page 1 is adapted from David R. Denby, Financial History of the United States, 376.

2 An old account, but still one of the best accounts, of the incidence of inflation of prices during the Civil War is in Emerson D. Fite, Social and Industrial Conditions in the North During the Civil War (New York, 1910), chapters VII and X.
years of the War became virtually worthless. At the War's end, of course, they became scrap paper.

After it became certain, in the fall of 1864, that the Federals would win the war and the Union would be preserved and especially after Lee's surrender, the premium on gold fell sharply. The prices in gold of greenbacks accordingly rose sharply, interest rates fell, and general price levels, in paper currency, also fell but more slowly.

After the Civil War ended there was quite general agreement that the Government should "resume specie payments" and in coin of the existing standard weight per dollar. Devaluation was scarcely thought of; it might well have been. The big question was when and how to resume. On that issue people divided. The division was between creditors and debtors. The former wanted to hasten resumption so as to be paid in dearer money. Debtors wanted to postpone it until they could pay their debts in currency still depreciated in value. Meanwhile, greenbacks and the other currency sustained by them continued to circulate at a discount but with the discount, or the premium on gold if one prefers to put it that way, gradually declining as the outlines of the eventual settlement of the various issues took shape. After much debate and maneuvering, resumption was finally achieved in this manner: Congress, by an act of January 14, 1875, set a date several years ahead, January 1, 1879, to be precise, when redemption of the greenbacks was to begin and instructed the Secretary of the Treasury to accumulate a fund of gold large enough to serve the purpose. The Secretary in office when the fateful day approached accumulated a fund of gold coin of over $100 million. On the day assigned and subsequently, few greenbacks were presented for redemption. It transpired that when people had been assured, presumably by the large size of the gold reserve, that they could convert their paper
dollars, dollar for dollar, into coin of the realm, they did not care to do so. And what is more, when greenbacks were "redeemed," they were not cancelled or destroyed but restored to circulation; and thus all the greenbacks outstanding as of January 1, 1879, $346,681,000 face value of them, ceased to be a debt of the Government and became an honorable part of our currency system. Officially, they were called "lawful money."

By an act of 1863 and subsequent amendments, Congress provided for the chartering of national banks and conferred upon them the privilege of issuing limited amounts of National Bank Notes under what were considered adequate safeguards of the public interest. National banks were required to stand ready to redeem their notes on demand in legal-tender currency. As surety that they would do so, they were required to deposit U.S. bonds with the United States Treasury of both a face value and a market value in excess by a stipulated percentage of the face value of the notes. In case of the failure of a bank to redeem its notes on demand in lawful money, the Treasury would sell the bonds deposited and take over the obligation of redeeming the notes. So the bank notes circulated at par with greenbacks 1879 and thereafter at par with gold, and in last analysis it was the Federal government that insured their convertibility, upon request of holders, into "lawful money" or into standard coin.

It had been the expectation of Congress when it provided for national banks that they would supplant the state banks and thus rid the country of

⁴As of June 30, 1978 there were still $322,539,016 total face value of these "United States Notes" in existence, no doubt after many launderings and reprints. They are now being slowly retired. By an act of Congress approved March 18, 1968 (Public Law 99-269), laws making them redeemable in standard gold dollars were repealed; for at that time the United States suspended the convertibility of all its paper currency. See below, p. 37.
the troublesome state-bank notes. The expectation proved false in both respects, but in 1865 Congress imposed a ten percent annual excise tax on state bank-note issues and that promptly ended them.

From 1875 at the very latest to the 1960s at the earliest, it is safe to say, there was general agreement among our thinking citizens that the following were the essential features of a sound currency system: 1) A standard of value must be maintained, and the standard should be a fixed quantity of one or the other or of each of the money metals named in the Constitution of the United States. 2) It is possible and proper to keep a volume of legal-tender paper currency circulating at par in purchasing power with standard coin provided the monetary authorities keep in reserve at all times a stock of the standard money metal large enough to assure people that, if at any time they should wish to convert paper dollars into standard dollars, they can do so. 3) The reserve of standard money need not be larger than a sizable fraction of the face value of the paper notes that might be issued, but whatever fraction is required, convertibility must be maintained.

To avoid misunderstanding, I should note that underlying this consensus view of the essentials of a sound currency was the assumption, not often

5There were really two main reasons for the use of paper currency, namely, 1) paper is far cheaper than money metal and the use of paper renders it possible to make an amount of standard coin go farther, perhaps several times as far; and 2) the persistent insistence of the banking fraternity that banks be allowed to enjoy the profits which arise from issuing bank notes. If,
analyzed but approximately valid and defensible at the time, that there was
enough competition in our markets and in world markets to insure that our
general price level, taking one year with another, would be determined by
the purchasing power of gold in the markets of the world.

For long the only noteworthy dissenters from the consensus view of the
essential features of a sound currency system were a small group of theorists
in the Greenback Party, a party that was active in the 1870's and 1880's.
They advanced a quantity theory of money. The Greenbackers asserted that
the purchasing power of a dollar varies inversely with the number of dollars
in circulation; that it is not necessary to have a commodity standard of
value, the currency may as well all be greenbacks; that the Federal govern-
ment should have the sole authority to issue the currency of the nation, no
bank should have a hand in it; and that, with such a system, the monetary
authorities can maintain stable prices by manipulating the amount of currency
in circulation. The great majority of our people at the time looked upon
the Greenbackers as crackpots.

It should be recalled that from 1792 on, until 1900 in fact, the United
States had, by law, two standard dollars, a silver dollar and a gold dollar,
but that from shortly after 1834 we were practically on the gold standard.
From the later 1960s to 1896 or 1897 the purchasing power of gold gradually appreciated. The cause was that several countries were changing from the silver standard to the gold standard and were building their gold stocks while at the same time there was a great falling off in the annual increments of newly mined gold. As the purchasing power of the gold in a standard dollar rose, prices in gold dollars and other currency convertible into gold fell. By 1896 such prices had declined by almost 50 percent. The great and rather rapid decrease in prices in terms of standard dollars worked great injustices upon people with long-term debts and provided quite a windfall for numerous creditors, including all on fixed incomes.

Meanwhile, during the period under discussion, the purchasing power of a given amount of silver did not increase so much as that of the gold dollar, if indeed, it increased at all. By the middle 1870s the silver prescribed by law for a standard silver dollar was worth less than a gold dollar and by 1896 was worth only about fifty cents in gold. This change in the relative values of gold and silver led to efforts by silver miners, who wanted to improve the market for their product, and by debt-burdened people generally, who were anxious to ease the burden with cheaper dollars, to restore the "free and unlimited" coinage of standard silver dollars and require the United States Treasury to redeem our
paper currency therein. This effort substantially failed. All that the free-silver forces were able to get from Congress was an act, 1876, requiring the purchase of limited amounts of silver per month and its coinage into standard-weight silver dollars, and an act of 1890, superseding the act of 1876, requiring the Treasury to buy a certain amount of silver per year and pay for it with new legal-tender notes, commonly called the Treasury Notes of 1890. The act of 1890 was repealed in 1893. The Presidents and Secretaries of the Treasury at the time were all determined to maintain the gold standard. They managed to do so by paying out gold on demand to redeem nongold currency, including silver dollars and Treasury Notes of 1890.

The advocates of "free silver" had just grounds for complaint. But it was well that their "silver crusade" failed; for, if their proposed remedy had been adopted, say in 1896, the effect would have been to raise prices about 100 percent as soon as adjustments could be made, and that would have worked far greater inequities than it would have remedied. But, it should be noted in passing, that William Jennings Bryan and his supporters held the same understanding of the essentials of a good currency system that William McKinley and his followers had; the Bryan people wanted to change the standard.

Whatever the merits of bimetallism may be or have been, Congress rendered the matter moot by the Gold Standard Act of 1900. That act made the existing gold dollar the sole "standard unit of value" and stipulated that "all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard." We continued to be on the gold standard until August 15, 1971, when President Nixon suspended convertibility of our paper currency.
Between about 1897 and 1927 changes in the supply, especially, and demand for gold caused the purchasing power of gold to fall about 50 percent and, accordingly, general price levels to rise about 100 percent. This worked to benefit debtors and injure creditors, including all on fixed incomes. But, of course, those who benefited in this later period were not the same people, in most cases, who had been hurt by the fall in prices in the preceding period of thirty years.

Advocates of the gold standard for currency can properly claim only that the purchasing power of gold is less subject to changes from year to year or from decade to decade than that of any other commodity suitable for a medium of exchange and a standard of value. The explanation why the purchasing power of gold is relatively so stable is the circumstance that a very large proportion, perhaps about one half, of the gold mined through the ages is still above ground in forms that leave it available for monetary and other purposes, and consequently, a wide variation in the amount of newly mined gold from year to year will not cause any considerable or sudden changes in gold's purchasing power.

From 1879 to 1900 somehow a consensus was arrived at that a gold reserve of $100 million in the U.S. Treasury was the minimum required to maintain the convertibility of our nongold currency. During the "free silver" crisis mentioned above, the reserve fell below that figure, and the Treasury had to pay a premium to get enough gold to prevent depletion. The Gold Standard Act of 1900 set the minimum at $150 million but gave the Secretary of the Treasury a mandate to maintain convertibility, presumably by increasing the gold reserve if necessary. In 1900 the total face value of all our nongold currency outstanding (not counting gold certificates, of course, but includ-
ing national bank notes and counting only that portion of the face value in
gold of said silver coin in circulation and coin or bullion in the Treasury
represented by silver certificates) was approximately $950 million, a total
over six times as great as the minimum reserve deemed necessary to insure
convertibility and over four times as large as the amount of gold actually
in the Treasury at the time. After that the ratio of monetary gold in stock
to nongold currency in use never fell below one to four until 1967.

As a matter of fact there is no scientific way to determine how large
a reserve of standard coin and bullion must be maintained to insure the
convertibility of a given volume (face-value) of legal-tender paper notes
and coins of nonstandard cheaper metals. It depends upon the state of the
economy, the political stability of the country, the degree of public con­
fidence in the money authorities at the time, and how alert people are to
signs of weakness.

The Federal Reserve Act of December 28, 1913 gave us still another type
of paper currency, the now familiar Federal Reserve Notes. The Reserve Act
provided for the establishment of a number of Federal Reserve Banks. The
Banks were designed to serve a number of worthy purposes, one of which was
to "furnish an elastic currency." Earlier currency laws did not do that.
At the time there was an adequate volume of currency in the country to meet
all normal needs; but there often had been shortages of currency in some
localities or even regions, and in 1907 there had been a "money" panic in our
largest commercial centers occasioned by the difficulty in getting cash. It
was the intention and expectation of the framers of the Reserve Act that
Federal Reserve Notes would be issued only to avert such shortages and that,
Once emergencies had passed, the notes issued to meet them would be retired. But, as we have noted, the privilege of issuing paper currency offers an easy way to make a profit. So, to discourage excessive issue, Congress set strict conditions for issuance. To secure Reserve Notes a Reserve Bank must furnish the U.S. Treasury Agent collateral of specified sorts of high grade commercial paper equal in amount to the face value of the notes and must maintain a gold reserve against them of not less than 40 percent of the face value. Also the Reserve Notes were not made legal-tender for all transactions. As an added safeguard, Federal Reserve Banks were required to pay into the United States Treasury all their net earnings after meeting proper expenses and paying a 6 percent annual dividend on their respective paid-in capital stocks.

But the expectations of the framers of the Reserve Act soon proved unrealistic. The demand for cash for pocket money and bank reserves mounted very rapidly, and the Federal Reserve Banks were anxious to meet the demand. Various amendments to the Reserve Act made it easier for them to do so. An early amendment, 1917, reduced the commercial-paper-collateral requirement from 100 percent of face value to 60 percent. During the banking crisis that accompanied the Great Depression, more sorts of member-bank assets were made acceptable as collateral, most notably Federal government securities, and the notes were accorded full legal-tender status. The requirement that the Banks pay all their net earnings into the Treasury was eased by amendments from time to time and was not fully met until 1959. Our people seem

Federal Reserve Banks were also authorized to issue limited amounts of Federal Reserve Bank Notes on the same condition that other national banks might issue notes, but, because of the superior advantages to the Banks of the Reserve Notes, they issued comparatively small amounts of the Reserve Bank Notes.
to have had no hesitancy in accepting Federal Reserve Notes at any time. As early as 1919 the face value of the Notes in circulation exceeded that of all other paper currency combined. In 1945 the ratio of the two volumes was approximately 8.5 to 1. Now it is about 130 to 1. Other types of legal-tender paper currency have either been redeemed and retired or put in the way of retirement.

In 1933-34, at the depth of the Great Depression, the Franklin D. Roosevelt Administration reduced the gold content of our standard dollar to 59.06 percent of the content it had possessed for a century. This action was not occasioned by a shortage of gold; there was plenty of gold in the country. Its purpose was to raise prices and wages and, thus, make it easier for debt-burdened individuals and companies to pay their debts and interest and save their homes, chattels, and businesses. No doubt in the long run it did contribute to the inflation of prices and wages. But it did not have the immediate effect hoped for; and among the welter of New Deal recovery measures it is difficult to discern whether or not it had any such effect while the Great Depression still continued. In retrospect devaluation appears to have been a mistake.

From the early years of the Republic until 1933 the principal reliance of our Federal Government for providing the standard coin or bullion required for currency purposes had been "free and unlimited coinage," so called. That is to say, the Government accepted all the standard money metal offered and either coined it "free" and delivered the coin to the parties who had brought

These redemptions and retirements are described in considerable detail in Historical Statistics of the United States, Bicentennial Edition, 990-991. Elsewhere I have presented the view that the inflationary effect was largely delayed until wartime price controls were removed at the end of World War II. A History of the American Economic System (New York, 1964) 594.
in the bullion or gave them gold certificates for the coin the bullion would afford. (There were small fees to cover costs of assaying and other expenses.) In general the plan of "free coinage" had worked quite well. But the New Deal Administration changed the method. As a necessary step to devaluation, it required all the gold coins in the country to be turned in to the Treasury, compensating the holders with gold certificates. Congress, by the Thomas Amendment (Title III, Section 43) in the Agricultural Adjustment Act, of May 17, 1933, delegated to the President the authority to fix by proclamation the weight of the standard gold dollar as he might deem necessary but in "no event" to reduce it by more than 50 percent of its existing weight. Then instead of melting the old coins and issuing new with less gold content, as had been done so many times in history, President Roosevelt chose to keep the gold in stock and set the price in paper currency at which the Treasury would buy and sell gold. After some testing of the market, he set the price at $35 per troy ounce of pure gold. This in effect reduced the gold content of the standard dollar to 59.06 percent of its former content.

It appears that the rationale for delegating authority to the President to change the gold content of the dollar at his discretion was the belief that, by altering the content from time to time as changes in price-level trends might suggest, it would be possible to maintain an approximately stable level of prices year after year. President Roosevelt, in a statement, July 3, 1933, said the United States "seeks the kind of a dollar which a generation hence will have the same purchasing and debt-paying power as the dollar we hope to attain in the near future ..." President Roosevelt is supposed to avoid misunderstanding, it should be noted that the Treasury sold gold only through licensed traders, who undertook to supply the metal only for use in industry and the arts. The object of this practice was to try to keep it from going to speculators and hoarders.

\footnote{So quoted in Benjamin H. Beckhart, Federal Reserve System, 306.}
to have been persuaded to this view of how to stabilize the value of the
dollar by the exposition of it presented by two professors of agricultural
economics and management at Cornell University, George F. Warren and Frank
A. Pearson.

It should be observed that the new method of acquiring the gold necessary
to maintain the convertibility of our nongold currency (and thus, keep us on
the gold standard) was quite as effective for the purpose as the old free-
coinage method. But, although the President did not again change the gold
content of the standard dollar, the power to do so must have had an un-
settling effect on long-term borrowing and lending. At any rate the delega-
tion of the discretionary power was withdrawn in 1945 as a condition of our
adherence to the Bretton Woods International Monetary Agreement.

The Bretton Woods Agreement was negotiated at a conference held in
Bretton Woods, New Hampshire, July 1944, and sponsored by the then unchartered
United Nations Organization. The United States delegation played a leading
role in the negotiations. The Agreement provided for the establishment of the
International Monetary Fund (IMF); and, in accord, the Articles of Agreement of
the IMF were formulated. Eventually 126 nations, all in the Free World,
sponsored the Bretton Woods Agreement and became members of the IMF.

The term IMF, it should be noted, is used to designate both the actual fund
of gold and of paper currencies contributed by members on a quota basis and
the international organization set up to administer the fund. The signatories
negotiated a set of fixed parities for their respective units of value

12 Their exposition may be found in their book, Prices (1933).
(dollar, pound, franc, etc.). Each of them per Article IV was to be "expressed in terms of gold as a common denominator or in terms of the United States gold dollar of the weight and fineness in effect on July 1, 1944."

A number of the nations that joined the IMF fixed the par values of their respective units of value in terms of the U.S. dollar instead of directly in weights of gold. Each member nation was permitted to keep the reserves deemed requisite to maintain the convertibility of its paper currency either in gold or in paper currencies that were convertible into gold, whether its own currency or currencies of other signatories. Each member might buy or sell gold at prices in its own currency not more than one percent above or below the par of said currency. The IMF was supposed to give advice to member governments and might make loans to members to help them maintain the exchange value of their currencies. But, sooner or later, borrowing members must repay the loans either in gold or in paper currencies convertible into gold at par. Thus, although it was not spelled out in the Articles of Agreement of the IMF, it was understood that each signatory government assumed the obligation to so discipline the economy of the nation as to keep the country on the gold standard.

It almost goes without saying that the Bretton Woods Agreements were designed to promote freer trade and financial relations and friendlier political relations as well among the signatory powers by minimizing the impediments and irritations that might otherwise arise from unstable currency management on the part of some or all. Of such unstable management and the ill feelings engendered thereby, there had been numerous instances and illustrations during the period of the Great Depression and the New Deal.

In the further interest of freer trade and friendlier international relations, Bretton Woods and IMF were supplemented by a series of treaties
providing for the reduction of tariffs and the removal of other barriers to international trade. These treaties were mostly negotiated at long General-Agreement-on-Tariffs-and-Trade (GATT) Conferences, 1947 and following years. The United States Government was the leader in these negotiations also.

By the Bretton Woods Agreement Act of July 31, 1945, the United States Congress accepted membership in the IMF and, as noted above, repealed the provision of law that gave the President authority to change the gold content of our standard dollar at his discretion. In view of the action of Congress described here and of the leading part our Government had taken in negotiating the Bretton Woods Agreement, framing the Articles of Agreement of the IMF, and negotiating the GATT trade treaties, it would appear that the United States had a special obligation to make Bretton Woods and the trade treaties work and to maintain the gold standard for our currency, and to keep the price of gold at $35 per ounce.

It is my considered judgment that the international monetary and trade agreements were in general well designed for the purposes intended. However, one feature of the Articles of Agreement of the IMF was ill advised. That was the permission for signatories to use foreign paper currencies as part or even the whole of their respective bank reserves.
provided said currencies were convertible into gold at face value in the countries of issue. That feature may have been desirable at the outset of the new international monetary arrangement; but once the accord was well launched, it should have been abandoned and the requirement substituted that all signatories, except possibly those with insignificant amounts of commerce, must keep their bank reserves in gold and their own currencies. The objectionable provision, retained as it was, was bound to cause trouble and did so, as is noted shortly in this account.

For a long period after the stringency of 1896, our Treasury and our Federal Reserve Banks also (while the Banks were required to keep gold reserves against their notes) had remarkably little difficulty in getting gold to maintain the convertibility of our nongold currency. During the period, the balance of payments between this country and foreign nations was nearly always in our favor, and, as a consequence, gold flowed in faster than it flowed out. The balance of trade was quite regularly in our favor. This was especially the case during the two World Wars of the time and the periods of recovery following the Wars, while other participants more deeply involved than the United States were repairing damages. The net flow of capital investments also was in general in this direction. And during the Great Depression and after World War II, especially, there were political disorders and devaluations of currency in some of our principal European trading partners which occasioned a "flight of gold" to other countries, especially to the United States.

\[\text{13}^{12}\text{See Article XX, Sections 4c and d. The permission allowed a practice already followed by a number of governments, notably those of the Sterling Bloc.}\]

\[\text{14}^{14}\text{See above, pp. 30-31.}\]
But in the later 1950s and especially in the 1960s, after Japan, West Germany, and France and to some extent other European countries had rebuilt their factories and transport facilities and had stabilized their economies and polities, the balance of payments turned strongly against us and as a consequence our gold reserve dwindled.

The principal single explanation for the balance of payments turning against us was our failure to keep a high-enough degree of competition in our domestic markets. As a consequence of this decline of competition at home our producers of goods and services largely priced themselves out of foreign markets. In great sectors of our economy we had allowed giant corporations and combinations of corporations to develop which could avoid competition and administer prices. In a number of key industries, labor unions had become so powerful that they could virtually dictate wage scales and fringe benefits. In monopoly-dominated industries, employers could gracefully agree to liberal wage scales and pass the high labor-costs on to consumers in the form of higher prices. Many concerns, indeed, made large enough profits at home that they could invest great amounts of capital in other countries where labor costs were lower and from there perhaps export products (automobiles and parts, television sets, and what not) back to the United States and undersell their own domestic products and, thus, reduce our exports and increase our imports. It would take us too far afield from our theme to try to explain how we came to allow this state of affairs to develop. It will have to suffice to say here that our antitrust laws have been adequate but have not been well enforced. Businesses in countries such as Japan, the

I have stated my understanding of this matter rather forthrightly, I think, in *A History of the American Economic System* (1964), especially chapters 23, 29, and 38.
United Kingdom, and West Germany, whose economies are more largely dependent on exporting and importing, are more likely to be highly competitive both in foreign and internal trade than those in a country such as the United States, whose internal commerce exceeds its foreign many times over.

Our Government, especially in the last few years before the great debacle, complained that foreign governments, notably that of Japan, were using unfair trade practices, such as the subsidizing of exports and placing various impediments in the way of imports in violation of the trade treaties. All governments in these later years, anxious to promote business activity and improve the standards of living of their people, have come to control their economies, for good or ill, in a great variety of respects. In the matter of foreign trade, our Government, with its quotas on imports and exports and subsidies of divers exports, has been not the least of the offenders against the spirit, if not the letter also, of the GATT Trade Treaties.

Another set of circumstances that contributed greatly to our balance-of-payments deficits was the large expenditures abroad by our Government and private citizens. Since World War II the Government has given extensive economic aid to foreign nations. It has maintained large military establishments abroad and has spent great sums in foreign markets in connection therewith. Military personnel stationed abroad and families that followed them over did likewise. Hundreds of thousands of our opulent citizens, in search of culture and diversion, spent vast sums traveling abroad, much greater in total than foreign visitors spent in this country. And a great many of our foreign-born people sent money back to their old countries to assist needy relatives; many, indeed, upon retiring from jobs here, returned to their native countries to spend their last years, taking their savings with them and receiving their social security checks to the end of their days.

Investments of capital in foreign lands have the same effect on the balance of payments that imports have. During most of our history the net
flow of capital favored this country. Since World War II the net flow has been out, at least until quite recently. The framers of the Bretton Woods Agreements and the GATT Treaties recognized that the flow of capital from country to country is the most disturbing factor affecting balances of payments and placed no impediments to its control by individual governments. For long our Government made no effort to curb such outflow of capital.

I have decried the fact that there was nothing in the Articles of Agreement of the IMF to prevent national treaties or central banks from holding the paper currencies of other countries as part or even the whole of the reserves kept for the purpose of maintaining the convertibility of their national paper currencies into gold at par, provided, of course, that the foreign currencies held were convertible into gold at par in the countries of issue. This practice together with our foreign friends in collecting short-term obligations owed by Americans resulted in a large overhang of United States currency and overdue bills, the so-called Eurodollars, all technically redeemable in gold at the Federal Reserve Bank of New York and thus a charge upon our gold reserve. In effect our gold reserve became the gold reserve to maintain the convertibility of a mass of foreign currencies, as well as of our own. It would have been more conducive to the disciplining of our economy by our Government if foreign central banks had promptly sent collections of excess Eurodollars to the Federal Reserve Bank of New York and demanded their conversion into gold. Our people generally, including many of our economists, for long saw no danger in the big balance-of-payments deficits. Many took pride in having dollars so welcome in other countries. Some even thought dollars bade fair to become the currency of the whole free world.

