GOLD

PV from RS

Statement by Robert Solomon*
Guest Scholar, The Brookings Institution

before the

Gold Commission
November 12, 1981

I welcome the opportunity to present my views to this Commission, which is charged with conducting "a study to assess and make recommendations with regard to the policy of the United States Government concerning the role of gold in domestic and international monetary systems . . ." My credentials as a witness are that I have spent more than thirty years as a professional economist in the fields of domestic and international monetary economics, that I was on the staff of the Federal Reserve Board for twenty-eight years closely involved in the formulation of domestic monetary policy and active in the inter-agency policy process with respect to the international monetary system. I spent two years (1972-74) as a vice-chairman of the Committee on Reform of the International Monetary System (Committee of Twenty) and have written a widely-read book in the field: The International Monetary System, 1945-1976: An Insider's View (Harper & Row, 1977).

In this statement I shall first identify what I regard as the major issues raised by the Commission's assignment and then present some observations on each of these issues.

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*The views expressed are my own and are not necessarily those of the officers, trustees, or other staff members of the Brookings Institution.

Issues to be Faced

(1) The broadest issue is, what would the United States, and the rest of the world, gain from giving gold a more important official role, up to and including a form of gold standard?

(2) What changes, if any, would be made in the exchange-rate system under which the world is now operating? That system is a hybrid one, in which countries have freedom of choice among free floating, pegging to another currency or a basket of currencies, or establishing a regional system of par values (as in the European Monetary System) where the regional bloc floats. In practice, a substantial proportion of world trade -- well over half -- is conducted under floating exchange rates. If a change in the role of gold implied a change in existing exchange rate arrangements, a number of major questions would arise.

(3) Would the U.S. dollar, and other currencies, be interconvertible with gold domestically? What effects would this have on monetary policy?

(4) Is it envisioned that the price of gold would be fixed in terms of dollars? How would the price be chosen and, equally important, how would it be maintained in the face of the sorts of political shocks that have sent the gold price through such wide gyrations in recent years? What are the implications for monetary policy of movements in the market price of gold?

(5) What sort of international convertibility would be established?

In practice, if the answer to the first question under Issue 3 is "yes," it would be virtually impossible to prevent foreign holders of dollars from presenting them for conversion into gold. What are the implications for U.S. monetary policy and for the operation of the international monetary system?

(6) What is the significance of the fact that the U.S. Treasury holds more than 260 million ounces of gold? Does this require, as some have suggested, that a choice has to be made between remonetizing gold and selling it off?

What is to be Gained from a More Important Role for Gold?

The end of inflation once and for all is the promised goal of most advocates of linking the dollar to gold. There can be no quarrel with this objective. What is open to question is whether linking the dollar, and other currencies, to gold will achieve the objective.

There are differences among the various proposals and I do not claim to have seen all of them.

The most straightforward suggestion is to restore a gold certificate reserve for the Federal Reserve System. 1/ The purpose is to impose a monetary rule that would limit growth of the money supply. This is the monetarist approach. It is designed to assure that the Federal Reserve

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1/ Robert E. Weintraub, "Restoring the Gold Certificate Reserve" in The Gold Standard: Its History and Record Against Inflation, A Study prepared for the use of the Subcommittee on Monetary and Fiscal Policy of the Joint Economic Committee, Congress of the United States, September 18, 1981.

restrains monetary expansion to a rate consistent with zero inflation. In effect, this approach imposes a discipline on the central bank. The objection to it is that it would deprive the Federal Reserve of all discretion in its operations, including counter-cyclical policy adaptations. Furthermore, the present Federal Reserve policy appears to be quite strongly disciplined. As Jude Wanniski, a gold advocate, has stated (see below), "it is not discipline that Paul A. Volcker . . . . needs."

Some advocates of a return to gold reject monetarism (as well as Keynesianism). They believe that the traditional process by which the Federal Reserve tries to regulate the volume of bank reserves and therefore the monetary aggregates is doomed to failure. What they propose is a mechanism by which the supply of money is determined by the demand for money. 2/ They believe that if the Federal Reserve is required to supply neither more nor less cash balances than are demanded, inflation will be banished. The way they would bring this about is to make the dollar convertible into gold. If the public holds more dollars than desired, dollars will be exchanged for gold and the Federal Reserve will respond by reducing bank reserves. If the public wishes to hold additional money, gold will be converted into dollars at the "gold window" and the Federal Reserve will increase the supply of bank reserves.

The flaw in this type of proposal, in my view, is that it fails to distinguish between "money to hold" and "money to use." Those members

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2/ See Lewis E. Lehrman, Monetary Policy, The Federal Reserve System, and Gold, Morgan Stanley & Co., January 29, 1980; Jude Wanniski, "A Job Only Gold Can Do," The New York Times, August 27, 1981, p. A31.

of the public who want more money in order to spend it on goods and services will be exercizing a "demand for money" indistinguishable from the demand of those who wish to increase their cash balances held on deposit or in the form of currency. Letting the demand for money determine its supply will not assure a noninflationary economy. It could have just the opposite effect.

Another view on ending inflation is that once the dollar is declared to be convertible into gold, the public will be confident of the future value of money. The demand for money -- to hold as a cash balance -- will increase, thereby reducing the excess supply of money. "The real answer is not to try to manipulate the supply of dollars but to create demand for them." 3/ We are not told how convertibility of the dollar into gold would prevent excess creation of dollars that might be used for excess spending.

In none of these proposals is the inflation process addressed in a fundamental way. Inflation involves an interaction of wages and prices and occasional external shocks such as large increases in oil prices. how a linkage between the dollar and gold would cope with these aspects of inflation is a question that the Commission should expect the gold proponents to answer.

