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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-- American Bankers Association, Economic Advisory Committee, "Views on the Prospective Imposition of a Gold Standard," January 21, 1982.

-- Biederman, E.W., a letter to Mr. Ralph Korp, Director, Office of International Monetary Affairs, December 11, 1981.

-- Bombay Bullion Association, Vol 1 No 3 of the Bullion Bulletin, December, 1979; Volume II No 5 of the Bullion Bulletin, February, 1981.

-- Busiek, Miley, letter and brochure suggesting a design for the proposed gold coin, March 3, 1982.

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-- Collins, Barry R., letter to Secretary Regan, July 6, 1981.

-- Durell, Edward, two letters, February 4 and 9, 1982.

-- Gold Bondholders Protective Council, Memorandum to the Gold Commission, September 8, 1981.

-- Grogran, Michael, letter to Chairman Volcker, October, 1981.

-- Haw, Richard C., a letter to Secretary Regan with a pamphlet "Golden Age for Rhodesia," July 1, 1981.

-- Hopkins, Stephen D., letter to Secretary Regan, August 21, 1981.

-- Katz, Howard S., Memorandum for the Gold Commission: A reply to Anna Schwartz, September 9, 1981.

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-- McMillan, George, letter to Secretary Regan, September 24, 1981

-- Nordt, Paul W., letter to Secretary Regan and pamphlet, "Why Worry? It's Only Money," October 29, 1981.

-- Popp, Edward E., letter to Secretary Regan with memorandum attached to the Gold Commission concerning the "Items that Make up the Money Supply," October 10, 1981.

-- Puffer, K. Hart, a paper, "Lord John Maynard Keynes," October 21, 1981, and Memorandum to the Gold Commission, January 1982.

-- Schoen, Edgar J., a paper, "The Undisciplined Dollar," April 1980.

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-- Sinclair, James E., letter to Secretary Regan, September 21, 1981.

-- Sykes, Grant, letter to Secretary Regan with attached paper "How to Implement a Gold Standard as an Effective Instrument of Fiscal Policy," January 18, 1982.

-- Travis, Lewie L., letter to Secretary Regan with an article attached, "A Way Out of the Gold Commission's Dilemna," by Richard Rahn, October 22, 1981.

** Missing

1/21/82

Economic Advisory Committee's Views
on the Prospective Imposition of a Gold Standard

As part of its mission to advise the American Bankers Association on economic policy matters the Economic Advisory Committee considered the desirability of reimposing a gold standard on our monetary system. The committee believes that such an action would be imprudent and counter-productive at the current time. This does not mean we would be against the imposition of a gold standard at some time in the future. We have no position on this question and do not believe it should be decided at the current time.

The most important objective of economic policy at the current time is to bring about a return to economic stability. This can only be done through a return to fiscal and monetary discipline. The gold standard is only one of many institutional mechanisms that might facilitate a return to such discipline. Others include imposition of a more strict monetary rule on the Federal Reserve, reform of congressional budget procedures, a constitutional amendment to require a balanced budget, or to limit government expenditures, or to limit taxation. We cannot say at this time whether the true gold standard, or one of its less restrictive variants -- e.g. the gold exchange standard, gold backed bonds, the issuance of gold coins, or the linking of monetary growth to the price of gold -- would be better or worse than any other form of institutional change. But we do feel that the quest for an institutional mechanism to achieve stability is somewhat misplaced as the real need is for policymakers to have the political will needed to end inflation and bring about a return to stability.

A true gold standard is a mechanism whereby the size of money supply is determined by the amount of gold outstanding and the price our government will pay for it. Undoubtedly, this would be one mechanism for maintaining a relatively stable price level. But it is not a useful mechanism for achieving price stability when starting from a position of hgih inflation, and price and interest rate volatility. Under the current circumstances, we believe stability can only be achieved by a sustained restrictive monetary policy and a sustained reduction in the growth of government spending that is needed to support it. The price of gold cannot be fixed until inflation has been ended in this manner. To try to do so before this is accomplished would be unwise since the price of gold is inevitably correlated, over the long run, with the prices of goods. Trying to impose a gold standard in a period of high and volatile inflation would be difficult because of the uncertainty over what the price should be, and the economic difficulties that would ensue from setting the wrong price. As the inflation rate changed, the price of gold would probably have to be changed, and this would be a difficult process to manage. After the inflation is ended, the gold standard might be a useful mechanism for signalling the government's determination to follow the monetary and fiscal policies needed to sustain price stability. This is so because such policies must be followed, over the long run, to fix the price of gold. The gold standard has been associated with periods of price stability

which occurred after excessive inflations were ended by the proper monetary and fiscal policies. To view it as something whose imposition per se will end inflation is unwise because it will divert attention away from the true cause of inflation and the only way it can be ended -- through the imposition of proper monetary and fiscal policies. The most important question for economic policy now is whether or not we have the political will to follow the correct policies not the mechanism by which they are communicated to financial markets or accounted for by the government.

If we eventually do impose a gold standard, and the government does not have the will to maintain it after it is imposed, its credibility, and our economic viability and health will end up being worse than if the gold standard had not been imposed in the first place. Thus, it does not make sense to impose a gold standard at this time. We need to get our own house in order first.

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THE BOMBAY BULLION ASSOCIATION LTD.

Bullion Bulletin

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HALL - MARKING OF GOLD JEWELLERY

In England it has been a centuries-old practice for reputed firms of goldsmiths to stamp on the jewellery and other articles made by them the purity of gold, besides their code name. This is done in assay offices or 'halls' in various parts of the country authorised by the Government. Originally, the testing and marking was done at the Goldsmiths' Hall, London, and so stamping of purity of gold has come to be known as hall-marking.

Indian goldsmiths too, in the olden days and until quite recent times, had maintained a high reputation for their integrity. There was usually an intimate personal relationship between the goldsmiths and their patrons, the ornaments being made to order under the personal supervision of the customers, and not for sale to strangers through jewellery shops. And as such, no need was felt for hall-marking.

With the breakdown of this tradition by urbanisation and many other economic reasons, the goldsmiths have been relegated into the background; and now most people even in small towns buy ready-made ornaments from jewellery shops. The snapping of the direct link between the goldsmiths and the people was hastened and completed by the Gold Control Act, which puts restrictions on the goldsmiths in the matter of possession of primary gold, and totally prohibits the public from possessing any primary gold.

Perhaps for this same reason, the Act made a provision for stamping the fineness of gold on gold ornaments. The relevant section reads :

"(30) Ornaments, etc. to be stamped :- (1) Every licensed dealer shall stamp every piece of article or ornament made, manufactured or prepared by him certifying the purity of the gold :

Provided that nothing in this section shall apply to any article or ornament on which, owing to its nature or the smallness of its size, it is not possible to put such a stamp.

(2) Every stamp referred to in sub-section (1) shall also contain such other particulars as may be prescribed".

But this has remained a dead letter all these years; no steps were taken until recently to enforce the above provision.

For the last 3 years, our Association had been propagating the need for the compulsory hall-marking of all gold jewellery. In December 1978, we submitted a 20-page Note on Gold Problems to Dr. I. G. Patel, Chairman of Gold Policy Review Committee. In this Note one of the four suggestions we made for restraining the demand for gold, related to hall-marking. We reproduce below the relevant portion :

"Last, but not the least, hall-marking should be made compulsory. In the absence of this salutary provision in law, huge exploitation of the public by the jewellers is going on in a systematic manner. It is freely stated by knowledgeable people that the purity of gold of the ready-made ornaments available in the market is rarely 22 carats, is generally between 18 and 20 carats and sometimes even less than 18 carats. The rate at which glittering, air-conditioned jewellery shops are coming up, not only in big cities but also smaller towns, is sufficient proof (not in law of course, but in common sense) that this must be so.

"The question of hall-marking is important not only from the point of view of protecting the consumer. It is even more important from the point of view of curbing smuggling. We submit that the absence of law and/or administrative machinery for strict enforcement of hall-marking provisions of law lies at the root of the whole edifice of smuggling. Smuggling of gold takes place because the price of gold in India rules higher than the international price. But what is it that sustains the domestic price at a very high level ? Politicians, newspaper editors and economists are content to put the blame on our countrymen's irrational and insatible lust for gold. We make bold to suggest that the real reason is the absence of a legally enforcable practice of hall-marking on gold ornaments; the freedom to adulterate gold in making jewellery puts our jewellery makers and sellers in a position to pay a disproportionately high price for the pure gold brought in by the smugglers.

"Therefore, compulsory hall-marking is absolutely necessary if the Government is really intent on condition for the success of any scheme of sale of gold or any measures aimed at reducing the gap between international and domestic price of gold, prevention of smuggling, banishing unethical practices, protecting the consumer, and above all restraining the jewellery demand of gold, and thus also strengthening the internal value of the rupee."

It is gratifying that at last Government has

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PRINCIPAL POINTS FROM THE SPEECH OF SHRI S. N. SONAWALA

at the Investment Conference of the National Committee for Monetary Reform in New Orleans, U.S.A. on 3rd November, 1979.

1. The new monetary system evolved at Bretton Woods after the Second World War sought to reduce the importance of gold. The new system worked satisfactorily for two decades. But in the last 10 years, the system has passed through a series of severe crises. Many innovations have been made by the high priests of international finance of the I.M.F. and the Central Bankers of the powerful countries—S.D.Rs., Fluctuating Exchanges, Currency Baskets etc. It cannot be said with confidence that they are meeting with much success in dethroning gold. In fact gold has staged a powerful comeback in the last couple of years.

2. Private holdings of gold is on the increase all over the world. There was a time when in the U.S.A. private citizens were not permitted to hold gold as such, the facility was first given as from 1-1-1976. At first, U.S. citizens did not show much interest in purchasing gold. But now things have changed. The habit of putting a part of their savings in gold is spreading rapidly. Gold has also found a place in the investment portfolios of institutional investors. These developments surely vindicate the age-old—habit of Indian people to invest their savings in gold. Throughout history, barring periods of distress, India has been absorbing gold. No reliable statistics are available for past centuries. But between 1835 and 1929, we imported 120 million ounces i.e. 3,800 tons, according to an estimate made by the Gold Delegation of the Finance Committee of the League of Nations in the year 1929.

3. Because India has been known to be always a net importer of gold our country is called a bottomless sink for gold. But this is not correct. How much gold is there in India ? According to the best available guesstimate, the stock of gold in private hands in India is only about 4,000 to 4,250 tons. If we add to this the official gold, that is gold held by Government and Reserve Bank as monetary reserve and other accounts, the total amount of gold in India is not more than 4,500 tons. This is quite small when we remember that the total stock of above-ground gold in the whole world is estimated to be about 58,000 to 60,000 tons. The stock of 4,500 tons for a country having a population of 60 crores works out to just 8 grams per head of the population.

4. And the yearly absorption of gold by India at the present time is believed to be roughly 50 to 60 tons (unlawfully smuggled into the country). This is only 3.3 percent of the total annual supply of about 1500 tons available to the non-Communist world. Fifty tons of gold at to-day's price of say Rs. 1000 per 10 gms. means an investment of Rupees Five Hundred Crores. This is just 0.57% of the aggregate Gross National Product amounting to Rs. 86,800 crores. And it is only 2.5% of gross domestic savings estimated at Rs. 20,000 crores.

We have also to view the investment in gold in the context of (i) rapid expansion in money supply and fall in the value of the rupee, and (ii) substantial inward remittances by Indians settled in the Middle East.

5. To make his American audience appreciate the rationality of India's hunger for gold, he briefly explained the socio-economic background of the country. The bulk of the demand for gold is accounted for by gold ornaments made at the time of marriages. Assuming that out of 12 crore families in the country, 75% are too poor to afford gold ornaments, and in the remaining 3 crore families there is a marriage once in 15 years, there is a demand for gold ornaments for 20 lakh marriages each year. If we place the average need for gold per marriage at only 25 grams, the aggregate demand for marriages alone works out at 50 tons.

The second principal reason for buying gold, by well-to-do peasants and traders in the countryside is as an insurance against natural calamities and political upheavals. Unstable agricultural incomes necessitate some investment in gold, to tide over lean years. And women, especially illiterate women find investment in gold easy to understand and manage.

All these factors add up to a yearly demand for 75 to 80 tons, a more or less constant, minimum demand, irrespective of the price.

6. Referring to the experiment of selling gold out of non-monetary stocks by the Reserve Bank on behalf of the Government last year, he said Government should have continued the supply of gold through auctions, as during the period May to October 1978, smuggling was at its lowest ebb. But because the price of gold went up unchecked after August 1978, newspapers raised a clamour, and Government abruptly stopped the auctions, yielding to the uproar and other pressures. This is an example of a good policy being given up because of confusion and misunderstanding about the real aims of the policy. The stoppage of gold auctions was accompanied by the appointment of a Committee to review in depth the Gold Policy in all its aspects. The Committee's Report is awaited and is expected to induce fresh thinking in official circles.

7. The gold trade in India is regulated by the Gold Control Act, 1963, which has altered completely the inter-relationships between the goldsmiths, the bullion dealers, the jewellers and the public. Recently a Committee appointed by Government to examine all manner of economic controls

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BEHAVIOUR OF GOLD & SILVER PRICES IN BOMBAY MARKET

1979	Standard Gold		Silver (999.0)	
November	Opening	Closing	Opening	Closing
Dates	Rs. per 10 gms.	Rs. per 10 gms.	Rs. per Kg.	Rs. per Kg.
1	1,192	1,187	2,264	2,270
2	1,182	1,172	2,265	2,270
3	1,177	1,178	2,300	2,300
4	Sunday	Sunday	Sunday	Sunday
5	1,193	1,190	2,305	2,320
6	1,192	1,190	2,325	2,310
7	1,192	1,189	2,320	2,305
8	1,188	1,188	2,292	2,291
9	1,185	1,189	2,299	2,290
10	1,190	1,195	2,280	2,293
11	Sunday	Sunday	Sunday	Sunday
12	1,203	1,195	2,291	2,294
13	1,195	1,190	2,290	2,285
14	1,185	1,185	2,270	2,265
15	1,187	1,185	2,270	2,272
16	1,186	1,187	2,250	2,253
17	1,186	1,186	2,253	2,255
18	Sunday	Sunday	Sunday	Sunday
19	1,186	1,188	2,250	2,253
20	1,188	1,184	2,255	2,255
21	1,185	1,184	2,250	2,225
22	1,184	1,181	2,212	2,222
23	1,179	1,175	2,215	2,220
24	1,181	1,179	2,225	2,220
25	Sunday	Sunday	Sunday	Sunday
26	1,181	1,183	2,208	2,195
27	1,183	1,184	2,199	2,191
28	1,190	1,187	2,200	2,207
29	1,188	1,188	2,250	2,266
30	1,188	1,188	2,260	2,261
Highest	1,203	1,195	2,325	2,320
Lowest	1,177	1,172	2,199	2,191
Average	1,187	1,186	2,254	2,244

Closing Prices of Standard Gold in Principal Centres for November, 1979.

	Bombay	Delhi	Calcutta	Madras
	Rupees	Per	Ten	Grams
Highest	1,195	1,200	1,217	1,262
Lowest	1,172	1,180	1,195	1,210
Average	1,186	1,189	1,209	1,237

Throughout November, the price of gold ruled lower as compared to October. Whereas in October, the price never went below the Rs. 1,200 level, except on the last two days, the price did not raise its head above that level in November except on a single day—the 12th November—when the opening quotation was Rs. 1,203 which proved to be the high point of the month It was on the whole an uneventful month, the only noticeable feature being a spurt from Rs. 1,185 on the 9th to Rs. 1,195 on the 10th and to Rs. 1,203 on the 12th. The rise was not sustained, the price coming down again to Rs. 1,185 on the 14th.

Two factors are held to be responsible for this decline in the price of gold in November despite the uncertain international situation and the under current of firmness (but no big rise) in the world price of the metal. The first was reports of drought conditions in some parts of the country. And the other was that the season of marriage demand which usually begins soon after Diwali has got shrunk and delayed as under astrological advice, marriages cannot be performed while Brihaspati (Jupiter) resides in Simha Rashi (Sign of Leo) in the lands lying to the north of river Godavari.

The month's average of closing prices fell from Rs. 1,217 for October to Rs. 1,186 in November. The highest and lowest quotations were Rs. 1,203 and Rs. 1,172, a narrow range of Rs. 31 only.

Silver, which opened at Rs. 2,264, firmed up to Rs. 2,325—month's highest—by the 6th, because of good investment demand, and poor supplies. But thereafter the metal started on a downward course, reaching Rs. 2,250 on the 16th, remained more or less steady between Rs. 2,250 and 2,255 upto the 21st, and declined further to Rs. 2,191 on the 27th—the lowest for the month.

This slow but unmistakable fall in price of silver can be ascribed to the ebbing of investment demand on account of stringent money conditions arising from recession in other markets, the halt in the upswing in silver prices abroad, and cautiousness in activities of smugglers in view of several big seizures by the authorities, in Gujarat, at Bombay airport and elsewhere.

Then in the third phase, in the last 3 days of the month, the price picked up again to reach over Rs. 2,260, following a big rise of 115 cents in New York on the 27th November.

The average of Opening and Closing prices for the month was Rs. 2,254 and Rs. 2,244, compared to Rs. 2,246 and Rs. 2,255 respectively for October.

In overseas markets, for practically the whole of the month, silver prices exhibited a much more stable temper than in recent months. In London, for example, the spot quotations moved within the narrow range of $ 16.015 to $ 16.74 upto the 27th, before shooting up to $ 19.00 by the 30th November. **For a week-by-week comparison of domestic and international prices, turn to table on next page.**

COMPARATIVE PRICES (New York, Bombay) AND GOLD/SILVER RATIOS

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	GOLD					SILVER					
Week Ending Friday	New York Price $ per Oz.	Parity Price Rs. per 10 gms.	Bombay Price Rs. per 10 gms.	Price Diffe- Rs. per 10 gms.	Exch- ange Rate Rs. per $	New York Price $ per Oz.	Parity Price Rs. per Kg.	Bombay Price Rs. per Kg.	Price Diffe- Rs. per Kg.	Gold/ Silver Ratio (New York)	Gold/ Silver Ratio (Bombay)
1979			(3—2)						(8—7)	(1+6)	(3+8)
Nov. 2	373.70	991	1172	+181	8.25	16.08	4265	2270	—1995	23.24	51.62
Nov. 9	387.50	1021	1189	+168	8.20	16.27	4290	2290	—2000	23.81	51.92
Nov. 16	386.10	1005	1187	+182	8.10	16.05	4180	2253	—1927	24.05	52.68
Nov. 23	393.60	1015	1175	+160	8.02	16.28	4198	2220	—1978	24.17	52.92
Nov. 30	409.00	1055	1188	+133	8.02	18.23	4699	2261	—2438	22.43	52.54

(Contd. from p. 1)

HALL - MARKING

realised the need to implement the provision made in the Gold Control Act for hall-marking. With effect from 1st October this year, all gold ornaments, studded with jewels or without, must carry a mark or marks indicating the purity of gold. But because the Gold Control Administration does not have adequate machinery or inspectorate staff, so it is said, no steps are being taken by the G.C.A. on their own initiative to check the correctness of the purity marked on the jewellery articles. Official machinery is to investigate only when complaint is lodged by any members of the public. This is a rather half-hearted beginning.

If lack of staff is the real handicap, and not lack of will, the Administration can begin action on the following lines. Senior Officers of the G.C.A. should pick up at random any jewellery article(s) from the shops, pay full value for the same, melt and assay the fineness of gold, and if the same is found to be correct, return the gold and also reimburse the making charges. But if on assay the purity of gold used is found to be below what was marked on the articles, inflict penalties commensurate with the offence, scaling up for repeated offences, and culminating in confiscation of the gold and cancelling of the dealer's licence.

If Government really means business, and we believe they do, let them boldly adopt some such procedure as above. Otherwise, like the original provision in the Act, the latest measures to enforce hall-marking will not bring any benefit to the public.

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POINTS FROM SPEECH

and subsidies has, in its report, questioned what precisely gold control seeks to achieve to-day, except the harassment of the small jewellers and the public alike.

It has also stated categorically that gold control has neither been able to wean people away from the gold habit, nor it has been able to stop smuggling. At the same time, recognising the need to restrain or limit the demand for gold, the Committee has recommended enforcement of 18 carat jewellery in place of 22 carat jewellery in fashion in India by the force of past tradition.

8. In the concluding part of his speech before the gathering of financial experts exercising their minds for reforming the world's monetary system which is in bad shape, he identified the basic cause for the present state of affairs to be the severing of the link with gold. He laid no claims to be a monetary theorist or a professional Banker. But as a practical man of business connected with trade in gold and silver since three generations, he voiced his conviction that the only salvation lies in the direction of restoration of the Gold Standard, whether gold currency or gold bullion standard, or any other version of the same.

To meet the possible objection that there is not enough gold with the world's monetary authorities to sustain and operate any variant of the classical gold standard, he threw out his favourite suggestion to mobilise the gold in private hands by issue of gold bonds by the various Governments. It is an issue of bonds against currency repayable in gold or equivalent value in currency at a future date. The idea was elaborated in an Appendix called Genesis of Paper Gold.

LATE NEWS

The first fortnight of December has witnessed record breaking rise in World price of both the precious metals., On 19th December, the New York price of gold had soared to $ 495, and that of Silver had touched $ 24 In Bombay the opening price of silver on 20th December was Rs. 2415, and that of Gold Rs. 1,200.

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MANY FORCES ACTING ON GOLD

A year ago, as the price of gold went up from $600 to $700, $750 and $800 in quick succession, one heard confident predictions, in bullion markets the world over, that gold may soon scale $1,000 an ounce. But after briefly touching $850 in the 3rd week of January, the price slided back to below $500 by the end of March, as silver crashed to $11.00 an ounce. Then after recovering slowly to $600 by beginning of June, the price of gold remained well above that level for nearly 6 months, and it was widely believed that $600 had come to be established as a firm floor. But this assessment again proved wrong, for gold price fell to $545 on 11th December.

No doubt the price soon improved to over $600 just before Christmas, but declined steadily to $550 by 23rd January. The concensus of informed opinion at that point of time was that in 1981, the price of gold may range between $500 and $700. But on 2nd February, the closinig quotation on Comex, New York had dipped to $484.00. The yellow metal seems determined to play tricks not only with professional operators but also their analysts, researchers and other consultants!

To cite a few examples :

(1) A well-known firm of London bullion brokers had said about end-September, 1980, when the prevailing price of gold was $669.50, that for the rest of the year 1980, the price will run around $670, within a range of $50 on either side.

(2) Another London bullion dealer said in mid-October that the long-term outlook for prices in world gold markets is bullish on balance.

(3) And more recently in the 3rd week of December i.e. even after the hike in U.S.A. interest rates — a factor chiefly responsible for the recent decline in price of gold — a knowledgeable observer of the gold scene had said he would be surprised if the yellow metal goes much below $550.

It is not our purpose to belittle the knowledge or foresight of these observers ; indeed, they are some of the leading experts in the field. The point we wish to make is that gold price movements nowadays, unlike even a couple of years ago, are the result of a great many economic and political influences, and these forces are continuously in a state of flux. It may not be too much of an exaggeration to say that forecasting precious metals prices is becoming as risky as forecasting the English weather. Besides, the experts, unlike the day-to-day operators are concerned with medium-term or long-term climatic changes rather than short-term vagaries of the weather. Indeed, these expert researchers and analysts are doing a signal service by identifying and attempting to quantify the varied forces at work — and above all by publishing their findings, even at the risk of being proved wholly or partially wrong, by subsequent events.

For centuries, gold has been treasured even by common people in 'the old world' as a means of personal security in unsettled times ; and a smaller number of monied people have also known the use of gold as an investment vehicle. But in the last decade or so, beginning with the demonetisation of gold, it has come to be recognised by the world financial community — wealthy individuals as well as institutions — as a major area for both investment and speculation.

In the U.S.A. upto as recently as 31st December 1974, it was not lawful for private citizens to hold primary gold. In these last 6 or 7 years, American citizens, worried by continuous inflation, have learnt to put some portion of their savings in gold. The number of participants in the gold investment market is increasing rapidly, as evidenced by very active trading in the spot and futures gold markets in North America. The same trend is visible in Japan and other Far East countries. In the last 2 years, gold futures markets have sprung up in Hong Kong and Singapore. Even conservative London may soon witness the setting-up of a futures market.

And in the Middle East countries, the oil-rich Arab Sheikhs and others are known to buy gold in very large quantities ; knowledgeable people report that there have been occasions in the recent past when London or Zurich brokers have received orders, on Telex or Telephone, to buy 5 or more

(Contd. on page 2)

GOLD/SILVER PRICE TREND

By Shantilal Sonawala

Subsequent to solution of hostage problem, there was a release of Iranian assets by U.S.A. The circle of distrust on dollar currency started with freezing of these assets. With these rlease, the cause for distrust was over and new confidence in dollar currency was restored. With Reagan Government in power hopes of strength in U.S. economy was revived. The trend to run-away inflation was now reversed. The business community in U.S.A. was assured of reliefs which would encourage production and help larger activity all around with fear of unemployment also reduced. All this led to the strong dollar currency in terms of all other currencies. Revival of confidence reduced fear and so the trend of investment as hedge against inflation was reversed leading to a sharp fall in international price of gold and silver which went down from $568 on 20th January to $494 on 3rd February in gold, and from $15.40 to $12.90 in silver.

The fall in price of gold below $500 attracted buying by prominent Ceneral Banks and some of the mining interests. This made price stable at this level. Silver being a speculative commodity did not find much support though at lower level it met with resistance. Price of gold revived from $494 to $519 and silver from $12.90 to 14.10, between 3rd February and 9th February.

The next few days will determine whether the price would remain stable at this level or will go down or up further depending upon the economic measures Reagan Government is expected to take and how far these measures would meet with the urgent problem of curbing inflation caused by spurt in oil prices. At the same time, the most important event-to-come is the thinking of Arabs to recycle their earnings to boost up the economy of underdeveloped countries and their investment planning.

In India, Gold was on import parity i.e. at $500, the parity price was Rs. 1,300 which caused the situation to encourage illegal import of gold. This lowered the price of gold from Rs. 1,700 per 10 gms. on 20-1-81 to Rs. 1,635 per 10 gms. on 5-2-81 inspite of busy season's demand of about 3 tons in the month of January. The gold of Gold Bonds has not substantially arrived to the market. Out of about 5 tons of gold bonds encashed at the Reserve Bank it is estimated that about 750 Kg. to 1 ton of gold has come to the market. At the levels of about Rs. 1,630 per 10 gms. the price is stable.

Silver after touching at a low level of Rs. 2,600 has returned back to Rs. 2,700 level, on scarcity of supply at lower level and larger export demand from the usual sources. The supply is at present very low both because of marriage season and low prices. Market awaits reaction to higher prices.

SILVER DISHOARDING, A REGULAR FEATURE

In our representations to Government as well as in other writings, on the question of the desirability of permittiing silver exports officially, we have always made the point that for a variety of reasons, our people are continuously dishoarding silver. And this dishoarded siilver regularly comes into the markets, like the flow of water in a river, even when export of silver is not officially permitted.

This statement can be borne out by the experience of the numerous silver refineries — recognised and unrecognised — and other melting shops to be found in all large market towns throughout the country.

Unfortunately, in our country, business houses and industries in the private sector are hesitant to put out statistics of their business turnover, and reluctant to cooperate with their trade associations in compiling statistics.

The Melting and Assaying services of our Association's Refinery in Bombay, situated in the heart of Zaveri Bazar are freely made use of by the silver traders. The dishoarded silver articles are principally utensils, ornaments and home adornments. Yearly receipts of silver articles for melting in our Refinery is, we believe, a fair indicator of the rate of dishoarding in the country as a whole. Our receipts in last 10 years were as under:

Quantity of Silver Received for Melting in B. B. A. Refinery

1971	199.400	m. tons
1972	186.000	,,
1973	167.210	,,
1974	534.466	,,
1975	542.671	,,
1976	342.378	,,
1977	279.077	,,
1978	204.021	,,
1979	176.898	,,
1980	223.963	,,

It will be observed that while very large quantities were received for melting in 1974 and 1975 (when the trade was allowed to export silver freely), in the next 2 years i.e. after canalisation of exports through the S.T.C. the fllow got reduced. But the point to be noted is that even after a total ban on exports was imposed in February, 1979, the flow of silver in the market at first decreased slightly, and then actually increased in the year 1980.

(Contd. from page 1)

tons of gold at a time ! These and other such developments have been responsible for imparting great volatility to gold prices. Finally, the rapidity and reliability of modern communications systems makes it possible to transmit business information and receive responses almost instantly. It was this new factor which enabled sales of gold from stocks held in far-off corners of the world to be mobilised so fast and in such quantities that what looked like a very strong, long-term upward trend in gold price in the beginning of 1980, soon got reversed.

Most experts believe that the pattern of rising but volatile gold price movements may be repeated in the future because the forces which caused them during the last decade are becoming stronger.

BEHAVIOUR OF GOLD & SILVER PRICES IN JANUARY

1981 January	Standard Gold Opening	Standard Gold Closing	Silver (999.0) Opening	Silver (999.0) Closing
Dates	Rs. per 10 gms.	Rs. per 10 gms.	Rs. per Kg.	Rs. per Kg.
1	1,695	1,690	2,845	2,835
2	1,687	1,685	2,837	2,837
3	1,685	1,682	2,825	2,825
4	Sunday	Sunday	Sunday	Sunday
5	1,685	1,680	2,825	2,840
6	1,680	1,680	2,855	2,850
7	1,677	1,665	2,850	2,834
8	1,660	1,665	2,805	2,830
9	1,665	1,675	2,830	2,850
10	1,675	1,685	2,820	2,840
11	Sunday	Sunday	Sunday	Sunday
12	1,685	1,685	2,830	2,822
13	1,680	1,682	2,820	2,835
14	1,690	1,687	2,830	2,830
15	1,690	1,685	2,835	2,835
16	1,685	1,690	2,820	2,825
17	1,695	1,700	2,824	2,820
18	Sunday	Sunday	Sunday	Sunday
19	1,700	1,695	2,820	2,796
20	1,700	1,695	2,800	2,801
21	1,690	1,690	2,812	2,815
22	1,688	1,682	2,800	2,810
23	1,682	1,680	2,790	2,755
24	1,685	1,685	2,753	2,745
25	Sunday	Sunday	Sunday	Sunday
26	Closed	Closed	Closed	Closed
27	1,680	1,670	2,695	2,650
28	1,675	1,680	2,684	2,682
29	1,680	1,670	2,677	2,644
30	1,675	1,660	2,685	2,655
31	1,660	1,660	2,655	2,650
Highest	1,700	1,700	2,855	2,850
Lowest	1,660	1,660	2,655	2,644
Average	1,683	1,681	2,793	2,789

The month of January was as full of uncertainty as January 1980, though in a different sense. In 1980 January, the precious metals markets the world over, were in the grip of unprecedented bullish fervour, which loosened on the 21st of that month. This January, up to the 20th, gold and silver markets were sluggish, steady and nervous, without any sense of direction, while waiting on two important events: (1) the final fate of the last great action of the outgoing U.S. President Mr. Jimmy Carter viz. negotiations for the release of hostages from Iran, and (2) the assumption of Presidentship by the Republican Mr. Ronald Reagan, scheduled for 20th January. By design or by accident, Iran delayed release of the hostages upto the historic 20th January.

There was a brief rally in gold and silver prices on the 21st, but thereafter heavy selling occurred, and prices declined for the rest of the month, gold falling to the $ 500 level, and silver to $ 13.

In the Bombay market, gold continued to be traded between Rs. 1,680 and Rs. 1,690 through the first 3 weeks (except that the price declined to Rs. 1,660 briefly in the middle of that period), and even reached the Rs. 1,700 mark on the 20th, largely because of the marriage season. The drop in price round about the 9th is also explained in part, by the temporary slackening of marriage season purchases a few days before Makar Sankranti (14 January), the day on which the Sun entered the sign of Capricorn. But after the 20th, price of gold declined steadily, in line with the world trend, to reach Rs. 1,660 (month's lowest) on the last day of the month.

Silver prices in Bombay exhibited more or less the same pattern of movements as gold, both before the 20th and after that date, with the lowest quotations registered on the last date of January. But in the case of silver, the decline in the last 10 days was much more steep, the price tumbling from over Rs. 2,800 to Rs. 2,650 — a fall of Rs. 150 per kilogram, or more than 5 percent.

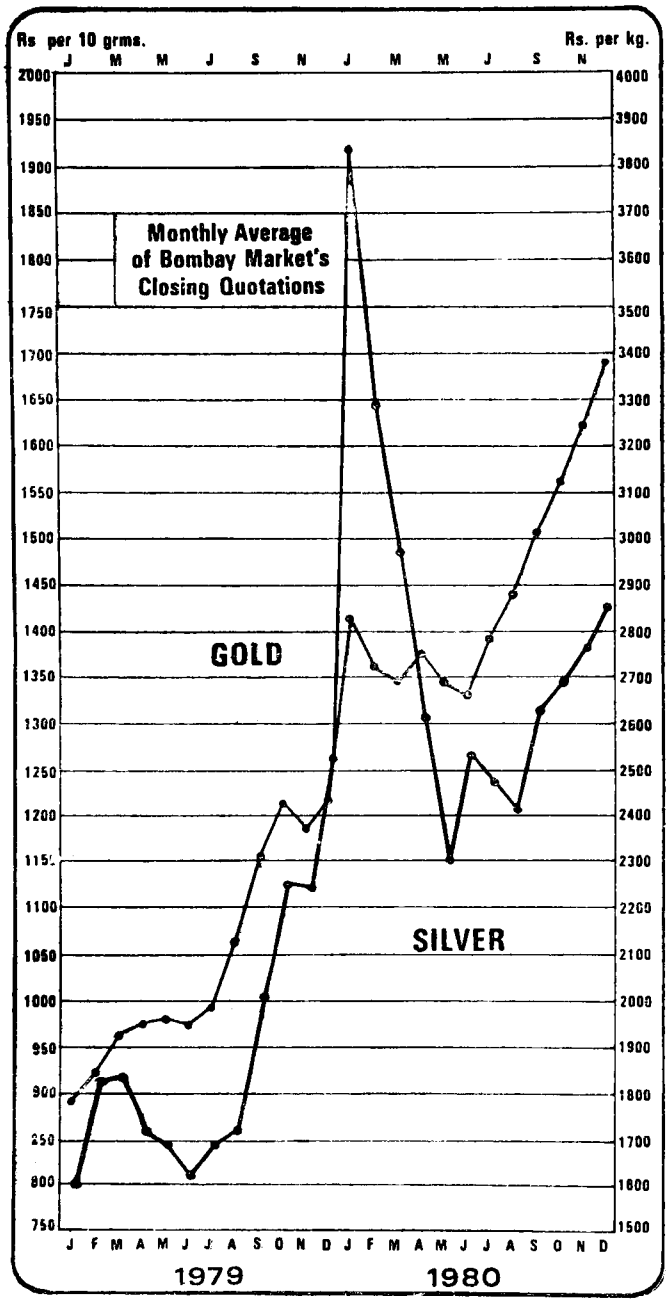
The month's average quotation for gold worked out to Rs. 1,681 (as compared to Rs. 1,693 for December, which was the highest for any month in 1980 — see table in our last issue); and that for silver worked out to Rs. 2,789 (as compared to Rs. 2,852 for December).

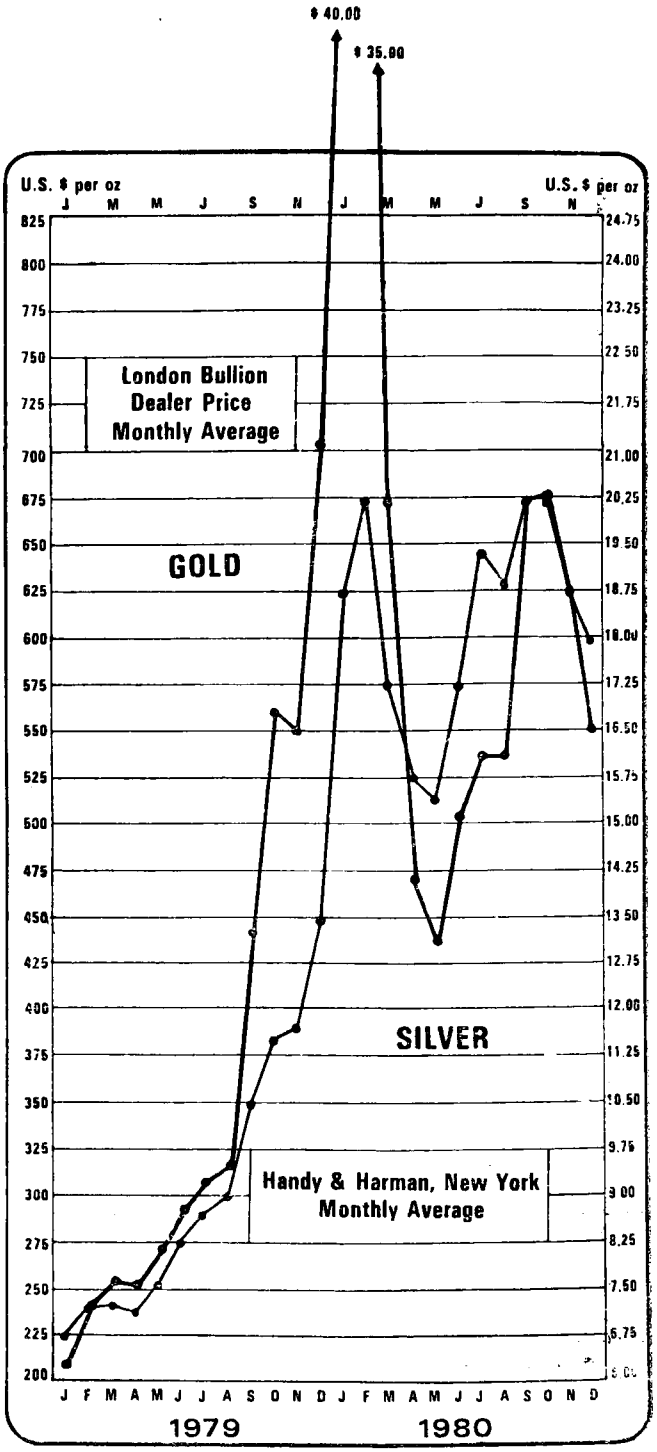
COMPARATIVE PRICES (New York, Bombay) AND GOLD/SILVER RATIOS

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	GOLD					SILVER				RATIOS	
Week Ending Fri/Sat.	New York Price $ per Oz.	Parity Price Rs. per 10 gms.	Bombay Price Rs. per 10 gms.	Price Difference Rs. per 10 gms.	Exchange Rate Rs. per $	New York Price $ per Oz	Parity Price Rs. per Kg.	Bombay Price Rs. per Kg.	Price Difference Rs. per Kg.	Gold/ Silver (New York)	Gold/ Silver (Bombay)
1981											
Jan. 2/3	587.00	1,492	1,685	+193	7.91	15.56	3,957	2,825	−1132	37.7	59.6
Jan. 9/10	572.00	1,462	1,675	+213	7.95	15.20	3,885	2,820	−1065	37.6	59.4
Jan. 16/17	561.00	1,441	1,695	+254	7.99	15.00	3,853	2,824	−1029	37.4	60.0
Jan. 23/24	551.60	1,417	1,685	+268	7.99	14.30	3,673	2,753	− 920	38.6	61.2
Jan. 30/31	503.00	1,307	1,660	+353	8.08	13.28	3,450	2,655	− 795	37.9	62.5

Note: New York Prices are Friday's Closing Quotations. Bombay Prices are Saturday's Opening Quotations.

GOLD & SILVER PRICES IN BOMBAY, LONDON/NEW YORK
A COMPARATIVE CHART FOR 1979, 1980





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INDIA AND GOLD

1. Stock of Gold in India : 5500 tons

2. Total stock in private hands 58000 tons. India's stock is 10% of the total.

3. Stock with the Reserve Bank of India 253 tons. Total stock with all Central Banks 36,280 tons. So this works out to .7%.

4. 5500 tons for 60 crores comes to 9 gms per individual. 50% people below poverty line 25% do not wear gold. This comes to 36 gms. per individual i.e. about 1.15 ozs. per individual.

5. Investment in new gold 50 tons i.e. 3.3% total world supply of 1500 tons. Global use in gold jewellery is 900 tons 60% of production and supply. India's share of 50 tons is less than 6%.

6. Compared to India's GNP aggregate of Rs.90,173 crores (i.e. Rs.9,00,730 million at current prices in 1979-80) the new investment in gold per annum to the tune of 50 tons i.e. in value about Rs.850 crores at Rs.1700 per 10 gms. (i.e. Rs.8500 million) about .9%. The per capita national income estimated at Rs.1378 (1979-80) and per capita investment in gold to about Rs.100 per annum is about .8%. Compared to gross domestic savings at Rs.19,000 crores, this investment comes to 5% (1 crore = 10 million).

7. Certain other factors in Indian economy is to be taken into account.
   Money supply with the public was Rs.323 crores in 1938-39 and Rs.2016 crores in 1950-51 and Rs.1200 crores in 1975 and is now Rs.22,000 crores. While the total money supply i.e. 1) currency with public + 2) demand deposit with the bank + 3) time deposit with the banks + 4) other deposits with the Reserve Bank of India aggregating to Rs.53,168 crores compared with Rs.19,549 crores in 1975.

..... 2.

8. Indian demand in investment in gold is for socio-economic reasons. Marriage demand and demand for cash investment are main reasons for investment. Unlike investment of gold in Western countries, investment in gold in India is neither speculative nor hedge against depreciation of currency to a large extent. It is basically for non-monetised purposes. Gold is bought not for luxury. It is a necessity, not a daily necessity, but a life-time necessity like a life insurance. This demand is highly inelastic and is not subject to factors like interest rates. It is more or less constant to 50 to 60 tons per year.

9. There is an important aspect of investment in gold. Indian people are changing their preferences of precious metals. They are, by and large, changing their investment of silver to gold. India does not produce silver. Still about 1500 tons of silver is coming from out of the country. The domestic demand absorbs 600/700 tons and rest is in excess which is available to outside world officially when export is permitted otherwise unofficially inspite of a ban on export. The people are discarding silver and buying gold. If we place annual excess of silver to 700 tons valued at Rs.200 crores, replacement of gold at today's price comes to 13 tons.

10. The total inelastic demand for gold in India is placed at 50/60 tons. This demand is met by supply as under :
(1) Domestic production is about 3 tons.
(2) Other important source of supply is out of old gold. This re-cycling of gold is an important source of supply. The supply from old ornaments is estimated at 20/25 tons. The average acceptance at the Bombay Mint of gold for conversion into standard bars from old ornaments is about 12 tons. The rest of old ornaments are directly used for making new ornaments.

..... 3.

The short-fall of supply is to be met from other supplies from outside India or through Indian Government. In the year 1978, the Government of India supplied about 12 tons from their stock. While in 1980/81 there has been a supply of gold from gold bonds which matured in 1980. 15 year gold bonds were encashed by Reserve Bank and holders of the gold bond were given gold against the maturity of gold bonds. This gold can be sold locally or may be used for making ornaments. Such supply is expected to be about 8 tons.

11. The trade of gold in India is governed by the Gold Control Act. No Indian resident can hold gold in primary stage. They can hold gold only in the form of ornaments. There is no limit on ornament holdings, but, an individual can hold gold upto 2000 gms. and a family 4000 gms. without declaration. Any holding beyond limit requires registration with Gold Control Authorities.

The Gold Control Administration issues licences to dealers to deal, sell or manufacture gold and gold ornaments. Dealers can sell and buy gold bars known as standard bars made out of old ornaments by the Bombay Mint. But a non-licence holder a member of public cannot deal, buy or sell gold in raw form. There are 10,000 licence dealers and 2,44,000 goldsmiths. There are about 2400 artisans. Out of about 10,000 dealers, less than 200 have their turnover more than 100 kgs. per year. Thus, the whole trade is more or less concentrated in a few hands. The sale of ornaments by these dealers comes to about 26% of the total sales.

..... 4.

12. Before I conclude, I would like to discuss the changes of dishoarding of gold in India with the rise in price of gold. Some economists believe that like silver, India's gold hoarding will also come out. It is believed by radical thinkers that, with greater education and developing banking habits and easy banking facilities, the investment demand in gold will be secondary. Though the changing environment discourages the investment in gold, yet, fundamental factors still remain viz. high inflation rate, vagaries of monsoon and dependance thereon of agriculturists and other rural population. With larger money supply in the rural area and better economic earnings of cash crop, etc., there is constant demand from this class of people. With the above background and with political uncertainity, the demand for gold may persist. The supply of re-cycle gold may increase, which may fill in the gap between total demand and total supply. This would reduce the dependence on outside supply.

13. There is an absence of gold policy. The Gold Control Administration is passive. Various suggestions are made from time to time to discourage investment in gold. Suggestions are made to appoint a gold/silver Board to frame out the policy for gold. Some of the following suggestions are made to reduce the demand:

(1) To reduce the use of gold in ornaments to 18 cts. only.

(2) To use gold internally to not more than 22 cts.

(3) To reduce holding limits of ornaments by individuals and families.

(4) To put hall-mark to ascertain the correct fineness of ornaments.

(5) To restrict stock holdings of dealers and goldsmiths.

Pre-occupation of the Government in other fields of economy and lack of knowledge and guidelines, the gold [illegible] in India would be on its own for sometime.

..... 5.

14. An important aspect of gold trade is the permission to export gold ornaments against import of gold. This has labour intensive objective. Making charges as well as mark up on gold ornaments are comparatively low. The individualistic character of gold ornaments make them exclusive. Craftsmanship and designs make them more acceptable than large scale standardised gold ornaments. Gold ornaments studded with diamonds, coloured precious and semi-precious stones are finding markets outside India. This trade is still in its beginning and has a great future potential.

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December 11, 1981

Mr. Ralph Korp
Department of the Treasury
Fifteenth Street and
Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Korp:

I am writing to you at the request of Representative Ron Paul who suggested that I share with you the information I have collected concerning the occurrence of gold in the oil shales of the Piceance Creek Basin in Colorado.

BACKGROUND

In 1922 the Bureau of Mines conducted a study of the gold content of a number of samples of Wyoming oil shale and found that decarbonized shale assayed 0.03 ounces of gold per ton or about one part per million. The same report also indicated that another sample from Soldiers Summit, Utah, assayed 0.02 ounces per ton. These values were not even close to being commercial at the time and were essentially forgotten.

In 1967 an exploratory study conducted by the writer on Colorado oil shale indicated that analmalous quantities of both gold and silver were present. During my attempts to confirm these data using standard fire assays, I noted that the high organic matter content of the sample caused vigorous burning with considerable amounts of smoke. At that time I was concerned that if gold was intimately associated with the organic matter, it would be carried away with the off-gases and lost from the analysis. Unfortunately, other matters interrupted this work and I was unable to resolve my doubts.

In 1969 U. S. Geological Survey Circular 622 entitled, "U.S. Geological Survey Heavy Metals Program Progress Report 1968 - Topical Studies," indicated the following on page 9:

> "Gold in Eocene and Younger Rocks, Northwestern Colorado
> The shaly unit correlative with the Tipton Tongue of the Green River Formation has been mapped through

PENNTAP A program administered by The Pennsylvania State University with partial support from the Pennsylvania Department of Commerce to disseminate the latest technological information to the industrial and public sectors of the Commonwealth.

> most of the north and northwest part of the Craig 30-minute quadrangle as part of the study of gold-bearing Cenozoic rocks in northwestern Colorado. The distribution of gold in modern sediments derived from the Tertiary rocks appears to reflect two principal controls. Most of the richest samples are near the outcrop of the Tipton, apparently reflecting deposition of gold near the arm of the Green River lake in which the Tipton was deposited. The most likely explanation at present is deposition in the deltaic fans bordering the lake. The richest samples also have a fairly linear trend suggestive of a principal gold-bearing stream system on a particular fan."

At this point, it is instructive to examine the geography as it is believed to have existed in Eocene time. Figure 1 is a map showing the lakes and highlands for western Colorado and Wyoming and part of Utah as illustrated by R. E. Mc Donald in his section on "Eocene and Paleocene Rocks of the Southern and Central Basins," which is contained in the Geologic Atlas of the Rocky Mountain Region, (1972). I have indicated in red pencil the approximate region in which the principal gold-mining districts of Colorado occur. From this illustration it seems clear that much of the material eroded from these districts was carried west and dumped in and around the Eocene lake where the oil shales were being formed at the same time. The fact that saline evaporite deposits formed also indicates that the drainage was internal with little or no outlet to the sea. In other words, what was eroded and deposited into the Eocene Lake probably remained as part of the oil shale sequence.

Recent studies have suggested that gold can be transported from the outcrop in two different ways. The first is in particulate form which will be deposited with the familiar black sands. The second form is as fine colloidal gold as indicated by Gosling, Jenne and Chao in their paper entitled, "Gold Content of Natural Waters in Colorado." (Economic Geology, V. 66, 1971 - pp. 309-313.) This paper is particularly interesting because the authors showed that gold is being carried away in colloidal form from the present-day gold districts by the streams draining the area.

More recently Baker published an article entitled, "The Role of Humic Acid in the Transport of Gold," in which he stated,

> "It seems plausible that a substantial amount of ore, which has its origin as a trace element in the lithosphere, is mobilized by some process other than the formation of $AuCl_4^-$. Humic acid, originating through microbial action in the products of degeneration of extensive vegetation cover, appears well suited to such a role. Since it is present in soil water from the time of formation of the interface between soil and rock, it could generate a humic acid complex of Au by reaction with traces of the metal. Such a complex of Au is not subject to the problems of stability and solubility, characteristic of ionic or colloidal Au, and it could migrate readily in the hydrosphere." (Geochimica et Cosmochimica Acta, V, 42 pp 645-649, 1978.)

From these two studies, it becomes clear that colloidal gold is likely to

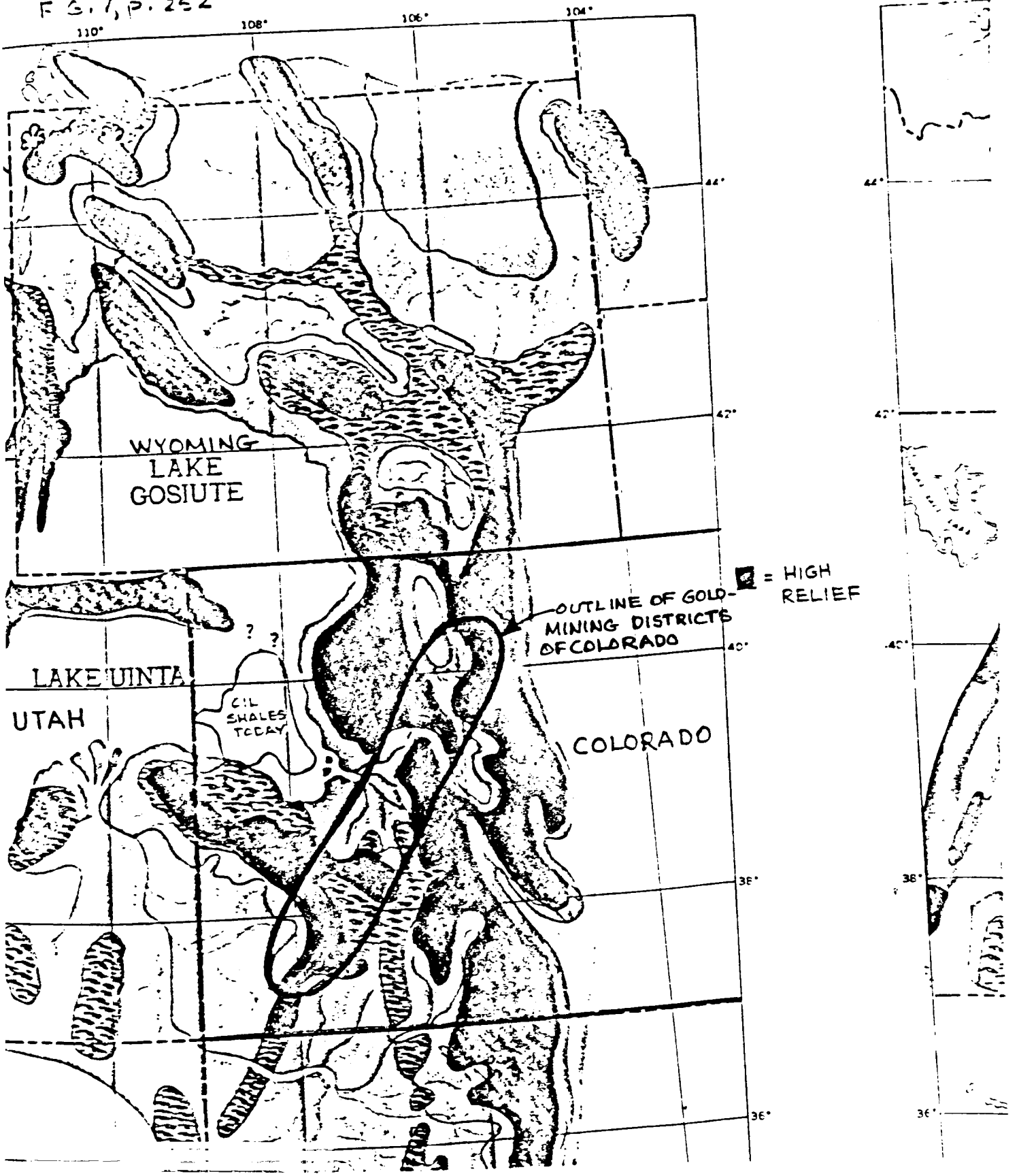
FIGURE 1

FROM: GEOLOGIC ATLAS OF THE ROCKY MOUNTAIN REGION

BY

ROCKY MOUNTAIN ASSOCIATION OF GEOLOGISTS, DENVER COLO., 1972, PAGE 252.

ENE AND PALEOCENE
IN THE SOUTHERN AND
BASINS", BY ROBERT
DONALD, P. 243-256
FIG. 7, P. 252



have been carried out into the center of the lake and included with the organic kerogen of the oil shales. A strong hint that this has indeed happened is contained us U.S. Patent No. 3,383,201 by J. W. Petty which proposes a new method of gold recovery from shale oil.

In 1976 I obtained a random sample of raw oil shale from Dr. Tom Hendrickson of Cameron Engineering, Incorporated in Denver, Colorado. At the same time, I also obtained a random sample of spent oil shale from the TOSCO II Retort which was supplied by the Colony Corporation. Dr. S. Pillay from Penn State's Department of Nuclear Engineering, (presently at the Los Alamos Laboratory), analyzed these samples for gold using neutron activation analysis at Penn State's Breazeale Reactor. The raw shale contained 0.86 parts per million of gold; and the spent shale sample contained 1.57 parts per million of gold. It should be emphasized that the samples were collected by people who had no idea concerning the analysis that would be performed; therefore, no high-grading was involved. What must be appreciated is that the spent shale sample contains well over 300 times the average gold abundance found in ordinary shale deposits. (For average elemental compositions, see "Computer-derived Geochemical and element abundances," by M. K. Horn and J. A. S. Adams in Geochimica et Cosmochimica Acta, v. 30, pp. 279-297.)

Some discussion is necessary concerning what this means in terms of economic recovery. According to a recent report by Cargill, (Economic Geology, V. 76, No. 4, July-June, 1981, pages 937-943), the gold concentration to which contemporary economics and technology make lode gold mining feasible is 3.125 parts per million. In this case we are considering a by-product derived from a waste material; therefore, the mining and crushing costs are removed. Cargill also states that for by-product gold resources from copper mines, the economically recoverable grade is down to 0.025 parts per million. In other words, the samples analyzed by Dr. Pillay are close to the commercial grade for lode gold mines and <u>exceed</u> the cut-off grade for by-product gold from copper deposits.

The major point is that it seems highly unlikely that the two randomly selected samples analyzed by Dr. Pillay are the highest possible values obtainable from an oil shale depoist which is 2,000 feet thick. Stated in another way, it is probable that a number of gold-rich zones exist in the section which could be mined economically as lode gold deposits under present economic conditions.

At this stage, it is logical to question the reliability of the analyst and the analyses. I am enclosing with this letter a copy of Dr. Pillay's resume as well as my own so that you can assess our qualifications.

It might well be asked why the writer used neutron activation analysis as opposed to the standard fire assay. Having attempted to conduct fire assays I am impressed with the amount of skill that an analyst must employ in producing accurate values. A brief reading of the method as described in "<u>Scott's Standard Method of Chemical Analysis</u> will show that there are at least twenty places where the unexperienced analyst can go wrong. The fire assay is a method begun about 4500 years ago by the Egyptians and has served us well; however, in this instance, the presence of large amounts of organic matter may cause difficulties.

In addition, the writer prefers neutron activation analysis because:

1. It is non-destructive of the samples.
2. It is highly sensitive for gold (sensitivity under interference-free conditions is down to 0.0005 parts per million).
3. The samples can be analyzed in the containers received from the customer, thereby eliminating outside contamination.
4. It can be carried out rapidly by commercial services which can provide the answers within two weeks.

PRESENT SITUATION

Obviously, no important decisions should be made on the basis of just two samples. In order to test the hypothesis and assure ourselves that we are close to the truth, a much more detailed sampling and analysis is required.

Our main objective is first to locate the richest zones. In order to do this efficiently, several assumptions need to be made. If the origin of the gold is an previously proposed, (i.e. from the streams which drain the gold districts to the east), then we would expect the major storms which might occur once every 100 to 500 years to be the important flushing agents for these highlands. Such activity would be expected to produce very rich, thin streaks which might be spread over most of the Eocene lake. The near-shore deposits will be richer in the particulate gold, whereas the off-shore muds will have more colloidal gold. During the long periods of relatively quiet weather, most of the gold-containing sediment will be in the near-shore areas. (See figure 2.)

In this type of scenario, samples need to be taken through the whole 2,000 foot oil shale section on a foot-by-foot basis in order to be reasonably sure that no pay-streaks have been missed.

A number of long cores through the whole oil shale section in the Piceance Creek Basin are on file at the DOE laboraotry in Laramie, Wyoming. The most rapid way to test the hypothesis would be to sample one of these long cores on a foot-by-foot basis and have them analyzed by neutron activation analysis. One of the following cores could be sampled for this purpose:

a. Marathon Oil Co.
   Square 5, No. 1
   Sec. 4, T. 2 S, R. 96W

b. General Petroleum Corporation
   Piceance Creek No. 11-24
   Sec. 24, T. 2 S, R. 96W

c. Shell Oil Company
   J. M. Greeno No. 1-4
   Sec. 4, T. 3 S, R. 97W

The total cost of a priority analysis of 2,000 samples for one element, excluding the cost of sampling and the transportation of the samples, should be in the range of $200,000.

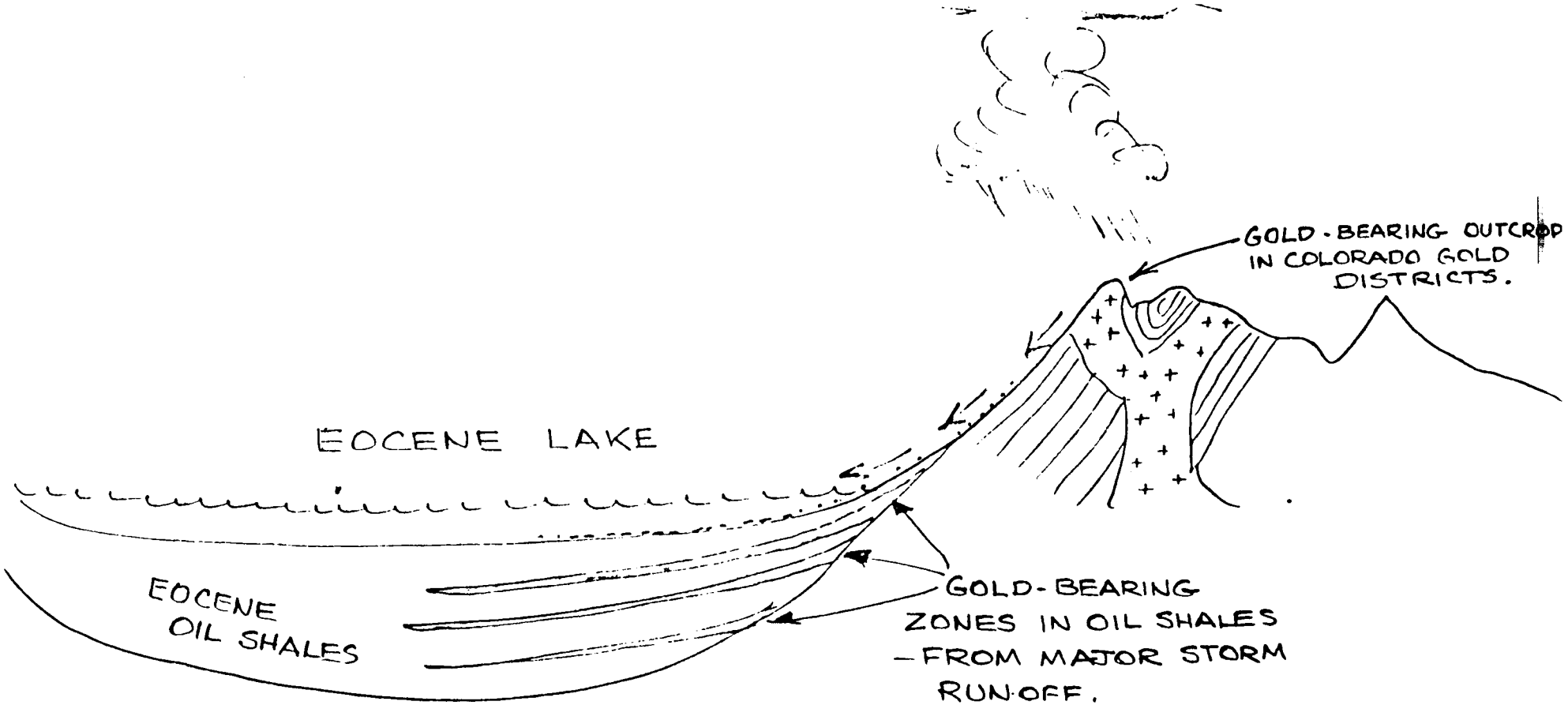

GOLD-BEARING OUTCROP IN COLORADO GOLD DISTRICTS.
EOCENE LAKE
EOCENE OIL SHALES
GOLD-BEARING ZONES IN OIL SHALES — FROM MAJOR STORM RUN-OFF.

FIGURE 2

If gold-rich zones are detected, then additional confirming analyses by other independent laboratories should be undertaken. In addition, detailed sampling of other available cores and perhaps the taking of additional cores will then be justified. If such zones are not detected, then the cost of the exploratory effort has been held to a minimum.