16. See above.

17. Robert V. Roosa, a former Under Secretary of the Treasury for Monetary Affairs, said, "The dollar, convertible into gold at $35 per ounce, has become the central influence for monetary stability throughout the past period." Monetary Reform for the World Economy. (New York: 1965)
The Kennedy-Johnson Administration showed considerable concern over inflation at home and our balance-of-payments deficits. It tried to keep domestic prices from rising by "jawboning" and to curb excessive labor-union demands for wage increases by establishing "guidelines," i.e. officially approved limits of increases within which wage increases were alleged to be non-inflationary. Neither jawboning or guidelines proved effectual. President Johnson tried with little success to persuade our citizens not to travel so much abroad and not to spend so heavily when they did travel. Better calculated to restrain the increase in balance-of-payments deficits were an interest-equalization tax, 1963, designed to slow the flow of money to foreign countries when interest rates were higher there than at home, and the imposition of controls on foreign investments, 1965. Both measures were hard to enforce.

In spite of the measures recited above and other expedients and the leniency of our foreign creditors, our gold reserve continued to decline. In 1960 the ratio of the volume of our paper currency to our gold reserve valued at $35 was only 1.6 to 1. By 1967 the ratio was up to nearly 4 to 1 and increasing fast. Speculators took notice, decided the dollar was weakening, and began to buy up supplies of free gold at prices above our official price of $35 per ounce and to buy other currencies (West German marks, Swiss francs, etc.) supposed to be stronger. In 1968 our Government and those of our principal trading partners felt compelled to agree that their central banks and our Federal Reserve Bank of New York would pay out gold only among themselves, such transactions to continue to be at the official parities. No gold was to be paid out to speculators or other private parties. This arrangement was dubbed the "two-tier system". It was hoped that the foreign central banks would exercise restraint in demanding payment of balances due until the balance-of-payments should have swung in our favor. It is clear
that the two-tier system left speculators plenty of room to speculate in free gold, paper dollars, and other paper currencies. It virtually ended the convertibility of our paper currency, that is to say, virtually took us off the gold standard.

The Nixon Administration blamed the policies of the previous administration for inflation at home and the deficits in our international financial dealings. The President's Council of Economic Advisers said, "The United States has full responsibility for a non-inflationary expansion of its domestic economy. This responsibility was not met in the latter half of the 1960's ..." The Nixon Administration did not meet it either. It preferred to put its trust in the free play of market forces to control inflation. It, quite properly, eschewed jawboning and wage guidelines as ineffectual. It dropped some of the Johnson measures designed to reduce balance-of-trade deficits; most notably it relaxed restraint on American investments abroad. Our gold reserve continued to decline.

The IMF tried to help countries in balance-of-payments difficulties by creating Special Drawing Rights (SDR) for members, and our Government accepted the allocations to the United States. The Nixon Administration hailed the SDR as a possible addition to members' reserves that would ease the demand for U.S. currency for that purpose. SDRs were, in fact, loans at a low rate of interest and sooner or later would have to be repaid and, therefore, only a temporary relief.

It should be noted that one thing that helps to explain why our Government especially during the early Nixon Administration handled the matters of inflation, balance-of-payments deficits, and the maintenance of the conver-

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tibility of our paper currency so cavalierly was the lack of a strong, informed public opinion to keep Congress and the Executive in line. A very large proportion of our publicists, commentators, and officials came somehow to believe that there is a trade-off between inflation and the rate of unemployment. Economic history teaches there is no such trade-off. A large proportion of the same groups came somehow to believe that one nation can gain an advantage over others in international trade and finance by devaluing its currency. Economic history teaches that this belief is almost utterly fallacious: Foreign residents do not have to accept devalued dollars at face value; they are not legal tender over there. Then, a large proportion of our people and Congressmen and responsible administrative officials came somehow to accept the view that in this sophisticated age the maintenance of the convertibility of paper currency into some commodity of great value, such as gold, is no longer an essential condition for maintaining the purchasing power of the paper dollar.

It is difficult to know what President Nixon's views on currency were. At any rate, after two and one-half years into his first term, he decided that he could not safely allow our gold reserve to decline any further. On August 15, 1971, he closed the "gold window" of the Federal Reserve Bank of New York to the central banks of other countries — It had been closed to all other claimants in 1968 — thus ending the last shreds of convertibility for our non-gold currency. At the same time, without prior approval of the IMF or of...
other governments, he raised our official price for gold from $35 to $38 per ounce, thereby devaluing the dollar and all domestic contracts calling for payments in dollars by 8.6 percent. Although soon approved by Congress, these acts were in clear violation of the Articles of Agreement of the IMF. At the same time the President by proclamation raised our import duties by 10 percent all along the line and in doing so violated all the GATT trade treaties.22

Other governments protested. In a monetary conference in Washington in December 1971, the controlling members of the IMF agreed to accept our 8.6 percent devaluation of the dollar, and our Government agreed to withdraw the 10 percent increase in our duties on imports. Presumably our Government was expected to resume paying out gold at $38 per ounce to redeem dollars of our currency properly presented by central banks of other members of the IMF. This our Treasury did not do and has not done to this day.23 For a time the central banks of some of our financially-strong trading partners tried to maintain the purchasing power of the dollar by buying Eurodollars at the official prices. They soon abandoned the effort. And shortly, either because they were short of gold or felt they should hang on to what they had, all other Free-World governments that had not already done so followed our example and suspended specie payments, that is, went off the gold standard, the last in early 1973.

22Benjamin H. Beckhart, Professor Emeritus, Columbia University, scathingly criticized both the substance of these actions and the manner of taking them in his Federal Reserve System (1972), chapter 17.

23In February 1973, the United States again officially devalued the standard dollar, this time by 10 percent; but, since the paper dollar had been floating since 1965, this devaluation, like that of 1971, had no effect upon the purchasing power of the paper dollar at the time and will not be binding in the future.
Inflation of Consumers' Prices in the U.S., 1958-81
Depreciation of the Purchasing Power of dollars
1967=100
Source: Bureau of Labor Statistics
So, since early 1973, except for ad hoc agreements among some central banks to maintain negotiated parities among the currencies of their countries, the paper unit of value of every country in the Free World has been floating against that of every other country. The Bretton Woods Agreement, which our Congress had solemnly ratified, is in shambles. The trade treaties, negotiated with so much care and labor under the auspices of GATT, have been violated right and left. The IMF has been almost impotent.

Since its suspension of convertibility for its paper currency, every nation in the Free World has experienced rapid inflation of prices and all the ills that have always accompanied such inflation. Some governments have succeeded better than others in slowing the rate of inflation. But no Western nation has escaped rapid inflation; and the rate in most is accelerating. A reputable American journal made a calculation of the inflation rates in fifty Free World countries during the 1970s. It found that the "compound annual" rates ranged from 5.2 percent to 117 percent. Of the fifty, forty-one had rates higher than that of the United States; only eight had lower rates. The United States rate was 6.7 percent. Since 1967 the general level of prices in this country has increased by 70 percent. The purchasing power of the paper dollar is now only 36 percent of what it was in 1967. History has been repeating its lessons with vengeance.

No free-enterprise nations can expect to bring its current rampaging inflation under control without first re-establishing convertibility for its paper currency into a fixed amount per unit of value of some commodity or combination of commodities of worldwide use and comparatively stable purchasing power. And, unless money specialists can soon devise a better one, the commodity had best be gold.

24 U.S. News and World Report, October 1, 1979, pp. 48-49, using data supplied by the IMF.
It would be much better for the functioning of the economies of Free World nations, including the United States, if the re-establishment of convertibility could be accomplished by another international monetary accord. Such an accord might well include the better designed features of the late Bretton Woods Agreement but should avoid its faults. Indeed, it must be said, in view of some developments of the last fourteen years it is extremely doubtful that any one or few nations could alone re-establish the gold standard for its currency.

Nations have become more economically interdependent. There are too many Eurodollars, so-called, floating about in too many financial centers; some sort of a composition with regard to them will have to be worked out by financially strong countries before or as a new monetary accord in negotiated. Another obstacle is the great increase in the amount of gold in private hoards that has occurred during this long greenback period.

Most of the governments of Western nations, including our own, have kept their gold reserves fairly intact during the long hiatus. But the leakage has nevertheless been considerable. In 1965 all the governments of Free World nations and the IMF together held 1186 million ounces in reserves. As of January 1, 1980 they held about 930 million ounces. So at least 256 million ounces have escaped from said reserves since 1965. Also, since governments stopped buying gold, about 552 million ounces have been mined and marketed. Ordinarily about half of the gold produced from year to year has gone into industry and the arts. So it may well be that about 276 million ounces plus the 256 million have gone into private holdings since 1965. An amount in the neighborhood of 32 million ounces would almost be too great for any one or few nations to bid for and buy at a fixed price in the gold markets of the world.

See above, pp. 102-103.
However, if a goodly number of the financially strongest nations of the Free World would enter into a proper accord and fix the price in their respective units of value at which they each would buy and sell gold, they could almost certainly re-establish the gold standard for their currencies. If, for instance, the ten Free World nations whose treasuries and central banks hold the ten largest gold reserves would enter such an accord, they could almost certainly achieve the desired result. The ten, together with the International Monetary Fund, which they control, hold about 90 percent of the gold reserves in the Free World. That is about 60 percent of the gold bullion in the entire world. With such a preponderance of ownership, the ten could effectively set the price of gold in terms of their respective currencies and thus tie the purchasing power of the dollar, mark, franc, yen, pound, etc. to the purchasing power in the markets of the world of the money metal whose purchasing power has proved the most stable of all commodities and articles entering into commerce.

26 The ten nations are in order of the size of their holdings, the United States, West Germany, Switzerland, France, Italy, Netherlands, Belgium, Japan, Canada, and the United Kingdom.
FOOTNOTES

1 Knox v Lee and Parker v Davis (1871) in 12 Wallace, 457.

2 The accompanying graph is adapted from David R. Dewey, Financial History of the United States, p. 376.

3 An old account, but still one of the best accounts, of the incidence of inflation of prices during the Civil War is in Emerson D. Fite, Social and Industrial Conditions in the North During the Civil War (New York, 1910), chapters VII and X.

4 As of June 30, 1978 there were still $322,539,016 total face value of these "United States Notes" in existence, no doubt after many launderings and reprintings. They are now being slowly retired. By an act of Congress approved March 18, 1968 (Public Law 99-269), laws making them redeemable in standard gold dollars were repealed; for at that time the United States suspended the convertibility of all its paper currency. See below, p.

5 There were really two main reasons for the use of paper currency, namely, 1) paper is far cheaper than money metal and the use of paper renders it possible to make an amount of standard coin go farther, perhaps several times as far; and 2) the persistent insistence of the banking fraternity that banks be allowed to enjoy the profits which arise from issuing bank notes. If, perchance, any reader has trouble seeing how the profits arise, please consider this illustration: A bank invested $100,000, let us say, in U.S. bonds of that par value and of at least that market value and deposited them with the U.S. Treasury. It might then issue $90,000 face value and par value of notes. Suppose also it was required by law and discretion to keep a cash reserve of 10 percent against deposits. It would now draw interest on the $100,000 of U.S. bonds and also on the $81,000 it could loan out (90 percent
of $90,000) as the result of its note-issuing privilege. Thus, $100,000 of loanable funds had grown to $181,000. Not bad 6

Federal Reserve Banks were also authorized to issue limited amounts of Federal Reserve Bank Notes on the same condition that other national banks might issue notes, but, because of the superior advantages to the Banks of the Reserve Notes, they issued only comparatively small amounts of the Reserve Bank Notes.

7 These redemptions and retirements are described in considerable detail in Historical Statistics of the United States, Bicentennial Edition, 990-991.

8 Elsewhere I have presented the view that the inflationary effect was largely delayed until wartime price controls were removed at the end of World War II. A History of the American Economic System (New York, 1964) 594.

9 To avoid misunderstanding, it should be noted that the Treasury sold gold only through licensed traders, who undertook to supply the metal only for use in industry and the arts. The object of this practice was to try to keep it from going to speculators and hoarders.


11 Their exposition may be found in their book, Prices (1933).

12 See Article XX, Sections 4c and d. The permission allowed a practice already followed by a number of governments, notably those of the Sterling Bloc.

13 See above, pp.

14 I have stated my understanding of this matter rather forthrightly, I think, in A History of the American Economic System (1964), especially chapters 23, 29, and 38.
Robert V. Roosa, a former Under Secretary of the Treasury for Monetary Affairs, said, "The dollar, convertible into gold at $35 per ounce, has become the central influence for monetary stability throughout the past period." Monetary Reform for the World Economy (New York, 1965), 17.


In Ex-President Nixon's RN, the Memoirs of Richard Nixon (1978), he gives short shrift to economic issues, pp. 515-520. He gives closing the gold window about one page (518). The substance is he accepted the proposals of Secretary of the Treasury Connally and the only advisor who strongly opposed was Arthur Burns, Chairman of the Board of Governors of the Federal Reserve System.

Benjamin H. Beckhart, Professor Emeritus, Columbia University, scathingly criticized both the substance of these actions and the manner of taking them in his Federal Reserve System (1972), chapter 17.

In February 1973, the United States again officially devalued the standard dollar, this time by 10 percent; but, since the paper dollar had been floating since 1968, this devaluation, like that of 1971, had no effect upon the purchasing power of the paper dollar at the time and will not be binding in the future.

U.S. News and World Report, October 1, 1979, pp. 48-49, using data supplied by the IMF.

The ten nations are in order of the size of their holdings, the United States, West Germany, Switzerland, France, Italy, Netherlands, Belgium, Japan Canada, and the United Kingdom.
November 16, 1981

Mr. Ralph Korp  
Office of International Monetary Affairs  
Room 5050, Treasury Department  
15th. and Penn. Ave., N.W.  
Washington, D.C. 20220

Dear Mr. Korp:

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

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

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

High Interest rates do not stop inflation. Inflation and bankruptcies have increased.

The U.S. should adopt the old classical monetary approach to reduce inflation and interest rates.

A return to gold standard dollars is required.

This would reduce insolvencies among our U.S. financial and business institutions and give them a chance to function properly.

The rule of QUALITY MONEY backed by gold should now be accepted as the only viable substitute for depreciating fiat money.

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

The price for gold when returning to any kind of gold standard, must be, at the least, somewhat more than the market price on the day of official recognition that gold is the most stable backing for our dollars.

Some persons on the Gold Commission may feel that a return to gold would be a step backwards in our quest for a more stable economy. However, it is necessary to take such a step so that the U.S. can again make the start toward future giant steps forward toward stable economic gains and progress.

Sincerely,

Harry R. Scharlach
The World Needs Honest Money

In the history books of tomorrow the decades of the 1970's and 1980's will probably be called the era of world-wide inflation and currency disorder. In 1970, only a few industrial states, such as Japan, Denmark, Iceland, Spain and Turkey experienced inflation rates of slightly more than 5%. In 1980, even Switzerland suffered a currency depreciation of 5.4%, West Germany 5.5%, Austria 6.4%, the Netherlands 6.5%, Belgium 6.6%, and Japan 8%. All others suffered double-digit rates: Australia 10.2%, Canada 12%, Denmark 12.3%, U.S.A. 13.5%, France 13.6%, Spain 15.5%, Great Britain 18%, Italy 21.3%, Greece 25%, Turkey 94%. In some South American countries the rates were even higher.

Despite all the government powers of controls and stabilization the paper currencies are depreciating competitively at feverish rates. The prices of basic commodities are changing erratically and violently. Interest rates have soared to unprecedented levels and the market prices of long-term bonds have fallen to unprecedented lows. Productive capital is consumed or destroyed in many places, lowering labor productivity and levels of living. The international division of labor, which in the past contributed so much to economic wellbeing, is chafing under new trade restrictions and growing monetary disorder.

In the U.S. persistent inflation has created a complacency that beclouds economic judgment and prudence and casts doubt on the future of the dollar. Popular thought distinguishes between "double-digit" inflation, which commands some attention and concern, and "single-digit" inflation, which is accepted as a minor affliction, even at a 7% or 8% rate. The former is suffered
during the boom years of the business cycle when production expands, profits improve and unemployment declines. The latter is a symptom of depression or recession when industrial production is declining persistently and unemployment is rising steadily. Inflation endures in a never ending cycle of boom and recession.

The fear of unemployment seems to be implanted in the American conscience. But instead of stimulating economic reason, fear acts to overbear it and supports ancient fallacies that lead to more unemployment. Fear guides government to resort to inflation, which in the long run is sure to aggravate the evil from which it was supposed to save us. To the press, the Mainstream economists and their students in the Carter Administration, it was an insoluble puzzle that both evils, inflation and unemployment, should occur simultaneously.

After nine months of the Reagan Administration it is not difficult to perceive the economic trend. Spending is increasing faster than tax revenues. The budgetary deficits are likely to be larger than anything witnessed heretofore. Exhausted capital markets and record-high interest rates are squeezing the life out of business. Economic output is declining, unemployment is rising and bankruptcies are multiplying. The recession of 1981-1982 promises to become the deepest and most painful recession since the Great Depression of the 1930's.

Eventually, the Federal Reserve System will be called upon to alleviate the suffering. It will issue a new round of paper money in order to reduce the interest rates, stimulate the economy,
and finance the deficits. The "reinflation" will cause the dollar to lose purchasing power even more rapidly than during the 1970's. It took that entire decade to reduce it by one-half. In the coming years it may take only half the time.

A Disreputable Dollar Standard

Inflation creates problems not only at home but also abroad. Until 1971, when gold was the international money and the U.S. dollar was payable in gold, inflation generally caused an outflow of gold from the country with the highest rate of inflation. Threatening inability to pay in gold tended to restrain the country from inflating any further, or force it to devalue its currency toward gold. But in 1971, the United States refused to honor its growing foreign obligations to redeem its currency in gold. Fearing more losses it denounced gold for being "unsuited for use as money," and vowed to remove gold from the monetary system of the world. When other major countries followed suit the transition from the traditional gold standard to irredeemable paper issues was completed.

The U.S. dollar emerged as the primary international currency serving trade and commerce the world over. It already had acquired a leading position under the Bretton Woods system that had made the U.S. dollar the international reserve money payable in gold at a price of $35 per ounce. When, in August 1971, President Nixon repudiated the agreement the world continued to use the U.S. dollar without its redeemability. After all, the world's merchants and bankers had grown accustomed to it. It afforded access to the markets of the most productive country in the world, and its record of relative stability was one of the best in recent
monetary history despite its devaluations in 1934 and 1971. But above all, the official repudiation of gold created a void which no other fiat currency could possibly fill. It left the U.S. dollar in the most prominent position for becoming the world medium of exchange and reserve asset.

The world desperately needs a common money that facilitates foreign trade and international transactions. For hundreds of years gold served as the universal money uniting the world in peaceful cooperation and trade. Today, the U.S. dollar is called upon to assume the very functions of gold. But in contrast to the gold standard, which was rather independent of any one government, the dollar standard depends completely upon the wisdom and discretion of the U.S. Government. That is, the world monetary standard now rests solely on the political forces that shape the monetary policies of a single country -- the United States.

We can think of no greater responsibility for any country than that of the United States to the world. Every day assumes a fearful responsibility when we view the fate of the free world that rests on the U.S. But unfortunately, the dollar standard is a political standard in which the purest motives are mixed with the most sordid interests and fiercest passions of the electorate. The dollar standard itself is the outgrowth of an ideology that placed government in charge of the national monetary order. It is the handiwork of governments and their apparatus of politics. To expect much of such a creation is to invite bitter disappointment.
The world fiat standard leads to temptations which no contemporary government can be expected to resist. The world demand for a reserve currency constitutes an extraordinary demand that tends to support and strengthen its purchasing power. It affords the country of issue a rare opportunity to inflate its currency and export its inflation without immediately suffering the dire consequences of currency debasement. In particular, it presents an opportunity to the administration in power to indulge in massive deficit spending, which hopefully bolsters its popularity with the electorate, while its inflation is exported to all corners of the world. The country that provides the world reserve asset can, for a while, live comfortably beyond its means, enjoy massive imports from abroad while it is exporting its newly created money in payment of such imports. In short, it can raise its levels of living at the expense of the rest of the world.

For more than a decade the U.S. Government has been the beneficiary of this ominous situation. It engaged in massive deficit spending and currency expansion with minimal inflationary effects as the dollar inflation was exported to foreign countries. For several years the foreign dollar holders even financed most of the budgetary deficits which the U.S. Government was incurring. Inevitably they suffered staggering losses on their dollar holdings which they had earned in exchange for real wealth.

Many years ago (1914), the Austrian economist, Eugen von Boehm-Bawerk, wrote a brilliant essay in which he raised the question: Can government coercion of any kind permanently and successfully neutralize or overwhelm "economic law or principle"?
A similar question should now be raised about the international dollar standard: "Is the dollar standard overwhelming economic law, or is it reflecting the working of inexorable law?" The answer to this question is clearly visible in the chaotic conditions of the world money and capital markets. Inexorable economic law is slowly grinding the U.S. dollar to a token chip and reducing it in prestige and importance.

As the U.S. dollar retreats from the center of the world's monetary stage, other national currencies are trying to take its place. The yen and the mark have assumed minor roles as world currencies, but then have come under the same political and economic pressures as the U.S. dollar. In response to a growing world demand for marks and yen, the central banks embarked upon expansionary policies. They may have yielded reluctantly and slowly at first to the world pressures for expansion, which to their own amazement did not precipitate the dreaded depreciation and other undesirable effects. For a while a new reserve currency seems to be immune to the inexorable laws of valuation: the central bank expands at courageous rates while the purchasing power of its currency is barely affected. The country now enjoys all the advantages which Great Britain savored so greatly during the 1940's and the U.S. during the 60's and 70's. It can expand money and credit at astonishing rates and export its inflation to its trade partners. The holders of the new reserve currency are welcome everywhere as the new lenders and financiers, which brings international prestige and, above all, yields enviable profits. They can make large foreign investments and expand their holdings to all corners of the free world.
But the new reserve currency also suffers from the disadvantage of an enhanced propensity for depreciation. Its relative strength tends to give rise to a national euphoria of financial strength, for which national characteristics, real or presumed, are credited rather than the world demand for reserve cash holdings. While the world monetary order is disintegrating, which causes private capital to search in frustration and desperation for the least unreliable currency for reserve holdings, the popular explanation points at "national ability," "discipline," "energy," etc. Surely, most Americans believe that their productivity and know-how afford the U.S. dollar the eminent position of a world currency, as do most Germans, Japanese, and Swiss of their own.

This self-serving attitude that tends to blind even the most careful thinkers is sowing the seeds of financial disaster. The international fiat order divides and conquers all important fiat currencies. It afforded the U.S. the opportunity to export its inflation and bestowed incalculable benefits to its issuers. Most Americans loved it and defended it with specious reasoning. When the dollar began to crumble and the world sought temporary refuge in marks and yen, the Germans and Japanese rejoiced in their moments of glory and the opportunity to export their inflation as the Americans had done before them. It was their turn now to finance the world and reap the enormous gains that flow from the international fiat order.

Monetary expansion in both Germany and Japan has been very sharp in recent years, and yet its impact on domestic prices has been less than expected. The rising world demand for marks and
yen acts as a countervailing force to the expansion in money stock. It may take many months, perhaps several years, before the expansion is translated into domestic price inflation. But in the end they all tend to suffer the same inexorable depreciation.

Gold Will Prevail

Most economists summarily reject the thought that once again gold may become the money of the world. It is just another commodity, they tell us, which has lost its usefulness as international money. They use epithets such as "outmoded," "irrational" or "superstitious" which are not very useful in the discussion of monetary phenomena. The fact is that throughout the ages man has made gold the most marketable economic good and thereby his money.

The gold market is the oldest continuous market of mankind.

Gold is more marketable than any other economic good. Economizing man likes to carry a reserve in the form of gold -- coins, nuggets, bullion, gold ornaments and plate -- because it is readily saleable and acceptable in trade. It can be exchanged easily on the markets for other goods and can be hoarded for exchanges at a later date. It can be readily sold in small quantities or larger sums, without much difference in price, to individuals of all races and nationalities. Every individual is a potential buyer although he may not need the gold. It may be added to the store of personal wealth and is passed from generation to generation as objects of family wealth. There is no other economic good the marketability of which compares with that of gold.

Gold is the most abundant commodity of mankind, accumulated over more than two millenia, least needed for immediate consumption,
and therefore, available to serve as money. Existing supplies in the possession of millions of people around the globe are vastly greater than annual production or consumption, which make annual additions through new mining appear negligible. This anomalous ratio, in which it differs from all other economic goods, assures everyone that further accumulations are safe. It confers upon gold the "supreme marginal utility." Its subjective value varies least with changes in quantity.