More generally, the belief that there is a simple solution to the inflation problem, though seductive, is in my opinion misleading. The worsening of inflation in the 1970s can in no way be attributed to the breaking of the link between the dollar and gold on August 15, 1971. That interpretation

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3/ Arthur B. Laffer and Charles W. Kadlec, "The Point of Linking the Dollar to Gold," The Wall Street Journal, October 13, 1981, p. 32.

is a gross distortion of history: it is easy to show that for many years before 1971, gold had little if any influence on U.S. monetary policy. Just as there is no simple explanation for the acceleration of inflation, there is no simple way to bring inflation back down. We do not have a magic monetary wand to wave and thereby do away with inflation.

Apart from ending inflation, I am aware of no other benefits that are supposed to result from returning to a gold standard. It is significant that most foreign officials and bankers show no interest in a return to gold. 4/

Implications for Exchange Rates

Most of the recent proposals for a return to gold hardly acknowledge that the United States is part of an international economy. Arthur Laffer's "blueprint" does state: "With the value of the dollar defined in terms of gold, there would no longer exist any reason for the U.S. government to be concerned with the foreign exchange value of the dollar. The official policy of the U.S. should remain that the dollar would be free to seek its own level." 5/ This proposal recognizes, if only briefly, that the dollar is linked to other currencies via exchange rates and it foresees the possibility of continued floating of those exchange rates.

Whatever judgments the Commission arrives at regarding the role of gold, it is important, I believe, to avoid pushing the world back to the straitjacket of fixed exchange rates. Ample evidence is available to support the proposition

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4/ "Foreigners Doubt U.S. Return to Gold," The Wall Street Journal, September 28, 1981, p. 31.

5/ Arthur B. Laffer, "Reinstatement of the Dollar: The Blueprint," A. B. Laffer Associates, February 29, 1980.

that the dollar and other major currencies (such as the yen) or currency areas (such as the EMS) need scope for variation as is possible at present. The present system is far from perfect but an attempt to restore fixed exchange rates would surely fail.

Domestic Convertibility

It is possible to imagine the restoration of gold to a significant role in the international monetary system without domestic convertibility, as in the period after 1933. But, given that U.S. citizens may now purchase and hold gold and given the nature of the current proposals for a gold standard, it is not likely that anyone will advocate a system in which only foreign monetary authorities may convert dollars into gold or gold into dollars at the U.S. gold window. Therefore the impact of domestic convertibility needs to be examined.

I have pointed out above that there is a flaw in the argument that the decisions of U.S. citizens to purchase or sell gold against dollars is an appropriate guide to monetary policy.

Beyond that, domestic convertibility could raise serious problems if it were combined with a fixed official price for gold, as is discussed in the next section.

The Dollar Price of Gold

Most proposals for a return to gold that I have seen are rather vague on the price at which the dollar would be made inter-convertible with gold. Yet it is clear from the events of recent years that the market price of gold can change drastically in response to events that have little to do with the monetary system. Furthermore, the increasing use of gold in industry, together with an inelastic supply, could lead to an upward secular trend in the market price of gold. If the market price rises relative to the official price, gold will be bought from the monetary authority and sold in the market. If the market price falls below the official price, the opposite will happen. In either case, the impact on gold reserves and therefore on monetary policy could be destabilizing.

To my knowledge, the Laffer proposal is the only one that recognizes this problem. It provides for the possibility of temporary suspensions of the official dollar price of gold, while the market price moves to a new level under the impact of "conditions beyond the control of the monetary authority." This provision might give greater discretion to "the monetary authority" than some gold advocates would find acceptable.

One alternative to this type of flexibility would be an attempt to peg the market price of gold. Quite apart from the questionable feasibility of such an effort -- as was demonstrated when the gold pool was abandoned in March 1968 -- it would affect monetary policy in an undesirable way. Imagine a political disturbance in the Middle East and a sharp run-up in the market price of gold. Sales of gold by monetary authorities would, under gold standard rules, require a contraction of bank reserves and a general tightening of monetary policy even though that might not be at all appropriate to the condition of the domestic economies.

Another option would be to let the official price move with the market price. This would eliminate the potential for arbitrage mentioned above. But it would introduce flexibility into the value of gold reserves. Presumably the Federal Reserve would not be expected to alter its policy in response to pure valuation changes in gold reserves. The guide to monetary policy would have to be changes in the quantity of gold in the reserves.

While this option might be technically workable, it would not satisfy those who are seeking to restore the discipline of gold. If the official price moved with the market price, gold buyers and sellers would be indifferent as between using the market and undertaking a transaction with the monetary authority. Thus changes in the quantity of gold reserves would be arbitrary and haphazard. They would not provide the sort of guidance to monetary policy that is being sought by gold advocates.

These advocates face a dilemma regarding the official price of gold. If they use the market price, the discipline of gold disappears. But it is not realistic to select an official price that can be maintained indefinitely. They want to introduce an automatic system uninfluenced by human discretion. But the need for policy judgment keeps re-asserting itself.

International Convertibility

As noted, if official convertibility were established at home, it would be almost impossible to deny it to foreign holders of dollars. And anyone who wanted to restore (or establish) the classical gold standard would not wish to deny convertibility to foreign holders of dollars.

Yet it has to be recognized that foreigners, both official and private, hold substantial amounts of dollars. Banks located in the United States have more than $200 billion of liabilities to foreigners. Branches of American banks abroad have dollar liabilities to foreigners of $275 billion. And non-American banks have very large dollar deposits. Thus potential claims on the U.S. gold stock, which is worth about $110 billion (at a gold price of $425 per ounce), are huge. These claims would be exercized, along with purchases by Americans, if an official gold price were established and the market price rose above it.

Concern over potential gold purchases by official holders of dollars under a reformed international monetary system led, during the deliberations of the Committee of Twenty, to the proposal for a substitution account that would exchange outstanding <u>official</u> dollar holdings for SDRs. It is difficult to imagine such an exchange of private dollar holdings.