Some thoughts concerning the possible impacts which could result if economically attractive zones are encountered, seem appropriate. Although these have been mentioned in previous correspondence, I believe that they bear repeating as follows:

1. If gold is recovered as a profitable by-product of oil shale mining, the incentive for private companies to launch new oil shale projects will be enhanced.

2. The fact that the federal government owns approximately 75 percent of the Piceance Creek Basin oil shale resources, should help restore confidence in our economic viability.

3. The message that will be received by OPEC is that the U.S. has adequate commercial reasons for producing shale oil in significant quantities. OPEC will then have good reasons for keeping its oil prices in check.

4. Our strategic vulnerability in the Mideast should be reduced, and the prospects of a war to protect our vital oil supply in that region somewhat lessened.

5. Our balance of payments problem associated with massive oil imports should be eased.

6. Investors at home will probably view the identification of a gold resource in the Colorado oil shales in a positive light.

I am aware that over the years hundreds of assays of oil shale have been carried out on a sporadic basis. On the other hand, I know of no systematic study directed at assessing the gold content for the total thickness of the oil shales, nor am I aware of any work where the sample spacing has been adequate to explore the whole section.

I hope that this information will be useful to the Gold Commission in its deliverations during the coming months.

Sincerely,

E. W. Biederman, Jr.
Technical Specialsit

EWB:mf
Enclosures
CC: The Honorable Ron Paul
The Honorable William F. Clinger, Jr.
Mr. James McCormick, Department of Energy

Miley Busiek

Sculpture

March 3, 1982

Members of the Gold Commission
C/O Mr. Thomas Leddy
Deputy Assistant Secretary for
International Monetary Affairs
Room 3221, Treasury Department
15th and Pennsylvania Avenue N.W.
Washington, D.C. 20220

Dear Sir:

May I respectfully submit for your thoughtful consideration, an appropriate adaptation of my original design of the family of American Bald Eagles for the proposed "gold coin."

The traditional style and symbolism of the composition imparts a strong message of hope and security.

In the case of either a totally new coin or continued use of the "Walking Liberty", this proposed design used on the "eagle" side of the coin would provide ideal transition and continuity from the past to the future of our great nation.

In the event of criticism about cost to tax payers for a new design, please rest assured that all costs involved in producing a "new" design could be privately funded.

The private individuals who have volunteered to do this funding are patriotic citizens who would not, in any way, benefit financially from the use of the proposed design and, they do not own the original sculpture.

Although discussion of a new gold coin is in the early stages, I am making this proposal to you now because I understand that the use of a design other than one produced by the Bureau of Engraving requires a specific clause allowing for this in the final legislation and therefore, should be kept in mind as it develops.

I would be happy to provide scale drawings and/or an artist's model coin to your Committee for further review.

My motivation is strictly one of patriotism and artistic expression. I would be deeply honored to perform this service for you and my country on a voluntary basis.

Very Sincerely Yours,

Miley Busiek

Miley Busiek

3712 Alice Circle · Dallas, Texas 75205 · 214-526-5678

TOGETHER...
A NEW BEGINNING

new beginning . . . available exclusively to Republican Eagles.

On November 4, 1980, when it became apparent that Ronald Reagan would become America's 40th president, the Republican National Committee commissioned artist Miley Busiek to produce a special bronze sculpture in honor of America's new beginning.

The result of Mrs. Busiek's work is this beautiful bronze sculpture which is being produced in a limited edition of 875 and offered exclusively to Republican Eagles in recognition of their generous support of the American political system and their commitment to make America great again.

The Eagle sculptures are approximately twelve inches high by ten inches wide and are displayed on a solid oak base. Each is signed by President Reagan and dated January 20, 1981, Inauguration Day.

Number one in the edition of 875 was presented to President Reagan and is displayed in the Oval Office in the White House. Number two was presented to Vice President George Bush. Numbers three and four were presented to former Republican National Chairman Bill Brock and former National Finance Chairman Joe M. Rodgers.

Miniatures of the sculpture were given to Eagles at a dinner preceding the inauguration. In addition, President Reagan also gave miniatures of the sculpture as his personal gift to the returning American hostages.

The Eagle sculpture is rich in symbolism. The scene itself represents unity and the coming together of the people of America for a new beginning. The male Eagle symbolizes the President and the leadership he provides. The mother Eagle represents the families which are the foundation of the nation. And, the young Eagles—one with head turned in eager anticipation and the other asleep in the security of its mother's wings—symbolize the youth and future of America.

These special commemorative sculptures are available to Republican Eagles on a first-come, first-served basis at a price of $660.00 each.

To order your sculpture, fill out the enclosed order form and return it, along with your check for $660.00 payable to the Eisenhower Center Building Fund. Use the business reply envelope that is provided.

As soon as your order is received, the foundry will begin work on your sculpture. Upon completion the sculpture will be shipped directly to you. Please allow six to nine weeks for delivery.

The California Republican Assembly

133 Garnet, San Carlos, California 94070

September 25, 1981

042889

Mr. Ed Meese
The White House
Washington, D.C. 20500

Dear Mr. Meese:

The California Republican Assembly, at their September 18th-20th Board of Directors meeting, passed the enclosed resolution(s) which I feel will be of interest to you at this time.

Should you have any questions concerning our actions, please do not hesitate to contact me.

Very truly yours,

Jean Mary Orr

Jean Mary Orr
President

JMO:hn

Return to the Gold Standard

Whereas: The U S Constitutional Convention's founding fathers deliberately inserted the phrase . . . "no state shall make anything but Gold and Silver coin a tender in payment of debt:" . . . ART I, Sec 10, U.S. Constituion.

Whereas: The terms 'lawful money' and lawful money of the United States' shall be construed to mean Gold and Silver coin of the United States: 12 U.S. Code 152; and a 'dollar' is a unit of measure only as are quarts, feet or pounds, and not a coin nor piece of paper: 31 U.S. Code 371.

Whereas Congress suspended our currency redemption (1933) Gold, and 1968 Silver as 'temporary emergencies, ' elimination of 'money of account' from our monetary system without declaring a replacement; hence neither our public officers or courts are complying with 31 U.S. C ode 371.

Whereas The suspension of Gold the United States has experienced a debasement of purchasing power of the 'FEDERAL RESERVE' paper debit to less than 10% of the 1933 Gold Dollar currency convertible toGold. The Citizens, yea Nations wealth and industry has been systematically plundered by non-governmental, private "BANKER'S BANKS' issued notes (Federal Reserve Bank).

Whereas Congress in 31 U S. Code 392 does tell the American people ... 'Federal Reserve notes shall be legal tender' ...they omitted the phrase...'in payment of,' as it would become in adverse proceeding with ART I, Sec 10; we therefore do not have lawful money of account in compliance with ART I, Sec 10, U.S. Constitution, and 12 U.S. Code 152.

Whereas Those who create and issue fiat money and credit are the de facto directors of the economic policies of government and hold in the hollow of their hands the destiny of the U.S. people. This Federal Reserve Board and Bank are not the elective Executives or Legislative representatives of the U.S.; therefore we in the U.S. have in effect two governments,...a duly constituted one and an independent, uncontrolled and uncoordinated government in the Federal Reserve System operating money powers which are reserved for Congress by our U.S Constitution, so

Therefore be it resolved that the Board of Directors of the California Republican Assembly resolves that the President and Congress terminate this illegal and forfiture of their constituted authority and return to the imperical wisdom of our Nation's Founding Fa'ıer's Intent to end the fraud of fiat paper money and return to our money of account to Gold and Silver in strict conformity with ART I, Sec 8 and 10, U.S.

(over)

Constitution, thereby returning to the duly elected representatives of the U.S control of their destiny and their money value with its purchasing power from the Federal Reserve Bankers and inflation, and

Be it further resolved that we support Ron Pauls' House Resolution to this effect, as well as The U.S. return to the gold (100%) standard backing to the money of account to our U.S. dollar.

and be it further resolved that copies of this resolution be sent to the following individuals:

President
Meese
Secretary Treasurer
Nofzi ger
Gold Commission
2 California Senators
Congressman Ron Paul -R. Tex

American River Republican Assembly and Cyril Stevenson, Jr.

C. Kern none
B. Jacobs 2nd
✓

unanimous

INFLATION

The dominant monetary problem throughout the world, regardless of the system of government in effect, is inflation, because it is so easy for governments to just print more money to pay its bills.

81-10432

B. R. COLLINS
4910 THOR WAY
CARMICHAEL, CAL.
95608

1981 July 6.

Re: Possible Restoration of the Gold Standard.

The Secretary of the Treasury.

Dear Sir,

I recently saw in a newspaper that you are chairman of a commission that will present a report by 1981 Oct 7 on the status of gold in the U.S. monetary system.

The dominant monetary problem throughout the world, regardless of the system of government in effect, is inflation, because it is so easy for governments to just print more money to pay its bills.

The only permanent and proven method of preventing inflation and ensuring long term price stability is the adoption of a monetary system based upon gold, whereby any person can convert his paper currency into gold coin at any time.

The Bank of England for a long time managed a gold standard currency, with a 25% gold reserve, but it was then a private company. When a central bank is a government owned institution, inflation automatically follows, as each government wants a credit "stimulus" before elections and usually at other times too.

FOLDOUT

2. The U.S. currency be redeemable, at the U.S. Treasury, in gold coin, 90% fine, each coin having 25 grams of fine gold with a face value of $500 ($622 per troy oz), and such gold coin be legal tender.

The history of the U.S. Federal Reserve System for the last sixty-seven has been an endless succession of policy blunders, acceptance of political pressures and continuous inflation for the last forty years.

Accordingly I recommend the following proposals for adoption by the Commission:—

1. The Federal Reserve System cease to have the power to issue currency and coin.

2. All U.S. currency, but not coin, be 100% backed by gold, and be styled "gold certificates".

3. All U.S. currency be redeemable, at the U.S. Treasury, in gold coin, 90% fine, each coin having 25 grams of fine gold with a face value of $500 ($622 per troy oz), and such gold coin be legal tender.

4. The Congress grant power to the President, when acting on the advice of the Secretary of the Treasury, to impose special import duties on goods from countries with non-redeemable currencies, and to restrict borrowing from U.S. banks by countries with non-redeemable currencies.

Hoping the above merits your support.

Yours Sincerely,

Barry R. Collins

82-1952

THE UNION FORK AND HOE COMPANY

P.O. BOX 1940 500 DUBLIN AVENUE, COLUMBUS, OHIO 43216 PHONE (614) 228-1791

EDWARD DURELL
CHAIRMAN OF THE BOARD

February 4, 1982

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

The Honorable Donald T. Regan
Secretary of Treasury
Washington, D.C. 20220

Dear Secretary Regan:

In view of the fact that Ralph Korp, Director, Office of International Monetary Affairs, Department of the Treasury, has requested in writing that all parties who testified in one way or another before the Gold Policy Commission submit a two-page condensation of their testimony to be incorporated in the appendix to the report that the Commission will submit to Congress by March 31, 1982, I feel it is desirable that the enclosed letter to Mr. Robert Black, President of the Federal Reserve Bank of Richmond, dated January 28, 1982, be furnished to you as it sets forth in some detail the evidence that the Federal Reserve System has title to whatever gold is presently warehoused by the U. S. Treasury, which was once evidenced by gold certificates expressed in ounces, but now reportedly by "book accounts" in the accounts of the U. S. Treasury.

I respectfully request that the Gold Policy Commission authorize and finance a trusted and capable member of its sfaff to examine my voluminous evidence and determine what should be made part of the Commission's records before such is submitted for printing. I think you will agree that it is inconceivable that a gold commission could actually be formed and a gold policy seriously discussed without it first being absolutely certain that our nation's gold is still intact and whether the Federal Reserve System or the U. S. Treasury has title to whatever remains of the once huge gold stock.

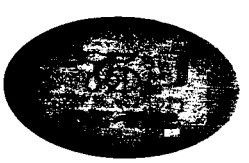
Sincerely,

Edward Durell

As an individual

ED/ts

Encl.



THE UNION FORK AND HOE COMPANY

P.O. BOX 1940 500 DUBLIN AVENUE, COLUMBUS, OHIO 43216 PHONE (614) 228-1791

EDWARD DURELL
CHAIRMAN OF THE BOARD

January 28, 1982

Mr. Robert P. Black, President
Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, VA 23261

Dear Mr. Black:

I have delayed answering your letter of November 12, 1981 in the hope that I would receive a letter from someone in the Federal Reserve System and/or the U. S. Treasury proving, with citations,

(a) Which entity, the Federal Reserve System or the U. S. Treasury, has title to whatever physical gold is found to exist by an independent inventory and genuine assay; and

(b) Which of the two entities is responsible for the physical gold allegedly warehoused by the Treasury, described on the Treasury's financial statement as a liability along with the footnote:

"[5] 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."

There is only one hoard of gold, but by the conflicting evidence set forth below, it would appear that both the Federal Reserve System and the U. S. Treasury claim it. How a duly authorized court of law would determine the ownership, I do not know, but I believe it would be awarded to the Federal Reserve System because whoever keeps the books for the Treasury carries the gold as a liability on its financial statement.

(1) Proof of ownership by the U. S. Government.

(a) Letter from former Secretary of the Treasury, William Simon, to Congressman J. K. Robinson dated 11/4/74 which shows 276 million ounces of gold in nine locations as "Monetary Gold Stock of the United States."

(b) Letter from Jerry Nisenson, Deputy Director of Gold Market Activities, Dept. of Treasury, to Mr. L. Hendricks dated 3/13/81 stating, "As of January 31, the U. S. gold stock amounted to 264.3 million fine troy ounces."

(c) Letter from P. D. Ring, Advisor, Federal Reserve System Board of Governors, to Edward Durell dated 6/4/81 stating, "Section 2 of the Gold Reserve Act... makes clear that the gold stock belongs to the United States Government."

(d) Treasury News Release dated 12/11/81 contains a tally showing that as of November 1981 there were 264.1 million Troy ounces of gold on hand listed as U. S. gold stock.

(e) Letter from Russell Munk, Assistant General Counsel, Dept. of Treasury, to Edward Durell dated 1/11/82 stating, "Title to the United States gold stock is indeed vested in the United States, and the Dept. of the Treasury is accountable for the United States gold stock (31 U.S.C. 441 and 734)."

(2) Proof of ownership by the Federal Reserve System.

(a) The financial statements of condition of the Federal Reserve System and the regional Federal Reserve Banks show as an asset under the heading "Gold certificate account" huge sums of money (figured at the official gold price of $42.22 per Troy ounce).

(b) On page 3 of the order form for the 1981 Gold Medallion program is the statement: "Profits from the sales, in excess of $42.22 per ounce, will be used to retire gold certificates held by the Federal Reserve Banks. The remaining profits will be deposited in the general fund of the Department of the Treasury."

(c) Robert Weintraub, Senior Economist of the Joint (House-Senate) Economic Committee, stated in testimony before the Gold Policy Commission on 11/12/81 when referring to the gold certificates that, "For the record, gold certificates are assets of the twelve Federal Reserve Banks. At the end of 1980, the Federal Reserve held $11.61 billion of gold certificates representing title to 264.353 million ounces of gold at the current legal or official bookkeeping value of $42.22 per ounce."

Since the Treasury states it pays the Federal Reserve System $42.22 for each ounce of gold used in the Gold Medallion program sales, it would seem that the Treasury recognizes that <u>title</u> to the gold is in the Federal Reserve System.

Moreover, former Secretary of the Treasury, William Simon, testified before Congress under oath to this effect when he said that title to the gold was in the Federal Reserve System because the transfer of gold under Section 2 of the Gold Reserve Act of 1934, as amended, constituted a pledge. (Hearings before the Subcommittee on International Finance, House of Representatives, on HR 17475 dated December 3, 1974)

Since it is a pledge and not a sale, your bank is primarily responsible for the gold collateralizing the "Gold certificate account"; otherwise why call it a gold certificate account?

On the other hand, I don't see how you can carry as an asset on your bank's statement a "Gold certificate account" when Mr. Michael Bradfield, General Counsel of the Federal Reserve System Board of Governors, in a letter to me dated October 16, 1981, states that, "These (gold certificates) are, in fact, book accounts in the accounts of the United States Treasury."

Don't you think it is the duty of your bank which affords the perception to the public that gold is a part of your assets, to make certain that the gold, allegedly warehoused by the Treasury, is of the proper weight and fineness? From the correspondence I have had from you and the other Federal Reserve Bank presidents, it looks as though you and the others are willing to take the Treasury's word for it. My investigation spanning more than seven years indicates beyond a reasonable doubt that

(a) There has not been an independent, external inventory and genuine assay of the gold allegedly held at any of the Treasury's depositories or by the Treasury's agents. As for the so-called "continuing audit" of the alleged gold, suffice it to say that there is no "continuing audit" or inventory taking place nor is there an "audit" or inventory taking place which any reputable accounting firm would accept as being reliable.

(b) The weight of the gold bullion bars varies from an average of 317 to 411 Troy ounces, the number of bars in a melt varies, and the fineness of the gold varies from melt to melt.

(c) Gold which remains at the New York Assay Office is now in the process of being moved to the West Point Depository. The movement of gold was started in November 1981 and it should be completed next month, under order of the Secretary of the Treasury dated November 16, 1981. The settlement committee which examined the New York Assay Office recently found a loss of some 3, 163 ounces of gold in the Refining Section of the plant, and also 162 ounces were missing from the Cash Division of the Bullion Transfer Branch. Is this one reason why Mr. Regan ordered the transfer of gold to

the West Point Depository? For the past six months or so the New York Assay Office Prescious Metals Refinery has been closed. Moreover, since the remaining gold is being transferred to West Point, it seems to me that the Treasury has missed another fine opportunity to have a real inventory.

In view of the above and since all the depositors in any bank have now been tied into the Federal Reserve System, don't you think we depositors have a right to insist that the Federal Reserve System demand and get an external, independent, physical inventory and genuine assay of the nation's alleged gold reserves?

Sincerely,

Edward Durell

Edward Durell
As an Individual

ED/ks

cc: Michael Bradfield, General Counsel
FEDERAL RESERVE SYSTEM BOARD OF GOVERNORS

All Chairmen and/or Presidents of the 12 regional Federal Reserve Banks

and other interested parties.

82-02115

THE UNION FORK AND HOE COMPANY

P.O. BOX 1940 500 DUBLIN AVENUE, COLUMBUS, OHIO 43216 PHONE (614) 228-1791

EDWARD DURELL
CHAIRMAN OF THE BOARD

February 9, 1982

TO: All Members Of The Gold Policy Commission

Supplementing my certified letter of February 4, 1982 to all members of the Gold Policy Commission, I submit it is within the jurisdiction of the Gold Policy Commission and incumbent upon it to determine in advance how and from what source gold could be obtained to back the U. S. currency and/or other instruments of liability or for use in gold coins (legal tender or otherwise).

To this end, I respectfully submit the following suggestions with the hope that you will consider each one of them on its own merits or a combination thereof.

(1) Determine the amount and fineness of the gold warehoused by the U. S. Treasury and its agents, and shown on the balance sheet of the Federal Reserve System as an asset and on the balance sheet of the U. S. Treasury as a liability. If it should be determined that title to this gold is in the Federal Reserve System, ascertain whether or not the gold could be borrowed from it or sold to the U. S. government.

(2) Determine whether or not a substantial portion of the huge tons of gold that left the gold stock over the past 37 years can be recovered. According to the enclosed tally (received in a Treasury News release dated December 11, 1981), in 1944 there was in the U. S., under the control of the U. S. Treasury or the Federal Reserve System, 589.5 million Troy ounces of gold. By 1949 this amount rose to 701.8 million Troy ounces. By November 1981 both the Federal Reserve System and the U. S. Treasury have stated that this amount had been reduced to 264.1 million Troy ounces. According to this same tally, 235.3 million Troy ounces had been moved into the hands of "official foreign monetary institutions." Of this 235.3 million Troy ounces, 135.1 million ounces (or 57%) had been moved during the eight year period of the London Gold Pool operation (1961-68).

(3) Arrange with the central banks and other banks of the world to loan the U. S. government the necessary gold on a long term, low interest basis. This the banks might be willing to do because a large portion of their assets may still be in U. S. paper assets which may become worthless unless the erosion of the purchasing power of the dollar is stopped. Such loans could be arranged if the lenders were assured

beyond a reasonable doubt that the borrower could repay the loans with gold backed currency and/or other instruments of liability. This would, of course, entail operation of the government in such a way that its total expenditures (and guarantees) would be less than its income. It has been done before and it can be done again. For example, between 1921 and 1930 Andrew Mellon was Secretary of the Treasury and he reduced the national debt from $24.3 billion to $16.4 billion, or nearly 33%.

It is respectfully suggested that the Gold Policy Commission recommend to Congress in its report that Congress take such steps as to request the General Accounting Office to make a thorough investigation of all the questions raised by my eight years of study and investigation.

In addition, it is suggested that the Gold Policy Commission recommend to the President that he create a "Blue Ribbon Presidential Commission Of Inquiry", as was done by former President Eisenhower in 1953, to order a separate audit and inventory to examine the circumstances, responsibility and authority for the U. S. Treasury and/or the Federal Reserve System losing control of 325.4 million Troy ounces of gold, or over 60% of the nation's gold hoard between 1944 and November 1981.

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

Sincerely,

Edward Dwell

As an individual

ED/ks

Encl.

cc: The Hon. Edwin (Jake) Garn, Chairman of the Senate Banking Committee
The Hon. Fernand St. Germain, Chairman of the House Banking Committee
The Hon. John G. Heimann, Comptroller of the Currency
The Hon. Charles A. Bowsher, Comptroller General of the U. S.
and other interested parties

U.S. Gold Stock 1944 - November 1981
(millions of fine troy ounces)

Year	Gold Stock: Outstanding end of period	Gold Stock: Change during period	Net Sales or Purchasers: Foreign[1] Countries	Net Sales or Purchasers: Gold Pool	Net Sales or Purchasers: IMF	Net Sales or Purchasers: Domestic Producers & Consumers
1944	589.5					
1945	573.8	-15.7	-12.9	-	-	-2.8
1946	591.6	+17.8	+20.6	-	-	-2.8
1947	653.4	+61.8	+81.8	-	-19.6	-0.4
1948	697.1	+43.7	+43.1	-	-	+0.6
1949	701.8	+4.7	+5.5	-	-	-0.8
1950	652.0	-49.8	-49.3	-	-	-0.5
1951	653.5	+1.5	+2.2	-	-	-0.7
1952	664.3	+10.8	+11.3	-	-	-0.5
1953	631.2	-33.1	-33.3	-	-	+0.2
1954	622.7	-8.5	-9.3	-	-	+0.8
1955	621.5	-1.1	-1.9	-	-	+0.8
1956	630.2	+8.7	+2.3	-	+5.7	+0.7
1957	653.1	+22.8	+4.9	-	+17.1	+0.8
1958	588.1	-65.0	-65.5	-	-	+0.5
1959	557.3	-30.7	-28.5	-	-1.3	-0.9
1960	508.7	-48.7	-56.3	-	+8.6	-1.0
1961	484.2	-24.5	-27.5	-0.3	+4.3	-1.0
1962	458.8	-25.4	-21.3	-2.5	-	-1.6
1963	445.6	-13.2	-19.2	+8.0	-	-2.0
1964	442.0	-3.6	-12.3	+11.2	-	-2.5
1965	394.5	-47.6	-37.8	-	-6.4	-3.4
1966	378.1	-16.3	-13.9	-3.4	+5.1	-4.1
1967	344.7	-33.4	+2.9	-32.3	+0.6	-4.6
1968	311.2	-33.5	-6.0	-25.9[2]	-0.1	-1.5[2]
1969	338.8	+27.6	+27.3	-	+0.3	-
1970	316.3	-22.5	-18.0	-	-4.5	-
1971	291.6	-24.7	-24.1	-	-0.6	-
1972	276.0	-15.6	-0.1	-	-15.5	-
1973	276.0	-	-	-	-	-
1974	276.0	-	-	-	-	-
1975	274.7	-1.3	-	-	-	-1.3[3]
1976	274.7	-	-	-	-	-
1977	277.6	+2.9	-	-	+2.9	-
1978	274.9	-2.7	-	-	+1.4	-4.1[3]
1979	264.6	-10.3	-	-	+1.4	-11.7[3]
1980	264.3	-0.3	-	-	-	-0.3[4]
1981-Nov.	264.1	-0.2	-	-	-	-0.2[4]
		-325.4	-235.3	-45.2	-0.6	-44.3

1/ Official foreign monetary institutions.
2/ Sales through gold pool and to U.S. consumers ended March 18, 1968.
3/ Gold sold at public auctions.
4/ Gold sold in American Arts Gold Medallion Program.

Sources: Federal Reserve Bulletins, Annual Reports of the Director of the Mint.

U.S. Department of the Treasury
December 1981

THE GOLD BONDHOLDERS PROTECTIVE COUNCIL, INC.

1402 THIRD AVENUE • SUITE 414

P.O. BOX 2283 • SEATTLE, WASHINGTON • 98111
(206) 622-4960

September 8, 1981

TO: MEMBERS OF THE UNITED STATES GOLD COMMISSION

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FROM: Robert Ellison, President
The Gold Bondholders Protective Council

SUBJECT: PUBLIC POLICY ISSUES FOR CONSIDERATION

The Gold Bondholders Protective Council, Inc. is a non-profit, non-stock corporation established for the purpose of protecting the rights and interests of investors who own bonds containing a gold clause which have been distributed to the public in these United States. It embraces unredeemed obligatons issued and guaranteed by the United States Government and its political subdivisions, foreign governments and their instrumentalities and like corporate entities which have otherwise maintained sound credit ratings.

The Council believes it appropriate for the recently created Gold Commission to examine and address in its final report 4 contentious issues which are enumerated and briefly described below regrading the role of gold in the domestic and international monetary system. Each requires an examination of U. S. Government policy which is clearly inconsistent with respect to the treatment currently accorded gold coin of the United States and contractual promises therefor. It should be pointed out that official Treasury records indicate that 2/3 of the gold coin struck by the United States Mints is still held by the public and does not circulate because of this deliberate, inconsistent government policy. Furthermore, since this coin commands a premium over bullion, it would not be surprising to discover there is, in the aggregate, more gold coin of the same standard of weight and fineness outstanding today than there was in 1933 when the Joint Resolution outlawing gold was initially passed.

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Be that as it may, the official gold coin of the United States has a current bullion value in the neighborhood of $75 billion, not a inconsequential portion of the potential total of the U. S. money supply. This real asset is sterilized and immobile. However, it may be coaxed into circulation if the inconsistent policy of the U. S. Treasury and conflicting U. S. Statutes are addressed by the Gold Commission so as to enunciate a coherent gold policy which has been heretofore neglected.

I. Tax Treatment Accorded Gold Coin of United States.

If an individual voluntarily arranges his affairs such that he receives gold coin of the United States as current income for the purpose of reducing his marginal income tax rate, i.e., the taxpayer declares the legal tender gold coins at their lower face value, the Treasury has taken the position of disallowing this practice and requires the coins be valued at their higher market value. However, if the taxpayer tenders the gold coins to the Treasury to discharge his taxes, the Treasury has taken the opposite position and requires the coins be valued at their lower face value. In other words, "heads, the treasury wins; tails, the taxpayer loses." The policy must be changed and made consistent to promote rational planning and respect for government. When the coins are valued consistently, the hoard of gold will begin to circulate and gold will flow into the Treasury.

II. Property Value Accorded Government Gold Bonds

Government obligations promising to pay both principal and interest " . . . in gold coin of the United States of the present standard of weight and fineness . . . upon presentation and surrender . . . ," remain outstanding. Although most have matured, others don't fall due until after the year 2000. In the aggregate, there are $10 million in Federal obligations and perhaps $50 million of State and Municipal bonds remaining. All were issued between 1834 and 1934. In 1935, the Supreme Court of the United States ruled in a unanimous decision (Perry vs. U.S.) that the Joint Resolution was unconstitutional insofar as permitting the Congress to abrogate the gold clause contained in the public debt. However, since it was then illegal for its citizens to own gold domestically, no damages could be proved when gold's price was changed from $20 for one ounce to $35. A Catch 22 situation prevailed. Now, however, that gold ownership is once again legal it seems logical that the Treasury should pay. It's the law. Nevertheless, Treasury policy is not to pay any more than face value in Federal Reserve Notes. Since 1975, the courts have uniformly held that under current federal law there is no difference between $20 in gold coin and $20 in paper currency. Yet the government itself is treating the possession of gold vis-a-vis the promise of gold in a dissimilar fashion. If the market prices for promises and possession were equal, there would be no need for this Gold Commission. Therefore, the distinction between the promise and the possession must be reconciled and eliminated. Contract law must be enforced as it is the fabric upon which the entire free enterprise system is woven. Without it, there can be no confidence.

To further these goals, The Gold Bondholders Protective Council has instituted an action in the U. S. Court of Claims on a Fourth Liberty Loan, the same obligation used in the aforementioned Perry case. The Treasury has introduced a motion to dismiss the suit based on its Sovereign Immunity, the Statute of Limitations and Jurisdictional grounds. Oral arguments may be heard in Washington prior to the 1981 year end.

III. Property Value Accorded Corporate Gold Bonds

Approximately $750 million par value of unmatured corporate obligations which contain a gold clause remain outstanding today. They are primarily long term first mortgage bonds issued by the nation's railroads, with maturity schedules running as far out as the year 2361 and longer. Through various congressional enactments, the railroads were granted public lands and rights which were subsequently pledged to the bondholders as collateral to secure their loans. The rights granted included rights-of-way, permission to use stone and timber on the public domain free of charge, and for each mile of track built a land grant of 12,800 acres of government land in alternate square-mile sections, checkerboarded throughout a 20-mile square on each side of the tracks laid in the States through which it passed, and 25,600 acres per mile in the territories covering a swath 40-mile wide on each side of the track - for a total or 80 miles for each mile of track laid. Although the railroads have subsequently sold some of this property to settlers and devlopers, they maintained the oil, gas, mineral and timber rights on this enormously rich land. In most instances this real estate and right-of-way was pledged as collateral for securing the bondholders' loans. It was a common practice for the railroad to issue to the public first mortgage bonds for a term of 100 or 150 years or longer. More than half were purchased and are still owned by the life insurance industry. In addition, the government purchased a like gold dollar amount of second mortgage bonds for a term of 30 years. This in effect allowed the railroads to issue $32,000 of bonds for each mile of track in the flatlands, $64,000 per mile of track in the country between the mountains, and $96,000 per mile in the major mountain ranges. This vast sum of money raised was all paid to the railroad in gold coin of the U. S. at the rate of $20.67 per ounce of gold. The funds were expended to construct the railroads and to provide operating equipment. From the earnings, the government's second mortgage was paid off, both principal and interest, in the same gold coin, thirty years later.

Since 1933, the holders of the first mortgage gold bonds have suffered and the corporation's shareholders have greatly benefited. An example will best illustrate the inequity. In 1935, an investment of $1,000 cash would have enabled an investor to purchase one $1,000 4% General Mortgage Gold Bond, due 1996. Between 1935 and 1980, the bond holder received $40/year, for a total of $1,800 ($40/year interest x 45 years). Furthermore, since interest rates are so high, the market value of the bond is only $500 today. In contrast if the same $1,000 were invested in the company's common stock in 1935, the shareholder would have received $23,000 in lividends during the same 45-year period and the market value of the stock, after splits, has increased to $65,000. The bottom line is the bondholder received a total of $2,300 and the stockholder $88,000.

Given the current rate of inflation, the bondholder will be decimated by maturity date if the gold clause is not enforced; all of the bondholder's property will then revert to the shareholders for a pittance.

In an effort to rectify this injustice which is being perpetuated by three conflicting Acts of Congress, The Gold Bondholders Protective Council has instituted a suit against the Atchison, Topeka & Santa Fe in the State Court system of Alaska. Oral arguments may be scheduled to be heard by the Alaska Supreme Court prior to year end 1981. The Council is not attempting to recover damages on that principal and/or interest which has previously been submitted and surrendered for payment. Instead, it is concerned with the unredeemed coupons and bonds which have matured, as well as those coupons and bonds which are yet to mature in the future.

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

Accordingly, the contractual property rights which are embodied in the gold clause must be enforced for that portion which remains unredeemed in order to prevent a further diminution of the Bondholders' property.

IV. Property Value Accorded Foreign Government Gold Bonds

A number of foreign governments and their political subdivision were permitted to offer to the American public a considerable quantity of gold clause obligations up through 1933. Many of these foreign governments subsequently defaulted. As a consequence, the U. S. Government encouraged the establishment of an organization called the Foreign Bondholders Protective Council, Inc., a non-profit Maryland corporation upon which the present Council is modeled.

Prior to 1934, foreign governments issued hundreds of millions of dollars of Gold Bonds, with the major banks acting as sales agents or brokers, on the public market using the facilities of the stock exchange. The banks earned huge commissions selling the bonds to the public. After 1934, the defaulting governments were prohibited from borrowing from the public under the Johnson Debt Default Act, and the banks were prohibited from distributing securities to the public under the Glass-Stegal Act.

The Foreign Bondholders Council undertook negotiations on behalf of some American bondholders in an effort to reach settlements which disregarded the gold clause since it was then contrary to U. S. public policy to do otherwise. The question now is what is U. S. public policy respecting unsettled foreign debts due American citizens? The by-laws of the Foreign Bondholders Protective Council clearly prohibited bankers from serving the Council as officers and/or directors because of the conflict of interest. This by-law exclusion was subsequently disregarded and bankers were elected to fill the ensuing vacancies. This led to settlements which allowed Poland to pay less than ten cents on the dollar to discharge the principal on its debt, and to pay nothing on the interest due. This conflict of interest and pattern of settlement has intensified with the World Bank recently lending hundreds of millions of dollars of taxpayer money to China, which has also defaulted on its bonds. The current president of the Foreign Bondholders Council is also president of Marine Midland Bank which is controlled by the Hong Kong & Shanghai Bank. How effective can he be in negotiating with the Chinese Government on behalf of widely dispersed American bondholders while the American Government is guilty of disregarding the gold clause in its own obligations and, his superiors are anxious to loan more bank funds, regardless?

The banks continue to earn huge fees lending money to governments which refuse to agree to honor their previous contractual commitments. Is this what is meant by "honor amongst thieves?" We do not mean to single out Poland and China without mentioning that such behavior is common to some public debt issues of Canada, Russia, Mexico, Czechoslovakia, Cuba, Germany as well as the United States, amongst others.

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

U.S. GOLD BONDS (CORPORATE)

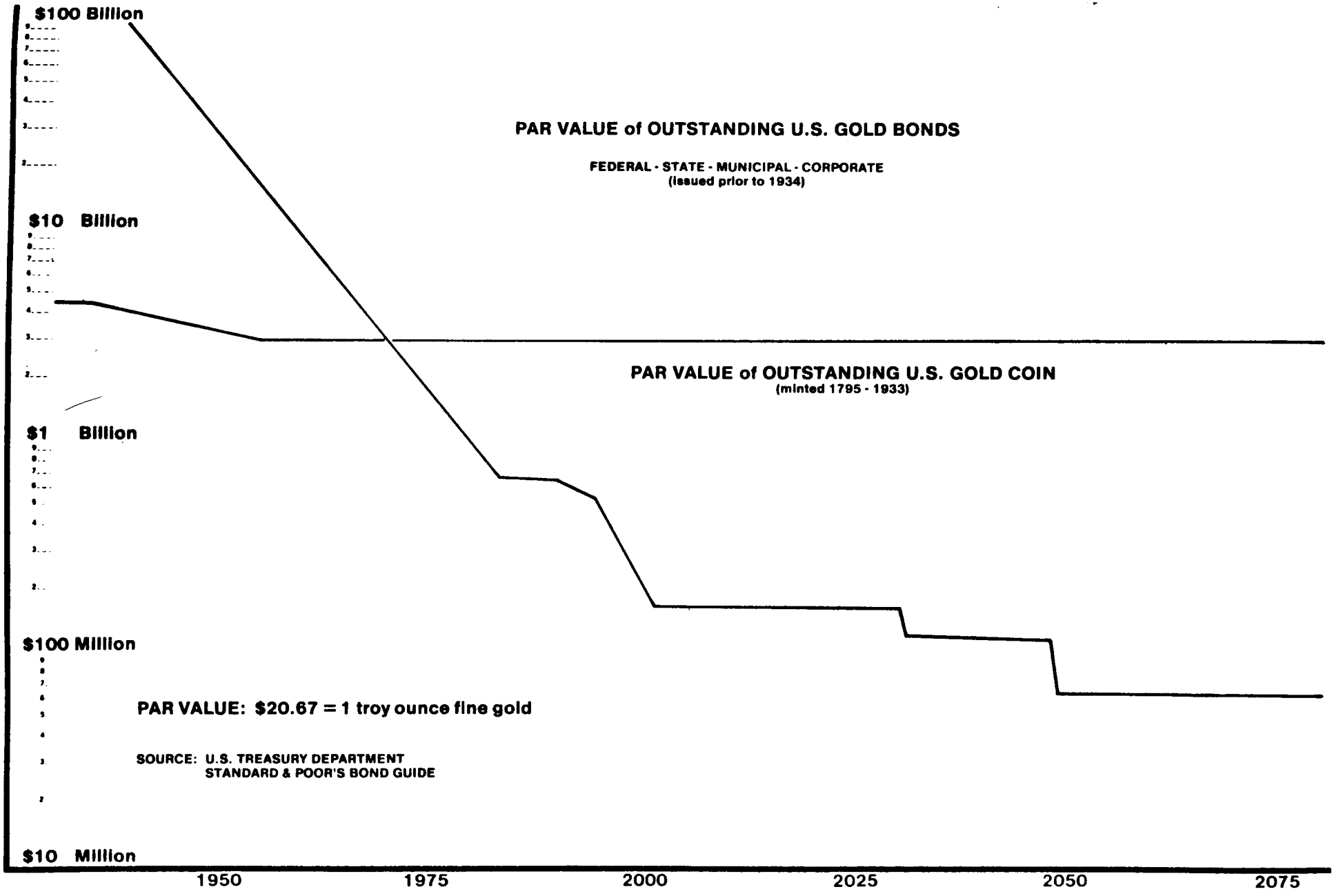
	ISSUER	DESCRIPTION	COUPON & MATURITY DATE	
1.	Allegheny & Western Ry.	First Mortgage*	4%	1998
2.	American & Foreign Pwr.	Debentures	5%	2030
3.	Atchison Top & S.F. Ry.	General Mortgage*	4%	1995
4.	Atchison Top & S.F. Ry.	Stamped Adjustment*	4%	1995
5.	Atlanta, Knoxville & N. Ry.	First Mortgage	4%	2002
6.	Canadian Pacific Ltd.	Consolidated Debenture Stock	4%	Perpetual
7.	Chesapeake & Ohio Ry.	General Mortgage*	4½%	1992
8.	C & O (Rich & Alleg)	First Consolidated Mortgage*	4%	1989
9.	Clev Term & Valley RR	First Mortgage*	4%	1995
10.	Edison Electric Illum NY	First Consolidated Mortgage*	5%	1995
11.	Green Bay & West RR	Income Deb B (non-cum)	-	-
12.	Hocking Valley Ry	First Consolidated Mortgage*	4½%	1999
13.	Kentucky Central Ry.	First Mortgage	4%	1987
14.	Kings County El Lt & Pr	Purch Money Mortgage*	6%	1997
15.	Missouri-Kan-Tex Ry.	First Mortgage	4%	1990
16.	Norfolk & Western Ry.	First Consolidated Mortgage*	4%	1996
17.	Northern Pacific Ry.	Prior Lien & Land Grant*	4%	1997
18.	Northern Pacific Ry.	General Mortgage (due Jan. 1)*	3%	2047
19.	St. Louis Southwestern Ry.	First Mortgage	4%	1989
20.	St. Louis Southwestern Ry.	Second Income (due Nov. 1)	4%	1989
21.	Scioto Valley & N Eng RR	First Mortgage	4%	1989
22.	Southern Railway	First Consolidated Mortgage*	5%	1994
23.	Southern Railway	First Mortgage*	5%	1996
24.	Southern Railway	First Mortgage*	4%	1998
25.	Texas & Pacific Ry	First Mortgage*	5%	2000
26.	Virginia & Southwestern Ry	First Mortgage	5%	2003
27.	West Virginia & Pitts RR	First Mortgage	4%	1990

* these bonds contain a tax-free covenant

U.S. GOLD BONDS (STATE & MUNICIPAL)

	ISSUER/GUARANTOR	DESCRIPTION	COUPON & MATURITY DATE	
1.	California	India Basin	4%	1985
2.	California	San Francisco Harbor Improvement #1	4%	1985
3.	California	San Francisco Harbor Improvement #2	4%	1989
4.	New York	Grade Crossing Elimination	3%	1981
5.	New York	Grade Crossing Elimination	3%	1982
6.	New York	Grade Crossing Elimination	3%	1983
7.	New York	Grade Crossing Elimination	3¼%	1983
8.	Rhode Island	Park	4%	2007
9.	Rhode Island	Penal & Reformatory Institutions	4%	1983
10.	Annapolis, MD	Assumed Sewer Revenue	4½%	1981
11.	Baltimore, MD	Water	3½%	1981
12.	Hagerstown, MD	Water	5%	1987
13.	Hagerstown, MD	Water	4½%	2002
14.	Hagerstown, MD	Sewerage and Disposal Plant	4½%	1986
15.	Hagerstown, MD	Sewerage and Disposal Plant	4½%	1989
16.	Newark, NJ	City Railway	4½%	1983
17.	Newark, NJ	Public Park	4¼%	1981
18.	Union County, NJ	Parks	6%	1982
19.	Harrison, NY	Sewer District #1	4½%	2005
20.	Westch. County, NY	Bronx Parkway	4¼%	1986
21.	Westch. County, NY	Bronx Parkway	4¼%	1984

NOTE: These corporate and government bonds are believed to contain a "gold" clause which states that the interest and principal is payable in "gold coin of the United States". This standard phrase was inserted for the purpose of protecting the creditor against currency debasement. They were issued when gold was fixed at $20.67 per troy ounce. If the Court enforces the gold clause, these bonds may be worth considerably more: each and every future payment may have to be adjusted for the then current price of gold. Presently, these gold bonds may be trading at a premium vis-a-vis other bonds of similar rating and maturity.



ANNUAL MATURITY SCHEDULE

Supply-and-Demand Folly

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

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

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

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

Michael Grogan
Lake Park

2179 Canal Road
Lake Park
Florida 33410

Dear Mr. Volcker,

I want to send these thoughts to the commission that is studying the Gold Standard, but I don't know their correct title and address. So would you be kind enough to forward them?

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

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

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

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

Sincerely,

Michael Grogan

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

Mr. Paul A. Volcker
Federal Reserve System
Washington, D.C. 20551

81-10666

Box 232
Gillitts
Natal 3603
South Africa.
1st July 1981

The Secretary of the Treasury
United States of America

Dear Sir,

The recent announcement that a commission is being appointed to go into the question of a monetary role for gold prompts me to send the enclosed article and pamphlet for the commission's urgent consideration.

The pamphlet, "Golden Age for Rhodesia," Chapters II and III are relevant, but not Chapter I.

I earnestly hope that the debacles of the gold standard era will not be re-enacted, and that my thoughts expressed in the enclosures will shed light on the issue

Yours sincerely
RC Haw

Richard C Haw

For the attention of the U.S. Commission on a monetary rôle for gold.

See Chapters II and III

GOLDEN AGE FOR RHODESIA

by RICHARD C. HAW

Golden Age for Rhodesia

by Richard C. Haw

PREFATORY NOTE

This paper was written 18 months before actual publication. The picture has changed with the application of sanctions against Rhodesia, following the assumption of Independence. Naturally a shortage of consumer goods on the market calls for modification of those proposals to guard against a surplus of purchasing power in relation to goods, which would lead to inflation. Financial policy during this period should be directed towards stimulating productive enterprises, especially those aiding the export drive and the earning of foreign exchange. There is no question of advocating credit expansion, which could lead to inflation.

GOLDEN AGE FOR RHODESIA - AND THE WORLD

ECONOMIC DEVELOPMENT OF RHODESIA

by Richard C. Haw, B.A. HONS., B.A., F.R.G.S.,
Member of the Economic Research Council, London.
Author of "No Other Home" (Stuart Manning),
"The Conservation of Natural Resources" (Faber)
"Rhodesia, the Jewel of Africa" (Published 1966).

CHAPTER I

PROBLEMS AND OPPORTUNITIES

Unlimited Potential

Rhodesia is a land of unlimited economic potential. She has rich mineral deposits, ample labour, an unsurpassed climate, an enlightened administration, and a vast reservoir of demand for what she is able to produce.

The country possesses most of the world's metallurgical chrome ore; vast quantities of coal; iron ore (albeit much of it low grade) sufficient to supply the entire world for over 100 years; large deposits of asbestos and other base minerals; stupendous irrigation potential (with 750,000 acres in the Sabi-Limpopo region alone); excellent land for both crop production and stock-raising; a broadly based manufacturing industry; exceptionally developed social services; and phenomenal power resources.

Rhodesia could be the hub of Africa. Certain sectors of the economy are booming but there is some sluggishness, particularly in the peasant economy. The provision of finance for development *and consumption* could change the picture radically, and activate the entire economy. The creation, issue, and control of finance, is the subject of this paper.

Expansion Problems.

It appears axiomatic that Rhodesia needs to develop all sectors of her economy. The primary sector, comprising mostly the subsistence economy of the African areas, is in need of a boost, not only for the purpose of converting it wherever possible into a cash economy, but to avoid the destruction of basic natural resources. Wastage of soil and water resources is proceeding apace despite the efforts of dedicated agricultural staff to halt it. Grazing lands are being choked by harmful bush, whilst overstocking and other causes are drying up rivers, vleis and under-ground water-supplies. Arable lands are in many areas collapsing and eroding because of prolonged cultivation without adequate return of organic matter, fertilisers, and the practise of improved methods.

Meanwhile the population expansion is driving many thousands, who are no longer able to be accommodated on the land, into towns, to be confronted there with another tragic situation — unemployment and shortage of housing. It is therefore just as imperative to develop the secondary sphere of the economy, as the primary. The problem has suddenly come upon us, — though we cannot say it was not foreseen.

We have the "know-how" for the necessary development; and given the finance, (which it will be shown can be made available without inflation) we can stimulate, through community development, the subsistence economy into a cash economy, thus providing more purchasing power for both producers and consumers.

The secondary sphere (industry and commerce) requires only the necessary credit to forge ahead, supply the needed jobs, and the goods which multitudes are waiting to buy.

There are numbers of small business enterprises which are badly in need of credit for expansion and development. Many of these find that despite their sound economic base they cannot compete with the larger enterprises in the money market. Rhodesia needs these small businesses as much as the larger ones, and the proposals in this paper will provide the means of resolving their difficulties.

Wages and Productivity

To safeguard the economy, we need to watch against certain dangers. The first is the payment of higher wages without corresponding productivity. The economy is geared to relatively high White wages and relatively low African wages in an artificial complex which must adjust to world conditions as quickly as possible. We cannot expect to compete effectively with industrialised countries on the basis of the present disparities, and industrial efficiency has to be raised. Though the economy has benefitted through cheap labour, workers are now reaping the rewards. These rewards follow as a result of investment which is assured of adequate profits and security. Raising wages prematurely may dampen development, but it is axiomatic that for social, economic, and political reasons, African wages need to be raised substantially above present levels. Rises, however, must be correlated wherever possible, with increased productivity. Though the raising of wages may cause unemployment, the increased circulation does stimulate the entire economy, and so in turn helps to improve the employment situation.

Fragmentation of Land

A further danger against which we must guard is the fragmentation of agricultural holdings. The pressure of the African population is clamorous, and land hunger is probably the greatest single cause of our political tensions. Though African holdings are capable of far greater production, there is right now a *practical* land hunger in most of the tribal areas, which cannot be alleviated without immediate and prodigious effort. There are, however, several Tribal Trust Land areas which have room to accommodate many more people, and efforts are needed to publicise these and encourage migration.

In an attempt to meet the problem of land hunger there may be the temptation to settle subsistence farmers on hitherto highly productive land. In Kenya, the European farmers produced more than half the country's exportable wealth, but peasant holdings now replace many productive farms. The new African Government in Kenya has now realised how unfortunate was this policy, and is trying to encourage Europeans to remain on the land. In Rhodesia, we have examples such as Wiltshire and Lancashire Estates — formerly productive in terms of marketed produce — going over to small-holdings, where the increased human population will largely consume what it produces, without a significant addition to national wealth.

It is desirable and possible to move our subsistence farmers into a cash economy, but this should not be done at the expense of land which is already productive. The small increases in production, multiplied by thousands of individuals in the tribal areas, however, could help to boost the entire national economy. Some way must also be found to fructify the large areas of partially used European-held land which is so galling to land-hungry Africans.

The Population Explosion.

Whatever practical steps are taken towards developing Rhodesia, there is one issue which looms over our future — the population problem. This is a world problem, which is worst in those newly developing countries with low standards of living. In Rhodesia we have time to act before the problem overtakes us. In countries having a high standard of living, population usually remains relatively stable; but to make the rapid transition to a universally high standard of living is the difficulty. It is pointless to produce more merely to have it absorbed by an increasing subsistence population.

Family planning should be vigorously pursued by every available means. For obvious reasons, Government cannot take a direct hand, but there are means of supporting and forwarding the movement. To those who understand the seriousness of the population problem there is no need to preach, but people in general appear unaware of the tremendous threat confronting the world. We should be concerned, not purely on the humanitarian grounds of preventing hunger (half the world's population today are permanently hungry), but because of the social, economic, and political pressures created. Unless population growth can be kept in balance with development, our best efforts in other directions may be stymied or nullified.

The Problems.

There are, of course, many other problems in the economy, but the activating of the peasant economy is an urgent one and requires our special attention. Stagnation in this important sector is due only in part to ignorance — we have an unexcelled extension service. Leaving aside resistance due to political factors, the rural African has amply demonstrated his willingness and ability to participate in constructive self-help endeavour. This is witnessed in the thriving co-operative societies, the increasing momentum of community and local government enterprise, and the 25 thousand master farmers and master farmer trainees throughout Rhodesia.

In the peasant economy, finance is the one overriding limitation in providing the fertilizers, lime, seed and implements, which are prerequisites to increased production. *Intensification of agricultural production* is imperative, not only for vital purpose of conservation, but to improve the cost/profit ratio. Peasants usually consume most of what they produce, and to enter the cash economy they must individually step up their production.

Assuming finance is made available, the remaining problems are of the methods of injecting finance, of security for loans, and of priorities. Chapter II of this paper will be devoted to sources of finance, and it will be shown that we do not require external loans in order to activate our economy.

Priorities.

Priority must be given to financing productive enterprise and development in both the primary and secondary sectors. Financing should be operated to stimulate self-help and efficiency and discourage subsistence. Second priority should be given to mechanical conservation works in the primary sector. (Increased production is of itself a conservation measure). Third priority, to communications and the secondary sector (some would place it second, but our survival is at stake, with the current devastation of resources in the tribal areas).

Security for loans in a peasant economy must necessarily be viewed from a new angle. In a developed economy, financial assistance is given on pragmatic considerations of security. This approach is obviously inappropriate in a subsistence economy. *Here assistance is dictated by the national, the community, and the individual interest — in that order.*

Despite difficulties regarding security, risk must be taken, in the interest of Rhodesia. The dangers of losing some of the funds through default must be measured against the national danger of inaction, and assessed in this context. There have been for the past five years, loan facilities available to African farmers, according to character assessments and other criteria, but there is need for much wider extension.

The need is for money in the hands of the people who are presently in the economic doldrums, to enable them to fructify their resources of land and labour. The method of issue is bound up with whatever security is available, and here the primary consideration is people — not orthodoxy.

The aim is to fertilise the productive capacity of the land and its people.

Co-operative Societies and Councils.

Co-operative Societies are probably the best vehicles for injecting finance into Tribal Trust Land, and African Purchase Areas. Such action would stimulate the formation of these valuable self-help enterprises, and would facilitate the administration of production loans. It has been found that default is rare where the people regard the lending institutions as their own. Though the co-operative movement is spreading rapidly, it still covers only a small sector of African farming, but the expansion possibilities are great.

Councils could also administer loan funds, and this would, in turn, stimulate the formation of more Local Government Authorities (which is in accord with Government's policy).

Master Farmers and Plotholders (of whom there are about 25,000), as well as other African farmers are being given small and large loans on their personal recognisances. There is scope for wider extension of these facilities. Assuming there are 50,000 people who could be trusted with £20 loans for fertiliser, lime and seed, this alone would increase the volume of circulating money by £1 million, and give a great boost to production and consumption. The "multiplier effect" would

translate this into about £4 million through circulation, in a sector of the economy which could show the most dramatic returns, and which would go a long way toward compensating for any "sales resistance" in the local market.

Public Works.

Direct injections of purchasing power in normal times could also be arranged through employment of labour on public works. Unemployment is always a heavy drag on any economy. There are large numbers of primary development projects awaiting funds for their initiation. In the Sabi-Limpopo Development Area alone, the opportunities are almost unlimited; but financial orthodoxy stands in the way. *In addition, there are elsewhere in Rhodesia innumerable small-scale irrigation projects, roads, conservation works,* (bush clearing, contouring, road drainage etc.), *fencing* (in Tribal Trust Lands, where land is communally held, this could be done as an enterprise for the national good), *and other public works,* which provide Government with unparalleled opportunity for constructive endeavour.

Development Bonds.

A further possibility, based on the successful Gosaba experiment by Sir Daniel Hamilton in India (1903), would be the use (at first in a pilot scheme), of "development bonds" in the Tribal and Purchase Areas. Such bonds or notes could be issued by Local Government Authorities or Co-operative Societies, against "reserves" comprising Government block loans. Partly on the security of these institutions, bonds could be issued, possibly in the ratio of two pounds for every Rhodesian pound, thus doubling the liquid funds available for issue, without saddling these with interest. Government help would be conditional on good administration.

Development bonds, or better still "Community Development Notes", (to overcome the ignorant resistance to community development) could be issued for the purchase of essentially productive materials such as fertiliser and seed. They could be redeemed from the crops subsequently marketed. It would be a paper transaction (which is what all cheque transactions, in fact, are) but its effects, multiplied by thousands of individuals, would be considerable. It may also be possible to make advances on security provided by cattle.

Efforts should also be made, despite difficulties regarding tenure and management, to encourage communal farming in the tribal areas, and tenant farming elsewhere. Communal farming would stimulate community enterprise, permit more fruitful aggregations of labour and equipment, and strengthen self-help. Tenant farming in the European farming areas would allow fuller use of land which may not now be contributing adquately to the national economy. It may be found possible to allow Africans to participate in these areas.

Village Industries.

There is urgent need for the establishment of village industries (with the necessary training centres); *for trade schools* (to absorb students not entering academic streams); *homecraft centres*; *civics instruction centres*, and so on.

The opportunities available to Government are tremendous. Private enterprise, both financial and industrial, can help, and is helping, but the financial measures proposed in the next chapter will remedy the imbalance in the economy, fructify the abundant resources and would go far towards meeting this country's major problems.

Apart from removing the blight of unemployment, there could be increased economic activity in every direction, and this would redound to the national coffers. These activities would help to convert the multitudes of unskilled, untutored, unemployed (who are now rapidly generating an insoluble politico-economic problem) into a productive populace with a constructive purpose before it.

Political Resistances.

Though political factors have caused sluggishness in our economic development, so long as we continue to give all our people regardless of race, opportunity to progress according to merit and ability, we can afford to take the long view to prosperity. The drag of political resistances and endemic poverty are restrictive factors which we will have to take in our stride.

The franchise is open to everyone on equal terms. There is no racial bar to Africans earning ascendancy in the Legislature. The principle of equal pay for equal work is accepted (but implementation takes time). Though there are still certain disabilities, these have been falling away over the years. In African education we have a record no country to the North in Africa, can approach, and likewise in the health, agricultural and administrative services. There are boundless opportunities for everyone capable of grasping them.

CHAPTER II

FINANCE FOR DEVELOPMENT

Having discussed the methods by which money may be injected into Rhodesia's economy, it is now necessary to see how we can find the necessary money. But first let us ask: What is money? Money is anything that can be exchanged for goods and services — whether it be metal, or cockle shells, or bits of paper.

The Value of Money.

The criterion of money's value is its acceptability for exchange of goods and services. Gold, on a desert isle, would be of no real value without goods. *Money of itself is not a commodity, neither is it wealth. But it is token for a wealth. Its value is determined by the goods and services for which it may be exchanged.* By regarding money as itself a commodity, which is monopolised by private institutions (banks) trying to maintain its scarcity value, we have created our money problems. It is acknowledged here, that the banks have played a vital part in developing the free enterprise system, but it is clear that they cannot cope with the galloping productive capacity of modern civilisation, with the distribution of the purchasing power required to permit its consumption, and are unable to maintain the essential balance between money and goods — i.e. stable price level.

Because wages, salaries and dividends, by means of which purchasing power is distributed, are always less than prices, there remains a "gap" which is the source of the chronic shortage of purchasing power, and economic stagnation. Costs are always less than prices. Of the purchasing power distributed through wages and dividends, a proportion is used for investment. This further reduces the amount of money available for consuming the products of industry. This situation is "corrected" by insolvencies, capital reductions, exports, stockpiling, and war — which latter is the main periodic safety valve that makes it possible to continue this antiquated system geared to scarcity economics. We now live in the automated age of abundance. This dramatic change has suddenly come upon us and scarcity economics is totally incompetent to cope with it.

This paper in no way advocates the creation of money or credit beyond the capacity of the economy to absorb it without inflation. Many orthodox-minded people, however, are obtuse in holding to a hit-or-miss system that produces the trade cycle, unemployment and stagnating resources in the midst of riches; and chronic "shortage of money".

So long as we hold to the inviolable principle of a proper balance between money, on the one hand, and goods and services, on the other, we are on solid ground. Only thus can a stable price level be maintained, and the optimum climate provided for growth and stability. There is, under the present

system, no reliable means of maintaining such a balance. There is no authoritative body charged with this duty, and no pragmatic mechanism to achieve it. The supply of the country's lifeblood, (money) is left to what at best can be called empiricism. Our money supply is left largely to chance with crude devices such as juggling the bank rate, credit squeezes and changing the amount of bank cash on which credit expansion is allowed.

This is "playing ducks and drakes" with the lifeblood of civilisation. We cannot go muddling on with blind adherence to orthodoxy. Those who would oppose what follows, ipso facto oppose having a stable balance between the supply of money and the wealth-on-sale. They oppose sanity and progress and are prepared to sacrifice suffering humanity on the altar of "sound finance". They have been taught to fear changing the system as sacrilege.

Gold.

Money is the catalyst of production, and is comprised of convenient tokens of exchange designed to circumvent the cumbersome process of barter. Many people still believe that money is somehow tied up with gold. It is true that under the "Gold Standard", the amount of money bore a relationship to gold, but this was an arbitrary construction. The supply of gold bears no *essential* relationship to the goods and services a country needs. The value of gold, furthermore, is liable to fluctuate, and a fluctuating standard is a contradiction in terms. Where there may be a "surplus" of gold, a proportion may be "sterilised" for monetary purposes, thus indicating that the criteria followed are arbitrary and academic. Gold is still used in international trade, but its supply and movements again bear no logical relationship to the real needs of the world's people. Gold-producing countries are fortunate, non-producers are unfortunate, regardless of actual trade needs. To claim that the quantity or value of a metal dug out of deep holes and buried again in other holes should govern the amount of trade and industry, and the lives of millions, is anachronistic idolatry. Would real wealth, production, and consumption stop if all the world's gold were destroyed? There is not and never will be enough gold to finance international trade. At present it can finance only 10% of this trade.

As far as our international commitments under the I.M.F. or other agreements are concerned, the only way we have of meeting our obligations is by the export of goods or gold. If our creditors do not accept our offers then they, and not we, thereby repudiate the debts.

Movements of gold from gold standard countries were liable to cause disastrous credit squeezes or slumps, because each pound's worth of gold supported a considerable issue of money (credit) which had to be withdrawn, regardless of the consequences to the economy, the people, and the country.

The Gold Standard

What did Sir Winston Churchill say about it ?

> "When I was moved by many arguments and forces in 1925 to return to the gold standard I was assured by the highest experts— and our experts are men of great ability and of indisputable integrity and sincerity — that we were anchoring ourselves to reality and stability; and I accepted their advice. But what has happened? We have had no reality, no stability. The price of gold has risen since then by more than 70 per cent. That is as if a 12-inch foot rule had suddenly been stretched to 19 or 20 inches, as if the pound avoirdupois had suddenly become 23 or 24 ounces instead of — how much is it? — 16. Look what at this has meant to everybody who has been compelled to execute their contracts upon this irrationally enhanced scale. Look at the gross unfairness of such distortion to all producers of new wealth, and to all that labour and science and enterprise can give us. Look at the enormously increased volume of commodities which have to be created in order to pay off the same mortgage debt or loan. Minor fluctuations might well be ignored, but I say quite seriously that this monetary convulsion has now reached a pitch where I am persuaded that the producers of new wealth will not tolerate indefinitely so hideous an oppression.
>
> Are we really going to accept the position that the whole future development of science, our organisation, our increasing co-operation and the fruitful era of peace and goodwill

among men and nations; are all these developments to be arbitrarily barred by the price of gold? Is the progress of the human race in this age of almost terrifying expansion to be arbitrarily barred and regulated by fortuitous discoveries of gold mines here and there or by the extent to which we can persuade the existing cornerers and hoarders of gold to put their hoards again into the common stock? Are we to be told that human civilization and society would have been impossible if gold had not happened to be an element in the composition of the globe?

These are absurdities; but they are becoming dangers and deadly absurdities. They have only to be asserted long enough, they have only to be left ungrappled with long enough, to endanger that capitalist and credit system upon which the liberties and enjoyments and prosperity, in my belief, of the vast masses depend. I therefore point to this evil and to the search for the methods of remedying it as the first, the second and the third of all the problems which should command and rivet our thoughts." Hansard, Vol. 264 21.4.1932.

A director of the Bank of England, Vincent Vickers, resigned in order to campaign against this iniquitous monetary system. He said: "The purchasing power of money and consequently the value of goods, can be, and has been, varied intentionally and deliberately not by the will or action of the State, but by those individuals who themselves manage and control the money. We returned to the Gold Standard in 1925 for the benefit of the City of London, and so ruined our basic industries. A monetary system which begets such flagrant injustice cannot be regarded as an equitable system. Yet no one in authority dares to attempt to alter it because the financiers don't want it altered."

The Commodity Standard.