It is not within the power of governments to interfere with marginal utility, or to declare marginal utility inoperative. Government legislation cannot negate human nature. Carl Menger's law of marginal utility is applicable to all economic goods, including gold.

To the individual, the ready marketability makes the subjective exchange value of gold, rather than its use value, the crucial economic value, i.e. the importance he attributes to the satisfaction of his wants. Therefore gold may be looked upon as that economic good the subjective exchange value of which tends to change least with variations in quantity. If I were to offer this audience 100 ounces of gold as coins, bullion or jewelry at the world market price, the sale might be completed in a few minutes. It would not in the least depress the price of gold. If I were to arrive with 3 tons of copper, or 1.5 tons of coffee, or 3.3 tons of pork bellies, which are presently selling at the price of 100 ounces of gold, I would find no ready market here. I would have

to contact a merchant in town and arrange a distress sale that may inflict heavy losses on me. My losses would illustrate the volatility of the exchange value due to quantity changes and my very low marginal utility of 3.3 tons of pork bellies.

Despite the persistent efforts of governments throughout the ages to concentrate gold in their treasuries, the possession of gold has become more diffused with the passage of time. There is no chance whatever that any other metal such as platinum, palladium, or any other precious metal will ever displace gold because of their limitations of ownership and limited marketability throughout the world. Even silver cannot compete effectively with gold because its current production relative to its visible supplies is rather large, and its marginal utility declines quite rapidly with new production. No other commodity exists in stocks as large and with diffusion as wide as gold. Every addition to its hoard and every further diffusion are enhancing the position of gold. It is naive to believe that irredeemable paper money based on the debt of defaulting and insolvent governments could ever acquire the universal marketability and take the position of gold.

We remember the predictions of many experts that the value of gold would collapse if the central banks would ever refuse to accept it in unlimited quantities. Most of the demand for gold would simply disappear, so they proclaimed, if the monetary demand were eliminated. After more than a decade of official proscription, gold has not collapsed. But its substitutes are showing signs of disintegration. The public was not to be cured of
its taste for gold by official denunciations. On the contrary, it rushed into gold and out of paper, which lifted the price of gold to lofty levels. In due time the demonetization of gold by the U.S. Government will result in ever greater demands for gold in the world markets and the abandonment of the dollar as international money.

We are observing the dramatic spectacle of central bankers around the globe crying out against the U.S. dollar: "We have enough! No more please!" The marginal utility of the dollar is declining at alarming rates. The marginal utility of the gold in private and public possession remains unruffled despite the threats of some governments to dump the balance of their gold reserves. Gold remains the only asset that can be hoarded with confidence in any amount.

Monetarists believe that any "token chip" can be used as money, provided its supply is limited. The only difficulty they foresee is the judicious increase in the supply of the tokens to be commensurate to the growth of population and of gross national product. But unfortunately, minor changes in quantity immediately affect their value and impair their marketability. The tokens of the world are the time and sight obligations of the U.S. Government. They have depreciated significantly in recent years, especially toward gold. If large quantities of these papers had not been forcibly placed with commercial banks, savings banks, trust companies, insurance companies and other financial institutions, their depreciation would have been even greater.
The financial institutions of the world are sitting on a huge pyramid of dollar losses. They are under pressure to cut their losses and salvage what they can. The temptation to dump the tokens is getting stronger with every day of dollar depreciation. This is why we are nearing the end of the world dollar standard. Too many countries have lost too much wealth as a result of their dollar holdings.

There are no central banking authorities that can prevent the decline of the dollar and the return of gold. Nor can we expect a system of Special Drawing Rights (SDR's) that is based on a collection of national fiat currencies and the issuing powers of several governments, to prevent the inevitable. In fact, such a composite currency would aggravate the world situation as it relies on international politics and is susceptible to more distrust.

Currency Reform

If it is true, as Carl Menger already observed more than 100 years ago, that money is the natural product of exchange, independent of the power of the state, then it is also natural to question the role of the state in our monetary affairs. Our question becomes all the more urgent and cogent if we observe the dismal role government has played in managing the people's money throughout most of this century.

A deep distrust of monetary authorities has spread throughout the world. People have learned not to believe in sweeping political promises that, in the future, government will exert more discipline and print less money. That's why they are demanding real money untouched by government and its agents.
Many economists favor an early separation of government and money. They are advocating a "parallel standard" that would allow the free use of both fiat money (without legal tender quality) and gold, silver, or any other commodity. They work diligently to free all financial institutions from their present restrictions on the use of gold or silver in contracts, as medium of payment, as financial assets, reserves, investments, etc. Obviously they are opposed to any government fixing of exchange rates between fiat money and the precious metals, and to any legal limitation of fiat money issue. They are longing to write contracts in gold and to conduct their international business with trade partners who are free to enter gold contracts and sign gold clauses. (Cf. Hans F. Sennholz, Inflation or Gold Standard, 1973 and F. A. Hayek, Denationalization of Money, 1976).

It is illusory to expect a government that indulges in massive deficit spending to consent to the discipline of a gold standard. But it is conceivable that the people may succeed, step by step, in reclaiming their freedom of contract. The gold standard is a beautiful artifact of that freedom.

Such a "reform" can be conducted in any country, independent of all others, where the freedom of contract can be restored. It would set an example that would shine across all borders and give new hope and encouragement to people everywhere.

A limited currency reform that would merely circumscribe the role of government in monetary affairs would restore the classical gold-coin standard. Despite all the assertions to the contrary, re-establishment and preservation of the gold standard is possible.
Such a reform would follow in the footsteps of Britain's Peel's Act of 1844. In particular, it would leave all present moneys (central bank credit, M₁ and M₂) in "circulation." No gold cover would be required. But all future moneys would have to be backed 100% by gold. That is, all new notes and credits would have to be fully backed, which would prevent fiduciary expansion. The full backing would be based on the gold-fiat money exchange rate that exists on the day of reform. If it should be 450.50 or 590.30 fiat units per ounce of gold, or any other rate (unaffected by government intervention), this would be the redemption rate henceforth. We would then be back on the gold-bullion standard. The gold-coin standard can come later. (Cf. Ludwig von Mises, The Theory of Money and Credit, The Foundation for Economic Education, 1971, Part IV, Chapter III).

The international exchange rates of such a redeemable currency to other fiat currencies should remain floating. Hopefully, in time, other governments would follow suit and conduct similar reforms, which, on the days of their reforms, would stabilize their exchange rates to gold and thereby to other gold currencies. There is no other way of stabilizing paper money than making it convertible into gold.

The sine qua non of such a reform is the complete separation of government finance and the people's money. The central bank must be kept away from the reform, and no one connected with government finance in the past or present must be permitted to influence monetary conditions. If the government suffers a budgetary deficit it must raise the needed funds in the loan market.
in competition with business and other borrowers. Of course, deficits of the magnitude suffered in recent years would be out of the question. No loan market offering genuine savings only would be capable of financing such staggering deficits as are suffered today, on-and off-budget deficits and "sector deficits" with prodigious federal loan accommodations and credit guarantees. Confronted by mammoth deficits and intimidated by the likelihood of new confiscation, gold would go into hiding and register, like a seismograph, all the misdeeds of government.

The cause of sound money is identified with the freedom and prosperity of mankind. Wherever it gains ground it is a common gain that is acclaimed by all.

Hans F. Sennholz
November 4, 1981

Mr. Ralph Korp  
Office of International Monetary Affairs  
Room 5050, Treasury Department  
15th and Pennsylvania Avenue, N.W.  
Washington, D.C. 20220

Dear Mr. Korp:

In response to your office's requests concerning bankers' thoughts on gold role in the monetary system, I offer the following observations:

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

While I personally question the political feasibility of making such drastic changes in our government's fiscal management policies, I am convinced that the long range effect of a return to a gold standard would be extremely beneficial. If our currency were immediately convertible into gold, long range planning could be undertaken by individuals and businesses with the assurance that a price stability could be forecast into the future. The cost of a long term investment could be measured in terms of actual on-going dollar expenses, without having to consider the impact of inflation on actual dollar returns on the investment and financing costs.
We have reached the unfortunate position where lenders and investors are not willing to provide funds for long term fixed asset investment at fixed rates of interest. As a result, lenders and depositors are requiring floating rates of interest to be applied to all types of loans and deposits. Businesses cannot project fixed asset investments, in terms of estimated units or production to be derived from such an investment, with the application of historic profit margins and cost factors. As a result, I find the businesses we deal with plan only for investments that promise a very quick repayment of invested dollars. Consequently, our industrial investment in plant and machinery has slowed down to the point where productivity gains are hard to develop.

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

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

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

Sincerely,

[Signature]
John V. Silcox
President

JVS/dn
Gentlemen:

The following statement is submitted in response to the Commission's general invitation of October 22nd for comments.

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

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

A favorable court decision will not cause any great upheaval; in fact, a transition period will be provided automatically. The result of a favorable decision will be that only the States will have had taken away from them a privilege they now think they have -- the practice of extinguishing their debts with irredeemable Federal Reserve notes. It will set the stage for the following scenario. At that point in time:

1. Federal Reserve notes will continue to circulate but their use by the States will have been prohibited.

2. This will force the Congress to reassert its Constitutional obligation & prerogative of coining money and regulating the value thereof.

3. A bill will be passed creating a new specie-backed currency; interest free and fully redeemable.

4. The Congress will instruct the U.S. Treasury (not the Federal Reserve banks) to issue this new money.

5. This new currency will NOT be issued directly to the public.

(continued)
6. The new currency will be issued by the U.S. Treasury to the 50 State Treasurers in exchange for "X" number of Federal Reserve notes, say one for twenty greenbacks.

7. The State Treasurers will use this new currency to extinguish their State's debts in compliance with Article I; Section 10 of U.S. Constitution which says: "No State shall . . emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; . . ."

8. Then, two currencies will be circulating simultaneously, irredeemable Federal Reserve notes and the new specie-backed currency. Similar situations have existed in the past in this country. Citizens will then make their "preferred choice" and one or the other will dominate.

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

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

Sincerely yours,

[Signature]

Richard L. Solyom
Chairman
A Major Constitutional Challenge

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

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

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

His landmark case will be heard in the Circuit Court for Montgomery County Maryland, on November 30, 1981. It is expected that the Justice Department will make every effort to sidetrack the issue once again to avoid confronting this major Constitutional issue. Win or lose, the case will be appealed and ultimately may land in the Supreme Court. The language of the Constitution is explicit and it is difficult to imagine a Supreme Court decision adverse to Solyom. A favorable decision by the Supreme Court will mean that Federal Reserve Notes can no longer be used by the states to extinguish their debts. Such a decision will help guide the Federal government back to a specie backed currency.

Progress reports on the case can be obtained from: R. L. Solyom, Sound Dollar Committee, P. O. Box 226; Fort Lee, N.J. '07024.
The gold standard is one of the most controversial topics in the financial press today. On the one side, Professor Laffer and Mr. Wanniski aver that fixing the price of gold is the only sure and rapid way to end high interest rates; on the other side, Professors Stein and Heller have denounced the idea as nothing short of crackpot.

I would like to see a restored role for gold in our monetary system -- provided the attempt to achieve this would not cause some great economic catastrophe. I have always believed that the free market is a process that leads to the discovery of values, and it seems obvious to me that none of the disputants in this gold controversy is really looking to a free market solution. The advocates of gold have no brief for the competitive market in foreign exchange, and the advocates of managed money have no brief for the yellow metal as one among many competing currencies.

Discussions in various newspapers and newsmagazines have discussed it strictly in terms of a fixed price for gold -- as if the 19th century Bank of England model, which was invented by David Ricardo to control the English central bank following the inflation of the Napoleonic wars, were the only gold proposal under consideration by Congress and the Gold Commission.

Milton Friedman has, quite correctly, scoffed at this kind of gold price-fixing as a "pseudo gold standard." In a 1961 article in The Journal of Law & Economics, he wrote: "A pseudo gold standard
is in direct conflict with (classical) liberal principles, as is suggested by the curious coalition of central bankers and central planners that has formed in support of it." He was referring to Bretton Woods, of course, which had set up the U.S. Federal Reserve as the 20th-century imitation of the 19th-century Bank of England in international finance. What Friedman said he would support is a "real gold standard," in which gold would actually circulate as money.

The principal legislative requirement to open up the gold window for Americans, and permit a "real" gold standard to emerge in the free market, would be to repeal capital gains taxation upon the use of gold as money in the capital markets, and to authorize courts to make awards in civil cases in units of gold bullion, by weight. State and local sales taxes on gold coins would have to be nullified, just to create a level playing field between gold coins and U.S. currency. There is absolutely no need to get the Federal Reserve System back into the gold storage business -- indeed, they would probably make a mess of the whole gold market idea.

What would be the consequences of legalizing this "freedom of choice" gold coinage for Americans? In the first place, the Fed's monetary policy act would have to be cleaned up, because there would no longer be a monopoly situation forcing Americans to swallow whatever monetary policy the Federal Reserve selected. If you look at the competitive foreign-exchange practices of Swiss bankers, or the laissez faire monetary policy of Hong Kong, which has no central bank, it is clear that competition in currency would work very well. In an article by Professor Roland Vaubel, "Free Currency Competition," published in the Weltwirtschaftliches Archiv (University
of Kiel) in 1977, he observes:

"How is it that currency competition could help to reduce inflation? The profit-maximising rate of inflation (or deflation) and its variance is the lower, the more inflation-elastic the demand for real balances. Demand is more elastic, the closer the substitutes that can be used in place of the money concerned. The substitutes can be financial assets or even commodities (barter), but, clearly the closest substitute that can be thought of is a competing money."

Without legislating a fixed price for gold -- and consequently knocking out of business all those who enjoy trading the metal -- the United States could legalize the use of gold as an alternative form of money. The key, of course, is that the name of the new monetary units would be "ounce" and "gram," not any artificially invented term. The courts and the capital markets would be authorized to recognize the units currently maintained by the National Bureau of Standards.

One of the defects in the Laffer proposal is that, as Laffer stated in the Wall Street Journal on October 13th, the demand for dollars would shift dramatically if the dollar were fixed to a certain weight of gold. What that tells me is that the first fixed price would be "incorrect" a few days after it was fixed, so it would have to be re-fixed at some short interval later. Since the whole idea of fixing the price of gold is to restore confidence, this "confidence game" would probably destroy the public's trust in the whole idea of a fixed-price gold standard.

Moreover, the idea of occasionally re-fixing the price depends upon the existence of organized gold exchanges, or commodity markets; but the day after the price was fixed, the commodity markets would cease to trade any gold. Could we reasonably expect the Comex or the IMM to resurrect all of the machinery for trading gold contracts whenever it suited the government to let the market higgle-and-jiggle
for ninety days?

On the other hand, under the proposal for a free market price (in terms of dollars) for gold coins, and the legal recognition of these coins in courts, the financial futures markets would take on an expanded role in hedging gold-price movements.

The real need that "the gold standard" is supposed to address is the need for a unit of account for the long-term capital markets. We know that we cannot have a capitalist society without long-term capital markets, because the capital markets are the only way that a free market society has available to it to plan for the future. It has been the over-involvement by the government in the financial markets that has led to today's inflation and high interest rates. Proposals like those of Professor Mundell, which were published in the Wall Street Journal on September 30th, are interesting, but absolutely unfeasible -- since they would require international agreements.

Yet, we already have an international agreement, the Systeme International d'Unites, that would serve the capital markets very well. The fact that obligations for deferred payment have traditionally been denominated in dollars is not really important if we are looking for a kind of currency reform that would bring down interest rates from today's outrageous peaks -- and keep them in the range of two percent for the next century. If Congress would legalize the use of gold bullion as a numeraire for debts (as distinguished from merely permitting gold clauses, as we did in 1977), the free market process of competition would sort out the fate of gold in our monetary system.

The problem in politics, usually, is that issues are debated
and voted up or down as if they were "all or nothing" proposals. This idea of merely letting people have the freedom of choice to use gold if they want to, and to permit a fair competition between gold and U.S. currency, is a "marginalist" proposal. Nobody would have to use gold if he or she did not want to. The Federal Reserve and the Treasury could continue playing games with monetary policy, and individual Americans would have the freedom to "opt out" of their economic mistakes. Milton Friedman has pointed out that the price of gold would pretty much stop fluctuating if we did this, but it would be a free market, competitive result -- not a result of government price-fixing -- and this is why I support it.
Mr. Ralph Korp  
US. Dept. of the Treasury  
Washington, D.C.

Dear Sir:

Attached are 20 copies of written testimony titled "The Automated Gold Standard" to be included as part of the public record and proceedings of the U.S. Gold Commission. This concept was developed by Mr. Carl Ockert and originally published as part of his book COMPASSION AND COMMON SENSE (Box 273, Germantown, MD 20874).

The enclosed has been improved slightly over the original version in the book by Mr. Ockert. I submit this for the public record because I feel that it is a concept that should be thoroughly evaluated and seriously considered by the Gold Commission members. If it is re-typed or type set that would be preferable.

Sincerely,

Harold E. Thomas  
GOLD STANDARD REVIEW newsletter

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Paper money expansionism will not work... (but) highly sophisticated monetary authorities go on for years accepting ever more worthless paper instead of demanding gold... But the time has come at last when people, including even foreign central bankers, no longer want to hold more and more and ever more worthless currencies... Confidence in a currency can erode rapidly once it becomes inconvertible, for only convertibility enables it to maintain its store of value function indefinitely... Without convertibility, history shows that a currency will ultimately become worthless and disappear.

John Exter, Former Vice President of the Federal Reserve Bank of New York
The best currency for international trade is one which is fully convertible into gold at a fixed rate of exchange. With such a currency, buyers and sellers can agree on terms knowing that when the payment is made, the money will be worth exactly the same as it was when the contract was signed.

For many years the British Pound Sterling met this requirement and thus became the preferred currency for international transactions. When the Pound was devalued, the gold convertible U.S. Dollar became the currency of choice. But the constant printing of paper dollar bills, far in excess of the gold reserve, led to the complete devaluation of the dollar in 1972. Now the world has no gold convertible currency for international trade, and the value of the various paper currencies varies constantly and unpredictably.

Some have suggested that the U.S. should go back on the gold standard by setting a new official price for gold and promising to maintain that price indefinitely by suitably internal taxation and deflationary policies. Certainly such promises could be made. But who would believe us? In the past we made a similar promise to redeem dollar bills with gold at $20.67 per oz. Then in 1934 we changed it to $35 per oz. defrauding the owners of 41% of their holdings. Then in 1972, we refused to redeem dollars for gold at any price.

History shows that no government can permanently fix the price of anything, and this includes the price of gold. To be successful, a price fixer must have complete control of either the supply or the demand. Theoretically, it would seem that a national government would have this required degree of control over the quantity of paper currency which it issues. Actually this control is an illusion, since in practice the adverse effects of contracting the money supply will endanger the existence of the government itself. This is the basic reason why governments have abandoned the fixed price gold standard money system. But if the fixed price gold standard is not practical, what is?

The most important requirement for an acceptable international currency is predictability of value. If the value can be predicted, sellers can know the exact value that will be received for the goods being furnished, even though payment may be made months after the signing of the contract.

In order for a currency to have a predictable value, it must be immune to manipulations and devaluations. This means that its value must not depend on future decisions...
to be made by anyone, especially not by bankers and politicians. Some other desirable qualities would be universal availability and acceptability, but these would naturally follow if the currency did indeed have a reliable predictability of value.

It would also be desirable for the currency to have constancy of value. This would allow its use as a means for storing value indefinitely. But this quality, however desirable, is not really essential. For the purposes of facilitating trade, it is enough to have a reliable predictability of value during the life of a contract. Actual constancy of value is not required.

The dollar could be adapted to meet these requirements if legislation were enacted that would make the dollar convertible to gold on a sliding price scale. At the start, the official exchange price would be set at the then current free market price. The law would specify a predetermined sliding scale for the dollar price of gold which would depend on the inventory of gold in the U.S. Treasury. The sliding scale would be set such that whenever the inventory of gold goes down 1%, the price goes up 2%. Similarly, when the inventory of gold rises 1%, the price goes down 2%. The law would also specify that the price charged for gold sold by the Treasury will be 2% above the price paid for gold bought, for any given level of gold inventory. All prices would be based on the inventory that exists after the day's trading is completed.

By setting the selling price a fixed percentage above the purchase price, every time there is a price reversal the Treasury would make a profit on all the gold that was sold and repurchased. This profit by the Treasury means a net overall loss for speculators, and this would tend to discourage short term fluctuations in the dollar-gold exchange price level. However long term trends would be automatically accommodated and the official price of gold would faithfully reflect any persisting inflation or deflation of the dollar.

The reason for making the price vary twice as fast, and in the opposite direction, as the inventory change is to provide for an automatic stabilization effect. If demand for our gold becomes very high, the price will go up enough to discourage additional purchases before too much gold is lost from our inventory. Similarly if large supplies are offered, the reduced price will discourage additional selling. The desired result is a relatively constant inventory of gold, and a relatively constant or slowly varying price. We want to damp out all the short term variations with long term changes occurring slowly and predictably.

Some may wonder if the price really needs to vary exactly twice as fast as the inventory. Why not linearly, or perhaps three times as fast, etc? Actually the 3X option would probably work, but the effect would be less predictability, since the actual price of the gold would vary more for the same daily changes in inventory. On the other hand, a linear system might encourage speculation since a greater volume of gold could be bought or sold with a given range of price movement. Perhaps the best answer is that it is strictly a matter of judgement, and certainly small variations from the recommended relation would be of no consequence.

After a period of operation, the record of the trends in the official price of gold would be available for analysis by the public. Statistical analysis of the behavior of the dollar-gold price curve would yield informed predictions of future behavior as well as the expected accuracy of such predictions. Using such analysis as a basis, traders could reduce to a minimum the uncertainty expected in the real value of future dollar receipts, and the result would be a significant reduction in the risks associated with international trade and investment.
In addition to this benefit, there would also be the benefit of having a convenient and impartial measurement of domestic inflation. If a future administration does really try to control inflation, its success would be readily demonstrated by a flattening out of the dollar-gold exchange curve. On the other hand, irresponsible administrations would have their failures held up for all to see.

In summary, there is a third choice besides the fixed price gold standard and the free floating paper money systems. By linking the dollar to gold on a sliding scale, we can obtain the essential predictability of value that is associated with the fixed price gold standard, and also obtain the capability for automatic accommodation to long term changes in the free market price of gold. In a sense, we obtain the best advantages of each system while avoiding the worst disadvantages of both.
Thank you very much for your invitation to submit written testimony for consideration by the U. S. Gold Commission.

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

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

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

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

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

2) COMPOSITION OF COINS.

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

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

3) LEGAL TENDER LAWS.

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

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

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

Respectfully submitted on this, the 18th day of November, 1981 by

Weston I. Van Buren
at Los Alamitos, California
WHY GOLD?

Edited by
Ernest P. Welker

ECONOMIC EDUCATION BULLETIN

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I.

GOLDEN ROAD TO FREEDOM

ENSLAVEMENT BY INFLATING

Perhaps your idea of slavery includes the picture of men chained to the rowing benches of medieval galleys or of humans bought and sold like dogs, horses, and cattle. These, indeed, represent types of slavery.

Consider for a moment, however, the fundamental aspect or purpose of slavery, and other types of slavery quickly become apparent. The fundamental economic aspect of the master-slave relationship is that the master forceably acquires control over whatever the slave produces in excess of that portion of the slave’s product needed to sustain him and to reproduce his kind.

In this light, the socialist scheme of making citizens subservient to those controlling the State, as was established in Russia and extended elsewhere, simply is another form of slavery. The same is true for societies based on classes of people in which some individuals are given the hereditary right to exclude from their vast estates any persons who would not pay extortionate rents or taxes, because the general population then has the choice of starving or paying (slavery).

Another type of slavery now is being imposed in the United States and much of the rest of the “free” world. This new form of slavery is achieved quietly and efficiently by the subtle process of inflating.

We have estimated the extent to which the surplus product of Americans has been taken from them by those responsible for inflating. Since the Great Depression ended about 40 years ago, more than $3 trillion of the savings of Americans has been embezzled by inflating.

This estimate is shown in Table 1. Column 2 of that table shows the annual amounts saved in the eight principal types of fixed-dollar savings and investments held by the millions of Americans. The amounts in Column 2 are expressed in then-current dollars. However, dollars invested in previous years had greater purchasing power than do current dollars because inflating has raised general prices and has depreciated the value of dollars. The relative purchasing power of the dollar for the years involved is shown in Column 3. Column 4 shows the amount of current dollars required to equal the purchasing power of savings shown in Column 2. The excess of Column 4 over Column 2 is shown in Column 5 and is the amount of savings expressed in the purchasing power of current dollars taken by the beneficiaries of inflating.