Thus the problems discussed under "The Dollar Price of Gold" above would be compounded under a system of international convertibility.

<u>What Should We Do with Our Gold?</u>

It is sometimes suggested that since the United States holds such a large amount of gold, a decision must be made about its role: either it should be remonetized or sold off.

In my view this is not a pressing problem. The U.S. gold stock should be regarded as part of the national patrimony, worth $110 billion at the current market price. There is no reason to dispose of it just because it does not play an important monetary role. And there is no reason to try to invent a monetary role just because we hold the asset. The U.S. Government owns many non-monetary assets. They have different uses. There may be occasions when, as in the past, it will support U.S. objectives to sell gold in the market or to buy it in the market. But until then, gold does not have to burn a hole in our pockets. We are not forced to decide to do something with our gold assets just because they exist.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 9/4/81

To Chairman Volcker

From Henry C. Wallich

CC: Chairman

THE UNIVERSITY OF MICHIGAN

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
ANN ARBOR, MICHIGAN 48109

August 26, 1981

Paul W. McCracken
Edmund Ezra Day University Professor
of Business Administration

TO MEMBERS OF THE GOLD COMMISSION

The welter of acerbic communications that has characterized a good deal of the Commission's activity since its beginning has already seriously raised questions about whether anything constructive can come out of these deliberations.

Perhaps high on the agenda of the next meeting should be a sober discussion of whether we hope to contribute to the course of good economic policy or whether we hope to provide Washington with a good show. Hopefully it is the former. There is a congealing conviction that the management of economic policy needs to be placed on a shorter leash. We must also recognize that there is little concensus yet about where to go from here regarding monetary policy. What we can hope for, therefore, is that our efforts will move the management of policy in the direction of operating within a mere explicit framework, recognizing that the report of a diverse group will inevitably not be what any one of us would write.

If our effort is to be a serious and constructive one, we obviously must have a reasonable amount of time. My own preference would be to have the meetings themselves closed to the public simply because the group discussion and therefore the final report (which, of course, will be in the public domain) will be better. If, however, there is to be an audience, that will cause me no problems.

What is essential is that we start focusing in a problem - centered way on the substantive issues themselves.

Regards,

Paul W. McCracken

PWM:dj

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 24, 1981

To Board of Governors

Subject:

From Joe Coyne
JRC

Since three Board members are also members of the Gold Commission, I thought it might be useful to alert you to the plethora of correspondence that has plagued the System over the past year on gold.

The correspondence comes primarily from Edward Durell, a retired Cleveland businessman who now lives in Virginia. He has had a long history of correspondence with both the Federal Reserve and the Treasury on gold, gold audits, gold certificates and the like. One of his contentions is that there isn't as much gold at Ft. Knox as the government says there is, and he is demanding a complete audit.

Over the last six months or so Durell has written letters to directors at the Reserve Banks outlining his contentions and demanding responses. Reserve Bank people say they have been inundated with letters.

Most recently Durell wrote to Senator Byrd who transmitted the letter to the Board for response. A copy of the Board's response and other background is attached for your information.

Since the Gold Commission has now been established it is possible that Durell could begin directing his fire in that direction but individual members of the Commission may also receive "comments and suggestions" from Mr. Durell.

Attachments

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 JUL 27 PM 1:43
RECEIVED
OFFICE OF THE CHAIRMAN

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

July 9, 1981

The Honorable Harry F. Byrd, Jr.
United States Senate
Washington, D.C. 20510

Dear Senator Byrd:

The correspondence that you forwarded on June 4 from Capitain Edward Durell of Berryville, Virginia, suggests that the Federal Reserve System should order an audit of the Treasury's gold stock by outside, independent auditors. Captain Durell believes that the gold certificate account gives the Federal Reserve a claim to the gold and hence authority to order the audit.

The Gold Reserve Act of 1934 vested in the United States all right, title, and interest, and every claim of the Federal Reserve System to gold. Under the terms of that Act the Treasury is authorized to issue gold certificates to the Federal Reserve for the purpose of monetizing the gold. This, however, does not give the Federal Reserve System any claim or interest in the gold.

The gold certificate account is merely an asset account on our books that serves to record the amount of dollars that the Federal Reserve Banks have credited to the Treasury in exchange for the certificates. An issuance of certificates is accomplished through increases in the gold certificate account and in the Treasury's general account, the deposit liability representing the Treasury's checking account balance. A reduction in certificates is effected through a decrease in Treasury's general account. All entries to the gold certificate account are initiated by Treasury, as required by law.

A statement showing the gold certificate account in the assets of the Federal Reserve Bank is given on page 246 of the enclosed Annual Report of the Board for 1980. The gold stock, an asset of the Treasury, is shown on pages 274 through 276 in connection with a listing of factors supplying funds to bank reserves.

The gold stock is stored at locations determined by Treasury. This includes Fort Knox, the Philadelphia and Denver Mints, the New York and San Francisco assay offices, and the Federal Reserve Bank of New York. The accounting procedures for the gold are under the control of Treasury, and the gold is audited by Treasury under a continuing program established by the Secretary of the Treasury.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosure

PDR:DJW:pjt (#V-162)
bcc: Don Ring
Mrs. Mallardi

VIRGINIA

United States Senate

WASHINGTON, D.C. 20510

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1981 JUN 15 AM 10: 04

RECEIVED
OFFICE OF THE CHAIRMAN

June 4, 1981 s

#162

My dear Mr. Chairman:

I am enclosing copies of correspondence between my constituent Captain Edward Durell, and Messrs. Timlen, Ring and others relative to the "gold certificate account" and other questions.

Captain Durell raises several interesting questions about the physical location of U. S. gold stocks, the accounting procedures used by both the Federal Reserve and the Treasury, and the question of "ownership" of the gold as between the Federal Reserve and the Treasury Department.

It is my hope that you will be able to respond to the many questions raised by Captain Durell.