We need a commodity standard — the purchasing power to be in balance with the wealth-on-sale, and with the needs of the people to produce that wealth, to house, feed, and clothe themselves, and to live as full a life as their mental and material resources are able to produce. This is an inviolable principle of sound finance. Money should be the enabler of production and consumption, permitting these to maintain a balanced relationship, and itself maintaining stable value in terms of goods and services.

Whatever is physically possible can be made financially possible. What we need is money tokens circulating to enable our production/consumption cycle to operate smoothly, enough money to develop our resources, to provide communications, the marketing facilities, and *to consume what the people need to consume. It is as pointless to produce goods that people cannot buy, as to produce money without the wealth-on-sale to back it. Inflation and deflation would be impossible so long as this balance between money and goods were maintained.*

Abundant Resources.

The position in Rhodesia today is that we have superabundant natural and human resources, people clamouring for work, for houses, food, clothing etc., yet the economy is sluggish because we are short of certain tokens! We are told that if only people overseas would lend us the tokens we would be all right. The most tragic anomaly of the existing economic system is that side by side with great resources and productive capacity people are prevented from remedying the situation, through enforced idleness or unemployment, because there is "no money"!

External Loans.

The only need we have for external loans is to import goods we do not produce locally, and to clear balances due to freight, insurance, tourism etc. We do not need overseas loans to build houses, or roads, or dams because we have here almost all the necessary human, material and technical resources, which are stagnating. We do not need to import anything to build houses, and for roads the only external component is tar representing 20%, which we shall shortly produce. We would need external loans to purchase machinery and equipment but we do not need to stop urgently needed development of our resources.

The public needs to understand what happens when an external loan is "made available" to Rhodesia. Suppose Britain "agreed" to a £5 million loan to Rhodesia. Britain does not make Rhodesian currency, and there is no question of shipping the money out. What happens is that British investors subscribe to the loan, and Rhodesia is then allowed to draw on this to pay for goods and services. Inasmuch as this assists British exports there is no altruism or generosity involved.

Rhodesia would have to repay this loan, and service it, by exporting her own goods. Bearing in mind that a loan at 5% doubles itself in nearly 15 years, Rhodesia would pay £10 million in that period. It is not therefore germane to ask why we in Rhodesia should not generate as much of our own finance as possible and save exporting our goods to service loans which may not be necessary? External loans should be applied only to the importation of goods and services which are not available in Rhodesia. We should examine our imports to see whether we can produce more of our requirements locally. In a young developing country a measure of import control is necessary, to use our resources to the best advantage.

We have sufficient export trade, both actual and potential, to provide what we need to import in order to activate our economy. *We do not need to wait for people in London or New York to decide whether to write figures in their ledgers giving us permission to go ahead in Rhodesia.* This is not to decry all external loans but merely to point out that we hold our destiny largely in our own hands.

Creating Money.

As far as our local money is concerned, this is supplied mainly by private institutions, through the virtually costless process of writing figures in their ledgers. Notes and coin, commonly called currency, are issued by the State, but these comprise only a minute proportion of the money we use. Well over 90% of our money is in the form of credit — cheque money, bills of exchange — which is created out of nothing.

J. M. Keynes said "There can be no doubt that all deposits are created by the banks".

Marriner Eccles, president of the Federal Reserve Bank of the U.S.A. said: "Banks create and destroy money. Bank credit is money." Sir Edward Holden, Chairman of the Midlands Bank said: "Banking credit is created when Government loans are taken up by the banks on their own account or when banks make advances to their customers to enable them to subscribe to such loans."

Sir Reginald McKenna, a prominent banker, said: "They who control the credit of the nation direct the policy of Governments, and hold in the hollow of their hands the destiny of the people".

Is there any substantial reason for the continuance of this Gilbertian situation whereby millions of people are sacrificed on the altar of "sound finance"? *The state should exercise its sovereign right to control the country's lifeblood.* We need a managed currency — and to those to whom these words are anathema, it is necessary to point out that there are both good and bad management systems, and the choice is ours.

Orthodox Finance

The present system of management is totally unrelated to the real needs of the people and of the country's economy.

At present, virtually the only control exercised is through "credit squeezes", or juggling of the bank rate. Credit may be arbitrarily issued according to the "creditworthiness" of borrowers. The "credit squeeze" of a few years ago initiated a trend in Rhodesia which has caused the country untold harm politically as well as economically.

Orthodoxy's remedy for "overproduction" is to cut the money supply, thus actually adding to the problem, which is really one of under consumption. Goods may then be stockpiled, dumped, burnt, or otherwise destroyed since people are denied the tokens necessary to consume the products. Orthodox deflationary techniques check enterprise indiscriminately.

Automation.

With the accelerating advance of automation, which in America is sterilising a net 40,000 job weekly, the chronic shortage of purchasing power is becoming tragically ludicrous. *Machines are*

not paid wages, they do not eat, they do not clothe themselves, nor consume the finished products of industry. People do. Yet people are precluded from consuming because machines deny them the opportunity of earning the necessary tokens, and work would only increase the vast amount of goods piling up. Yet nobody really wonders how through the present system the needed purchasing power is to be distributed to prevent the whole system from seizing up! The present system leaves the supply of money in the control of private institutions which have no machinery for ensuring the distribution of purchasing power formerly attained through wages and salaries (albeit inefficiently).

This is not in any way a condemnation of automation, and the glorification of work for work sake — far from it. Automation is another of the blessings which orthodoxy turns into curses. *Let the enormous creative potential of Western Civilisation come to flower, and bless instead of curse mankind. It can bless us only if some mechanism is devised to ensure that purchasing power is placed in the hands of the people who are to consume the goods.*

The theory behind Major Douglas' Social Credit system was that to restore the increasing imbalance between purchasing power in the hands of the people, and the goods to be consumed, a national dividend should be paid out periodically as a state bonus. This paper does not advocate Social Credit as a system, but it seems obvious that this one of its precepts is desperately needed to restore sanity in an increasingly mechanised world, with rising population, less employment, and vast production of goods. Despite the enormous quantity of goods piling up on the markets in technologically advanced countries we cannot really talk of "overproduction", since there are millions in desperate need even in those countries. When the last Chinese Coolie drives away in his new Rolls Royce, we will be nearing "overproduction"!

It is acknowledged that increased leisure due to automation, with the present state of mankind's intellectual development, raises great social problems. But people must be educated, now, to use leisure constructively. The educational system needs to be overhauled, to restore cultural studies and guide mankind's cultural development.

Grass Roots Finance.

In this 20th Century we need to introduce "grass roots" thinking to get a perspective on our complex problems, and then turn them into opportunities. We have resources — human, mineral, industrial; we have ample land, and vast irrigation potential, we have people with the necessary skills; we have people willing to consume as well as produce riches. We *need* a vast amount of housing, better clothes and food, better schools and more of them; we need great quantities of consumption goods. *We have here in Rhodesia all that we need to burgeon forth into "a land flowing with milk and honey" for all its inhabitants.* But a shortage of certain tokens holds us back.

Statutory Monetary Authority.

Our immediate necessity is to set up a Statutory Monetary Authority (as immune to pressure as our Judges); to create, issue, and control the money we need to achieve our legitimate goals. New issues for the State's use would be spent into existence interest-free: Lending by private individuals and institutions would continue; and, of course, such funds would represent actual savings, and interest would be legitimately levied. (The system outlined here was first proposed many years ago by the Chairman of the London Chamber of Commerce, in the booklet, "A Twentieth Century Economic System" published by the Economic Research Council, London.)

The Statutory Authority would control the supply of money according to movements in the price-index figure. (The price-index being a weighted average of selected prices making up the cost-of-living). A rise in the price-index above its datum of "100", would indicate a surplus of money in relation to goods (notwithstanding the influence of "cost-push" inflation, whereby monopolistic interests push up prices regardless of production costs).

Controlling the Money Supply.

Money could be withdrawn from circulation by increasing taxation, (which could be selective where there is imbalance in certain sectors, or on a sliding scale correlated to price level movements); by increasing the bank-rate; by selective credit restriction; or by sale of securities.

A falling price-index figure, indicating a shortage of purchasing power (money) in relation to goods, could be corrected by lowering the bank-rate; by purchase of securities; by lowering taxation (selective, or on a sliding scale as above); by creation of money for public works; by increasing pensions, bonuses, fostering the arts, aiding charitable bodies, housing etc. The opportunities here are limitless, and Government would be enabled to serve the country's best interests.

Inflation and deflation could not occur under such a system. Wealth-on-sale and purchasing power would remain in balance with a stable price level guaranteed by the Statutory Monetary Authority. The psychological factors causing booms and slumps would be nullified. Business fears and greed would be lessened and Christian principles allowed to operate because the need for sharp business practices would be largely removed.

Inflation is caused by various factors such as excessive creation of credit (lending institutions are allowed great latitude), by "cost-push" processes, by full employment (which creates competition for labour and skills). Rising prices lead traders to hold back, in expectation of still higher prices. This leads in turn to further rises. Falling prices lead traders and manufacturers to cut losses and offload more goods, leading to still greater falls, and "gluts". People are laid off work, thus making the position worse through reduction of wages in circulation.

With a stable price level guaranteed, these evil psychological reactions would be nullified. At any fall in prices, sales would be discouraged, in anticipation of return to normality. A rise in prices for any reason would not encourage speculation, because of the knowledge that the monetary authority would soon restore the balance.

The Central bank has the power to fulfil our needs today and we could also use the Land Bank, as a development bank to finance Government projects. Many of these could be made self-amortising. For example housing loans could be extinguished through interest, rent and capital repayments. Profits of issue would accrue to the Government. The commercial banking system could continue to take care of the private lending sector. It would be necessary, however, to guard against sabotage of the system by vested interests. This could be achieved by controlling "bank cash"; and the free creation of credit by banking institutions must be ended forthwith. Commercial banks could be compensated with the stamp duty on cheques, and by being allowed credit by the State, which they could relend at higher rates of interest.

The National Debt.

National debts all over the world are increasing at a phenomenal rate, and place a tremendous burden on society. Britain's debt in 1914 stood at £650 million. In 1919 it was £7,435m. By 1938 interest and redemption amounting to £5,679m. were paid, yet the debt had risen to £8,026m., and today stands it at over £30,000m.! In the U.S.A. the debt is over three hundred thousand million dollars. Imagine the enormous annual burden of interest; and despite strenuous efforts, the debts continue to mount astronomically. Where does it end? Is it not obvious that there is something tragically wrong with the system?

The national debt, comprising as it does a significant proportion of money "created out of nothing", could be legitimately cut back to the *level denoting loans from genuine savings*. National debts are usually owed to corporations, pension and insurance funds, foreign investors, private individuals and banks. Insofar as such debts may represent funds, the use of which lenders have foregone, they are legitimate.

Mr. Marriner Eccles, Chairman of the Board of Governors of the United States Federal Reserve Board said: "In purchasing offerings of Government bonds, the banking system as a whole creates new money.... They debit their Government bond account, or they actually create, by a book-keeping entry, the necessary money." The point here is that private institutions levy interest-bearing debts against society. This is morally indefensible, and the State should take to itself its sovereign right to create and spend money into existence, interest free. *Bank-created national debt should be cancelled.*

President Woodrow Wilson said, speaking of America: "The great monopoly of this country is the monopoly of big credits. A nation is controlled by its system of credit. The growth of a nation,

therefore, and all our activities are in the hands of a few men who chill and check and destroy economic freedom.

Mr. MacKenzie King, Canada's long serving Prime Minister, said: "Until the control and issue of money and credit is restored to the Government and recognised as its most conspicuous and sacred responsibility, all talk of the sovereignty of Parliament and of democracy is idle and futile."

New System Imperative

Finance capitalism and industrial capitalism are diametrically opposed. The present system hampers enterprise, clogs both production and consumption and saddles humanity with unpayable debt. We live in an age of wonderful opportunity, of virtually limitless potential. When we have cleared away abstractions and obstructive orthodoxy, we will be able to build a new system, and realise our hopes. That there will be difficulties, is obvious, but the present system is so patently archaic and inept that it endangers the whole system of private enterprise.

Through its chronic shortages of purchasing power, leading to high pressure sales techniques and "consumerism", the system encourages self-indulgence and moral decline. The materialistic scramble to sell and to consume leads to planned obsolescence of even expensive items like cars; lowering quality and prices to enforce new sales; the tyranny of fashion; hedonism; shady business practices; the invasion of physical and mental privacy in the mad selling scramble; the terrifying waste of resources by industry bent on making the public consume more and more, quicker and quicker; the vast expenditure on advertising in order to move goods; extensive hire-purchase, which inveigles the public into debt by using future purchasing power to finance present consumption, (in Britain the average debt is £65 per family; saturation is now being reached in many countries); the production of luxuries before necessities in order to mulct those still having surplus purchasing power.

The shortage of purchasing power in the hands of consumers, in relation to the wealth-on-sale and the real needs of people, is a cancerous malaise in our body economic. Henry Ford said, "The present money system has got us twisted into producing things to buy dollars with, when we need a system that will produce dollars to buy goods with. The present system is entirely out-of-date".

We simply cannot afford to muddle on. We must act.

Note: Readers are reminded that this paper was written a year before Independence, and that the special circumstances, following this event call for some temporary adaptation, to avoid inflation.

CHAPTER 3

A NEW LOOK AT FOREIGN TRADE

One of the world's intractable problems is that of international trade, with its tariff barriers, balance of payments difficulties, and tension-generating potential. Industrial nations try their utmost to export their surplus goods whilst at the same time resisting importation from others. Exporting countries manage to reduce their unemployment thereby, and so, in fact, are exporting their unemployment. When goods pile up, they may be burnt, stockpiled, thrown in the sea, or "dumped" in foreign ports, but the drive goes on because this is one method orthodoxy knows by which to distribute purchasing power through wages.

If any country manages to export more wealth than its imports, it calls this a "favourable balance". This paradoxical terminology could only be due to lack of understanding of economic fundamentals. Exporting countries resist reciprocal imports, because they compete with local products, and so they force their creditors into unpayable debt. The main method by which debtors can pay is by

exporting their own goods in return, or by gold (which in turn has to be obtained through exporting goods, unless the country produces gold).

Exports to Balance Imports

Other countries' exports to pay for imports, are not welcomed by the receiving country because they compete with the importing country's own products and cause unemployment. In the final analysis, however, it must eventually be accepted, that international trade can be conducted only on the basis of an *equal exchange of the goods and services of one country for those of another.*

Gold still does perforce enter the picture, but in time, it will be seen as an anachronism. Foreign loans floated to pay for imports likewise will be seen as dodging the real issue. These loans are subscribed to by the people of the exporting country, and the exports themselves are virtually given away. The day of reckoning is at hand, with the mounting balance of payments problems in the world. Foreign *credits* are required to facilitate trade transactions.

There is no real generosity on the part of countries making foreign loans, since these only give the borrowing country a claim on the lenders exports and involve no movement of actual money, as may be commonly believed. In order to repay a £10 million British loan, for example, we should have to export goods or gold to the equivalent value of the loan plus interest. Usually, however, owing to the resistance to competing imports, further loans are floated, and international debts continue to mount up. All the talk of increasing foreign trade by tariff reductions, foreign loans, and other devices to increase liquidity is balking the real issue and delaying the final solution to this great problem. Whatever additional liquidity is needed may have to be created to meet the actual needs of trade, and discharged by the flow of that trade.

New System of Trade

To do away with the anxiety, mistrust, and the international tensions generated by foreign trade problems, we must eventually move to a rational system based on an equal exchange of goods and services, allowing for three-cornered trade. Such a system is outlined in "A Twentieth Century Economic System", (previously mentioned).

Under this system, international trade would be conducted by Bills of Exchange, rediscounted through ordinary bank channels, with National Central Banks. For example, let us suppose a Canadian exporter sells goods to a Rhodesian importer to the value of 1,000 dollars. The Canadian exporter would receive his 1,000 dollars less the discount rate, through his bank, which would re-discount the bill with the Central Bank in Canada. The Rhodesian importer would pay the equivalent in Rhodesian currency to his bank, which would re-discount this with the bank of Rhodesia, to be held as a blocked credit for Canada. Canada would then have the choice of exercising this claim on Rhodesian goods, or of making a present of her exports. Exporters would be paid locally in their own currencies. *In the final analysis there can be no other means of resolving international debts, since we do not make one anothers currencies.*

There can be no other way by which we can discharge debts due to physical trade and the invisible items such as freight, insurance, travellers' spendings, remittances. Foreign loans are a temporary lubricant, but exports of goods and services, tourism, capital transfers, must in general balance out internationally.

A Statute of Limitations should cancel unutilised credits after an internationally agreed period. Dumping of goods would react against the exporters, because they could expect payment only through goods in return, at rates corresponding with those of the dumped goods; and then only at the importing country's pleasure. A Central Banker's Clearing House would facilitate three-cornered trade.

Tariffs, and Currency Speculation

Tariff reforms would naturally follow, because countries would realise that tariff walls would only react against themselves, by hampering payments for their exports. Internal currency manipulation would likewise react against the countries practising it. Exchange rates would need to be kept fairly flexible to accommodate changes within the participating countries.

Introducing the New System

This new system would not require world acceptance before being put into practice. Any trading area could decide to introduce it, and doubtless others would follow in due course.

The world has an enormous production potential, presently stifled by the economic system. It has an unlimited consumption potential, and a rational economic and financial system should be geared to facilitate rather than hinder the production-consumption cycle. The wheels of industry, commerce, and international trade need to be oiled with common sense, humanistic economics; and with the racing productive capacity of automation, a new look is imperative.

One World

The oneness of the world is daily becoming more apparent. The interdependence of nations and peoples calls for a reappraisal of economic fundamentals. Enormous surpluses of consumer goods are piling up in some technologically advanced countries, whilst grinding poverty continues to torment more than half the people on earth from the cradle to the grave. Though "sound finance" is not alone responsible for this situation, it could be alleviated far more effectively without its inherent limitations.

Objections will doubtless be raised to these proposals, and abstruse arguments used to conceal the rottenness of "sound finance". But the principles enunciated are inviolable. They should be the foundation for a modern financial system, and our every effort should be directed towards designing a system which will uphold the principles, and bring in the golden age which is within our grasp.

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GOLD - BASED CURRENCY?

By Richard C Haw, B.A. Hons, B.A. F.R.G.S. Former Rhodesian member of the Economic Research Council London, and author of several books: Now resident in Natal.

Few would dispute the fact that monetary discipline is needed to restore order and balance to the economy. There is a growing call for gold to play a part in this discipline. It may be sacrilegious for a South African to cast doubt on a monetary role for gold, but we cannot ignore the historical fact that the gold-standard era was not one of economic stability, but of traumatic fluctuation. A former director of the Bank of England and prominent industrialist, Vincent Vickers, resigned in protest against the gold standard. He said, " We returned to the gold standard in 1925 for the benefit of the City of London, and so ruined our basic industries. A monetary system which begets such flagrant injustice cannot be regarded as an equitable system. Yet no one in authority dares to attempt to alter it because the financiers do not want it altered."

Though a gold basis would be less rigid and restrictive than a gold standard, the fact remains that neither bears any necessary relationship to the actual financial needs of industry and commerce. The value of the metal itself is subject to violent fluctuations as a result of psychological factors quite unrelated to those needs, and a fluctuating standard is a contradiction in terms.

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

Winston Churchill said it was a deadly absurdity, in his statement to Parliament when Chancellor of the Exchequer. He said "When I was moved by many arguments and forces in 1925 to return to the gold standard I was assured by the highest experts- and our experts are men of great ability and of indisputable integrity and sincerity- that we were anchoring ourselves to reality and stability: I accepted their advice. But what has happened? We have had no reality, no stability. The price of gold has risen since then by more than 70 per cent. That is as if a 12-inch foot rule had suddenly been stretched to 19 or 20 inches, as if the pound avoirdupois had suddenly become 23 or 24 ounces instead of-how much is it? 16. Look at what this has meant to everybody who has been compelled to execute their contracts upon this irrationally enhanced scale. Look at the gross unfairness of such distortion to all producers of new wealth, and to all that labour and science and enterprise can give us. Look at the enormously increased volume of commodities which have to be created in order to pay off the same mortgage debt or loan. Minor flactuations might well be ignored, but I say quite seriously that this monetary convulsion has now reached a pitch where I am persuaded that the producers of new wealth will not tolerate indefinitely so hideous an oppression."

Mr. Churchill continued:" Are we really going to accept the position that the whole future development of science, our organisation, our increasing co-operation and the fruitful era of peace and goodwill among men and nations; are all these developments to be arbitrarily barred by the price of gold? Is the progress of the human race in this age of almost terrifying expansion to be arbitrarily barred and regulated by the fortuitous discoveries of gold mines here and there or by the extent to which we can persuade the existing cornerers and hoarders of gold to put their hoards again into the common stock? Are we to be told that human civilisation and society would have been impossible if gold had not happened to be an element in the composition of the globe? These are absurdities;

But they are becoming dangers and deadly absurdities. They have only to be asserted long enough, they have only to be left ungrappled with long enough, to endanger that capitalist and credit system upon which the liberties and enjoyments and prosperity, in my belief, of the masses depend." (Hansard Vol. 264,21.4. 1932)

Powerful words, our liberty depends on the survival of the free enterprise system. The productive potential of this system, (of which we boast) has almost been destroyed by creeping socialism and the growth of bureaucracy. We are hamstrung by red tape and countless regulations which restrict and frustrate entrepreneural responses to market forces. The enormous bureaucracy of control boards and similar institutions not only hamper the economy but sterlise a high proportion of the country's manpower in non- productive work. Taxpayers are burdened with the costs. The control boards have virtually strangled the free market to death in the primary sector, and have caused abnormal escalation of prices. The system started in an era when the population was small and there were genuine surpluses of agricultural produce. This situation no longer applies, and it is time the free market were re-established.

To stabilise the economy we need a statutory monetary authority to regulate the money supply scientifically. It should be charged with the duty of maintaining a stable price level, using as a gauge a weighted average of all the prices making up the cost of living. Rising prices, indicating a surplus of money in circulation, would call for withdrawal by increasing taxation, controlling or stopping deficit financing by Goverment,and other measures. The sales tax would be an ideal instrument because it is readily adjustable. Falling prices (anybody remember them?) would call for injecting money through public works, increased pensions and subsidies, reduced taxation, and so on.

The trade cycle, largely based on psychological factors, would be levelled out if the public <u>knew</u> that positive action would be/

taken by the Statutory Authority to keep the money supply in balance with the wealth-on-sale (goods & services). We would have a true commodity standard, related to the actual needs of the economy. Gold is not a commodity in that sense.

The statutory Authority would have the means of bringing the following inflationary factors under control:-

a) Deficit financing by Goverment. This could then take place only within the parameters established by the Statutory Authority, and used as an instrument for reducing or increasing the money supply.

b) Creation of new money by the banking system. Few people realise that the banks can create money (credit) by the costless process of writing figures in their ledgers, as many authorities have stated. Sir Edward Holden, former chairman of the Midland Bank, said:- "Banking credit is created when goverment loans are taken up by the banks-". Therefore, to enable these loans to mop up surplus money, the banks should be precluded by law from subscribing on their own account.

c) Repatriation of foreign exchange earnings (including gold sales) would be at the discretion of the Statutory Authority in the exercise of its functions. The Law that presently enforces repatriation should be amended to allow these earnings to remain invested overseas at the Authority's discretion.

81-13593

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August 21, 1981

INFLATION-WATCH®

The Hon. Donald T. Regan, Chairman
United States Gold Commission
Department of the Treasury
15th Street & Pennsylvania Ave.
Washington, D.C. 20220

Dear Mr. Chairman:

The name of your Commission is a misnomer. It rightfully might be known as The United States Federal Reserve Note Commission or The National Monetary Commission of 1981.

The problem facing 230 million domestic consumers daily is not gold or silver per se but the Federal Reserve note which has been grossly redundant since fiscal 1963 resulting in our domestic price-inflation: wholesale, retail and monetary as reflected in today's high interest rates. The task to which the Commission is addressed is that of how to best assess the mode of disciplining our legal tender paper dollar as expeditiously as possible with gold and silver bullion playing their centuries-old roles.

Led by an academic/political Keynesian axis, domestic money managers, and their fellow-traveling so-called monetarists, who wish to destroy our Fed note's purchasing power at the slow rate of 3 percent annum, have finally wrecked the money management system in place since 1933. It is bankrupt and the nation's credit is in gross disarray. Its hallmark is the lamentable state of the Union's currency. They have accomplished this by spreading the 'economic growth' virus, known as indexing, which is now endemic to our body politic.

So-called monetarists do not seem to realize that, using 1940 circulating Fed notes as base and compounding annually at their much-cherished rate of 3 percent, we have enough notes in circulation to last us until about 2050 A.D. Also, circulating Fed notes have risen over 2700 percent during the same period vs the population's 74 percent increase.

Sec. 16 of the Federal Reserve Act of 1913, as amended, authorized the issuance of non-interest bearing legal tender notes and mandated that those notes be redeemable in lawful money. Lawful money as defined in Sec. 5186 of the Revised Statutes of the United States states that '"Lawful money" and "lawful money of the United States" shall be construed to mean gold and silver coin of the United States..."' Fed notes have not been exchangeable for lawful money since March 1964 excepting at a discount. Our

fractional silver pieces dated 1964 and before contain, since 1853, 6.9 percent less silver than their unit, the standard silver dollar, and are thus known as subsidiary silver leaving the only "silver coin of the United States" our standard silver dollar of 371¼ grains of pure silver as adopted in 1792, whose integrity has never been violated.

Our silver coinage is known as the little man's currency and the standard silver dollar is recognized as our Constitutional money which automatically reverted to its time-honored role by becoming our de facto domestic unit of value in 1934. It does not have to be coined or circulating in daily trade to be our unit of value. Since the turn of the century, as our domestic unit of value, the gold dollar has been devalued once and as the world's international gold dollar since 1946, we have twice devalued it neither of which was necessary as they resulted in a 20 percent price inflation during 1972-73.

Our domestic gold coins were confiscated by the Gold Reserve Act of 1934 and the Federal Reserve banks were issued a new type of gold certificate, under Sec. 2(a) in denominations of $10,000 and $100,000 which are "legal tender in the amount thereof in payment of all debts and dues, public and private" and are "payable to bearer on demand as authorized by law." Under Sec. 2 of Public Law 93-373, which became operational Dec. 31, 1974, any person may own gold in the United States. The twelve district Federal Reserve banks are national corporations, or corporate persons, so that the gold in the custody of the Department of the Treasury may now be returned, on demand, to its legal owners: the holders of the 1934 gold certificates.

Prior to August 15, 1971, Fed's notes were an indirect and contingent liability of the United States government. With the removal of gold backing for our international gold dollar, we witnessed repudiation on an international scale by our money managers. The character of the Fed note changed dramatically with that action and it became the direct responsibility of our government and a part of our national debt even though non-interest bearing. It is the flagrant and wanton abuse of these notes in financing a portion of our annual Federal deficits which is anticipated by consumers and is known as inflationary expectations.

Today's Federal Reserve note is an outlaw currency and constitutes the greatest monetary fraud perpetrated on the American people since the beginning of our Constitutional government in 1789.

Determining just where we are monetarily, how we got there and drawing on the knowledge and experience of others in this country who have been through the harsh mill of an immutable monetary law, which end product is just as sure as the movements of the sun, moon, stars and tides, is the purpose of the enclosed exhibits, charts and supporting data. For example, applying the 2700 percent increase in circulating Fed notes to a 1% interest rate prior to War II, we

obtain a 28% interest rate which is exactly where today's T-Bills are headed.

A letter (Exhibit A) from President John F. Kennedy to Secretary of the Treasury Douglas Dillon recommended the destruction of one of the world's finest coin and currency systems by the simple process of placing Federal Reserve's $1 and $2 notes in direct competition with our standard silver dollar, its representative silver certificates and its subsidiary fractional silver pieces thus driving them all out of circulation. Mr. Kennedy's recommendation was signed into law June 4, 1963 and will go down in U.S. monetary history as the Crime of 1963. $1 Fed notes went into circulation December 1963. Further details may be obtained on the backside of Exhibit C.

Both Exhibits B and C stress that it is possible to repair legislative faults which are reversible if caught in time. President Kennedy's remarks (Ex. B) aptly fit today's monetary morass by changing the date of delivery to the present and the number of years to (20).

Chart No. 1 depicts the horrendous gap existing between Fed's circulating notes and the population they were designed to serve. It is this chasm, caused by the overissuance of our forced currency, which is pulling all prices skyward with no respite in sight until this tragic travesty is brought to heel and reversed. Had our money managers only allowed the population to grow into its currency starting with fiscal 1963, prices would have been stabilized a decade ago. The reverse of this chart lists pertinent statistics comparing 1961 and 1971 with the last two years.

Chart No. 2 shows the decline and fall stages of the purchasing power of Fed's note in terms of 1967 wholesale and retail prices. On a 1940 year basis, it would be closer to 5 cents or less. Reverse quotes Daniel Webster's famous speech on a forced currency/loan.

Chart No. 3 shows the relationship between consumers' currency (M) and two of its aberrations: demand deposit currency and velocity turnover of demand deposits of New York banks which are considered the most sensitive and the nearest measurement we have of the turnover of Fed's currency in daily trade. These aberrations reflect the ongoing flight from our domestic currency as well as the fact that fiscal efforts are futile as long as the quantity of the circulating paper money is left unattended.

Other side contains remarks by John Sherman under whose guidance U.S. notes were returned to par after the Civil War. His mention of 'popular delusions' brings to mind Bernard M. Baruch's 1932 foreword to 'Extraordinary Popular Delusions and the Madness of Crowds' which was first published in 1841. In part Mr. Baruch stated "...yet I never see a brilliant economic thesis...the mathematics of price movements, that I do not recall Schiller's dictum: "Anyone taken as an individual is tolerably sensible and reasonable - as a member of a crowd, he at once becomes a blockhead..."

Chart No. 4 graphically portrays three forced currency/loans as measured by the Department of Labor's Wholesale Price Index. The series starts in 1720. At the time of the Revolutionary War, twelve staples made up the index. More recently (1978) it was composed of about 2800 items thereby reducing its sensitivity if not destroying its usefulness.

Thomas Jefferson's reference,on the reverse, to a "paper enemy" substantiates the closing paragraph of an article entitled 'Public Enemy Number 1' which was published in a nationally circulated medium Dec. 6, 1973: "Destruction of a country by destroying its legal tender purchasing medium is as old as mankind's use of paper and dates back over 2,000 years. It is a weapon of war and is known as a Trojan Horse, the enemy within or Public Enemy Number 1." Todays treasonable Fed note is adhering to our enemies by giving them aid and comfort.

Mr. Jefferson's remarks concerning the Congress' ability to borrow without interest all the money they may want is where our money managers went wrong but also contain a key to the solution of today's monetary dilemma. Federal Reserve Board classifies $20 notes and higher as large currency thereby placing $1, $2, $5 and $10 notes in the 'small' category.

In a published letter to the President (Jan. 23, 1975), the last two paragraphs observed that:

"(The) currency is in its terminal stage. A deadly disease (cancer), once diagnosed, no matter if it took 5, 10 or 35 years to develop, should not be treated for the same long period but only by immediate remedial surgery.

"...consumers are seeking the leadership which will terminate their paper cross agonies and sufferings that they may be free men and women by 1976."

Your correspondent respectfully submits what would seem to be feasible steps back from the brink of national disaster to relative normalcy but not necessarily in the following order:

1) No further issuances of Fed notes excepting for replacement of the worn and mutilated.

2) Treasury Department to purchase all the gold in its custody by swapping Fed's gold certificates at $42.22 per fine ounce for U.S. notes in $1, $2, $5 and $10 denominations. 40 percent gold backing to be reimposed for U.S. notes ONLY without redemption at this time.

3) A comparable amount of Fed notes in the same small denominations to be concurrently retired and destroyed.

4) The large denominations of Fed notes to be retired at the same annual rate and in the same time frame as the recently passed tax cuts which will tend to mute critics who say that tax cuts are price inflationary. Total quantity of large Fed notes

in circulation to be frozen for five years, after above operations have been completed.

Today's monetary troubles started with our domestic currency and then spread, with time lag, to our international dollar. At the conclusion of the above operations, the entire situation may be reviewed to determine how many more large Fed notes should be withdrawn from circulation.

This letter will close by quoting the last paragraph of an article a gentleman was kind enough to insert in the Congressional Record - House, June 8, 1967, pages 6929 and 6930:

"Confiscation, travesty, fraud and repudiation are strong words. With one of the world's best coin and currency systems a shambles, if stronger words could be found they would be used." To which may now be added outlaw and treasonable.

Sincerely yours,

Stephen Davis Hopkins

/jh

Encs.

cc: Members of the United States Gold Commission
All Members of the 97th Congress
Governors of the 50 States
Financial Editors and Publishers of most U.S. daily newspapers

Best to you
Mr. Secretary!
Steve

P.S.

The enclosed flier was just received from a member of the United States Gold Commission and may well prove to be of interest.

It dramatically demonstrates that so-called monetarists (see paragraph 3, page 1) are not interested in the health, welfare and happiness of U.S. consumers but are living in the past and are gradually fading into history with other Keynesians. (The Old Guard dies but never surrenders).

Today's 230 million consumers bitterly resent being used, for over 30 years, as guinea pigs for their economic theories, academic concepts and sophisticated fiscal experiments. Consumers seem to prefer, what these gentlemen are wont to call, kindergarten economics for the simple reason that they are time-tested insulation against the machinations of our modern John Laws.

SDH

Exhibit A.

The White House

Washington

November 28, 1961

Dear Mr. Secretary:

On the basis of your recommendations and the studies conducted by the Treasury and other Departments, I have reached the decision that silver metal should gradually be withdrawn from our monetary reserves.

Simultaneously with the publication of this letter, you are directed to suspend further sales of free silver, and to suspend use of free silver held by the Treasury for coinage. In this way, the remaining stock and any subsequently acquired can be used, at your discretion, to contribute to the maintenance of an orderly market in silver and for such other special purposes as you may determine. In order to meet coinage needs, the amount of silver required for this purpose should be obtained by retirement from circulation of a sufficient number of five-dollar and ten-dollar silver certificates.

Pursuant to this general determination, I intend to recommend to Congress, when it reconvenes that it repeal the acts relating to silver of June 19, 1934, July 6, 1939, and July 31, 1946. The existing tax on transfers of interest in silver bullion has been necessary only to provide reinforcement for this legislation. I will therefore simultaneously propose that the relevant portion of the Internal Revenue Code also be repealed.

These actions will permit the establishment of a broad market for trading in silver on a current and forward basis comparable to the markets in which other commodities are traded. Our new policy will in effect provide for the eventual demonitization of silver except for its use in subsidiary coinage.

Although the potential supply of silver now embodied in the outstanding five-dollar and ten-dollar certificates will be sufficient to cover coinage requirements for a number of years,I believe this an appropriate time to provide for the gradual release of the silver now required as backing for one-dollar and two-dollar silver certificates. I shall therefore also recommend that legislation be enacted to accomplish this purpose and authorize the Federal Reserve Banks to include these denominations in the range of notes they are permitted to issue.

Sincerely,

(Signed) John F. Kennedy

onorable Douglas Dillon
ecretary of the Treasury
ashington, D.C.

etter from the President to the Secretary of the Treasury - Annual
eport. 1962

(OVER)

Exhibit B.

""The great advantage of Americans" wrote de Tocqueville in 1835, "The great advantage of Americans consists in their being able to commit faults which they may afterwards repair." To this I would add the fact that the great advantage of hindsight consists of our applying its lessons by way of foresight. If this Nation can apply the lessons and repair the faults of the last (15) years, if we can stick to the facts and cast out those things which really don't apply to the situation, then surely this country can reach its goals, and upon reaching its goals depends the security of the free world."

President John F. Kennedy

Public Papers of the Presidents, March 13, 1963

Exhibit C.

"Resolved...

"To maintain our fleets and armies, large sums have been emitted in bills of credit, and the same method has been embraced by the respective states to answer their internal wants. By these expedients, our paper currency, notwithstanding the solid basis on which it is founded, is multiplied beyond rules of good policy. No truth being more evident, than that where the quantity of money of any denominations exceeds what is useful as a medium of commerce, its comparative value must be proportionably reduced. To this cause...we are to ascribe the depreciation of our currency: the consequences to be apprehended are equally obvious and alarming. They tend to depravity of morals, decay of public virtue, a precarious supply for the war, debasement of the public faith, injustice to individuals and the destruction of the honour, safety and independence of the United States...

"Blessed be God, they are not irremediable, the means of repressing them are still in our power.. Let...the quality of money in circulation be reduced: and we shall soon see the public credit fully established..."

Journals of the Second Continental Congress,
Saturday, November 22, 1777.

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MONETARY NUGGETS

Monetary Ignorance Crucified Consumers

By STEPHEN DAVIS HOPKINS

The hustling 80-year-old chairman of the House Banking and Currency Committee last month opened a conclave of Commercial Bank Presidents by forecasting record-making high interest rates. He also predicted that "We are headed for another real economic mess — another recession fueled by misguided monetary policies."

A member of the Congress since March 1929, on the powerful Banking and Currency Committee from 1937 and finally seniority-propelled into its Chairmanship January 1963, the able gentleman from Texas is extremely well-qualified to speak, due to the nature of his job, as the country's top legal monetary expert. Admitted reason for failure, like his forecasts, is most accurate: 'misguided monetary policies'

As a member of one of the Nation's top money-managment teams, of which the Chairman is now the only active member, he had the job of introducing and obtaining House passage for his first major monetary bill in 1963.

Other team members included a newly elected President who directed his Secretary of the Treasury November 28, 1961 to retire same denominations. Also, he stated his intention to recommend legislation authorizing $1 and $2 Fed notes.

He was acting on the advice of that Secretary whose expertise was with debt and equity securities, and whose judgment, on metallic money, was to be found sadly wanting. All three were especially encouraged by a Federal Reserve Board Chairman who had been a strong advocate of a forced currency since he was 26 years old.

Lest this scribe be accused of acute hindsight, a published article (*) entitled 'Freedom of Choice: Monetary' was forwarded to the Chairman as a public service. First two paragraphs said that domestic currency users were about to be saddled with a forced loan for the first time in 100 years. It was most thoughtfully acknowledged March 16, 1963 with a promise to read "it with deep interest."

A published (**) 'Review of Monetary Year 1962' was also sent to the gentleman which pointed out in part that five per cent and over of an issue in custody of issuer was considered excessive and clearly redundant and that "Aggregate of notes in paying agents' vaults remained above five per cent for the 29th consecutive month since July 1960, thereby prolonging this issue's redundancy." It too was most thoughtfully acknowledged by addressee on March 30, 1963 and found to be "most interesting."

The Chairman closed four days of hearings on his first monetary bill (H.R. 4413/H.R. 5389) March 14th and then scheduled debate for Wednesday, April 10, 1963, which was in the middle of Holy Week with the House recessing the following day for its Easter vacation Debate on this fateful piece of legislation was limited to a total of two hours with only half that tin being used.

The Chairman stood in the well on the House floor and in a firm voice proclaimed, that "I respectfully suggest this is a good bill. It should be passed. It in the public interest." His position we that "there is no problem of publi confidence involved in substitutin Federal Reserve notes for the remainin silver certificates ($1.6 billion) circulation." (Ed. Silver had gone fro 90.5 cents November 29, 1961 to $1.27 p oz).

Furthermore, in his opinion, "Assumi that over the long run Federal Reser notes will have to be issued in place of th silver certificates. .no undesirabl effects can be anticipated from suc substitution." And he assured h associates that "Under this system managed money, our economy is n likely to be plagued with too muc money."

Since June 1963, population has grown per cent, while circulating Fed notes hav mushroomed 100 per cent for per capi figures of $159.95 vs. $286.33 (Aug. 1973) resulting in Consumer Price Inde jump of 91.7 vs. 132.4 (June 1973), wi notes & issuers vaults now over six pe cent.

With Fed notes' inflation rapidl reaching the halfway mark (April 1974) their third and terminal stage destruction, today's 210 millio consumers are finally realizing that the best interests were nailed to a paper cro that fateful week when the House passe the bill 252 to 122 to become, after Senat authorization, law June 4, 1963. Tha action may well be on its way to goin down in U.S. monetary history as th 'Crime of 1963'. Consumers also may wel conclude today that their tragic plight is due to a legacy of gross monetary ignorance alloyed with political arrogance

INFLATION-WATCH®

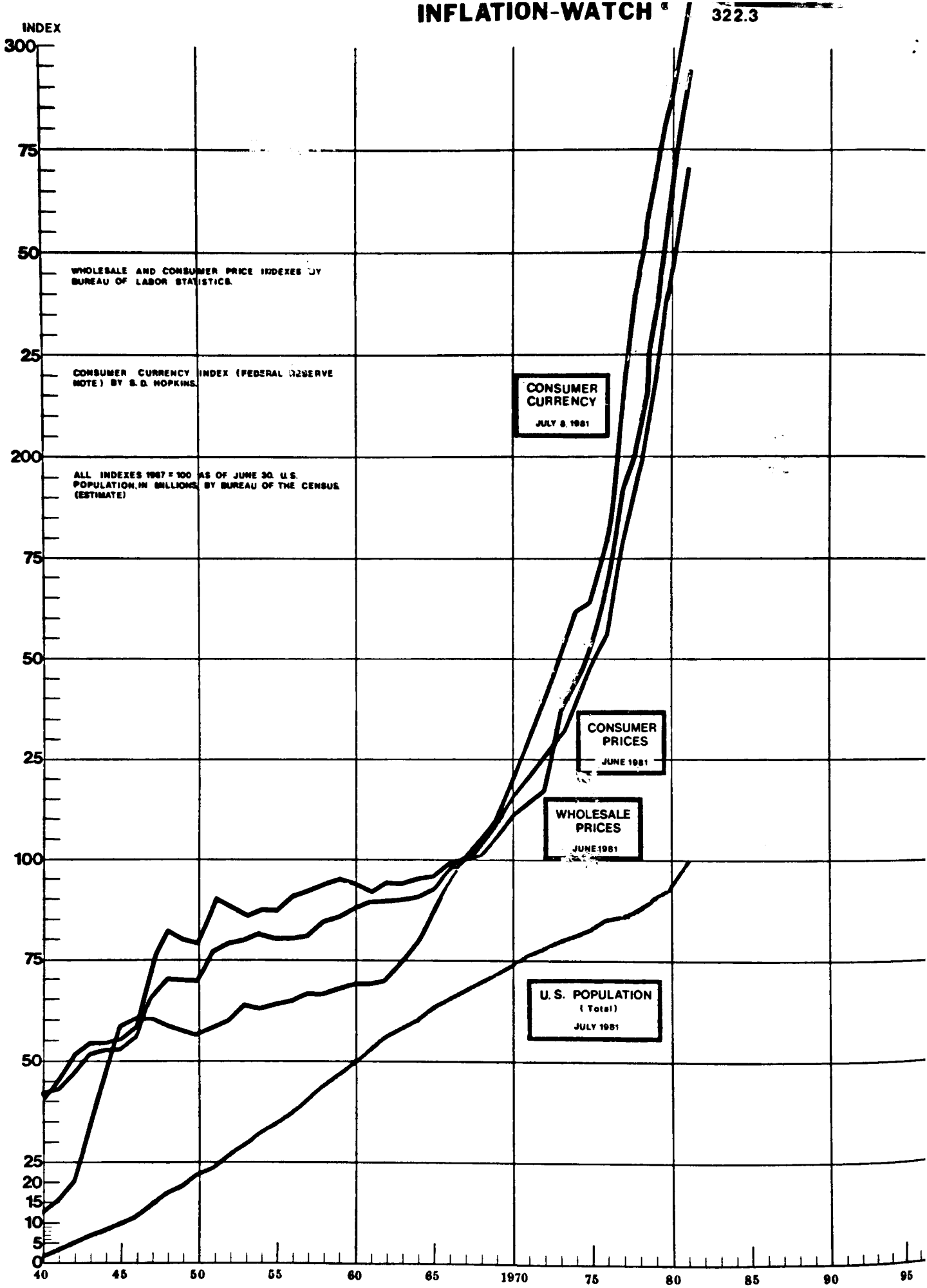
April 15, 1981

	LATEST WEEK	1980 WEEK	1971 WEEK	1961 WEEK
SUPPLY:				
Auto Prod	119,551	121,090	146,400	93,730
Elec Pwr Prod (000 kws)	40,461	39,519	28,633	14,434
Lumber Prod (000 bf) (a)	296,722	29,913	(f)178,166	(f)174,297
Paperboard Prod (000 tons)	625,511	561,893	496,701	322,134
Steel Prod (000 tons)	2,595	2,496	2,905	1,748
Oil Stocks (000 bbls)				
Com Crude	392,911	360,248	263,297	244,704
Fuel-Hvy	77,837	87,992	44,075	42,312
Fuel-Lt	160,545	178,008	112,224	86,634
Fuel-Jet	33,690	32,833	27,658	26,494
Mtr Gasoline	278,756	280,565	240,102	223,176
U.S. Gold (mil) (b)	$ 11,154	$ 11,172	$ 10,464	$ 17,390
U.S. Silver (000 ozs)	139,500	139,500	139,500	(†) 1,862,247
PRICES:				
Gold (oz-NY)	$476.25	$498.75	$ 39.40	$ 35.00
Silver (oz-NY)	$ 11.03	$ 14.30	$ 1.71	$ 0.91
Commodity Cash Index (c)	276.4	273.6	110.4	102.7
Foodstuffs (13)	252.0	235.7	109.0	101.2
Livestock & Products	270.4	245.0	120.0	120.1
Fats & Oils	247.5	236.5	129.1	130.2
Raw Industrials (13)	294.6	303.2	111.2	103.7
Metals	295.8	306.3	107.0	81.6
Textiles & Fibers	249.5	252.9	99.2	104.2
DEMAND:				
U.S. Population (000) (e)	229,363	(r)227,108	206,646	183,104
Annual Growth (000)	2,255	(r) 6,934	2,226	2,990
Growth Rate (%)	0.99	(r) 3.14	1.08	1.66
Consumer Currency (mil) (d)	$122,922	$112,293	$ 50,316	$ 27,136
Annual Growth (mil)	$ 10,753	$ 9,585	$ 3,715	$ –298
Inflation Rate (%)	9.58	9.33	7.97	0.00
Bank Deposit Currency (mil) (d)	$252,400	$268,300	$179,400	$116,400
Annual Growth (mil)	($15.9)	$ 1,800	$ 9,900	$ 3,000
Inflation Rate (%)	– 6.2	0.67	5.84	2.64
Bk Dep Cy Turnover (NY) (April)	1,001.9	805.7	182.4	67.8
Annual Growth Rate (%)	24.3	30.3	22.1	20.4

® Registered by Stephen Davis Hopkins who has been writing on the Federal Reserve note and its aberrations since 1962. (a) Western Woods Region. (b) Valued at $42.22 per oz. Oct. 18, 1973. Valued at $35.00 per oz. 1971 and 1961. (c) Bureau of Labor Statistics (1967 = 100). (d) M_1. (f)Western Wood Products Mills. (†) Includes 155,679,101 Standard Silver Dollars (4/14/61) vs. 160,048,245 (3/3/61). (r) Revised. (e) Estimate.

(OVER)

INFLATION-WATCH®



"A disordered currency is one of the greatest political evils. It undermines the virtues necessary for the support of the social system, and encourages propensities destructive of its happiness. It wars against industry, frugality and economy; and it fosters the evil spirits of extravagance and speculation.

"Of all the contrivances for cheating the laboring classes of mankind, none has been more effectual than that which deludes them with paper money. This is the most effectual of inventions to fertilize the rich man's field by the sweat of the poor man's brow. Ordinary tyranny, oppression, excessive taxation, these bear lightly on the happiness of the mass of the community, compared with a fraudulent currency, and the robberies committed by depreciated paper. Our own history has recorded for our instruction enough, and more than enough, of the demoralizing tendency, the injustice, and the intolerable oppression on the virtuous and well disposed, of a degraded paper currency, authorized by law, or in any way countenanced by government.

"We all know, Sir, that the establishment of a sound and uniform currency was one of the great ends contemplated in the adoption of the present Consitution...."

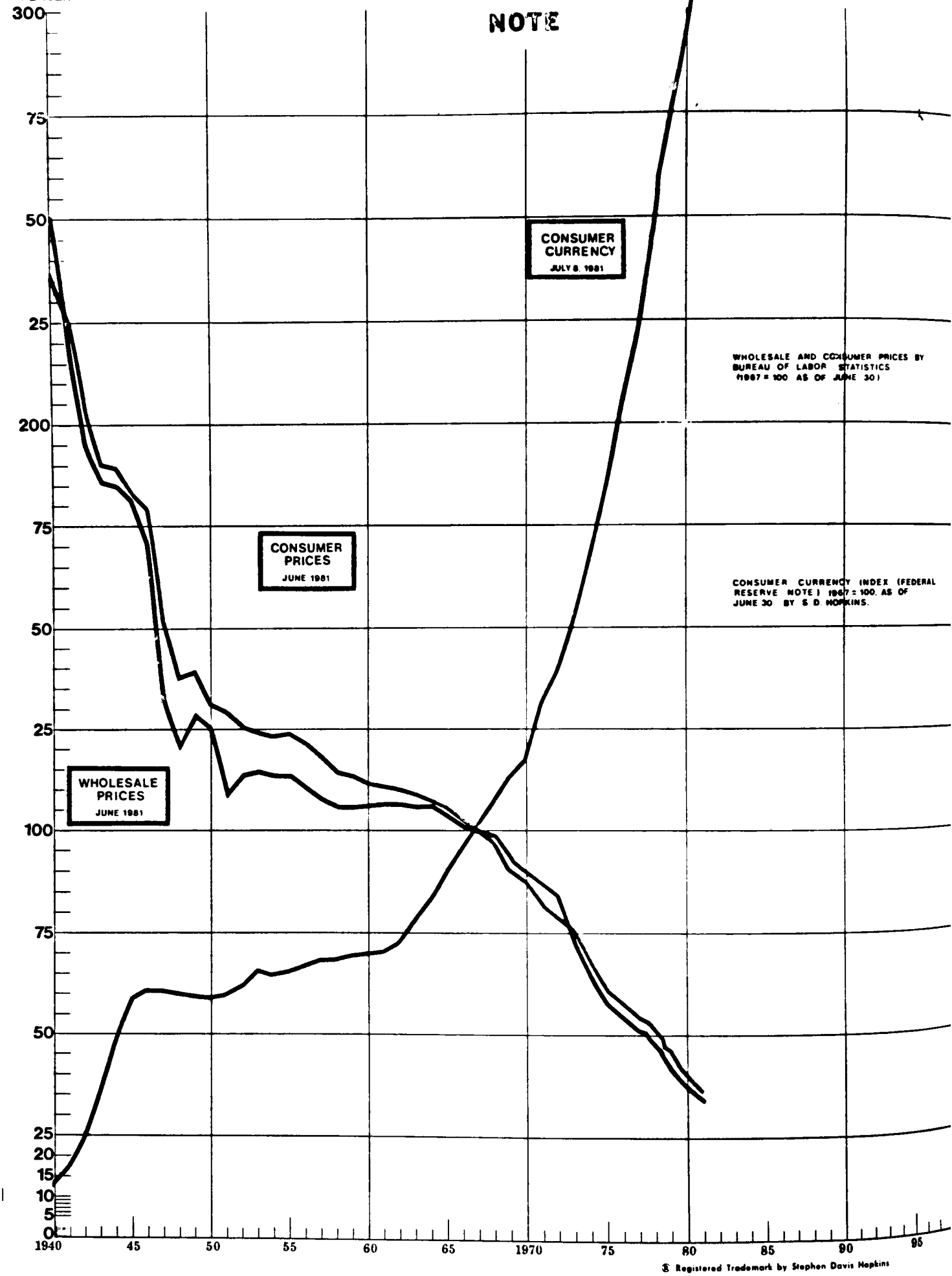
- Daniel Webster in the United States Senate, May 25, 1832

(The above was quoted by President Andrew Johnson in his Third Annual Message to the Congress, December 3, 1867 -Ed)

(OVER)

INFLATION-WATCH

PURCHASING POWER OF THE FEDERAL RESERVE NOTE



"...What I mean by specie payments is simply that paper money ought to be made equal to coin, so that when you receive it, it will buy as much beef, corn or clothing as coin.

"Now the importance of this cannot be overestimated. A depreciated paper money has been treated by statesmen as one of the greatest evils that can befall a people. There are times when such money is unavoidable, as during war or great public calamity, but it has always been the anxious care of statesmen to return again to the solid standard of coin... as an indispensable prerequisite for steady business and good times.

"...there is a large class of people who believe that paper can be, and ought to be, made into money without any promise or hope of redemption; that a note should be printed: 'This is a dollar,' and be made a legal tender.

"I regard this as a mild form of lunacy, and have no disposition to debate with men who indulge in such delusions, which have prevailed to some extent, at different times, in all countries, but whose life has been brief, and which have ever shared the fate of other popular delusions... the Supreme Court only maintained the constitutionality of the legal tender promise to pay a dollar by a divided court, and on the ground that it was issued during the war, as in the nature of a forced loan, to be redeemed upon the payment of a real dollar; that is, so many grains of silver or gold.

"I therefore dismiss such wild theories, and speak only to those who are willing to assume, as an axiom, that gold and silver, or coined money, have been proven by all human experience to be the best possible standards of value, and that paper money is simply a promise to pay such coined money, and should be made and kept equal to coined money, by being convertible on demand.

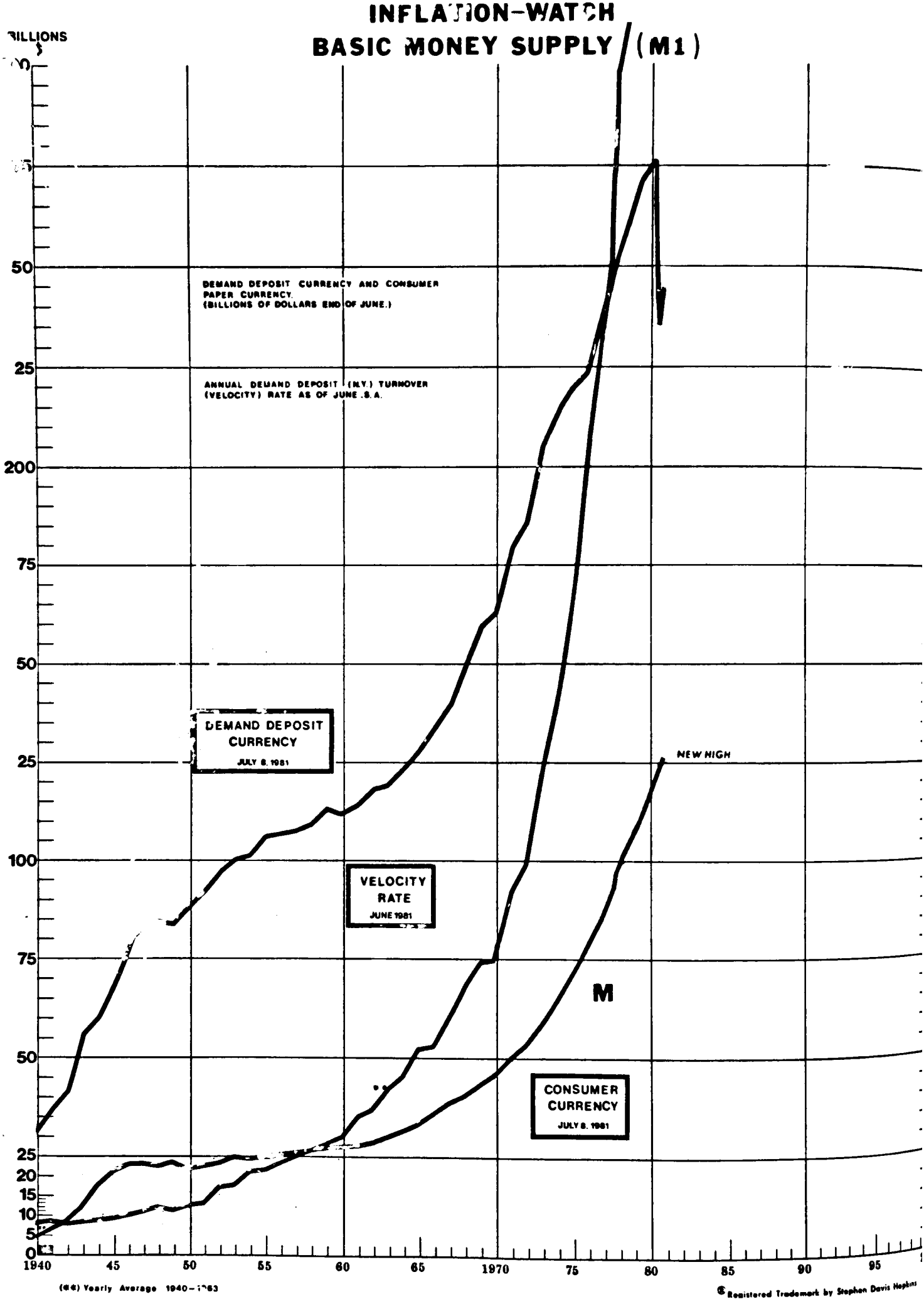
"Now, the question is as to the time and mode by which this may be brought about, and on this subject no man should be dogmatic, or stand, without yielding, upon a plan of his own, but should be willing to give and take, securing the best expedient that public opinion will allow to be adopted...but the diversity of opinion as to the mode now - twelve years after the close of the war - still leaves our paper money at a discount of five per cent.

"In 1869, Congress pledged the public faith that the United States would pay coin for United States notes. Again, in January, 1875, after more than a year's debate, Congress declared that on and after the 1st of January, 1879, the United States would pay its notes in coin.

"There are two modes of resumption; one is to diminish the amount of notes to be redeemed, which mode is commonly called a contraction of the currency; the other is to accumulate coin in the treasury... to maintain the notes at par."

Extracts from a speech by Secretary of the Treasury John Sherman, Friday, August 19, 1877 in Mansfield, Ohio.
- Recollections of Forty Years in the House, Senate and Cabinet. An Autobiography - Vol I, pages 589, 590 and 591.

(OVER)


INFLATION-WATCH
BASIC MONEY SUPPLY (M1)
BILLIONS $
DEMAND DEPOSIT CURRENCY AND CONSUMER PAPER CURRENCY. (BILLIONS OF DOLLARS END OF JUNE.)
ANNUAL DEMAND DEPOSIT (N.Y.) TURNOVER (VELOCITY) RATE AS OF JUNE .S.A.
DEMAND DEPOSIT CURRENCY
JULY 8, 1981
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(**) Yearly Average 1940–1963
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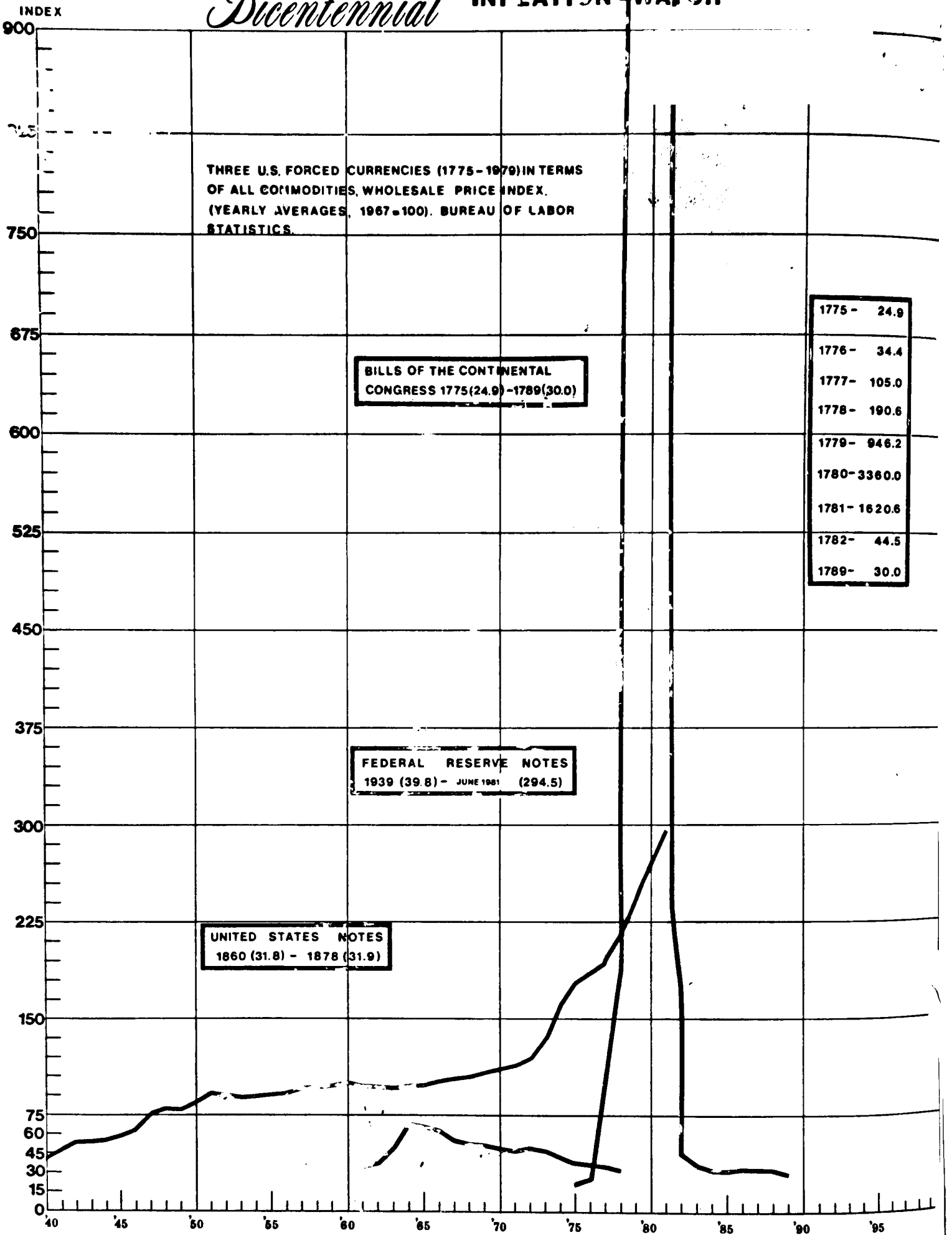
"Congress may now borrow of the public, and without interest, all the money they may want, to the amount of a competent circulation, by merely issuing their own promissory notes of proper denominations for the larger purposes of circulation, but not for the small. Leave the door open for the entrance of metallic money. . . Providence seems, indeed, by a special dispensation, to have put down for us, without a struggle, that very paper enemy which the interest of our citizens long since required ourselves to put down, at whatever risk."