As the reader can see, more than $3 trillion has been embezzled from Americans who have saved in traditional, fixed-dollar forms of investment since 1939. During that period, Americans thought they were adding about $7 trillion (expressed in today’s dollars) to their wealth, but in fact one-half of that hard-earned surplus product no longer is theirs. It has been taken from them — as surely as masters have taken the surplus product of slaves for centuries.

Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Savings, Then-Current Dollars</th>
<th>Relative Purchasing Power of Dollar</th>
<th>Savings (in Today’s Dollars)</th>
<th>Loss of Real Wealth in Today’s Dollars</th>
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<td>16.9</td>
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Totals, 1939 through 1980: 6,914.8 3,850.2

* At end.
† Midyear figures compared with the December 1939 dollar after 1939; December 1980 = 16.2.

The eight forms are savings and time deposits; investments in life insurance, private pensions, and annuities; trust funds; U.S. Government bonds; bonds of states and municipalities; bonds of corporations; currency and checkable balances; and mortgages.
The new type of slavery may not survive as long as have earlier types; however, there is no present reason to believe that the life cycle of the inflating-embezzling-enslaving syndrome must be less than several decades. In France, the process has been continued since 1914 with no indication of an early end. On the other hand, not until the current experience has the world been without a reliable monetary and accounting unit. It is at this time — with millions of currency-denominated contracts, implied and written, based on the expectation of performance — that the complex social order most requires such a unit.

Ending the inflating-embezzling-enslaving process any time soon seems nearly impossible. Western civilization has become "locked in" to clearly discernible retrogression. Instead of individuals seeking to improve their well-being through hard work, thrift, and sound investment, they increasingly have made forceful demands for huge pay increases, extensive use of debt for immediate satisfaction, and wild commitments to rampant speculation. These changes signal the replacement of cooperative efforts among various groups of society with the adversary relationships characteristic of today's special-interest groups, of funds directed from real investment to paper investment, and from sustainable long-term economic expansion to inflationary booms and busts with long-term stagnation.

The appearance of the aforementioned conditions in the United States during recent years baffles most analysts. It should not. Similar symptoms of social breakdown have appeared wherever prolonged or rapid inflating has undermined the monetary unit of account and has enslaved those who continued formerly sound traditional practices of working and saving.

Today's economic problems were predictable; we predicted them repeatedly during the past nearly 5 decades. We now predict that these harmful trends will continue to worsen as long as policies promoting inflating are followed.

We have no "crystal ball" that enables us to foretell these things; the revealing relationships are in the historical record for all to see who will take the time to look. That these problems have not occurred in the United States before is not attributable to any special immunity of our economy but rather to the U.S. monetary system formerly based on a gold-redeemable currency — a system now abandoned.

GOLDEN OPPORTUNITY

We invite your attention to Chart 1 and Chart 2, for they reveal more clearly than could a few words why gold for centuries has been the road to economic freedom for individuals and the implacable enemy of would-be monetary masters.

These charts show the purchasing power (exchange value) of gold and the U.S. dollar (Chart 1) and of gold and the British pound (Chart 2) in terms of other commodities for hundreds of years.

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For many of those years, the U.S. dollar and the British pound were, in fact, specified amounts of gold; consequently, the exchange values of gold and of the currencies in terms of other things fluctuated together during those periods. But even before this century began, when there was a diver-

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**Chart 1**

**PURCHASING POWER OF GOLD AND OF THE DOLLAR, 1792-1981**

Note: On April 2, 1792, Congress established the dollar (then legally equivalent to 24.75 grains of pure gold) as the Nation's monetary unit. The changes in purchasing power shown in the chart were calculated from annual averages of the wholesale price index (source: U.S. Department of Labor) and the annual averages of the exchange ratio of dollars for gold.
gence between the two because of temporary aban-
donment of the gold standard or of adjustments in
the gold content of the currency, gold maintained
its exchange value better than did either of the cur-
rencies.

Since the 1930's, there simply has been "no
contest." From the time in the mid-1930's that
inflations-for-prosperity policies were adopted until
the late 1960's, the exchange value of gold
decreased in parallel with that of the dollar and
the pound (to a lesser degree), but that was
because monetary officials struggled to their
utmost to keep the exchange value of gold
depressed so that their corrupting of the cur-
rencies would not become apparent.

The long-term exchange relationship between
gold and other things could not be suppressed in-
definitely. In the late 1940's and again during the
1960's, the British pound was devalued. The U.S.
dollar effectively was devalued in terms of gold in
1968 when the "two-tier" gold market was estab-
lished - one tier for private transactions at market
determined prices and one tier for official transac-
tions at the "price" of $35 per ounce. Even that arti-
ficial arrangement could not be made to work,
and in August 1971, then-President Nixon ended
all gold redeemability of the dollar. Shortly there-
after the exchange value of gold shot up to the up-
per region of its historical range both in the United
States and Britain.

Neither the dollar nor the pound experienced a
similar increase in its exchange value. To the con-
trary, since 1971 the purchasing power of these
paper currencies and all others has decreased mark-
edly, to values well below the former lows of the
historical ranges. This is a new situation in the
United States; therefore, Americans in general have
not yet recognized it and are not prepared to cope
with it.

Ignorance of the useful role of gold is the ally of
the masters of inflating - the leading politicians
and their collaborators, the central bankers and
other leading bankers. This unholy alliance some-
how must maintain public acceptance of their
paper currencies and credit in order to continue
the inflating-embrazzling-enslaving process and to
keep themselves in power. Essential to the credi-
bility of paper is the continuing denigration of
gold, for once the relationships reflected in Charts
1 and 2 are widely known, public confidence in
paper currencies will collapse.

The remainder of this booklet describes the fun-
damental monetary role of gold, the means by
which the United States has come to its current
plight, the outlook for a correction of the situa-
tion, and the role of gold as a protector of real
wealth during times such as these. We hope that
this bulletin will push back for some Americans the
curtain of ignorance hiding the inflating-embrazz-
ling-enslaving process and thereby to deny to the
would-be masters the surplus product (the savings)
of an increasing number of free Americans.
GOLD IN THE EVOLUTION OF COMMERCIAL BANKING

At first thought, one might believe that money-credit matters are too complicated for all but a few exceptional individuals to understand. However, commercial banking is the outcome of an evolutionary process that is simple when viewed one step at a time as it must have occurred but that is not so readily understood when one looks only at the result to date. Some words pertaining to banking have been in common use so long that many people do not know their original and more technical referents.

In the following paragraphs, the evolution of commercial banking is described step by step. No attempt is made to date each successive step in the evolutionary process, although some dates are given. Many of the original dates for successive steps are lost in the haze of man's unwritten history; and some of the successive steps have recurred in recent decades and may be expected to recur again wherever formerly well-developed money-credit processes have been destroyed.

PRIMITIVE MARKETS

We begin with a primitive society where exchanges were simple barter. The grower of wheat exchanged it directly for skins obtained by the tribal hunters, for meat obtained both by the hunters and by those who had cattle, and for gold obtained in crude form by some members of the tribe from alluvial deposits. Why gold was generally desired, other than for the fact that it was used for ornaments and because it could be exchanged again for other things desired, need not concern us at this point.

As the tribe increased in number and the exchanges to be made increased greatly, a time came when the bartering was concentrated, for the most part, at a convenient meeting place. Today we should call that meeting place a market or shopping center.

Of course, many other things than those mentioned were exchanged in the markets, but the principles we are seeking to understand can be illustrated by discussing only a few. We choose to focus attention on wheat, beaver skins, and gold.

As trading increased, the time came when some individuals became specialists in marketing. One chose to deal in wheat, another in beaver skins, and another in gold. Once these specialists had established themselves, many of those bringing in things to barter discovered a process more convenient than carrying on their backs the things they wished to offer in exchange. The processor of wheat delivered wheat to the warehouse and took in exchange a claim check or warehouse receipt for his wheat. Similarly, the processors of skins and gold took warehouse receipts from the merchants specializing in skins and gold, respectively.

Those who thus had obtained claim checks on wheat, skins, and gold then exchanged the claim checks among themselves until they had claims on the things they wanted. When each had claim checks for whatever he wanted, he went to the appropriate merchant's warehouse and obtained wheat, or skins, or gold in exchange for the respective claim checks.

The earlier claim checks for wheat presumably read:

This certifies that John Doe has placed in my warehouse 35 bushels of wheat, which I promise to deliver to the bearer of this claim check on demand.

Arthur Smith, Wheat Merchant

Similar warehouse receipts or claim checks were written by the merchants handling skins and gold. In some instances the claim checks were not redeemable by the bearer unless the claim check had been endorsed or signed over to him by the original depositor of the wheat, but these details need not concern us.

GOLD AS THE MEDIUM OF EXCHANGE

As the market increased in size and activity, men found to an increasing extent that gold or claim checks on gold were a convenient medium of exchange. On more and more occasions those who had gold or claim checks on gold found that they could obtain what they wanted with the least difficulty in persuading others to accept what they had to offer. Each seller saw for himself how readily he could buy other things he might want with the gold and how conveniently he could hold gold until he might wish to buy other things.

The properties of gold no doubt were significant in making gold a preferred medium of exchange. Gold is both readily and highly divisible, so that amounts of gold can be set aside to represent virtually any exchange value. Gold is nearly indestructible: it does not rot or rust. Thus, it can be stored in any environment for however long one would care to store it. Gold is relatively scarce and therefore has a high exchange value per unit, which means that small quantities equal the exchange...
value of large quantities of many other things. Gold has a comparatively stable exchange value — certainly in the long run, but even in the short run compared with the exchange values of other things because of the major investment required to add to gold production capacity.

As a result of these characteristics, gold and claims on gold increasingly were used in effecting exchanges, and men developed the habit of estimating the exchange value of other things in amounts of gold. Thus, prices, instead of being thought of and talked about in such ways as, "two bushels of wheat equal in exchange value one beaver skin," came to be thought of and talked about in such ways as, "one bushel of wheat equals one thirty-fifths of an ounce of gold, and one beaver skin equals two thirty-fifths of an ounce of gold (also the exchange value of two bushels of wheat)."

At about this stage in the development of banking, the gold merchants, or goldsmiths as they were called, saw the possibility of greatly simplifying the marketing and exchange processes. A goldsmith suggested to a wheat merchant that more growers of wheat would bring their wheat to his warehouse if the wheat merchant would give them in exchange claim checks on gold instead of claim checks on wheat. When the merchant replied that he had neither gold nor claim checks on gold to offer the wheat growers, the goldsmith explained that the wheat merchant could borrow from the gold merchant claim checks on gold until such time as the wheat merchant might sell the wheat.

The wheat merchant decided to experiment as suggested. When the next wheat grower arrived with a load of wheat, the merchant offered him a choice between claim checks on wheat and claim checks on gold. When the wheat grower said he preferred claim checks on gold, the merchant stepped next door and gave the goldsmith his note promising to repay a loan of claim checks on gold at a future date. Whereupon the goldsmith gave the merchant claim checks on gold, which were delivered to the wheat grower in exchange for the wheat he had delivered. The wheat merchant's promissory note might have read like this:

This is to certify that I have received and now offer for sale in my warehouse 100 bushels of wheat for which this note is a claim check. I promise to return to the goldsmith 100 claim checks for one thirty-fifth of an ounce of gold each when the wheat is sold. If I fail to return all the claim checks within 30 days, the goldsmith may claim the wheat not yet sold.

Arthur Smith, Wheat Merchant

Each of the 100 claim checks on gold issued by the goldsmith read like this:

I promise to pay to the bearer on demand one thirty-fifth of an ounce of gold.

William James, Goldsmith

Shortly thereafter, the goldsmith made an interesting discovery. At first he had issued claim checks on gold totaling no more than the gold in his possession. His discovery was that few people who obtained his claim checks ever demanded gold. Most of them used the claim checks on gold as purchasing media to buy other things, and the sellers returned the claim checks thus obtained to the goldsmith as agreed in order to repay their borrowings. Occasionally, some individual demanded gold, but even that gold usually returned to the goldsmith within a short time, for safekeeping if for no other reason.

COMMERCIAL BANKING

The much greater convenience to all concerned provided by the claim checks, especially those on gold, facilitated great increases in trade. Traders simply could trade much more easily. Soon the goldsmith was being urged to issue claim checks on gold for greater amounts than the gold he had. By that time, he knew from experience that few who had claim checks would want gold if other things were available for purchase in the markets. Consequently, the goldsmith reasoned thus:

1. When I received gold from those who deposited it with me, I gave them claim checks. If I now issue more claim checks on the same gold, I must:
   a. First, make sure that these additional claim checks do not exceed but in effect represent the gold-exchange value (price measured in gold) of other things being offered in the markets; otherwise, the people who have my claim checks on gold may buy all of the other things for sale in the markets and still have enough claim checks left to demand more gold than I have.
   b. Second, in order that there be no mistake, arrange that my loans of additional claim checks on gold are secured by bills of lading that prove things are offered in the markets or by promissory notes of borrowers who assure me that they are offering in the markets additional things at least equal in gold-exchange value to the claim checks I lend them.
   c. Third, I must make sure that the merchants repay their loans promptly by returning to me the claim checks on gold that they receive when they sell wheat, skins, etc. Thus I shall be sure that there are not more claim checks outstanding than the total gold-exchange value of things left
in the marketplace including my gold. Obviously, I must lend my claim checks only for short periods and must insist that a merchant promptly repay me whenever he sells the wheat or other thing that, either actually or in effect, serves as security for his promissory notes (and is represented by the claim checks he borrowed from me). Only if some manufacturer or merchant were placing in the market additional items after the first were sold would I renew a loan instead of requiring it to be repaid.

2. The goldsmith might also have reasoned: Some people may think that I have issued too much purchasing media, more claim checks on gold than I can redeem. But if the claim checks on gold used to demand gold from me exceed the gold I actually have, there would be a relative shortage of claim checks available for buying other things in the markets; prices (the gold-exchange values) of many things would fall, and people who had withdrawn gold temporarily would be induced to spend it for the things available at bargain prices in the markets. The sellers then would repay their borrowings from me by depositing gold as well as claim checks on gold, and my gold holdings (reserves) would be restored. In a short time, there would be no claim checks on gold outstanding, or at least no more than I could readily redeem with gold if necessary.

3. Clearly, I must be careful not to overestimate the gold-exchange values (prices) of the things being offered on the markets, and I must be sure to issue claims on gold only to represent the total gold-exchange value of things offered on the markets plus my gold. Because my gold always is available to anyone who demands it by presenting claim checks, my gold also is on the markets. But I must be careful to make sure that the total of outstanding claim checks that I have issued never exceeds the gold-exchange value of all things offered in the markets including my gold.

Once the goldsmith initiated operations as just described, sound commercial banking was underway.

INTERMARKET TRADING

In a market area not far from the first primitive market area described, the cost of producing wheat was less because the valley land was richer. On the other hand, beaver skins were available in larger quantity with less effort in the first market area because of the many hillside waterways where beaver could be trapped. In the second market area the exchange value of wheat for gold decreased (the price of wheat declined), and in the first market area the price of beaver skins was lower than it was in the second market.

Even in the days of simple barter, exchange values of wheat and skins in the two markets had differed. But with regular use of gold or claims on gold as purchasing media, the difference in exchange ratios (price difference) became more apparent and the advantages of regular trade between the two areas became obvious. Thus inter-area commerce increased to the mutual advantage of all concerned.

At first the goldsmiths wondered whether or not the supply of gold would be adequate for the increasing number of exchanges and growing volume of commercial banking for which many more claim checks on gold were needed. But as the goldsmiths became better known, more gold was brought to them for safekeeping. In addition, producers took advantage of new inventions stimulated by the general advance of a trading civilization. Crude pumps were developed to provide water for hydraulic washing of gravel, the new wheeled carts lessened costs of hauling supplies, etc., and other costs of producing gold were similarly lessened. Thus gold production was stimulated.

In addition to their lending to merchants, which was still continued, the goldsmiths began creating and lending claim checks on gold to traders shipping from one market to another and to processors of wheat and skins, such as the millers and furriers. For a time the goldsmiths were careful to apply the basic principle of commercial banking, i.e., that each new issue of claim checks on gold created for a borrower should, in effect, represent either additional gold received by the goldsmiths or other things being offered in the markets.

SAVINGS DEPOSITS

In time some of the people employed by manufacturers, merchants, and traders found that their wages and salaries would buy more than their immediate needs for consumption. Consequently, they began to save and invest part of their incomes. At first, they invested directly in new houses to rent and in other productive things, but later some of them realized that the goldsmiths were in a position to make such investments, safeguard the documents concerned in their vaults, and exercise continuing supervision. By mutual arrangement the goldsmiths then undertook to receive such savings and invest them. A saver would bring part of his salary each month in the form of claim checks on gold to the goldsmith. A record of this deposit was made by the latter; this record was known as a savings account or time deposit.

Of course, the purchasing media in the form of claim checks received by the goldsmiths from savers were already in existence. Those claim checks had been created and issued originally by the goldsmiths as commercial loans were made, and
some individuals who had received the claim checks from the merchants and other borrowers chose not to buy some of the things in the market but to deposit some of their claim checks at the goldsmith’s. Consequently, things that those claim checks represented still were for sale in the markets, and those claim checks, although the same in all outward appearance as other claim checks, could be loaned or invested by the goldsmiths in other than commercial loans. As far as those claim checks were concerned, the goldsmiths could safely disregard the commercial-loan principle, because those claim checks had been issued in the first place to represent things being offered and still available in the markets. Of course, the goldsmiths promptly invested or loaned those claim checks, and anyone who borrowed them from the goldsmiths could find things of equivalent value already in the markets for him to buy.

How did the goldsmiths not become confused by making two types of loans with similar claim checks? The goldsmiths kept an exact record of the savings deposited with them; consequently, they always knew precisely how much they could invest in bonds, mortgages, or other loans that did not involve simultaneous offerings of things in the markets.

INFLATING

Thus far, the possibility of departure from the basic principle of sound commercial banking has not been described in detail. At least a summary description is necessary.

During a period of peace and general prosperity when markets were functioning well and the goldsmiths were actively conducting their usual business of both commercial lending and investing savings entrusted to them, an unusual event occurred. A would-be borrower who had nothing to offer on the market desired one of the new chariots then becoming fashionable. He asked his goldsmith friend for a loan, but was at first told, “I am sorry to disappoint you, but my records show that all the savings deposited with me already have been invested. As you can understand, a loan to you for the purpose you have indicated would not be a commercial loan because you would not be simultaneously offering anything on the market from which the proceeds of sale would repay the loan. Therefore, I should not create and issue new claim checks on gold in order to lend them to you. Until I receive more savings, I should not lend to you for such a purpose.” (Savings are brought to the goldsmiths in the form of claim checks that the owners do not wish to spend but are willing to have others spend if they will repay later.)

The would-be borrower, a long-established cus-
tomer of the goldsmith’s, had his reply ready: “I realize that what I am asking is unusual, but what harm can result? If you fear for the safety of the loan, I can give you a chattel mortgage on the chariot I buy; it will serve as security for the loan. If I fail to repay when the note falls due, you can repossess the chariot and reoffer it on the market yourself. Moreover, I am willing to pay a high rate of interest. You will be well protected and can profit by the arrangement.”

Now the goldsmith in this instance, although by no means stupid, was not well-informed on the principles of sound commercial banking. He had fallen into the habit of thinking more about the security for his loans than of their purpose. Finally, he had had no experience with and could not foresee the consequences of departing from the basic principle of sound commercial banking. He therefore issued some additional claim checks on gold and loaned them to the persistent borrower. Thus inflating begun.

As soon as the borrower had the claim checks in his hands he rushed to the market and bought one of the few chariots then available. Within the next several days, other individuals who in the usual course of events would have purchased chariots likewise sought to buy. The chariot merchant realized that demand for his products was exceeding the supply; his haggling over prices altered in tone with the result that chariots soon commanded higher prices.

The chariot merchant then dispatched a letter by mounted messenger to the manufacturer of chariots ordering an additional number for early delivery. The manufacturer was so pleased with the increasing evidence that his products were finding favor in the seemingly more affluent society that he decided to push ahead with plans long under consideration for expansion of his manufacturing facilities. He went to the goldsmith and proposed to borrow on a large scale by giving either his note or bond (another form of promissory note) in which the goldsmith could invest savings at his disposal.

The goldsmith’s reply was, “I can see how advantageous your early expansion seems to be; but, unfortunately, I have already invested all the savings at my disposal. In fact, my noncommercial, investment-type assets (holdings of bonds, mortgage notes, etc.) already exceed the savings heretofore deposited with me plus my capital funds. You will have to wait until additional savings are brought to me for investment.”

But the chariot manufacturer was eager to proceed; consequently he urged, “Your loan will be well secured. Within a year at most, I shall be producing additional chariots from the new plant,
and in 8 or 10 years your loan can be repaid in full. Surely, what I am proposing is a sound loan."

Thus the goldsmith was finally persuaded to create more claim checks on gold and lend them to the chariot manufacturer. The latter then started bidding for labor and construction materials in order to construct his new plant. Of course, the new purchasing media thus made available to purchase things in the markets brought the total of purchasing media in use to an excess of the gold-exchange value of things then being offered in the markets for sale. Inevitably, competitive bidding forced prices and wages up. In this community a period of boom prosperity began. All makers of things found demand in the marketplace suddenly increased; all tried to increase their plants; and all bid for scarce materials and labor at higher and higher prices. The goldsmiths were urged to make more and more noncommercial loans at higher and higher rates of interest, and the more they disregarded the "old-fogey" principles of sound commercial banking, the more their new-found "wisdom" seemed justified by the turn of events.

At least, such were the effects at first. Then subtle changes in past procedures began to appear. Merchants in this market area discovered that they could buy at lower prices in other market areas. First wheat, then skins, and finally even chariots were being brought in from adjacent market areas in large quantities. The local merchants of course had to pay for the things thus brought in, and they gave the claim checks on gold issued by the local goldsmiths.

Then the goldsmiths made an important discovery. Formerly, few of the claim checks they issued were presented as demands for gold. Most claim checks had returned to the goldsmiths as merchants repaid loans and then were re-issued for new commercial loans. Almost no one in the local market had seemed to want gold. However, the goldsmiths in other markets (Communities B, C, etc.) had no use for the claim checks issued by goldsmiths in the market where prices (exchange values of other things for gold) had increased so greatly; consequently, the claim checks were presented as demand claims for the gold held by goldsmiths in Community A.

At first, the goldsmiths in Community A were not concerned about the outflow of gold from their vaults. Occasionally in the past, claim checks had been presented for their gold, and they had encountered no difficulty in satisfying the desires of those who, for one reason or another, wished to hold gold. In this instance, however, the demand for the goldsmiths' gold persisted. Soon the gold left in their vaults was far below the amounts that they formerly had considered reasonable in relation to claim checks outstanding.

DEFLATING

At this stage, the goldsmiths in Community A became alarmed. Unless some way could be found to alleviate their situation, they soon would be bankrupt. First, they turned to the borrowers who were building new factories or who had bought new chariots and urged them to repay their borrowings. But the manufacturers told the goldsmiths, "Surely, you remember that we have bought bricks and mortar with the claim checks you loaned to us. Someone else has those claim checks now, and we shall not be able to repay for a few more years." And those who had borrowed to buy chariots said, "We simply cannot repay the claim checks we borrowed until our future earnings are received in the months ahead."

Finally, in desperation, the goldsmiths turned to the merchants and said, "We cannot lend you more claim checks to buy more goods; we must have repayment of our outstanding loans to you that soon will be due." Then the rush to liquidate began. Merchants marked down prices in order to persuade more shoppers to buy with claim checks that could be used to repay loans. Merchants canceled orders for things from manufacturers in order to avoid becoming obligated for incoming goods. Manufacturers reduced production, and the number of unemployed in Community A greatly increased.

As prices generally fell, prices of secondhand chariots declined rapidly. Soon some of the goldsmiths in Community A realized that their loans secured by chariots were "frozen" because the borrowers were unemployed and the chariots involved were worth much less than the unpaid loans. These goldsmiths repossessed chariots and sold them at auctions, but the proceeds of such sales were insufficient to cover the unpaid loans. Some of the goldsmiths then realized that their own capital, and more, had been lost; they too were bankrupt and were forced to close their doors to the dismay of many savings depositors and of others who still held the claim checks on gold issued by those particular goldsmiths.