Cordially,

Harry F. Byrd

The Honorable Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Enclosures: 5

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

May 29, 1981

The Honorable Harry F. Byrd, Jr.
U. S. Senate
Washington, DC 20510

Dear Harry:

I have sent Col. Curtis Dall the material enclosed with my letter of May 8th to the directors of the 12 regional Federal Reserve Banks (some 108+ in number) and a copy is enclosed for your files.

I urge you to at least read my letter of May 8th to these directors. The research which I have done indicates beyond any reasonable doubt that whatever gold is found by an independent inventory and assay does belong to the Federal Reserve System, and not the U. S. Treasury.

This research of over seven years I believe qualifies me to become a member of the Gold Policy Commission and I would appreciate it if you would send the enclosed material to Dr. Beryl Sprinkel (at Treasury) with your recommendation that he recommend me as one of the four members chosen from the private sector to the Gold Policy Commission.

Sincerely,

Ed

Edward Durell

ED/ks

Encl.

cc: Col. Curtis Dall (w/o enclosures)

UNION

THE UNION FORK AND HOE COMPANY

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

NOTE: Please address correspondence to: P. O. Box 586
Berryville, VA 22611

EDWARD DURELL
CHAIRMAN OF THE BOARD

May 8, 1981

TO: Directors of the 12 regional Federal Reserve Banks

For your ready reference I am enclosing a copy of my letter to the head of your regional bank dated 5/7/81 along with the enclosures referred to therein.

I believe this material will help convince you that in order to protect the Federal Reserve System and yourself, you should insist on an independent, indisputable inventory and assay of the alleged gold belonging to the Federal Reserve System and held in storage by the U. S. Treasury as collateral for the gold certificates listed on the asset side of your bank's balance sheet.

Based on over 7 years of research and investigation:

I. It would appear that the Federal Reserve System and the U. S. Treasury

(a) agree that there is only one horde of gold stored under the custody of the U. S. Treasury; and

(b) agree that the alleged horde of gold is worth $11.2 billion, figured at the official gold price of $42.22 per Troy ounce of "fine gold."

II. The Federal Reserve System and the U. S. Treasury do not agree on

(a) which entity, the Federal Reserve System or the U. S. Treasury, has exclusive title to the alleged gold horde; and

(b) which entity is responsible for the indisputable accuracy of the count, weight and fineness of such horde.

III. Both the Federal Reserve System and the U. S. Treasury seem to lay claim to the horde (see current balance sheets of the regional Federal Reserve Banks under the heading "Gold certificate account").

In view of the above, I again suggest that it would be to the best interest of your country, your bank and yourself to find out why (a) the four most recent Secretaries of the Treasury (Simon, Blumenthal, Miller and Regan) and (b) the three most recent Chairmen of the Federal Reserve System (Burns, Miller and Volcker) have not taken steps to obtain a complete, indisputable physical inventory and assay of the alleged gold reserves by an agency or organization not connected in any way with the government.

If this is not done, the dark cloud of conspiracy will continue to hover over the Federal Reserve System, the U. S. Treasury and you; and the credibility of these parties will continue to suffer in the eyes of the public.

Sincerely,

Edward Durell

As an individual

ED/ks

Encl.

THE UNION FORK AND HOE COMPANY

P.O. BOX 1940 500 DUBLIN AVENUE, COLUMBUS, OHIO 43216 PHONE (614) 228-1

NOTE: Please address correspondence to: P. O. Box 586
Berryville, VA 22611

EDWARD DURELL
CHAIRMAN OF THE BOARD

May 7, 1981

Mr. Thomas M. Timlen
1st Vice President
Federal Reserve Bank of New York
Post Office Station
New York, New York 10045

Dear Mr. Timlen:

I enclose the following:

(1) Copy of a letter from Mr. P. D. Ring, Assistant Director, Board of Governors, Federal Reserve System to me dated 3/25/81.

(2) Copy of my letter to Mr. Ring dated 5/5/81.

I sincerely hope that Mr. Ring's response will clear up once and for all

(a) Where the gold allegedly amounting to \$11.2 billion (figured at the official gold price of \$42.22 per Troy ounce) is located.

(b) Whether the gold certificates allegedly held by the Federal Reserve Bank of New York are enforceable certificates upon the Treasury for enough gold (at \$42.22 per Troy ounce) to cover the total of the sums listed as an asset by the 12 regional Federal Reserve Banks on their balance sheets under the heading "Gold certificate account."

(c) When and by whom did the Board of Governors check the existence by physical inventory and assay of the gold allegedly held by the Treasury as backing for said gold certificates.

If you have any correspondence with Mr. Ring, I suggest you ask the following questions:

(1) Did the Federal Reserve System give the U. S. Treasury authority to sell, during the operation of the so-called London Gold Pool, large sums of the System's gold at \$35 per Troy ounce?

(2) Did the Federal Reserve System give the U. S. Treasury the authority to sell partoof the System's gold at public auction beginning 1/6/75?

(3) In a letter to then Congressman John B. Conlan (R-Az) dated 5/4/76 then Secretary of the Treasury William Simon stated, "...the U. S. had made net sales to the pool during its period of operation totaling 45.2 million ounces." During the same period, however,

over 200 million ounces of gold left Fort Knox alone from 1961-1968 allegedly destined for shipment to the New York Assay Office and the Federal Reserve Bank of New York for reshipment to the Bank of England acting as agent for the London Gold Pool for sale to private persons and corporations abroad. If Simon's statement is correct that only 45.2 million ounces were used in the operation of the London Gold Pool, what became of the ~~155~~ + million ounces of gold?
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Is it not time for the Federal Reserve System to be fully audited by outside, independent auditors?

Is it not time to verify the existence of the alleged gold claimed by the Federal Reserve System, by an independent physical true inventory and assay?