Extract of a letter from Thomas Jefferson to a Mr. Cooper, dated September 10, 1814, just at the close of the war (1812). - John Sherman's Recollections of Forty Years in the House, Senate and Cabinet. An Autobiography. Vol I, Page 293.

(OVER)

Bicentennial INFLATION WATCH®



Enemies of Gold

The long-delayed inaugural meeting of the Federal Gold Commission had barely started when it became clear that, despite President Reagan's fascination with a possible return to the gold standard, his administration wanted to bury the issue.

"I don't want to see my quotes spread through the newspapers," warned tough-talking Treasury Secretary Donald T. Regan, the commission chairman, as he opened its first meeting at the Treasury July 16. Then, summoned to more pressing duties, Regan handed the gavel to Beryl Sprinkel, Treasury undersecretary for monetary affairs. He is a faithful disciple of professor Milton Friedman and hence an implacable enemy of gold.

Sprinkel laid down the law. He would give the commission neither time nor exposure—and with good reason. Friedmanite monetarism, attempting to fight inflation by limiting the money supply, has been installed by Sprinkel as Reagan administration policy. But it is under attack from Republicans who fear that monetarism threatens Reagan with economic and political ruin. The supply-side alternative to monetarism is the gold standard—a fixed rate of exchange between the dollar and gold, intended to end inflation by stabilizing the currency. Sprinkel kept control July 16, but a mini-revolt suggested possible trouble ahead.

A commission to study gold was pushed through Congress last year by such ardent "gold bugs" as Sen. Jesse Helms of North Carolina and Rep. Ron Paul of Texas. Had Jimmy Carter been reelected, the discreet burial of the commission's proceedings would have been certain.

But Reagan's victory suggested the gold standard no longer would be just a hobby horse of the lunatic fringe. After all, it had been endorsed as "a monetary standard" by the Republican national platform. Reagan himself, when not hectored by Prof. Friedman, expresses interest in restoring the link between the dollar and gold finally severed by Richard Nixon in 1971. The supply-siders, in urging tax-rate reduction as fiscal policy, always have urged a gold standard as monetary policy.

However, while embracing supply-side tax cuts, the Reagan administration adopted monetarism as its monetary policy to fight inflation. Gold became a forbidden four-letter word. Although the Gold Commission was mandated by Congress to report on Oct. 7, the Treasury never got around to forming it. Not until June 22 did it come into being.

No chances were taken. Out of 16 commission members, only two favor a gold standard—Rep. Paul and Lewis Lehrman, drugstore tycoon and financial scholar. Dr. Anna J. Schwartz, Friedman's collaborator in writing the monetarist bible, "An Economic History of the United States," became commission staff director.

"I think everybody can rest assured," a high-ranking administration official told us before the commission's first meeting, "that this commission won't cause any trouble." Once he had taken the chair from Regan at that July 16 meeting, Sprinkel (officially not even a commission member) tried to make that prediction come true.

A no-nonsense Chicago banker, Sprinkel began by declaring that the commission *will* meet its Oct. 7 deadline. How could that be, asked Paul and Lehrman, when the second meeting of the commission would not be held until Sept. 18? The law said it had to be, replied Rep. Henry Reuss of Wisconsin, a liberal Democratic foe of gold.

It was then that Prof. Paul McCracken of the University of Michigan, economic adviser to three previous Republican presidents, interjected his quiet voice. This was supposed to be the first serious governmental monetary study in over 75 years, McCracken said, and could not seriously do its work in two months. If Sprinkel insisted, McCracken could not see his way clear to making the long round trip from Michigan for future meetings.

Dead silence. It was broken when two Federal Reserve governors, J. Charles Partee and Emmett J. Rice, agreed with McCracken. Reuss relented, saying he would sponsor congressional legislation for a Jan. 1 deadline—but not one day later.

Sprinkel quickly moved to the need for secrecy, rejecting suggestions that the Sept. 18 meeting be opened. But Reuss, not part of the administration's burial detail, backed partially open sessions. That question was not resolved. Nor was the question of verbatim notes at future meetings.

No record was kept July 16. Thus, the defense of the gold standard by Lehrman and Paul was lost to posterity, as well as to contemporary public debate. Despite the mini-revolt, the Gold Commission remains tightly controlled by the Treasury.

What may prevent the burial of gold, however, is monetarism's failure thus far to bring down interest rates. Fears haunt Republicans that the monetarists will do to Ronald Reagan what they did to Margaret Thatcher—explaining why on the day after Congress passed the tax bill, Rep. Jack Kemp switched gears to push a gold standard. The odds against that happening are even longer than they were on tax reduction seven years ago, save for one factor: the president of the United States is interested, no matter what his lieutenants say.

HOWARD S. KATZ

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Sept. 9, 1981

Dr. Anna Schwartz
269 Mercer St.
New York, N.Y. 10003

Dear Dr. Schwartz:

I have written a rebuttal to your July 8 memo for the Gold Commission, and I am doing you the courtesy of sending you a copy.

Copies have gone to each member of the Commission, and a condensation of my rebuttal will appear in the Sept. issue of The Gold Bug.

Sincerely,

Howard S. Katz

Howard S. Katz

MEMORANDUM FOR THE GOLD COMMISSION

A REPLY TO ANNA SCHWARTZ

by Howard S. Katz

In a memorandum dated July 8, 1981, Anna Schwartz sets forth for the Gold Commission the conservative view on the gold standard. The purpose of this piece is to consider the arguments presented in that memo and to present a rebuttal from the liberal point of view. The position presented here will be the true liberal, or Jeffersonian, opinion. We will not at this time address the modern liberal or Keynesian position.

The key difference between our view and that of Anna Schwartz is the concept of authority. Like most conservatives, Ms. Schwartz is wedded to authority. This biases her position and is responsible for many of her errors.

This seeking after authority has led many economists to identify themselves with the rich, particularly the bankers, becoming little more than banker apologists. The bankers in turn respond handsomely, showering money and titles on their favored economists (e.g., Mike Evans, formerly of Chase Econometrics) -- namely those who will defend their privileges. As a result, we now have two groups of economists: the first seeking the favor of the bankers and holding most of the titles and formal positions; the second seeking truth and mostly self employed outside of academia.

Because a prime requisite of membership in the first group is the willingness to sacrifice truth to the interests of the bankers, the intellectual level of this type of economist has dropped sharply. This is evident in the Schwartz memo. It was obviously intended to be a major statement of the pro-paper money position. But the quality is so poor that we are forced to one of two conclusions. Either Secretary Regan has made a major blunder, or this represents the best which the banker economists can put forth.

This memo will address the most important errors in the Schwartz memo to aid the members of the Commission in their search for the best policy in the sphere of money and credit.

Error #1: Ms. Schwartz does not know what a gold standard is.

As one can quickly see, this is a fatal flaw and completely invalidates all of her subsequent work on the subject. Ms. Schwartz defines a gold standard by saying:

> "Under a gold standard, of whatever type, the monetary authority maintains a fixed price of gold by purchase and sale."

A gold standard is a money system in which gold is the standard, or unit, of value. Every dimension of human activity which admits of measurement must have a standard in terms of which other things are compared. To measure length we take King Henry VIII's foot as the standard, and other lengths are assigned a number by seeing how many times King Henry's foot goes into them. Most other people take one-ten millionth of the distance from the equator to the pole as the standard of length; this is called a meter and is the basis of the metric system.

To measure value, the people of 19th century America took 25.8 grains of gold, 9/10 fine, and compared other values with it. They called pieces of gold this size dollars and measured values by noting how many times a given value divided into this standard. For example, a pair of pants which sold for 51.6 grains of gold would cost twice the standard, or two dollars. Since the standard in terms of which all values were measured was a piece of gold, the system was a gold standard, just as our system of measuring length is a King Henry standard and the European system is a meter or metric standard.

Ms. Schwartz makes several errors in her definition. First, she assumes that under a gold standard ("of whatever type") there must exist a monetary authority. This is the first example of her bias toward authority. It is possible to have a gold standard with or without a monetary authority. If a piece of gold is used as the standard for measuring value, then the system is a gold standard whether a monetary authority exists or not.

If Ms. Schwartz was incapable of understanding this theoretically, she could have remedied her deficiency by a knowledge of history because in fact the American gold standard evolved without any monetary authority. In the early 1780s, the paper money system represented by the continental

collapsed, and there was a period of currency chaos for a few years as the paper money became worthless. The Continental Congress commissioned Thomas Jefferson to make a study to determine what would be the best money (much as this commission today).

But while Congress had been deliberating, the people had to conduct their daily affairs. Crops had to be sown; seed had to be bought; life had to go on. So by the time Jefferson came to make his examination, he found that the people had already chosen a money -- two monies to be exact, gold and silver, as minted in the Spanish colonies under the name thaller. Jefferson had the wisdom to suggest that it would not be a good idea for the government to choose another money and then impose it on the people. It was far better to simply ratify the people's choice. This was done, and the thaller (pronounced dollar by English speaking people) became the standard of money for the United States.

Thus the Schwartz definition is invalidated right here. A gold and silver standard existed when the Constitution was ratified in 1789, but no central bank was established in the country until 1791. Here is a functioning gold standard without a monetary authority. In addition, a gold standard existed in the United States without a monetary authority from 1811-1816 and 1836-1861. Under Anna Schwartz's definition this is impossible; yet it is part of our history.

The magnitude of this error should not be overlooked. It is the equivalent in economics of the historian who defines government in such a way that democracy is impossible or defines a constitution in such a way that a bill of rights is impossible. It happened; how can they claim it is impossible?

Even when the central bank was established in 1791, it did not maintain a fixed price of gold by purchase and sale. It issued bank notes promising redemption in gold or silver coin. The coin was money; the notes were pieces of paper on which the promises were written. This monetary authority was abolished in 1811, reinstituted in 1816 and abolished again in 1836. No central bank existed in America during most of the heyday of the gold standard. It is a shame that the Secretary of the Treasury could not find an economist to represent his point of view who had a knowledge of these simple facts.

The second fallacy in Mrs. Schwartz's definition is her requirement that a fixed price of gold be maintained by purchase and sale. Not only

is that not a necessary requirement for a gold standard to exist, but it precludes a gold standard from existing. If anyone at all can buy or sell gold, if there exists a price of gold, then that society is not on a gold standard.

A price is the amount of money demanded in exchange for an item put up for sale. Money itself does not have a price and is not bought or sold. If gold has a price, then money is being given for it, and in that case it itself could not be money.

Let us consider an example which will make this clear. Suppose you had a society on a gold standard and suppose that gold had a price; suppose that someone was putting one ounce of gold up for sale. Since the money in that society is a physical quantity of gold, how much do you think the seller will demand for his one ounce? He wouldn't be stupid enough to demand less than one ounce, and he couldn't get anyone to give him more. The only amount of money which could be given for his one ounce of gold would be -- one ounce of gold. Now wouldn't that be stupid, to have two people simply exchanging one ounce pieces of gold? In the same way, we can ask today, what is the price of a penny? A penny, being money, has no price. It is not bought and sold. It is used to buy and sell other things. If gold were money, it too would have no price, and it would not be bought or sold. Ms. Schwartz's definition contradicts that basic principle of economics.

Thus Anna Schwartz defines the limits of her universe. It is a universe in which a substantial portion of American history does not exist. It is a universe where a monetary authority is a necessary fixture whose absence is unthinkable. The basic premises of her universe are not challengable. Like the cleric who would not look through Galileo's telescope, she refuses to consider any other possibilities. With the rigorous logic of a Jesuit, she procedes, irrefutably, from false premises to false conclusions. Her logic is a closed system, and no reality can intrude to deflect the conclusion required by her patrons.

This error in the definition of the gold standard causes numerous other errors throughout the memo. For example, it seems, in her listing of types of monetary standards, that the type embodied in Congressman Paul's bill -- the full gold standard with no paper money privilege for the bankers -- is considered as option one: a gold coin standard with 100% gold cover for nongold money and no central bank. But in discussing this option Ms. Schwartz states: "Government intervention in the

monetary system would be limited to its undertaking to buy gold from the public at a fixed price and converting it into coin, and to sell gold to the public at a slightly higher fixed price." Here Ms. Schwartz is willing to admit that there is no central bank, but she is not willing to admit the absence of a monetary authority, and the analysis fails for the reasons above.

Error #2: the idealization of gold

Even with her misunderstandings, her distortions and her pro-banker bias, the basic truth of the gold standard comes through too strong (as indicated by Milton Friedman's admission in 1961 that a full gold standard was the best monetary system -- an admission which he promptly forgot). Thus the pro-banker economists themselves feel the power of the pro-gold position and must resort to intellectual techniques which are more subtle and sophisticated. Anna Schwartz's technique is that of the girl who rejects a suitor by saying, "You're too good for me."

Yes, the gold standard is good, this argument admits, too good for this practical world. Like poverty, chastity and obedience, it could not survive the rough and tumble out there in reality. This is the argument implied by section 2 of the Schwartz memo.

Considered logically, section 2, "How and Why the World Retreated from the Discipline of the Gold Standard," is irrelevent to the question presented to the Commission. The Commission is charged with investigating whether a gold standard is <u>best</u> for the country. It is concerned with making value judgements, not merely recording historical facts. Gold advocates know that America abandoned its (partial) gold standard. America abandoned the volunteer army in 1940 but got it back in 1973 because a lot of people felt that that was <u>best</u> for the country. Rome abandoned democracy in 44 B.C., but we can hardly conclude from that that democracy is an impractical political system which does not work in the real world.

The argument on page 4 of the Schwartz memo can only be read as an attempt to portray the steps away from gold as natural and inevitable. The gold standard was good in theory, this argument goes, but it didn't work in practice. Anna Schwartz does not have the integrity to come right out and say this, but without it the entire section is irrelevant.

Again Ms. Schwartz's arguments are a combination of falsehood and banker apologetics. The (partial) gold standard of the 19th century was

abandoned because the bankers sought to extend their paper money privileges and -- by the extensive use of fraud -- succeeded in putting their measures through. The abandonment of the gold standard was a victory for the bankers and their corporate allies over the common people.

For example, Ms. Schwartz states, "The earliest departure from the ideal 100 per cent gold standard was the creation of substitutes for gold. The reason is obvious -- a 100 per cent gold standard is costly in terms of the use of real resources. Paper money substitutes require a much smaller amount of resources to produce."

This is an attempt to justify the bankers' practice of issuing paper notes in excess of their gold, a justification in reference to history. Not only is this subject to the objection above -- history cannot tell us what is good, only what has been -- but her history is false.

It is false to say people accepted paper money substitutes for gold because they were cheaper to produce. They accepted them because the bankers assured them that the paper was convertible into gold. This was usually a lie. In 1694 William Paterson assured Englishmen that his Bank of England notes were redeemable into gold. In 1696 he refused to redeem them. The same thing was repeated in 1797. In 1805 Andrew Dexter assured New Englanders that his Farmer's Exchange Bank notes were convertible into gold. In 1809 he refused to convert them. In 1812 U.S. bankers promised their clients that their notes were redeemable into gold. By the end of 1814 all bankers outside of New England were refusing to redeem them. The same holds true for the New York State bankers in the late 1830s and the banks of the entire country in 1861, not to mention 1933 and numerous other occasions. Again and again the bankers made promises to the people and then broke their promises. This is why Thomas Jefferson was led to say:

> "I have ever been the enemy of banks, not of those discounting for [lending] cash, but of those foisting their own paper into circulation and thus banishing our cash."
>
> letter to John Adams, Jan. 24, 1814, Writings, (Monticello ed., G.P. Putnam's Sons, 1894), Vol. 14, p. 76.

In other words, the process of banks issuing paper substitutes for gold was not one of the bankers saving money by a more efficient process and then sharing that saving with the public. In fact, under the system of fully backed paper notes, not only would society have had to incur the cost of digging up the gold out of the ground; it would also have had to incur the cost of printing the paper bank notes. If the bankers had been telling the truth, the entire process would have been more costly than the use of gold coin. What happened was that the bankers made profits by lying to the public. The public took the risks and the losses, and the bankers made the profits.

It is interesting to note Jefferson's reaction to these banker lies. After the banking default of late 1814, he said:

> "The crisis, then, of the abuses of banking is arrived. The banks have pronounced their own sentence of death. Between two and three hundred millions of dollars of their promissory notes are in the hands of the people, for solid produce and property sold, and they formally declare they will not pay them...Their [the banks'] paper was received on a belief that it was cash on demand. Themselves have declared it was nothing, and such scenes are now to take place as will open the eyes of credulity and of insanity itself, to the dangers of a paper medium abandoned to the discretion of avarice and of swindlers."
>
> Jefferson, letter to Dr. Thomas Cooper, September 10, 1814, Writings, Vol. 14 (Washington, The Jefferson Memorial Association, 1904), pp. 187-89.

Unfortunately it didn't open the eyes of credulity. The bankers' propaganda (the earlier day equivalent of Anna Schwartz) was too strong. The bankers' dishonesty was used as justification for giving them more privileges, as exemplified in the second central bank, adopted in 1816.

In short, paper substitutes came to circulate for gold, not because people found them less costly, but because the bankers cheated the people and got away with it. When government was called to intervene, it did not intervene to protect the people from such fraud. It acted to protect

the bankers and to exempt them from the normal business requirement of keeping one's contracts.

However, there is a sort of a truth in Anna Schwartz's history. If one assumes that the bankers are the country and that their interests are the country's interests, then her statement becomes true. It was indeed costly for the bankers to stick to a full gold standard. On a full gold standard, for every dollar lent there must be a dollar saved. The act of saving creates real wealth and adds it to the stock of goods in the world. When the money saved is lent to a bank and in turn lent to an enterprise and goes out to purchase goods in the real world, there is an equivalent amount of additional goods corresponding to the money.

But when the banker issues paper notes in excess of his gold and gets them accepted by people by making a false promise, there are no additional goods in the real world to which they correspond. Saving is not equal to lending, and the additional demand for goods causes prices to rise. The bankers get interest on some additional loans, but the public suffers a loss through the depreciation of their currency. If the banker's interest is all that counts in this world, then paper substitutes for gold are indeed cheaper. They are cheaper for the banker. And that is why Anna Schwartz defends them.

The same holds true for the other devices Ms. Schwartz enumerates: the substitution of bullion for coin (to discourage redemption), the policies of central banks (which lent gold to the smaller banks in order to protect them from the bad consequences of overissue) and the final overthrow of all ties to gold and the proclamation of bank paper as money, enforced by legal tender laws. All of these measures were advanced by a group of bankers who continually sought to expand their privileges and frequently succeeded via the use of fraud.

For example, the bill which took the United States off the gold standard was written by William Woodin (a director of the Federal Reserve Bank of New York) and "scores of worried, desperate bankers," [Robert Goldston, The Great Depression, (Greenwich, Fawcett, 1968), p. 112.] in a secret five-day session. This highly technical bill was presented to the House of Representatives without hearings, in one day, and the congressmen did not have written copies of the bill to look at before they voted. The entire debate took 40 minutes. Procedure in the Senate was little better. This is the process Anna Schwartz describes by saying, "a gradual shift in attitudes occurred [concerning] the advantage of adhering to the gold standard."

If attitudes shifted to be against the gold standard, why were the bankers so careful to disguise their actions? Why did they pretend to support the gold standard while they were acting to kill it? Why did their first legislation sidestep the delicate issue of legal tender by the circumlocution "lawful money" -- which had no history of interpretation by the courts? Why do large numbers of the electorate -- to this very day -- not know that we have left the gold standard? If attitudes have shifted against the gold standard, why did the Republican Party platform of 1980 repudiate the Republican gold embargo of Aug. 15, 1971? If the country abandoned the gold standard because of a grey necessity which no one disputes, why are we worse off now than we were during the 19th century? Why did real wages decline under the paper standard of the 1970s when they had risen for every single decade in previous American history?

It is as though the overthrow of the Roman Republic by Julius Caesar were described as an inevitable process during which it simply became obvious to all concerned that democracy did not work. Caesar himself would prefer that interpretation to the true one -- that he schemed and manipulated the people against their own interests. The same is true of the monetary dictators. They seized power from the people and then had their apologists call it inevitable.

With only one point in this argument do we agree. The full gold standard is an ideal -- in the sense of the most desirable system. To this argument we have no rebuttal.

Error #3: The gold standard leads to instability.

The generally shoddy quality of the Schwartz memo is clearly indicated on page 6 where Ms. Schwartz says that the gold standard resulted in, "instability in the domestic money supply, domestic spending, prices and employment."

The gold standard leading to instability? Perhaps this statement is meant as a joke? It is certainly true that Ms. Schwartz tries to put some distance between herself and her accusation by using the passive voice ("came to be regarded") as though she were merely recording other people's opinions. It is clear that she intended the point to be accepted as true and only used the passive as an escape route in case of an

intellectual challenge. ("Oh, I didn't say that the gold standard led to instability; I only said it came to be regarded that way.")

The trick in this section was to blur the distinction, so carefully made earlier, between the full and the various partial gold standards. A full gold standard allows no bank note expansion in excess of its gold. A system of bank note expansion allows the banks to issue paper bank notes (or other promises for money) in excess of their gold. A central bank supports the system of bank note expansion and allows it to expand farther. A Bretton Woods system, which I do not consider to be a gold standard but which Ms. Schwartz does, keeps the tie to gold only in international exchange. All of these allow progressively greater inroads for paper money, i.e.:

1) full gold standard	no paper money
2) bank note expansion	banks issue paper money 4-5 times their gold
3) central banking	banks issue paper money 6-8 times their gold
4) Bretton Woods	no domestic check on paper money
5) pure paper money system	no domestic or foreign check on paper money.

Ms. Schwartz makes accusations against systems 2, 3 and 4, accusations which are true because of the paper money elements involved in those systems, and then blames the defects on gold. None of the defects are true of a full gold standard, and to the extent any of them hold, it is because of the elements of paper money in the system.

For example, Ms. Schwartz writes: "A fractional reserve gold standard [the banker term for a system of bank note expansion] accentuated the effects of gold flows on the quantity of money."

This is true and is a fault in the system of bank note expansion as compared with a full gold standard. It is a reason for not allowing banks to issue paper promises in excess of their gold. If the banks have issued paper money to the extent of six times their gold, then obviously an increase or decrease in the quantity of gold results in a six-fold increase or decrease in the money supply. But this instability in the system is due

to its paper money aspect, not its gold aspect. Why blame gold for instability in a partial system when the instability was introduced by the paper money aspect of the system?

Taking the larger view, the gold standard, even the partial gold standards, can hardly be accused of causing instability. The traditional American gold standard, even though it was always compromised by bank note expansion (system 2) and occasionally central banking (system 3) and from 1862 to 1879 was abandoned altogether, still gave the country a large degree of stability. Prices in 1933 were the same as they had been in 1793 -- 140 years of price stability, accompanied by an incredible rate of economic growth.

Even the Bretton Woods system emerges as superior to a pure paper system in this regard. Even the slender tie to gold which it embodied, operated to deter monetary (and hence price) increases. Thus the period from the late 1940s to the late '60s was a period of relative stability. And when the bankers got more greedy and more powerful and wanted to issue more paper money, they found it necessary to break the Bretton Woods system in order to do so. It was a thin reed against currency depreciation, but it gave us more stability than we have now.

Error #4: the threat of declining prices

Anna Schwartz also waves the spector of a currency appreciation at us saying:

> "gold is an exhaustible resource, with short-run rising cost curves. Unless there is a technological breakthrough or discoveries of new mines, neither of which can be counted on, there is a serious problem of the adequacy of the flow supply for the forseeable future."

If insufficient gold were mined, this would lead to a period of generally declining prices.

It takes an ivory-tower intellectual with no sense of what the American people are thinking and feeling in 1981 who would regard a period of declining prices as a natural horror, something to be avoided at all costs and requiring no explanation -- like dragons or witches. But if Ms. Schwartz went out into the street and told average, ordinary Americans that prices were going to decline for the next few years and if she were

believed, she would be met with whoops and hurrays and jumps for joy. Declining prices -- would that it were so.

Alas, it is not so. A gold standard would not lead to declining prices. Again if Ms. Schwartz understood American history, she would not commit such an error. As previously mentioned, 140 years of the American gold standard led, not to price decline but to price stability. There are two reasons for that.

First, with monotonous regularity new gold mines have been discovered for century after century, just as new lead mines, new silver mines, new copper mines, etc. It is true that we cannot be absolutely certain of the discoveries of new mines, but it would be a very long shot to bet against them.

Second, gold has the rather unusual quality that no one wants to throw it away. It is easy to see why. Therefore, the total gold in the world today is almost the entire product of more than 3000 years of mining. This means that one year's production, or even 10 years, is small in regard to the world stockpile. Thus even large changes in current production cause only small changes in the supply side of the equation.

It is possible to imagine situations in which a gold standard would cause some price instability. Economics is a study of human activity, and human beings do not act with the mechanical regularity of physical objects. New gold mines might be discovered; a meteor might hit the earth and prove to be of solid gold; space exploration might lead to discoveries of gold on another planet. The tooth fairy might suddenly appear and show us mountains of gold. The point is not that gold is the perfect money. Nothing is perfect in the human realm. It is only that gold is the <u>best</u> money. How do we know? Because it has been chosen as money in country after country in century after century. It has been chosen, not because of any mystique but because it has some very prosaic qualities which are highly desirable in a money. It does not spoil; it is divisible, it is easy to carry a large value in a small purse; it can be easily tested; it is stable in value, and its value is not determined by outside authority.

Error #5: The monetarist becomes a Keynesian.

On page 7 of her memo Anna Schwartz writes:

> "Under a properly functioning gold standard, the only goal that a central bank can achieve is the maintenance of convertibility. It cannot at the same time be responsible for achieving the goals of high employment, real economic growth, and productivity."

This is an amazing statement. It is true that under a gold standard with a central bank (not the kind we advocate) the central bank is tied down. But the entire point of the monetarist proposal which Ms. Schwartz inserts at the end of her memo -- a fixed rule for increase in the money supply -- is to tie the central bank down so that it cannot at the same time be responsible for achieving the goals of high employment, real economic growth and productivity.

This is real news. Secretary Regan may not have convinced the gold bugs to abandon the gold standard by employing Ms. Schwartz, but he seems to have convinced the monetarists to abandon monetarism. If this is the only accomplishment of the Gold Commission, we can say that it was not in vain.

It is our intent to move swiftly to the sidelines here and not get caught in the crossfire between the monetarists and the Keynesians. For the record and because Ms. Schwartz seems to be ignorant of American economic history, let us simply report how the American gold standard (imperfect as it was) worked in practice in regard to employment, growth and productivity.

Employment statistics are only available since the beginning of the 20th century, and during most of that time the country has either had a central bank or been off the gold standard completely. The closest to a full gold standard occurred during the period 1900-1913. During these 14 years, unemployment averaged 4.2%, dropping as low as 0.8% in 1908 (BLS). This occurred in spite of massive waves of immigration which threw American workers out of work and with a consumer price index which was rising at about the rate of the 1950s.

It is true that increased issues of paper money do reduce unemployment. But they do so with the drawback of two important social costs: They reduce real wages, and they misallocate resources to cause malemployment.

To reduce unemployment for a few workers by lowering the wages of all workers is a cruel hoax on the working class. But even worse is the

nature of the employment which is created. It is malemployment -- dependent on the kind of distortions which the paper money issues have introduced into the economy. For example, in 1972 the paper money supply increased by over 8% and real interest rates dropped to almost 0. This led to a housing boom. (Mortgages were cheap.) Many workers became employed in building houses. But when the public cried out against the 12% increase in prices of 1974, the money supply was throttled back to 4 1/2% growth, interest rates rose, construction plummetted, and the malemployed construction workers became unemployed.

This trade-off between "inflation" and unemployment has been noted by many economists. What has not been noted is that, as malemployment grows, the tradeoff gets worse. Paper money issues reduce unemployment, but they do so at the expense of creating malemployment; this makes the trade-off worse and raises the long term level of unemployment. The contrast between the decade of the '70s and that of the '00s is a good example. (See my book, The Paper Aristocracy, for a fuller explanation of this phenomenon.)

As for productivity and real economic growth, the period when the United States had a gold standard without a central bank (1836-1861 and 1879-1913) was the most productive in the history of any country at any time. It certainly exceeded the real growth of our own generation whose cars are getting smaller and houses more difficult to afford.

Perhaps under a full (or partial) gold standard a central bank cannot pursue policy objectives as above. But no central bank has ever achieved any of those worthy objectives as well as the gold standard.

Error #6: the gold standard in international exchange

It is well known that the monetarists oppose what they call "fixed exchange rates" and are in part responsible for President Nixon's 1971 decision to dishonor our promise to redeem dollars presented in international exchange for 1/35 oz. of gold. Monetarists have tried to present this as a free market position: freely fluctuating exchange rates versus price fixing (of gold) by the government.

But in fact the real government intervention in the free market was the passing of legal tender laws. These laws enforce the paper money mystique -- that pieces of paper have a value as money above and beyond their value as a scrap of paper if so decreed by higher authority. They

require that the paper money be accepted as though it had that value and regard a debt as paid if such paper is tendered by the debtor. In 1933, the government took paper promises to pay 1/20 oz. of gold and declared the paper on which these promises were written to have the same value as the piece of gold. Even if the two parties to an exchange agreed that payment would be in gold, this contract would be overridden, and legal tender would take precedence.

Anna Schwartz says nothing about such violations of the free market and the right to make contracts. But when a tiny infringement is made on this coercive system, when the Federal Reserve note is no longer treated as legal tender but is again regarded as a promisory note for gold (at 1/35 oz. per dollar), then the monetarists can no longer tolerate it. The Bretton Woods system is not a free market in money, but it is closer to such by virtue of less reliance on the fundamental coercion of legal tender laws.

Perhaps it is worth noting from whence the Bretton Woods system came. It was the brainchild of Cordell Hull, F.D.R.'s Secretary of State, who saw it as a means of preventing mass wars, such as World War I and II.

Under a system of floating exchange rates (the international version of a full paper money system), economic advantages and disadvantages quickly occur which affect groups in country after country. The competition in our own country from foreign cars is only the most recent example. As the exchange rates fluctuate, and first one group, then another, is injured in the economic competition, it regards its misfortune, not as its own fault, but as the result of outside forces. It is not willing to listen to Milton Friedman or Anna Schwartz explain how such a system will iron everything out in the long run. It is hurting in the here and now. Therefore, it runs to the government and demands a compensating advantage, perhaps a tariff, perhaps a quota, perhaps a subsidy, etc. This political pressure is not often resisted.

As more and more groups in the various countries do this, the restrictions on trade lead to policies of beggar-thy-neighbor.* Eventually

* This is the name for it in current discussion. Actually it is not the countries themselves which are beggared; it is the powerful interest groups within them. Often their interests are directly opposed to the interests of the majority within their own countries. For example, it is in the interest of the American consumer to have the option of inexpensive Japanese cars. The imports are a threat to U.S. auto manufacturers, not the public; yet they are regarded as a threat to America.

this economic competition leads to war. It is no secret that Germany was impelled to war in World War I in part by a desire to obtain an imperial empire like that of England in which she could trade freely. Hitler, although he undoubtedly would have gone to war anyway, gained internal support for his militarism by his demand for living-room in Eastern Europe, a German Empire corresponding to England's overseas one. And of course, it is well known that a good part of the Japanese motive for going to war in the 1930s was the Greater East Asia Co-Prosperity Sphere, a zone in which Japan could trade free of the restrictions put on her by the Western powers. This was the course which ultimately led to Pearl Harbor.

Cordell Hull had analysed trade restrictions, which are generally brought on by floating exchange rates, as a major factor in causing World War I and II. To leave a legacy of peace, he took the lead in restoring a partial gold standard for the post-war world. The only objection we have to the Bretton Woods system was that it did not go far enough. Instead of making Federal Reserve notes redeemable in gold for foreigners, it should have made them redeemable for everyone. Then it should have dissolved the Federal Reserve and abolished the principle of bank note expansion.

Because it did not, the bankers still retained a (more limited) privilege to expand the money supply. At first they used this privilege moderately. The expansion in the money supply roughly kept pace with the increase in peacetime production as the nation recovered from war. But eventually the bankers got greedy. In 1967 the growth in the money supply hit 7%. This was incompatible with the Bretton Woods system. First an attempt was made to restrict the increase in money. The money supply in 1969 grew by only 2%. But when this led to a stock market collapse, a 10% decline in corporate profits and the bankruptcy of the Penn-Central Railroad, the corporate elite began to scream for more paper money.

Since foreign countries were already demanding the gold and since the gold stock was barely above the statutory limit of 25%, the corporate demand for more paper money was incompatible with the continued existence of the Bretton Woods system. In the decade since it has been gone, we have seen the world move closer to war. As Hull used to say, "If goods can't cross borders, soldiers will."

In computing the costs of a paper money system as compared with a gold standard, Ms. Schwartz has not added the cost of war to her analysis.

Error #7: Anna Schwartz opposes the free market.

It is often contended against conservatives that they favor socialism (i.e., government benefits) for the rich and the discipline of competition for the poor. They claim to be advocates of the free market, but they do not consistently adhere to this position when the interests of their patrons are at stake.

As has previously been noted, any paper money system requires an interference in the free market. The government must step in and force paper money to be accepted at face value in trade -- in contradiction to the wishes of the parties and any contracts which have been made. For example, consider the situation of the Crane Corp. in Massachusetts. This company supplies the paper which goes to print the nation's money. It sends ream after ream and truckload after truckload of high quality paper to the Bureau of Engraving and Printing. And what does it get back? It gets back an insignificant fraction of its own paper, marred with ink in such a way as to make it useless for writing purposes.

Who is to say that Crane is receiving an equal value? Is it the free market? If there were no government, would Crane consent to such an arrangement for one day?

Strangely enough, I have heard monetarists who really believed in their own magic powers, who really believed that these tiny pieces of paper became as valuable as 1/35 oz. of gold when the higher authority decreed them so. These people declare that legal tender laws are not needed and that paper money would circulate because of the people's faith in higher authority.

To these people we offer a challenge: support the repeal of the legal tender laws. If the people of this country, when given a free choice, prefer paper to gold, we will abide by that decision. If you are not willing to, then in no way can you claim to be devotees of the free market.

Error #8: the reversal of cause and effect

Anna Schwartz argues, "before restoration of an international gold standard could be seriously contemplated, the disparity among rates of inflation would need to be reduced....The basic requirement [for a move to gold] is a renewed commitment to long-term price stability." The same argument is sometimes made by people who say that we must balance the budget before we can have a gold standard.

Who are these people to impose conditions like this? It is like saying that the slaves cannot be freed until they have been educated. This is an apology for the vested interests who benefit from slavery. In reality it was the opposite. The slaves were not allowed to be educated until they were free.

It is within the power of the government to give us a gold standard by repealing the laws which took us off it. And this gold standard will balance our budget. It will give us long term price stability. And to the extent that other nations copy us, it will stop the depreciation of all our currencies. We do not have to wait on any of these events. To wait on them is to wait forever. They are the result of a gold standard, not its prerequisite.

What Anna Schwartz is saying is that we should not put gas in the car until we have the commitment to go on a trip. The answer is that we manifest the commitment by putting the gas in the car. Do the American people have the commitment to price stability? Those members of the Commission who are elected officials may answer that one. To say that we cannot have a gold standard until after prices are stable is like saying that you cannot get a job until after you have experience. It is sophisticated nonsense, a catch 22, the argument of a third rate mind.

Error #9: the commodity bundle and the pork belly

Toward the end of her memo, Anna Schwartz throws up the commodity bundle standard. Perhaps this was intended as a joke, to throw a little levity into the proceedings. Once again we have the same boring assumptions which permeate the memo, that a monetary authority must exist and that it must buy and sell the commodity bundle with paper money. In this case, as in every case suggested by Ms. Schwartz, money is paper blessed by higher authority. That is holy writ. If rules are made tying this paper money to gold, she calls it a gold standard, if to a bundle of commodities, she calls it a commodity bundle standard. But she has no real conception of what either standard is.

A true commodity bundle standard would be a system where a group of commodities was used as money. In other words, one might go into a store to purchase an item and pay one commodity bundle unit for it. This would, let us say, consist of one pound of steel, two pounds of

copper, a bushel of wheat and a bale of cotton. This example shows the kook nature of this proposal. Who would ever do such a thing? How would such a complex system evolve?

Everywhere throughout history a single good evolves as money because nobody would want to get that complex. It is true that a collection of goods have an average value which is more stable than a single good. But stability of value is only one of the qualities desirable in a money. Money is first and foremost a convenience, an expediter of trade. It is more convenient than barter. Gold has sufficient stability of value for most people, and when people are given a choice, they prefer it to the complexity of a plural standard.

We understand that what the commodity bundle people have in mind is not the use of the money itself but of warehouse receipts (written on paper) for it. The same holds for the pork belly standard jokingly suggested by Milton Friedman. But in addition to the greater cost of warehousing such monies, the point of using them is precisely to discourage redemption of the warehouse receipts.

In the early days of bank note expansion, the most fraudulent bankers also tried to discourage redemption of their notes. They did this by locating their banks in inaccesible places far out in the country -- where the wildcats roamed. Hence they became known as wildcat bankers. Their motive was to prevent their fraud from being discovered. The same is true of all other attempts to discourage redemption. Aside from getting Milton Friedman's pockets greasy, it is hard to see any other motive for the pork belly or commodity bundle proposal.

Comment on monetarism:

Anna Schwartz concludes with a pitch for her pet scheme -- a fixed rate of growth in the money supply to be imposed on the Federal Reserve. Of course such a proposal would make it impossible for the Fed. to orient its policies toward "the goals of high employment, real economic growth, and productivity," at the same time (as previously noted). But beyond that we have the following comments.

First, it should be noted that Anna Schwartz and her compatriot, Milton Friedman, arrived at the conclusion of monetarism by studying the gold standard. Their research of periods when the United States had a stable currency were almost exclusively periods under the gold standard. What they wish to do is to produce the effect which the gold standard produced but without the cause. They want to order the monetary authority to duplicate the way the gold standard acted when it was in operation.

The most serious objection to this plan is that our economy has changed since the 19th century. At that time, increase in goods and services was 3-4% per year. Thus a 3-4% increase in the money supply kept prices stable. However, the malinvestment and malemployment of paper money expansion has today destroyed real economic growth. In the decade of the 1970s the supply of money doubled. Had real economic growth been going along at 3.5% per year, then compounded annually over the decade there would have been a 41% increase in goods and services, resulting in a 59% increase in prices. But instead, prices also doubled, showing that real growth during the 1970s was zero.

In other words, the correct monetary growth rate to keep prices stable during the 1970s was 0%. It was not the 3-4% originally presented by Milton Friedman at the start of the decade. This mistake on the part of Mr. Friedman is highly significant, as we shall see.

Our objection to monetarism is not that it would not work. Monetarism is a carefully constructed imitation of the gold standard (which did increase the money supply at a 3-4% annual rate throughout the 19th century). As such it would work -- except for the fact that the essence is gutted out of the system.

The essence of the gold standard is that the bankers are not allowed, either by fraud or force (i.e., bank credit expansion or legal tender laws), to foist their paper on the people as money. Thus the real issue contained in the gold standard proposal is a clash of interests, the interests of the people versus the interests of the bankers. The gold standard safeguards the rights of the people against the privileges of the bankers. Monetarism completely fails to admit that there is such a clash of interests.

Thus the monetarist proposal commits the same fallacy as the village which hired the wolf to guard the sheep. The villagers carefully enunciated a rule for the wolf to follow: "The sheep authority is not supposed to eat any sheep."

"If only the wolf would follow our rule," the villagers say. "Our rule is perfect, but people are imperfect because they will not follow it." In the same way, the monetarists expect a monetary authority founded by the bankers and run by the bankers to follow a rule which goes against the privileges of the bankers. (The involvement of the Manhattan Bank in the Federal Reserve has continued from its chairman, Paul Warburg -- known

as the father of the Federal Reserve -- to its former employee, Paul Volcker, who is today's Fed. chairman. This involvement is symbolized by the location of the New York Fed across the street from Chase-Manhattan headquarters in the New York financial district.) The monetarist rule is fine, but it will never be followed because the bankers do not want to be limited.

What the monetarists have done is to take the gold standard and gut its heart by substituting higher authority for the people's freedom to choose their own tender. It is the perfect corollary in the monetary realm of the political doctrine that the people would be best served by a dictator who followed a rule of benevolence, a philosopher-king.

Do we not understand that dictators, kings and the power structures which support them act in their own interests and that the only way to protect the people is to give them power? That is the essence of democracy. The same truth applies to money. The only way to serve the interests of the people is to give them the freedom to use whatever money they choose. We cannot depend on the wisdom or benevolence or sense of justice of an elite whose interests are opposed to the interests of the people.

And this is the true meaning of monetarism. It is meant to be a pius theory to excuse and rationalize the privileges of the bankers, just as the theory of the benevolent dictator is meant to excuse real dictators who are cruel and tyrannical. We have not had a Fed. chairman who has not solemnly proclaimed his goal of a stable currency; yet the dollar of 1933 is now worth 11¢. We have not had a Fed. chairman since 1970 who has not shown high regard for the monetarist rule; yet the money supply has doubled since that time. Indeed, it has expanded over the past year at a rate which would double it over the next decade. Just as the dictator proclaims his devotion to the people while he exploits them, the Fed. proclaims its opposition to inflation while it depreciates the currency (e.g., Henry Wallich) and its devotion to monetarism while it balloons the money supply.

Two other pieces of evidence indicate that monetarism is never meant to be practiced but is only a drawing room theory to rationalize the privileges of the bankers. First, there is the great guru himself, Milton Friedman. Friedman started off talking of the 3-4% rule. Then he switched to the 2-6% rule (why I could never figure out). Today no one

speaks of 2%. Indeed, the money supply has never grown by as little as 2% since monetarism became popular in 1970 (although it often did before that time).

Of course the Fed. itself, not being as pure as the master, takes, not 6%, but 6 1/2% as its upper target. And if the real figure comes in at 7% for year end, who would complain for so near a miss? The final story comes a few years later when revisions prove that actual money supply growth has been 7 1/2%. (Since the beginning of President Carter's term of office money growth has averaged at least that figure.)

As was previously demonstrated, the true monetarist theory for the present time should give us 0% growth in the money supply because there is 0% real growth in the economy. So this is monetarism in practice. From what ought to be 0, it edges its way up to 7 1/2% -- a difference in real expansion of more than 100% over a decade. It does this by nibbles and bits, and no one seems to care.

The second piece of evidence that monetarism is a rationalization for the bankers is in the unwillingness of monetarists themselves to adhere to their own theories. According to monetarist theory the gold standard should rank a close second to their proposal, being another way to limit monetary growth and imposing only the cost of mining the gold.* (Actually, since -- when given the freedom -- people repeatedly choose gold over paper, that cost could not be such a great factor.) Gold bugs and monetarists should -- in theory -- be brothers under the skin, and indeed I have always supported the monetarist rule (the lowest I could get) as superior to the present system. But monetarists such as Robert Weintraub and Anna Schwartz, while supporting the gold standard in theory,

* The value which gold gives people which makes it worth the labor of extraction is the value of confidence. This is not confidence in false promises. When a man holds gold in his hand, he knows he has been paid. Pure paper money advocates have never been able to inspire such confidence, which is why their paper money systems always require the coercion of legal tender laws. This is the social value which justifies the social cost of digging the gold out of the ground.

have reserved their most vicious attacks for the gold bugs. Milton Friedman is quick to criticize when the rate of monetary expansion drops too low, but his voice is rarely heard when it gets too high -- as it has been regularly over the past 10 years.

Finally, when one considers what has happened in the real world during the past decade, the monetarists are simply not to be believed. The currency has dropped in value by one-half, the biggest drop in time of peace since the Constitution was adopted. Elderly people on fixed income are eating cat food because they cannot afford human food. Real wages have fallen by 15% in the past four years. Yet there is no sense of urgency in the monetarists' actions. They are not concerned to act in the real world but to debate fine points of theory while people starve. "We were right," they say. "They should have listened to us." And they devote themselves to partisan attacks against the only measure which has a chance to stop the depreciation.

The bankers are not going to roll over and play dead. They are not going to easily give up their privileges. They are going to fight tooth and nail. And only an aroused public can defeat them. How can the public be aroused by the stiring slogan of 2-6% growth in the money supply -- in particular when its leading advocate is quite likely to switch to 1-7% growth at the drop of a hat? How can such a rule be meaningful to the average person.

No, the average person cannot see the sense to a mechanical rule. But he can see the value of gold, and he can see the value of monetary freedom. Money ought to have value in and of itself. In this respect the average person today understands more economics than many who are passed off on us as economists. This is a principle that can win the public support necessary to stop the bankers and stop the depreciation of our currency.

The reason the monetarists feel no urgency is that they feel no pain. They are pampered horses in the bankers' stable. They are undisturbed precisely because the bankers are fat and happy. They have no identification with the wage earner or those on fixed income.

In closing we must protest the high-handed manner in which Anna Schwartz was foisted on the Commission. The Commission did not ask for her. The opinions expressed in her memo do not represent the majority opinion of the members (let alone the informed majority opinion after

holding hearings and considering the subject). She was simply appointed by the Executive to tell the Commission what its opinion was with the expectation that they would meekly ratify whatever she wrote. We hope that the Commission has the dignity to resist this attempt to override its point of view.

America was founded by men who believed strongly in the gold standard, most prominant among them, Thomas Jefferson. Jefferson was against making paper money into a legal tender; he opposed central banking; and he opposed the bankers' privilege to create paper notes in excess of their gold. In a letter to his son-in-law, John W. Eppes, on Nov. 6, 1813, he discussed the money question at length, saying:

> "The sum of what has been said is, that pretermitting the constitutional question on the authority of Congress, and considering this application on the grounds of reason alone, it would be best that our medium should be so proportioned to our produce, as to be on a par with that of the countries with which we trade, and whose medium is in a sound state; that specie is the most perfect medium, because it will preserve its own level; 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, or its convenience for transmission, weighs nothing in opposition to the advantages of the precious metals; that it 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 of abuse in these States, which has never been reached by any other nation, France excepted, whose dreadful catastrophe should be a warning against the instrument which produced it; that we are already at ten or twenty times the due quantity of medium; insomuch, that no man knows what his property is now worth, because it is bloating while he is calculating; and still less what it will be worth when the medium shall be relieved from its present dropsical state; and that it is a palpable falsehood to say we can have specie for our paper whenever demanded. Instead, then, of yielding to the cries of scarcity of medium set up by speculators, projectors and commercial gamblers, no endeavors should be spared to begin the work of reducing it by such gradual means as may give time to private

fortunes to preserve their poise and settle down with the subsiding medium;"

Jefferson, Writings, (Monticello ed., 1904), Vol. 13, pp. 430-31.

The organization Jefferson founded to fight against the paper money institution of his era, the central bank, was continued by Andrew Jackson and became the present-day Democratic Party. The country largely followed his advice and became the most prosperous in the history of the world. We recommend to the Gold Commission that this same advice be taken today and that the principle of equality, of no special privileges for any elements of the society, be applied to the area of money as it is routinely to other areas of American life.

81-12005

July 15, 1981.

PERSONAL and URGENT

The Honorable Donald Regan, Treasurer,
U. S. A.
U. S. Treasury,
Washinton, D. C.

Dear Mr. Regan:

I am attaching a copy of a letter to Mr. David Stockman, the contents of which should be made known to President Reagan. It is on a subject that is bound to come up at the Ottawa Economic Conference. Would you be so kind as to see to it that he will have the knowledge of its contents while at that meeting.

As Treasurer, cabinet member and Chairman of the Commission on Gold, it will also be interest to you. It goes to the heart of inflation, the dollar and gold; therefore, I also submit it for the Commission's agenda.

To master the inflationary psychology without risking economic chaos. The base for accomplishing that is that we must reverse our past unrealistic fetish against gold. It is the core anathema to the inflationists who have been wailing against it for ages -- much to their chagrin. It has always come back from their efforts to denigrate it as the universal money. Making the now fiat dollar (and the other paper that will have to follow our example) again the warehouse receipt for gold that it once was, is not demeaning. It is purely the flexibility of commonsense. So long as no more paper is permitted to be printed and no fictitious inflationary reserve growing out of a further fictitious profit resulting from the raising of gold's price from the present ridiculous $42, gold set by us at a price that is equated commensurately with the world supply of dollars, inflation without chaos will be well in hand. We can then over time gradually reduce the oversupply of dollars.

Fortunately, having been a business man in finance, you will recognize the commonsense of our (and not an auction bidder) setting the value of our gold reserve ourselves. It is vital that we set a high price to protect that valuable reserve from the marauding that has depleted it by 60%. As a former military man you can also realize what its value would mean to us in the crunch of a war.

Very sincerely yours,

Edward H. Kingsbury

3 Live Oak Lane,
Zellwood, FL., 32798.

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PERSONAL

January 26, 1981.

Mr. David Stockman, Director,
Office of Management and Budget,
Washington, D. C.

Re: Controlling Inflation ---- Where to Begin?

Dear Mr. Stockman:

This is being written in the hope that this administration, different from its predecessors, is forcibly determined to tackle the control of the ravaging world inflation by commencing immediately to set a firm example of that determination.

Out of the ramified confusion stands the prime necessity of making the fiat dollar fully convertible with gold. This prime immediacy is the telling psychological message that it will carry to the rest of the world. The further necessary paring of waste is going to be a drawn out process that must be done in an atmosphere of tranquility and not one of threatening panic.

The lack of the dollar's convertibility and consequently the lack of an automatic restraint on its printing is quintessential to not only our inflation but to that of practically the entire western world. Unless we give the dollar intrinsic value and control its printing to excess as we are now doing, it will continue to be "hot money" without credence and respect and continue its loss of confidence and value.

To accomplish this most vital purpose without, as we are now, threatening the world with a catastrophic depression by excessively unsustainable high interest rates which, contrarily, are compounding the dollar's supply and the country's interest debt burden, it is crucially important that we equate the price of gold commensuratly in balance with the worldwide excess of fiat dollars at a price in the range of several thousand dollars an ounce and invoke a constitutional mandate that a reserve, preferably 100% of gold, be held behind them. Taking a leaf from OPEC, commonsense dictates that we set and demand a substantial price for our large gold hoard instead of letting it go, as we foolishly have, at bargain basement prices. Aside from its fundamental monetary value gold has inestimable military value. The more value our reserve commands the greater is our world power.

The floating of currencies without a tie has patently been a disasterous failure. Correcting it immediately is the first priority before doctoring the glaring abuses. It will level the economy on its present plateau; whereas, breaking through its fragile structure, will result in a disasterous depression.

superficial arguments against equating the price to the excessive supply of fiat dollars are: the very nebulous assumptions that Russia has a vast hoard and it would therefore benefit; the other is that it would benefit South Africa. Assuming that the presumption as to Russia is correct, the simple answer is for us to demand gold from it in payment of our foodstuffs etc. As to South Africa, that country is our only bulwark against Russia on that continent. Even more important, it is the west's vital source of strategic metals and minerals plus its vital control of the equally vital Cape of Good Hope sealane. Contrary to the idiosy of inflicting sanctions and embargoes upon it, it would clearly benefit its blacks to have the price of gold increased substantially.

It is obviously important that the administration and the Congress take this immediate action and signal their full support for your further endeavors to eliminate the woeful waste that has been wanton.

I have reviewed S. 3181 by senators Helms, Goldwater and McClure. While I heartedly welcome its intent of making the dollar convertible, I feel that its floating gold price aspect leaves the manipulation of the price of gold by "hot money" too open. An immediate high fixed price (as per OPEC) bars that danger.

If you are in accord with the basic thought, I would appreciate your favor of having this letter reproduced and put in the hands of those you know it will definitely concern. Any comments by yourself will be appreciated.

Most sincerely yours,

E. H. Kingsbury

3 Live Oak Lane,
Zellwood, Florida
32798.

THE GOLD STANDARD AT THE THRESHOLD?

The appointment of the Gold Commission with Mr. Donald T. Regan as chairman can be a giant stride toward a return to the bridling of the future effusion of fiat paper money through the discipline of gold; not only for the fiat dollar but for all of the fiat paper of the western world. However, that achievement is not going to be brought about unless the gold advocates move quickly to redirect the negative attitude toward the price of gold which has been politically embedded over the past half century. The Commission's report is due this October. At the moment that activity is not apparent. What is apparent is that the monetarists and Keynesians are very much in the saddle. Of the seventeen Commission appointees, only two are known to be confirmed gold advocates. The following are evidence that the current thinking in Washington is not toward adopting the gold standard. President Reagan has made such remarks as "gold is a wild card" and the apparently gleeful remark to Mr. Volcker that he had read that gold was going to drop to $250. A recent Wall Street Journal article states that he intends to replace Messrs. Volcker and Shultz with monetarists as their terms expire over the next two years. Most jarring is that the new tax law bars IRA and Keogh investors from investing in gold or gold coins after December 31, 1981. Mr. Meese has expressed himself as being against the gold standard. Then there is the recent sale of silver from an already depleted stockpile. Listening to the ultra-conservative Mr. Reagan before the election, one would have concluded that his tirades against political profligacy would signify an immediate move to stem the further profusion of dollars by a permanent mandate of 100% convertibility to gold along with a required 100% disciplinary gold reserve against their printing. As the priority, it would have been the telling antidote to squelch the elusive "inflation psychology." Our severely drained but still substantial gold stock continues to carry the inane value of $42 an ounce and there has been no move to mark it to the market. Unless the gold advocates start campaigning, their years of travail will have gone for naught and the case for the gold standard lost by default. The monetarists and the Keynesians, who are closely related, are a vociferously forcefull lot.

What little has appeared in the press from gold advocates, instead of being uncompromisingly for gold, has equivocated by symbiotically invoking the identical paralogisms and cliches from their monetarist and Keynesian adversaries. Instead of giving sole priority to our and the west's self-preservation, they allude, somewhat apologetically, to the hackneyed bromides that unfriendly Russia and our ally, South Africa, would also benefit if we raise the price of gold for the protection of our precious gold stock against "hot money" marauders. Specific factual answers to these specious contentions are given later.

Completely confounding to most is what price is to be set for our gold stock and by whom. Naively, they refer to the international money market euphemistically as a "free market" and recommend that we toss it into that and let it determine its price by that market's bids. They overlook the fact that there are over one hundred and fifteen billion of menacing, demand dollars readily available for the manipulation of our gold to a bargain price that they are prepared to pay. In relatively recent years that market has taken 60% of our gold at its price. In OPEC fashion, it is only sound sense for us to set our own high price to protect our stock. In setting that price we must bite the bullet by recognizing the realty that we have spewed countless dollars throughout the world and that they are severely eroded. In the text of that realization we must set the price for our gold by equating it with the vol-

use of those dollars to protect our stock from further depletion. It would probably call for a defensive price of several thousand dollars an ounce; otherwise we will face the chaos of another humiliating embargo. After World War 1, Britain, then the world banker, with the same false pride that we persist in today, made the fatal mistake of overvaluing its pound against gold when it returned to the gold standard. The consequence was a run on its gold stock that forced it and, subsequently, the other nations off the gold standard. This led to the monetary collapse and the depression of the thirties which, in turn, brought on the paper money manipulations that have led to the present world wide inflation. If the price we set is announced with alacrity, the high protective price would obviate gold speculation immediately. The shorter the span of time between the adoption of the standard and the announcement of our price for it, the less will be the gold speculation with its monetary upset. Best would be a weekend. Governments are old hands for that time having used it so often to announce devaluations.

Another fallacious contention of the monetarists and Keynesians and, deplorably, too many gold advocates, that disintegrates on examination is that a high protective price or the unliklihood of a large gold find would, ipso facto, trigger rampant inflation. The unassailable and poignant contradiction of that is that gold, which is wealth, does not print fiat paper money. Fiat paper money is printed at the will of solely self-serving politicians. That is so well known that it is axiomatic.

Of quintessential importance, if the gold standard is adopted, is to be absolutely certain that it is firmly implanted by whatever means necessary for its inviolate perpetuation. Otherwise, it will be doomed for a short life

Of the utmost importance, but completely ignored in press articles, is the vital survival military importance of our gold stock in time of war. Gold and gold alone will buy armament from your enemy. Paper money never will. Of equal importance in a time of war, as made evident by numerous examples, only gold will buy food and strategic materiel.

Disappointing is that the gold advocates generally agree with the questionable contentions of their monetarist and Keynesian adversaries that a high world gold price would benefit unfriendly Russia and our ally in both world wars, South Africa. Conceding that they will benefit to the extent of their gold holdings, the crux is that the U. S. and its allies with their much larger combined gold holdings will benefit to a far greater degree by bringing equilibrium out of threatening chaos.

Let us examine the extent of the benefit to Russia. Their dissembling strategy, with which they have pretty consistently been able to outpoker us, makes the amount of their gold and the cost of its production purely a conjectural guesstimate. Significant is their frugality in paying it out; especially when contrasted with our profligacy in tossing it on the market at bargain prices to the extent that we now have but 40% of the stock we had but twenty years ago. What they have proven to a certainty is that gold is the only universal money.

The following nuggets of communist wisdom are taken from Karl Marx's "Critique."

> "How many reams of paper cut into bills can circulate as money?.... The worthless tokens are signs of value only in so far as they represent gold within the sphere of circulation and they represent it only to the extent to which it would itself be absorbed as coin by the process of circulation...
>
> "Since paper bills are legal tender, no one can prevent the state from forcing as large a quantity of them as it desires into circulation....Take away from them their function and they become worth-

less rags of paper. Yet this power of the state is a mere fiction. It may throw into circulation any desired quantity of paper bills of whatever denomination, but with this mechanical act its control ceases. Once in the grip of circulation...the...paper money becomes subject to its intrinsic value laws.

"While the state is guilty of debasing gold and silver and of disturbing their function of a medium of circulation if it turns out a coin only 1/100 of a grain below its nominal weight; it performs a perfectly proper operation by issuing absolutely worthless paper notes which contain nothing of the metal except its mint denomination.

"While gold circulates because it has value, paper has value because it circulates."

Completely overlooked in this cliche is the economic detriment to Russia if the west returns to the gold standard. The non-convertible ruble would severely depreciate and put a heavy drain on whatever gold stock Russia may have. That could mean a strangling constraint on its arms building even to the point of nonthreatening insignificance.

If there are still some who remain concerned over the benefit to Russia, all that is necessary is to require that it make all payments in gold.

As to the South African cliche, as the world's largest gold producer it and its blacks will benefit greatly. The ironic epitome of hypocrisy has been our determined but futile effort to hold the price to $35 an ounce to the detriment of its blacks while, at the same time, howling over improving their economic status. That hypocrisy held down the wages that could be paid to the 450,000 black gold miners. Since gold has unshackled itself from U. S. domination the black wages have been increased by some 500% and considerable expenditures have been made on improving their living conditions. South Africa is rabidly anti-communist. It is the sole producer of minerals vital to our industry and security. Its thriving agriculture feeds the equally hypocritical black countries that are ruled by oppressive dictatorships. It controls the Cape of Good Hope, the lifeline of the west. That Russia is looking forward to snaring it as a prize of equal value as the Persian Gulf is glaringly obvious. Keeping a high gold price would clear our conscience and be a blessing to its black people.

Monetarism and its sibling Keynesianism have failed miserably. The interest rate weapon that it has recently turned to presents a dangerous risk to both the U. S. and European economies. It has already proven to be a failure in England, our prototype, and now in France. Its basic weakness as an effective means of reversing the "inflation pyschology" is that no one believes that it will be sustained by the politicians whose prime interest, unfortunately, is to get reelected. Inherently it defeats its own purpose in spewing out more dollars through the payment of the high interest rates thus adding to the money supply. It follows that the national debt and budget are being bloated. A "strong" dollar, in the main, because of the payment of high interest, if it persists, will balloon the deficit in our balance of payments again spewing more fiat dollars into the monetary maelstrom. High interest increases business cost and is therefore inflationary. The accompanying yo-yo Ms and floating exchange rates add the inflationary cost of hedging. Their side product of instability creates further indirect costs.

Only a return to the gold standard will give monetary stability by providing a common denominator measure of value to currencies upon their return to their originally intended purpose of serving as warehouse receipts for gold. Gold is the politician's anathema as it impedes their self-serving propensity to tax and spend in order to get elected and reelected.

THE HOLT INVESTMENT ADVISORY
290 POST ROAD, WESTPORT, CONN. 06880

October 23, 1981

Hon. Donald T. Regan
Secretary of the Treasury
Department of the Treasury
15th Street and Pennsylvania Avenue
Washington, D.C.

Dear Secretary Regan:

I have enclosed a copy of the October 2, 1981 edition of the Holt Investment Advisory in which Mr. Holt's article on returning to the gold standard appeared. We would appreciate your including this article, which begins on page 5, into the record of the U.S. Gold Commission.

Thank you very much.

Sincerely yours,

Keith Jurow

Published by: T. J. HOLT & COMPANY, INC.

current setback may well be similarly short-lived.

There is, however, a major difference between the capital market today and that prevailing in the early 1970s. Then, the gap between stock and bond yields was relatively narrow. And the return available for fixed income securities was not much higher than the inflation rate. Today, bonds provide some three times as much income as the average stock. Their yields not only exceed the inflation rate, but all funds' actuarial requirements as well. In other words, there's every incentive for fund trustees to insist on putting most new cash flow into fixed income securities henceforth. If so, the market will enjoy less institutional support from now on.

The upshot, then, is that the long romance between pension funds and equities is coming to an end. That suggests that even after the current primary bear market has finally been arrested, there won't be any full recovery any time soon. The market will, instead, probably move sideways for a long time. The Dow-Jones industrial average may never cross the 1,000 mark again in this century.