ENGLAND'S EARLY EXPERIENCE

As it happened, one national economy where the goldsmiths functioned most effectively was England of the 19th century. In the early 1800's the English goldsmiths, who by then were called bankers, developed a modification of the claim-check procedures described above. English merchants found that handling claim checks was awkward and that a simpler procedure was to have the
banker hold the claim checks and permit the borrow­ing merchant to transfer them from his account to others in whatever amounts he wished by written orders directing such transfers.

When merchants or others brought gold or claim checks on gold to the bank, the English banker wrote a credit on his books, which he called the depositor's "checking account." A depositor who held title to such a demand deposit or checking account then could write checks (written instructions to the bankers) transferring any portion or all of the gold thus represented to others.

In applying the commercial banking principle, a banker accepted borrowers' promissory notes, but instead of creating claim checks on gold for the borrowers to use, he authorized the borrowers to write checks not only for the amounts already in their checking accounts but also for the additional amount of the loan. The excess checking account purchasing media thus authorized were called "overdrafts." An English commercial banker thus had a record showing him continuously the total of overdrafts on accounts in his bank. As the total of overdrafts increased, he began to be more cautious about making loans. Moreover, the bookkeeping record of overdrafts was a continuous reminder to him that his loans resulting in overdrafts should be short-term, strictly commercial loans based on goods being offered in the markets.

Somewhat complicating the situation was the fact that many exchanges in the markets still involved the use of claim checks on gold instead of checks drawn on checking accounts. The claim checks on gold issued by a bank finally were given the name "banknotes," because they were the bank's promises to pay gold on demand.

**AMERICA'S EARLY EXPERIENCE**

Although the basic principles of sound commercial banking were being applied with increasing success in England in the early 1800's, these principles were not so widely understood in the United States. Hundreds of banks were started in the various States of the Union by individuals who knew nothing of banking beyond the fact that they wanted to participate in that mysteriously profitable business. These amateur goldsmiths were easily induced to provide claim checks on gold (their banknotes) to borrowers who wanted to speculate in land, then in the railroads, sometimes in almost anything. Moreover, unlike the English bankers who differentiated between overdrafts and the original deposits of gold and claim checks on gold by their customers, the American bankers used the same name, "demand deposits," for both. When they accepted a borrower's promissory note and created claims on gold for him, they either issued new claim checks called banknotes, or added the amount to his previously existing checking account, as the borrower desired. Except for technical legal requirements as to banknotes (which need not concern us although important to students of money and banking), the American bankers lacked the constant reminder to be cautious and to adhere to sound commercial banking that the English bankers had in their records of overdrafts.

The inevitable result of such banking was a long series of minor booms and recessions, with occasional great booms (whenever all or most of the bankers became especially optimistic) followed by severe depressions. Efforts were made by both the Federal and the State governments to remedy the situation. Almost every conceivable remedy apparently was tried, even the adoption of sound commercial banking for a brief period.

One of the first methods chosen for improving the functioning of the commercial banks was to limit the amount of claim checks on gold that they could legally issue in relation to their actual holdings of gold. Thus were initiated the legal reserve requirements that have become characteristic of American banking.

The reason for adopting such a crude rule-of-thumb procedure is not difficult to understand. Evidently, the hundreds of banks that failed (many thousands as the decades passed) had overexpanded; therefore, why not limit the creation of claim checks (whether banknotes or checking accounts) to a smaller multiple of a bank's gold? This procedure did work, in a manner of speaking; at least, it tended to prevent every major boom from getting as completely out of control as had the tulip speculation in Holland, or John Law's Mississippi Bubble inflating in France, or the French inflating of the assignats, or the Rhode Island paper-money inflating, or the Continental currency inflating of the late 1700's.

Another means by which better banking was sought was the chartering of "national banks," which began in 1863. By establishing certain safeguards, such as requiring deposits of Government bonds to secure note issues, the credit "rope" with which the Nation's bankers periodically "hanged" themselves and nearly everyone else was somewhat shortened.

At long last, after a particularly disastrous experience with an inflationary boom and panic resulting from ignoring the principles of sound commercial banking, a Monetary Commission was formed. In the course of an investigation extending over 5 years early in the 1900's, the Commission discovered the principles that had been applied in England for nearly a century.
Following the recommendations of the Monetary Commission, the Federal Reserve System was established in 1914. It consisted of 12 Federal Reserve banks and thousands of member banks. Although the resulting money-credit arrangements included many "hangovers" from earlier procedures, the new system at least recognized and attempted to apply the principles of sound commercial banking. In the 3 years from 1914 until the United States entered World War I, the bankers of the Nation came as near as they ever have to an understanding and application of those principles. The evolution of U.S. banking practices since then is covered in Chapter IV.

III.

GOLD AS THE MONETARY UNIT

ALTHOUGH knowledge of man's first use of gold is lost in antiquity, we know that long ago primitive peoples made ornaments of gold, and the display of gold possessions for personal adornment and in other ways early became a mark of social status. Magnificent gold vessels found in the Middle East were made about 3500 B.C., and the skilled craftsmanship evident in these objects suggests that gold then had been in use for several hundred years, at least.

Ever since these early times gold has been one of man's most prized possessions. Monarchs waged wars in the hope of plundering treasures of gold from their conquered rivals; kings and princes sent expeditions to unknown portions of the earth in search of new sources of gold; pirates and privateers willingly risked their lives to obtain the yellow metal; and thousands of people have joined the "gold rush" to any place on earth that held either an actual or rumored prospect for finding gold. During most of the Middle Ages the practice of alchemy flourished primarily because the alchemists hoped somehow to find a means for converting less precious metals or other elements into gold.

Because of its scarcity, permanent beauty, and ready workability, gold is one of the most treasured raw materials used by artisans and craftsmen. Perhaps less readily understood are the reasons why gold has long been and probably will continue to be an important monetary commodity.

Probably the most impelling reason for using gold as a medium of exchange is that for centuries men have been willing to accept gold in exchange for other possessions or for the products of their labor. This universal and age-old willingness of individuals and nations to accept gold in payment for goods sold or services rendered is based, of course, on the fact that the recipient has confidence in gold as a permanently valuable and exchangeable commodity, the value of which is recognized in any area of the world. Gold has the unique distinction of never having become unwanted as a medium of exchange during the many centuries of recorded history.

Contrary to the history of gold is the history of paper currencies, which is filled with instances of paper currencies having become worthless and disappearing from the face of the earth. In the 18th century, France had two such experiences — the Mississippi Bubble early in that century and the assignat late in the 1700's. Within the United States, both the Continental currency of the Revolution and the Confederate currency of the Civil War became worthless. Of course, the German Reichsmark episode of the early 1920's is probably the most often cited example of a paper currency rapidly being rejected by the public.

Although we can study these currency collapses with cool indifference at this point in time, one must remember that when a monetary system begins to break down or in fact does crumble, human beings experience much suffering as economic activity slows substantially or approaches a cessation. A well-functioning monetary system is essential for efficient and robust economic activity — especially is this so in modern, industrial economies. Insofar as the monetary unit performs poorly, economic activity will be hampered and the well-being of the public will lag.

In spite of the manifold better performance of gold as a monetary unit through the centuries, monetary officials in the United States and elsewhere advocate the complete elimination of gold from the monetary systems of the world. They assert, as did other proponents of paper monetary units, that the use of gold as the monetary unit is a custom that has been outmoded by changing conditions. But the use of gold as the monetary unit is not based on fantasy or folklore, as are some customs. The long-continued use of gold for monetary purposes is based on much experience.

Because gold is scarce and because its extraction from natural deposits requires much effort in relation to the amount of gold produced, gold has a high exchange value. Moreover, the large accumula-
tions now used as the official monetary stocks of the world (over one billion ounces) are many times annual production (recently about 40 million ounces annually); consequently, even quite large variations in production cause relatively small changes in the accumulated monetary stocks of gold during short periods. This tends to stabilize a money-credit system based on gold. Gold cannot readily be counterfeited, and it is almost imperious to deterioration. Quite simply, there appears to be no substance better suited for use as a monetary unit.

There are many reasons why the use of gold in the monetary systems of the "free" nations of the world probably will become increasingly important during the foreseeable future. Distrust of "fiat" paper money cannot be prevented by even the most powerful dictator. The more a government abuses its money-credit system and impairs the buying power of its currency through inflating, the greater will be the demand for "hard money" (gold), the value of which cannot be altered by the whims of politicians or the money managers.

A world supply of gold, the universal purchasing medium that is acceptable to everyone almost everywhere, greatly facilitates the conduct of international trade. Furthermore, possession of a reserve of such international money has proven to be especially desirable for a nation during periods of emergency. A reserve of monetary gold is as valuable as a reserve of essential raw materials because gold can be used to buy goods, even indirectly from a nation's enemies.

In addition to its usefulness as an international medium of exchange, the use of gold as the basic unit in a nation's money-credit system helps to limit the extent to which the supply of purchasing media might be excessively expanded by the banking system or by government action. But even if officials circumvent the limiting aspects of gold, constitute members of the public can protect themselves by exchanging the paper for gold while they have that opportunity.

Gold also introduces an element of steady expansion into the monetary system of which it is a part. In comparison with the annual rates of increase for world production of other natural resources, the annual rate of increase in world gold production has been remarkably steady. (See Chart 3.) During the past century, gold production has increased at an average rate of about 2.1 percent per year (compounded annually), and deviations from this average rate have been confined within a relatively narrow range since 1900. Moreover, changes in the rate of increase or decrease have been gradual, extremes usually having been separated by periods of a decade or more.

We are firmly convinced that a greater rather than a lesser reliance on gold in the monetary system of the United States and other free-world nations would foster more sound economic growth than a monetary system regulated only by government fiat. Inflating has proven to be an inevitable accompaniment of officially managed paper money systems, and history clearly demonstrates that inflating long continued leads to economic stagnation and financial ruin.

THE GOLD STANDARD

A monetary system is based on the gold standard when it has these characteristics:

1. The standard monetary unit is a fixed amount of gold.

2. All domestic currency and coin are freely exchangeable at their face value for gold, and whoever obtains gold is free to use it in any way he chooses.

3. There is no limit on the amount of gold that may be brought to the mint for coinage.

4. Gold is full legal tender for payment of all obligations.

![Chart 3: Annual World Gold Production](chart3.png)

Note: Includes estimates of production in the Soviet Union by Consolidated Gold Fields, Ltd.
5. There is no restriction on the importation or exportation of gold.

The most important features of the gold standard, whether redemption is in gold coin or gold bullion, are the fixed amount of gold in the monetary unit and the freedom with which gold and currency are interchangeable at the Treasury or central bank. Fixity in the amount of gold in the monetary unit makes gold and the currency representing it an efficient medium of exchange and a relatively stable measure and store of value. The free interchangeability of gold and currency by citizens and foreigners alike provides an automatic mechanism that tends to restrain unsound monetary and fiscal practices.

The essential aspect of this mechanism is the obligation of the authorities of a nation on the gold standard to redeem with gold any of its currency that may be presented for redemption. The propensities of over-optimistic commercial bankers to issue excess, or inflationary, purchasing media, and of monetary and government authorities to follow policies that foster this process, have been amply demonstrated during recent decades, particularly in the United States. When currency is redeemable in gold, however, the process cannot continue very long before gold begins to flow out of banks and the Treasury. The outflow begins when some citizens become alarmed about the future gold-exchange value of currency and demand gold, or when foreigners who have accumulated excess purchasing media present them for gold. An outflow of gold reduces the reserves of banks and restrains or reverses creation of excess purchasing media; it also warns bankers and monetary and government authorities that their practices and policies have been unsound and must be altered to stop the outflow of gold.

Unfortunately for the citizens of the United States, the practices of U.S. officials for many decades have been to ignore such warnings and to disregard the Nation's promise to redeem paper dollars with gold.

In the early years of the present century, the gold standard was firmly established. Gold was the basic or standard money, and units of gold specified by fineness and weight were the accounting units. A dollar, by statutory definition, was one-twentieth of an ounce of gold in an alloy ninety-tenths fine. Other leading currency units were specified similarly but were different weights. The exchange ratios between them were established by their relative contents of pure gold.

Disregarding unimportant variations, the procedures followed were these:

1. Gold brought to the banking system was exchanged for the coins into which it was minted or for paper currency representing the gold. In other words, gold bullion was sold to the banking system for an equal value of coins or of paper currency (gold certificates).

2. The banking system routinely offered gold in exchange for the paper currency. Consequently, anyone who held paper currency or who had bank deposits denominated in dollars could demand gold from the banks; that is, anyone could buy gold at his bank by offering paper currency or part of his deposit in exchange.

3. Thus the banking system was in effect a continuing market where gold was always acceptable in exchange for currency or demand deposits and was always offered in exchange for them.

During the great inflating (creation of excess purchasing media, i.e., demand deposits and currency) that accompanied and immediately followed World War I, gold appeared to be in short supply. The money managers of those days sought to "economize" gold by double counting it in the banks of much of the industrial world. For example, gold held in the Bank of England was counted once as available for the reserves of banks in England and was counted again as the reserve for banks of other countries that held pound notes as their reserves. This double counting, technically named the gold-exchange standard, facilitated the worldwide inflating of the 1920's. The resulting great economic distortions were liquidated in the panic and depression of the 1930's.

Some observers hoped that the lessons to be learned from the aftermath of that inflating during the 1920's would be heeded and that a return to the unpolluted gold standard would occur. However, many leaders in politics and banking attributed to gold what in fact were the follies of men. First, the dollar and other currencies were devalued (their gold contents were reduced), then deliberate inflating was undertaken in the belief that perpetual inflating would assure perpetual prosperity.

As had occurred before when large numbers of persons accepted a great delusion, one man provided the basic notion. This time it was Lord Keynes of England whose "perpetual motion" scheme of promising everlasting prosperity by Federal deficit spending proved to be irresistible, both to the politicians and academic economists. President Roosevelt applied it first at Keynes' suggestion, but academic economists soon became ardent disciples of this man, who seemed the very reincarnation of John Law to nonbelievers in perpetual motion. Within a decade the Keynesian notions became the ruling dogma in most of the universities of Western civilization.

During World War II and subsequently, the ideas of Lord Keynes were embodied in "full employ-
ment" legislation and in new institutions, especially that great "engine of inflation," the International Monetary Fund. Inflating has continued for more than 3 decades.

One after another, aspects of the gold standard were terminated. Finally, in 1971 the United States refused to honor any commitments to redeem its paper promises in gold. It was denounced as a "barbarous relic" unsuited for use as money. The avowed policy of all major nations was to remove gold from the monetary systems of the world. The transition from gold to irredeemable paper purportedly was to be completed.

DEMONETIZATION OF THE DOLLAR

From a market price of $43 per ounce on the last business day prior to President Nixon's August 15, 1971 "closing of the gold window," the price of gold rose rapidly, if irregularly, to nearly $200 per ounce in late 1974. By then the flight from convertible paper currency to gold reflected in the increase in the price of gold had become alarming to official money managers. Obviously fearing that its citizens would join the speculative rush to gold when the prohibition against holding it was ended in December 1974, the United States authorized Treasury sales of officially held gold. Later, by agreement with other nations, the IMF began a monthly program of gold auctions apparently intended to discourage the flight from paper. These efforts to drive down the price of gold and thus give paper currencies the appearance of greater acceptability were markedly successful at first, as the data in Chart 4 reveal. From the highs of late 1974, the price of gold trended rapidly downward to just above $100 per ounce in August 1976.

Thereafter, depreciating paper resumed its downward path in exchange for gold, that is, the dollar price of gold trended upward. The paper dollar became a pariah. More and more members of the public attempted to rid themselves of dollars by using them to buy gold or other paper currencies — those of countries whose policies were not as inflationary as U.S. policies. Major foreign central banks endeavored to keep the paper dollar afloat by buying larger and larger quantities of them.

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Chart 4
PRICE OF GOLD IN LONDON
(Final Friday Fixing)

1. December 3, Treasury announcement of first gold sale.
2. January 6, first Treasury gold auction.
4. September 2, IMF announcement of proposal to sell gold.
5. January 6, IMF Interim Committee supports September 2, 1975 proposal.
7. April 19, Treasury announcement of resumption of gold sales of 300,000 ounces per month.
8. May 23, first of resumed Treasury gold sales.
9. August 22, Treasury announcement of increase in monthly auctions to 750,000 ounces beginning in November.
10. November 1, Treasury announcement of increase in monthly auctions to 1,500,000 ounces beginning in December.
11. April 18, Treasury announcement of reduction in monthly auctions to 750,000 ounces beginning in May.
12. May 14, IMF announcement of slight reduction of monthly auctions to 444,000 ounces beginning in June.
13. October 16, Treasury announcement of discontinuance of its regularly scheduled gold auctions, to be replaced with "surprise sales" of varied amounts at varied intervals.
14. January 15, Treasury announcement that as long as the dollar "does well" on foreign-exchange markets, there would be no need to support the dollar by selling gold to dampen speculation.
15. May 7, the IMF completes its 4-year monthly gold-sale program of 25,000,000 ounces.
and adding them to their official reserves. The dollar was being demonetized, if one considers the essential functions of money.

What are those functions? One is that money must serve widely as a medium of exchange, that is, as a common means of purchasing things and settling debts. This would seem to be a simple enough role, but when analyzed in some detail, this role surely is not simple or unimportant.

Whenever one purchases goods by exchanging dollars for those goods, in effect he is trading a part of what he has made available to others for a part of what all others have made available to him. That person had been given dollars (in the form of wages, rent, interest, or profit) for his part in the production of goods or the performance of services. He then exchanges those goods or services for other goods or services. Money facilitates the exchanges — more efficiently when it is more reliable.

That many Americans think in those terms when making a purchase with currency or a check is highly improbable. The exchange of dollars for goods has been so routine that probably few give the activity a second thought. Although many complain that more dollars now are required to purchase the same amount of goods, few people complain of the receipt of more dollars for their part in production. Moreover, few recognize that those pieces of paper (currency or checks) have virtually no intrinsic value; the world could be flooded with them and yet all would starve if human effort were not extended for processing food. At best, money facilitates exchanges; at worst, it hinders them and the economic progress associated with specialization and the division of labor.

Serving as a medium of exchange is only one of three functions that a unit must perform if it is to be useful as "money." It also must be a standard of exchange-value and a store of exchange-value. However, if any one of these three functions is not performed, a unit will not long serve as money.

Thus far inflating has had little effect on the functioning of the fiat dollar as a medium of exchange. However, since gold ownership again became legal for Americans on December 31, 1974, a few organizations have been established that provide a means of using gold easily as a medium of exchange. Some noted monetary economists have proposed that private enterprises begin issuing their own currency to compete with the faltering paper dollar, and in 1981, a bill was introduced in the U.S. House of Representatives that would restore U.S. gold coins and permit private banking in gold units. A few business transactions have been widely reported because precious metals (gold and silver) were the specified medium of exchange. This is limited evidence, but it is some of the increasing evidence that the use of the fiat dollar as a medium of exchange is eroding.

Although the most visible function of money is that of a medium of exchange, the functions of serving as a standard of value and a store of value are equally important. If either one or both of these functions are not served, a unit cannot serve long as a medium of exchange. That the U.S. dollar once was highly reliable as both a standard of value and store of value cannot be denied, but that was when holders of dollars could have them redeemed for a specified amount of pure gold.

But now the dollar is failing as a standard of value, or as a long-term accounting unit. Many measures of economic activity quoted in paper dollars no longer are useful in the absence of "adjustments" for generally higher prices, or for depreciated currency values. There is no such thing as an "adjusted dollar," and all such price adjustments are poor substitutes for a sound accounting unit. Business profits are widely overstated because historically determined depreciation charges are inadequate in terms of current replacement costs. Likewise for inventory accounting and charges for goods sold. As a result, businesses are taxed on ephemeral profits, rates of return to owners decline, investment sags, and economic stagnation sets in. All this because paper serves poorly as a standard of value.

As a store of value, paper dollars also are functioning ineffectively. We mentioned earlier in this bulletin that since 1940 Americans have lost more than $3 trillion in today's dollars from depreciation of paper currency. When general prices rise 9 percent per year, paper currency depreciates to 50 percent of its purchasing power in just 8 years.

When the paper dollar is thought of in the aforementioned terms, it becomes clear that talk about demonetizing gold by untying it from the paper dollar is nonsense. The paper dollar is being demonetized, because it is performing less and less well the functions that a unit must perform to be money.

Perhaps officials fail to recognize these relationships, but the public by its actions reveals that some persons do. Enough persons have noticed what is happening to have put extreme downward pressure on the foreign-exchange value of the paper dollar during the 1970's.

In effect, the 1970's sales constituted a partial restoration of the gold standard. The authorities claimed that the gold sales were consistent with the long-range policy of removing gold from the monetary system. Perhaps some of the money managers themselves were deluded by such
description of what would occur. However, the fact is that gold was being used to redeem some of the surplus dollars that are flooding the world; the despised “barbarous relic” was being used as a life preserver for a sinking paper dollar. In a contest for monetary supremacy between gold and the paper dollar, gold will win – domestically and internationally.

WHY GOLD WILL WIN*

The decision of the United States Government to start monthly gold sales from the American gold stock will inevitably strengthen the position of gold and weaken the dollar, once the market has had some experience of these sales. All past experience of sales from a stockpile is that the initial effect is to reduce the price of the commodity offered, but that the gradual liquidation of the stockpile itself soon begins to strengthen the price again. If the process is completed, the result is that the stockpile is gone and the price is higher.

This has been the general experience of the United States in disposing of stockpiles of scarce commodities and it has been the experience of the sales of gold from the IMF. There is no reason to suppose that this experience will not be repeated. In any case the Americans would not be selling if they did not need the money, and the fact that they need the money cannot help to strengthen the dollar.

American policy towards gold is contradictory and is therefore bound to be self-defeating. The United States Government wants to maintain the dollar as a stronger form of international money than gold, but they still want a soft dollar for domestic reasons. To achieve their objective of knocking out gold, the United States have taken every step except the one which could have had any effect, which would have been to strengthen the dollar.

The world has seen American repudiation of gold convertibility, sales of gold and the announcement that gold is no longer money, an announcement dubiously endorsed by other members of the International Monetary Fund.

None of these measures are related to the problem; they have not stopped, except for intervals, dollars being sold and gold being bought. The problem arises not because of gold but because of the dollar. It is not wicked of gold to be strong, but sad for the dollar to be so weak. The dollar is weaker than gold because the American authorities issue larger numbers of dollars than the amount of new mined gold which is available to be added to private or public reserve funds. So long as the over issue of the dollar continues it is quite unavoidable that the dollar should fall in its purchasing power of all commodities and in particular of gold itself. That fall will not be consistent, or without interruption, but it will occur.

The American authorities pay gold a reluctant tribute by showing their animosity towards it. This tribute is quite justified. The world has always needed an international currency and there are at present only three forms that an international currency could take, the dollar, some type of IMF international unit, or gold.

The existing international currency is the dollar, which forms 80 per cent or thereabouts of the currency reserves of countries outside the United States, and is said to account for an equally large proportion of international trade when that is not denominated in the currency of the buying or selling nation.

When the United States was the only fully developed world industrial power in the early post-war period, the dollar formed a smaller proportion of total world reserves and a much more acceptable one. As the United States share in the world economy has fallen, which merely reflects the normal and healthy development of other economies, the importance of the dollar as a reserve currency has not fallen but grown.

The large American trade deficit in recent years has caused the dollar reserves to grow still further, and they have risen by the alarming figure of around 50 per cent in the last 18 months. There are too many dollars in the world already, but the United States is still running a large budget deficit, a very large trade deficit and a medium rate of growth of monetary aggregates.

British experience shows that it is only possible to maintain confidence in a reserve currency when the balance of payments on current account is favourable, or at least supportable. The capital position and the current position are very closely linked; when the current position deteriorates the capital position becomes very difficult.

People want to get out of a suspect currency; the bigger the currency the heavier the sales and the harder to arrange a support operation. The scale of support the dollar can require is shown by the $5,000m spent by Japan to support the dollar against the yen in the month of March alone – one country, one month.

* This section was written by William Rees-Mogg, editor of The Times of London. It was first printed in the April 21, 1978 issue of that paper under the title, “Gold and the Fighting Retreat of the U.S. Dollar,” and we first included it in our 1979 edition of this Bulletin. We have retained it in this edition for its sound arguments and because it proved to be prophetic.
This means that a reserve currency has to be managed in a very conservative way if it is to continue to be acceptable. If the American dollar was managed on the same basis as the Swiss franc, then other nations would continue to be more than happy to hold dollars and would on the whole make a capital profit out of doing so. Every central bank holding dollars is now sitting on a loss.