After you have had time to consider the enclosed correspondence along with this letter, I would appreciate hearing from you as to what steps you will recommend to clarify the many questions raised.

Sincerely,

Edward Durell

As an individual

ED/smc

Encl.

cc: All Directors of the 12 regional Federal Reserve Banks

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF FEDERAL
RESERVE BANK OPERATIONS

March 25, 1981

Mr. Edward Durell
P. O. Box 586
Berryville, Virginia 22611

Dear Mr. Durell:

I appreciate your letter of March 20 and apologize for any inconvenience the typewritten copy of the 1934 series gold certificate may have caused you. I wish to confirm, however, that this particular gold certificate is the one that you have asked about.

By the time the Federal Reserve Banks opened their doors for business on November 16, 1914, eleven series of gold certificates had been printed, dating from the first issues in 1870 and 1871 to the issue in 1913. For all of those certificates and for all of the three series that were issued in the following nineteen years (i.e., the 1922, 1928 and 1928A series) the Treasury simply held the gold in trust until demanded by the owner of the certificate. At all times, then, the gold certificates were truly warehouse receipts for gold in the Treasury. Whoever had such certificates -- whether an individual, a business, or a Federal Reserve Bank -- was the actual owner of a corresponding amount of gold stored in the Treasury.

This entire arrangement was changed by the Congress in response to the national emergency of the 1930's. Through the Emergency Banking Act of March 9, 1933, Congress authorized the Treasury to redeem gold certificates with paper money, and in legislation enacted on June 5, 1933, abrogated in respect to all obligations any provision purporting to give the obligee a right to require payment in gold. This was followed by the Gold Reserve Act on January 30, 1934, which vested in the United States all right, title and interest and every claim of the Federal Reserve System to all gold coin and bullion, and in payment therefor established credits in the Treasury in equivalent amounts in dollars, these credits being payable in gold certificates. On the date of that Act we transferred all of our gold to the United States Treasury in exchange for credits at $20.67 an ounce. These credits, including all other amounts of gold that were due us from Treasury, were made payable to us in 1934 series gold certificates.

In addition to eliminating any claim against gold, the Gold Reserve Act amended the Federal Reserve Act so as to eliminate the authority for the use of gold (but not gold certificates) as collateral for Federal

Reserve notes; to require that the redemption fund for Federal Reserve notes of each Reserve Bank maintained on deposit at the Treasury be in gold certificates instead of in gold; and to make deposits of Federal Reserve Banks and Federal Reserve Agents with the Treasury of the United States repayable in gold certificates only and not in gold coin. In sum, the Gold Reserve Act completely abolished any and all claims by the Federal Reserve to gold.

The 1934 series certificate, a copy of which I sent to you on March 4, is the gold certificate that the Treasury printed and issued to the Federal Reserve Banks under the terms of the Gold Reserve Act. This is the only series of gold certificates that under the law may be attributed to the gold stock. The older certificates that we held ceased to have any status and were therefore returned to the Treasury.

Sincerely yours,

P. D. Ring
Assistant Director

THE UNION FORK AND HOE COMPANY

P.O. BOX 1940 500 DUBLIN AVENUE, COLUMBUS, OHIO 43216 PHONE (614) 228-1

NOTE: Please address correspondence to: P. O. Box 586
Berryville, VA 2

EDWARD [illegible]
CHAIRMAN OF THE BOARD

May 5, 1981

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. P. D. Ring,
Assistant Director
Board of Governors
Federal Reserve System
Washington, DC 20551

Dear Mr. Ring:

Thank you for your letter of 3/25/81 in response to my letter of 3/20/81.

For your information, on 12/3/74 then Secretary of the Treasury William Simon stated in his testimony before Congress that the title to the alleged gold was in the Federal Reserve System while possession was in the Treasury. He said the transfer of the gold to the Treasury constituted a "pledge." In addition, the current consolidated statements of condition of the Federal Reserve System published in THE NEW YORK TIMES and THE WALL STREET JOURNAL, among others, carries as an asset "gold stock" of $11.2 billion (figured at the official gold price of $42.22 per Troy ounce). The consolidated balance sheet of the U. S. Treasury carries as a liability an equal amount of $11.2 billion. Each of the 12 regional Federal Reserve Banks lists on the asset side of its current balance sheet a large sum of money under the heading "Gold certificate account"; and the total of these 12 private banks' "Gold certificate accounts" matches the consolidated balance sheet of the Federal Reserve System as an asset, and further, it matches the balance sheet of the U. S. Treasury as a liability. This confirms the statement of Secretary Simon that the transfer of gold to the Treasury constituted a "pledge."

In view of the then Treasury Secretary's statement, the Gold Reserve Act of 1934 which you cite was only a pretended transfer of title. You say that on 1/3/34, the date of the Gold Reserve Act, the Federal Reserve "transferred" all of its gold to the Treasury "in exchange for dollar credits at $20.67 per ounce of fine gold." You go on to say that "these credits, including all other amounts of gold that were due us from Treasury, were made payable to us in 1934 series gold certificates." What you say is precisely what I contend: The Gold Reserve Act of 1934 only pretended to transfer title to Treasury because the issuance by Treasury of the 1934 series gold certificates only ratified, confirmed, and condoned the situation as it existed prior to the enactment of the Gold Reserve Act of 1/30/34. Thus, a pledge was constituted in place.

As I understand it, the Gold Reserve Act of 1934 does not preclude the Federal Reserve from demanding the pledged gold it "transferred" to the Treasury; in fact, Treasury statements confirm this in addition to what Secretary Simon said about the pledge of the alleged gold. Congress illegally (because it had no authority or jurisdiction over the Federal Rserve System) gave Treasury authority to take dollar payments from the Federal Reserve System for its gold. However, Congress had no authority to bind the Federal Reserve System on this, and you cite no law wherein Congress has abrogated this right of redemption by the Federal Reserve. All the Federal Reserve has to do is pay over the dollar funds of $11.2 billion for the delivery of the gold, if it exists.