THE HOLT ECONOMIC ANALYSIS

Too Early For Gold

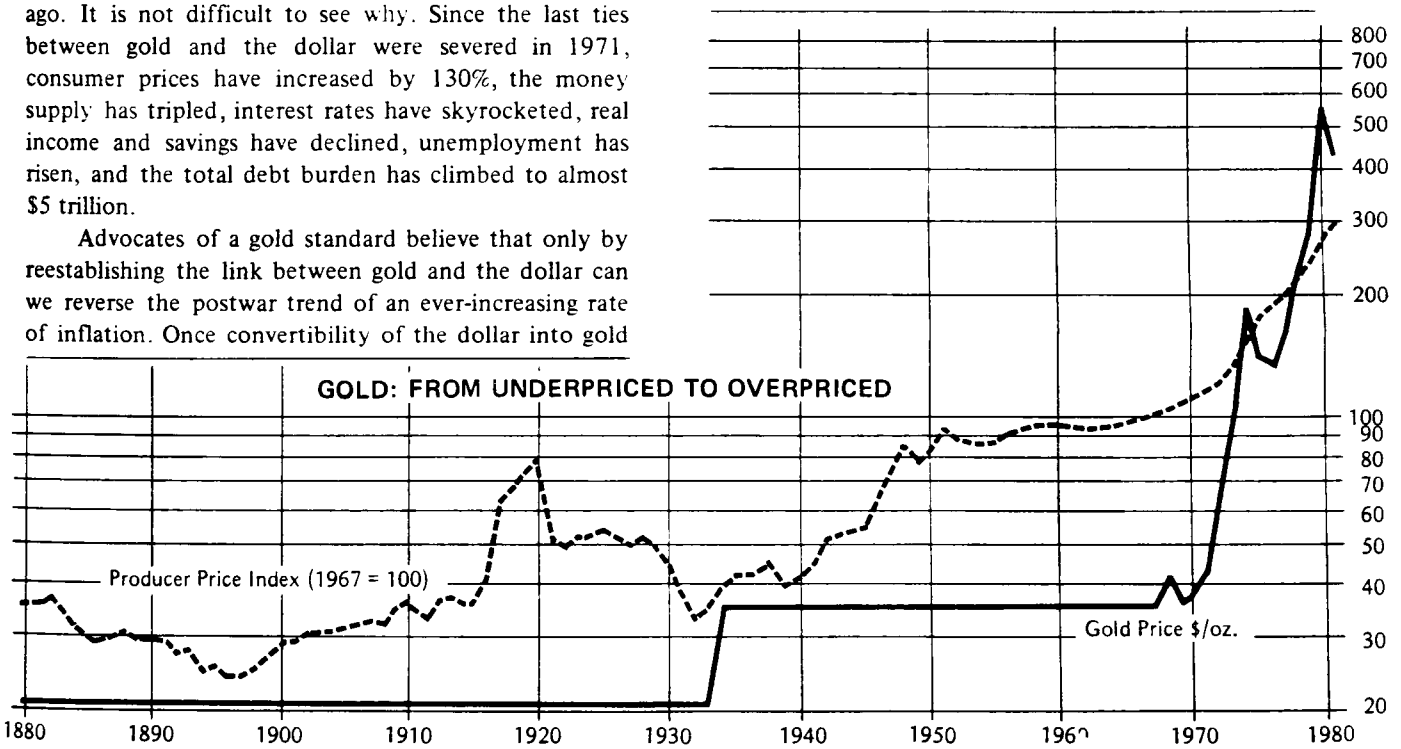
ONLY TEN YEARS after President Nixon was forced to close the gold window, discussion about going back to a gold standard has suddenly become respectable. Preliminary meetings of the U.S. Gold Commission have sparked a flurry of debate in the media. But given the membership of the commission, no one really 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—

(Continued on page 10)



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.

Too Early for Gold (Continued from page 5)
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 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-stablizing 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? Terribly 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.

FOLLOW UP

CLOSEOUTS

WE NOW RECOMMEND closing out short positions in the following common stocks: ASARCO (28 3/8 NYSE); Centex (23 1/2 NYSE); Eastern Air Lines (6 3/4 NYSE); Ryan Homes (15 NYSE), and Wilshire Oil Company of Texas (8 3/4 NYSE). They've each achieved a 30% or better profit since our initial short sale recommendation.

SHAPELL (37 NYSE)

IN THIS YEAR'S first quarter, Shapell's sales plunged more than 30% to $44.6 million. Moreover, profit margins suffered as a result of slumping demand and higher construction and interest costs. The upshot was that the company reported a deficit of 56¢ a share, its first loss ever. Short positions should be maintained.

Sales recovered to $60 million in the June period. But this was due primarily to seasonal factors. The overall demand for housing in the company's market area remained soft. Moreover, in order to boost sales, Shapell found it necessary to "buy down" mortgages with short-term trust deeds. As a result, despite the improved volume, the company showed a deficit of 13¢ a share.

Given the high interest rates which prevailed this summer, the deficit will probably widen somewhat in the September quarter. And for the full year, it now appears that the company will report a loss in excess of $1 a share.

The stock recently broke below a long-term trendline, and is expected to test the 30-32 support level.

APACHE CORP. (19 NYSE)

APACHE EARNED 30¢ a share in the June quarter, up substantially from the year-earlier figure. Significantly, however, sales and profits showed no improvement over the March period. Maintain short positions.

The leveling off is attributable in part to current conditions in the industry. Continued high oil production by Saudi Arabia and reduced demand have weakened crude oil prices worldwide. And the demand for domestic gas is low in relation to the new supply coming on stream.

Apache has been able to buck the trend to some extent because a large portion of its gas is free from price controls. Also, there have been substantial additions to reserves this year. But with a weakening economy, the company may find it difficult to post satisfactory earnings over the next few quarters.

Selling at about 16 times earnings, the stock is overvalued. We expect it to move down with the rest of the market in the weeks ahead.

CHAPTER OF AARP

INDEPENDENCE PURPOSE DIGNITY

of the AMERICAN ASSOCIATION OF RETIRED PERSONS, Inc.

January 20, 1982.

Donald Regan, Secretary of the Treasury,
15th and Pennsylvania Ave. N.W.
Washington D.C. 20220.

Dear Mr. Regan -

The United States Gold Commission.

We applaud your decision to mint gold coins for sale to the public.

These coins, in units of one-ounce, half-ounce etc.., should be of distinguished and dignified design as, for example, George Washington one face with an American Eagle on the obverse, a design appropriate to the power and dignity of this Nation --- not the ridiculous medallions, effigies of unknown artists which the Post Office is trying to sell and no one is buying.

Although the dollar value of such coins would, of course, fluctuated with the market they would nevertheless provide long term protection against what is now a continuing eroding "paper" dollar.

For the thrifty, and retired persons such as the AARP such coins would provide a measure of insurance that lifetime savings would not be lost as a result of some uncontrollable and all too probable oontinuing inflation.

Long term government borrowing, redeemable in gold coin of fixed weight, could be financed at a much lower rate of interest than the current 13 - 14 % thereby greatly reducing the deficit and the federal tax burden.

Most importantly, the wide acceptance and use of a gold coin whose dollar value would fluctuate daily --- depending upon the public's inflationary expectations --- would serve as a reminder to all free-spending politicians that the Federal Budget eventually must be balanced if the paper dollar again is to be "as good as gold".

Yours Sincerely Gerard L. Larocque

(Dr.) Gerard L. Larocque
Legislative Chairman, Darien-New Canaan Chapter 972
42 Beach Drive, Darien, Ct. 06820

Schwartz.

Paine
Webber
Mitchell
Hutchins Inc.
Member of the New York Stock Exchange, Inc

INTEROFFICE MEMO

To: ISD

From: RIM

Re: Letter to WSJ Editor

Date: November 11, 1981

The following letter appeared in the Wall Street Journal on November 9, 1981. It may be of some interest.

Gold Panel Can Learn From Poland

The page one article Oct. 23 on the Polish economy is well timed to contribute to the gold standard question being considered by the U.S. Gold Commission. Unfortunately, the commission does not have on its agenda the most fundamental issue, whether the government should be in the money business at all. I submit that it should not, for the same reason the government should not be in the post office business: It does a terrible job.

The Polish economy has changed monetary standards. It has gone off the zloty standard and is now on a triple standard of cigarets, vodka and washing powder. This is the market in operation in regard to money in the most basic sense. Governments can determine what is legal tender (zlotys in Poland) but only the market can determine what is accepted as a medium of exchange.

Ludwig von Mises was the first to realize that it was by the same process currently in evidence in Poland that precious metals in general, and gold in particular, came over the centuries to be regarded as money. Before government nationalized it, money was the commodity, or commodities, most readily accepted in exchange in a particular time and place.

The Gold Commission should not debate whether the Treasury should buy and sell gold at a fixed price. It should rather be discussing how to get the government out of the money business completely. Fortunately, only one law is required to do so, the repeal of legal tender requirements regarding fiat money (Federal Reserve notes). Laws may be passed to allow the federal and state governments to specify how they wish to be paid. The rest of us, operating through market, are perfectly capable of choosing a sound, non-debasable medium of exchange, and should be left alone to do so.

RONALD I. MANDLE
Vice President
Paine Webber Mitchell Hutchins Inc.
New York

* * *

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Certified Public Accountants
1941 W. OAKLAND PARK BLVD.
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739-5633

GEORGE McMILLAN, C.P.A.
JIM D. UNRUH, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

September 24, 1981

Mr. Donald T. Regan
Secretary of the Treasury
Washington, D.C.

Dear Mr. Regan,

This letter is sent to you in your capacity as a member of the U.S. Gold Commission. The purpose is to suggest that you consider the use of a broad group of commodities to back the currency. There would be advantages in using a number of commodities as compared to the use of a single commodity, gold.

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

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

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

The advantages from use of a number of commodities, rather than gold alone, would center around avoidance of the special problems associated with gold, such as the fact that the supply of gold in the

U.S. is too small to back the currency (at current values, less than 1/4th the value of the existing money supply); gold production is excessively centralized in two countries, South Africa and U.S.S.R., whose control over the supply could be inimical to the best interests of the U.S.; and the rising cost of new gold, as less accessible veins are mined, would cause a built-in inflation effect.

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

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

Use of a number of commodities would also minimize the evident problems in establishing the proper ratio of commodity units to currency units that would be involved in using gold as the sole currency backing. This problem stems partly from the fact that the market value of gold is so different from what its intrinsic value-in-use would be if the supply were not affected by storage or hoarding associated with its "precious metal" characteristic. This precious metal characteristic might also be so altered by making gold the backing for currency that the effect could be very drastic on the relationship of the value of gold to the value of other commodities. It would probably be impossible to tell in advance what this effect would be. But such an effect would not be a problem if a sufficiently wide group of metals is used.

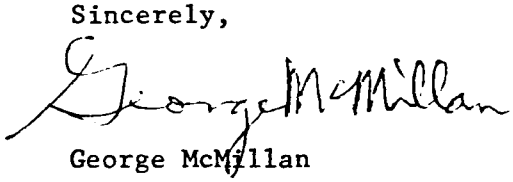
Further, gold to an extent suffers from the same defect as a paper currency in that its value depends on mass perception of its future exchangeability, of the willingness of others to accept it in payment in the future. If everyone lost faith in the future acceptance of paper currency, it could cease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

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

If the United States had a broad based currency, backed by a number of commodities, it would be possible for other nations to avoid inflation by having a fixed ratio for their currency in relation to the U.S. dollar. For example, Panama currently pegs its currency, the Balboa, to the dollar. As a result, the Balboa suffers inflation with the dollar, but, if the dollar no longer suffered from inflation, neither would the Balboa. It is conceivable that a hard currency here would have beneficial effects throughout the world in terms of reducing inflation and reducing the fluctuations in currency exchange ratios and the resulting effects on international trade. Also, the harsh effects of sharp swings in commodity prices, particularly on Third World material-supplying countries, might be moderated.

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

Sincerely,



George McMillan

GM/ac

81-16861

John C. Nordt COMPANY, INC.

October 29, 1981

The Hon. Donald T. Regan, CHAIRMAN
THE GOLD COMMISSION
Department of the Treasury
Washington, D.C. 20220

My dear Mr. Regan:

I hope, with utmost sincerity, you will give careful attention to the letter from Senator Jesse Helms of the 22nd listing forty persons with especially fine qualifications, whose views ought to be heeded by THE GOLD COMMISSION at the time of the hearings to be held in November. (I've understood the dates projected are the 12th and 13th.)

Having attended the Commssion's meeting on Sept. 18th, I have great concern over the willingness (or ability) of its members (most of them) to reason rationally, directing their thoughts toward the solution of what may be the most urgent problem of our nation in a century. So many of you seem to come from backgrounds laden with blind prejudices . . . . and as each one spoke, there appeared to be little true listening and surely no abundance of a meeting of minds.

Truly, no matter that I have little in the way of impressive credentials, I'd like to add my name to the list of those seeking to testify. I am age 67, a professional engineer and head of a small manufacturing firm specializing in precious metals. I've a record of public service locally that stems back to my youth, including such diverse functions as serving in elective office and teaching Sunday School.

One strong view I have, 'though a lifelong Republican, I believe President Nixon's greatest sin was not Watergate, for that was no more serious than stealing paper clips, it was the removal from The Dollar of any definition whatsoever!! Sadly, so few Americans understand this, having been brainwashed over many decades into thinking the piece of paper they held in their hand, A DOLLAR BILL, had some intrinsic value of itself. The reason for this stems back to the early thirties and the machinations of FDR, plus the unfortunate gullibility of so may of us Americans when Americans alone were prohibited from converting to specie while their government corrupted the money system.

I ask you to distribute to The Commission my pamphlet (20 copies herewith), "WHY WORRY? --- IT'S ONLY MONEY!", along with copies of this letter. I hereby formally apply for an opportunity to testify at your hearings.

Yours with much concern,

Paul W. Nordt Jr.

Paul W. Nordt, Jr.
CHAIRMAN OF THE BOARD

INDUSTRIAL VILLAGE · 98 SAND PARK ROAD · CEDAR GROVE, N. J. 07009 · TELEPHONE (201) 239-1872

WHY WORRY?

IT'S ONLY MONEY!

(A Non-Economist's View)

98 Sand Park Road
Cedar Grove, N. J. 07009

(201) 239-1872
Established 1872

John C. Nordt Co. Inc.

PAUL W. NORDT, JR.
Chairman of the Board

For Chuck Regan.

Paul W. Nordt, Jr., Chairman
JOHN C. NORDT CO., INC.
98 Sand Park Road
Cedar Grove, New Jersey 07009

WHO WROTE THIS?

Paul W. Nordt, Jr., was born in Newark, N.J., the third generation of his family to head the JOHN C. NORDT CO., INC., a firm active in manufacturing jewelry since 1872.

His grandfather was the brother of the founder, the family migrating from Germany in the mid-1800's and starting the business in New York City making "findings" for the ringmaking trade. The Nordt company is now a leading supplier of karat gold in various forms for the manufacture of wedding rings. JOHN C. NORDT CO. uses many thousands of ounces of fine gold in its products and, because of this, Mr. Nordt has made a considerable study of gold's role in the world, both as a commodity and as "natural money".

His early years in this business, when the price of gold was pegged at $35 per Troy Ounce, contrast markedly with the years since 1968. For more than a decade now the problems of price and procurement of the yellow metal have been dominant concerns, leading him toward a comprehensive study of the U.S. monetary system.

It is Nordt's belief that the monetary history of the U.S.A., starting late in the sixties, is particularly significant as it relates to our country's future. Hence, he has compiled a set of scrap books of important clippings from current financial and governmental news sources. It is Nordt's hope that this record of the mistakes in monetary policy of the late sixties and seventies will serve to warn students and leaders in monetary and fiscal affairs so that our country's future policies will be based on a firmer foundation than during the past few decades.

Paul W. Nordt, Jr. has maintained as active correspondence with many leaders in this field throughout the country, in government, in halls of learning and in business circles. He maintains active membership in The Committee for Monetary Research and Education, The National Committee for Monetary Reform and The Institute on Money and Inflation, in addition to many engineering and business groups.

(Continued on back cover.)

WHY WORRY? IT'S ONLY MONEY!

(A non-economist's view)

What *is* a Dollar? Yes, we already know the American Dollar is the name for the unit of currency of the United States of America, but let's be more specific – what IS a Dollar? Over the past several years I have asked this question of members of the Federal Government, of heads of major banks and of business executives. One economist of a New York bank said a Dollar is a unit of currency but can only be defined in what one can buy with it TODAY. Another economist of equal stature said a Dollar is whatever the Federal Government says it is. Sadly, though, the government these days refuses to say anything at all about what a Dollar is.

"What has this to do with inflation?" Many may ask this while stifling a yawn induced by boredom. Most of us take no interest at all in trying to define a Dollar, but ALL of us show much anxious concern that "the cost of living keeps rising". How can we be awakened to the hard reality that the American Dollar has no reality at all?! Dollars are printed pieces of paper issued by our government and used to pay for goods and services. There is little control over how many are being printed or have been printed in the past, but we read about the great concern over the abundance of them circulating around the world. The more dollars we print, the more there'll be floating around!

The game of MONOPOLY is an excellent analogy. If the amount of "play money" entered into a MONOPOLY game were to be raised ten times the amount normally supplied with the game, the price of "BOARDWALK" or "PARK PLACE" would inflate approximately ten times. Possibly the best lesson on inflation would be to play the standard MONOPOLY game and then play it again with ten times the currency used the first time. Keep track of what the owner of "PENNSYLVANIA AVE-

NUE" earns, for example, the first time and the second time. I-N-F-L-A-T-I-O-N! Could it be we are conducting monetary affairs as a nation as though our economy was one big game of MONOPOLY, printing whatever amount of paper money we feel is needed to be comfortable?

Is it not the job of government, according to our Constitution, to establish a money system and "regulate the value thereof"? Surely the word "regulate" must mean to stabilize the value, not to finagle it! Further, it says that the Congress has the power to "coin" money. It does not say the power to PRINT money. The Framers had their own sad experience with paper money from which came the phrase "not worth a Continental" (The worthless paper Continental Dollar issued during the War for Independence). When they said "coin" money, they used the word advisedly! Why then, here in the beginning of the third century of our independence, do we see no harm in printing lots and lots of paper money – money that has no definition, no specific or tangible or intrinsic value at all? And we wonder why the dollar keeps losing value! The wonder of it is that it still buys as much as it does! Realization of its fictitiousness comes slowly but surely.

Forty years ago a suit of men's clothing cost less than $35 and a nice six-room house cost less than $10,000. Today the same suit of clothes costs over $200 and the house over $90,000! A nice part of inflation is that you could borrow $20,000 fifteen years ago and agree to pay it back slowly over the next thirty years, discovering that the dollars used to re-pay were worth less than those originally borrowed, making it relatively easy to pay off as the dollars got cheaper.

But how about the fellow who put his money in a savings account, thinking that with his accrued interest some years hence he could

send his child to college? When he drew out the money, he found he had not enough to pay the bill. The college had discovered it must charge more dollars because each dollar bought less of all the things that are part of a college education.

What controls are there now – controls *on* the U.S. Government so they do not print too much money? On the other hand, is it possible we ought not worry about any controls, just let's print whatever money we'd like to spend? Surely, for those who have played MONOPOLY, it's kind of fun to have all that money in one's hands!

Why is it so hard to understand what it is that gives money value? Even though our government long ago formally announced its policy of demonetizing silver and gold, I find that when I talk with my friends many still believe there is gold or silver back of our dollars. What an excellent example of brainwashing! Gradually we discover the spurious quality of our money. Even though our government has "psyched" us into thinking The Dollar has value, its worth could not help but drop as the flood of printing press dollars is used to buy the goods and services available. The classic definition of inflation still holds: Money loses value as too much money chases too few goods. That, plus Gresham's Law (Bad money drives good money out of the market.), has kept the cheap dollars very much in sight as they lose value at an accelerating rate.

It is the nature of those in government to try to blame everybody else for the cheapening currency. Big business, big labor, the Arabs, gold speculators and foreign countries with trade surpluses have all been accused. The Number One source of all our inflation: *The U.S. Government and its policy of overspending and spending what it does not have (deficits), then just printing more money to try to pay off its obligations with valueless paper!*

If Uncle Sam can do that, why can't third world nations (the have-not nations) do the same – just print money, unbacked by anything of value? To speak of money being "backed" we mean, of course, that the holder of it can redeem the paper for something of a specific and tangible nature. Gold has been the most common substance used for this purpose, but there might be other substances of value. If the issuing nation offers *nothing at all* to the holder of its paper money, what difference does it make whether the issuing nation is the U.S.A. or some little "Lower Slobovia"? Zero redeemability is still zero no matter whether a big or little nation issues the paper money. It has often been said, erroneously, that the nation's productivity stands behind the nation's currency. That can be true only when the government behaves in a responsible manner. Our Constitution gives Congress the power to regulate the value of money. By no stretch of the wording can this be interpreted to mean debasing of the money. Aside from providing for the defense of our shores, there is hardly a more vital function of government in a free society than to provide a stable money system, a currency of steady value no matter what point in time this value is taken. The malady of inflation today is so deep and so insidious and so malignant that its victims (ALL OF US) have become unaware of its root cause. This root stems back much more than a generation. Most of us cannot recall a time when its effects were not prevalent, it dating back at least forty-five years. Even as conservative a body as the Chamber of Commerce of the U.S., when listing its ten basic causes of inflation, fails to make any mention at all of the government's total commitment to fiat money – money that is no more real than in a game of MONOPOLY. What a tragedy that the most highly respected government in the world should place its reputation and integrity behind a money scheme so utterly devoid of substance!

But there is still hope. Despite all the official talk about "diminishing" the role of gold (the so-called demonetization of gold), somehow we have not yet allowed most of our Treasury gold stock to be drained away. True, starting with Secretary Simon's "gimmick" of auctioning a big slug of gold to the public right after it became legal for an American to own gold in January '75, there have been periodic sales. However, compared with the 265,000,000 Troy ounces still on hand, no irreparable damage has yet been done. There is yet enough gold for use as a backing for a NEW SOLID DOLLAR. We *have* the resources for a return to honest money. How can this be accomplished?

FIRST, we must make it just about impossible to run deficits.

SECOND, we must phase out practically all government largesse and restore to *the people* their right voluntarily to help those in need.

THIRD, we must establish a price at which the government will buy and sell gold, and this price must be high enough at the start to encourage some sales of gold *to* the government.

We had a chance to do this back when gold first left the price of $35 per ounce, but we were lacking in courage, preferring to stay in the fantasy world, believing gold could remain at that low price. If it had been officially raised to $70 overnight, we might have stopped inflation in the budding, but we tried to believe that $70 was much too high. How low it seems today!

We still have the opportunity to halt the disease of inflation. With the world market for gold now crowding $400, the government's official price to assure an inflow of gold might be $800. Sounds high? Yes, but so did $70 back in 1968. It is not unrealistic to expect a gold price in a few years hence of $1,500 or higher if we persist in our "Alice in Wonderland" policy of monetizing paper. At such time an $800 price would seem low.

To best understand our plight today we really ought to express relationships of dollars to gold by referring to how much gold ONE DOLLAR has bought over the years. This best helps us understand the dollar's sickness. Before March 1968 a dollar would buy 13.7 grains of gold, then by December 1974 it bought only 2.45 gr. There was a recovery for the dollar until August '76 when you could buy 4.66 grains of pure gold, but since then the inexorable demise of our dollar brings us to where one can buy only about 1.25 grains. Since the days of $35 gold, our dollars are worth only one-tenth what they were then.

It's striking to note, though, that gold's buying power over recent decades has continued, even increased! The crucial need today is not to go back to any previous figure; the need is to stabilize! Stabilization will never be achieved by just deploring inflation. We must remind ourselves that "double digit" inflation began only after the U.S.A. had totally renounced any connection between The Dollar and gold. Might we soon be heading for *triple digit* inflation?!

It was March 15, 1968 (over a decade ago) when Treasury first refused to redeem dollars for gold to private individuals around the world. (At that time Americans were prohibited from owning gold, stemming back to 1933.) Then by August 1971 even foreign governments could no longer send in their dollars and get gold. The U.S.A. policy of attempting to "demonetize" gold was in full force. The Dollar was set free of all restrictions and even from definitions. It became a name on a piece of paper. It's value? Only what the holder could get in exchange, with the issuing government refusing to exchange it for anything except another, possibly newer, paper dollar. Certainly, it is not strange that as time passed, the buying power of this piece of paper with the word D-O-L-L-A-R printed thereon should diminish. Possibly, if

the issuing government were one well-known for tight fiscal policies and wise spending, the psychological atmosphere might help to provide an image of value for the Dollar. This is hardly the recent record of the United States Government.

Just as it may have seemed drastic back in '68 to raise the dollar value of gold from $35 to $70, today to set a price well above the present market may seem startling, but when we recall the monetary history since 1968 leading to a gold price over ten times the $35 price, we may understand the need for firm action now. One could argue effectively that a price today of $700 or $800 set by the United States is the medicine needed to arrest the self-inflicted disease of inflation, a doubling of the present market price of gold.

Back in 1933 the official price was moved from $20.67 per Troy ounce to $35, an arbitrary change largely the result of a series of capricious, but fortuitous, edicts by President Franklin D. Roosevelt after informal morning conferences with Henry Morgenthau, Jr., Secretary of the Treasury. This boost approached a doubling of the gold price. The result: Gold came pouring in to the U.S.A. from all over the world, building a hoard the likes of which the world had never seen and providing a firm basis for the world's currencies for about thirty years. Only the continuing profligacy in our government's fiscal policies over the years has brought a halt to The Dollar's leadership and a reversed trend in gold flow.

To restore The Dollar to stability, the government must tell us what this unit of currency is. Once again, time seems to tell us that a definition in terms of gold is the most practical way to describe our dollar. Furthermore, the world must treasure our dollars enough to be willing to hold them and not rush to turn them into other currencies or into commodities or into gold. The sales of

gold by IMF and by the Treasury at prices up to nearly $400 demonstrate the public's willingness to convert their dollars into gold. In fact, the Treasury's *unwillingness* (until forced by law) to sell their auctioned gold in the form of small gold coins reveals a fear of letting the general public show its high regard for gold and a low regard for dollars. But the establishment of a tangible standard for The Dollar is a crucial necessity before other steps can be effective in stopping inflation. In setting a standard it must be high enough to make citizens prefer dollars to gold, and it would be better to err on the side of setting gold's price too high than too low. The longer we wait to do this, the higher and higher the cost of stabilization will be! To wait for our government to be so moral and so knowing that it can set money values successfully by edict is to wait a long, long time. It was Aristotle, a few centuries before Christ, who said:

"In an ideal state of society perhaps the intrinsic quality of money might entirely disappear and be replaced by the value derived from the control of the state. But for that to occur the control of the state would need to be perfect in authority and God-like in intelligence."

No experience with government of those living today, nor knowledge of history, provides any grounds for believing we can expect either morality or competence sufficient to dispense with an intrinsic quality in our money.

Paul W. Nordt, Jr., Chairman

This went to the printer when gold was selling for about $400. It has since risen to well over $800, then down for awhile below $700. Unless our government's policy reverses, this message remains most urgent. This fiat money policy plus worldwide political tensions combine to feed the continuing trend toward gold's higher dollar prices.

EC-0997

Nordt's educational background stressed mechanical and metallurgical engineering with a graduate emphasis on business administration. A lifelong member of American Society of Mechanical Engineers, he was among its early supporters of programs designed to encourage professional persons to exercise responsible citizenship by personal involvement in the elective process. He has been a lecturer at N.J. Institute of Technology on "The Engineer's Duty as a Citizen" and has taught in the fields of staff management and personnel policy. The A.S.M.E., being one of the four founder societies, has pioneered in the broader field of scientific management.

In addition to his contributions in the field of precious metals technology, Nordt has been a leader and contributor to jewelry and trade circles, serving on many industry committees and boards.

In his community he has not only served in elective office, he has been a leader in many character-building, civic and religious organizations all his adult life.

His two sons are now in active roles in the JOHN C. NORDT CO., freeing him for extensive involvement now in the nation's problem of insidious price inflation and monetary chaos.

EDWARD POPP, D.D.S.
543 N. HARRISON STREET
PORT WASHINGTON, WISCONSIN 53074

October 10, 1981

Donald T. Regan, Secretary of The Treasury
Chairman
The Gold Commission
Washington, DC 20220

Dear Secretary Regan

I practiced dentistry for over forty years. During all those years I was not satisfied with my knowledge of the subject of money. So when I retired in 1967, I said to myself, "I now have the time. I will study the subject."

After a few years of study, including two courses in Money And Banking, I did learn many of the things I wanted to know. Things not written in textbooks on Economics. I wrote these things in a manuscript and presented it to about thirty people. They encouraged me to have it published. The result was that I published MONEY - BONA FIDE OR NON-BONA FIDE in 1970 and THE GREAT COOKIE JAR - TAKING THE MYSTERIES OUT OF THE MONEY SYSTEM, in 1978.

Since 1978, I have continued my interest and studies of the subject. So I am interested in the deliberations of the Gold Commission.

At my request, Mr. Robert Levine sent me a copy of Dr. Anna Schwartz's August 3, 1981 report and the minutes of the September 18, 1981 Meeting of The Gold Commission.

In order to contribute my little bit to the important work of the Commission, I am enclosing a memorandum presenting information not yet expressed by the participants. It tells not only what can be used as media of exchange, but more importantly, how the media can be brought into circulation without incurring interest-bearing debts and without inflating the money supply. Those are the two problems that must be overcome.

It also states that if the procedures outlined are carried out with prudence, the U.S. government interest-bearing debt will be reduced in the process.

I have studied this subject very carefully. But I still could have made errors. If you find any errors, I would like the opportunity to correct them.

Best wishes and carry on.

Edward E. Popp

Edward E. Popp

Enclosure: 1

MEMORANDUM

To: Members of the Gold Commission.

From: Edward E. Popp.

Date: October 10, 1981.

Subject: The items that make up the money supply.

THE PROBLEM

The inflation of the money supply and the ever increasing interest-bearing debts.

THE PURPOSE

To designate the items in our money supply that can cause our money problems and the items that cannot cause our money problems.

THE GOAL

To gradually replace the items which cause money problems with those that do not cause money problems.

THE BENEFITS

All of our currency will be issued by the U.S. government and will be brought into circulation without incurring interest-bearing debts and without inflating the money supply. The U.S. government's debt will be reduced in the process.

THERE ARE ITEMS THAT SERVE AS MEDIA OF EXCHANGE WHICH ARE BROUGHT INTO CIRCULATION WITHOUT INCURRING INTEREST-BEARING DEBTS AND WILL NOT INFLATE OR DEFLATE THE MONEY SUPPLY.

It would seem prudent then to determine which of the items we now use as media of exchange fulfills the above prerequisites.

Generally speaking, we now are using five different items as our media of exchange:

1. United States token coins.
2. United States notes.
3. Demand deposits of currency.
4. Federal Reserve notes.
5. Demand deposits of bank credit.

Let us now study each of these five items to determine whether or not they are brought into circulation by incurring interest-bearing debts and whether or not they can inflate or deflate the money supply.

UNITED STATES TOKEN COINS

The coins are made by the United States mint. The government does not use these coins as payment for its expenses. That is, it does not pay them into circulation. It sells the coins to the public at their face value through the banking system. The profits from the sale of these coins are turned in to the United States Treasury.

The dollar amount of the coins the government can sell is limited to the amount the public is willing to buy in exchange for United States notes, Federal Reserve notes, and demand deposits of bank credit already in circulation.

Because the present U.S. coins are suitable only for small payments, the amount of coins in circulation makes up only about .003 parts of the money supply. Therefore, no inflation of the money supply takes place. Because the coins are sold, not loaned, into circulation, no interest-bearing debts are incurred.

Thus we can conclude that the use of our coins as media of exchange do not cause our money problems.

UNITED STATES NOTES

No United States notes have been issued or placed into circulation since 1863. So the money supply is not being increased with United States notes. When the notes were issued in 1862 and 1863, they were paid, not loaned, into circulation without incurring interest-bearing debts. No interest payments are being made to keep them in circulation.

Therefore, the United States notes do not cause our money problems.

DEMAND DEPOSITS OF CURRENCY

Demand deposits of currency are made when individuals, corporations, or other entities deposit currency in their demand deposit accounts in commercial banks. Then payments are made with checks against these accounts. No new or additional items of the money supply are brought into circulation. No interest-bearing

debts are incurred. Therefore, demand deposits of currency cannot increase the interest-bearing debts and they cannot inflate the money supply.

Thus we can conclude that demand deposits of currency do not cause our money problems.

FEDERAL RESERVE NOTES

The United States government prints the Federal Reserve notes. It then gives the notes to the Federal Reserve Banks for the cost of the paper, the ink, and the printing. In order to bring the notes out of the Federal Reserve Banks and into circulation some asset, often an interest-bearing asset, has to be given to the Federal Reserve Banks in exchange for the notes. So interest-bearing debts are incurred to bring these notes into circulation. These notes do increase the money supply. So they could inflate the money supply.

Therefore, the use of Federal Reserve notes could be a cause of our money problems.

DEMAND DEPOSITS OF BANK CREDIT

In order to fully understand the cause of most of our money problems, it is necessary for us to have a good understanding of what demand deposits of bank credit really are, how they come into being, and how they are used as media of exchange.

Demand deposits of bank credit are not deposits of coins. They are not deposits of U.S. or F.R. notes. They are not deposits of checks. They are not deposits of any physical thing. They exist only in the form of bookkeeping credits. Yet they are used

for at least 85% of the lending, buying, and paying that takes place in our country.

They come into existence as interest-bearing debts when they are entered as bookkeeping credits in a borrower's demand deposit account in a commercial or Federal Reserve Bank. These credits are transferred from one person or entity to another person or entity by written orders (checks) and sometimes by verbal orders.

For every dollar's worth of new demand deposits of bank credit, the money supply is increased by one dollar, and the interest-bearing debts are increased by one dollar.

If the bank credit were loaned only to those who are producing and marketing goods and services, an inflation of the money supply is not likely to occur. Because when the money supply is increased at the same rate as the increase of goods and services are being produced and offered for sale, there is no inflation of the money supply.

But if bank credit is loaned for purposes other than to facilitate the production and marketing of goods and services, an inflation of the money supply does occur.

> (Loans for purposes other than to bring goods and services to market are to be made with the money supply already in circulation. Then no inflation of the money supply would occur even for those loans.)

Because demand deposits of bank credit exist in such large quantites, their use as media of exchange is the cause of most of our money problems.

GOLD AND SILVER COINS

Gold and silver coins are not now generally being used as media of exchange in the United States. But we should understand why they are not being used. We should know what we must do if we intend to successfully make use of them in the future.

Gold and silver coins are of two types:

1. Token coins.
2. Full bodied coins.

TOKEN COINS

When the market value of the metal in a coin is less than the legal tender value of the coin, it is called a token coin. From 1853 our fractional silver coins and from 1878 to 1964 our silver dollar coins were token coins. The fact that they contained 90% silver did not make them full bodied coins.

FULL BODIED COINS

When the market value of the metal in a coin is equal to the legal tender value of the coin, the coin is called a full bodied coin.

Full bodied coins are usually made of gold or silver. Toker coins are usually made of non-precious metal. But they may be made of silver or gold. Token coins will serve as media of exchange when they are made of non-precious metal just as well as when they are made of gold or silver. Our experience with our silver coins has shown this to be the case.

So long as the token coins are sold (not paid or loaned) into circulation in exchange for other media of exchange already

in circulation. They will never inflate or deflate the money supply. They will never incur interest-bearing debts when they are brought into circulation.

Full bodied gold and silver coins have served and will serve as media of exchange so long as they are profferable as well as acceptable. Generally speaking they are always acceptable. But they are not always profferable as media of exchange.

Whenever the market value of the metal in the gold or silver coins becomes higher than the legal tender value of the coins, they will not be profferable. The owners of the coins will not offer them to others at the legal tender value. The coins then will not serve as legal tender.

In order to keep full bodied U.S. gold and silver coins in circulation during the ups and downs of the price of the metal, the Congress must follow the phrase "regulate the value thereof," in Article 1, Section 8, of the U.S. Constitution.

That phrase refers to full bodied gold and silver U.S. coins. The word "regulate," means to adjust. To what is the Congress supposed to adjust the value of the coins? The people at that time were in the practice of adjusting the value of the foreign gold and silver coins to the market value of the metal in the coins. So the writers of the Constitution intended to give Congress the power to regulate the value of the U.S. coins in the same way as they were to regulate the value of foreign coins.

When did the people adjust the value of the foreign coins to the market value of their metal content? At the time the coins were used as a payment. Remember, gold and silver foreign coins

circulated in fair quantities in the United States and was legal tender in a number of states until 1857.

The Coinage Act of 1792 made all gold and silver U.S. coins legal tender at a fixed value, the market value of the metal in the coins at the time (1792) the Coinage Act was passed. When the coins were first minted in 1794, the price of both gold and silver had increased to above the legal tender value. Because few were then being offered as media of exchange, few were minted. From 1805 to 1834 no gold eagle coins and no one dollar silver coins were minted.

But all during those years and up to 1857, foreign gold and silver coins did circulate as media of exchange because Congress did not put a fixed value on them.

Full bodied gold and silver coins can serve as media of exchange and will stay in circulation, if the government does not put a fixed legal tender value on the coins. The government may make the market value of the metal in the coins the legal tender value of the coins at the time the coins are received by the government as a payment and at the time the government pays out the coins as a payment.

If the U.S. government makes gold and silver coins out of the gold and silver it now owns and sells the coins to the public, their use as media of exchange will not incur interest-bearing debts and will not inflate the money supply.

However, if the coins are paid into circulation in exchange for goods and services, no interest-bearing debts would be incurred. But an increase of the money supply would take place.

PROPOSAL

From the foregoing we see that the only items in our money supply that can incur interest-bearing debts and inflate the money supply are the items that are brought into circulation by being loaned into circulation with interest, i.e, F.R. notes and bank credit. The U.S. coins, U.S. notes, and demand deposits of currency do not incur interest-bearing debts and do not inflate the the money supply.

Therefore, let us continue to use as media of exchange our U.S. notes, U.S. coins, and demand deposits of currency. Let us gradually replace the F.R. notes with U.S. issued currency.

In order to replace the F.R. notes with U.S. issued currency, it is neccessary for the U.S. Congress to provide the currency. However, no additional U.S. notes should be printed. A note is a promise to pay. A promise to pay is a debt. We do not need or want any more debts.

But our coins are not evidences of debts. And the mint has been authorized to make as many coins as the Secretary of the Treasury deems neccessary. So the F.R. notes could be gradually replaced with U.S. coins. However, because our present U.S. coins are minted only in denominations suitable for very small payments, the Congress should authorize the mint to make coins in denominations of $5, $10, $20, $50, and $100.

Or better still, the Congress should authorize the Bureau of Engraving and Printing to print certificates in lieu of coins in denominations of $1, $5, $10, $20, $50, $100, and $500. The title of the certificate should be "UNITED STATES CURRENCY."

The following is an illustration:

5 UNITED STATES CURRENCY 5
Certificate In Lieu Of Coins

No._____ No._____

For value received, this certificate will be received in lieu of United States coins at its face value for the payment of all taxes, fees, fines, customs, dues, and other charges due the United States government.

(Signed by) (Signed by)
Treas. of U.S. Sec. of the Treasury

5 FIVE DOLLARS 5

(The phrase, "For value received," on the certificate is a reminder that the bearer, or the first owner, of the certificate paid for it with his $5 Federal Reserve note.)

Just as the public now buys U.S. coins from the government with F.R. notes, it can buy the certificates in lieu of coins from the government with F.R. notes.

When the Treasury Department receives the F.R. notes directly from the public, it must use these returned F.R. notes for only one purpose. That is, it must use them to pay off U.S. government securities held by the Federal Reserve Banks as the securities mature. If they are used for any other payments, they will inflate the money supply.

If the above steps are followed the dollar amount of new currency placed into circulation will be equal to the dollar amount of Federal Reserve notes taken out of circulation. There will be no increase or decrease of the amount of currency in circulation.

We also will have other benefits. All of our currency will be issued by the United States. All will have come into circulation without incurring interest-bearing debts.

In addition to that, the U.S. government interest-bearing debt will be reduced in a dollar amount equal to the dollar amount of the returned Federal Reserve notes.

There is one more step to be taken in order to have all of our money supply come into circulation debt-free. That is, the bank credit is to be replaced with debt-free currency.

Because that cannot be done until we have a debt-free currency, such a proposal can be worked out at that time.

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21 October 1981

Mr. Donald T. Regan, Treasurer
Department of Treasury
Washington, D.C. 20220

Dear Mr. Regan:

Under separate cover you will find discussions of the life and Works of Lord John Maynard Keynes. There is a copy for each of the sixteen members of the Federal Gold Commission and one for Dr. Schwartz.

Yours very truly,

H. Hart Puffer, Ph.D.

LORD JOHN MAYNARD KEYNES

No discussion of economics in the Twentieth Century would be complete without a consideration of the writings of Lord John Maynard Keyens. Keynes was an Englishman but is better known in America than any other economist. His views have been followed as a government policy in the United States most of the time since the inauguration of Franklin D. Roosevelt.

He was temporarily attached to the British Treasury during World War I and was an official representative at the Paris Peace Conference. He also sat as deputy for the Chancellor of the Exchequer on the Supreme Economic Council.

Keynes wrote The Economic Consequences of Peace which was published in 1920.

He published several works of less importance following this and then wrote A Treatise on Money published in 1930. This is a two volume work. The book for which he is most famous is The General Theory of Employment, Interest and Money, published in 1936. It is generally believed that his principal thoughts are found in this book.

We know that he was an advisor to bankers. The list of offices he held as a financial authority in banks and other parts of the financial world is impressive. He was a professor of economics, and was a leading world authority on investments. He made the equivalent of two and a half million dollars speculating on the London stock market and wrote treatises on how he did it. This last accomplishment is something that should impress anybody

who has tried to outsmart the Wall Street money men. He won the title "Many sided genius."

KEYNE'S FRIENDS AND ASSOCIATES

The Veritas Foundation, hired by some Harvard alumni, examined the private life of Keynes hoping to find clues to why he believed what he did.

They discovered that his father showed anti capitalistic leanings.

It is said that if you raise a child as he should go, he will not depart from it when he is old.

I learned that he got his edea of stimulating the economy by printing money from a Russian economist, and that he married a Russian ballet dancer.

Also according to Keynes at Harvard by the Veritas Foundation, Keynes had many socialist and communist friends. We will mention one in particular.

Harry Dexter White was born in Boston of Russian immigrant parents. He was a student at Harvard University and later taught there.

Under President Roosevelt he entered the United States Treasury where he rose rapidly becoming one of the most influential persons in Government.[1] Several plans for dealing with the world problems after World War II were really the brain children of

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[1] James Burnham, The Web of Subversion, New York, The John Day Company, Pub. 1954, pp. 150-4.

Harry Dexter White. He was a close friend of John Maynard Keynes.[1] Together they organized the International Monetary Fund, and White served as director of that organization.

There is no proof that Harry Dexter White was a dues paying or card carrying member of the Communist Party. However, evidence and testimony gathered between 1945 and 1948 leaves little doubt that he had acted as a spy for the Soviet Union, not once, but on a regular basis.[2]

Unlike Alger Hiss and others, White did not go to jail. Three days after his testimony, August 13, 1948, in the first stages of the inquiry by the Un-American Activities Committee, he was dead. His death was reported to be from a heart attack, but there are those who believe that when he saw how deeply he was in trouble, he may have taken his own life. Even death at the hands of another Soviet agent has not been ruled out. So ended the life of one of Keynes' closest friends and associates.

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1 R.F. Harrod, The Life of John Maynard Keynes, London, MacMillan & Co. LTD, Pub. 1951, pp. 558, 637.

2 James Burnham, The Web of Subversion, New York, The John Day Company, Pub. 1954, pp. 152-8.

When an investigatory agency like the Federal Bureau of Investigation wants to determine whether a person is a security risk, an important part of the investigation is to learn about his associates. There is the saying that "you're known by the company you keep." Marriage is the most intimate of relationships. When we consider who his friends and associates were and that Lord Keynes married a Russian woman, it is doubtful that an investigating agency would give him security clearance even to mow the White House lawn. Yet, through his writings he has been an unofficial but powerful chief advisor to the Presidency for four decades.

Keynes must have felt a thrill at being able to wield power over the minds of men. He was once asked what he would do if he found he had steered the world's economists in the wrong direction. "I would change them back," he answered. In other words he was confident that he could change the great minds of the world in whichever direction he chose. He was evidently aware of the tremendous influence which he wielded.

KEYNES JOINS THE FABIANS

Keynes joined the Fabian Society in 1903, at the age of 20.[1] The Fabian Society was organized in about 1883, to promote Socialism. They named their organization after Fabius, the Roman leader who defeated Hannibal. In the Punic Wars, Fabius found that

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1 Veritas Foundation, "Keynes at Harvard" 1961 p.2

direct confrontation failed, so he chose harassment. He attacked the Carthaginians when they least expected it. With Hannibal far from home and his sources of supply, this strategy succeeded. The Fabians planned to use the same methods as Fabius had used. They were scholars; even their choice of a name reflected this. They spread their ideas among other scholars and the children of the intelligentsia, the people who comprised the power structure.

Keynes had already joined the Liberal Club in 1903. The Liberal Club had been "permeated" by the Fabian Society.[1] They avoid public attention. They would rather write speeches than deliver them, thus working through other perhaps more creditable persons. They give favorable reviews to each other's writings and help each other obtain influential positions.

If at this point anyone has any doubts as to the anti-capitalisitc beliefs of Keynes, he may turn to The Life of John Maynard Keynes,[2] a biography by R.F. Harrod. The biography, as a whole, is very complimentary to Keynes. We see the friendship that Keynes felt for R.F. Harrod in the credit Keynes gave him on the Preface of his book The General Theory of Employment Interest and Money. Harrod states very plainly that Keynes felt our troubles were inherent in the free enterprise system.

KEYNES AND INDIA'S MONEY

Keynes was working for the British Treasury in 1913.

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[1] Zygmund Dobbs, Reasearch Director, the Veritas Foundation, Keynes at Harvard, 1962, p. 43

[2] R.H. Harrod, The Life of John Maynard Keynes, (Macmillan and Co., Ltd. London) 1951, p. 283

His work included responsibilities ragarding India which was part of the British Empire. The question arose as to whether India should adopt the gold standard.

Standard money is the best money there is.[1] It is a commodity of full value and gold has proved through many centuries to be the most suitable of all commodities.

We find Keynes arguing against the gold standard in favor of the gold exchange standard[2] which seems to have been the only other choice under consideration.

A country on the gold exchange standard keeps its money at a fixed rate with gold but does not keep gold as a reserve to back its currency. It keeps a reserve of the currency of some large country that is on the gold standard.[3] With this system, either the small country on the gold exchange standard can fail its obligation or the larger country on the gold standard can fail its obligation. With the gold exchange standard there are two chances of failure whereas when a country is on the gold standard there is only one chance of failure.

This seems to be the first time that Keynes took a firm stand in favor of the poorer of two currencies. It is only the beginning of what was to follow.

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1 Fairchild, Furniss and Buck, Elements of Economics Vol. I (The MacMillan Co., New York) 1928, pp 384-5

2 R.F. Harrod, The Life of John Maynard Keynes, London, MacMillan, 1951, p. 166.

3 Paul A. Samuelson, Economics (McGraw-Hill Book Company, New York) 1976 p. 653.

KEYNES AT PARIS

Keynes was still attached to the British Treasury during World War I. He sat as deputy for the Chancellor of the Exchequer on the Supreme Economic Council and was an official representative of the Treasury at the Paris Peace Conference up to June 7, 1919. He resigned his position as representative to the Conference when he saw that he could not possibly agree with the rest of the men in power.

He saw that after World War I the victors seemed bent on revenge. They were demanding that the Germans and their allies pay the entire cost of the war. Keynes argued that the Germans did not have the required capital and equipment. Thus, they did not have the capability of providing even the bare essentials for themselves. The defeated agressors were hungry and starving. Where there is starvation, illness and disease become overwhelming. This was most evident. Seven and eight year old children looked like kindergarteners. Malnutrition dramatically increased the incidence of tuberculosis.

THE ECONOMIC CONSEQUENCES OF PEACE

After analyzing the state of the economy and observing the suffering, Lord Keynes resigned his government posts in protest and wrote his book The Economic Consequences of Peace, published in 1920. On page 235 he quotes Herbert Hoover as saying that there were at least a hundred million more people in Europe than could be supported without imports. Unfortunately, they had nothing to exchange for these imports. The situation was desperate. These writings by Keynes had tremendous influence on world opinion.

Keynes' writings indicate an understanding that capitalism is fragile. He describes the way it broke down in Europe at the end of World War I. He saw that people in desperation turned to cheating, lying and stealing to survive. He observed that wildly fluctuating prices gave people more opportunity to be devious.

Next Keynes offered a quotation on the currency situation in Europe: "Lenin is said to have declared that the best way to destroy the Capitalistic System was to debauch the currency. By a continuing process of inflation, governments can confiscate. secretly and unobserved, an important part of the wealth of the citizens. By this method they not only confiscate, but they confiscate arbitrarily and while theprocess impoverishes many. it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfall, beyond their deserts and even beyond their expectations or desires, become 'Profiteers', who are the objects of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than that of the proletariat. As the inflation proceeds and

the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, becomes so utterly disordered as to be almost meaningless, and the process of wealth getting degenerates into a gamble and a lottery.

"Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.

"In the latter stages of the war all the belligerent governments practised, from necessity or incompetence, what a Bolshevist might have done by design. Even now, when the war is over, most of them continue out of weakness the same malpractices. But further, the governments of Europe, being many of them at this moment reckless in their methods as well as weak, seek to direct onto a class known as 'profiteers' the popular indignation against the more obvious consequences of their vicious methods. These 'Profiteers' are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot help but get rich quick whether they wish it or desire it or not. If prices are continually rising, every trader who has purchased for stock or owns property and plant inevitably makes profits. By directing hatred against this class, therefore, the European Governments are carrying a step further the fatal process which the subtle mind of Lenin had consciously conceived. The profiteers

are a consequence and not a cause of rising prices."

Notice that Keynes tells us that "In the latter states of the War all the belligerent governments practiced, from necessity of incompetence, what a Bolshevist might have done by design." It may come as a surprise to some to learn that in a letter to his mother dated, 22 February 1918, Keynes refers to himself as being a Bolshevi k.[1] In fact Keynes was sufficiently loyal to the Bolsheviks to refuse a decoration offered to him by the Provisional Government against whom the Bolsheviks were fighting. Keynes uses the word "Bolshevist" in one place and "Bolshevik" in another. Both spellings refer to the same group.[2]

If Keynes agreed with Lenin that there must be a world revolution in order to escape the bonds of imperialism,[3] he would feel he should use his skills as an economist and as a writer to help destroy capitalism by the method that he and Lenin agreed was the most effective--to debauch the currency.

Keynes further explains that some people have become wealthy suddenly, not because of good management or wisdom,but by chance. This new class of profiteers becomes powerful. The industrialists and merchants who previously had managed industry and business have been discredited.

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1. R.F. Harrod, The Life of John Maynard Keynes , London, MacMillan, 1951, p. 224.

2. American College Dictionary, Random House, New York, Pub. 1962, p. 135.

3. I.V. Lenin, Lenin, The Revolutionary Phrase, Moscow, Progress Publishers, Third Printing, 1972, p. 10.

In the new order their talents are no longer utilized. They are replaced by the power of the "new rich" who know little about managing the economy. This is disasterous. Keynes observes, "Perhaps it is historically true that no order of society ever perishes save by its own hand."

He continues: "The inflationism of the currency systems of Europe has proceeded to extraordinary lengths. The various belligerent governments, unable, or too timid or too shortsighted to secure from loans or taxes the resources they required, have printed notes for the balance." Inflation is undue expansion of irredeemable paper money or a rise in prices resulting from such issues.[1]

Keynes then tells how the various currencies of the countries of Europe lost their value in comparison to gold. He explains that the governments of these countries had succeeded in bolstering some confidence in their own money, partly by wage and price controls, and partly because people use their country's money out of habit. Finally the currency becomes so worthless that production drops off. Farmers barter goods with other farmers, but won't sell to other people for money that won't buy anything. With prolonged wage and price controls and shifting of currency values, manufacturers can't make a profit. Soon, one by one, they discontinue producing.

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1. American College Dictionary, Random House, N.Y. Pub. 1962.

He further explains that most people think of their money as having intrinsic value; some day it will become worth more. They cannot believe that most of the actual value of it has disappeared forever. This helps the money to retain some value at home. The great majority of people, most of whom are poor, are left with this nearly worthless money.

Foreign governments and foreign people, however, cannot be deceived. They will not take it for anywhere near the same value as it will bring at home.

My daughter, the shoestring wanderer, discovered this quite painfully when she returned from Istanbul. She left Turkey with a substantial part of that winged $25 still in her pocket, now in the form of Turkish Lira. She boarded the fabled Orient Express with some bottled water and a loaf of bread and rode continuously until she reached London three days later. At the money changer there, she was told that nobody wanted Turkish Lira. She could get only about $15 worth of English pounds for what used to be $20 American. She lost 25% just by holding it in the wrong currency. This kind of problem makes it impossible for the people of one country to buy another country's goods that may be necessary both for manufacturing and for direct consumption. So not only is production destroyed at home when currency loses its value, but credit abroad is also destroyed. Without getting goods from other countries, a country's whole system of production and trade is rendered helpless. This was the situation Keynes saw in Europe after World War I.

People were standing in bread lines and the governments were not even pretending to have any kind of a system that could be called a budget. Even after the blockade was lifted at the end of the war, the credit of the countries was destroyed because their money had lost its value abroad. Even the small value of their money in the foreign market was being eroded still further by constantly changing values, so any attempt to trade became extremely risky. People had to either ask for a high margin of profit in order to trade or else give up entirely.

Lord Keynes sums up the situation in Europe in 1920. "There are, therefore, three separate obstacles to the revival of trade: 1. a maladjustment between internal prices and international prices, 2. lack of individual credit abroad wherewith to buy the raw materials needed to secure the working capital and to re-start the circle of exchange, and 3. disordered currency system which renders credit operations hazardous or impossible quite apart from the ordinary risks of commerce." To fortify his assessment he goes on to enumerate how each country has a better value of her money within her country than in relations with other countries.

He names Russia, Poland, Hungary and Austria as being in extremely bad situations. He explains that when there is a financial entanglement among nations, the financial relationships may take on a political relationship. These can be extremely dangerous because the debt may change the international balance of power. We are all aware of how Russia and the United States influence countries to be allies by giving foreign aid. The U.S. government gets nervous when Russia gives aid to revolutionaries who might be able to overthrow a country that has been on our side.

The Economic Consequences of Peace shows clearly that Lord Keynes was a most polished writer. Not only could he write plainly, but he wrote with a powerful literary style into which he packed a tremendous amount of understanding and insight, with clarity of expression.

The words of Keynes made a great impression on the people of the victorious countries around the world. They wanted humane treatment for the defeated countries.

Starving people and their children without machines or other equipment for production should not be forced to spend their entire lives paying for a war for which they were not responsible.

Zygmund Dobbs[1], Research Director for Veritas Foundation gave this explanation. Socialists seized power in the defeated countries of Europe at the end of World War I. The English Socialists wanted to make things easier for their friends in those countries. This was the reason that Keynes was so determined to prevent the collection of payments from them for the cost of the war.

A Fabian, socialist or communist might look at what was happening in Europe as a blue print for conquest. The situation as Keyens described it was proof that inflation of the currency is the ideal way to breakdown an economic and political organization. In this way an anti-capitalist group could easily seize power over the total lives of the people- even including the production and distribution of all goods.

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[1]Veritas Foundation. Keynes at Harvard, 1962, p. 46

The Fabians got the message loud and clear. They made arrangements with Keynes for a special edition to distribute among Radicals throughout the British Empire.

PERSONAL CHARACTERISTICS OF KEYNES

According to Keynes at Harvard by Veritas Foundation, Keynes developed a reputation for Machiavellian[1] methods. Machiavelli was an Italian statesman. When his party was out of power, he had spare time so he wrote an explanation of how to be a successful ruler. The methods he described are known among political scientist as an oligarchy or rule by a group. This is exactly what socialists often have in mind and is exactly the way the Union of Soviet Socialist Republics rules its people. The privileged group who support the head ruler receive special and generous privileges in return for their political support. Some people believe Machiavelli did great harm by telling people how to get and keep control of a country. Others believe he was trying to tell what was happening in order that they could protect themselves from it. Machiavellian methods are thought of as dirty tricks.

The beliefs of Lenin and Keynes suggest that they probably read the writings of Machiavelli.

Keynes' fellow students recognized his Machiavellian nature and dubbed him "Pozzo". This nickname stuck to him for the rest of his days. Carlo Andrea Pozzo di Borgo had been notorious for diplomatic intrigue and had been hired by various European countries for this ability.[2] We do not need to be sur prised when

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[1]Veritas Foundation, "Keynes at Harvard" 1962, p. 44

[2]Ibid

Keynes writes a book which has different meanings for different people as he did in The Economic Consequences of Peace.

During the 1920's Keynes wrote some other works on money. In 1930, he published A Treatise on Money. This was a two volume work that was much more difficult to read than the Economic Consequences of Peace, and it never made a great impression on the public mind.

In 1936, he wrote The General Theory of Employment, Interest and Money which became one of the most effective books ever written. It has become the Bible for liberal economists throughout the world.

THE GENERAL THEORY OF EMPLOYMENT, INTEREST AND MONEY

From what we know of Lord John Maynard Keynes' life up to this point, we need not be surprised that he wrote a book promoting inflation of currency to bring about all the destructive forces which he so brilliantly described in the Economic Consequences of Peace.

We know that his father had anti-capitalistic leanings; he joined the Fabians whose purpose is to promote socialism; he argued for less than the best kind of money for India; his friends and associates were largely socialists and communists; he took a Russian wife; he did his best to prevent the collection of war reparations in order to make life easier for his fellow socialists in the defeated countries; he explained how effective inflation is in the destruction of capitalism; with his cooperation, the Fabians distributed his "Economic Consequences of Peace" with its description of how inflation destroyed capitalism to the Radicals throughout the British Empire. But most important of all, we have a statement from his own pen in a letter to his mother dated 22 February 1918, in which he makes it clear that he himself is a Bolshevik.

Socialists believe that the government should gain control of the means of production and distribution by peaceful means. The Communists believe in getting control by violence. The Bolshevists were a radical group in Russia who got control and are now the Communists. V. I. Lenin led the Revolution by which Russia became Communistic and changed to the Union of Soviet Socialist Republics. The U.S.S.R. consist of fifteen soviets; Russia is one of those Soviets.

Throughout Lenin's speeches he emphasized the belief that communists could not survive in an imperialistic world.[1] There has to be a world revolution by which all imperialistic countries must become Communists.

If Keynes were strongly influenced by Lenin he would feel obligated to help destroy the capitalistic system. In the last paragraphs of his book, The General Theory of Employment, Interest and Money, Keynes explained how to establish beliefs throughout a country. He points out that it takes a little longer, but the most effective way to establish ideas is to teach them in colleges and universities. You will remember that in chapter VI we talked with several economists in South American countries. Each of these economists with whom we talked had studied in the Untied States or had had professors who studied in the United States. We also found the South American economists expressing the same views as are found in the General Theory of Employment, Interest and MOney. Furthermore these views were being practiced in their countries. The method which Keynes advocated has worked perfectly.

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[1]LENIN, the Revolutionary Phrase (Progress Publishers, Moscow) Third printing 1972, p. 10.

In his book, Keynes advocates that business men not try to understand economics. He suggests that it should be left to the economists whom he addresses. He flatters the economists by suggesting that they are highly intelligent- a soft spot with most of us. He knew something that those of us who have trod the corridors of great and famous universities have learned. Scholars admire those who understand and write about subjects that are difficult. Keynes saw to it that his subject appeared difficult by proposing incomprehensible explanations for his ideas. It is doubtful if many advanced economists have read and understood all of them.

Most people, I suggest, would give up trying to understand his explanations and merely accept the writer's conclusions, assuming that he must be brilliant since his writings are so difficult to understand. After careful study it became evident that the conclusions were understandable. Keynes could make you understand when he wanted to, and confuse you at will. Following is an example of his writing from The General Theory of Employment, Interest

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from the first.

Older Economists had called our attention to the fact that it is fundamental that in order to supply our needs we must produce goods. The more economically and more efficiently we produce, the more goods there will be to serve our needs. Keynes in The General Theory of Employment Interest and Money, promotes the opposite idea. Everyone must emphasize consumption to stimulate business. The public has interpreted this to mean encouragement of big government spending. This has led governments to borrow.

Charging a reasonable rate of interest for the use of money is fundamental to capitalism. Yet in 1936 we find that Keynes recommends as low a rate of interest as possible. He says the less interest charged the more prosperous the economy will be. He considers a zero rate to be ideal.

Keynes' The General Theory of Employment, Interest, and Money appears to be a systematic program of destroying valid economic principles and replacing themwith destructive practices. He had the difficult task of showing that gold is unsuitable for money. In Chapter XV , Rise and Fall of Nations it can be seen that gold has proved itself throughout history.

There are three effective ways to discredit a truth: bold statement, insult and ridicule.

Boldly stating that something is not true can be effective. This very boldness and affirmativeness of the statement goes a long way to raise doubts in the minds of the listeners. Keynes is equal to this task. In his attempt to discredit the value of gold he

states forcefully and confidently that when you mine gold all you have is a hole in the ground.[1] It appears that he tried to intimidate the reader by the force of his personality and authority. He does this in spite of the fact that for many years gold has been in demand not only for money, but also for jewelry, decoration, filling teeth and, more recently, for industrial electronics.

In his use of the second method, insult, he states that gold is a barbaric metal, that only a fool would use it as a store of wealth.

The use of gold for money has helped keep governments from depending on paper bills. With gold it is more difficult to increase the amount of money.

The reasoning may be difficult to follow, but Keynes makes it clear that he has a low opinion of gold. He ignores the facts. Constantinople became the trading center of the world with a gold coin. Northern Italy financed trade between the East and Europe in the fifthteenth century with gold. England was the trading center of the world for four centuries with gold. The industrial revolution that flowered during the nineteenth century made trade by gold a part of its development.

In spite of all these facts most of the monetary leaders of the world have adopted Keynes' view that gold is not suitable for money. The use of gold for money is a hindrance to inflating of the currency. In spite of this he argues against it.

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[1]John Maynard Keynes "The General Theory of Employment, Interest, and Money" MacMillan, 1936 London p. 129

The General Theory of Employment, Interest and Money was published in 1936. The world had been through six years of one of the longest and worst depressions of all time. There was one question uppermost in the minds of every one. "What could be done about the terrible depression?" The timing of the publication of Keynes' book was perfect. It seemed to hold the answers to the world's number one problem.

This time Keynes did not attempt to prove anything. He labeled his book a theory and addressed it to economists, who were accustomed to dealing in theory. There were strong objections from a minority, but they gradually faded out of the picture.

Instead of clear explanations, Keynes now wrote in a style that is a challenge to the most scholarly. Those who seriously attempted to read it must have been impressed with the scholarship of a man who could discuss vague and minute points in such exact detail.

The first part of the book discusses employment about which there was much interest because of the terrible amount of unemployment. Keynes disagrees with the economists, Ricardo and Say, because they emphasize the importance of producing a large amount of goods in order for the public to have a large amount of goods to use. Beginning on page 18, Keynes brands the established ideas of Ricardo and Say as "classical." He soon adds J.S. Mills and others to those with whom he disagrees. Furthermore Keynes states their ideas in expressions that put them in a bad light. He goes on to the end of the chapter with a detailed explanation

of his view in language which is extremely difficult to understand. We get the impression that something must be wrong with our established beliefs according to a very brilliant man. What is wrong must remain a mystery to most readers.