The very economists in Washington who want to destroy gold in order to maintain the reserve predominance of the dollar also believe that at least mildly, inflationary policies are necessary to support the growth of the domestic economy of the United States. They may well be wrong on both counts; they are certainly wrong to suppose that the dollar will again become an acceptable reserve currency if the policy on the domestic United States money supply continues to be more expansive than those of the best alternative currencies.

World currency changes usually work themselves out over relatively long periods. The trends towards the weaker dollar and the strengthening of gold were already apparent by the early 1960’s, and one must therefore be cautious about any estimate of the timing of future developments that one might make. Yet the broad pattern of coming events seems very clear.

We are now near the end of the period of dollar predominance. Given the pressures of American domestic politics, and the lack of understanding in Washington of the relationship between domestic monetary policies and international monetary movements, it is virtually inevitable that the dollar should cease to be acceptable as a reserve currency on the present scale.

Too many nations have lost too much money too quickly as a result of holding their reserves in dollars. The basic American economy remains impressively strong, but nowadays there are other strong economies, particularly that of Japan.

The basic reason for the dollar’s trouble is that a democratic electorate wants high expansion and low taxes. As Ricardo observed: “Neither a state nor a bank ever have had the unrestricted power of issuing paper money without abusing that power.” There never will be a shortage of politicians willing to spend where they have not taxed, nor nowadays is there any shortage of economists wishing to advise them of the wisdom of supporting trade and employment by issuing more money. No money whose issue is controlled by a politician is ever better than the needs of the next election will allow. Of course citizens have to live with their own politicians, but nations do not have to trust the politicians of other nations by holding their foreign currencies.

The next phase will be an attempt to create an international currency which will still be based on the issuing power of government but at second hand. That would involve an international agreement to fund dollar balances into a currency run by the International Monetary Fund.

Theoretically, the extension of the system of SDR’s could provide the world with the international currency it needs. It is, however, a mistake to think that the pressure of international politics is necessarily less than the pressure of domestic politics or that the motives will be substantially different. To obtain the consent of governments or to obtain the consent of electors requires the same assurance that there will be “something in it for them.” That something in the case of a currency always involves over-issue.

Undoubtedly, the issue of either type of paper currency, whether dollars or SDR’s to be used for reserve purposes, will be greater than the net addition to the gold stock arising from new mining less new jewelry and industrial use. Gold will be the harder currency of the two.

At present, partly because they are acting under considerable political pressures from the United States, most governments include large quantities of dollars in their reserves, although in real terms those dollars have been an unsound investment. That has left gold to perform the reserve function for a relatively small number of shrewder governments and for individuals.

Now that it can be seen that the weakness of the dollar is likely to continue, even though there will be cyclical periods of improvement, the advantage of gold over the dollar as a store of value will become even more obvious, and the benefits to gold holders against dollar holders will continue to be substantial.

Gresham’s law states that bad money drives out good. Of money as a circulating medium that is true. A man who has a good coin and a bad coin will pay with the bad coin and keep the good one. The corollary is of course that as a store of value good money drives out bad. Apart from the Swiss, there are no central banking authorities responsible for a major currency, perhaps not even the Germans, who have a sufficient determination to make their own currency good.

Gold is therefore for two reasons the preferred store of value; the net addition to its quantity is lower than that of competing currencies; an increase in the supply of gold depends on the mining industry and not on the printing industry. Gold is the better money in the present and offers the better security for the future. If Washington challenges gold to a knockout fight, there is only one possible victor.
IV. ORIGIN OF CHRONIC "INFLATION" IN THE U.S.

The interest of Americans in monetary matters — beyond the personal interest of wanting to accumulate more — is a relatively new phenomenon. Within the lifetimes of most adult Americans, general economic concern has focused more on unemployment and the plight of the poor rather than on the soundness of the dollar. This was understandable because the Great Depression, with its many business and banking failures and a 25 percent unemployment rate, made a deep impression on the thinking of Americans. The problem with prices then was that they were too low, not too high; the dollar was too strong, not too weak. After World War II the American dollar was in a position of unchallenged supremacy. "Sound as a dollar" was a phrase that signified utmost confidence in that to which it was applied.

To the American public the latter 1950's and early 1960's were good years. However, those of us studying monetary matters could see problems arising: international balance of payments deficits became chronic; the Nation's monetary stock of gold decreased from about 700 million ounces in 1950 to about 500 million in 1960 — signaling a growing foreign disenchantment with the dollar; the Federal budget remained in a deficit during business expansion as well as contraction; inflating, which had been pursued as a policy goal since 1934, was creating the types of distortions it always and everywhere had fostered.

In fiscal 1968, the Federal deficit soared to a then unheard of $28 billion. Interest rates shot up, and prices rose frighteningly in the late 1960's. A recession in 1970 did not halt the price rise; huge support for the dollar was required to maintain official exchange rates in early 1971; and finally President Nixon in August 1971 "closed the gold window" and imposed the first peacetime wage-price controls in the history of the Nation. Those controls fostered uncountable distortions, among them shortages of various materials and supplies. Then came OPEC; fuel shortages; the price and wage explosion of 1973 and 1974; the sharp recession of 1974-75; the recovery of business activity thereafter; international dollar crises from time to time; continuing huge budget deficits; and sometimes alarmingly rapid price increases punctuated by brief periods of more moderate price increases.

These days the news media daily report all sorts of economic data: monetary aggregates, interest rates, foreign exchange developments, the price of gold, stock prices, GNP, industrial production, the status of agriculture, energy consumption and supplies, and of course price developments — or "inflation." Recent opinion polls reveal that the public views "inflation" as the number one national problem, and well it might in view of the rapid rate at which wealth is being embezzled as the dollar rots before the eyes of everyone. By now, only those with their heads in the sand have not realized the threat that inflation poses to their financial survival. As more become alert to and informed about the ravages of inflation, perhaps actions will be taken to avoid the inevitable ultimate consequences of prolonged and rapid inflating, the collapse of the social structure.

In this chapter we describe how the United States has come to its current, sorry inflationary condition.

"INFLATION," MONEY, AND PRICES

We begin by designating what we mean by certain words, for we fear that widespread misuse of words, such as "inflation," is responsible for many utterly false notions about the inflationary problem and therefore about possible cures for it. Surely the popular news media are grossly guilty of vague word usage in their reports on inflationary developments and thereby contribute to the misunderstanding about this topic of great interest.

Perhaps the most common misapplication of a word is the use of "inflation" to refer to a rise in the general level of prices. That simply is wrong, if historical use of the word "inflation" is the guide for right and wrong. Webster's dictionary says that inflation is "an increase in the volume of money and credit relative to available goods resulting in a substantial and continuing rise in the general price level."* Note that the rise in the price level is not inflation; Webster's says the excess creation of "money and credit" is. The widespread misuse of the word "inflation" has made it necessary to avoid that word if we are to minimize the chances of failure to communicate; therefore, we have abandoned the term "inflation," and instead we use "inflating."

But we have gone a step further in designating what we mean by inflating. As noted above, Webster refers to the excess creation of "money and credit." However, the words "money and credit" are used to name, or designate, various things.

There literally are a number of "moneys," M1, M2, M3, and so forth. As for credit, anyone's debt is counterbalanced by someone else's credit. Whose "credit" should be included in Webster's use of that word and whose should be excluded is not clear. For this reason we have abandoned "money" and "credit" from our designation of inflating.

In their place we use the words "purchasing media." That is our label for those things generally used in final payment of purchases and debts. Among such things nowadays are currency (including coin), demand deposits (checking accounts), and to an increasing extent, other checkable instruments, including those drawn on financial institutions other than commercial banks. Credit cards, savings accounts, open lines of credit, and so forth are not purchasing media, as we designate it, because their use does not constitute final payment.

With this understanding of terms, we now assert that inflating is the creation of purchasing media in excess of the amount needed to represent the exchange value at the current price level of goods offered in the market. That is a working designation of "inflating." In the vernacular of the times, one would say that "inflation" occurs when there is too much money chasing too few goods.

Let us illustrate how too much purchasing media chasing too few goods causes a rise in the general level of prices, which, remember, is a symptom of inflating, not inflating itself. Consider an auction market at which the auctioneer offers five items and the amount available and used for bidding is $10. Were all items auctioned, the average price per item would be $2. Alternatively, assume that the amount available and used for bidding is $20. Under the same conditions, the average price would be $4, that is, the general level of prices would double. Note that the focus is on the general level of prices, not on relative prices, that is, the prices of the individual items offered. This differentiation is important, as we shall see when we return to our illustration later.

Although the notion that inflating occurs when there is too much purchasing media chasing too few goods is one that most economists accept as accurate, other explanations also are common. One of these used to explain the price explosion of 1973-74 is that OPEC's quadrupling of crude oil prices and its effects on other energy prices pushed all prices up. Could this assertion be accurate?

Returning to our illustration, we assume that the original auction of five items for $10, with an average price of $2 reflected actual prices of $2 for each item. Now OPEC says that item A must receive a bid of $6. Maintaining the condition that all items must be auctioned would leave $4 to clear the auction market of the four remaining items; let us say each sold for $1. Relative prices would have changed drastically, but the average price still would be $2 per item — there would be no rise in the general level of prices.

But what if the auctioneer held that, although item A had to receive a bid of at least $6, he also could not accept less than $2 for each of the four remaining items? With a total of $10 available and used for bidding, these conditions would mean that only item A and two of the other four items would be sold by the auctioneer. Two items would be unsold and would remain in the auctioneer's inventory. The average price would be $2.80 ($14/5 items); general prices had increased. But wait! The auctioneer finds himself with two items he does not want to keep. He faces a dilemma: either he accepts less than $2 per item for the four items or he holds two extra items, neither of which he wants to do.

If possible, he would arrange to have more money made available and put into use for bidding, say $4 more could be brought into the bidding. Under those circumstances, he could sell all five items at a total of $14, and prices would remain at an average of $2.80. However, if $4 more could not be brought into the bidding and he could not carry in inventory the extra two items (because he could not afford to keep funds tied up in inventory), he would be forced to accept less than $2 per each of the four items — even if it meant a loss. To sell the four items other than item A, he would have to accept an average of $1 per item, and the average price of all five items would drop back to $2. Thus, the higher general price level of $2.80 could not be sustained unless the extra purchasing media were created to validate the otherwise temporary rise.

An understanding of this relationship between purchasing media and prices exposes not only the fallacy of blaming OPEC for the 1973-74 price explosion but also many other similar explanations of generally rising prices, that is, explanations that "point the finger" at special groups or special conditions. Among those are monopolistic businesses, big labor unions, adverse weather conditions, and so forth. In each instance, those special situations could affect only relative prices in the long run; new purchasing media were not created to validate the asked-for higher prices plus to clear the markets for other things, including the market for labor.

We conclude that "inflation," or rising prices, purely a monetary phenomenon; it is the result of inflating — the creation of excess purchasing media. Other alleged "causes" of "inflation" must be viewed as secondary causes, that is, they wo.
may promote the creation of the excess purchasing media but they do not directly create "inflation." Recognition of these secondary causes is, of course, important, but a clear understanding of the ultimate nature of inflating is essential for the development of solutions to the problem rather than panaceas for the symptoms of the problem, such as wage-price controls, "voluntary" or mandatory. Anyone able to recognize which is which — solution or panacea — will be at a great advantage.

THE U.S. MONETARY SYSTEM

Before we describe how inflationary purchasing media are created, a brief survey of the development of the U.S. banking system during this century is in order.

By the final quarter of the 19th century, monetary practices had evolved to the point that there was widespread — though not unanimous — recognition that the best monetary unit was gold. National currencies were units of gold of specified weight and fineness. The dollar, the pound, the franc, and so forth were units of gold, and exchange rates among them simply reflected the different weights and fineness of gold represented by the currencies. In the United States, the dollar was made fully redeemable in gold in 1879.

Economic growth proceeded apace during the final quarter of the 19th century, although there were three sharp recessions during that period. Each of those was accompanied by money panics, that is, a scarcity of currency and bank credit. There was no official central bank of the Nation then, and smaller banks would maintain deposits with larger banks as their reserves, the larger banks with the still larger banks, and so forth, until New York City banks held the reserves of most of the Nation's many banks. The New York City banks would make call loans with the funds thus deposited, that is, the borrower would be obliged to pay the loan as soon as the bank asked. Invariably some big banks became overextended. Then when any unusual demand for funds arose at small banks, often in connection with agricultural needs, a chain of calls by smaller banks on their reserves at larger banks occurred. Eventually the New York City banks were forced to call loans, and their borrowers would be forced to sell goods at any price in attempts to pay the loans. This would precipitate a collapse of prices and a business recession.

After the three money panics during the latter 19th century and two more during the first decade of the 20th century, and amid a good deal of controversy, a central bank was established in 1913 in the United States. It was called the Federal Reserve System (Fed), and Fed officials were charged with the responsibility of establishing and following sound monetary policy.

As originally constituted, the Fed was severely restricted in its ability to inflate; yet it could provide or contract currency and credit as necessary for legitimate business purposes. Federal Reserve notes, which were to become the principal paper currency of the Nation, were made redeemable in gold on demand. The Federal Reserve banks were required to maintain reserves in gold of not less than 40 percent of the amount of their notes in circulation and 35 percent of their deposit liabilities to their member commercial banks.

Furthermore, the other 60 percent of such notes were to be secured by the pledge of "...notes, drafts, bills of exchange arising out of actual commercial transactions..." that were rediscounted by those banks. Such notes, drafts, and bills of exchange were short-term self-liquidating promissory notes reflecting the movement of things produced to the markets for sale. When held by the central bank, these instruments represented a claim on outstanding purchasing media. Repayment of the loans represented by such instruments involved the removal from circulation of an equal amount of purchasing media that the borrowers had acquired as things were sold. By this arrangement, dynamic balance between the dollar-value of gold and other products offered in the markets on the one hand and the amount of purchasing media available to bid for gold and other products on the other hand could be fostered.

The gold provisions both enhanced the domestic and international acceptability of the purchasing medium and established an upper limit to the amount of Federal Reserve notes that could be issued, given the stock of gold held by the central bank. Within that upper limit, the provision requiring 100-percent backing by gold or rediscounted trade paper provided a means by which the volume of paper currency could expand and contract in accordance with the legitimate needs of business and agriculture.

Purchasing media comprised checking accounts in commercial banks as well as paper currency. However, with checking accounts redeemable in currency and currency redeemable in gold, total purchasing media reflected the limitations of the aforementioned provisions of the original Federal Reserve Act.

However, two major restrictions against inflating were abandoned during the 1930's. First, the Glass-Steagall Act of February 1932 permitted Federal Reserve banks to use as security for their notes in circulation, U.S. Government securities in addition to rediscounted commercial paper. Inasmuch as the Fed from its inception was permitted to lend to
member banks on the collateral of Government securities (not to be confused with the Fed using such securities as collateral for Federal Reserve notes, or currency), the Glass-Steagall Act was important not for what it enabled Fed officials to do but for the change in attitude that gave rise to the Act. That change was acceptance of the notion that the monetary authorities should be free to create whatever amount of reserves they deemed appropriate and should not be restricted to creating reserves only for the legitimate needs of business as reflected in bona fide commercial loans discounted by banks.

The foundation of that notion was the view that the depression was worsened by the progressive contraction of credit as Federal Reserve banks did not buy Government bonds to offset the reserve losses connected with the drying up of business loans available for rediscounting. In turn this was based on the theory that the depression was an aberrational event, not a corrective event of prior excesses. In a way, the arguments offered in support of Glass-Steagall were harbingers of Keynes’ arguments in support of the theory of deficit spending.

Although the Fed’s authority to monetize Government debt offered opportunities for monetary and Government officials to debauch the Nation’s currency, all holders of such currency and owners of checking account balances still retained an ultimate veto power of official actions by being able to demand gold for currency. This veto power was not to be held for long.

Soon after taking office, President Franklin D. Roosevelt issued a Presidential proclamation that prohibited private ownership of gold in the United States. This act made the U.S. dollar a paper currency domestically. (It remained redeemable in gold by foreign official institutions until August 15, 1971.) When President Roosevelt ended domestic gold redeemability of the dollar, he removed the ultimate checkrein the public had on monetary authorities.

David Ricardo, the early 19th century English economist, gave recognition to this role of gold in these words, “The only legitimate security which the public can possess against the indiscretion of the Bank is to oblige them to pay their notes on demand in specie.”

After these actions, Fed officials were permitted to monetize unlimited amounts of Government debt without having to fear that Americans might use the purchasing media created thereby to demand gold and force an end to these policies. Turning back to Chart 1, note that the early 1930's marked the beginning of the relentless slide in the purchasing power of the dollar. The monetary panics and recoveries that had occurred earlier served to restore the purchasing power of the dollar, but that has not been the situation since the early 1930’s.

**CREATING INFLATIONARY PURCHASING MEDIA**

We now turn to the question, “How are inflationary purchasing media created?” The answer is that when commercial banks and Federal Reserve banks create new purchasing media not to represent things being brought to the markets but to permit things to be bought in the markets, the purchasing media are inflationary. They are inflationary because they make available an excess of purchasing media for buying, at current prices, the goods being offered -- too much “money” chasing too few goods.

We shall change our illustration in an effort to clarify those relationships. Consider that the Nation’s markets are as baggage check rooms. All things produced are brought to the baggage rooms, which are the wholesale and retail markets. Then the things are bought (claimed) by those who have purchasing media (baggage claim checks) to offer in exchange. The purchasing media (claim checks) are withdrawn when the things are purchased (baggage claimed). Purchasing media are reissued to producers to represent new things when those things are brought to the markets. The process continues indefinitely as things are brought to the markets and purchasing media are issued, and bought in the markets and purchasing media are canceled.

Inasmuch as nothing can be bought (claimed) that first has not been produced and offered in the markets (checked into the baggage room), purchasing media (baggage claim checks) are needed and should be issued only to represent the things offered in the markets (baggage available to be claimed). When more purchasing media (claim checks) are created than are needed to represent the exchange value at a current price level of things offered in the markets, inflating occurs.

Not all newly created purchasing media are inflationary. One particular way by which commercial banks create purchasing media is by accepting promissory notes (IOUs) of businesses in exchange for credits to the checking accounts of those businesses. When the notes thus issued and the newly purchasing media thus created are related to the business bringing an equivalent value of goods to the markets, balance is maintained between purchasing media available and things to buy. Such newly created purchasing media are noninflationary. Likewise, if the commercial bank were to borrow from the Federal Reserve bank on the basis of such a business note, the purchasing media resulting
ing from the Fed’s loan to the commercial bank also would be noninflationary.

But let us say a commercial bank (or Federal Reserve bank) buys a Government bond by crediting the checking account of the private bondholder (or his bank, in the case of the Fed's purchase). Assuming that the bank had no saved purchasing media deposited with it to make the purchase, the purchasing media would be inflationary, inasmuch as it would make more purchasing media available for buying but without connection to more goods being available for purchasing – too much “money” chasing too few goods. Inflating also would occur if newly created purchasing media were issued in connection with installment loans to consumers, or mortgage loans to home or commercial property buyers, or loans to businesses to buy equipment, and so forth. In each instance, the newly created purchasing media would add to demand without there being a related addition to supply – more claim checks than baggage.

**INFLATING AS A POLICY GOAL**

Shortly after Fed officials were unshackled from the commitment of supporting their liabilities with rediscounted bona fide commercial loans and of redeeming their Federal Reserve notes in gold, a modern economic medicine man by the name of John Maynard Keynes concocted an economic theory that justified inflating. The theory suggested that if the Government would spend more than it received in tax revenues and then finance the deficit by having its bonds monetized by the banking system, the Government could supplement the ostensible “inadequate” private demand (deemed responsible for the depressed economic conditions) so that sales, output, employment and general economic activity would be stimulated. Keynes’ depression panacea was “sold” to President Roosevelt in 1934. By the end of that decade his theory was firmly established in leading universities as the new economic medicine. Alert politicians quickly embraced the plan, for they were keen enough to see that this theory provided them with the academic stamp of approval to spend the public’s funds to buy their own re-election.

The first experiment with inflating as a policy goal was only partially successful. Business activity picked up (it already had begun to) during 1935 and 1936 but turned sharply down in 1937 and decreased into 1938. World War II came, and inflating was vigorously pursued as a policy. The economy was “straight out” for the war effort, and when the war ended, many feared a major depression would occur. At that time AIER predicted that there would be no major recession because demand would be bolstered by huge amounts of purchasing media created during the war and hoarded by a public unable to buy consumer items and lacking the incentive to invest at the extremely low rates of interest then being paid.

Unwarranted depression fears won out, and Congress passed the Employment Act of 1946, which committed the Government to pursue policies “to promote maximum employment, production, and purchasing power.” The policy envisioned of
course was Keynes' prescription for Government deficits and inflating.

THE POSTWAR TO THE PRESENT

Chart 5 starkly reveals how diligently the profligate politicians have applied the policy of deficit spending. (Deficits are shown above the zero line.) Notice how large the deficits have been during the business expansion that began in March 1975. Remember, deficit spending by the Government theoretically is supposed to occur only during recessions.

Chart 6 shows the percent change from a year earlier in the M-1B money supply (a near substitute for purchasing media) and in two price indexes — the Consumer Price Index (CPI) and the GNP price deflator. The latter is the broadest measure of general prices in the United States. Note the tendency for the three to accelerate as the deficits have increased — not in perfect harmony (since inflating can occur by the monetization of private as well as public debt, and deficits can be financed without inflating occurring) but close enough to have a positive correlation. By now most Americans know how costly generally rising prices are to those with fixed-dollar claims — like pensioners and plain everyday Americans who have funds in savings accounts.

Chart 7 reveals interest rate trends from 1945 through 1981. They, too, trace the upward path of the other series. Of course, as interest rates increase, bond prices fall, and millions of bondholders who paid dollars long ago to buy the bonds on the faith that the dollars later paid back to them would have equal purchasing power have been deceived and swindled — not by the bond issuer but by the monetary authorities.

The foregoing charts suggest only some of the deleterious effects of inflating. Others are: unwarranted business optimism that builds unsustainable boom conditions followed by the inevitable business collapse; large purchases abroad, which are reflected in chronic balance of payments deficits and a decreasing foreign-exchange value of the dollar; excess speculation that often centers on one or two objects (for example real estate, or commodities), driving their prices up, attracting further misdirected funds, and ending in a price collapse that wipes out many unsophisticated participants in the speculation; increased Government spending (and the concomitant concentration of control in the hands of the political aristocracy) as the easy path of financing deficits through inflating misguides the public into voting for can...
dates promising more Government giveaways; the excess accumulation of debt, as borrowing is encouraged by seemingly lucrative business and speculative opportunities; and long-term constriction of the economy, as savings are misdirected from productive activities to speculative activities and hoarding. All of these are results of inflating, which is why the use of the name "inflation" to refer only to generally rising prices is highly misleading.

But even these are not the worst consequences, as Rees-Mogg, editor of The Times of London, points out: "Inflation has always had the same monetary causes and the same social consequences. There is no inflation which has not started with an increase in the money supply; there is no inflation which has not ended with a corruption of society, proportionate only to the degree of the inflation itself. It corrupts and weakens every social institution; it makes every member of society feel himself to be the victim of every other member of society; it sets class against class. It makes governments weak and unsure of themselves; it has in recent history destroyed more lawfully constituted governments than any other force except war itself."

These are the dire results reaped and risked by following a policy of inflating. And for what benefit? The argument offered in support of deficits and inflating is that economic growth can be accelerated thereby, with the benefit of lower unemployment. Are these benefits evident in fact?

Chart 8 shows the long-term trend of "real" (price-adjusted) Gross National Product. The vertical scale is a log scale, so that a straight line trend reflects a constant percentage change in the series. Quite clearly, Government deficits and inflating have not significantly increased the rate of economic growth. As for deficits having reduced unemployment, we let Chart 9 speak for itself.

Thus, the United States has been brought to an inflationary state of affairs that 2 or 3 decades ago was thought to prevail only in "banana republics" or in war times. This is the result of a conscious policy to inflate and a monetary system without the guide of gold-based currency. However, if all that needs to be done to end these problems is to stop the creation of excess purchasing media, why has that not been done to date and can it be expected to be done in the near future?
V.

PROMISE OF CHANGE FOR THE BETTER?

DURING recent months extensive attention has been given to the issue of restoring some link between gold and the dollar. A number of factors seem to account for this great current interest. Chief among them is the now undeniable fact that the national and international monetary systems are in a state of disarray and are creating enormous general economic problems.