In addition, Note 5 of the 1979 Annual Report of the Secretary of the Treasury, Department of the Treasury, Document No. 327A states that gold certificates held by the Federal Reserve and "payable to the Board of Governors of the Federal Reserve System" are obligations "fully secured by gold in the Treasury." Therefore, the gold is held as security or collateral for the "bearer gold certificates." How can you as an official of the Federal Reserve go against the financial statements of the Treasury? Where are these "bearer gold certificates" today?

If you do not want another "salad oil scandal" on your hands, I would strongly recommend that you do have the authority to go behind these gold certificates issued by the Treasury to verify the existence of the alleged gold stock.

Also, why do you allow the Federal Reserve to be quoted in the news media as owning "gold stock" referred to as an asset in your weekly statements when the Federal Reserve itself has not verified the existence of such gold? It would seem that the 12 regional Federal Reserve Banks are under the impression that the gold certificates the Federal Reserve System holds are redeemable in gold. The fact that the Federal Reserve System is the holder of these certificates is further evidenced by a letter dated 1/20/81 from one of the presidents of the regional Federal Reserve Banks in which he states, "These (gold) certificates are held at the Federal Reserve Bank of New York..."

Further, I believe the general public is being led to believe that the gold certificates are redeemable in gold by the currently published statements of the Federal Reserve System and the U. S. Treasury. I repeat, the Federal Reserve System carries on its balance sheet an asset of $11.2 billion (figured at the official gold price of $42.22 per Troy ounce) opposite the heading "Gold Stock" and the Treasury carries the same amount on its balance sheet as a liability under the heading "Gold certificate account." Thus, the general public is led to believe that the Federal Reserve System has an enforceable claim on gold held by the Treasury as custodian.

Again, I contend that based on the available facts, the Federal Reserve System does have the authority to go behind these "bearer gold certificates" to demand an indisputable, independent physical inventory of the nation's alleged gold, or to redeem the pledged gold by paying Treasury $11.2 billion in paper money for the alleged gold stock. It is submitted that if you do neither, then you have allowed the Federal Reserve to become a party to the Treasury's possible crime of embezzlement of the alleged gold. Treasury cannot now contend that it was Congress which gave it the authority to take the gold and give the Federal Reserve System paper money. The Federal Reserve System is an independent, private corporation.

To sum this all up:

(a) The Federal Reserve System lists as an asset on its currently published balance sheet $11.2 billion (figured at the official gold price of $42.22 per Troy ounce) under the heading "Gold Stock." The U. S. Treasury lists as a liability on its currently published balance sheet $11.2 billion (figured at the official gold price of $42.22 per Troy ounce) under the heading "Gold certificate account."

(b) Then Chairman of the Federal Reserve System, Arthur Burns, stated in his letter to then Congressman John Rarick (D-La) dated 6/28/74 that "I am confident that our system of audits and examinations would quickly disclose any unauthorized transactions in System assets, which, I repeat, do not include gold." Yet the Federal Reserve System on its consolidated balance sheet at that time listed an asset of $11.4 billion under the heading "Gold certificate account."

(c) Then Secretary of the Treasury William Simon listed in a letter to Congressman J. Kenneth Robinson (R-Va) dated 11/4/74, 276.0 million Troy ounces of gold as belonging to the United States stored at nine different locations. Figured at the official gold price of $42.22 per Troy ounce, this amounts to $11.6 billion.

(d) Four Secretaries of the Treasury have refused to take a complete, independent physical inventory and assay of the nation's alleged gold reserves (A report to Congress by the Comptroller General, FOD 75-10, B87620 dated 2/10/75, on the 30 day exercise at Fort Knox beginning 9/23/74 leaves much to be desired from an accounting point of view).

(e) The balance sheets of the 12 regional Federal Reserve Banks carry large sums of money on the asset side under the heading "Gold certificate account" which certainly indicates to the general public that there is gold behind the gold certificates.

(f) Current correspondence with the heads of the 12 regional Federal Reserve Banks indicates that they believe there is gold held as collateral for the gold certificates.

(g) The Board of Governors of the Federal Reserve System have not verified the existence of gold coin or bullion by an independent physical inventory and assay.

We believe you will do our country a great good turn by commenting on each of the above statements. Please send copies of your response to the heads of each of the 12 regional Federal Reserve Banks and their directors as I am sending them copies of your letter of 3/25/81 and this letter. Their correspondence with me indicates they would welcome some clarification from you.

Respectfully submitted,

Edward Durell

As an individual

ED/ks

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 7/10/81

To Chairman Volcker

From Henry C. Wallich

For the meeting at 3 p.m.
this afternoon.

Attachment

Henry C. Wallich
July 10, 1981

NOTES ON GOLD COMMISSION

1. It seems desirable to try to arrive at a few conclusions of practical usefulness, rather than debate the merits of different types of gold standards, which might be the result of closely following the Anna Schwartz' memorandum.

2. Hopefully the report will not convey the impression that the United States plans to return to a gold standard or gold convertibility in any foreseeable future. If some part of the group wants to say something like that, there should be an opportunity for others to express a realistic position.

3. The positive and constructive elements of the report might concern themselves with the disposition to be made of the U.S. gold stock. In my view, policy in this respect should not differ significantly from past policy. Gold should not be sold for the sake of eliminating gold from the world monetary system; it may be sold to defend the dollar in cases of emergency; sales should not be made in order to make a budgetary contribution; nor should there be a revaluation of the gold stock to repay public debt; there should be no attempt to stabilize the price of gold; there should be no effort to bring back gold into active use among central banks except in emergency situations.

4. The committee's discussions and the final report should aim to avoid increasing speculation in gold markets.

5. Some kind of concessions will have to be made to gold advocates if a united report is to be rendered. Among these might be adoption of an approach that would avoid depressing the price of gold, as a proposal for gold sales might do.