Our faith in the established economists has received a blow. When everything in the economy has been going badly for six years of depression it is easy to descredit established economists and their theories.

The credibility of established economists and their theories receives still another blow on page 31 when Keynes refers to the more obvious and outrageous defects of our system. Few people will be able to understand the accompanying pages well enough to tell what is so wrong about it. Convincing the reader that something is wrong was not difficult in the last days of the Depression. Everyone already knew that.

Keynes idea that demand must be emphasized is introduced on page 32. This is to replace the emphasis on production and prepare the reader to accept private and public spending as one cure for economic ills. Keynes then quotes Malthus as one who disagreed with Ricardo. Although Malthus did not give a satisfactory analysis of his complaint, the technique of quoting someone who opposes another's views isagood one. It has a telling effect.

I do not get a clear idea of what is wrong with the old theory, but it appears that we are about to get a breakthrough in economic understanding, and the old has been wrong all along. Although I can not understand Keynes' reasoning I do get the idea that we must shift to this new approach of emphasizing

the stimulation of consumption instead of emphasizing production.

It may be difficult to prove that Keynes actually advocated deficit spending. However, the emphasis on consumption as a means of stimulating the economy is so strong that it is easy to assume that deficit spending is beneficial. Somehow deficit spending has become popular as being good for the economy.

After running the eyes over line after line without much understanding we find on page 141 and 142 a statement that expectations of a fall in the value of money stimulate investments, employment and efficiency of capital. This is praising the cheapening of money by inflating it. It is doing exactly what Keynes previously told us was the best way to destroy the economy.

On page 164 Keynes surprises us by declaring that he expects the State (government) to have more control over investments which he seems to favor. This does not seem like an important point but it suggests a softness toward greater government control. This is not a declaration ofbelief in socialism, but it is one small step toward liberalism.

A person can run his eyes over thelines for many pages without seeing anything understandable or significant. On page 205 a paragraph catches my attention. It seems to say that people should not save money. Long experience of many people has shown that everyone has emergencies and other unexpected expenses for which people should prepare by saving. These savings can be used as capital for business and industry while providing security. After several readings of this paragraph I could not tell whether Keynes was for saving, against saving or neither. However, the

impression that he was opposed to savings remained. If he truly was opposed to saving, where did he get so disasterous an idea?

Another paragraph on page 207 attracts attention. Keynes refers to the unwillingness of most monetary authorities to deal boldly of long term. He talks about the public authority borrowing through banks. There is a choice of words that gives the impression that it is honorable for thepublic to borrow on long terms. As he himself has made clear earlier and as we know, this is not sound financing.

Another paragraph on page 211 raises a question as to whether Keynes believes in savings. He leaves the reader floundering in eighty word sentences. He gives the impression that saving is bad and spending is good. His ideas appear illogical.

Again on page 221 Keynes refers to the many objectionable features of capitalism. He goes on to say that there would be enormous social changes if there were a gradual disappearance of a return on accumulated wealth. This sounds like the ideas of people who profess to be socialists. As the reader knows, Keynes joined the Fabians in 1903[1]. As stated above the Fabian Society was organized in about the year 1883, for the purpose of promoting socialism. Their methods are low key but persistent. They prefer to work among intellectuals and the children of intellectuals.

On page 232 of The General Theory of Employment, Interest , and Money, Keynes tells us that a reduction in the wage-unit would release cash to provide liquidity. A reduction in the wage

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[1]Zygmund Dobbs, Research Director. (Keynes at Harvard) a Veritas Foundation Staff study, p. 2.

unit is the inflation of the currency. It is only a different way of saying the same thing. Liquidity is the noun form of the word liquid. Liquid assets are those which are in cash or can be quickly converted to cash. Liquidity then refers to the availability of assets. Here Keynes is giving an argument in favor of inflation.

I found at the International Monetary Fund annual meeting in Nairobi, Kenya, the Committee of Twenty were concerned about providing liquidity. I also found the economist associated with the Central Bank of Venezuela thinking in terms of printing money to provide liquidity. These remarks seem to reflect the thinking of Keynes. The usual way of providing liquidity is by savings which make printing money to provide liquidity entirely unnecessary.

the next page, number 233, is extremely difficult to understand, but there are lines which make inflating the currency seem desirable.

Referring to page 234, the reader is led to feel that increasing the amount of money is desirable.

On the very next page, 235, and on the following page, 236, Keynes argues for an elastic supply of money. Through a system of reasoning which the reader is invited to try to follow, he draws the conclusion that if people want money they should manufacture it. He has previously pointed out in <u>The Economic Consequences of Peace</u> that the countries of Europe were doing this through weakness. The reader will remember that Keynes quoted Lenin in saying this was the best way to destroy capitalism. Then he confirmed the opinion of Lenin

and explained how this destruction takes place.

He also on page 236 of "The General Theory of Employment Interest and Money" condemns gold because of its inelasticity of supply. Inelasticity of supply prevents inflation. He does not point to examples of success of inflating the currency as he pointed to examples of places where inflation was destructive. He deals strictly in theory. The reader will remember that we have found further proof of the correctness of his condemnation of inflation presented in chapters II, V and VI above.

To further convince the reader that manufacturing money is desirable he follows with reference to full employment. His reasoning is not clear, but I found in South America as seen in chapter VI that manufacturing money had not brought full employment. Instead it brought economic chaos and political upheaval.

Moving on to page 264 we find another argument in favor of inflating the currency. Keynes points out rightly that workers will resist a reduction in wages. In order to reduce their share of the fruits of production and increase the share that goes to the employers, Keynes suggests a gradual and automatic lowering of real wages as a result of rising prices. This is another way of saying that employers may get ahead of the employees by inflating the currency.

Next Keynes tells us that when wages are lowered because of lower prices the burden of debt on the part of employers is greater. This is of course true. Next he goes on to point out that raising prices reduces the burden of debt for entrepreneurs. In this paragraph Keynes is speaking in behalf of employers who are also entrepreneurs. Of course his statements are true. It is also true that Keynes knew that not one wage earner in

several million will read, let alone understand, what he has written. More of these ideas will filter down to employers than to employees. Few except economists will realize that this is yet another argument in favor of inflating the currency. He includes national debts as among those that are partially liquidated by inflation. These ideas have filtered from economists to people in high political positions. The idea of liquidating national debts has a powerful appeal for a politician. A politician is under constant pressure to spend more than he takes in from taxes. It is still more difficult for him to get taxes from the people to pay government debts. We have seen in chapters II and VI how inflating the currency liquidates old government debts. Also inflating the currency is a way that politicians can reduce the burden of old debts without the public knowing it. The reader will remember that Keynes told us not one man in a million can diagnose inflation. Keynes is pointing out this little trick of using inflation that he knows politicians will gladly seize. He has written in language which is so obscure that all but a few economists will understand, and they are the ones whom politicians will consult. His writing works as a filter that strains out those whom he does not want to understand. Those economists who would struggle through this book would be a new crop of scholars who are grasping for answers to theproblems of the Depression. The timing was perfect for suggestions to increase the currency to take root. This writer knows from first hand experience the intellectual climate of the Depression years.

As Keynes spins his web of argument on the following pages he slips in a little suggestion in favor of a socialized communtiy on page 267.

On page 268 Keynes' writing becomes clear for those scholars who have determined to plow through this book at all costs. They needed to find the answer to the problems of the Great Depression. At that time most people were intelligent enough to know that they did not understand the Depression. In fact if a person is persistent enough he may follow the reasoning that leads up to this page. Keynes is saying that the employer has to lower wages or interest or both so he can earn a profit and thereby be able to put more people to work. In those years getting jobs was everybody's goal and prayer. He says that there is resistance to lowering wages, but the same thing can be accomplished by inflating the currency. Labor will never know if you use this method. This was a powerful argument at that time.

Over on page 270 we find a suggestion that governments set wages at a proper level. This is of course a socialistic solution.

From page 295 to 301 Keynes discusses the rise in prices in relation to the increase in employment. He maintains that increasing the amount of currency will not cause much inflation until it has eliminated unemployment. We must remember that Keynes considers 4% unemployment as full employment. Keynes was right, however, when he said that not one in a million could diagnose inflation. Countries continue to inflate their currencies to stimulate business and reduce unemployment after it has been

proved ineffective again and again by dozens of countries.

On page 297 Keynes argues that if one method of forcing prices up is not used, another will be found. This view of course tends to make a rise in prices appear desirable which seems to be the purpose of the book.

By now Keynes is openly urging the increase of the currency as seen on page 308.

A new argument is introduced on page 319. Keynes insists that a rising stock-market is necessary to make people feel like consuming. As we have shown before, he insists that prosperity depends on spending. In order to have a rising stock-market we must have inflation of the currency. We have seen in chapter II how wild the stock market can get with inflation. Of course Keynes advises a slow increase in currencies, but the historical record shows that people usually increase the amount of inflation until disaster overtakes the country. He does not say anything about controlled inflation in his earlier book. He simply says that inflation is the easiest and surest way of overturning a society.

A group of alumni of Harvard University became aware of a great uneasiness about the education of young Americans. As a result of this uneasiness a group of Harvard alumni established the Veritas Foundation to find the truth about Harvard University leadership. Arthur Brooks Harlow, Harvard '25, served as chairman, and Zygmund Dobbs was selected to serve as research director. The Veritas Foundation was to be strictly a fact finding organi-

zation. What was to be done with the facts was left to be decided later.

It became clear that the study must be limited to a small part of the University because of the size of the job.

After some deliberation it was decided to concentrate on the Economics Department of Harvard College because here was where much of the leftist influence was coming from.

It was found that Keynesian economics was the primary economics being taught at Harvard. Veritas feels that "Keynesian Economics" is a misnomer. It is a left wing political theory[1].

In fact the whole Harvard faculty was over-whelmingly leftist. Those of leftist leanings had apparently taken advantage of Harvard's policy of academic freedom to infiltrate the faculty with members of their political persuasion.

Our observation is that many major colleges and universities are teaching these same left wing political theories as we mentioned earler in this chapter.

THE PATTERN OF HIS LIFE AND WORKS

It is plain that Keynes in The General Theory of Employment, Interest and Money advocated the very practices that he himself has said would overturn a society. This is consistent with his previous activities.

It will be remembered in Chapter V that Keynes and White cooperated to set up the International Monetary Fund. This fund helped spread Keynes' teaching throughout the world and was blocking international trade. Keynes had already explained how

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[1]Veritas Foundation, "Keynes at Harvard" 1961 p. 2.

important international trade is. When even a small amount of some foreign product is necessary for a manufacturing process, the inability to get that product may paralyze a whole industry.

The lapses of time between his writings and the difficulty of understanding some of them has kept people from studying his works as a whole and examining them in light of his life. When this is done his works take the form of a plot to destroy capitalism. The extent and effect of this plot make it one of the most destructive of all time.

There is a story of World War II which illustrates what has happened in economics. A French vineyard keeper fled before the conquering German Army. It was several years before the Germans were driven back, and the vineyard keeper could return home. Of course the condition of his vineyard was his first concern. When he saw it, he turned sick because his beloved vineyard lay in ruins.

On further inspection it appeared that the roots were still alive. The Frenchman said to himself, "The German soldier who destroyed my vineyard must have been a vineyard keeper and loved a vineyard because he made it appear destroyed without actually doing it."

Then the French vineyard keeper looked further and this is what he said, "Now, I know that the German soldier who destroyed my vineyard was a vineyard keeper. Only a vineyard keeper would know how to destroy a vineyard so completely."

Lord John Maynard Keynes must have known money very well to form so perfect a plot to destroy it.

The biography of John Maynard Keynes by R. L. Harrod further confirms conclusions drawn from the writings of Keynes and the findings of the Harvard Alumni research group. Mr. Harrod received credit from Keynes for assisting him in writing The General Theory of Employment, Interest and Money and praises Keynes most generously as a friend would.

Harrod, Pages 192-193, tells us that Keynes believed that small groups of intellectuals should make major decisions.

Again on pages 331 and 332 he emphasizes Keynes' belief in leadership of intellectuals which is in contradiction to the democratic belief that all men should be able to share in the control of their own destinies.

On page 332 we find strong tendencies toward the extreme left and hostility to conservatives, bringing him close to the Marxist point of view.

On page 333 we find that Keynes is not an egalitarian, which means he does not believe in equal rights or any kind of equality. We easily recognize the Communist form of government as the pattern that Keynes favored. Two percent of the people belong to the Communist Party and exploit the other ninety-eight percent.

On page 340 his biographer gives Keynes credit for being the one man who turned the world away from a belief in the gold standard as a satisfactory monetary form.

As final evidence that the writings of Keynes had as their purpose the destruction of our capitalistic society, I refer you to page 224. You will find an excerpt from a letter he wrote to his mother, 22 February, 1918, in which he refers to himself as being a Bolshevik. At that time, the Bosheviks were the radical group fighting the Provisional Government and which became the Communist Party. Surely no Bolshevik or Communist could be trying to help

the imperialistic world by his economic writings. ~~he confirmed that he was a Bolshevik.~~ More references to his biography would only continue the repetition.

On the last pages of The General Theory of Employment, Interest and Money, Keynes tells us that few people learn much after the ages of 25 or 30. Therefore any belief to become fixed must be taught to the young. Keynes' theories have been taught in colleges and universities and have become the policy of the world. Nothing could better prove the truth of his statement. However there has been great development of electronic communication since he expressed his opinion. Certainly we must teach the correct ideas to the young, but today we must use all the modern magics of communication in the war for the minds of men and women.

Federal Gold Commission:

May I urge that the Federal Gold Commission recommend to Congress that it permit private citizens to have their privately owned gold coined at their own expense. At present those who want to invest in gold must have their bullion essayed in order to sell it or else purchase gold in the form of foreign coins. If Congress would adopt suitable designs, permit minting and make United States counterfeiting laws applicable, it would be a much appreciated service to investors. Of course the metric system would be the proper one to use. I suggest five, ten and twenty gram coins.

K. Hart Puffer, Ph.D.
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Our good friends
Bob and Carol

THE UNDISCIPLINED DOLLAR

BY

EDGAR J. SCHOEN

To Delphine,

My wife.

Her devotion,

Her presence,

Our Life.

AUTHOR'S PREFACE

Dated Chicago, Illinois April, 1980

This year my college class is celebrating its 65th anniversary. Needless to say, all of us who are members of the class are octogenarians. In 1973, after some five months of hospitalization due to an accidental fracture of my femur, the first chapters of this work were written by me. From time to time the original text was reread and discarded. About a year ago I thought I had it in good shape and asked my good wife to read it. Her reaction was unfavorable. Therefore, except for the first two chapters as they now appear, I set myself to the task of rewriting the text.

It will be noted that there is no index and there is no introduction to what is being offered for publication. It is my thought that whoever reads it should do so not as a task but as a pastime. It is also my hope that it will be read critically and that from these criticisms I will be able to ascertain the worth of suggestions that are made.

Only one hundred copies are being printed. As to those who read it, it is my hope that you will then do me the favor not of applause, but of constructively critical comment.

EDGAR J. SCHOEN

I

DIFFERING VIEWPOINTS

In the drafting of any diagram, it is necessary to pay heed to points of view of various beholders. An apt illustration is a room in which some two hundred persons are listening to a plea for increased foreign aid to Algeria.

As to the audience, some are advocates of a vast extension of the nation's foreign aid programs entailing double the $5.6 billion voted in December, 1973 by Congress. Others would abolish all foreign aid. Still others advocate a more selective plan of distribution with none to Algeria, rich in oil and natural gas, to which some $209 million had been given in 1972 and 1973 - Algeria, whose foreign minister, Boutiflika, is a leftist notoriously hostile to the United States.

As to one of these viewpoints, Russell J. Clark, Economic Advisor, Westminister Bank, Ltd., London, wrote a report (published in the October 29, 1966 issue of the MAGAZINE OF WALL STREET) about a meeting in Washington of the International Monetary Fund in 1966. Mr. Clark admitted in his report that he could not pretend to complete objectivity, because he had a personal bias against economic nationalism, and favored liberal international trade and foreign aid policies. A study of his report is germane to this subject matter, particularly so because of a meeting in January, 1974, of the Committee of 20 of the International Monetary Fund held in Rome, Italy, and of the annual meeting of the International Monetary Fund held in Nairobi, Kenya, in 1973.

In Mr. Clark's report, he wrote that the speeches of delegates from the larger nations varied with regard to foreign aid, and also with regard to

continuous and constantly recurring balance-of-payments deficits. Some justifiable complaints had been voiced as to misapplication or misappropriation of foreign aid funds due in good part to aid for political, not economic, reasons. As to this Mr. Clark concluded that ....."better tied aid than none at all .... for three reasons: (1) a moral obligation to help poorer nations; (2) expediency (to avoid) an explosion of world-wide dimensions; (3) an economic...need (for) markets for ...goods...(to induce) faster standards of living rise in the developing world." (The words in parentheses are the author's).

Concerning the effect of balance-of-payments deficits on foreign aid, Mr. Clark noted that this applied to real, not imaginary, deficits of the United States and Great Britain. As to the United States, he wrote that the deficit probably would persist, as indeed it has, although the then President, Lyndon B. Johnson, had assured the delegates that in twelve months' time the deficit would definitely be on the way to elimination. As to Great Britain, he quoted the following from an address by James Callaghan, then British Chancellor of the Exchequer:

> "We can now be confident that Britain will move out of deficit and that, taking 1967 as a whole, Britain will enjoy a healthy surplus in her balance of payments over-all - that is on current and capital account combined."

Mr. Clark's report next dealt with a suggestion inherent in Mr. Callaghan's speech of a shortage of international liquidity. Then he commented on repeated denials by representatives of France, Germany, the Netherlands and Italy, of any then current shortage of international liquidity, although no delegate to the conference had been authorized by his country to announce that his nation's currency reserves were adequate.

This led Mr. Clark to report about gold as a reserve asset, concerning which he wrote:

".....there is a crucial difference between owned reserves and lines of credit. The attraction of gold as a reserve is not merely its universally acceptability and stable value, but also, unlike credit, its possession involves a debt to no one."

In referring to a speech at the conference by M. Depre, the then French Finance Minister, Mr. Clark stated the position of France to be that the time had passed when certain national currencies could serve as international reserve instruments. France contended that the view of gold as "a barberous relic" was in conflict with objective reality. France insisted that gold should be discussed without superstition. Mr. Depre insisted that the creation by fiat of "artificial liquidity" would merely worsen then existent monetary disorder.

In view of today's price of gold, it is interesting to note Mr. Clark's statement that the 1966 delegates to the Conference of the International Monetary Fund did not contemplate "a big increase in the price of gold."

Mr. Clark concluded that some progress had been made by the delegates to the 1966 meeting of the International Monetary Fund in Washington, namely, (1) that a need existed for "contingency planning"; (2) that the question of international monetary liquidity was of interest to all members of the Fund; and (3) that the International Monetary Fund should be an "active participant in future studies." The final sentence of Mr. Clark's report, however, is:

"A demand for action is fostered on the monetary authorities who by tradition prefer inaction."

With regard to gold holdings by various monetary units, the Clark article has a diagram disclosing that in 1958 the United States had over $20 billion of gold reserves as against some $9 billion by the nations of industrial Europe.

In contrast, by August 1966 the nations of industrial Europe held some $18 billion of gold monetary reserves as against somewhat over $12 billion of gold monetary reserves then held by the United States.

II

RELATION OF QUANTITY OF MONEY TO INFLATION

Mr. Clark's report clearly demonstrates that there is an intimate relationship between (a) foreign aid, (b) international balance-of-payments surpluses or deficits, (c) intranational and international liquidity or illiquidity of monetary reserves, and (d) orderly international trade and monetary cooperation or chaotic international trade and monetary conflict.

Here then are four focal points of this diagram. The fifth focal point, the end result of intranational or international monetary and fiscal disorder and chaos is inflation.

There are numerous definitions of inflation. Some contend that inflation is a governmental increase of monetary supplies faster than its growth of goods and services, the impact of which occurs when money reaches the consumers' pockets.

The period prior to 1964 in the United States was a period of mild or creeping inflation. United States Government statistics for the period from 1952 through 1962 disclose that consumer prices rose only 14 per cent, weekly earnings 44 per cent; and for a period of some five years prior to 1964, wholesale prices remained practically stable and consumer prices rose but 1.2 per cent per annum.

During that period the supply of money rose only slightly and gradually. But for the period from 1962 to 1973, statistics of the United States Department of Labor disclose that consumer prices rose 53 per cent, weekly earnings rose 80 per cent. During this period the greater velocity of consumer prices was

accompanied by a sharp rise in the quantity of money in circulation.

There is another definition of inflation. Gottfried Habeler of Harvard in Inflation Its Causes and Cures (revised edition 1966, American Enterprise Institute, Washington, D. C.)takes inflation to mean a "condition of rising prices."

Whatever the definition of inflation, Professor Habeler is correct in his statement that "there has never been a case in monetary history anywhere of a prolonged and violent inflation without a sharp rise in the quantity of money."

Thus, in every inflation the quantity of money is a causal factor of prime importance. No matter what other factors may be taken into consideration, none of them can produce serious inflation unless accompanied by continual increases in the quantity of money.

In order that the possibility of monetary chaos in the United States is properly understood, may we review briefly the course of economic conditions in the United States from about the year 1800 to date.

III

THE NATION'S POLITICAL ECONOMY FROM AND AFTER THE BEGINNING OF THE FIRST TERM OF PRESIDENT WASHINGTON UNTIL AND INCLUDING THE YEAR 1897

The first United States dollar was coined in 1794 pursuant to the provisions of a 1792 Act of Congress. The Act of 1792 provided for the minting of half cents, cents, half dimes, quarter dollars, half dollars, dollars, quarter eagles, half eagles, and eagles. These coins were to be of the same value and weight as the Spanish milled dollar, minted in either silver or gold.

David Rittenhouse supervised the minting of the first silver dollar. Proud of his work, he saved some examples. One of these that he had set aside was purchased by an English major. In 1979 it was again sold at auction to a Chicago coin collector for $430,000.

From and after the founding of the nation, until the middle of the 19th century, international trade was carried on mostly by barter, or by payment in gold bullion, not in gold or silver coin.

The Mint Act of 1792 undervalued the gold and silver content of coins. The metal contained in these coins was far in excess of their dollar value. Consequently, in 1804 and 1806 President Jefferson suspended coinage of silver dollars and gold eagles. From then and until 1834 there was no coinage either in gold or in silver.

In 1791 two men successfully applied power driven machinery to the spinning of cotton yarn in Rhode Island. This is considered the beginning of the Industrial Revolution in the United States.

In the following year Eli Whitney introduced the cotton gin whereby it became profitable to cultivate short staple cotton in the South. This had a revolutionizing influence on the South and on the slavery problem. The first

iron plow was patented in 1797.

Originally, the nation had two parties, one the Republican Party whic later on became the Democratic Party, was headed by Jefferson. The other p was the Federalist Party headed by Alexander Hamilton and John Adams.

It was Alexander Hamilton who first formulated the fiscal policies of the nation. A Funding Bill was enacted in 1791 to accept old securities at par in payment for new bonds bearing interest. An Assumption Bill in the s year provided for Federal assumption of the debts of the States, the organi tion of the Bank of the United States, and an excise tax. This excise tax to the 1793 Whiskey Rebellion in Pennsylvania.

From and after the beginning of the 19th century there was a period of expansion westward in the United States. This resulted in constant wars be the Indians who occupied some of the Middle Western territories and the whi who sought to settle there.

Also, John Jay, Chief Justice of the United States Supreme Court, made a treaty with England adjusting differences between that country and the Un States as to control of the fur trade. The treaty made by John Jay in 1794 provided for the evacuation by Great Britain of border posts in 1796, and permitted trade by the United States with the British East Indies.

The United States also had a dispute with Spain, particularly over nav tion of the Mississippi River, and the incitement by Spain of the Indians o the Southwest to war with frontiersmen. This was settled in a treaty made 1795.

Then in 1797 the United States had difficulties with France. The Fren monarchy had been destroyed, and the so-called French Directory sought to extort money from three American commissioners sent to France to settle dif ences with France. There was a naval battle. This resulted in the creatic of a Naval Department by the United States.

The term of office of John Adams, beginning in 1797, was a period of consta conflict between the Federalists and the then Republican Party. Jefferson went so far, together with Madison, as to propose a resolution whereby any State could nullify the force of an Act of Congress within its confines.

Thomas Jefferson became President of the United States in 1801 and remained as President for eight years. Prior to his term of office, Vermont, Kentucky, and Tennessee had been admitted to the Union.

In 1803 Ohio became the first state to be carved out of the old Northwest Territory. There had been tremendous conflict with the Indians, a tribe of Miamis who were settled in Ohio. In 1794 General Anthony Wayne defeated them so decisively that the Miamis conceded all but the Northwest quarter of Ohio to the white man. This also had a profound effect upon the Potawatomis who then occupied a good part of Illinois, particularly Chicago.

Thomas Marshall became Chief Justice of the United States in 1801. His decisions had a tremendous impact upon the economy of the United States, particularly so his decisions in Marbury v. Madison, McCullock v. Maryland, Fletcher v. Beck and Dartmouth College v. Woodward.

In 1800 an Act of Congress provided for the purchase of government land on credit, thereby leading to a good deal of land speculation during Jefferson's term in office, in the growing United States and particularly so its various territories.

During the term of Thomas Jefferson there was the Louisiana Purchase of 1803. Spain had ceded Louisiana to France. Napoleon had wanted to establish a colonial empire in America. But he needed funds, and a series of events including the failure of his army to reconquer Santo Domingo, caused him to lose interest in the establishment of a colonial empire. He therefore sold Louisiana to the United States, thus doubling the size of the nation. Louisiana

then included a great deal more than what is today Louisiana. It included the entire area between the Mississippi and the Rocky Mountains plus the island on which New Orleans stands.

During the term of Jefferson who espoused States Rights, New England Federalists, joined by some from New York State, having become alarmed by the Louisiana Purchase, planned the formation of a confederacy. But all that happened was a duel between Aaron Burr and Alexander Hamilton in which the latter was killed. Also, in the early part of the 19th century there was the Lewis and Clark Expedition into Oregon country. The United States then claimed the Oregon country as its own, a claim recognized by Great Britain in 1846.

In the early part of the century the entirety of California, Arizona, New Mexico, Utah and Texas, and portions of Wyoming and Colorado were not part of the United States. Most of this area, except Texas which became a republic on its own, was part of Mexico.

Madison succeeded Jefferson. During his term there was the War of 1812, the last of the war conflicts between the United States and Great Britain. During that war, Admiral Perry won the naval battle of Lake Erie, the British had to surrender Detroit, and finally the Battle of New Orleans was won by Andrew Jackson in January, 1815. Actually, the war had been brought to a close in December of 1814 by the Treaty of Ghent.

In 1816 the charter of the original Bank of the United States having terminated, Congress, with Madison's consent, chartered a second Bank of the United States to remain in existence for a term of twenty years. Madison regarded the Bank of the United States as necessary for a uniform circulation of currency within the nation. Also, in 1816, the first protective tariff of the United States was enacted.

James Monroe became President in 1817. Subsequent to the termination of th

War of 1812 there had been increased land speculation with the result that in 1820 a Land Act was enacted abolishing the Act of 1800 which permitted the purchase of government lands on credit, and requiring purchase of government lands for cash, the minimum price to be $1.25 per acre.

The Land Act of 1820 resulted in a low in real estate values, that is to say the beginning of a buyers' market in real estate and the end of a sellers' market in real estate.

In March of 1820 Congress also effectuated the so-called Missouri Compro This was to the effect that for every Free State to be admitted into the Unio there would be a Slave State admitted at the same time. Pursuant to this Compromise, Maine was admitted as a Free State, Missouri as a Slave State.

In 1834 gold and silver coinage was revalued at a ratio of $16 in silver to each dollar in gold compared to a 50 to 1 ratio provided by the Act of 179 Under the action taken in 1834, an engraver by the name of Christian Gobrecht designed a new silver dollar. It was circulated only during the years 1836, 1838 and 1839. Very few of these coins were minted.

The economic condition of the country between 1820 and 1834 is well illustrated by the early history of Chicago after the Indian massacre in Fort Dearborn. The Indians had sided with the English in the War of 1812. They outnumbered the new settlers.

After the massacre Chicago continued to grow. Yet, there were constant skirmishes with the Indians and a number of treaties, until finally, due to the help of a Potawatomi named Sauganash, whose father was white, mother a Potawatomi, and who had become friendly to the whites after the massacre of 1812, the chief of the Potawatomis signed a treaty in 1833 by which the tribe relinquished title to the last of its lands East of the Mississippi, some 5 million acres, and were ceded by the government a tract of land of 5 millio

acres situated on the East bank of the Missouri River. The tribal members were also to be paid large sums of money and goods, and a further $280,000 payable in yearly installments over 20 years. This left all of the land in Illinois in the hands of the new settlers excepting some small reservations.

In 1835 the United States Land Office offered for sale in Chicago over 3,600,000 acres of government land at $1.25 per acre. These were some of the Indian lands that had been ceded to the government. There followed a land craze in Illinois, and also in the Eastern states where this land was traded. Land values jumped overnight. Also, there was tremendous migration into Chicago from the East. One of the new arrivals , John S. Wright, stated that he began to operate in real estate in 1834, and in February of that year went to New York and sold an 80-acre tract for $10,000 which had cost him $4,000. He further wrote that in 1836 he had a net worth of $200,000, that being mainly the then value of his real estate holdings; that 1837 brou ruination to him not only in real estate but in all other property values, and that by 1840 all of his property was gone.

Andrew Jackson was elected President of the United States in 1834. During his term in office he resented the autonomy of the Bank of the United States, as undemocratic. Consequently, local banks, municipalities, and even merchants, issued their own coin and currency. In time, all this coin and currency became worthless, the paper notes being known as "shin plasters and the coins as "hard time tokens".

As in Chicago, there was widespread speculation in land shortly after the election of President Jackson. This resulted nationwide in the Panic of 1837. That panic led to a new low in real estate values in 1838.

It was under Jackson that the "spoils system" came into existence natio This is the practice, still in existence, of basing appointments of various

persons to office, such as members of the judiciary and of the bureauocracy, on party service, not on merit.

During the term in office of President Jackson a number of different political parties came into existence, one the American Peace Society, anothe the Workingman's Party, and in the South the organization of the Whig Party by Southerners who feared the leveling tendencies of Jacksonian democracy whose wife was said to sit smoking a corncob pipe while in the White House.

During the 1830s there was conflict with the Indians, not only in the Northwest Territories, but also in the South. Thus, an Act of Congress in 1830, four years prior to the election of Andrew Jackson, authorized the President of the United States to locate on lands West of the Mississippi all Indians who surrendered to the government their holdings East of that river. Some of these Indians eventually were given land in Oklahoma which later proved to be oil lands, others in the homelands West of Arkansas.

Slave trade had been abolished by the Congress of the United States in 1808, the same year that England abolished slave trade. But the institution of slavery continued in the Southern states, a constant sore spot with the Northeners. England abolished slavery in 1837. In the United States, it took a civil war to eradicate slavery, but not prejudice against the blacks.

The minting of silver dollars in quantities resumed in 1840 and continu until 1904 when all silver coinage was stopped for a period of some 17 years The Gobrecht dollar with variations continued to be minted until 1878. Ther after the Morgan dollar, named after its designer, was minted until 1904.

Until the discovery of gold, particularly so in California and Nevada i 1849, the United States had an insignificant amount of gold coinage. There-after the United States became a major gold mining nation until 1933 when th cost of labor and the government's fixed price of $35 per Troy ounce left th United States with only one substantial mine, namely, the Homestake in Lead,

South Dakota. The Homestake has continued to mine gold to date, the deposit in South Dakota requiring lesser labor costs than those in California and elsewhere.

Recently, due to the increase in the market value of gold, there has been a substantial resumption of gold mining in a number of Western States, as also in Canada.

In 1848, as the result of a war with Mexico, Mexico ceded to the United States all of its territory West of the Missouri River and North of the Rio Grande. The Republic of Texas had been annexed to the United States in 1845. In 1853 additional land South of the Gila River was purchased by the United States from Mexico to form the present boundary, in California, Arizona and New Mexico between the United States and Mexico.

As was to be expected, the new territories and the discovery of gold in 1849 led to a boom in real estate values. Many miners made vast fortunes, one of which is that of the Hearst family. Land speculation continued again until it reached excessive heights, leading to a low in real estate values in 1856.

The low in 1856 resulted partially from the enactment of the Kansas-Nebraska Act of 1854. This Act nullified certain provisions of the Missouri Compromise. It provided that inhabitants of two new territories, Kansas and Nebraska, would determine whether or not, when each territory became a State it would be a Free State or a Slave State. This led to a mad scramble to claim homestead lands in the new territories between the pro slavery and ant slavery elements. Bloodshed resulted. Also, there was wild speculation in land values. The 1856 low in real estate values was followed by the Panic o 1857.

In 1857, the Dred Scott Decision by Chief Justice Taney of the United S Supreme Court appears to have been the occasion for the secession of certain

states from the Union when Abraham Lincoln was elected president in 1860. Th Civil War continued until 1865. To help finance the war the government issue its first income tax, a tax of 3% on all annual income over $800. Also, in 1862, the Congress enacted the first two of three so-called Legal Tender Acts the last one in 1863.

In July of 1862 the first comprehensive Internal Revenue Act was enacted This resulted, of course, from the need to finance the Civil War.

In February of 1863 the Congress enacted a National Banking Act, this in order to create a market for United States bonds, and to drive out of circulation the notes of banks chartered by the various states. This was designed to create a tremendous financial support for the United States gover ment during the war period. It was also designed to afford the United States a uniform currency circulation medium. State banks were encouraged to become national banks, and as such to become stockholders in the government's Nation Bank. Such stockholders were entitled to buy federal government bonds, depos them with the Treasurer of the United States, and then issue National Bank no up to 90% of the market value of the deposited bonds.

Many state banks were reluctant to do this, with the result that in 1865 the Congress enacted a 10% tax on state bank notes in circulation.

During the Civil War, the cost of which was about a million dollars a da in the first year and greater amounts subsequently, the government suspended the gold convertability of its paper money. It issued three successive batch of so-called "legal tender" notes sometimes referred to as "greenbacks". Thi fiat currency precipitated an inflation of some 24% in 1862. By 1864 the American dollar value had declined to one-third of its then gold value.

According to the Act of Congress, the issuance of greenbacks to finance the Civil War was to be temporary, these greenbacks to be called in and exch for gold or silver coin when the country was again sufficiently able to do s

The United States Treasury had issued approximately 450 millions in greenbacks during the Civil War period. This large amount of greenbacks made currency plentiful.

The monetary problems of the United States after 1865 originated from the financing of the Civil War. A fiat currency has no intrinsic value of its own. It is worth only what it will buy in goods, merchandise and services from day to day or year to year.

Thus, in view of the current situation in the United States, what happened to the fiat currency issued to finance the Civil War is interesting. During the Civil War period the dollar depreciated in value.

In 1869 Ulysses S. Grant became the 18th President of the United States. In 1872 he was reelected. Thus, he remained in office until 1877. During his two terms in office there were numerous instances of corruption. In September of 1873 a panic was precipitated by the failure of J. Cooke & Company. Fundamentally, this panic was due to inflated currency, unlimited credit, reckless speculation, and over-expansion. Much of this business expansion had been financed from Europe where in May of 1873 there was a panic in Vienna that spread to other European money centers, causing the withdrawal of much of the foreign capital from the United States. Insofar as real estate is concerned, a buyers' high and a sellers' low in real estate values occurred in April, 1874, some 18 years after the low of 1856.

In 1873 there was an important discovery of silver in the State of Nevada. Due to the large amount of silver deposits that had been found in the Rocky Mountains, in 1878 the farmers and silver mining interests through their representatives in Congress secured the enactment of the Bland-Allison Act which permitted the Treasury of the United States to purchase for minting not less than $2 million and not more than $4 million of silver monthly.

From the viewpoint of the farmers and miners who were debtors, this was hel

But not so as to the business and banking interests who were creditors. Resultantly, these two classes of debtors on the one hand and the creditors on the other hand continued to wrestle with the gold and silver dollar ques until the latter part of the 19th century. The Bland-Allison Act was rever in substance in 1879 when the business and banking interests of the nation demanded and obtained a gold standard dollar.

In turn the silver miners and farmers were not happy with the gold sta dollar. Consequently, in 1882 they demanded and obtained monetarization of silver at a ratio of 16 to 1 against the dollar, the dollar to have both a gold standard and a silver standard. At that time the 16 to 1 ratio greatl over-valued silver. In time this resulted again in an expanded money suppl accompanied by increases for commodity prices, prices for farm products. Fortunately, the nation in that period of time had a balanced budget so tha the expanded money supply and increased commodity prices brought on only cr inflation. Nevertheless, the 16 to 1 ratio was an important factor in the Panic of 1893. Although farm prices increased during the early 1890s, drou and an agricultural recession in the last years of that decade led to the e ment of the Sherman Silver Purchase Act in 1890 which provided for the purc by the Federal government of almost the entire domestic production of silve The farmers and the silver miners believed that the Act of 1890 would benef them. Actually, it left them in an infinitely worse position than they had been prior to its enactment.

Resultantly, President Grover Cleveland called Congress into special s in 1893 and obtained the repeal of the Sherman Silver Purchase Act. He fur antagonized the farmers and others of the debtor class by entering into an alliance with Wall Street bankers, leaving the monetary structure of the Un States entirely on a gold standard. The monetary panic of 1893 was precede a low in real estate values which occurred in 1892.

This low in real estate values was due to a number of different factors including the organization in St. Louis in that year of a Peoples Party, commonl known as the Populists, which brought a third party into the national campaign for the presidency. Not only that, but the Populist Party embraced many of the reforms in real estate and other matters advocated by Marx and Engels in their Communist Manifesto in 1848.

During the last half of the 19th century and continuing on into the 20th century, there has been a bitter and continued conflict politically between the financial and business sectors, namely the creditors, and the rest of the population which constitutes a debtor class. During the latter part of the 19th century the Eastern States were the creditor states, Middlewest and Western states the debtor states.

There were other conflicts in the latter part of the 19th century than those between the slave states and the free states. There were the conflicts between the white settlers of the Western territories and the Indians who claimed these territories as their own. There were conflicts between the Mexican Americans who originally owned the portions of the United States ceded to this country by Mexico, and the new settlers. There were at the same time conflicts between the cattle breeders who wanted grazing land and the sheep herders who fed upon grasslands to such an extent as to make them worthless for cattle. In Wyoming this led to a bloody conflict in the latter part of the 19th century.

As for the conflicts between the Indians and the white settlers, in 1886 C created the Board of Indian Commissioners. This Board has had the task of supe all governmental expenditures of funds for the Indians and the establishing of territories in each of which the native Indians were to have supremacy. There are a great number of these today in many states of the Union, the most powerful tribe being the Navajos in Arizona and New Mexico.

There were also conflicts in the far West between Asiatics and the whites, conflicts which have continued well into this century. The American "melting pot" as it was called did not fuse very well, and has not even to this day. This goes back to some prenatal fears that mankind has, one of which is the fear of the stranger. This fear of the stranger appears in Genesis when Cain was exiled because of his slaying of his brother, Abel. It is basic in human nature.

Despite all of its shortcomings, the 19th century ended up in 1897 with a balanced budget and an emphasis upon the Federal and State governments to live within their respective means. The people also lived within their means. Credit was a bad word. The password of that day and age was opportunity, not security.

Realistically, the only time any mortal being will have security is when that mortal being goes to meet his or her Maker.

Also, until 1897 the United States government heeded the advices of George Washington to avoid entangling alliances with foreign countries. Thus, by 1897 the United States was actually the richest country on earth.

A year after 1897 the United States engaged in the Spanish-American War. This started the nation on the road to entangling alliances.

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CHAPTER IV

FROM THE TURN OF THE CENTURY TO THE BEGINNING OF THE GREAT DEPRESSION

The last decade of the 19th century and the first decade of the 20th century were tumultuous years for this nation. During that period of time the United States became a world power saddled with entangling alliances.

Depression had started to spread over the Western world in 1890. In the United States the Panic of 1893 led to the effort, beginning in 1894 and continuing for two years, of the government to sell gold bonds in order to maintain the gold reserve properly. Sizeable amounts of gold had been withdrawn from the United States by foreign investors because of the continued proliferation of silver coinage even after the repeal of the Silver Purchase Act. The sale of these gold reserve bonds was entrusted to a J. P. Morgan syndicate which made a profit of seven million dollars from the sale of sixty million dollars of bonds. Because of this, after January of 1896 the bonds were offered at public subscription.

The extent to which the Spanish-American War, which was declared in April of 1898, was wholly unnecessary is emphasized by the signing of a peace treaty by Spain and the United States in December of the same year. This treay ceded to the United States Puerto Rico, Guam and the Philippines, all of which Spain had been willing to cede prior to the declaration of war.

The ceding of the Philippines brought the United States into hostilities in that country due to guerilla warfare which occurred there for a period of some three years from 1899 to 1902.

Then there was the problem of Hawaii. Hawaii had been a monarchy but had been supplanted by a Republic in 1893. Numerous efforts were made for a number of years to declare Hawaii a Territory of the United States. Finally, in July, 1898

Hawaii was annexed as a Territory by a joint resolution of both Houses of Congress.

During the second term of President Cleveland the Federal income tax was declared unconstitutional by the United States Supreme Court because it was a direct tax, not apportioned among the states in proportion to the population.

Also during the second term of President Cleveland there was a boundary dispute between Venezuela and British Guiana. Great Britain refused to submit the matter to arbitration. There was a fear of war. Secretary of State Olney brought this matter to a halt by a note to Britain stating "today the United States is practically sovereign on this continent and this fiat is law upon the subjects to which it confines its interposition". Although Lord Salisbury replied to the note of Secretary of State Olney denying the application of the Monroe Doctrine to the situation, Great Britain and Venezuela signed a treaty submitting the dispute to artibration.

In 1897 William McKinley became President of the United States, defeating William Jennings Bryan. The policies of William McKinley were such that despite the Spanish-American War, the Philippine insurrection and other matters, there was a return of prosperity to the nation. Gold production of the world increased, leading to a great increase in the gold reserve of the nation. Large business combines were formed, notably the United States Steel Corporation, the first billion dollar corporation in the United States. High tariffs were enacted to protect American industry.

In 1899 our country became involved in a dispute concerning China. The French, the Germans and the Russians as well as the English all claimed spheres of particular interest in China. Our then Secretary of State sent these powers a so-called "Open Door" note asking them to pledge not to interfere with any vested

interests already in their differing spheres and not to levy high harbor charges on other nationals calling at their ports.

The character of the nation's foreign trade underwent substantial change in the period from 1897 to 1914, the year of the beginning of the First World War. The foreign trade expanded at a faster pace than at any time since the Civil War. Exports increased from about $1.4 billion in 1900 to nearly $2.5 billion by 1914, while imports rose from $850 million to $1.8 billion during the same period.

In 1900 agricultural products were about 60% of the nation's exports and manufactured products only 35%. By by 1914 manufactured products accounted for almost 49% of the American exports. Also, the development of new industries within the United States lessened the nation's demand for manufactured goods from abroad, and stimulated demand from overseas for raw materials such as rubber, tin and manganese.

In 1897 Europeans held American securities valued at nearly $3.5 billions. By 1914 European investments in the United States had more than doubled. The balance of trans-national transactions payments ran heavily against the United States. Part of this, however, was offset by American foreign investments guided by international American bankers, sometimes with the support of the State Department.

When the United States entered war with Spain in 1898, American investments in other nations totalled only about $685 millions. By 1914 this figure stood at $3.5 billions. Most of these foreign investments were not in Europe or the Far East, but in Canadian mines, industries and railroads, Mexican mines, the Caribbean Islands, particularly so Cuba, and South and Central American countries. In Cuba, which was under the protection of the United States from 1898 to 1914, American investments grew from $50 millions in 1897 to $_00 millions by 1914.

With the victory of McKinley as President and Theodore Roosevelt as Vice

President in the election of 1899, the Republican Party, which at that time was the great Federalist Party, proceeded to do away with all silver coinage, terminating the same by 1904.

In 1900 a Currency Act was enacted declaring all forms of money redeemable in gold on demand, and providing for a gold reserve of $150 millions. Gold notes were issued by the National Bank redeemable in gold at $19 an ounce of a certain fineness. These notes reduced the requirements of banks in small communities.

It is interesting to note that in 1901 Cuba agreed not to impair her independence by treaty with foreign powers, not to assume public debt beyond the ability of Cuba's ordinary revenues to liquidate, to permit United States intervention for the protection of Cuban independence, and to sell or lease to the United States land necessary for a United States naval or coaling station. This is the beginning of our naval installation at Guantanamo Bay.

In September of 1901 President McKinley was assassinated and was succeeded by Theodore Roosevelt who remained as President until 1909. It was during the term of office of Theodore Roosevelt that the Panama Canal became an actuality. Negotiations between Colombia and the United States led to a revolt in Panama, the Panamanians declaring their independence from Colombia. Finally, after the United States had recognized the independence of Panama, a treaty was signed between the United States and Panama that granted the United States the use of the canal zone ten miles wide, transferred to the United States the properties of the canal company and the railroad then required by the canal, and provided for the payment of $10 million in gold to Panama, which was paid, and an annuity of $250,000 which also has been paid until the treaty between Panama and the United States made and entered into in 1978.

Theodore Roosevelt created a good deal of turmoil within the Republican Party itself, he being much more aggressive with regard to large business and financial institutions than the great body of the Republican Party leaders desired. In the

first year that he was in office, 1901, there was a short panic due to the struggle between the Harriman bankers of the East and the Hill family for control of the Northern Pacific Railroad.

There was also a short panic in 1907 as the result of which the Morgan forces and the Kuhn Loeb forces joined hands.

This period was that of the early days of Unionism. The agitation created thereby also led to a great deal of turmoil within the nation. Thus the aggressiveness of the Roosevelt administration under the Sherman Anti-Trust Act plus the early days of Unionism led to a condition of unrest within the entire United States.

The policy of the Republican Party at that time as to international trade was the support of so-called infant industries by high tariffs. Theodore Roosevelt was not whole-heartedly agreeable to this policy. The United States at that time required exports of about nine per cent of its total Gross National Product. High tariffs brought retaliation from foreign customers. Consequently, with the election of William Howard Taft, who became President in 1909 with the blessings of Theodore Roosevelt who had expected President Taft to continue with Roosevelt's progressive policies, the so-called "old guard" of the Republican Party soon reinstated a firm policy of high tariffs. The economic condition of the nation stagnated with the result that in 1910 there was again a low in real estate, that is to say, the end of a sellers' market and the beginning of a buyers' market. Here again there is evidence of an eighteen year cycle.

Unionism in the period from 1909 through 1913 was not organized as it presently is. There were some union organizers who were met with violence by employers who were ill advised in their attitude toward unionization. There were other organizers who antagonized the owners of businesses by advising the owners that they had so many days within which to arrange their affairs, after which the organizers would take control of the business and give the owners what the organizers deemed to be a fair

return. And there were violent boycotts.

The period from 1909 through 1913 economically left much to be desired. The situation overseas was muddled. War almost erupted in 1912 between Germany and France due to an incident in Morocco. The Kaiser was deterred from declaring war at that time. In 1913 the French, who previously had a conscription of soldiers into their military for one year of servitude, increased that period to three years This was one of the incidents which occasioned World War I. The German Empire needed foreign trade. At that time it was hemmed in to access to overseas countries such as the United States and South America through control of the English Channel by the English navy.

In 1912 Woodrow Wilson was elected President of the United States and re-elected in 1916. Woodrow Wilson had been a professor and then President of Princeton University. As to the presidency of the United States, he believed that the Congress should be subservient to the wishes and desires of the President. He had that sort of cooperation through Democratic Party control of Congress until 1918.

With the advent of World War I in 1914 there was a business boom in the United States. The grain farmers were able to command much higher prices for their harvest On this basis many of the older grain farmers who were ready to retire sold their farms to younger people, getting prices for their acreage far above the value thereof in normal times. The new owners, in order to make the payments demanded by the sellers, heavily mortgaged their farm properties, particularly to insurance companies

United States industry also found a new market, there being a great demand in Europe for American products due to World War I. This led to a so-called period of prosperity. Industrial employment increased as also did productivity per worker hour. After vacillating as to whether the United States should become a combatant in World War I, Woodrow Wilson finally joined hands with Britain and France in April of 1917. The citizenry of the United States was led by the government to believe that American youth was fighting a war to end all wars, a war for democracy

After the Armistice of November 11, 1918, President Wilson and his second wife were invited to the Peace Conference in Europe. This took place in Versailles. We resolved that the peace treaty would encompass fourteen points, points which he believed were necessary to end all wars and to secure world peace. The French, however, were insistent upon bleeding Germany. The English, whose naval power had been threatened by Germany, were agreeable to the French demands. Thus the Europeans sidestepped President Wilson's peace plan by secret diplomacy. The treaty actually led to German hyper-inflation in 1923 with which a later chapter will deal.

President Wilson lost control of Congress in the elections of November, 1918 to the Republicans. This was a terrible blow to him. He could only work amicably with a Congress that was subservient to his every wish.

When President Wilson and his second wife returned from the Peace Conference in 1919 they landed at Boston. They were paraded up Boylston Street in an open horse-drawn carriage, President Wilson's then wife beaming graciously at the crowd, the President to her right visably disappointed, weary and giving the appearance of a real old man. Rumor had it that during the final year of his term of office he could no longer write, and that his signature on legislation actually was forged by his secretary, Joseph Tumulty.

There was a suit filed in the United States District Court in Colorado, the complaint of which is missing from the file as are other documents. It is said that that action accused Mr. Tumulty of having signed a bill still on the books favorable to the oil companies. Whether or not this is so, Joseph Tumulty was employed, after the end of President Wilson's term and for the rest of his years, by certain oil interests.

In 1920 President Harding, a Republican, took office. Shortly after his term had commenced the Teapot Dome scandal erupted. He had been duped by some of his closest associates with regard to oil reserves owned by the government in what was known as the Teapot Dome. Mysteriously, President Harding died on a voyage. He was

succeeded by Calvin Coolidge who was elected to office for another term in 1924.

The years of the Coolidge term can best be described as corrupt, not insofar as President Coolidge was concerned, but because of the Volstead Act and nation-wide prohibition which corrupted many of the judges and elected officials throughout the nation, a billion dollar annual industry having been thrown into the hands of the bootleggers. As to the bootleggers, although there were many killings, they were between one group of bootleggers and another. The public was not molested.

Calvin Coolidge is best remembered for his statement in 1928: "I do not choose to run." During the Coolidge years the stock market roared on. Bankers made many loans on inflated values, loans that sooner or later would turn into delinquent debts.

Some American investors became alarmed in 1928. They purchased gold coins from the Federal Reserve Bank in $1,000 bags, closed by a seal certifying to the weight and fineness of the coins in the bag, this at $19 an ounce.

In 1928, exactly 18 years after 1910, the real estate market again reached a low. This was nation-wide, both as to urban real estate and farmlands. But yet the market roared on until that fateful day on October 29, 1929 when the New York Stock Exchange market collapsed. The period that followed is known as the "Great Depression".

World War I was largely financed by loans from the United States to various allied countries totaling over $10 billion. These loans were all refunded in a period running from 1923 to 1930 when 17 nations came to terms with the United States Great Britain was given a period of 62 years with which to repay this debt, with interest at only 3.3% per annum. France was also given such a period but with interest at 1.6%.

Beginning in 1918 Britain, which theretofor had had the key currency of the world, was so far in debt that it turned from a creditor nation to a debtor nation.

world faith in the British pound sterling vanished. Investment bankers and other large holders of gold, with the advent of World War I, shipped their gold from Europe to the United States.

At the conclusion of World War I the United States became a creditor nation. It had a healthy foreign trade surplus. American investment bankers became the world's major creditors. Latin American countries in particular depended on loans from this country to offset recurring budget deficiencies.

Also, after the end of World War I commodity prices, particularly grain prices, decreased to peace consumption levels. The new farmers who had purchased their farms at inflated values found themselves so heavily in mortgage debt that they could not pay their debts. In the Midwest the grain farmers as a whole were insolvent by the year 1923, yet their needs were totally ignored by the Federal Government.

When, after the oollapse of the stock market in 1929, insurance companies holding mortgages on farms in Iowa and Illinois sought to foreclose them, they could not do so except at the risk of lives. There was chaos in the farm sector. The farmers required money by way of help. Thus, in 1930 a high tariff bill, the Smoot-Hawley Tariff Act, was signed by President Hoover. The only effect this bill had was to raise grain and other farm product prices artificially in the United States and incur reprisals from foreign nations setting up tariff walls against the importation of American farm products.

The collapse of the market in 1929 also brought about an era in which investment and industrial bankers, facing ruin, sought to save themselves, leaving the customers high and dry. Prior to that time the banker had been regarded by the citizenry as a man of great honor, a man to be trusted implicitly.

Insofar as the Federal Government was concerned, President Hoover did try to get legislation ameliorating conditions. His Congress, however, was controlled by Democrats who were more intent upon winning the 1932 election than in saving the country.

V

WHAT CONDITION OF AFFAIRS IN THE UNITED STATES LED TO THE CREATION OF THE FEDERAL RESERVE BOARD AND ITS NOTES?

During the two decades before the United States intervention in World War I, the savings of the middle and upper classes flowed into banks and insurance companies. Thus, by 1911, the country could boast savings and liquid capital of almost $28 billion.

As the result of this growth of capital assets, the investment bankers assumed leadership in the marshaling and allocation of capital for industrial, railroad, public utility and other forms of expansion. This led to two financial empires in Wall Street, vying with one another for the leadership in this process of allocation and marshaling of capital; one, the house of J. P. Morgan, the other the Rockefeller group. These two constituted the heart of the business and commercial life of the nation.

Prior to the monetary panic of 1907, a short panic but an intense one, these two major financial empires did not live at peace. J. P. Morgan established his dominance through the panic of 1907 when he marshaled the resources of Wall Street to prevent the total demoralization of the securities markets. This led to a merger of sorts between the Morgan interests and the Rockefeller interests, the latter including Kuhn Loeb. From 1907 to 1913 this confederation consolidated its leadership through a process of interlocking directorates and purchases of one another's stocks.

The power of this confederation was dramatically revealed by a House subcommittee investigation in the early months of 1913. The committee found that by consolidating bank and trust companies, by gaining control over insurance companies, and other means, the community of interests between Morgan and Rockefeller had achieved a monopolistic control of the credit resources of the nation. This group had 118 directorships in 34 banks and trust companies

with total resources of over $2.5 billion; 30 directorships in 10 insurance companies with total assets of over $2 billion; 105 directorships in 32 transportation systems with a total capitalization of $11 billion; 63 directorships in 24 producing and trading corporations with a total capitalization of over $3 billion; and 25 directorships in 12 public utility corporations with a combined capitalization of over $2 billion. The aggregate resources of the foregoing were over $22 billion.

It was because of this that the Federal Reserve Act was enacted by the Congress of the United States in 1913 and became effective in 1914. The aim of this Act was to have 12 member banks in various sections of the country, these 12 member banks to mobilize a major portion of the banking reserves of the various regional areas in which each bank would be located, and thus to take the control of the country's credit away from Wall Street and into various regions of the United States where credit was needed. The Act also created a new currency, the Federal Reserve Notes that are currently in circulation in the United States. The creation of this currency was to make the currency supply flexible so that it could expand or contract in volume in direct relation to the needs of the many business communities of the United States. This was an inflationary move, its aim to broaden sources of available credit and to bring interest rates down to a lower level than those prevailing under the control of Wall Street.

CHAPTER VI

HYPERINFLATION IN GERMANY IN 1923 AND UNITED STATES INFLATION SINCE 1964

The United States presently is in a period of galloping inflation. Galloping inflation may lead to hyperinflation. For that reason Germany's hyperinflation is subject to examination.

An armistice terminated World War I hostilities toward the end of the year 1918. Shortly thereafter President Wilson with a large body of experts sailed from New York with the avowed purpose of making a peace treaty that would deliver Europe from tyranny. The American delegation was the only disinterested one at the peace conference. Lloyd George was having political difficulties in England. The French were clamoring for fearful reparation from Germany. The Italians expected compensation for their losses by awarding them a good part of Austrian territory. Germany itself was torn by revolt. The Austro-Hungarian Empire was on the way to its disintegration.

Paris, where the meeting was to take place, was a hotbed of hatred against the Germans.

After many difficulties,in April of 1919 a treaty was hammered out for Germany and presented to the government of the new German Republic. The German National Assembly approved the treaty in June, 1919.

This treaty required Germany to pay a large amount of reparations which it did not have the resources to pay, these payments to be made in gold. A Reparations Commission in May of 1921 presented the German Republic a reparations bill of $33 billion, in addition to the total Belgian war debt and costs of the armies of occupation. Germany was

forced at the point of a gun, so to speak, to accept responsibility for this sum. The German Government tried to make payments but had to default in 1922. In retaliation, the French occupied the Ruhr, the very center of German industry and coal mining. This resulted in a spectacular inflation of the German currency, so that by the end of 1923 the German Government was bankrupt. Its Republic tottered on the brink of total economic ruin.

Then, in November, 1923, the Reparations Commission appointed a committee on which two Americans, Charles G. Dawes and Owen B. Young, served unofficially. In April, 1923, this committee submitted a plan which came to be known as the Dawes Plan. This plan saved Europe from financial collapse at that time. It established a schedule of payments that Germany could make and arranged for a gold loan of $200 million by American bankers to the German Government in order to stabilize the German currency on a gold standard.

In 1929, a new committee headed by Owen D. Young reexamined the reparations question and set the total bill at a little more than $2 billion exclusive of interest. That committee devised the Young Plan. This provided a complicated scheme under which the American Government and American bankers established a system of intergovernmental debt and reparations payments. It worked successfully until its dynamic factor (private American loans to the central government, the states, the municipalities and the corporations of Germany) no longer could continue, due to the United States Great Depression.

During the period from 1924 to 1930, Germany made reparation payments under the Dawes Plan totaling nearly $2 billion, about the same

amount that American bankers had lent to Germany.

Both the Dawes Plan and the Young Plan could work only so long as the payment of reparations by Germany were supported by a maintenance of the flow of dollars to Germany from the United States.

The foregoing is necessary background for an understanding of what happened to the German currency during the period from 1918 to 1923, at which time Hjalmar Schacht became President of the German Reichsbank and devalued 3 trillion German marks into 1.8 billion German marks.

The German governmental policy after World War I until Hjalmar Schacht devalued the mark was to keep the economy humming by a massive decline in unemployment through the proliferation of paper currency.

During World War I until the 1918 Armistice, the depreciation of the German mark was relatively slow. From the Armistice until July, 1919, internal German prices, notes in circulation and governmental short-term debt rose between 40 to 60 per cent. At the same time the dollar exchange rate rose 129 per cent.

The money supply in Germany had continuous percentage rises after 1918 until July, 1922. During the same period of time prices increased some 635 per cent. The dollar exchange rate rose from 129 per cent to 692 per cent and the governmental debt increased enormously.

There were three distinct periods that finally led to Germany's hyperinflation. The first of these was from August, 1919 to February, 1920, the second from May, 1921 to July, 1922. During these two periods, price inflation and the dollar exchange rate was much greater than

monetary increases measured by the money supply and the German Government's short-term debt increases.

The third period which started after July, 1922, is the final period of Germany's hyperinflation. This is broken into two sections. During the first stage, up to early 1923, price increases and the dollar exchange rate ran far ahead of monetary expansion. Subsequently, monetary expansion kept pace with the dollar exchange rate and internal price inflation until the end of November, 1923 when hyperinflation led to the collapse of the German mark.

During this period, from 1918 to 1923, stock prices were at times a good inflation hedge but at others a disaster. The present collapse of stock prices in the United States mirrors the same sort of situation. Investors have come to realize that the tremendous volatility of stock prices in terms of real money make rational investment decisions extraordinarily difficult.

In Germany from 1918 to 1923, price controls were totally ineffective in stopping price inflation. In 1974 we witnessed this in the United States.

The progress of price and monetary inflation is not a steady progression. It involves periods of great run-ups followed by periods of relative quiet. Periods of acceleration are succeeded by periods of deceleration. This creates a good deal of confusion as to whether an inflationary period is terminating. It builds up hopes at times only to reveal that these hopes are illusory. When the periods of hope are shattered, gloom pervades the nation.

During the short period of the German inflation, there was a tendency

for the foreign exchange rate to run far ahead of domestic prices (during periods of acceleration)., This is similar to what has been, and is, happening in the United States, particularly over the past year.

Although the United States was not a loser in World War II and did not have to pay reparations, the Marshall Plan which put Europe back on its feet financially carried on long after there was any need for it. Then, too, we had the engagement in Viet Nam during which time President Johnson permitted the currency to go wild. The emphasis of his government and that of John Kennedy to whom he succeeded, was to create prosperity by full employment.

Thus, there is a similarity between the German currency inflation during 1918 to 1923 and existing currency inflation in the United States. This also has had three stages to date. The first ran from 1961 to 1969 during the Kennedy-Johnson administration, the period of escalation of the Viet Nam War, and also in which the gold reserve was completely abolished as to the country's currency. Inflation, which prior thereto had been running at one per cent or two per cent a year, rapidly increased.

The second stage was during the Nixon-Ford administration running from 1969 to 1976. President Nixon unsuccessfully attempted to stay inflation through price and wage control. The Viet Nam War continued until its termination. There was the recession of 1974. Finally, came the Watergate scandal.

We are now in the third stage beginning with the Carter administration's advent in 1977. The Carter entourage, not believing history, is seeking to stay inflation by wage and price control. This is referred to as voluntary.

How voluntary it is is well illustrated by an address given by one of the members of the Carter administration to the businessmen of the City of Chicago in which he berated them unmercifully, they, not the administration, being responsible for the nation's inflation. The Carter administration seems to have a policy of doing as we tell you to do and not as we do. There has been no halting of the uproarious salaries to the politicians in Washington, no dimunition of the expenses of our billion-dollar-a-year Congress or of the executive staff of President Carter which, according to an article written by Chief Justice Burger in the February 1979 issue of the American Bar Journal entails the employment of near three million civilian employees, 150,000 alone being employees in the Department of Health, Education and Welfare.