Another factor is that the public has not yet responded to the passage of President Reagan's spending and taxing programs with exhilaration. Some supplysiders attribute this disappointing reaction to continuing high interest rates, reflecting public doubt that inflationary monetary policies are going to be wound down in fact—not only in official rhetoric. Some supplysiders now emphasize that the essential monetary counterpart to President Reagan's fiscal policy is the implementation of some variety of a gold standard. This, they insist, will immediately provide credibility to a professed monetary policy of reduced inflating, will instantaneously lower inflationary expectations, and will quickly reduce nominal interest rates by eliminating their inflation-premium component. Restore a “gold standard” now, they say. They need the stimulative effects of the supply side program soon so that Republicans are not swept out of office come next year's Congressional elections.

At the very time that the above political focus on gold has arisen, developments involving the U.S. Gold Commission also attracted attention to gold. Provided for in a law authorizing funding for the International Monetary Fund signed by then-President Carter on October 7, 1980, this Commission was given 1 year to study and make recommendations concerning the role of gold in the domestic and international monetary systems. The Gold Commission members were not appointed until the spring of this year. (See Table 2 for a list of its members.) The membership was heavily weighted with persons whose predispositions were against a monetary role for gold.

On July 9th, 7 days before the Commission's first meeting, AIER's Director of Research attended a meeting in Washington, D.C. called by Congressman Ron Paul and Mr. Lewis Lehrman, the only two strongly pro-gold Commission members. They were seeking suggestions for approaching their task from the twenty-odd persons assembled: they had no idea of what they would encounter at the Commission's first meeting; there was no circulated agenda; there was no staff for them; nothing. Some persons in attendance reported they understood that senior administration officials intended merely to go “through the motions” with the Commission in order to appease the hard-money block of conservative Republicans.

As feared, Under Secretary Sprinkel recommended that the meetings be closed to the public, and Congressman Henry Reuss insisted that the October 7, 1981 deadline for the Commission's report be kept. Mr. Lehrman objected, saying that at least a year would be necessary for the Commission to do its work. Sprinkel supported Reuss. To his credit, Dr. Paul McCracken, no friend of gold, threatened to resign if the Commission were going to issue a sham report. It was generally agreed to seek Congressional extension of the deadline.*

At that point the minutes of the meeting and

* At its September 18, 1981 meeting, the Commission agreed to ask Congress for an extension, but could not agree on March 31 or June 30, 1982.

Table 2

<table>
<thead>
<tr>
<th>U.S. GOLD COMMISSION MEMBERS</th>
<th>Apparent Predisposition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private Individuals</strong></td>
<td></td>
</tr>
<tr>
<td>Arthur J. Costamagna, lawyer</td>
<td>Pro-commodity backing.</td>
</tr>
<tr>
<td>Herbert J. Coyne, brokerage firm executive</td>
<td>Pro-gold.</td>
</tr>
<tr>
<td>Lewis E. Lehrman, business executive</td>
<td>Strongly pro-gold.</td>
</tr>
<tr>
<td>Paul W. McCracken, economics professor</td>
<td>Formerly strongly anti-gold but now less so.</td>
</tr>
<tr>
<td><strong>Federal Reserve Board Governors</strong></td>
<td></td>
</tr>
<tr>
<td>Emmett J. Rice</td>
<td>Anti-gold.</td>
</tr>
<tr>
<td>J. Charles Partee</td>
<td>Anti-gold.</td>
</tr>
<tr>
<td>Henry C. Wallich</td>
<td>Strongly anti-gold.</td>
</tr>
<tr>
<td><strong>Administration Officials</strong></td>
<td></td>
</tr>
<tr>
<td>Donald T. Regan, Secretary of Treasury and Chairman of Commission</td>
<td>Relies on Under Secretary Beryl Sprinkel, who is strongly anti-gold.</td>
</tr>
<tr>
<td>Jerry L. Jordan, President's Council of Economic Advisers</td>
<td>Anti-gold.</td>
</tr>
<tr>
<td>Murray L. Weidenbaum, President's Council of Economic Advisers</td>
<td>Anti-gold.</td>
</tr>
<tr>
<td><strong>Congressmen</strong></td>
<td></td>
</tr>
<tr>
<td>Rep. Christopher J. Dodd (D-CT)</td>
<td>Anti-gold.</td>
</tr>
<tr>
<td>Sen. Roger W. Jepsen (R-IA)</td>
<td>No predisposition.</td>
</tr>
<tr>
<td>Rep. Ron Paul (R-TX)</td>
<td>Strongly pro-gold.</td>
</tr>
<tr>
<td><strong>Nonmember Executive Director</strong></td>
<td></td>
</tr>
<tr>
<td>Anna Schwartz, economist</td>
<td>Strongly anti-gold.</td>
</tr>
</tbody>
</table>

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the meetings themselves were to remain unavailable and closed, as suggested by Beryl Sprinkel without a vote by the Commission members. That was not acceptable to The Wall Street Journal, which in an editorial published in April 1981 was the first national newspaper to call for serious study of the monetary role of gold. The Journal editors (as did writers for other newspapers) gave national attention to the attempt to hide the Gold Commission's deliberations. More than that, the Journal and its parent, Dow Jones and Company, filed suit to get the minutes of the July 16th meeting and to have future meetings open to the public. In early September the Commission, in a telephone poll, voted to open the meetings beginning with that on September 18th. The opening of the Commission's meetings should help keep the public's attention on gold.

Now that gold again is being taken seriously, one might think restoration of a sound money-credit system is within grasp. We doubt it. One's hopes should not get too high. Perhaps the greatest disservice economists have performed historically is to create unwarranted confidence in their particular theories and thereby to foster unachievable economic expectations by the public. What is the root cause of today's economic plight if it is not the unfounded—indeed, historically refuted—idea that government manipulation of money and other economic activities can assure sustainable prosperity for all?

Around the industrialized free world, two generations have been miseducated to believe that government can cure all economic ills, which makes it virtually impossible for an elected government to retain office through the short-term painful period of withdrawal from the addiction to inflating in order to reap the long-term benefits of a noninflationary situation. The economic argument underpinning this folly, Keynesianism, was embraced by most academics and politicians during the desperate times of the Great Depression. It met the urgent, short-run political needs of the time.

Is somewhat the same thing happening now? Politically connected supplysiders are desperate. If interest rates do not fall soon, their promise of a nearly painless cut in the budget deficit achievable by holding spending more or less constant and gaining revenue from an expanded national income boosted by politically desirable marginal tax rate cuts will be proven empty. Come November 1982, many of the present Republican "ins" could become the "outs," as disillusioned voters turn back to the promises of the Democratic spenders and central controllers. Hence, some "in" supplysiders now are stressing the need for a dollar tied to gold in order to gain credibility for an anti-inflationary policy. Indeed, it is ironic and perhaps significant that the advocates of an immediate return to some type of gold system as a "quick fix" in order to lower inflationary expectations have much in common with the advocates of wage-price or credit controls: sweeping problems "under the rug" in order to win the next election.

That is the pernicious approach President Nixon took in August 1971 when he repudiated the gold dollar and instituted the first peacetime general wage-price controls in the history of this country. Even some apolitical advocates of gold seem to be acting in desperation. In their view, widespread deep discontent with today's monetary mess offers a rare opportunity to restore gold's monetary role, and if this opportunity is not seized, another chance might not be forthcoming for decades—if ever. Others are desperate for any alternative to the present paper-money system: "Anything has to be better than what we have."

A setting of desperation is not conducive to sound study and deliberation on this topic of greatest import. That the Gold Commission probably will have considerably more time to accomplish its task than first was feared is reason to be somewhat hopeful. But when you consider that the question of a gold monetary unit versus official monetary discretion has been debated for 200 years, a deadline of early or mid-1982 is not sufficient for the magnitude of the job to be done. The level of debate carried on thus far surely does not do justice to the issue. For there to be a reasonable chance that a sound monetary course will be taken in the future, a number of subtle but fundamental aspects of the monetary problem must be investigated. Here are some of these.

**PRICE STABILITY AS THE GOAL**

Much of the argument about money—gold money or paper money—centers on the goal of price stability. That is not the appropriate ultimate goal of a monetary system. A sound monetary system is one that provides a corrective tendency from inflating and deflating before either becomes so severe that it threatens economic and social chaos.† One consequence of such a system will be little change in the purchasing power of the monetary unit in the long run (more or less stability in general prices). Price stability in the short run is not a realistic possibility. Price changes of individual items are essential for the continuous reallocation of a nation's resources to a pattern

† Remember, by inflating/deflating we refer to the creation of excess/insufficient purchasing media to represent the sustainable exchange value (prices) of goods offered in markets.
more nearly consistent with the dynamic conditions of a growing economy — new products, new productive processes, new final demand preferences.

Economic adjustment does not occur instantaneously. In some instances it occurs over many years. As an example, consider the massive adjustments necessitated by the higher energy prices initiated by OPEC in 1973. Time was required for those adjustments: redesign and retooling of motor vehicle manufacturing facilities; retrofitting and redesigning buildings for energy conservation; development, production and installation of new energy controls; design and production of energy-saving electric motors; engineering and construction of increased capacity for and actual production of more oil drilling rigs, etc. Many price changes had to occur to induce the appropriate supply and demand adjustments. Even in the absence of monetary excesses, price indexes would have had to rise for a time, until prices of the obsolete products and processes would fall after those products gathered dust on the shelves for lack of buyers at the former prices.

Few students of monetary matters would suggest that such price-level changes were the fault of the monetary unit. Yet, some proposals for a new variety of gold standard would change the gold content of the monetary unit when general prices moved by some stated percentage over some specified period. They advocate a variable gold standard, an absurdity and a contradiction even in name.*

That some price-level changes may be necessary for the economy’s health undermines the argument of gold opponents who, although they acknowledge that the 19th century gold standard promoted long-term purchasing power stability of the currency, criticize it for its failure to prevent fairly large general price changes over short spans. We shall consider the late 19th century cyclical volatility later, after a point about the comparative importance of long-term currency stability and short-term instability.

In a modern industrial economy, with its extensive volume of highly specialized long-term capital investment, long-term currency reliability is desperately needed. Evaluation of long-term capital projects entails a great deal of uncertainty — business risk — in the best of monetary conditions. But when the high risk of a greatly changing, rapidly depreciating currency unit is added to the situation, sound evaluation of long-term investment opportunities becomes nearly impossible. Every project with a maturity (or payback period) of more than a few years becomes a gamble. Hence, the acceptable time horizon for investments shrinks to the near term. Therefore, although the total rate of saving and investment in an economy might not change, productivity — the source of real income gains — suffers when the otherwise higher yielding long-term project is cancelled in favor of the shorter-term lower-yield project because of the high currency risk.

For this reason, long-term currency reliability — as even critics admit was provided by the gold standard — might foster more rapid average long-term growth in spite of considerable volatility in the short run. Such was the case for industrial output in the final quarter of the 19th century. In spite of substantial cyclical changes and a downward trend of wholesale prices then (see Chart 10), U.S. industrial output increased at its most rapid average rate over that long a span in the history of this country. It would seem essential that the Gold Commission gains an understanding of the trade-off consequences between long-term currency reliability and short-term currency volatility before

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Chart 10

PRODUCER PRICE INDEX — ALL COMMODITIES (1967 = 100)

Shaded periods indicate times when Americans could not convert U.S. currency into gold.
reaching a conclusion about the preferred choice of a monetary unit.

**MONEY AND CREDIT: USE AND ABUSE**

Returning to a consideration of the fact that there was indeed substantial short-term price and economic volatility during the best years of the gold standard, the question arises, Was the volatility related to the use or abuse of the monetary unit? Our view is that gold convertibility was not the initiating factor in fostering movement of the economy away from sustainable trends; rather, gold convertibility was a force for correcting inflationary distortions originating elsewhere and constituting an abuse of sound banking practice.

Few students of money, we suspect, would disagree with the proposition that a credit-based economy contains the seeds for cycles regardless of the kind of monetary unit. Let us explain. As soon as someone has available a product to sell, there is the potential for credit. If he exchanges that product for the IOU of the purchaser, credit has been extended, but new purchasing media (money) was not created in the process. If the seller of the product takes the IOU of the purchaser to the seller's supplier and obtains there-with another product, another transaction has occurred without new purchasing media being created. It is probable that, by such practices, optimism about future economic conditions can be generated, with a desire of producers to process more output and sell it.

As a practical matter, such passing on of private IOUs could not go far for lack of knowledge about the quality of the individual debtor's IOU. Here is where banks came in. The seller who received an IOU of a purchaser could take the IOU to a banker and, for a fee (interest charge), the bank would substitute its widely acceptable IOU for the unacceptable IOU of the purchaser. In the process, the bank created money (its demand liabilities were generally used in final payment). Of course, when the monetary unit was gold, the currency-denominated demand liability of the bank could be presented by its holder for gold at any time.

The bank thus had to keep an adequate stock of gold on hand. Adequacy, however, depended on the quality of the debts held by the bank. If the debts had too long a maturity, such that eventual holders of the bank's demand liabilities (individuals or other banks through whom checks were being cleared) presented them for collection before the bank received payment on the IOUs the bank held, the bank would be unable to meet its obligations. It also would fail if the banker misjudged the ability of the debtor to pay. That often occurred when bankers, caught up in the exuberance of an incipient “boom,” overestimated the price that the business borrower would get for the product the banker's loan financed. When the product could be sold only at a “distress” price, the debtor could not pay the bank, and the bank could not pay on its demand obligation. When a number of banks encountered this problem about the same time, banking panics occurred. The earlier misjudgments on credit extensions thus were corrected, as were the allocations of real resources involved.

By early in this century, bankers learned from trial and error that some types of loans provided better assurance of repayment on schedule than other types. They were called “self-liquidating” loans. These were loans to finance the marketing of a product, the near-term expected sale of which would provide the funds for repayment. This practice was also called the “commercial loan theory” of banking, or the “real bills” doctrine.

Three aspects of those practices are especially pertinent to today's new interest in gold as the monetary unit. One, the banking “panics” of the late 1800's, did indeed involve harsh adjustment, but they also provided early adjustment to developing distortions. The cost of trying to eliminate them has been to create the more severe and difficult-to-overcome monetary and economic problems of today. These problems are so severe that most observers admit they have potential for creating an economic collapse and social chaos. The earlier banking panics were early corrections of abuses, something all can wish had occurred earlier in the current episode of excessive money.

The second significant point is that a monetary unit of gold provided the public with a means to protect itself from the effects of developing excesses, and thus to check those excesses. In today's system of fiat dollars, there is the acknowledged question if the Federal Reserve can find the fortitude to pursue unstintingly its stated objective of slowly reducing the growth of the monetary base. But just at the time that Fed officials are giving a slight indication they will “stay the course” in this instance, the effort may be moot. By means of innovative payments practices, the amount by which purchasing media actually in use can exceed the monetary base may have become virtually limitless. With the developing trend toward huge financial conglomerates, private financiers (bankers) can aggressively extend paper dollar credits ad infinitum, secure in the knowledge that their credits will be offset by claims on other similar institutions, or if by chance an imbalance develops for one of them, regulatory officials will have to bail them out by providing more official paper dollar credit. Without the requirement that issuers of demand obligations pay...
with something they cannot create (like gold), the potential expansion of purchasing media is limited only by the eventual refusal of the public to accept fiat currency, and that would be a flight from currency. It would seem preferable to have a monetary system that checked abuses far before that consequence became a distinct possibility.

This brings us to our third and final point. Simply declaring that the monetary unit is a weight of gold is not sufficient to provide a sound, sustainable monetary system. A constellation of money and banking practices must accompany an attempt to restore gold as the monetary unit. Deposit insurance must be repealed, so that depositors will have to exercise personal responsibility to monitor the practices of their bankers. Banks must not be saved from failing, so that bankers will have to adopt sound lending practices or go out of business through bankruptcy. Bankers will have to re-learn the lost art of sound commercial banking. The American people will have to learn to accept short-term economic hardship to gain long-term economic advancement, protection of personal freedom, and the realistic hope of preserving that for future generations.

The foregoing necessary conditions are impressive in their complexity. And they obviously have little chance of being implemented any time soon. For this reason, we abandoned some time ago the expectation that a sound gold-based monetary system could be re-imposed from the top down, that is, by design and adoption by monetary and political officials. By de-monopolizing Government's control of the monetary unit and by permitting market experimentation with various monetary units, we should expect that the more useful monetary units and sound banking practices would be adopted.* A bill, "The Free Market Gold Coinage Act" (H.R. 3789), was introduced into the U.S. House of Representatives by Congressmen Daniel Crane and Ron Paul in 1981. It provides much of what we believe is necessary for fostering a free-market development of gold money and banking. It would not require that Congress adopt a gold standard or abandon the paper dollar. Its design is to put the issue to the test of the market by providing a fair field on which gold and officially controlled fiat money can compete. In our opinion, that action would offer the Nation the best hope of avoiding calamity and setting a course toward sustainable economic progress.


VI.

GOLD AS A PROTECTOR OF REAL WEALTH

MORE inflating will only create more problems. Already the amount of inflationary purchasing media outstanding is so large that, when focused on one or two things, it can be highly disruptive. Consider what has happened to the foreign-exchange value of the dollar. For a number of months during 1978 some foreign central banks were purchasing dollars at the rate of $10 billion per month, and still the value of the dollar in terms of their currencies (mainly the Swiss franc, German mark, and Japanese yen) fell markedly. In 1980 and 1981, trends were reversed with the exchange value of the dollar rising rapidly, even in terms of the "strong" currencies. The foreign-exchange market temporarily quieted from time to time, but with tens of billions of dollars readily available to be sold for this currency or that, the foreign currency value of the dollar most assuredly again will make headlines.

Inflating of the past 3 or 4 decades has left the dollar an unacceptable, useless, accounting unit. Thus, when one reads corporate financial statements one cannot be at all confident that the corporation's situation is as represented. Adjustments have to be made for fictitious profits arising from inadequate depreciation and inventory charges. Future pension obligations seldom—if ever—are adequately revealed in such statements.

Moreover, while the potential investor and business manager thus operate partially "in the dark," businessmen also face an increasingly burdensome and capricious bureaucracy. The larger Government becomes, the more important to business decision-making is accurately guessing the next political act: Will Congress pass a higher investment tax credit or not? Should the company invest in equipment now or wait? Will the Government force increased use of coal or again reverse its decision on this? Might international trade restrictions materially alter import and export business? Should prices be raised now, before wage-price controls are imposed—in spite of repeated official denial of such controls? Every day, little by little, political know-how (should we say connections?)
supplants business expertise. Who a business­man knows becomes more important than what he knows. In this business setting, how can there be anything but volatility, instability, guesswork, increased risk, and gambling?

PROBLEMS OF TRADITIONAL INVESTMENTS

Inasmuch as investors are reduced to gambling on the future, a prevalent attitude has developed that one should “invest” where there are opportunities for huge winnings. Note how popular stock options have become during recent years, as have commodity futures. This type of “investing” is pure gambling – betting that prices will move favorably within a set time period. How many persons are “into” real estate investment not because they have expertise in that field but because the average 10 to 15 percent per year real estate price increases of the past half-dozen years or so seem to guarantee profits? How many persons with hardly enough for a minimum down payment buy a house because they “know” the price will rise in the future? Many buy land in Florida, in Vermont, in Arizona without seeing it or studying the market. Trading in Government and corporate bonds based on predictions of future changes in interest rates also has become popular, but interest rate changes defy accurate prediction because the Fed’s actions often largely determine short-term and intermediate-term rate changes and these actions often are based on political, not economic, considerations.

The point of these comments is to alert the reader to the type of financial climate that now prevails. It is one largely of speculating (attempting to outguess the market) rather than of sound long-term investing. The depreciating paper dollar monetary unit simply has destroyed the latter. Even if one buys Government bonds, for which there is no chance of financial default, or keeps his funds in an insured savings account, he is gambling that the interest he earns on those funds (less the taxes he pays on those nominal earnings) will be at least as high as the rate of currency depreciation. Recently that has not been the situation for most persons for most types of traditional savings and investment media. It is no wonder that attempts to invest soundly have been abandoned in favor of attempts to “get rich quick.” When one learns that someone has doubled or tripled his “money” in 2 or 3 years by, say, purchasing commodity futures or real estate, it takes a rare individual to weigh that type of performance.

Because the view that “a dollar is a dollar” no longer is warranted, anyone with wealth must remind himself or herself to adjust nominal dollars and rates of return to “real” dollars and “real” rates of return. In addition, as the deprecating dollar pushes income recipients into higher tax brackets, investment returns must be viewed in terms of probable after-tax real rates of return, not before-tax returns. When viewed in this light, the odds against successful investment quite clearly become high.

The three accompanying tables reveal the problem faced by American investors today. Table 3 is beguiling, showing the large amount to which a fund can grow by the process of compounding. But Table 4 shows the opposite problem; how small the purchasing power of an amount can become because of currency depreciation. Table 5 brings in the tax effects and reveals the magnitude of rates of return needed to break even at different rates of currency depreciation and taxes. A perusal of the numbers indicates the absolute necessity in this inflationary climate to adjust nominal returns to after-tax real returns whenever investment possibilities are being considered.

In connection with this warning, please turn your attention again to the long-term trend in the purchasing power of the dollar shown in Chart 1. Note how far out of line with the historical relationship the dollar has become, and note its recent trend. The decline of the dollar is unprecedented for this Nation, which probably explains why most Americans for so long have failed (and still fail) to adjust their thinking to the new inflationary climate. Those hoping to protect the buying power of their wealth must never lose sight of the new,
inflationary climate; they must begin thinking about currency as do French peasants, who by bitter experience know to not trust their savings to the purchasing power of paper but to trust it to gold.

**WORSE THINGS TO COME?**

Thus far we have referred to the pervasive business and investment distortions associated with prolonged inflating. These now are reflected in a smaller rate of capital formation, hesitating economic growth, and less improvement in the public's well-being. But these are only the initial evil manifestations of the inflating that already has occurred.

Future evils almost sure to become more apparent will include heightened social conflict. When the size of the Nation's economic pie fails to increase, various groups will struggle to get a larger piece of the fixed national output rather than cooperate through competition to enlarge that output. Already militant job actions are occurring with much frequency. Note the number of strikes or threatened strikes by school teachers. Policemen, firemen, and air-traffic controllers ignore laws forbidding strike activity. Unionized workers reject agreements signed by their union leaders.

Such actions later will seem as tame as Sunday school picnics. Much enmity will be produced within 2 or 3 decades when the large 1950's "baby boom" group begins to approach the ages at which retirement concerns arise and these people begin to realize that there simply is no way by which promised pensions ever could be paid. Estimates suggest that upwards of 50 percent of all income would have to be transferred to retired persons once the "baby boom" group reaches current retirement ages. Think of the political war that later will be waged between the increasing proportion of elderly and the decreasing proportion of workers.

The great danger to the entire U.S. social structure from inflating is suggested in the following description from Fiat Money Inflation in France, by Andrew Dickson White, historian and first president of Cornell University.

"This great debtor class, relying on the multitude who could be approached by superficial arguments, soon gained control. Strange as it might seem to those who have not watched the same causes at work at a previous period . . . and at various times in other countries, while every issue of paper money really made matters worse, a superstition gained ground among the people at large that, if only enough paper money were issued and were more cunningly handled, the poor would be made rich. Henceforth, all opposition was futile."

"The artful plundering of the people at large was bad enough, but worse still was this growing corruption in official and legislative circles. Out of the speculating and gambling of the inflation period grew luxury, and, out of this, corruption. It grew as naturally as a fungus on a muck heap. It was first felt in business operations, but soon began to be seen in the legislative body and in journalism.

"In speeches, newspapers, and pamphlets about this time, we begin to find it declared that, after all, a depreciated currency is a blessing; that gold and silver form an unsatisfactory standard for measuring values.

"The consequences of these over issues now began to be more painfully evident to the people at large. Articles of common consumption became enormously dear and prices were constantly rising. Orators in the Legislative Assembly, clubs, local meetings, and elsewhere now endeavored to enlighten people by assigning every reason for this depreciation save the true one. They declaimed against the corruption of the ministry, the want of patriotism among the Moderates, the intrigues of the emigrant nobles, the hard-heartedness of the rich, the monopolizing spirit of the merchants, the perversity of the shopkeepers -- each and all of these as causes of the difficulty.