6. Some consideration will have to be given to possible price developments. Anna Schwartz states that once inflation abates, the price of gold will come down, which may be one reason why the Treasury should sell. This conclusion is far from certain. So long as the price of gold is flexible, it is likely to go to a level from which the price would move gradually so as to produce the rate of return appropriate for a hedge-type asset, conceivably a negative one.

7. In the unlikely event that the price of gold should become fixed, a positive return could occur only through a fall in the price level. Under these conditions, if the price were credible, privately held gold would be sold to the official authorities. If the price is fixed at a level widely regarded as too low, the authorities will lose gold. The obvious difficulty of hitting upon the right price and thereafter keeping it "right" is one of the principal obstacles likely to give pause to the gold advocates.

8. It may turn out that there is no agreement among the gold advocates. Art Laffer apparently wants to fix a price much lower than recently prevailed. Gold producers presumably want a high price. Laffer urges sales. Producers presumably would be opposed.

9. In several parts of Anna Schwartz' paper, particularly on page ___, references are made to behavior or misbehavior of central banks. On page 12 the Federal Reserve's discretionary powers are mentioned and the alternative of a rule for money growth imposed by Congress is posed. It should be understood that the purpose of the commission is not to reform the Federal Reserve System.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
June 22, 1981

Regan Establishes Gold Commission

Secretary of the Treasury Donald T. Regan announced today the establishment of a Congressionally mandated "Gold Commission" to assess the role of gold in the domestic and international monetary systems.

The Commission will study U.S. policies related to gold and will transmit to the Congress a report containing its findings and recommendations.

Secretary Regan will chair the Commission, which will include seven members of Congress, three members of the Board of Governors of the Federal Reserve system, two members of the Council of Economic Advisors and four distinguished private citizens.

The Commission members are:

Arthur J. Costamagna, Attorney, Mullen and Philippi, Santa Rosa, Calif.
Herbert J. Coyne, Executive Vice President, J. Aron & Company, New York, NY
Senator Christopher J. Dodd, Member, Committee on Banking, Housing and Urban Affairs
Senator Roger W. Jepsen, Vice Chairman, Joint Economic Committee
Jerry L. Jordan, Member, Council of Economic Advisors
Lewis E. Lehrman, President, Lehrman Corporation, New York, NY
Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration, University of Michigan, and former Chairman, Council of Economic Advisors
Congressman Stephen L. Neal, Member, Committee on Banking, Finance and Urban Affairs
J. Charles Partee, Governor, Federal Reserve Board
Congressman Ronald E. Paul, Member, Committee on Banking, Finance and Urban Affairs
Congressman Henry S. Reuss, Chairman, Joint Economic Committee
Emmett J. Rice, Governor, Federal Reserve Board
Senator Harrison H. Schmitt, Member, Committee on Banking, Housing and Urban Affairs
Henry C. Wallich, Governor, Federal Reserve Board
Murray L. Weidenbaum, Chairman, Council of Economic Advisors
Congressman Chalmers P. Wylie, Member, Joint Economic Committee

The Commission will hold its first meeting shortly and is expected to meet subsequently on an approximately monthly basis.

Congress authorized the Commission in P.L. 96-389.

R-245

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BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
DIVISION OF INTERNATIONAL FINANCE

DATE 1/23/80

TO Chairman Volcker

FROM TED TRUMAN EMT

Here is some more information on the gold market.

Office Correspondence

Date January 22, 1980

To Governor Wallich

Subject: U.K. Gold Volume and World Private Stocks of Gold.

From Donald B. Adams

I. Sangster's sporadic reports on London turnover at BIS meetings provide no means of assessing trends in the London market and little firm ground for estimating normal volume. Turnover appears to range between perhaps 8 and 20 million ounces a month, depending on the time of the year. It might be reasonable to estimate an average month's volume to be in the range of 12-to-15 million ounces. That would make it about 10 times as large as the monthly average of U.K. imports (and exports) of gold.

By comparison, turnover in U.S. futures markets, as shown in my recent note, is running at a daily average of five million ounces; that is, about 100 million ounces a month. For the first eleven months of 1979, the normal monthly turnover was closer to 80 million ounces. It is estimated that about two percent of the contracts executed on U.S. futures exchanges eventually involve delivery of gold.

II. Observations about the world's private gold stocks are necessarily conjectural. The essence of gold's attraction for some holders is the anonymity they preserve. In addition, any estimating technique is subject to question about how (one's guess about) the substantial stocks of certain royal personages is to be allocated between public and private holdings.

Nonetheless, conjectures have been made, and they put private stocks in the range of 500-to-750 million ounces. By comparison, free-world public hoards amount to about 1.1 billion ounces, of which the United States holds 265 million ounces. It is estimated that perhaps 40 percent of private stocks are held in France and some 25 percent is in India. Middle Eastern private holdings are thought to comprise about 10 percent of all private hoards (that is, some 50-to-75 million ounces), but as noted above that estimate is especially questionable.

cc: Gold Group, Mr. Smith, Mrs. Brown

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date: January 18, 1980

To: Governor Wallich

Subject: Gold Trading

From: Donald B. Adams DBA

Attached is a note about margins and trading in U.S. futures markets. On the question of volume on the London Metal Exchange, no figures are made available by those who organize that market.

Attachments

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 17, 1980

To Governor Wallich

Subject: Margins and Trading in U.S. Futures Markets.

From Donald B. Adams DBA

You inquired about margin requirements and recent trading volume in gold futures markets. The principal markets, of course, are the New York Commodity Exchange (COMEX) and Chicago's International Monetary Market (IMM).