As to the legislative branch, there are 16,000 staff members of the House and Senate. Parkinson's Law is at work. Chief Justice Burger goes easy on the judiciary but he does point out that there were then 97 judges of the courts of appeal, 397 district judges, 21 judges of three specialized tribunals, a total of 515, and that number would be increased by 152 by the Omnibus Judgeship Bill passed in 1978. Another 130 senior judges, he points out, still continue to serve. He further comments that additionally court personnel total more than 9,000. It is not only the total that bears watching but, and moreover, what each is paid and what if any special privileges each of these has by working for the government. To name only one of these, it is their pensions and their immunity from paying Social Security taxes. A veritable host of people draining the federal coffers by way of pensions and their special privileges by excusing themselves from the payment of Social Security taxes and other loads that the common ordinary

private citizen must bear that I am quite sure reaches a staggering sum into the billions.

In the morning paper on March 15, 1979,the Ides of March, there is an article stating that the Social Security office itself is admitting that approximately a billion dollars is spent annually improperly. Instead of pointing the finger elsewhere, may I politely suggest that there be some introspection by the President, the Congress and the federal judiciary and that the members of each of these branches keep in mind that ours is supposedly a government of laws, not men, dedicated to the equality of each citizen of the United States whether working for the federal bureaucracy or whether working in gainful and productive employment in the private sector.

When this third stage will end and how it will end depends not upon the private citizenry but on the fiscal and monetary policies of the federal government and the state and city governments as well.

VII

THE INVOLVEMENT OF THE UNITED STATES IN THE INTERNATIONAL FINANCIAL PANIC OF 1931

In October, 1929, the Great Depression in the United States became a reality. By the spring of 1930 it appeared that President Hoover's program of cooperation with private industry and the business and labor leaders of the country had carried the country through the worst phase of this depression. The second and catastrophic phase began in the United States as the result of a financial panic in Europe. This panic originated because of action taken by the French bankers in March of 1931 to demand immediate payment in gold of large amounts of German and Austrian short term notes. Germany and Austria appealed to England and the United States, each of which tried vainly to do something.

Austria had been one of the super-power nations until the end of World War I. by which time it was so parcelled out that it became a small nation, its area being slightly less than the State of Maine. As a small nation it prospered until the Great Depression. During the course of this long period, economic pressures on Austria from Hitler led to Austria being absorbed by Germany in 1938. It did not reappear as a small nation until after World War II. Presently its largest trading partner is West Germany . Trade with Switzerland is also important to Austria. Because of this Austria has pegged its shilling to the German mark. Being a small nation it could, as it did, secure the cooperation and moderation of its powerful trade unions. In this respect the small nation has a better chance of avoiding inflation than the larger nation where the heads of trade unions make increasingly exorbitant demands and are able to enforce them. Having had hyperinflation during the 1920s the working people of Austria and Germany have a firm aversion to inflation. It is interesting to note that the smaller nations such as Austria and Switzerland have a citizenry which is used to moderation and

cooperates with the government in avoiding inflation. Such a citizenry, unfortunately, at this time is not the norm in the large oil importing nations of the world such as the United States which, despite its own oil reserves, is dependent upon the O.P.E.C. countries for its economic needs.

In 1931, before the United States and England could arrange to do anything, the largest bank in Austria failed. This so stimulated gold withdrawals from Germany that in June of 1931 the German Republic could not meet its World War I reparation payments or its short term obligations. Germany requested aid from Hoover. Hoover, however, on June 21, 1931, proposed a one-year moratorium on all intergovernmental debts and reparation payments. Britain readily accepted, but the French government talked. This compelled the German government to adopt severe measures to stave off repudiation.

Shortly thereafter, French bankers began to withdraw large sums of gold deposited in British banks. These withdrawals were so great that on September 21, 1931, the Bank of England defaulted on gold payments. The British Cabinet then took the government off the gold standard. Within six months thereafter, only the United States, France, Italy, Belgium, Holland and Switzerland remained on that standard.

All of the foregoing resulted in destruction of the existing system of international exchange and trade, and set off a sizable depression in Western Europe. This in turn deepened the United States depression.

European nationals and banks had deposited $1.5 billion of gold in American banks. These foreign banks now requested repayment in gold. Then, too, the European panic led foreigners to unload large quantities of securities on the New York Stock Exchange. American banks held $1 billion of German short term trade paper and bank acceptances as to which there was considerable doubt of

payment. This caused American bankers to call loans in order to amass liquid reserves.

Thus, during the summer of 1931, there was a virtual stoppage of foreign trade. Consequently, the great depression in the United States worsened. The price of stocks and bonds dropped precipitously. The loss of foreign markets caused agricultural prices to fall to very low levels. The American business and financial community was engulfed in fear. This led to hoarding, the cutting of production and wages by employers, and frantic attempts by investors to sell what securities they had.

President Hoover first thought that he could stop all of this by voluntary cooperation of the business community. He attempted to get the voluntary agreement of the bankers and the insurance companies to form an emergency credit pool of $500 million and not to foreclose mortgages. To accomplish this he threatened to call a special session of Congress. This brought about compliance with his request.

President Hoover then met with Congressional leaders of both parties, who promised to support his efforts in the 72d Congress. When Congress convened in December, 1931, however, the Democratic Party, then in control of Congress, was looking forward to winning the 1932 presidential election. Consequently, President Hoover's plan, which included drastic reductions in administrative expenditures, expansion of Federal public works, expansion of the lending powers of Federal farm banks, the creation of a system of home loan banks to prevent foreclosures, and a gigantic emergency reconstruction corporation to strengthen the entire corporate economy, was only partially successful.

For some seven months Congress delayed urgently needed legislation, although it did partially go along with President Hoover's plans. The Reconstruction Finance Corporation (RFC) was chartered by Congress in January of 1932 with a capital of $500 million. In July of that year RFC was authorized to borrow $1.5 billion in tax free obligations. Thus, during 1932 this

corporation lent $1.5 billion to more than 5,000 business concerns and restored a measure of public confidence.

Also in February of 1932 Congress enacted the Glass-Steagall Act which made government bonds and new classes of commercial paper acceptable as collateral for Federal Reserve Notes. This measure permitted the Federal Reserve Banks to expand the currency and to release $1 billion in gold to meet foreign withdrawals.

The Federal Home Loan Bank Act of July, 1932 established home loan banks with a total of $125 million. This enabled building and loan associations, savings banks and insurance companies to obtain cash without foreclosing on home owners.

These three measures, being nonpartisan, were passed after a minimum of bickering. But then the honeymoon ended. The Democrats wanted the government to create money by use of the printing presses. In June of 1932, the House passed a measure sponsored by Representative Patman of Texas providing for full payment of a veterans bonus of $2.4 billion in paper money. Under threat of a presidential veto, the Senate rejected that bill.

Consequently, Hoover lost the confidence of a large majority of the American people. What followed in the election of 1932 is history.

VIII

FROM THE ELECTION OF FRANKLIN DELANO ROOSEVELT TO 1980

With the election of Franklin Delano Roosevelt in 1932, and his action in closing the banks to weed out those that were unsafe, and his further action in securing the repeal of the Prohibition Act, much of the unrest that then prevailed in the United States came to a halt. During his first two terms of office he instituted many programs necessary to preserve the nation from revolution. He was blessed in having a complacent Congress. During those terms there was the beginning of the Social Security Act, unemployment compensation and old age assistance. There was also the beginning, however, of what is now the nation's vast bureaucracy. President Roosevelt had complained when running for office that under the Hoover administration the Federal bureaucracy was much too vast. He had promised as a nominee that if elected he would lessen the role of the Federal Government in local affairs. Once in office he found that this was impossible.

In 1933, due to the ravages of World War I and the then existing condition of affairs, it was necessary to revalue gold at $35 per ounce. Also, Roosevelt took steps to garner the gold of the nation for its safekeeping from the hands of the citizenry into the coffers of the government. He called in all of the gold certificates that were then outstanding under the Currency Act of 1900. These were exchanged for Federal Reserve notes. He also vitiated, with the compliance of Congress, all contracts payable in gold. He called for return to the Federal Reserve of all gold coins and gold bullion in the possession of an American citizen, excepting coins that could be considered collector's items. As to gold and silver coins, he brought such coinage to a halt.

In time, he embraced the theory of the neo-keynesian economists who think of gold as a barbaric relic. The attitude of most nations of the world is not in

line with this thinking. These nations think of gold as the one tangible asset which historically has always had an insufficient supply to meet a constant demand. They realize that gold also serves as a restraint upon the appetites of political leaders to institute unwise and inflationary fiscal policies; and that as to trans-national transactions gold is looked upon as a barometer of the health of the nation.

As to trans-national transactions, the policy of the Roosevelt administration was to peg gold at $35 an ounce, this to be the price regardless of changes in economic conditions and the welfare of the nation.

A trans-national conference was held at Bretton Woods in 1944 with regard to the establishment of a new key currency for trans-national transactions such, for instance, as the purchase of oil by the United States from foreign countries.

In the early 1940s John Maynard Keynes had written an article suggesting the formation of a trans-national transaction currency. He named this currency "Bancor." This trans-national reserve currency was to be controlled, not by the politicians, but by the bankers and leaders of multi-national institutions.

Although the neo-Keynesians were in control at the Bretton Woods Conference they did not follow the suggestion of Keynes but instead, at the urging and insistence of the Roosevelt administration, the United States gold reserves, then the greatest in the world, became a reserve currency for trans-national transactions at a pegged value forever and a day of $35 an ounce.

Subsequently, various Federal administrations munificently continued to exchange gold to foreign central banks at $35 an ounce, notwithstanding that the market value of gold bullion for industrial uses was constantly rising and had reached a price of somewhere between $75 and $200 an ounce. The foregoing was done despite a warning by Keynes in his writings that the key currency of any one country would be a dangerous self-delusion which indeed it has been in the

United States. It has led to the ruination of the value of the United States dollar and to a lessening of our gold reserves to such an extent that transnationally we have now become a debtor nation, regardless of the constant boast of the politicians that the United States is the richest nation on the face of the earth.

Economic conditions in the United States during the Roosevelt administration really did not better themselves after 1929 until the beginning of the Second World War which the government has stated to have occurred in the spring of 1940.

With the outbreak of World War II in 1941, farmers again prospered and industry hummed. Unemployment reached a low of 4% of the employables in the nation. Again there was great speculation in real estate and in the stock market.

Also with the beginning of World War II a new era started for women as a whole. They were given factory employment. Many of them, though married, became career women. This has had a tremendous effect upon the customs and manners of the American people, having changed the nation from a predominantly masculine-controlled nation to one in which both sexes now enjoy equal opportunities.

World War II came to an end in 1945. Roosevelt died in April of that year to be succeeded by Harry S. Truman. There was a lack of confidence at that time by many in the nation of Mr. Truman who had come to office as a Senator from the State of Missouri by the nod of one of the most corrupt political groups in the nation at that time. Economic conditions again began to revert to the normal. There was much unemployment. There was doubt as to what would happen in the future. All of this led to a period of such uncertainty that in 1946 there was again a low in real estate values.

The period from 1946 to 1964 is largely within the personal knowledge of the present adult population of the United States. There was the Korean War

followed after a brief interlude by the debacle in Viet Nam which lasted for many years. All the while the nation's leaders embraced budgets that did not require the citizenry at large to tighten their belts. This has been referred to as the period of "butter and guns".

The fiscal policies of the government during that period of time led to what occurred in 1964-1968, namely the divorcement of all gold value from currency then in circulation. This act was an act of devaluation of the dollar. It led, with other conditions then prevailing, to another low in real estate within the nation.

The government also strictly regulated the purchase of the securities of American companies payable in foreign coin and the further transfer of American dollars to foreign countries.

Thus, monetarily, the rights and privileges of American citizenry were greatly limited. This is hardly action that a wealthy nation, the wealthiest nation on the face of the earth, would be taking. All that was left for a person having funds to invest in this country were government bonds, notes and bills at what now appears to be much lower interest rates than should have been paid. In other words, they were not a good investment. Bonds of large corporations also were issued at interest rates far lower than interest rates prevailing today for such paper. Tax frees were sold at returns vastly lower than those today.

The national debt in 1972 stood at some $400 billion. Presently, a period of some five years later, the national debt is almost $1 trillion, an increase of indebtedness of over 100%. On September 30, 1979 the monetary base of the United States stood at some $151 billions, an increase of 8 1/2% within one year's time.

As to currency in circulation, there are several categories. M-1 consists

of Federal Reserve Bank notes in circulation plus commercial bank checking accounts; M-2 includes M-1 plus savings accounts at commercial banks except for certain Certificates of Deposit issued in denominations of $100,000 or more. Then there is M-3 that consists of M-2 plus savings accounts at savings and loan associations or in savings banks. The next category is M-4 which is M-2 with the addition of Certificates of Deposit of $100,000 or more. Finally, there is M-5 which includes M-3 plus Certificates of Deposit of $100,000 or more. At the end of September, 1979 M-5 totaled $1 trillion 666 billions, an increase in one year of 7.9%. Additionally, commercial and industrial loans reported as of the middle of September, 1979 stood at almost $154 billions, an increase of 11% in one year. Commercial paper outstanding by non-financial companies at the middle of September totaled over $27 billions, an increase of 54 1/2% in one year. In the category of unsecured indebtedness not included in the foregoing, at the end of September, 1979 consumer installment credit stood at almost $300 billions, an annual increase of 15 1/2%. At the end of September, 1979 personal savings were approximately $66 billions, a decrease of 12% in one year's time.

That is the heritage which the citizenry of the United States has been given by the neo-Keynesian economists who for many years have controlled the fiscal policies of the Federal Government.

The seed for what is occurring today was laid at Bretton Woods in 1944. The responsibility for that rests squarely upon the economists who were then in control

of the fiscal policies of the United States at a time when Franklin Delano Roosevelt was president.

The extent to which the nation has retrogressed under Democratic Party rule for the most part since 1964, rests squarely upon the shoulders of the Democratic Party which has controlled the Congress during all of the 15 years since 1964. It is true that for eight of those years there were two Republican presidents. The two presidents were saddled, however, with the dictates of a Congress controlled by the Democratic Party.

There are neo-Keynesian economists within the Republican Party. What is stated is not to berate the one party or the other. It is to state facts, facts that have not been given by and large to the American public which still deludes itself into believing that the United States is the richest country on the face of the earth.

It is to be borne in mind that ever since the 1930s there has been no minting of coinage in the United States except as commemorative coins sold by the Treasury at auction to collectors for vastly more than the stated value. Coinage of silver half dollars, quarters and dimes was terminated by those in control of the fiscal policies of the United States in 1965. Since that time there has been some coinage of half dollars, quarters, dimes, nickels and pennies. Each of these coins, however, is such a mixture of metals that the coins have no intrinsic value. As to gold coins, although these originally had been minted in various denominations, during the present century and until President Franklin Delano Roosevelt stopped further coinage, they were restricted to $2.50 gold pieces, quarter eagles, $5 gold pieces, half eagles, the mintage of both of which was terminated in 1929; $10 gold pieces, eagles, and $20 gold pieces, double eagles, which continued to be minted until 1935.

Recently, an alleged silver one dollar coin, about the size of a twenty-five cent piece, was issued in honor of Susan B. Anthony. The metal in this alleged silver coin is said to have an intrinsic value of three cents. In the long history of the United States, this is the first coin minted to honor a woman. All of the others when issued had an intrinsic value of one dollar as to silver coins. By some it is regarded as an insult to this fine lady that it is the first one dollar coin minted by the United States government having no intrinsic value, and, additionally, is so greatly decreased in size that the government is having a difficult time getting the public to buy these coins.

As to the International Monetary Fund (IMF), there have been various conferences of the member nations. They occur with regularity every six months. There has been a lot of rhetoric at each of these meetings. Insofar as a key currency for transnational transactions other than the American dollar, nothing has been done. In substance, the rhetoric is similar to that in the meeting described in the first chapter of this book.

There was a recent meeting, sponsored by an organization founded three years ago by the University of Pennsylvania and the World Affairs Council of Philadelphia. This meeting took place in November, 1979, in Philadelphia. Some two hundred businessmen, bankers and economists were present. The topic was that of trying to come to some agreement as to a transnational currency to take the place of the American dollar. There was only one point of solid agreement by those present. This was that the monetary problems of the world would greatly diminish if the United States government would do a better job of managing its economy.

There were some present at the meeting who suggested that the Special Drawing Rights (SDRs) initiated in the 1960s should become a transnational currency. When issued the SDRs were touted as the solution of the world's liquidity problems. As to this, they failed of their purpose. The world's liquidity problems, it was agreed,

have softened because of monetary expansion such as that of the United States, and the swift growth of international credit.

Others present wanted to solve the problem of a key currency for trans-national transactions by having the IMF expand its loans and investments each year by a certain percentage thought to be compatible with the non-inflationary growth of world trade and production.

Others at the meeting wanted to solve the problem by having Japan and Germany follow the lead of the United States in expanding their currencies. The Japanese and Germans would have none of that.

As to a trans-national currency other than the United States dollar, with one exception, an important one, there was one point of agreement. The representative from Switzerland was the exception. The others present believed that gold is likely to continue to play a diminishing role in the world's monetary system. The Swiss representative insisted that gold's swift market price rise indicates the importance of gold as a base for any trans-national transaction currency. Thus the meeting ended with nothing accomplished insofar as its goal is concerned.

Since 1964/1965, when under the Johnson Administration the gold reserve as to currency in circulation was terminated, there have been four bear markets. The first of these ran from 1965 to 1967, the second from 1969 to the latter part of 1970, the next from 1973 to 1975, and the present one still in progress from the beginning of 1977 to the end of November, 1979, with nothing in sight that the present bear market will soon vanish from the scene.

Looking back to earlier periods, the so-called "Great Depression" began in 1929 and did not terminate until 1940, a period of eleven years. As the writer views the present scene, basically the economy has been in a depressed condition from 1965 to 1979 with no end presently in sight. Can it reasonably be said that the United States' fiscal policies since 1965, with year by year repeated and substantial

budget defecits, have brought us to another era which can rightly be said to be a greater depression than the "Great Depression"? It is to be hoped that these policies will not terminate in hyper-inflation such as that of Germany in 1923.

As to the 18-year cycles, 1982 is a period of 18 years after 1964. Looking back at the sequence of 18-year cycles to the beginning of the 19th century, the probabilities are that something will occur between the date this is written and 1982 again to find a low in real estate values in the latter year. Presently, there already is a softening of real estate values, largely engendered by the tremendously high interest rates which borrowers are required to pay in the the United States.

In addition to high interest rates there is the ever-increasing printing of paper currency to finance deficit spending of the government. Then, also, there is the present situation with 50 Americans held hostage in the United States Embassy in Teheran, Iran and the invasion of Afghanistan by Communist Russia. Bravado words cannot meet this situation. It will not come to a head in the writer's opinion in 1980 because this is a national election year. But sooner or later the bubble will burst.

Belatedly, the Carter administration, which unilaterally disarmed the United States in the vain hope that Russia would do likewise, has come to realize that the United States must rearm. This cannot be accomplished in any decent period of time unless whoever is in charge of the United States government discontinues governmenta fiscal policies which were ruinous to the Johnson administration, having both guns a butter, so to speak. The priority must be on rapid rearmament, not a token 5% incre and a re-examination by the government of the validity, in view of that necessity, continuing with programs designed to bring heaven on earth to each and every citizen of the United State.

It is because of all of these factors that the writer believes that in 1982 so thing will happen which will be calamitous to real estate values in the nation.

IX

THE CREATION OF THE PRESENT-DAY FIAT CURRENCY OF THE UNITED STATES

Although the Federal Reserve system was formed to expand credit centers so that they were spread throughout the country and not centralized in New York City, and to avoid money panics by inflating the money supply within the country's gold reserve limits, the Federal Reserve System has not been independent of political pressures. Resultantly, the Federal Reserve Bank System, to avoid unemployment, periodically expands the country's currency. Consequently, there is an imminent danger of a monetary panic through hyper-inflation.

Originally, in 1913, the Federal Reserve Board established a monetary gold reserve at 35 per cent of the then official monetary price of gold per ounce, at that time $19 per ounce. This 35 per cent reserve was against Federal Reserve Board notes in circulation. A 40 per cent gold reserve was set up against the deposits of banks who were members of the Federal Reserve Bank System. Additionally, parties to all private and governmental contracts were given the right to repayment of debt in gold coinage of a definite weight and fineness per dollar. This lent strength to the bond market. A buyer of long-term bonds had some assurance of the stability of his dollar, namely, the assurance that when his bond matured he would receive a dollar value equal to that of his investment.

The creation of the present fiat currency of the United States has four development stages.

The first was by way of the Gold Reserve Act of January 30, 1934, which terminated gold coinage and forbade private ownership of gold by the citizenry. Since that date, United States citizens could not convert their paper currency

dollars into gold coins. Thereby, the direct control of the individual over the Government's credit inflation has been eliminated. In 1974, however, the right of United States citizens to buy gold coins was restored; and, effective January, 1975, the citizenry could buy gold bullion at the current market international prices which presently are in the range of five hundred ($500) dollars per ounce.

Between 1939 and 1945, total United States Government securities held in member banks rose from $2.5 billion to $23.7 billion. The bankers' 40 per cent gold reserve clause had to be reduced because of this increase.

The second stage took place in 1945 when the original requirement that the Federal Reserve Banks maintain a gold reserve of 35 per cent against currency notes in circulation and a 40 per cent gold reserve against member bank deposits was changed to a 25 per cent gold cover against notes and deposits combined. This action was taken in order to finance World War II through monetary inflation rather than by increasing taxes.

The next stage toward the present-day fiat currency was prophesied by a number of articles written by George Shae in the WALL STREET JOURNAL during the years 1958 and 1959. In the WALL STREET JOURNAL issue of November 24, 1958, Mr. Shea stated that various groups in the United States desired to see the price of gold as then fixed by the Government at least doubled. This would result in a devaluation of the dollar. These people were arguing that the world supply of gold had fallen far below the world's monetary needs. In that article Mr. Shea pointed out that the Government's decline in its stock of gold actually began about 1947 and 1948, at which time through the Marshall Plan Europe began to recover from its postwar economic depression. Mr. Shea also wrote that during the years 1952 through 1956-57 there had been a decline from $24.4 billion of gold behind the American dollar to $20.7 billion. He made the suggestion that instead of taking drastic

governmental measures to protect the stock of gold, it might be advisable to reduce foreign aid, thereby automatically slowing down or even terminating the drain of American gold into European countries.

In an article written by Mr. Shea toward the end of the year 1959 as to the proposed Federal budget for the year 1960, he reported that the Government's fiscal 1959 year's deficit would be about $12 billion; and that there would probably be a deficit of $6 billion in the new budget for fiscal 1960; and that this situation pointed to a steadily weaker dollar in the future. He could see nothing on the political horizon that would stay this process of weakening the dollar. He concluded:

> "The basic immorality of this attitude (the attitude of the politicians) which permits Uncle Sam's promises to become in the long run worth less and less, is rarely even mentioned any longer in debates upon the matter."

Any investor analyzing, as the writer did, the attitude of the politicians toward a continual weakening of the American dollar took steps to convert a portion at least of such a person's net worth into currencies of governments who still had, and who gave promise of maintaining, a stable currency, whether this be Swiss francs or any other similar currency. Yet, at the time the experts laughed at any need so to do.

In 1964 the third stage of the weakening of the dollar originated. By that time government securities held by member banks had risen to $38.4 billion. The gold reserve discipline threatened to restrict expanded credit plans of the Federal Reserve Board.

In the same year, 1964, an executive order was put in force and effect as the result of which further investments by United States citizens in foreign

currencies such as that of Switzerland, were highly restricted, as also investment by United States citizens who already had funds abroad as to the type of American securities payable in foreign currencies that American citizens could buy,

In the following year,1965, Mr. C. Douglas Dillon, then Secretary of the Treasury, secured the enactment by the Congress of legislation that removed the gold reserve requirement for Federal Reserve deposit liabilities. Prior to that time Federal Reserve banks were required to hold a minimum of gold certificates representing the gold held by the Treasury equal to twenty-five per cent of the reserve deposits held on account of member banks, and twenty-five per cent of the outstanding Federal Reserve notes. The effect of this legislation was to open up unlimited expansion of currency and bank credit.

This still left a twenty-five per cent gold reserve to cover Federal Reserve notes then in circulation. But that was not to last for long.

In 1968 the fourth stage occurred when Mr. Henry Fowler was Secretary of the Treasury. United States Government securities held by member banks had by then risen to $52.5 billion. This could not be increased substantially without bumping up against the gold reserve requirement. Consequently, at that time the twenty-five per cent gold reserve against member bank deposits was entirely eliminated. This was the fourth stage. Thereby, the United States dollar for the third time since Revolutionary days became, insofar as money in circulation in the United States was concerned, a fiat currency.

The American public was brainwashed into believing that the gold reserve is no longer appropriate because of the growth in world trade. The Government, however, blithely continued to sell its gold reserves to foreign central banks at $35 an ounce until the day came when the Government finally realized that it could no longer part with its gold reserves, then some $10 to $11 billions, at which time an embargo set in.

The Government also tried to sell the other nations of the world on paper gold, the so-called special drawing rights (SDR). This has been a dismal failure excepting only that at the International Monetary Conference in Nairobi, Kenya, in 1973 the have-not nations proposed that the SDR be used for payments to the have-not nations from the have nations of the world. The present SDR does have some gold reserves.

As to the well publicized effort of the United States during the Lyndon B. Johnson administration years to bring South Africa to heel by a proposed agreement with South Africa to exchange its gold for foreign currencies at a ceiling price of $35 an ounce, and so to restrain its sales of gold on the open market that the bullion price would stabilize at less than $35 an ounce, this was a dismal failure. Instead, the International Monetary Fund agreed with South Africa to exchange gold for foreign currencies at $35 an ounce whenever the open market bullion price was lower than $35 an ounce. Thus, as to foreign currency exchanges, the $35 price became a floor, not a ceiling.

Had it not been for the Bretton Woods agreements and the neo-Keynesian contempt for gold, as a result of which foreign banks but not American citizens were permitted to deplete the gold reserves of the United States government to the extent noted in Chapter I, there would have been no necessity for the actions taken by the Congress in 1965 and again in 1968; and the United States today would not be plagued, as it presently and for the foreseeable future is and will be, with the problem of monetary inflation.

X

THE ROLE OF THE UNITED STATES SUPREME COURT IN THE CREATION OF THE NATION'S FIAT CURRENCY

In common parlance, fiat currency is referred to as fiat money. There is a vital distinction, however, between the word currency and the word money. The founding fathers of the United States were keenly aware of this distinction. So also were the political leaders of the nation until after the Civil War.

Both money and currency represent indebtednesses of the United States payable upon demand. Money, however, is a secured indebtedness whereas currency is an unsecured indebtedness.

At the time of the American Revolution, some years prior to the enactment of the United States Constitution, the temporary government issued paper money, that is to say a fiat currency, to finance the Revolution. This currency became known as the Continental Dollar. It soon became worthless; thus the expression "not worth a Continental." In the early days after the Revolution, a number of the original thirteen states had their own coinage. These included New Hampshire, Connecticut, Vermont, New Jersey, New York, Massachusetts, Maryland and Rhode Island. The seventeenth state of the Union, Kentucky, also minted coinage. The coinage of these varying states had no uniformity and was worthless as between states. Also, in many of the states, some pre-Revolutionary coinage still remained in circulation. The post-Revolutionary coinage of the states sometimes was minted in copper, other times in brass and others in pewter.

Mr. Justice Joseph Story (1779-1845), after serving a term in the House of Representatives, was appointed to the United States Supreme Court when only 32 and while on the bench accepted a professorship at Harvard Law School. Despite his many other activities, he wrote his famous Commentaries. In 2 Story on the Constitution, Section 1371, part of his Commentaries, Mr. Justice Story gives a fine description of the chaotic condition that existed at the time of the enactment of

United States Constitution:

"The history, indeed, of the various laws which were passed by the States in their colonial and independent character, upon this subject is startling at once to our morals, to our patriotism and to our sense of justice. Not only was paper money issued and declared to be a tender in payment of debts, but laws of another character, well known under the appelation of tender laws, appraisement laws, installment laws, and suspension laws, were from time to time enacted, which prostrated all credit and all private morals. By some of these laws, the due payment of debts was suspended; debts were, in violation of the very terms of the contract, authorized to be paid by installments at different periods; property of any sort, however worthless, either real or personal, might be tendered by the debtor in payment of his debts; and the creditor was compelled to take the property of the debtor, which he might seize on execution, at an appraisement wholly disproportionate to its known value. such grievances and oppressions, and others of a like nature, were the ordinary results of legislation during the Revolutionary War and the intermediate period down to the formation of the Constitution. They entailed the most enormous evils on the country, and introduced a system of fraud, chicanery, and profligacy which destroyed all private confidence and all industry and enterprise."

Mr. George Bancroft (1800-1891) in his History of the Formation of the Constitution, Volume 2, page 134, described the Constitutional Convention as follows:

"With the full recollection of the need or seeming need of paper money in the Revolution, with the menace of danger in future time of war

from its prohibition, authority to issue bills of credit was refused to the general government by the vote of nine States against New Jersey and Maryland. It was Madison who decided the vote of Virginia. He left his testimony that 'the pretext for a paper currency, and particularly for making bills a tender, either for public or private debts, was cut off.' This is the interpretation of the clause made at the time of its adoption alike by the authors and by its opponents, accepted by all the statesmen of that age, not open to dispute because too clear for argument, and never disputed so long as any one man who took part in framing the Constitution remained alive. History cannot name a man who has gained enduring honor by causing the issue of paper money. Wherever such money has been employed it has in every case saddled upon its authors the burden of exculpation under the plea of pressing necessity."

This author further wrote that when the Convention came to the prohibition upon the States, the clause "No State shall make anything but gold and silver a tender in payment of debts" (U. S. Constitution, Article I, Section 10) was unanimously adopted. As to this he wrote at page 137:

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

Daniel Webster (1782-1852), American statesman and orator, in a speech to the United States Senate in 1836, upon the subject matter of currency and money, stated (4 Wester's Works 271):

"Currency, in a large and perhaps just sense, includes not only gold and silver and bank bills, but bills of exchange also. It may include all that adjusts exchanges and settles balances in the operation of trade and business; but if we understand by currency the legal money of the country,

and that which constitutes a legal tender for debts, and is the standard measure of value, then unquestionably nothing is included but gold and silver. Most unquestionably there is no legal tender, and there can be no legal tender in this country, under the authority of this government or any other, but gold and silver, either the coinage of our own mints or foreign coins at rates regulated by Congress. This is a constitutional principle, perfectly plain and of the highest importance. The States are expressly prohibited from making anything but gold and silver a legal tender in payment of debts, and, although no such express prohibition is applied to Congress, yet, as Congress has no power granted to it in this respect but to coin money and to regulate the value of foreign coins, it clearly has no power to substitute paper or anything else for coin as a tender in payment of debts and in discharge of contracts." (Emphasis ours).

It was not until the exigency of the Civil War that the right of Congress to declare anything other than gold and silver as legal tender in payment of debts and in discharge of contract obligations, was subjected to the need for the financing of the Civil War to make paper legal tender in payment of debts. The Government of the United States was at that time unable to raise and support an army and to provide and maintain a navy without issuing greenbacks, as they came to be known, and providing that the greenbacks, although not backed by gold and silver coinage or any foreign coinage, be taken as legal tender. When the Act of 1862, which provided for the issuance of greenbacks, was brought to the Senate, the committee which offered the bill stated:

"It is put on the ground of absolute, overwhelming necessity; that the Government has now arrived at that point when it must have funds, and those funds are not to be obtained from ordinary sources, or from any

of the expedients to which we have heretofore had recourse, and therefore, this new, anomalous, and remarkable provision must be resorted to in order to enable the government to pay off the debt that it now owes and afford circulation which will be available for other purposes." (Cong. Globe 1861-1862, Part 1, 763).

The Government did continue during the period of the Civil War to mint silver and gold coins. But it was absolutely necessary that this coinage be preserved until the period of the war exigency was ended. Indeed, it was contemplated that when again the Government could spare gold and silver coinage after the war had ended, Congress would enact new legislation providing for the payment of the greenbacks in gold or silver coinage. Congress did in the Act of January 14, 1875, provide that from and after January 1, 1879, the Secretary of the Treasury was to redeem in coin the United States legal tender notes then outstanding.

In 1878 Congress enacted the Act of May 31 of that year which provided that after the passage of the Act it is not to be lawful for the Secretary of the Treasury or other officer under him to cancel or retire any more of the United States greenbacks. It further provides that when any of the greenbacks would be redeemed or received into the Treasury from any source, they were not to be retired but were to be reissued and kept in circulation.

The validity of the Act of 1878 came before the United States Suprene Court in the case of Juilliard vs. Greenman, 110 U.S. 421, decided in March of 1884.

In order better to understand the Act of 1862 and its companion act, an Act of March 3, 1863, those Acts provided that when any of the United States notes would be returned to the Treasury, they could be reissued as the exigencies of the public interest may require. The Act also provided that the greenbacks were to be legal tender in payment of all debts, public and private, except for

duties on imports and interest on the public debt. Lastly, those Acts provided that the authority given to the Secretary of the Treasury to make any reduction of the currency, by retiring and cancelling United States notes, was suspended.

For a better understanding of the situation confronting the United States Supreme Court in the Juillard case, a bit of history should be briefly reviewed.

In 1876, the year when Alexander Graham Bell patented his telephone, a number of decisions of the United States Supreme Court came to climax in the first important farmers' movement in American history. The Patrons of Husbandry, commonly called the Grange, was a nonpolitical organization of farmers. During the years 1870 to 1875 the farmers in the Middle Western States were considerably aggravated because of unfair practices of the railroads and grain elevator operators. In that period the Grange affected legislation in Illinois, Iowa, Wisconsin, Minnesota and other States to bring railways and grain elevators under State control. These legislative acts were brought before the Supreme Court for decision in the so-called Granger Cases. These Cases determined that a State under its police power has authority to regulate intrastate business, and as to interstate business, has the authority to legislate until and unless Congress legislates.

As to these decision, in 1886 the United States Supreme Court struck down the right of the States to regulate interstate commerce whether or not Congress had acted.

In 1881 James A. Garfield, who had been discredited in 1873, in a credit mobilier scandal, became the 20th President of the United States. He was killed the same year and was succeeded by Chester A. Arthur. During the year 1883 a problem arose with regard to a surplus in the United States Treasury. This problem was not settled until 1890.

In the election of 1884 Grover Cleveland, a Democrat, had defeated James G. Blaine for the Presidency because of a split in the Republican Party. One of the hot issues involved the surplus in the United States Treasury. The Republicans wanted to remove it by retiring Civil War bonds, building a new navy and enacting pension legislation.

It is in the background of the foregoing that the Juilliard case came before the United States Supreme Court for decision in the arly 1880's. Mr. Justice Gray rendered the majority opinion, as to which there was only one dissent. The gist of the majority opinion is that the Government has a power, as incident to the power of borrowing money and issuing bills or notes of the Government for money borrowed, of impressing upon those bills or notes the

quality of being a legal tender for the payment of private debts. Mr. Justice Gray stated that this power was universally understood to belong to sovereignty, in Europe and America, at the time of the framing and adoption of the Constitution of the United States, and that this power, not being expressly prohibited to Congress by the Constitution, is included in the power expressly granted to borrow on the credit of the United States. Further, the majority decided that the question whether at any particular time, in war or in peace, there is an exigency, is vested in the Congress and not in the judiciary. As to this, Mr. Justice Gray quotes the following at b. 423 from the decision of Chief Justice John J. Marshall (1755-1835) in McCulloch vs. Maryland, 4 Wheat. 316:

> "Where the law is not prohibited, and is really calculated to effect any of the objects entrusted to the government, to undertake here to inquire into the degree of its necessity would be to pass the line which circumscribes the judicial department, and to tread on legislative ground."

In the writer's opinion the dissenting opinion of Mr. Justice Field in the Juilliard case is the more compelling. He quoted from the decision of Chief Justice Marshall in Sturges vs. Crowninshield, 4 Wheat. 122, 206, as follows:

> "The attention of the Convention, therefore, was particularly directed to paper money and to acts which enabled the debtor to discharge his debt other than was stipulated in the contract. Had nothing more been intended, nothing more would have been expressed, but in the opinion of the Convention much more remained to be done. The same mischief might be effected by other means. To restore public confidence completely, it was necessary, not only to prohibit the use of particular means by which it might be effected, but to prohibit the use of any means by which the same mischief might be produced.

The Convention appears to have intended to establish a great principle, that contracts should be inviolable."

Mr. Justice Field pointed out that when the Constitution came before the conventions of the several States for adoption, there was apprehension that other powers than those designated might be claimed. Consequently, the first ten amendments to the United States Constitution were enacted, commonly known as our Bill of Rights. One of the restrictive clauses as to the power of Congress, Mr. Justice Field pointed out, is found in the Tenth Amendment which declares that "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." He further stated:

"The framers of the Constitution, as I have said, were profoundly impressed with the evils which had resulted from the vicious legislation of the States making notes legal tender, and they determined that such a power should not exist any longer. They therefore prohibited the States from exercising it, and they refused to grant it to the new government which they created. Of what purpose is it then to refer to the exercise of the power by the absolute or limited governments of Europe, or by the States previous to our Constitution. Congress can exercise no power by virtue of any supposed inherent sovereignty in the general government.....there is no such thing as a power of inherent sovereignty in the Government of the United States. It is a government of delegated powers, supreme within its prescribed sphere, but powerless outside of it.....The doctrine, that a power

not expressly forbidden may be exercised, would, as I have observed, change the character of our government. If I read the Constitution aright, if there is any weight to be given to the uniform teachings of our great jurists and of commentators previous to the late Civil War, the true doctrine is the very opposite of this."

Mr. Justice Field concludes by stating:

"From the decision of the court I see only evil likely to follow. There have been times within the memory of all of us when the legal tender notes of the United States were not exchangeable for more than one half of their nominal value. The possibility of such depreciation will always attend paper money. This inborn infirmity no mere legislative declaration can cure. If Congress has the power to make the notes a legal tender and to pass as money or its equivalent, why should not a sufficient amount be issued to pay the bonds of the United States as they mature? Why pay interest on the millions of dollars of bonds now due, when Congress can in one day make the money to pay the principal? And why should there be any restraint upon the unlimited appropriations by the government of all imaginary schemes of public improvement, if the printing press can furnish the money that is needed for them?"

This decision marks the real beginning of today's dollar currency inflation. It is a decision that has never since been questioned by the United States Supreme Court.

It is submitted that this, not being a right enumerated in the Constitution, may not be made into a general right because of the General Welfare Clause. That Clause can only be read in conjunction with other specific provisions of the Constitution. No right or power having been given to any branch of the

United States Government to breach the obligations of contract is, as provided by Amendments IX and X,reserved either to the States or to the people.

It is submitted, in view of the foregoing, that inasmuch as no one of the States has the power to coin money and inasmuch as no State can make anything other than gold or silver coinage legal tender, the present practice condoned by the United States Supreme Court to make notes of the Federal Reserve Board legal tender is an evasion of the specific provisions of the United States Constitution, not worthy of the bench and bar who sit sublimely by and permit this apparently under the General Welfare Clause. There is no other way to view the decision of the majority in the Legal Tender Cases than that the Justices bowed to the political expedient and departed from the course of reason and logic.

In substance, the Supreme Court of the United States acted illegally. The Constitution of the United States, Article V, provides a method for amending the United States Constitution. This method does not include an amendment by decision of the United States Supreme Court. Yet, the decision in the Legal Tender Cases amended the Constitution by deleting Amendments IX and X, the last two amendments of the Bill of Rights. Amendment IX reads: "The enumeration in the Constitution of certain rights, shall not be construed to deny or disparage others retained by the people". Amendment X reads: "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."

Article I of the Constitution, Section 8, specifies the powers of Congress. The first of the enumerated powers of the Congress includes the power to provide for the general welfare of the United States. This is followed by the power to borrow money on the credit of the United States. Then comes the power to coin money, regulate the value thereof and of foreign coin, and fix the standards of weights and measures. Among other powers are the powers to declare war and

to raise and support armies excepting that no appropriation of money for that use shall be for a longer period than two years; and gives Congress the right to make all laws necessary and proper for carrying into execution the many enumerated powers.

Section 9 or Article I provides that no money shall be drawn from the Treasury but in consequence of appropriations made by law; and that a regular statement and account of the receipts and expenditures of all public money shall be published from time to time. Section 10 of Article I prohibits the States from a number of things, including the right to coin money and to make anything but gold and silver coin a tender in payment of debts or pass any law impairing the obligation of contracts. The Constitution does not specifically give Congress the right to enact any law impairing the obligation of contracts.

With regard to the Amendments IX and X to the United States Constitution it should be noted that Rhode Island did not ratify the Constitution until the Bill of Rights had been added as the first ten amendments to the Constitution.

Also, there had been two additional amendments to the original Bill of Rights which failed of ratification. One of these is rather interesting in view of what is happening today, namely, an amendment providing that no law varying the compensation of members of Congress should be effective until after an intervening election of Representatives.

With regard to the provision that Congress shall have the power to coin money, this must be read together with the prohibition against the States to make anything other than gold or silver coin legal tender for debts. The provision as to the right of Congress to coin money appears to be non-obligatory. But where are the States to get gold and silver coin? Only from foreign nations' coin, if any?

During the entire period of time from 1868 to the election of President Franklin Delano Roosevelt, long-term contracts, including annuities, were made payable in gold coin of a certain weight and fineness at a stated sum an ounce. Such contracts were supported by two decisions of the United States Supreme Court decided in 1869. The first of these two decisions is Bronson v. Rodes, 74 U. S. 229. Its companion case if Butler v. Horwitz, 74 U. S. 258.

In the Bronson case, Bronson had loaned a person in 1851 the sum of $1,400.00. The debtor executed a bond for repayment to Bronson of the principal sum in 1857, in gold and silver coin, lawful money of the United States, with interest, also in coin, until such repayment, at the yearly rate of 7 per cent. The bond was secured by a mortgage on real estate. The property was later on conveyed to the defendant Rodes who assumed to pay the mortgage indebtedness. Rodes paid interest as provided in the bond until and including January 1, 1864. Subsequently, in January, 1865, Rodes tendered Bronson United States notes in the amount of $1,507.00 in full payment of the mortgage indebtedness. These were greenbacks which had been declared lawful money during the Civil War. The greenbacks, however, were less than the equivalent amount in coin, $1.00 in coin then being worth $2.25 of the greenback notes. The tender was refused and the suit followed. The Supreme Court decided that when obligations are made payable in coin the judgment is to be entered for the coin dollars.

In the Butler case, the opinion of the court stated the following:

"We are of the opinion, therefore, that under the existing laws, of which, in respect to legal tender, the constitutionality is, we repeat, in this case, assumed, damages may be properly assessed and judgments rendered, so as to give full effect to the intention of

the parties as to the medium of payment. When, therefore, it appears to be the clear intent of a contract that payment or satisfaction shall be made in gold and silver, damages should be assessed and judgment rendered accordingly."

In 1935, however, the United States Supreme Court, in the so-called Gold Clause Cases (Norman v. Baltimore & Ohio Railroad Company, United States and Bankers Trust Co) 294 U.S. 240, 317, and 330, ruled five to four that Congress has the power to set aside a gold clause in a contract. There were three of these cases, all decided at the same time. The dissenting opinion applies to all three of the cases. All three cases involved situations in which payment was to be made in gold coin of a certain weight and fineness at a certain price per each coin. The majority opinion is to the effect that Congress has the power, in its control of the monetary system, to endeavor to conserve the gold resources of the Treasury, to insure its command of gold in order to protect and increase its reserves, and to prohibit the exportation of gold coin or its use for any purpose inconsistent with the needs of the Treasury.

It will be recalled that the Gold Clause Cases decision was at a time shortly after the collapse of international monetary values in the early 1930's. In substance, the Acts of Congress gave the President the power, which he exercised, to call in all government paper currency then payable in gold and exchange the same for Federal Reserve Bank notes not payable in gold coin. Mr. Justice Charles Evans Hughes, who rendered the majority opinion, made the following comment at page 297:

"The question before the Court is one of power, not of policy."

He further stated at page 302:

"We are of the opinion that the gold clauses now before us were not contracts for payment in gold coin as a commodity, or in bullion, but were contracts for the payment of money.....In order to determine whether effect may now be given to the intention of the parties in the face of the action taken by the Congress,.....it is necessary to consider (1) the power of the Congress to establish a monetary system and the necessary implications of that power; (2) the power of the Congress to invalidate the provisions of existing contracts which interfere with the exercise of its constitutional authority; and (3) whether the clauses in question do constitute such an interference as to bring them within the range of that power."

At page 313 of his opinion, Mr. Justice Hughes pointed out that when the Resolution of Congress was adopted, there were outstanding $75 billion of obligations payable in gold coin priced at approximately $19.00 an ounce of which the annual interest charges probably amounted to some $3 to $4 billion. He further pointed out that it was within the power of Congress to conserve the gold resources of the United States Treasury and, incidental to this, that to permit the payment of the outstanding obligations in gold coin would literally deplete the entire gold reserve of the United States and therefore frustrate the power of Congress to control the monetary system.

Finally, at page 316 of his opinion, Chief Justice Hughes concluded as follows:

"We are not concerned with the consequences, in the sense that consequences, however serious, may excuse an invasion of constitutional right. We are concerned with the Constitutional

power of the Congress over the monetary system of the country and its attendant frustration.... We think that it is clearly shown that these clauses interfere with the exertion of the power granted to the Congress, and certainly it is not established that the Congress arbitrarily or capriciously decided that such an interference existed."

Mr. Justice McReynolds wrote the opinion of the four dissenters. At the outset of his opinion at page 361-2 he wrote:

"..... I conclude that, if given effect, the enactments here challenged will bring about confiscation of property rights and repudiation of national obligations. Acquiescence in the decisions just announced is impossible; the circumstances demand statement of our views. 'To let oneself slide down the easy slope offered by the course of events and to dull one's mind against the extent of the danger....that is precisely to fail in one's obligation of responsibility.'

"Just men regard repudiation and spoliation of citizens by their sovereign with abhorrence; but we are asked to affirm that the Constitution has granted power to accomplish both. No definite delegation of such a power exists; and we cannot believe that the far-seeing framers who labored with the hope of establishing justice and securing the blessings of liberty, intended that the expected government should have the authority to annihilate its own obligations and destroy the very rights which they were endeavoring to protect. Not only is there no permission for such actions; they are inhibited. And no plentitude of words can conform them to our charter.

"The federal government is one of delegated and limited powers which derive from the Constitution. 'It can exercise only the powers granted to it.' Powers claimed must be denied unless granted; and, as with other writings, the whole of the Constitution is for consideration when

one seeks to ascertain the meaning of any part."

Later, he pointed out that as to the various contracts, the borrower had agreed to pay in gold coin containing 25.8 grains to the dollar, whereas the present currency consisted of promises to pay dollars of 15 5/21 grains.

Mr. Justice McReynolds further wrote that the decision of the majority not only affected private contracts but also affected gold certificates that had been issued under appropriate statutes of the United States under which the Treasury of the United States had agreed to make payment in gold coin. As to this, he quoted the words of Alexander Hamilton as follows:

> "When a government enters into a contract with an individual, it deposes, as a matter of the contract, its constitutional authority, and exchanges the character of legislator for that of a moral agent, with the same rights and obligations as an individual. Its promises may be justly considered as excepted out of its power to legislate, unless in aid of them. It is in theory impossible to reconcile the idea of a promise which obliges, with a power to make a law which can vary the effect of it." (3 Hamilton's Works, 518, 519 (240 U.S. 379-80)).

Finally, Mr. Justice McReynolds at page 381 pointed out that counsel for the government and the debtors had asserted with emphasis that incalculable financial disaster would follow the refusal of the Court to uphold the constitutionality of the questioned acts of Congress. As to this, Mr. Justice McReynolds stated:

> "Their forecast is discredited by manifest exaggeration. But, whatever may be the situation now confronting us, it is the outcome of attempts to destroy lawful undertakings by legislative action; and this we think the Court should disapprove in no uncertai. terms.
>
> "Under the challenged statutes it is said that the United States have realized profits amounting to $2,800,000,000. But this assumes that

gain may be generated by legislative fiat. To such counterfeit profits there would be no limit; with each new debasement of the dollar they would expand. Two billions might be ballooned indefinitely--to twenty, thirty, or what you will.

"Loss of reputation for honorable dealing will bring us unending humiliation; the impending legal and moral chaos is appalling."

In retrospect, it appears that the dissenting opinion of Mr. Justice McReynolds has come true. Also, in recent years, the United States Supreme Court has not hesitated to exercise legislative power in those instances in which the exercise of its legislative power by the Congress has been deemed to be insufficient or improper.

There is one further decision of the United States Supreme Court, Holyoke Water Power Company vs. American Writing Paper Company, 300 U. S. 324 (1937) again a five to four decision, that buttresses the decision of the United States Supreme Court in the Gold Clause Cases. The four dissenters in the Holyoke case were the same four dissenters in the Gold Clause Cases. They did not, however, write any dissenting opinion.

The majority opinion was written by Mr. Justice Cardozo. The American Writing Paper Company was in bankruptcy. Holyoke Water Power Company intervened praying for a determination of the amount of rent due it under thirteen leases executed between 1881 and 1897 for the enjoyment of perpetuity of water power rights and privileges in consideration of an annual rental payable in a quantity of gold which shall be equal in amount of $1,500.00 of the gold coin of the United States of the standard of weight and fineness of the year 1894, or the equivalent of this commodity in United States currency. The majority opinion decided that the obligation was one for the payment of money, and not for the delivery of gold as upon the sale of a commodity. This being so, Justice Cardozo

stated as follows:

> ".....the disappointment of expectations and even the frustration of contracts may be a lawful exercise of power when expectation and contract are in conflict with the public welfare. 'Contracts may create rights of property, but, when contracts deal with a subject matter which lies within the control of the Congress, they have a congenital infirmity.'....To that congenital infirmity this covenant succumbs."

The decisions of the majority in the Gold Clause Cases and in the Holyoke case are the more ironical in retrospect when compared to the action taken during the term of President Lyndon B. Johnson to deliver gold bullion to foreign central banks at $35.00 an ounce (materially less than the market value) until the gold bullion reserves of the Federal Government were severely depleted. The United States citizenry was not permitted to exchange its Federal Reserve Notes as the foreign central banks could do for gold builion at $35.00 an ounce during the terms in office of President Lyndon B. Johnson.

When, during the year 1975 some gold bullion in the United States Treasury was offered to the United States citizenry for purchase, it was not offered at the price of gold then determined by the Congress of the United States, that is to say $42.22, but at the then current market price which was over $170.00 an ounce.

Presently United States citizens are privileged to buy gold bullion or foreign gold coins if they so desire, a privilege they did not have during the period of time that the United States Treasury was selling its gold bullion to foreign central banks at $35.00 an ounce. Of course, the price that the United States citizenry would have to pay for such gold bullion is the current market price in the neighborhood of $500.00.

Presently there are two methods, both of them wholly unsatisfactory, by which a seller of merchandise or services or a lender of funds on a long-term basis may seek protection again today's rapid inflation which result in one or another form of devaluation of the American dollar. One form is so-called indexing whereunder moneys to be paid are subject to a cost-of-living or other similar index. Another is an escalation on the basis of increases in taxation and costs of operation of a business enterprise. Neither gives the protection to the seller or the lender that a gold clause provides.

Would it be possible then to revive the gold clause contracts? This is extremely doubtful in our view. On the basis of the Gold Clause Cases and the Holyoke case, were Congress again to decide that payment in gold bullion or foreign gold coin is against public policy, and if the United States Supreme Court would then follow in line with the decision of the Gold Clause Cases, such a provision is of no avail. Then, too, it would be necessary to get an opinion from the Internal Revenue Service as to whether a taxable profit will have been gained by the use of such a clause. Also, such a clause could lead to charges of usury. Further, it could be construed as a gambling contract.

How then can the United States citizen entering into a long-term contract gain any sort of protection as to the value to be received when the amount falls due? If a contract is so drawn that it is clearly a contract to make payment in a commodity other than gold or silver, notably, platinum or palladium, at the current market price for platinum or palladium, there is a possibility that the courts would sustain such a contract as a contract not against the public policy of the United States.

The difficulty with all such proposals is that the decisions of the United States Supreme Court and other courts as well have followed the dictates

of political expediency and not those of the economic necessity to establish and maintain a stable dollar on a long-term basis.

Mr. Justice Oliver Wendell Holmes (1841-1935) in a series of lectures, compiled later into a book, given at the Harvard Law School in 1881, the book entitled The Common Law, stated as to the legal process:

> "The life of the law has not been logic, it has been experience. The felt necessities of the time, the prevalent moral and political theories; intentions of public policy avowed or unconscious, even the prejudices which judges share with their fellow men, have had a good deal more to do than the syllogism in determining the rules by which men should be governed."

Mr. Holmes was appointed a justice of the United States Supreme Court by Theodore Roosevelt in 1902. In an article in the HARVARD LAW REVIEW in 1896 entitled "The Path of the Law" he wrote:

> "It is revolting to have no better reason for a rule of law than it was laid down in the time of Henry IV. It is still more revolting if the grounds upon which it was laid down have vanished long since, and the rule simply persists from blind imitation of the past."

Adherence by the judiciary to decisions of an earlier time by men sitting on the Supreme Court swayed by the emotions of the moment can be harmful to the public welfare. Indeed, such adherence often is harmfull to the public welfare. As an example, at page 313 of the Gold Clause Cases, Chief Justice Hughes refers to some $75 billion of gold reserves then held in the Treasury of the United States which would have to be dispensed at some $19.00 an ounce, as against

revaluation of the gold ounce by President Franklin Delano Roosevelt at approximately $35.00 an ounce. The Chief Justice stated that it was against the public policy of the nation to permit this to be done. Yet, what has happened to those $75 billion since 1935? Officially valued at $42.22 an ounce, the gold reserve in the United States Treasury now amounts only to less than $12 billion. Was it against public policy to permit the politicians to spend the difference between this $12 billion officially valued at $42.22 an ounce and the $75 billion valued at approximately $19.00 an ounce? This is a rhetorical question which answers itself.

The pragmatic approach of Mr. Justice Holmes to the problems of the law is emphasized by a dissenting opinion written in the Northern Securities case, 193 U.S. 197, 400-1 (1904):

> "Great cases like hard cases make bad law. For great cases are called great, not by reason of their real importance in shaping the law of the future, but because of some accident of immediate overwhelming interest which appeals to the feelings and distorts the judgment. These immediate interests exercise a kind of hydraulic pressure which makes what previously was clear seem doubtful, and before which even well settled principles of law will bend."

In substance, the attitude of this great social thinker is that ours is not a government of laws but a government of the men who interpret the written words of the statute or of the Constitution, whose thinking is not based upon logic but distorted by the emotions of the moment. Thus, the vaunted Rule of Law of which much is spoken at the present time simply is a myth.

It may be said that realistically the Rule of Law is a myth, this without

dissent, But there are those on the bench and bar who conceive of the Rule of Law as an ideal, universally accepted by the entire so-called civilized world. In not that ideal also a myth? Is not this ideal viewed differently by the totalitarian nations and by the welfare state nations such as the United States?

Mr. Justice Holmes had retired from the Supreme Court in 1932, thus he was not one of the group which constituted the majority in the Gold Clause Cases of which actually there were four: not only the two mentioned but also Nortz v. United States and Perry v. United States.

Mr. Justice Holmes had been known as one of the great dissenters during his active years on the Supreme Court. He was succeeded in 1932 by Mr. Justice Cardozo. In his dissents he had had the acquiescence of Mr. Justice Brandeis who was appointed to the Supreme Court by President Wilson, and by Mr. Justice Stone who was appointed to the Supreme Court in 1927.

As to the Supreme Court during the twentieth century, W. Friedmann, a professor at law at Columbia University, in his book "Law in a Changing Society" (University of California Press 1959) wrote the following at page 39:

> "The much attacked judgments of the United States Supreme Court, whether unanimous or divided, reflect and interpret a real world, a world of conflict and tensions, of uncertainties and divided opinions. They do not pretend that the application of the general formulas of the Constitution to the complexities of a concrete problem is a simple task".

The same author wrote further at page 388:

> "It is one of the great ironies of legal history that British immigrants who left the country in protest against autocracy and oppression, took with them, not only the great principles of the common law, but also those aspects of the common law which were expressions of absolutism and feudalism.....Not only did the American courts introduce the doctrine of sovereign immunity into the republican setting of the United States, but they extended it to municipal corporations, as subdivisions of states, ..."

In the opinion of Chief Justice Hughes hereinabove referred to, not only did the Supreme Court give the Federal Government immunity and thus set at nought the 10th Amendment of the Constitution, but also his majority so construed the 5th Amendment that money is said not to be proprty and therefore not subject to the restrictions of the 5th Amendment, namely, that "No person.....shall be deprived of life, liberty or property, without due process of law; nor shall private property be taken for public use, without just compensation".

It is interesting to note that in June, 1979 the United States Supreme Court in Reiter v. Sonotone Corporation et al No. 78-690, a decision under the 4th section of the Clayton Act, held that money is property, stating: "In its dictionary definitions and in common usage 'property' comprehends anything of material value owned or possessed. See, e. g., Webster's Third New International Dictionary 1818 (1976). Money, of course, is a form of property". (39 CCH Supreme Court Bulletin page B3163).

Thus we have one decision in 1935 that holds that money is not property and another one in 1979 that states that it is, both of these determined not by logic but by the public interests espoused by different persons living in two different eras.

XI

The Rights of the People of the United States as to the Monetary and Fiscal Policies of the Federal Government.

The powers of the people of the United States not delegated to the United States by the Constitution have been dealt with in the previous chapter.

The 9th Amendment to the Constitution reads as follows: "The enumeration in the Constitution of certain rights, shall not be construed to deny or disparage others retained by the people." As to the fiscal and monetary policies of the Federal Government, the Constitution provides, specifically, that the Congress shall have the power to do certain things with regard to the monetary reserves of the United States. It does not provide that any branch of the government of the United States shall have the right at any time deliberately to cease forever the minting of gold and silver coinage or the sale to foreign governments of the gold bullion reserves of the United States.

Yet, this is what those in control of the Federal Government have been doing since the days of Franklin Delano Roosevelt, surrounded as he was and as his successors have been by a group of neo-Keynesians who look upon gold as a "barbarous relic".

This deliberate planning of the neo-Keynesians to do away with gold as a monetary reserve cannot by any stretch of the imagination be looked upon as an exigency.

What then are the rights of the people to put a halt to what the neo-Keynesians have been doing with our monetary reserves, and consequently with the fiscal policies of the government and the economic condition of the United States?

As to the word "rights", the framers of the Constitution, writing as they did toward the end of the 19th century, were thinking of the natural law. In fact, the Declaration of Independence at one point speaks of "nature's God". As to natural rights, Thomas Aquinas wrote that human laws to be justifiable must

derived from the natural law tenet that the common good calls for humanity's self-preservation, requiring a scale of loyalties to other than self.

In 1891 Herbert Spencer developed a 19th century theory of rights, set forth in his book "Justice". The theory of Herbert Spencer is presently in great political vogue. It appears to be the basis for many opinions of the Warren Supreme Court.

Herbert Spencer's theory of rights is not to be confused with the natural law of Thomas Aquinas. Spencer assumes that each human being has certain birthrights which the nation, without imposing correlative duties upon the citizen, is conclusively obligated fully and equally to satisfy - those of unrestricted self-assertion, unlimited personal independence, and guaranteed living condition support.

Today the United States finds itself enmeshed, due to the foregoing, in vehement disputes between those who espouse black rights, others white rights, still others women's rights, and still others the alleged rights of the indolent and shiftless.

The United States also finds itself enmeshed in the delegation by the Congress to the President, the Chief Executive, of power to legislate by Executive Orders, and of power to create executive bureaucracies which in turn legislate. So, too, the Congress has built up a vast bureaucracy of its own. Finally, the judiciary under Chief Justice Warren arrogated to itself the power to legislate, a power which many of the Federal Court judges are exercising in their decisions as to quotas (though not so named) of women to be employed in certain institutions, of blacks and others to be employed; and of the proportion between various of the contending groups in the executive offices of financial and business institutions, cities, counties and States - an unholy mess.

The regulatory agencies of the Federal government (the Federal bureaucracy) during the year 1978 operated at an expense of $96 billions, an amount equal to four times our nation's annual trade deficit and 75 per cent of the nation's defense budget. As to each man, woman and child in the United States, the cost was $450. The cost of the Department of Energy alone came to some $24 billions with, it is suggested, a zero accomplishment.

These bureaucrats grind out new regulations each year. In 1978 such regulations covered over 15,000 pages of the Federal Register. The pulp and paper industry spent $3 billions between 1970 and 1978 in order to comply with Federal clean water standards which require a 95 per cent reduction in pollution. Presently, as to the foregoing, the bureaucrats have proposed new regulations to reduce pollution to 98 per cent. The industry calculates that the expense of complying with the additional 3 per cent will come to approximately $5 billions with no showing whatsoever that the increase from 95 per cent to 98 per cent pollution, a mere 3 per cent, will achieve anything whatsoever by way of environmental protection.

The total paper work that businesses have to indulge in due to bureaucratic regulations actually works to the detriment of small businesses which simply cannot comply. The large corporations take it in stride, adding it to the cost that the consumer has to pay for their products. As an example, General Motors has 22,300 employees engaged solely in paper work required by Federal regulations. The expense entailed by complying with the bureaucratic regulations places the American automobile industry at a considerable disadvantage against foreign competitors, particularly the Japanese and the Germans. These foreign competitors are not put to similar paper work expense by their respective governments.

Industry in the United States is dominated by the bureaucrats who are engaged in carrying into effect the so-called rights of Herbert Spencer. They dictate that the United States government has an obligation to guarantee to each citizen of the United States Paradise on earth, the American rivers to be maintained in their pristine condition, the American forests to be preserved in their pristine condition, and the American air in a condition that never existed inasmuch as millions of tons of atomic dust fall on the earth each year. This has led to payments by the Federal government for consumption in an ever-increasing percentage of the Federal budget which during the 1970s accounted for almost one half of the Federal budget.

It is submitted that the realities of the modern society call for a re-orientation of the fiscal policies of the United States government, and for the carrying into effect of Roscoe Pound's program for the functional work of this century's sociological science of law. Roscoe Pound realized that all of the individual's interests, that is to say, hopes, aspirations and desires, cannot be satisfied by the nation. He realized that reasonable and equitably fair solutions of legal actions in particular situations, involving as they must one or more conflicts of interests, individual, societal and national, cannot be solved by Spencer's rights.

Pound recognized that individual and societal interests exist independently of, and are not created by, the body politic; and he distinguished such expectations from legally created and recognized rights, powers, liberties, privileges and immunities that embrace only those interests given recognition by the constituted governmental organizations. He directed attention to the governmental authority to impose duties on those granted legal rights, powers, freedoms, privileges, and immunities, and on others who may be called upon not to disturb or invade the governmental grants.