"...Whenever any nation intrusts to its legislators the issue of a currency not based on the idea of redemption in standard coin recognized in the commerce of civilized nations, it intrusts to them the power to raise or depress the value of every article in the possession of every citizen. Louis XIV had claimed that all property in France was his own, and that what private persons held was as much his as if it were in his coffers. But even this assumption is exceeded by the confiscating power exercised in a country, where, instead of leaving values to be measured by a standard common to the whole world, they are left to be depressed or raised at the whim, caprice, or interest of a body of legislators. When this power is given, the power of fixing prices is inevitably included in it.

"The question will naturally be asked: *On whom did this vast depreciation mainly fall at last?* When this currency had sunk to about one three-hundredth part of its nominal value and, after that, to nothing, in whose hands was the bulk of it? The answer is simple. I shall give it in the exact words of that thoughtful historian from whom I have already quoted: 'Before the end of the year 1795, the paper money was almost exclusively in the hands of the working classes, employees and men
of small means, whose property was not large enough to invest in stores of goods or national lands. Financiers and men of large means were shrewd enough to put as much of their property as possible into objects of permanent value. The working classes had no such foresight or skill or means. On them finally came the great crushing weight of the loss. After the first collapse came up the cries of the starving. Roads and bridges were neglected; many manufactures were given up in utter helplessness. To continue, in the words of the historian already cited: "None felt any confidence in the future in any respect; few dared to make a business investment for any length of time, and it was accounted a folly to curtail the pleasures of the moment, to accumulate or save for so uncertain a future."

Think about these descriptions, and think about the efforts of politicians and officials today to blame anything but the actual source for inflating and to do anything but to stop inflating. Wage-price controls; voluntary restraint; more selective Government purchasing; the argument that more "money" is needed, because the real value of that outstanding is falling; it's the farmers; it's the greedy oil companies; it's foreign central bankers; it's labor unions; it's doctors; it's lawyers; it's medical services; it's interest rates. You name it, it has been blamed.

Andrew Dickson White tells what to expect. The experiences in France in the late 18th century were not unique. Similar experiences have been chronicled in other nations at other times and they could happen in the United States.

When will the worst events occur in the United States? We do not know, and we doubt that anyone else does. Perhaps they never will, for there is a huge middle class in America whose savings are being embezzled regularly by the inflating process. Maybe the middle class will rise up, and, when paper finally becomes worthless, to find that they hold little else.

LONG-TERM STABILITY, SHORT-TERM VOLATILITY

Wealth holders who seek the refuge of gold should take care to develop realistic expectations of what gold probably will and probably will not do for them. Increasing attention has focused on the role of gold, with both advocates and detractors making un支持able claims.

One recent extensive analysis of gold in the economic histories of the United States and England was completed by Mr. Roy W. Jastram and reported in a book entitled The Golden Constant, published in 1977. Chart 2 of this bulletin is based on the data collected by Mr. Jastram and Chart 1, while done earlier by us, closely resembles the chart based on Mr. Jastram's data for the United States.

In his book, Mr. Jastram asserts that the data reveal these four major relationships:

• Gold is a poor hedge against major inflations.
• Gold appreciates in operational wealth in major deflations.
• Gold is an ineffective hedge against yearly commodity price increases.
• Nevertheless, gold does maintain its purchasing power over long periods of time.

That gold does maintain its purchasing power over long periods of time is readily apparent in Charts 1 and 2. Proponents of an official monetary role for gold, including AIER, usually focus on this long-run stability of the exchange value of gold compared with that of paper currencies, and this stability merits emphasis in view of the benefits gold can impart to an economy using it as a monetary unit. Moreover, this emphasis is needed to counter the widely disseminated "conventional wisdom" that a managed paper monetary unit is both necessary and appropriate for modern economies and that gold as money is a vestige of the past.

However, stressing the long-run stability of the exchange value of gold may lead the uncritical follower of gold to believe that gold has a stable exchange value over any period. Such is not the situation, as Charts 1, 2, and 4 reveal. Among the episodes of large short-run fluctuations in the exchange value of gold has been that in this country since 1970, with the per ounce price of gold increasing from $35 in early 1970 to $195 late in 1974, then decreasing to $103 in mid-1976, then increasing again to more than $800 in early 1980, then decreasing to about $400 in 1981. Thus, Jastram rightly points out that "gold is an ineffective hedge against yearly commodity price increases." That should not be a new revelation to the careful student of gold. However, to say that "gold is an ineffective hedge against yearly commodity price increases" does not imply that there

* "Operational wealth" apparently means "real wealth."
† Herein "purchasing power" and "exchange value" are used interchangeably.
are better hedges against such price increases. It clearly does not imply that paper currencies are better.

We now focus on the first and second relationships listed earlier, namely, “gold is a poor hedge against major inflations” and “gold appreciates in operational wealth in major deflations.” Except for the few times when major gold strikes were made (for example in California around 1850), the instances of these relationships appeared when currencies officially were units of gold and excess purchasing media apparently were issued (inflating occurred) and later canceled (deflating occurred). That is, these relationships were associated with departures from sound commercial banking, although not with departures from a gold-redeemable dollar. At those times, trends in the exchange value of gold simply were the inverse of trends in general commodity prices. That is, as commodity price levels increased, the exchange value of gold in terms of those commodities had to decrease, inasmuch as currency was a specified unit of gold. The opposite occurred when commodity price levels decreased. Inflating about the time of the War of 1812 and the subsequent deflating is one instance of these events.

The aforementioned relationships do not indicate an inherent defect of gold as a monetary unit, unless one thinks that gold (or anything else) could completely protect man from his own folly. We know of no monetary unit capable of doing that. However, as we point out below, gold has guided man away from more serious trouble when man has been willing to heed the signals that gold sends.

In the United States during periods when the currency was not redeemable in gold (that is, when the gold standard was suspended), the exchange value of gold did not change as Jastram claims. To the contrary, when convertibility of the dollar was suspended and gold exchanges were permitted at market-determined ratios, gold was an effective hedge during periods of rapidly increasing commodity prices. The exchange value of gold at these times tended to increase with increases in the general level of commodity prices. Similarly, the purchasing power of gold tended to decrease during periods of decreasing commodity prices. What moved oppositely was the exchange value of the paper currency. Notice in Chart 1 the changes during the early 1860’s, the time of the Civil War suspension of the gold standard. The purchasing power of gold decreased then but not nearly so much as that of paper currency.

Events during the 1934-77 period in the United States illustrate how the exchange value of gold can be affected by different policies. At the time the dollar was devalued in 1934 to one thirty-fifth of an ounce of gold, domestic redeemability was ended but foreign redeemability was maintained. The devaluation opened a spread between the exchange value of gold and the pre-devaluation dollar. After the devaluation, inflating was adopted as a policy, with the consequent loss of purchasing power of the currency and of gold, inasmuch as the currency officially was a unit of gold.

Note that the gold and dollar curves paralleled each other from 1934 until the late 1960’s. During that period, general commodity prices increased about threefold and the exchange value of gold for those commodities decreased about two-thirds. Of course gold was not a hedge against inflation then, but that was because its exchange value was kept artificially low by the monetary authorities. A chronic outflow of gold from the U.S. official stock was an indication of this. Inasmuch as the stock inevitably would have been depleted if the events continued, we confidently could and did predict in the early 1960’s that the “price” of gold eventually would adjust to reflect the long-term relationship between the exchange value of gold and other things.

In 1968 the monetary authorities were forced to abandon sales of gold to the public, because at the official rate of 35 dollar claims for an ounce of gold the demand for gold was enormous. However, monetary authorities maintained the official rate among themselves, and they spoke repeatedly of gold being an anachronism. By such means they succeeded for a time in keeping the market price of gold near the official “price,” and the exchange value of gold for other commodities changed comparatively little.

Even the pretense that a dollar was one thirty-fifth of an ounce of gold had to be abandoned in 1971, and the exchange value of paper currencies for gold fell rapidly. This rise in the paper money price of gold was much greater than the rise in general commodity prices; consequently, the exchange value of gold for other things increased markedly. When freed from an artificially low pegging, gold did prove to be a useful hedge against inflation.

Two other relationships involving the exchange values of gold and paper dollars are noteworthy. First, during those periods that dollars and pounds were units of gold, swings in the level of commodity prices (both increases and decreases) were noticeably smaller than during times when currencies were units of paper, not of gold.

Exceptions to that general relationship have occurred during periods of war. Commodity prices increased markedly in the United States during the late 1910’s to 1920, but this reflected the massive creation of inflationary purchasing media then to help pay for the involvement of the United States in
World War I. That was the first instance of inflating encouraged by amendments to the Federal Reserve Act, and it signaled the beginning of the degradation of the dollar. The extent of that degradation is apparent in Chart 1. Again, readers should understand that the problems were associated with departure from, not adherence to, sound commercial banking and a gold monetary unit.

The data show that the exchange value of gold for other things has fluctuated much less than that of the paper British pound as well as the paper U.S. dollar. Moreover, the exchange value of gold in both England and the United States during 1981 was more than it was during 1560 and 1792, respectively. However, the purchasing power of the paper British pound in 1981 was only about 2 percent of that in 1560, and the purchasing power of the paper U.S. dollar was only about 10 percent of that in 1792.

The second item of interest follows from Mr. Jastram's statement, "Gold does maintain its purchasing power over long periods of time. The intriguing aspect of this conclusion is that it is not because gold eventually moves toward commodity prices but because commodity prices return to gold." Although that relationship held when currencies were units of gold and gold eventually forced restraint on inflating, it does not now hold, now that all currencies are paper units and monetary authorities refuse to acknowledge the useful role of gold in guiding monetary actions. As Charts 1 and 2 suggest, there now is no limit to which the purchasing power of paper currencies can fall.

Chart 11 reveals the magnitude of change in the gold-exchange value of various paper currencies since August 1971. Notice that the exchange values of even the so-called strong currencies have depreciated substantially during this decade. Such depreciation has not been nearly so marked as that of the U.S. dollar, but it has been large, nevertheless.

FAILURE OF THE GREATEST BEAR RAID IN HISTORY

Detractors of gold repeatedly assert that gold fails as a protector of real wealth because of its unstable exchange value in the short run. As we mentioned in the preceding section, many of the instances of large short-run volatility in the exchange value of gold apparently were attributable to departures from sound policies based on a gold monetary unit. Some more recent volatility has been fostered intentionally by U.S. officials. Beginning in 1975, the United States, aided by principal members of the International Monetary Fund (IMF), began a "bear raid" on the gold markets of the world. It was a raid of unprecedented proportions and duration. The underlying purpose of this raid was to convince the citizens of the major nations that paper currencies are better than gold. Success of the operation would ensure that inflating by excessive issues of paper currencies could continue indefinitely. Of course, the announced purpose of the raid was somewhat different. U.S. Treasury and IMF publicity releases proclaimed that gold was to be demonetized, that it would no longer be used as a reserve in the banking systems of the world. An effort was made to convince the public that gold is a barbaric relic, outdated by the ingenuity of man in devising new "rational" monetary systems.

Some economists predicted that gold would prove to be nearly worthless in the absence of an official demand for monetary purposes. Figures near $25 per ounce were suggested by some observers as the probable equilibrium price for gold based on nonmonetary demand alone.

Monetary officials had good reason to devise and implement their bear raid. During 1973 and 1974, general prices increased well into double-digit rates in most countries, and the price of gold rose more than 200 percent (see Chart 13). Much talk arose during this period about the possibility of runaway inflation, a flight from currency, and a collapse of international monetary arrangements.

Analysts who often spoke of these possibilities also touted gold as the preferred alternative to paper currencies. Others, unconcerned about the historical monetary role of gold, bought gold and gold stocks simply to profit from a short-term investment in them. That possibility became appealing because the prices of those investments were rising rapidly, while the prices of common stocks and bonds were doing just the opposite. Monetary
authorities obviously had to do something in this situation, before a large segment of the public came to so doubt the future value of paper currencies that a flight from them would indeed occur.

In early December 1974, the U.S. Treasury announced that it would sell about 750,000 ounces of gold on January 6, 1975. (See Chart 4 for key dates of gold-sale announcements.) Gold reached its then highest price on the London market at $197.50 on December 31, 1974. The first Treasury gold sale, the fact that the American public did not rush to buy gold as soon as the restrictions preventing their purchasing and selling gold were removed (at the end of 1974), and the onset of an economic recession were enough to break the speculative boom and initiate a downward slide in the prices of gold and gold stocks. As the price of gold fell throughout 1975 and until the summer of 1976, holders of gold who had financed purchases made for short-term profits were either forced to sell or chose to sell as the price trend was against them.

During this period the bear raid involved a second gold auction by the United States of nearly 500,000 ounces on June 30, 1975. This was followed by an announcement that the IMF, as part of its plan to demonetize gold, was considering selling 25 million ounces of its gold at public auctions. In January of 1976, the IMF plan to sell that amount of gold during a 4-year period was formally adopted, and the first of the scheduled auctions was held on June 2, 1976.

In spite of all the influences tending to depress the price of gold and increase the exchange value of paper currencies for gold, the price never did fall to the low levels expected by some observers early in 1975. In August 1976, gold declined to a low of $103.50. Subsequently, however, the price of gold began an irregular increase to a historical high of over $800 in January 1980. Thereafter it declined again, and currently is about $450 per ounce.

One noteworthy interruption of this upward trend occurred during late 1978, after the Treasury announced on November 1 that the amount of its monthly gold auctions would be 1,500,000 ounces beginning in December. These auctions were begun at 300,000 ounces per month in May 1978 and were increased to 750,000 ounces in November. The IMF gold auctions also continued during this period. In spite of these large official gold sales and an increase in the foreign-exchange value of the dollar from November 1 through May 1979, that “baby” bear raid caused only a ripple in the upward trend of the dollar price of gold.

In early 1978, discussions began among the leaders of the major European nations about a monetary union called the European Monetary System (EMS). By the end of that year, agreement was reached, and the EMS began operating on March 13, 1979. Each member of the EMS is required to deposit 20 percent of its gold as part of the reserves against European Currency Units (ECUs) issued to it by the EMS. For this purpose, gold is valued at market-related prices. Thus, instead of having been demonetized, gold again has become a principal monetary reserve asset of leading nations. Moreover, the preferred monetary record of gold compared with that of paper has become more widely recognized. Consequently, substantial attention is being given to the possibility of restoring gold as the U.S. monetary unit.

With the perspective of hindsight, everyone now can see that gold has not been demonetized. Perhaps the great bear raid has gained some time for the officials of leading nations to inflate for a longer period. The public is so slow to awaken to the destructive consequences of continued currency depreciation that the process may be continued for years, even decades. While the inflating-embezzling process continues, speculative buying of gold may result in temporarily unsustainable upward surges in prices from time to time. Moreover, we assume that the U.S. Treasury will operate in the gold market, directly or through intermediaries, for the purpose of discouraging the “speculators” whenever a marked rise in the price of gold seems about to endanger the acceptability of paper currencies. The Treasury thus has operated in the foreign-exchange markets for the dollar and presumably would not hesitate to operate similarly in the gold markets.
RECESSION AND THE PRICE OF GOLD

Consequently, short-term traders in gold find themselves occasionally "whipsawed" by official intervention.

Chart 12 reveals recent trends in the dollar price of gold and the percent change in the Consumer Price Index (CPI). The reciprocal of the CPI represents the purchasing power of the dollar. Since the market price of gold was allowed to float in 1968, but especially since Americans were allowed to own gold since the end of 1974, the percent change in the CPI and the dollar price of gold have followed similar patterns. The rate of change in the purchasing power of the dollar (reciprocal of the CPI) and the price of gold have varied inversely. Therefore, in order to understand how a recession might affect the price of gold, it is useful to understand how a recession might affect the rate of depreciation of the dollar.

The postwar period in the United States reveals no consistent pattern of timing of changes in the rate of depreciation of the purchasing power of the dollar during a recession. However, the data do reveal clearly that during every postwar recession the rate of depreciation of the dollar eventually has decelerated. Evidently, as demand for goods and services has fallen off, severe upward pressure on prices diminished sooner or later.

This moderation of the rate of increase in prices has tended to reduce the public's immediate concern about depreciation of the purchasing power of the currency. Moreover, the eventual "strength" of the dollar during the 1973-75 recession carried over to the international sphere, where the foreign-exchange value of the dollar increased for a time during late 1975 and early 1976. Such strength of the dollar, in terms of its reduced rate of depreciation and improvement on foreign-exchange markets also occurred in connection with the 1980 recession. The publicity given such events tends to foster further confidence in the dollar.

Whenever the economy enters a recession similar to other postwar recessions, upward pressure on prices probably will abate eventually. As the rate of price increases moderates and the focus of policymakers and the news media switches from rising prices to increasing unemployment, the demand for gold and its price could well decrease. However, if the Government attempts to combat the symptoms of recession with expansionary fiscal and monetary policies (as we expect they eventually will), the resultant massive budget deficit will tend to foster increased inflating. We say "tend to" because increased savings by the public could finance such large deficits for some time without inflating occurring from them, as happened during 1975 and 1976. However, such relief probably would be transitory, with the end result a much higher rate of depreciation of the dollar, of increased demand for gold, and of subsequent increases in the dollar price of gold.

IS PAPER PREFERABLE?

With billions of excess dollars floating about and limited supplies of gold available, the price of gold surely will remain highly volatile. Therefore, persons who have short-term, paper-dollar denominated obligations and who have to conduct many of their current transactions in paper dollars should realize that they could suffer losses from tying up all their liquid assets in gold.

To illustrate, if a businessman had an excess of $100,000 in cash that he planned to use to purchase inventory 6 months later, were he to buy gold as a store of value for that period, his risk of loss from a decrease in the price of gold probably would be higher than his risk of loss from holding, say, a dollar-denominated bank certificate of deposit. He would be quite sure that the latter would decrease in purchasing power, currently at the annual rate of about 10 percent in the United States; however, the price of gold could decrease at the annual rate of 20 percent or more over a span as short as 6 months. If inflating accelerates in the coming years, perhaps the risk of loss from holding paper currency would be too high even for a 6-month holding period, but that point has not been reached yet.

As a protector of real wealth, in the long run, gold has no overall peer. Paper currencies result in the loss of real wealth both in the short run and the long run.

The efforts of politicians and central bankers to denigrate gold and glorify paper can be expected to increase, because gold is the prime competitor of paper dollar as an acceptable medium of exchange if the inflating-embezzling-enslaving process is to continue. From time to time such efforts probably will succeed in driving down the price of gold, but those "successes" almost surely will not be as great as the 1975-76 "bear raid," and they should be viewed as unusual buying opportunities by Americans who understand what is happening.

Chart 13 shows some possible trends of the price of gold if inflating, with accompanying depreciation of the dollar, continues. The chart reflects
the pattern of cyclical highs and lows established by the December 1974 high, the August 1976 low and the January 1980 high. The "Fourth-Order Exponential Trend of General Prices" reflects the accelerating rates of increases in prices from 1972 to 1980. The average compound annual rates of price increases implied by this curve are:

<table>
<thead>
<tr>
<th>Period</th>
<th>Average Rate of Increase</th>
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<tr>
<td>1968-1972</td>
<td>6.6 percent</td>
</tr>
<tr>
<td>1972-1980</td>
<td>9.1 percent</td>
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<tr>
<td>1980-1985</td>
<td>13.1 percent</td>
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<tr>
<td>1985-1990</td>
<td>18.4 percent</td>
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<tr>
<td>1990-1995</td>
<td>26.6 percent</td>
</tr>
<tr>
<td>1995-2000</td>
<td>41.3 percent</td>
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As shocking as these numbers might be, the fourth-order exponential equation from which they are derived understates the actual acceleration in the Consumer Price Index from 1965 to 1980. A better fitting curve is a hyperbola. This type of curve tends toward infinity in the limit (goes straight up) as a fixed date is approached. The hyperbola fitting the actual CPI growth pattern from 1965 through 1980 tends toward infinity by 1990, that is, the curve would go off the top of the chart by then.

Chart 13 is for illustrative purposes only; it should not be considered a prediction of either the timing or magnitude of future changes in the price of gold. Nevertheless, the probability is great that the price of gold for some decades ahead will fall within or not far from the area indicated by trends No. 2 or No. 3. If the prophets who are predicting runaway inflation, or a flight from the dollar, prove to be correct in the near future, the price of gold will skyrocket somewhat as shown in trend No. 2. If the prophets who foresee early deflation and a major depression prove to be correct, the price of gold may follow an irregular path almost anywhere in the large area between the dotted lines. And if the governments and central banks are successful in continuing the inflating without either a flight from the currency or a major deflation and depression, the price of gold probably will follow a path along trend No. 3.

Admittedly, the paths that the price of gold may take are many, and within the path that gold will travel there no doubt will be major ups and downs. Many might say this makes gold unacceptable as a protector of real wealth. We ask, Is paper preferable? Consider the experience of paper currencies reflected in Chart 14. In our view, that sad record is convincing evidence that those who acquire gold and gold-related assets will have the best chance of preserving their surplus product in the decades to come.

---

Chart 13

POSSIBLE CHANGES IN GOLD & GENERAL PRICES

<table>
<thead>
<tr>
<th>Index Values (1972=100) &amp; $ Price/Oz.</th>
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<tr>
<td>150,000</td>
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<tr>
<td>100,000</td>
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<td>400</td>
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<tr>
<td>100</td>
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<td>30</td>
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* Trend if approximate cycle from 1971 to 1980 is repeated.
† Trend if public awakens early to inflating/embezzling practice and rejects paper currencies.
‡ Trend if public confidence in paper currencies is maintained in spite of inflating.
Chart 14
PURCHASING POWER IN THE UNITED STATES OF GOLD AND SELECTED CURRENCIES (1913 = 1.0)

Note: Purchasing power calculated from the implicit price deflator for U.S. GNP and the exchange rates of foreign currencies for U.S. dollars.

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ECONOMIC EDUCATION BULLETIN

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Great Barrington, Massachusetts
November 13, 1981

Gold Commission
c/o Mr. Ralph V. Korp
Director,
Office of International Monetary Affairs
Room 5050
Treasury Department
15th and Pennsylvania Avenue, N.W.
Washington, DC 20220

Gentlemen:

In response to your October 22, 1981 invitation for written views on matters being considered by the Gold Commission, please accept the following brief summary.

First, throughout history efforts to debate gold and fiat paper have been political ego trips of the Commission members, a critical if, discussions failed to begin with a distinction being made between money and credit. Without this distinction, there is no science to the issue, only emotions. Money has always been an unencumbered asset and credit an encumbered asset except for currency which, while unencumbered to the holder thereof, is nonetheless encumbered by the issuing government if the currency is not convertible. When the basic distinction between money versus credit is overlooked, all the key issues of historical financial collapses and human suffering are overlooked. And never in all history has there been a purely credit system without gold convertibility which did not, in time, end in collapse and suffering. This is not to say gold is perfect, periods of difficulty should be openly accepted for gold convertibility on the basis of there being no perfect system. But gold convertible systems have been less imperfect than fiat credit systems which are guaranteed to collapse in time due to the ignorance and greed of politicians.

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

Gold Commission  
c/o Mr. Ralph V. Korp  
Director,  
Office of International Monetary Affairs  
Treasury Department  
November 13, 1981

And the evidence of history in this respect makes sense. Fiat systems involve issuance of encumbered assets -- currency and credit -- and too great an issuance of anything which is encumbered will result in time with default. It is as certain as the law of gravity. Thus, if the Commission rejects a gold backed system, it is guaranteeing that dollar credit will eventually collapse no matter what happens. It is only a matter of time. That, it seems, should at least be acknowledged in any rejection of a gold backed system.

Very truly yours,

[Signature]

James D. Whelpley
President

JDW:dlj
November 10th 1981

The U.S. Gold Commission
Room 5050
THE TREASURY DEPARTMENT
15th and Pennsylvania Avenues, NW
Washington, D.C. 20220

Sirs;

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

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

Is it beyond the power of mere man to satisfactorily create and manage a fiat currency? Apparently so. Consequently, it may be time to reunite our money with a commodity people know and trust. Otherwise we may find ourselves rushing in even greater numbers to the safety of Krugerrands, Maple Leafs, 50 Peso coins and precious stones. This cannot be beneficial to economy.

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

In the long run the present exercise by the Commission may be unnecessary. The ultimate decision about what money is will be made by the people. This lesson has been repeated over and over again throughout history and is presently being demonstrated in Poland where the dollar and other "strong" currencies are sought for their purchasing power. The zloty has fallen from grace and few merchants are willing to trade goods for it. Let's hope that scenario never occurs in the United States.

Sincerely,

John Wrisley
One Myrtle Court
Columbia, S.C. 29205