The current COMEX initial requirement is $5,000 per 100-ounce contract. That amount must be deposited when the transaction is made. A transactor's holdings are then "marked to market" at the close of trading each day; that is, their value is computed at the day's closing price. If the day's close is higher (lower) than the purchase (sale) price for a long (short) position, the notional gain is credited to the transactor's account.1/ If a notional loss is shown, the sum is deducted from the initial deposit. So long as the transactor's remaining deposit is at least $3,750, no replenishment of such deductions is required, but once the remaining deposit falls below $3,750, the transactor must bring the balance back up to the initial margin requirement of $5,000 if he wishes to maintain the position. The $3,750 limit is the COMEX maintenance margin.

The IMM, in contrast to COMEX, distinguishes between customers who hedge and those who speculate. For hedgers, the initial margin is $3,000 per 100-ounce contract, and the maintenance margin is $2,000 per contract. For speculators, the initial margin is $5,000 per contract, and the maintenance margin is $3,000 per contract.

The volume of trading on the COMEX and IMM during 1979 and 1980 is shown in the first three columns of the attached table. It shows that after

1/ Whether such notional gains may be withdrawn from the account depends on the transactor's agreement with his broker.

averaging about 4 million ounces per day for the first eleven months of 1979, average daily sales rose to about 5 million ounces in December and January. It must be remembered that every transaction is counted in these figures, so a substantial volume of intra-day position taking that washes out by the end of trading is included. Nonetheless, the open interest also increased substantially towards the end of 1979, as shown in the last column of the table. While open interest excludes offsetting intra-day transactions, it does not exclude a transactor's offsetting positions in separate months. Thus a "straddle," involving, for example, a short position in the December contract and a long position in the January contract, will inflate open-interest figures by being included twice. Straddles are popular tax-deferral devices, and they may have been heavily employed in November and December to shift some 1979 capital gains into 1980.

Attachment

Messrs. Truman, Henry, Gemmill, Shafer, and FM Economists

1979 Volume and Open Interest
in U.S. Gold Futures Markets
(millions of ounces)

	Daily Average Volume			End-of-Month Open Interest		
	COMEX	IMM	TOTAL	COMEX	IMM	TOTAL
Jan.	2.7	1.7	4.4	16.8	7.3	24.1
Feb.	2.7	2.1	4.8	17.3	7.9	25.2
Mar.	1.7	1.2	2.9	16.0	6.9	22.9
Apr.	1.7	1.3	3.0	16.6	7.2	23.8
May	2.5	1.7	4.2	16.3	7.4	23.7
June	2.5	1.4	3.9	14.2	7.4	21.6
July	2.9	1.5	4.4	17.8	7.5	25.3
Aug.	2.6	1.7	4.3	17.4	6.9	24.3
Sept.	3.1	1.3	4.4	17.2	6.1	23.3
Oct.	2.3	1.0	3.3	17.5	6.3	23.8
Nov.	2.6	0.8	3.4	19.6	7.4	27.0
Dec.	3.8	1.2	5.0	24.8	8.1	32.9

$4b market?

? $25 billion

800
5
4000

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 4, 1979

To Mr. Henry

Subject: How Can One Buy Gold

From Donald B. Adams

In the United States, the principal way of buying gold is through futures contracts. The New York Commodity Exchange (COMEX) and the International Monetary Market (IMM) are the leading marketplaces, although there are three other gold exchanges in the United States and one in Canada.

Contracts on COMEX and the IMM are in 100-troy-ounce units (units about one-third that size can be bought elsewhere). Margin requirements are set by the exchanges and have been changing rapidly in recent days. Representative current requirements are $3,000 on the COMEX or less than ten percent of the value of the contract at today's prices. Brokerage firms, through which the man-in-the-street must deal, however, often impose stricter requirements. Moreover, it is important to note that, unlike in securities markets, there is no leeway in gold futures trading between the current market price and the margin-call price. Every day one's position is revalued at closing prices ("marked to market") and the full difference between that value and the value when the contract was purchased is either returned to (if positive) or called in from the customer. These failing to meet calls may be sold out, with their original margin deposit going to meet any losses suffered by the broker.

Still, such burden as the initial margin requirements impose is made somewhat lighter by the provision for margin deposits in the form of interest-bearing securities (for example, Treasury bills), instead of cash. Brokerage firms also inspect prospective customers' net worth, and at least one requires those opening accounts to have wealth of $25,000 if single, $50,000 if married.

Contracts are written for specific months, depending on the exchange. For example, on COMEX one can now trade in contracts maturing this month, in December, and every second month through August 1981.

One can also buy an interest in gold through Citibank. For $1,000, one secures a specific, but undivided interest in an amount of gold based on the price at entry. Further increments can be purchased in $100 lots, and Citibank will repurchase in similar amounts. There is a small transactions fee, but free storage at Citibank for a year (unless physical delivery is desired). First National Bank of Chicago also offers a plan for gold buyers, but I do not know the details.

As for purchase of physical gold here or abroad, I am not well informed. I understand that gold coins can be bought through coin dealers, and one can of course bid for bullion at IMF and Treasury auctions (300 or 400-ounce minimums). The Treasury is scheduled to begin selling one-ounce and half-ounce gold medallions by mail order about the middle of next year.

World Supply and Demand for Gold

(millions of ounces)

	1973	1974	1975	1976	1977	1978	1979
Mining Production							
South Africa	28	24	23	23	23	23	23
Other Free World	8	8	9	8	8	8	8
Total	36	32	31	31	31	31 30	31
Communist Sales	9	7	5	13	13	13	9
Official Sales	0	1	0	3	8	12	17
Total	9	8	5	16	21	25	26
Total Supply and Demand	45	40	36	47	52	56	57
Jewelry & Fabrication Demand	25	14	22	38	39	40	NA
Hoarding & Investment	20	26	13	9	13	16	NA

56
33
168
168
1,848

4,600
3.3
13,800 oz

3,000,000 oz in tons

44
33
132
132
1,452

U.S. Treasury Dept.
September 11, 1979

imports 152 tons