It is submitted that if sociological jurisprudence of this century hews to the theory of legal rights espoused by Roscoe Pound, the bureaucratic load upon the economy of the United States will be greatly lessened, small business will be aided, prices to consumers will be devoid of the monies which businesses now have to spend in order to comply with the multitude of bureaucratic regulations issued by a multitude of conflicting regulatory agencies.

The limitation of legal rights Roscoe Pound espouses is at one with the philosophy of William James (1842-1910) who recognized that government cannot realistically satisfy wholly the great number of conflicting individual and societal expectations that are in existence, inasmuch as one person's or one group's hopes run in direct opposition to those of another or others.

Pound's legal theories also fall in line with the natural law of Thomas Acquinas inasmuch as they lead to humanity's self-preservation.

It is submitted that the legally created rights of the people, rights mentioned in the 9th Amendment of the United States Constitution, which concern the monetary and fiscal policies of the Federal government, can only be exercised by the citizenry itself through Recall, Initiative and Referendum. The founding fathers thought that this could be done by the ballot, the United States then comprising but a small part of North America, Canada to the north, Louisiana (a vast territory then owned by the French) to the south, and territories to the west being what was then referred to as "Terre Inconnue" (unexplored territory), excepting for a portion of the Pacific Coast area then part of Mexiso. Theirs was the day and age of town hall meetings and of small communities. It was a day and age vastly different from the United States of the 20th century, comprising as it does fifty States of the Union, including Alaska and Hawaii.

In reply to the contention that the citizenry should nationally have the right of Recall, Initiative and Referendum, it has been said that this cannot be done realistically.

As to taxation and as to special rights, privileges and immunities created by the Congress, the Executive and the Federal judiciary has conflicts of interests as against the people. These conflicts necessitate submission to the people for a direct vote. Such a vote can be taken every two years as part of the Federal election procedure. Each Congressional District could have one vote by a majority of the people within that territory. The majority of these votes would then determine whether or not the people should be burdened with increased taxation, with unwise fiscal policies, and with additional expenses favorable to the representatives of the people and detrimental to the people themselves.

As to the rights of the people, the prevailing situation in the United States brings to mind a portion of the Declaration of Independence (originally referred to as the Declaration of Separation) written in 1776. With a number of deletions, this portion of the Declaration reads as follows:

> "The history of the present king of Great Britain is a history of repeated injuries and usurpations, all having in direct object the establishment of an absolute tyranny over these States. To prove this, let facts be submitted to a candid world. He has refused to assent to laws, the most wholesome and necessary for the public good.... He has made judges dependent on his will alone for the tenure of their offices, and the amount and payment of their salaries. He has erected a multitude of new offices, and sent hither swarms of officers to harass our people and eat out their substance.... He has combined with others to subject us to a jurisdiction foreign to our constitution, and unacknowledged by our laws: giving his assent to their acts of pretended legislation:.... for imposing tax on us without our consent: for depriving us in many cases of the benefit of trial by jury:.... Our repeated petitions have been answered by repeated injury. A prince, whose character is thus marked by every act which may define a tyrant, is unfit to be a ruler of a free people.... We must, therefore, acquiesce in the necessity, which denounces our separation, and hold them as we hold the rest of mankind, enemies in war, in peace friends."

Substitute for the words "king of Great Britain" the words "the President, the Congress, the Judiciary and the Bureaucrats". The Executive Department of the Federal Government is loaded with unelected bureaucrats, a number of them

holding tenure. The Congress has enacted laws written by members of their staffs who are unelected and who outnumber the members of the House of Representatives and the Senate. Thus, as to the Senate, we presently have 100 Senators. These Senators have employed 7,000 bureaucrats as their aides.

Laws have been written whereby each Senator is allotted over One Hundred Thousand Dollars ($100,000) a year in traveling expenses, differences above that amount being due to the distance of their various States from Washington, D.C. As for office expenses, each Senator in States having a population of less than two million annually is allotted some Four Hundred Forty-nine Thousand Dollars ($449,000), and each Senator in States having more than two million population over Nine Hundred Two Thousand Dollars ($902,000) annually. The totals thus spent in traveling expenses and personal expenses for 100 Senators, it will be seen, comes to at least Seventy-five Million Dollars ($75,000,000) per annum.

The Senate and House have also devised a method for raising their personal compensation from time to time without their votes, during periods of time when the government is running increasingly large fiscal deficits of many billions of dollars.

The people have been given the hope by the present President that the fiscal budget for the fiscal year starting in October of 1980 will be a balanced budget, not by decreasing expenses to any material extent but by increasing taxes.

Without an amendment to the Constitution providing for Recall, Initiative and Referendum, the rights of the people set forth in the 9th Amendment to the Constitution and the powers of the people set forth in the 10th Amendment to the Constitution are a nullity.

There has been a long-standing dispute as to whether the Constitution provides for a democracy or a republic. The Constitution in its own terms speaks of a republic. So does the Constitution of Russia and of China and of other totalitarian peoples, each of which think of themselves as democracies.

Until and unless the people are given the direct right to vote on questions such as whether or not the members of the Congress, and the Federal Bench, and the President are entitled to increases in compensation, the United States cannot be a democracy. Also, until and unless the people are given the direct right to vote whether the theories of the neo-Keynesians as to the "barbarous relic" are consistent with the general welfare and are favorable to the people of the United States, there is no democracy.

XII

CONCLUSION

This is written in April, 1980, a span of some seven years since the writing of the first chapter.

The problem of American hostages in Iran is far from solution. High, double digit inflation is coursing the land. Bankruptcies are the order of the day. Even large companies which cannot wholly depend upon cash flow for payment of obligations are finding it difficult to survive. Despite the many millions of barrels of oil produced in the United States annually, the consumption of oil in the United States is substantially greater than production.

The United States no longer is the richest country on the face of the earth. The United States no longer is a creditor nation. It is a debtor nation. In each succeeding budget the sum of between $18 and $20 billions goes to pay interest on borrowings of the United States.

J. Anthony Boeckh, a Canadian editor as also an economist, has written "When the domestic demand for finance is greater than supply of finance, upward pressure in interest rates is created. If the central bank is attempting to hold down interest rates .... then excess credit demands must necessarily cause excess (i. e. inflationary) expansion of the money supply." As to inflation, he has the theory that Domestic Credit Expansion, which he defines as the sum of bank lending to the private sector, bank lending to the public (i. e. government) sector, and foreign financing of the public sector, has outpaced the growth of currency consistently since mid-1976 when the dollar began its collapse.

Thus, until and unless domestic credit expansion is materially lessened so that the expansion can be financed by domestic savings, in his opinion there is no chance that the double digit inflation will abate.

For a number of years last past the United States government, to mask the

reality of the value of the dollar, has engaged in "swap" agreements with the governments of Germany and Switzerland. Until the beginning of the year 1978 it has been estimated that these "swap" agreements cost the United States government $2 billions in losses, the dollar not being worth the amount of German marks and Swiss francs that had to be repaid. Were an individual to engage in such an endeavor as to the individual's net worth, or a business as to its capital stock, this would be referred to as "rigging" the market, an illegality.

The action taken by the Treasury in these "swap" agreements was to the advantage of Germany and Switzerland as export nations. Now that the government has changed its course and has brought about the imminence of a recession in this country, these "swap" agreements have come to an end. But the fact that the government engaged in that sort of maneuvering in its fiscal policies and thus deluded the American citizenry as to the international worth of the dollar should not go unnoticed.

It is submitted that had the government, during the years since 1965 when unbalanced budgets became the order of the day, decreased the rate of growth of government spending, slowed down the rate of growth of the money supply and thus enabled itself to institute a series of tax cuts (especially on investments, savings and business enterprise) there would be no need presently for a recession, and there would have been no need for the government of the United States to engage in "swap" agreements with Germany and Switzerland.

Dr. Schaefer, Chairman of the Board of the Union Bank of Switzerland, in an address to the Economic Club of Detroit in 1973, speaking of the international monetary system, said: "We are left with only one alternative: either we adjust the rate of our productivity gains and thus the real improvement in our living

standard to that of our fellow nations, or we shall have to be satisfied with lower economic performance and a more modest standard of living. Parity changes do not represent a substitute for monetary discipline."

There are those who submit that monetary discipline can only be brought about by a return to the gold standard. It is submitted that monetary discipline by the government does not necessarily require a return to the gold standard.

The emphasis is upon the word reserve and not upon the word gold. It is the reserve that leads to monetary discipline. The management of this reserve resides in the will of the citizenry of the United States. Given the discipline of Recall, Initiative and Referendum it is submitted that the government soon takes steps to live within its means. An example of this is at hand in what has happened recently in the State of California.

An example also is the country of Switzerland which has the Initiative and Referendum. Switzerland is not a member of the International Monetary Fund and is not a member of the European Common Market although it has concluded an agreement of association with the European Common Market. Switzerland has not been a participant in the many wars of this century. It does maintain a strong defense force, this by way of a home militia. The Swiss government authorities realize that they have a duty to keep a tight rein on their budgets and that, if governmental authorities cannot curb a swelling tide of expenditures, they must ensure that such expenditures are financed by current revenues, not by increasing debts. Taxes can be increased in Switzerland only by the direct vote of the people.

They also realize that balance of payments discipline must be maintained for the creation of price stability, a smoothly functional monetary system, and in turn freedom in the movement of merchandise and capital throughout the world, Switzerland being an exporting nation. As to its monetary resources,

it maintains a sizeable gold reserve. Such a reserve is a barometer of the economic health of the nation. Also it restrains the appetites of the politicians to create money unwisely. Lacking such a reserve, history discloses that the nation develops an inflationary cycle running from creeping inflation to trotting inflation to galloping inflation and finally to hyperinflation. The United States now has galloping inflation, one step away from the catastrophy of hyperinflation.

Dr. Schaefer concluded his address to the Economic Club of Detroit in 1973 with the following remark: "As the world's most powerful industrial nation, which accounts for forty-five per cent of the production of the free world, the United States carries nolens volens a major share in the responsibility for the monetary discipline of the free world. Demonetizing gold and flooding the world with Special Drawing Rights would be a risky gamble. Let us, instead, unite to make the dollar the strong currency that it was before! This is both the most effective and the most reliable cure for the monetary illnesses of the free world".

The course that our government has followed since 1973 has plagued the United States with an undisciplined dollar. The politicians will not retreat from their entrenched positions through the ballot process, unless part of that ballot process includes the right of the people directly to vote upon those matters that lead either to an undisciplined dollar such as the United States now has, or to a return, a much needed return, an essential return, to a disciplined dollar.

September 21, 1981

MEMORANDUM TO THE GOLD COMMISSION

Critics of the gold standard refuse to acknowledge that it produces rapidly growing prosperity for virtually all countries that employ it and almost universal penury for those countries that reject it. They also fail to admit the easy re-entry of most countries who have repented of fiat money in favor of gold. Also, who can take seriously a government which values its reserve asset at 10% of market value?

Supporters of the gold standard, however, have yet to explain its occasional lapses, such as 1932 and 1971, and its contribution to the great depression. The concept of gold purchasing power parity is crucial to understanding these events. In order to be permanent and credible, the value of gold under the gold standard should be continuously adjusted to be approximately equal to its purchasing power as expressed in a basket of commodities and foodstuffs or perhaps the GNP deflator. Thus a slowly steadily rising gold price should accompany a growing economy and money supply. Periodic wars, financed through necessity with fiat money, have in the past raised sharply the purchasing power parity of gold while gold production, adding roughly 2% per annum to world reserves, slows it down.

Unfortunately, governments and economists failed to recognize the need for gradual change in the gold price and enormous undervaluation developed in the past. It is incredible that the $20 price of 1792 did not change for 140 years through enormous economic growth and three wars. Some would call that discipline but I call it stupidity. In 1931 the attempt to avoid rewarding "speculators" took priority over the obvious need to adjust the gold price, which error caused the great depression to be infinitely more damaging. This blunder forever maligned the gold standard. The $35 price in 1971 was also much too low as proven by the continuous outflow of U.S. reserves and the current free market price of $460.

I propose, therefore, to give the Federal Reserve the authority to change the fixed price at its discretion depending primarily on whether gold is flowing in or out of the country's reserves. The Fed already has the power to print money and with that should go the power to fix the gold price. We now have 10 times more gold than in 1971 at market price so a return to the gold standard is now feasible. Record-high real interest rates and disinflation provide the ideal environment for re-entry to convertibility as declining gold purchasing power parity is likely. After an initial period of volatility, probably on the down-side as "speculators" unload to take advantage of record-high money market yields, a period of stability and renewed prosperity will unfold.

Harry G. A. Seggerman

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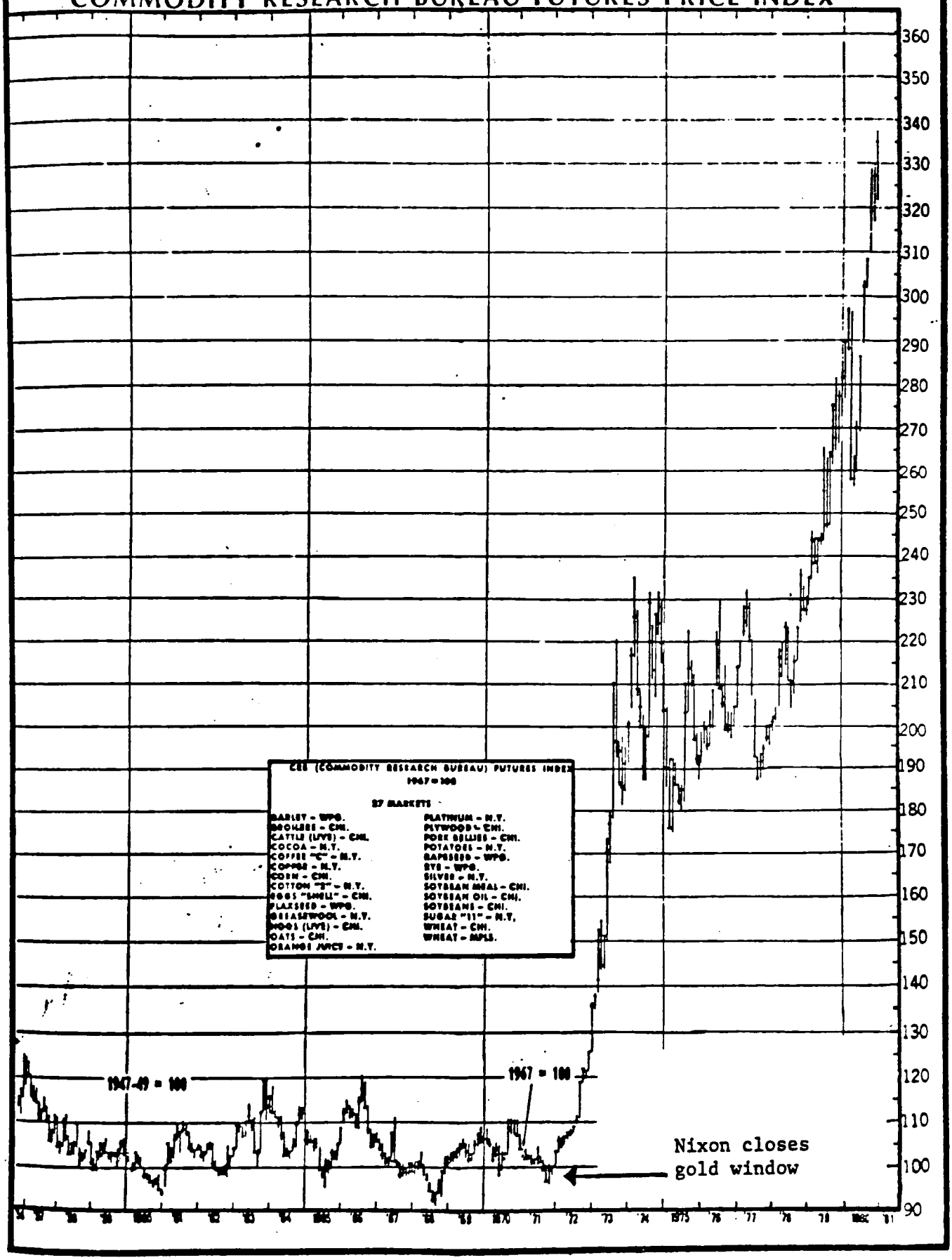
COMMODITY RESEARCH BUREAU FUTURES PRICE INDEX



U.S. Business

TRENDS THAT SHAPE THE FUTURE

2300 N Street, N.W.
Washington, D.C. 20037

Little more than a year after the bottom of the last recession, retail sales are skimpy, inventories are building up and output is falling.

Business rebounds usually slacken after a fast start--but not this soon.

The situation has rekindled speculation among analysts that the economy is on the second decline of a modest double-dip recession.

Latest figures on industrial production are especially disturbing.

Last month's drop of 0.4 percent was the biggest in output at the nation's factories, mines and utilities since the economic trough in July, 1980.

Sectors most sensitive to soaring interest rates took the worst beating.

Most of the August sag was in output of autos, trucks and parts, which had actually been emerging from the depths at a faster pace than most industries.

What's worse, Detroit's plans for auto assemblies this fall are feeble. Auto makers want to sell off the 1981 models before flooding dealers with '82s.

Rebates, other special deals continue to help. Sales of U.S.-made cars climbed to a yearly rate of 8.4 million units in the first third of September.

Construction is another listless link in output--especially home building.

Housing starts plunged 11 percent in August from July to a yearly rate of 937,000 units. It was only the third month since World War II that starts had fallen below a rate of 1 million. Building permits tumbled 5 percent.

Production of things for homes, especially appliances, fell, too.

Steelmaking, which was sailing along nearly 50 percent bigger than at the bottom of the recession, dwindled in August and early September.

And steel's prospects don't look good for the rest of this year. That's shown in a poll of steel middlemen taken by the Steel Service Center Institute.

Three fourths said they will be trying to cut their stocks on hand over the next three months. Only 5 percent plan to increase them.

At this point it's touch and go whether economic growth in the current quarter will end up in the plus or minus column.

In the spring, the gross national product fell at a yearly rate of 1.6 percent, after adjustment for inflation, according to revised figures. That followed a hefty positive growth rate of 8.6 percent in the first quarter.

Two quarters in a row of declines in real GNP would convince many analysts that the economy is in another slump. Commerce Secretary Malcolm Baldrige thinks the third quarter will either be flat or will slide a bit.

Then expect improvements, say most experts. But they are scaling down

(over)

projections on how strong those improvements will be. Look at a poll taken this month by Eggert Economic Enterprises of 44 forecasting outfits.

The average projection for overall growth next year is now 2.6 percent, compared with 2.9 percent predicted last month.

No wide cuts are seen in hiring plans of firms. That helps to squelch thoughts that any renewed recession will be long and deep.

Twenty-three percent of employers plan to hire additional workers during the next three months. Twelve percent expect staff reductions.

That's the finding of the latest quarterly survey of 10,000 employers made by Manpower, a temporary-help firm. The ratios have not changed much from what they were a year ago. But there have been shifts within industries.

Hiring expectations are slightly more optimistic in manufacturing, in both durable and nondurable goods. Also, the seasonal increase in jobs in wholesale and retail trade is expected to be stronger this fall than last.

Construction employers were the least optimistic, with 20 percent planning to pare payrolls and only 18 percent intending to enlarge their work forces.

Why is industrial efficiency improving faster in Japan than in the U.S.?

A big reason is the difference in the structure of labor unions. So contends a group of American productivity experts back from a tour of Japan.

Japanese automation is particularly impressive, the experts told a conference sponsored by CNA Insurance Companies in Chicago this month.

At one tool plant the Americans visited, 18 robot-controlled machining centers have replaced 72 machine tools. Only 10 employes are doing the work of 210. The other workers were retrained, not laid off.

Such innovation is possible because all employes belong to one union, says William Ouchi, a professor at the University of California at Los Angeles.

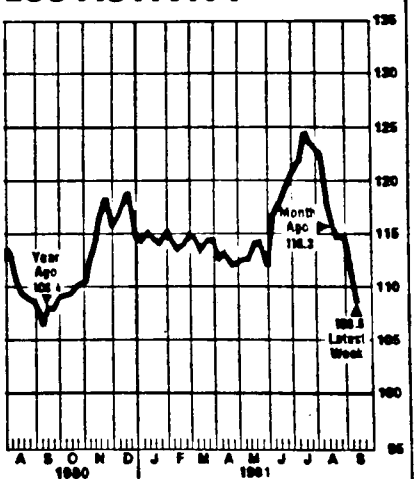
The typical factory in the U.S. has five or six unions, Ouchi notes, making it "nearly impossible" to switch employes from one area to another.

Our index of business activity dropped sharply in the latest week.

USN&WR WEEKLY INDEX OF BUSINESS ACTIVITY

WEEKLY INDICATORS (1967=100)*	Year Ago	Month Ago	Week Ended Sept. 5	Week Ended Sept. 12
Composite Index†	108.4	116.3	113.0	108.6
Steel production	76.8	100.0	99.1	97.9
Auto production	70.5	90.7	78.3	68.0
Crude-petroleum production	98.3	98.2	98.5	98.7
Electric-power production	185.5	196.4	184.2	179.0
Lumber production	90.5	81.8	75.7	75.7
Freight carloadings (misc. mdse.)	74.3	66.9	76.5	65.9

MONTHLY INDICATORS (1967=100)	Year Ago	Month Ago	Latest	For
Consumer prices, goods and services	247.8	271.3	274.4	July
Producer prices, finished goods	251.4	271.3	271.2	August
Industrial production*	142.2	153.4	152.8	August
Retail-store sales*	327.0	356.9	359.2	August
Civilian employment*	130.4	133.1	133.0	August



*Seasonally adjusted.
† Includes, besides the six series listed, production of trucks, bituminous coal and paperboard.

BENCHMARKS FOR INVESTING IN GOVERNMENT SECURITIES
307 Rose Avenue - Venice, CA 90291
(213) 392-1010 Advisory Letter - Dec. 8, 1981

Dear Subscriber:

Market Overview: Interest rates continue to be extremely volatile. As yet, there is no justification for taking a long or short position. Speculators should stay out of the market and mortgage bankers should stay even with the pipeline.

In favor of a long position: 1) the economy is contracting, which means that the demand for money is being reduced, 2) the high real yields will give investors good reason to extend their average maturities, and 3) a few Congressmen are earnestly trying to gather support for proposals that would cut spending.

In favor of a short position: 1) corporations are still interested in making new bond offerings, 2) the Treasury's borrowing needs are still strong, 3) bank loan demand is moderate, not weak, and 4) the Fed's policies, if continued, will increase inflation.

Gold: The Gold Commission, as well as Fed officials, are considering a return to the gold standard as a means for stopping inflation. The most general type of gold standard is one in which the Treasury fixes the price at which it will buy and sell gold with anyone. The first step in going back to gold would require fixing its price.

If the price is fixed too high, gold will be sold by holders around the world. The Treasury could borrow at today's high interest rates, in order to buy gold, until the market price had risen to the fixed price; at that point, the gold standard would become effective in tying the supply of currency to the pace of economic activity. Interest rates would fall because of less actual, as well as expected, inflation.

If the price is fixed too low, speculators throughout the world will buy gold from the Treasury, and the market price will fall. The Treasury's gold stock could be sold out before the market price reached the fixed price. In that event, the standard would not be put into effect. Furthermore, if the price were fixed too low, speculators' buying could cause a sudden deflation that would turn into a contraction.

Of the two alternatives--a price above or one below the current market--the one below market seems the better choice despite its disadvantages. This is because the current market price is based on expectations of ever increasing inflation: the price of gold has risen far more than the consumer and producer price indices. However, there is nothing inherently wrong with setting the price high. Whichever alternative is chosen, the price would indeed have to remain fixed in order for it to achieve a stabilizing effect on the general level of consumer and producer prices.

When a gold standard is in effect, inflation is expected to be near zero. Since interest rates compensate lenders for default risk and expected inflation, under a gold standard, the rates reflect default risk only. During expansions, interest rates rise because the risk of default is increasing; during contractions, they fall because the risk is decreasing.

When rates are rising, businessmen prefer selling gold to the Treasury, in order to raise capital for their expanding businesses, rather than borrowing at high real interest rates. The Treasury pays for the gold with newly printed currency, and thus the money supply increases during expansions. The rate of increase in the money supply is directly proportional to the pace of economic activity because businessmen sell only as much gold as necessary to raise the capital they need.

When rates are falling, businessmen prefer buying gold from the Treasury to lending at near zero rates. The Treasury retires the currency it receives, thereby decreasing the money supply during a contraction. The rate of decrease in the money supply is directly proportional to the pace of contraction because businessmen are buying with money that they are not using.

Most of the investment capital in the United States is owned by businessmen, while only a small proportion is owned by speculators. Thus gold transactions, which are primarily initiated by businessmen, tend to cause the growth rate of currency to be proportional to the pace of economic activity.

However, speculators' actions can influence the currency supply. During expansions, speculators might sell gold to the Treasury in order to invest the proceeds in short maturity loans and investments at high real interest rates. When this happens, there is an excessive increase in the money supply. During contractions, they may prefer buying gold from the Treasury, rather than lending at interest rates that they feel are too low. When this happens, there is an excessive decrease in the money supply. Thus speculators' gold transactions tend to cause inflation during expansions and deflation during contractions; their transactions do not create a trend of inflation or deflation from one business cycle to the next.

The supply of gold usually increases about 2% annually, whereas real economic activity in the United States tends to increase 3% to 5% annually, from one business cycle to the next. Under a gold standard, the supply of money would usually be 1% to 3% less than that needed by economic activity; the relatively scarce supply would create a trend of falling consumer and producer prices, from one business cycle to the next. Expectations of secular deflation--less money than needed from one cycle to the next--would cause long yields to be very low, less than 1/4% for 30 year maturities. Short rates would be close to zero during contractions, and rise to a level of 2 to 3 percent during expansions.

A gold standard affects the supply of currency directly, and demand deposits, indirectly. The standard is thus an exact counterpart to the Fed's open market operations: if monetary officials want to increase the money supply, then either the Fed buys securities or the Treasury buys gold; if they want to decrease the supply, then either the Fed sells securities or the Treasury sells gold. The difference is in who decides how much should be bought and sold. Under the current system, Fed officials decide while under a gold standard, the public--primarily businessmen--make the decision.

Under a gold standard, the Fed could still engage in open market operations. However, their actions could be offset by the public. If the Fed increased the money supply and forced short rates down, businessmen and/or speculators could buy gold from the Treasury, thereby reducing the money supply and making short rates rise. If the Fed decreased the money supply and forced short rates up, businessmen and/or speculators could sell gold to the Treasury, thereby increasing the money supply and making short rates fall.

Fed officials would still have control over the Discount rate and reserve requirements, despite their lessened control over currency and the quantity of bank reserves. And with these two tools, they could encourage or inhibit bank lending, and thereby control the demand deposit component of the money supply. If the Discount rate or reserve requirements were set too low, inflation would occur, while if they were set too high, there would be deflation. Thus inflation expectations and long yields would be near zero only if Fed officials set the correct Discount rate and a high enough reserve requirement ratio. If they erred, as they are doing in the current system, then expectations of inflation would cause long yields to rise and expectations of deflation would cause them to fall.

Yours very truly.. David Seligman

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September 21, 1981

Treasury Secretary Donald Regan
Department of Treasury
15th Street and Pennsylvainia Ave.
Washington, DC 20220

Dear Mr. Regan:

The appointment of a federal commission to re-examine the role of gold in government finance has done more than redeem a Republican platform plank and one of Ronald Reagan's campaign promises. It has touched off a new debate on gold and its monetary function, tinged at times with more theological fervor than market wisdom.

Jude Wanniski, an economic consultant and one of the more outspoken supporters of a return to the gold standard, has argued that nothing less than a return to gold convertibility can bring down interest rates from their present insupportable level. His basic conviction, if I understand him correctly, is that once the price of gold has been set at a correct level, the government gold stock will remain stable, since purchases of bullion from the Treasury will be balanced over a period by sales of gold to the Treasury. Any serious imbalance would be corrected by the Federal Reserve through its control of the money supply. The trick, of course, is first to find the correct price of gold, then to fine tune the money supply.

This device is appealing in its simplicity. In the kind of world that prevailed for much of the 19th and early 20th centuries, when the causes of world economic and political order were well served by the gold standard and the British Navy, it might work again. But gold today is less a commodity and medium of exchange than a barometer of world anxieties, and in a time of instant communication, the actions of reckless small nations as well as those of the great powers can send shock waves around the world in an hour. Under pressure of alarming news, gold demand could fly off the scale in very short order.

Let us imagine some of the events, none of them too fanciful, that could raise world anxieties and touch off a run on the gold supply: the fall of the House of Saud in Saudi Arabia to a revolutionary regime of the extreme right or left; an announcement by Colonel Gaddafi or Yassir Arafat that he had acquired nuclear weapons; a turn of events in Iran favoring the Soviet cause; a major Soviet military incursion in Southern Africa. To proclaim convertibility, that is a standing offer to buy or sell unlimited quantities of gold at published prices, under these circumstances would be the monetary equivalent of lighting a fuse to a nuclear device.

Convertibility works best in a stable environment, a condition in which price and demand are so finely tuned that conversion is an unused option. In this circumstance, convertibility serves as a form of discipline upon the nation's money managers, not an option likely to be exercised. But in today's world, the risk is high that convertibility would move swiftly to conversion. The Treasury might well be caught between depleting its gold stock or closing the gold window. Those were just the choices facing the Nixon administration in August, 1971, and the decision was inescapable. The Treasury ended convertibility and with it Washington's last direct link to the gold standard.

Those familiar with the day to day operation of the markets have noted a shift in the factors that move markets, particularly interest rates. As recently as the 1950's and early 1960s, economists assumed that interest rates were a function of the money supply, that a rapidly expanding money stock tended to foster low interest rates and slow or negative growth, high rates. But that relationship between money supply and interest rates became less predictable as psychological factors, particularly expectations, assumed greater weight in market behavior. The apex of this trend was reached in January and February, 1980, and since then markets have been responding more to a fundamental, less to technical factors. One of the most important of the fundamental factors is rate of change. If money supply is increasing at an accelerating rate, that has a different impact on interest rates than if the money supply is increasing at the same rate, but at a decelerating rate of change. Economics is a science of dynamics, not a science of statics.

At a time when fundamentals are re-emerging as a market force and interest rates appear to hinge more on what <u>is</u> happening and less on which <u>might</u> happen, there is some risk that the re-introduction of gold convertibility would bring upward pressure of interest rates. The volume theory of money made defunct by the onsurge of psychology seems to be operative in the market again. It might be seen that convertibility would slow the growth of the monetary aggregates, making money dearer in the market place. Any influence tending to push interest rates up is dangerous in the present environment. An automatic brake now on money growth risks becoming the cure worse than the disease, especially when disinflation may be surfacing.

Jude Wanniski has argued that gold backed government securities could be floated at far lower rates of interest than conventional government bonds, enabling the Treasury to save large amounts on interest charges, perhaps enough to balance the budget. This merits careful examination. Indeed, if the lender could be assured that his capital, guaranteed in the form of gold, would retain its purchasing power for the term of the bond, he could afford to let out his money for a nominal rental rather than the sky high rates lenders demand today to compensate for the loss of purchasing power of their capital over the life of the bond. However, the recent history of bullion-backed bonds gives some grounds for caution.

One mining company sold an issue of bonds backed by silver, and some gold-backed bonds have been marketed in Europe recently. In all cases, these issues were received somewhat warily by potential buyers; whether the government could market enough such bonds to meet its full borrowing needs is a matter deserving careful study. It is also worth remembering that one of the events that brought the roof down on the major silver speculators in March, 1980, was their proposal to float an issue of bonds backed by their large stocks of silver. To the market this move indicated weakness, and it helped touch off the nearly disastrous events of Silver Thursday, March 27, 1980.

If the U.S. Government floated a substantial issue of bonds secured by gold and returning a low rate of interest, what would happen? According to Mr. Wanniski, these bonds would find a ready market, even at a low coupon. My view is that these bonds would stampede the market only if the buyers anticipated an ongoing rise in the price of gold, or to put it another way, continuing inflation. But accepting the Wanniski scenario for a moment and assuming that the new gold-backed bonds proved highly popular, what would this do to the balance of the U.S. Treasury securities outstanding? Why would anyone buy an unbacked bond if a gold-secured bond were so attractive? The answer is obvious. There is no distinction in the market between old securities and new securities, old- interest and new-interest, so the popularity of the new gold-backed bonds could only have a depressing effect on the great body of outstanding Treasury securities, which are the foundation of thousands or even millions of instutional and private portfolios.

It is possible that we can once again move to a gold standard, but in a modern, revised form that takes account of the vast evolution of the markets since 1971. Such a standard can function as a useful economic tool, but only as a tool, not as the economy's major driving force.

Perhaps if the Reagan Administration succeeds in bringing inflation under control, breaks the inflationary psychology that has malignantly invaded the markets during the past decade, it may become feasible to move gradually toward a gold-linked currency. The first stage might well be the adoption of a gold cover clause, legislating that sufficient gold be maintained in the Treasury to guarantee convertibility, leading to a full convertibility and a full return to the gold standard. Under these circumstances, it may be possible to slip under the protective umbrella of a gold-backed monetary system without causing the havoc of deflation in the interim.

We run a significant risk of trying to deal too simply with an extremely complex matter. We risk assuming that what worked in the past can be made to work again. We run a significant risk of blundering into a situation that would produce disastrous disinflation like that of the 1930's, when prices actually declined for several years, but at the cost of a wrenching depression that left enduring scars on the nation and its people.

Such a development is even part of the future foreseen by followers of the Kondratieff Wave theory, who see the economic cycles moving in waves of half a century or more and forecast that a period of disinflation is likely to arrive within the next decade.

While I have long been an advocate of gold as an investment and as a hedge against inflation, I am no theologian of gold, and believe that an ill-considered return to the gold standard carries risks fully as great as the inflationary cycle it is intended to correct.

Sincerely,

James E. Sinclair
General Partner

JES/cc

Grant R. Sykes
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Alexandria, Va 22311

82-1726

January 18, 1982

Dear Secretary Regan,

This paper is a mere summary of a discussion piece originally prepared for submission to the U. S. Gold Commission. However, since the Gold Commission established a cut-off date of November 30, 1981, I have decided, instead, to give copies to my two Senators and to Congressman Parris to use for their own purposes in evaluating the final recommendations of the Gold Commission. Enclosed, please find an extra copy in case you know anyone in the Administration or on the Finance Committees who might be interested. The ideas expressed in my paper could certainly stir controversy in some quarters. I have additional copies, and if you would request, I will be happy to mail one to anyone you suggest.

I want to elucidate a couple of points. On page 12, the figure of 1,190 billion includes N.O.W. deposits of all depository institutions, but the figures for savings deposits and C. D. s pertain only to Commercial banks. The idea is to show a source of deposit credit exceeding the national debt. Since savings deposits must be backed by 7% reserves, medallions could serve as alternatives for present reserves for a substantial portion of total savings as well as for all currency and demand deposits.(It would be better to say for" demand lines of credit.")

On page 16, at the end of the answer to question 11, it may benefit some readers to add the following:

> , because gold's price tends to rise with inflation, sales by the Treasury will withdraw progressively more excess currency and deposit credit from the public and hence lessen demand push. On the other hand, during a period of credit deflation and falling prices, sales by the public to the Treasury will stimulate additional supplies of deposit credit which will tend to stabilize demand and lower interest rates.

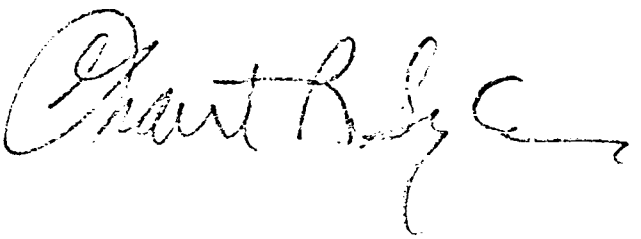
To further clarify the answer to question 17 on page 21. I realize that a London bank holding a deposit in a U. S. bank of, say, $100,000, could under English customary practice create additional dollar deposit credit of about $1,000,000. It is now being done. In turn, a bank in an off-shore location could borrow $100,000 of the London Bank's deposit credit, and, then create yet additional deposit credit of $1,000,000. Where would it stop? No one knows for sure. The tremendous growth in so-called Eurodollar credit illustrates what I mean on page 6 by the statement "that the limits to credit expansion do not depend upon the currency supply or to the supply of (domestic) demand deposits, the limit is set only by the public's demand for credit. International bankers are ingenuous people in meeting the credit demands of credit worthy borrowers. Under therisk-reserve plan I have outlined, deposit credit in the form of bank drafts drawn on foreign banks could not clear through U.S. Reserve Banks. So Eurodollar deposit credits could not be employed in domestic commerce.

Finally, I ought to add to the answer to Question 18, that gold, too, (but not gold medallions) could be used in the settlement of international balances. This is the case now and it would not change.

The points I hoped to emphasize in my paper are (1) that interest-free, non-monetized gold medallions under creative time factored conditions be made to substitute for the present national debt; (2) that it is deposit credits (lines of credit subject to draft) that monetary authorities must seek to control; and, (3) that gold alone both creates and maintains its own reserve when employed as an auxiliary standard or means of payment. Actually, gold is the only money standard. Bank credit, including its derivative bank note currency(but to a lesser degree) fail to meet the economic definition of true money.

I am with high est personal regards,

Yours truly



HOW TO IMPLEMENT A GOLD STANDARD AS AN EFFECTIVE INSTRUMENT OF FISCAL POLICY

By

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HOW CAN A GOLD STANDARD SERVE THE UNITED STATES AS AN INSTRUMENT OF FISCAL POLICY?

The indefinite article is used in the title of this paper in recognition of the alternative ways to implement a gold standard. In the strict classical sense the term "gold standard" means that gold alone is considered as money, and where all paper substitutes are backed 100% with gold. However, in all but the most chaotic times such a standard has never prevailed. Until a few years ago the world was on a gold reserve standard where paper substitutes for gold were convertible into, or exchangeable for, gold at a fixed price in terms of the U.S. statutory dollar. That standard had to be abandoned because of a persistent unfavorable balance of payments by the United States. The world is now on a gold auxiliary standard. Gold serves with the U.S. fiat dollar as the ultimate means of settling international balances. As long as gold is not made a contraband in international trade the currencies of the world will be subject to some form of a gold standard. This is because the value of gold has survived over the centuries whereas currency values have not.

Professor Hans Sennholz and others have stressed to the U.S. Gold Commission the ultimate futility of returning to a strict (or reserve) type gold standard as long as the federal government continues to suffer large budgetary deficits. Recognizing the impact of political forces on democratically

elected legislatures this writer submits that only a gold standard of an auxiliary type can be employed in this (or any other country) at the present time and into the foreseeable future. Improvements, however, can be made in the means of employing gold as an auxiliary to the dollar in the interest of U.S. fiscal policy. Just how this can be done is discussed below.

Professor Sennholz submits that buried gold is not very productive and a better use for it should be found. He suggests that the gold reserves of the United States be used to pay off holders of dollar claimants (debtors) at the market price of gold, thus, reducing prospective budgetary deficits in the order of approximately 100 billion dollars. The idea, on its face, has substance, but, it erroneously presumes that the released gold hoard will find a productive use and that a demand for 260 million ounces of gold exists at current prices. He also ignores the psychological impact that a loss of gold reserves will have on people's conception of the worth of the fiat dollar. Certainly, if a creative use of the U.S. gold hoard could resolve the budgetary and monetary crisis now confronting the United States, the Gold Commission would be derelict in its duty not to recommend it to the President and the Congress. The world is already subject to an imperfect gold standard so there could be decided benefits for fiscal and monetary policy to perfect the auxiliary gold standard to permit it to function more effectively in the interest of U.S. fiscal policy.

It has been hazarded that by 1983 the cost of servicing the national debt, both direct and guaranteed, will consume more funds than the capital generating capacity of the American economy; this, even without an expanded effort in national defense which clearly is necessary to our national survival as an independent republic.

A stagnant stock market over a period of fifteen years in an inflationary environment is an indication that an immense national debt has become an intolerable burden on the U.S. economy. Price-earnings ratios of corporate stocks when adjusted for accelerating costs, tax burdens, and inflation are frequently negative and insupportive of today's buoyant stock prices. A trillion dollar national debt is an enormity in more ways than one. Recognition of this fact escapes only those blinded by a false perception of monetary norms.

Popular expressions of discontent against the baneful effects of high taxes, both direct and through inflation; real and imagined abuses by the I.R.S; the increasing dissatisfaction with government programs and politicians; all, lend substance to a growing feeling that the federal government, operating through the I.R.S., exists only as a vehicle in the control of an international financial elite conspiring to fleece the working people for the benefit of an international capitalist conspiracy. In France, major banks are being nationalized in response to popular dissatisfaction with the workings

of the present capitalist system. The existing economic situation can no longer be maintained with political palliatives. The Gold Commission was set up to determine if gold can provide an answer to the problem. I submit that to coin or sell our entire gold hoard at the market price will not suffice to resolve the problem of U.S. fiscal policy; not even in the short run.

Professor Rothbard in his testimony before the Gold Commission suggested re-pricing the U.S. gold hoard at approximately $1,600 per ounce to provide gold backing for existing currency and demand deposits. His suggestion as a method of resolving inflationary fears has merit when compared with a policy of not using gold at all, but, I submit repricing gold will very likely have inflationary consequences in the short run, and will never suffice to resolve the budgetary problem in the long run. The United States should not attempt to influence the dollar market price of gold. Such tampering results in unintended inflationary and deflationary consequences and is disruptive to a functioning free market economy. To use gold as 100% backing for demand deposits and currency also presumes that the existing fractional reserve banking system must be replaced by a 100% gold reserve system. The main trouble I have with this idea is that it ignores the fiscal impact of a steadily expanding trillion dollar national debt on the monetary economy and on bank credit demand, while it seems to lay the principal blame upon rising demand deposits

as the source of inflation. I submit that some confusion results because of the standard economic perception of money supply. The definition of money supply as M_1, M_2, or M_3 is a fuzzy and a false one. The standard money supply definition erroneously equates bank credit with money. Economists are trained to think of demand deposits as mere substitutes for cash or currency. However, in the real world of banking, this is not at all the case. Bank credit is independent of money supply because deposits are representative of wealth in all its forms, not just money. Most demand deposits materialize from extensions of bank credit not from loans of money. Such demand deposits cannot normally be transformed into money unless concurrently an equal amount of bank loans are liquidated. But to liquidate bank loans is to liquidate demand deposits. How can a 100% gold reserve apply to a fluctuating and fictitious credit"money"?

Real money is interest free and does not have to be paid back to its issuer. Bank credit (deposits) are not money. However, Economists consider demand deposits as part of the money supply because such deposits serve with coin and currency as a medium of exchange. But, a medium of exchange is only one of the attributes of money. Bank checks, obviously, are not even an acceptable medium of exchange as anyone knows who tries to use them in lieu of currency to purchase from strangers. Demand deposits represent not money, but, wealth. An illustration makes this clear. Banks do not ordinarily

extend credit on the basis of a borrower's cash holdings. Credit is extended against other assets such as business inventories, goods and services in process of production for sale, real estate, and a borrower's anticipated future earnings capacity. In practice, then, banks are mere middlemen facilitating barter. Money is not necessary to facilitate most large wealth transactions. For instance, a borrower who takes out a bank loan of say, $50,000 on the basis of the mortgage value of his home in order to buy 1,000 shares of American Telephone stock is merely bartering the equity in his home for an equity in American telephone. Currency will not be employed in the transaction, only bank credit. Theoretically, the Credit structure potentially is as large as the anticipated fair market value of all the assets and future earnings capacity in the economy. The limits to credit expansion do not depend on the currency supply or to the supply of demand deposits, the limit is set only by the public's demand for credit. Rising prices, interest rates remaining equal, lead to an increased demand for credit. The supply of federal reserve notes is a function of bank credit demand not the reverse.

As demand deposits are not money in the strict sense, it would seem they should not need to be backed by gold in order to put the U.S. currency on a gold standard. Unfortunately, history demonstrates that bank credit can be abused and inflated to excess, usually in response to psychological

perceptions induced by government mismanagement of the budget. An excessive credit inflation results in a corresponding call for more currency to facilitate trading in the booming market values of the existing indicia of wealth. Professor Rothbard's suggestion that demand deposits be backed by gold does make sense when one takes account of historical experience.

To get back to the thesis of this paper, "how to best use gold as an instrument of fiscal policy," the answer must lie in finding the most creative and productive use for 264 million ounces of gold with a current market value of $400 dollars an ounce. A creative use need not require a juggler's trick with the market valuation of gold. Gold is just another commodity as Prof. Keynes explained. Gold's value fluctuates in step with all other commodities. But, that explains gold's superiority over currency. Nor is it wise to consider gold a barbarous relic. Gold is the best material that can be used for a survival type of money. It meets the test on all counts and has always won in a war with paper. If gold didn't exist, something having the same characteristics would have to be substituted for it. The U.S. should be thankful that it has a large stock of gold on hand and does not need to invent it,

A creative use of the U.S. gold hoard, then should serve to substantially reduce or eliminate the national debt, to provide a means to curtail excessive growth of bank credit, and to provide a means of offsetting both inflationary and

deflationary pressures flowing from fiscal mismanagement of the federal budget. That's a big order for gold, but I submit that gold can meet it. If a means were found to eliminate the national debt with its 100 billion dollar annual interest cost, the current federal budget could be balanced without cuts in necessary programs and economic stability could be finally achieved. A means therefore, must be found that will substitute productive credit for the national debt without excessively expanding the total credit demand. Gold alone can be employed to meet that objective.

The first step is to recognize that bank credit, rather than bank deposits, need be controlled. Reserves ought to be provided against assets at risk (bank credit) not against deposits which may be idle. Commercial banks together with all other depository institutions should be required to have 100% gold type assets behind the creation of deposit credit. Such reserves should be in gold. Gold reserves can take the form of coin and bullion at face or market value, and of "gold medallions" at a stated value. What is a "gold medallion"?

A gold medallion will be, lets say, a ten ounce encapsulated, numbered, mirror surface bar of gold. Each 10 ounce medallion could represent $100,000 worth of national debt and could serve, when held by any licensed U.S. depository institution as a reserve for extensions of up to $100,000 in credit to its borrowers. Medallions would not

be sold by the Treasury, but would be exchanged only for $100,000 in Treasury securities. By requiring deposit institutions to hold gold as reserves for extensions of credit such institutions would seek to acquire public debt to exchange for Treasury medallions. The demand for Treasury securities would rise and interest rates on Treasury debt would fall while demand for productive private credit would remain unaffected or rise. Holders of Treasury securities would hasten to convert low interest T bills for medallions which would then be deposited with a bank or savings institution in exchange for a Certificate of Deposit. Medallions would not be coins. They would not be legal tender. Their gold value would be their sole worth if sold to any but deposit institutions. They would be worth $100,000 only when deposited in a licensed American depository institution.

The exchange of Treasury securities for 10 ounce gold medallions would tend to eliminate the national debt at a cost to the Treasury of about 100 million ounces of the U.S. gold hoard. A savings of 100 billion in the interest cost of government would result in a balanced budget. The total bank credit of the U.S. economy would not change. Deposit institutions would merely exchange the public's investment of one trillion in public debt for one trillion dollars of depository institution liabilities. Former holders of federal debt would thereafter hold stock or C.D's in deposit institutions where earnings on medallions would be met out of productive

additions of wealth made possible by productive extensions of deposit credit and not by fleecing the taxpayers. Holders of current bank C.D's would not be able to renew them on maturity as banks would only want to borrow medallions. C.D. holders would therefore buy T Bills to exchange for medallions so they could invest in the new type bank C.D's.

A ten ounce medallion with gold at $400 an ounce is worth $4,000. This is only a 4% reserve against possible bank loans as against reserves of 15% to 20% now required against deposits. Since the purpose of present high reserve requirements is not so much to provide safety to depositors (otherwise why the F.D.I.C.) as to place a limit on bank credit expansion. Medallions should provide an ample gold reserve and serve as a more effective limit on credit expansion. Funds available to the F.D.I.C. and similar institutions (which are fictitious, anyway, having been lent to,and spent by,the Treasury) provide only about 1% security against bank deposits. To rely on a 4% gold reserve is far more confidence inspiring than to place reliance on the Bureau of Printing and Engraving's ability to churn out new 100 dollar bills for the F.D.I.C.

* * * * *

Appended hereto is a list of anticipated Questions and Answers.

QUESTIONS AND ANSWERS

1. Q. What would holders of Treasury Medallions do with them if credit demand should decline to such a degree as to leave excessive unutilized credit in depository institutions? Would holders cash in their C.D's at maturity and demand cash for their medallions"

   A. It is to be expected that lenders of medallions would accept a lower rate of interest in preference to holding idle hoards of gold or cash.

2. Q. Why use gold medallions? Wouldn't gold certificates serve just as well?

   A. Theoretically, yes. But, the function of gold is to restore confidence in a stable dollar. People respect gold and distrust paper. In any event, only a few gold medallions may need to be minted to meet the demand for them. Most banks and people exchanging Treasury securities for medallions will be satisfied with a certificate because they will not wish to hold a $4,000 medallion when they will immediately deposit it and share in the interest earned on the equivalent of $100,000 in bank credit.

3. Q. Will currency be backed 100% by gold under the proposed auxiliary gold standard?

   A. Yes and No. Federal Reserve Notes would not be backed 100% by gold, because they merely represent bank credit in a circulating legal tender form. All notes of the Reserve Banks will, like other extensions of bank credit, be backed by gold medallions. In other words, a medallion used to support currency cannot also be used to support bank credit.

4. Q. Will commercial banks be subject to the same gold reserve requirement as savings institutions?

   A. Yes. There is no reason to require higher medallion reserves for commercial loans than for home mortgages and consumer credit.

5. Q. How much gold will it take to provide a gold medallion reserve for existing currency and deposit credit? Will the national debt provide enough gold medallions at $10,000 per ounce?

   A. The components of deposit credit are as follows: (F.R. Bank of St. Louis).

Currency in Circulation	122 billion
Demand and NOW deposits	314 billion
Savings, plus small time deposits	510 billion
Large time deposits (all commercial banks)	244 billion
Total currency and deposit credit	1,190 billion

If additional medallions are needed the Treasury can mint additional medallions to lend to deposit institutions through the C.D. market. The Treasury will still have available a gold hoard of 160 million ounces after exchanging medallions for the total national debt.

6. Q. What advantage do gold medallions have over government debt as a reserve for deposit credit? The government could still inflate the credit and currency supply by deficit spending, and by issuing new gold medallions or by increasing the credit value of existing medallions generate inflation.

   A. True. As long as politicians exist there will be those who are fascinated by the power to spend what they dare not take in taxes. Nevertheless, the existing inflationary situation and budget deficit will be alleviated for a long time.

7. Q. How will transfers of medallions be accomplished between deposit institutions?

   A. It is to be expected that deposit institutions will keep some gold medallions on reserve in the vaults of their Reserve Banks. Usage would determine how much would be needed to provide for currency requirements and for clearance of balances with other deposit institutions.

8. Q. Specifically, how would gold medallions provide safety for depositors in the event of the failure of a deposit institution, particularly if the gold value of a medallion fell to a low value at the same time?

A. Each medallion represents a $100,000 share in the former national debt. If a bank failed, the trustee in bankruptcy could be empowered by law to cash in sufficient medallions (even though already used as backing for existing bank loans) and use the proceeds to reimburse net depositors. The trustee would be left with loan assets, the bulk of which eventually could be recovered. Only stockholders should suffer any ultimate loss.

9. Q. How would gold be used other than in Treasury medallions? What is gold's auxiliary role to the dollar?

A. Gold coins similar to a Krugerrand could be minted. The Krugerrand is a coin which is valued in South Africa daily at the prevailing market price of gold. The South African government buys and sells Krugerrands at the current gold value, and they can be used to pay taxes and settle accounts at the gold values.

10. Q. Under what circumstances might such gold coins be issued to the public?

A. On public demand. One ounce, half and quarter ounce encapsulated gold coins could readily be sold by the Treasury at a,say, 6% minter's premium over the value of the gold content as expressed by daily market forces. Such coins would always be purchased back by the Treasury for cash at the prevailing gold price. The issue and redemption of such coins would tend to alleviate inflationary and deflationary tendencies in the economy. If the Treasury would purchase back only those coins still in their original encapsulated containers at par, requiring a weighing service charge or discount for loose coins, it is probable that gold coins would only be acquired by collectors and hoarders. The psychological value of having ready access to gold coins would give the public confidence in the currency. That's the principal purpose of an auxiliary gold standard, not to provide a medium of exchange.

11. Q. Would regular additions to the supply of gold medallions be advisable.

as long as the fall is steady and gradual. There is little economic merit in the notion that credit and money must grow at a steady rate whether it be at a 3% or 7% rate. In any event, new supplies of gold from new mine output should suffice to meet normal growth in monetary demand. Government deficits are likely to continue to be incurred. These deficits could be financed by minting new medallions for sale to banks. However, the sale of gold coin to the public would be less inflationary.

12. Q. Won't continued large public deficits lead to public fears of renewed inflation and cause the public to bid up the price of gold?

A. Yes. But, the public should have the right to demand gold as protection from reckless fiscal mismanagement. The public will not hold and save depreciating currency as recent experience amply shows. This will serve to brake the politicians in their fiscal misadventures.

13. Q. What other advantages flow from the use of gold medallions?

14. Q. Much of the national debt is held by the Federal Reserve Banks, by the Social Security Trust Fund and other federal agencies. What would they do without their government securities?

A. The Federal Reserve Banks shouldn't be trading in government securities. As a banker's bank and clearing house they have enough to do. Also, in the interest of constructive federalism, a Reserve bank should exist in each state to serve as a regulatory authority over the state's deposit institutions. The Comptroller of the Currency would oversee the State Reserve Banks. The Federal Reserve Board should become an advisory body to an independent Comptroller of the Currency.

The Social Security Trust Fund is a figment of the popular imagination. Benefits must be met out of current tax receipts or through deficit spending. Where else would funds to redeem government securities come from? All transfer payments, including personnel costs of the government should be met out of personal income taxes and after-dividend corporate income, because such expenditures constitute transfers of income. Government purchases of materials and services, on the other hand, logically should be financed by excises and tariffs since they are taxes on production. If

current funds of the Social Security Fund should be invested in anything it should be in nursing homes, hospitals and retirement housing which would serve Social Security retirees. It is to be hoped that I.R.A.'s and Kehoes, if minimum contributions of at least 5% of income are mandated, would eventually supersede the Social Security System. The forenamed investments are logical investments for IRA pension funds also.

13. Q. If gold medallions valued at $100,000 each, plus gold coin, are to comprise the sole reserve for deposit credit, what inducement will small depositors have for depositing savings other than their concern for safekeeping? Won't banks have to pay interest twice, once on medallions and again on other deposits flowing out of loans?

A. No. It is to be expected that most gold medallions will eventually be acquired by banks using depositor's sums for that purpose. Small deposits, then, represent the depositors' shares in a bank's own medallions. Interest on small deposits would be paid out of earnings on the loans the gold medallions purchased with small deposits would generate for the bank. It is only the owners of large holdings of Treasury Securities who will be able to acquire whole Treasury medallions to lend to a bank.

14. Q. Well, say one deposits a gold medallion with a bank and draws 12% interest on a C.D. representing the medallion. The bank then extends $100,000 in credit to the community, ninety percent of which ends up as N.O.W. and demand deposits and 10% as currency. The depositor of the medallion gets 12%. Say the N.O.W. and savings depositors get 6%. Won't the total interest paid out run to about 16% to 17% on that one medallion?

A. No. The result is no different than if the bank had used small deposits to acquire the medallion. The bank gives a C.D. to a medallion depositor. It then makes $90,000 in loans of, say 15%. Say the loans create new deposits, but before new deposits can be used to generate new loans, the sums deposited must be used to purchase a gold medallion on the market. Total deposit credit cannot exceed the supply of gold coins and medallions held by the banks. Rather than bid up the interest on gold medallions the banks would probably just refuse to pay interest on surplus demand type deposits.

15. Q. How will gold medallions be introduced into the

institutions. It could issue medallion certificates to banks and other deposit institutions to meet new reserve requirements, with a proviso that the banks use the medallion credit to acquire government debt equal to the value of the medallions. A period of time, several years, would be allotted for the purchase, thus, in the first year 25% of the credit extended would be for governments, and in the next three years an equivalent amount. At the end of four years a medallion would be available entirely for private credit. As Governments were acquired they would be used to pay for the medallion.

Second, bank reserves on existing deposits could be increased substantially and gradually over a period of time, starting with 25%. As reserve requirements against deposits became higher, banks would seek gold medallion certificates from the public which would acquire them in exchange for matured Treasury securities. A holder of a medallion certificate could sell it or lend it to a deposit institution. If sold for cash, the cash paid, would end up in the banking system ultimately where some bank would use it to acquire the medallion, or

16. Q. Why issue $4,000 gold medallions free to public holders of Treasury securities? Why not charge $4,000 for them?

A. Because the price of gold fluctuates. In the absence of a strict gold exchange standard at what price would medallions be sold? The holder cannot sell the medallion for a profit, he can only use it to advance U.S. fiscal policy. To issue 10 ounces of gold in exchange for $100,000 in government debt is a strong inducement to entice holders of government debt to forego the safety and secure interest rate on such debt without protest. What can it cost the U.S,? The gold is earning nothing. On the contrary the annual interest on the national debt costs a great deal more than 40 billion dollars.

17. Q. What effect would gold medallions have on the Euro-dollar market?

A. Gold medallions would be of no legal credit effect outside of U.S. deposit institutions. Foreign banks professing to make dollar loans would have to acquire dollars on the market before they could lend them.

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October 22, 1981

VIA AIR MAIL

Secretary Donald Regan
Member of the U.S. Gold Commission
c/o The Secretary of the Treasury
15th and Penn. Ave. NW
Washington, DC 20220

Dear Secretary Regan:

I am hopeful that you will read the attached copy of an article which appeared in this morning's Wall Street Journal.

Cordially,

Lewie Travis

LEWIE L. TRAVIS, JR., M.D.

LLT:bp
Enclosure(s)

10/22/81

A Way Out of the Gold Commission's Dilemma

By Richard W. Rahn

Late last year, Congress established the Gold Commission to recommend whether gold ought to have a greater role in the U.S. monetary system. The political price pro-gold people had to pay for its enactment was to agree that the panel be "balanced." The result is a commission made up of several zealous and articulate gold-standard advocates and several equally zealous and articulate gold-standard opponents.

The trouble is that both policymakers and the common citizen will be more, rather than less, confused as to what to do about our monetary system by whatever paper the commission manages to produce.

All of this would not have come about if inflation had remained in a comfortable, low, single-digit range. According to the textbooks, the Federal Reserve is supposed to keep the money supply growing at a rate to keep up with the additional production of goods and services, and credit demands of the economy. But not at a rate that produces excessive inflation.

Looking at the Fed's record the past decade, many would conclude it has not been particularly successful. Since the late 1960s, we have had three waves of inflationary monetary policies, during the Vietnam War and subsequently in 1971-73 and 1976-79. Even though these were discretionary decisions on the part of the Fed, some have gone so far as to argue the persistence of inflation is evidence that our central bank is politically—and perhaps institutionally—incapable of enforcing stable monetary policies.

But it isn't clear that a gold standard would be the best way to restore monetary stability. During the past century, the economy did not always operate all that well when we or others were on the gold standard. There were periods of inflation, deflation, boom and bust under gold. Nonetheless it seems clear that a gold standard would have prevented the excessive growth in the money supply that occurred in the past decade. Given that neither economic theory nor history provides most of us a definitive answer as to the best monetary system, why not let the market decide?

There is no reason why an economy cannot have competing currencies. Under free competition, the market will determine, as with any product, which is the superior currency, and eventually it will drive other currencies out of existence. This should not be confused with Gresham's Law, "Bad currency drives out good," which refers only to systems where debtors have a choice of payment.

Hayek, among others, has warned of the dangers of a government's monopoly control of money. He observed that the notion that money has to be legal tender is a myth imposed on the economists by the lawyers. Legal tender is required only in payment of taxes, receipts of monies from government or where a contract has failed to specify the form of payment.

The Gold Commission can satisfy both pro- and anti-gold people by recommending that gold be allowed to freely compete with Federal Reserve notes on a non-legal-tender basis. Those who are pro-gold ought to be satisfied if they are allowed to make all contracts in gold without penalty, since gold contracts and transactions can take place perfectly well without government guidance. Government's only role would be to insure the purity of gold, which can be accomplished under existing anti-fraud statutes.

Without government penalties, most members of the pro-gold crowd believe gold would soon wipe out the Fed dollar, particularly for long-term contracts.

Those who are anti-gold ought to be satisfied, since the cries of the gold advocates would become moot. If gold is indeed inferior as the anti-gold crowd says, it would be used by only a small fringe, with no harm to the existing system.

In December 1974, Americans were again given the right to own gold. In October 1977, Congress established the "Gold Clause," which makes contracts based on current gold values of the dollar legally enforceable. As a result, only one additional change in the law is needed to make gold fully competitive. That change is to remove all capital gains taxes from changes in the price of gold. Specifically, if Congress selected a date, such as Jan. 1, 1982, on which the purchase and any subsequent sale of gold would be freed from all short- or long-term capital gains taxes or loss deductions resulting from a change in the dollar price of that gold, it would then be free to compete fully with the dollar.

To avoid including gold art objects, jewelry and rare gold coins in the capital gains exclusion, Congress could limit the tax and loss removal to recently minted gold coins and gold bullion of specified gold content. Such a provision would then only affect "commodity" gold, which, over the long run, would be revenue neutral to the Treasury.

At any given time, the price of gold is as likely to fall as to rise, in the absence of inflation. Thus, capital losses and gains ought to net out, having no effect on Treasury revenues. By the future indexing of tax rates, Congress has indicated it considers tax liabilities stemming from price-level changes to be improper. In fact, taxing gold price level changes is likely to cost the Treasury revenue this year, since it appears gold losses will far outstrip gains.

To measure income for tax purposes, payments made or received for goods and services in gold could be converted on the day of the transaction to the dollar price of gold that day. Even if gold proved superior, it would be used only for high-value or long-term contracts. Day-to-day consumption spending would continue to be in dollars.

In summary, removal of capital tax treatment from "commodity" gold transactions would allow gold to compete freely with the dollar. If the gold partisans are right, gold would eventually become the basic money of commerce; if they are wrong, the Federal Reserve note will continue to reign. Market competition can put the argument to rest without any significant costs, but perhaps with great benefit to the economy.

Mr. Rahn is vice president and chief economist for the U.S. Chamber of Commerce.