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97TH CONGRESS
1ST SESSION

S. 1704

To provide for the minting of United States gold coins.

IN THE SENATE OF THE UNITED STATES

OCTOBER 5 (legislative day, SEPTEMBER 9), 1981

Mr. SYMMS (for himself, Mr. MCCLURE, Mr. HELMS, and Mr. GOLDWATER) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To provide for the minting of United States gold coins.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Free Market Gold Coinage Act".

POLICY OF THE UNITED STATES

SEC. 2. (a) It shall be the policy of the United States to recognize the right of free coinage of gold at a free market price.

(b) Nothing in this Act shall be construed to prohibit or to discourage the manufacture or circulation of gold coins by persons organizations, nor to restrict the free importation or exportation of gold coins for either monetary or nonmonetary purposes.

PUBLIC COINAGE

SEC. 3. (a)(1) The Secretary of the Treasury shall offer the gold bullion reserves of the United States for sale to the public, except that such sales shall only be in the form of gold coins that are minted in accordance with the provisions of this Act.

(2) All such gold coins shall be minted from 0.900 fine gold of a standard coin alloy that shall be determined by the Secretary.

(3) The weight of each such gold coin, as specified in subsection (b)(1)(A), refers only to the gold content of such gold coin and not to the weight of the standard coin alloy involved.

(b)(1)(A) The Secretary shall mint—

(i) gold coins that weigh 1 troy ounce (31.103 grams);

(ii) gold coins that weigh 1 ounce (28.349 grams);

(iii) gold coins that weigh 10 grams (154.321 grains); and

(iv) gold coins that weigh 5 grams (77.161 grains).

(B) Not less than half, as measured by weight, of all such gold coins minted and sold under this Act shall be of the weight specified in clauses (iii) and (iv) of subparagraph (A). After conducting public hearings, the Secretary shall determine the proportion of gold coins described in clauses (i) and (ii) of subparagraph (A) that shall be minted under this Act.

(2) One side of each gold coin described in paragraph (1)(A)(i) shall bear the likeness of John F. Kennedy in left profile, an inscription of the year in which such gold coin is minted, the inscriptions "Liberty" and "In God We Trust", and an appropriate mint mark that shall be determined by the Secretary. On the other side of each such gold coin, the inscriptions "E Pluribus Unum" and "United States of America" shall surround the inscription "One Troy Ounce Gold" which shall be not less than one-half of the diameter of such gold coin in both height and width.

(3) One side of each gold coin described in paragraph (1)(A)(ii) shall bear the likeness of Abraham Lincoln in right-profile, an inscription of the year in which such gold coin is minted, the inscriptions "Liberty" and "In God We Trust", and an appropriate mint mark that shall be determined by the Secretary. On the other side of each such gold coin, the inscriptions "E Pluribus Unum" and "United States of Amer-

ica" shall surround the inscription "One Ounce Gold" which shall be not less than one-half of the diameter of such gold coin in both height and width.

(4) One side of each gold coin described in paragraph (1)(A)(iii) shall bear the likeness of Thomas Jefferson in left-profile, an inscription of the year in which such gold coin is minted, the inscriptions "Liberty" and "In God We Trust", and an appropriate mint mark that shall be determined by the Secretary. On the other side of each such gold coin, the inscriptions "E Pluribus Unum" and "United States of America" shall, subject to the following sentence, surround the inscription "10" which shall be not less than one-half of the diameter of such gold coin in both height and width. Immediately below the inscription "10" shall be the inscription "Gold Grams".

(5) One side of each gold coin described in paragraph (1)(A)(iv) shall bear the likeness of Adam Smith in right profile, an inscription of the year in which such gold coin is minted, the inscriptions "Liberty", "In God We Trust", and "Adam Smith", and an appropriate mint mark that shall be determined by the Secretary. On the other side of each such gold coin, the inscriptions "E Pluribus Unum" and "United States of America" shall, subject to the following sentence, surround the inscription "5" which shall be not less than one-half of the diameter of such gold coin in both height and

width. Immediately below the inscription "5" shall be the inscription "Gold Grams".

(c) The edges of all gold coins minted pursuant to this section shall be milled in a manner which will discourage shaving of the edges of such gold coins.

(d) No seigniorage shall be charged by the Secretary for any gold coin minted under this Act, except that the Secretary shall charge a production fee whenever a gold coin that is minted by the Secretary under this Act is sold by the Secretary for the first time or is offered by the Secretary for the first time in an exchange under section 5(a) for gold bullion or gold coins.

(e) Gold coins with similitude to official United States gold coins minted under this Act may be minted by any person, or organization, whether or not such person mints such coins in the United States, except that such gold coins shall not bear the inscription "United States of America".

FREE MARKET PRICE OF GOLD

SEC. 4. (a)(1) In accordance with regulations that shall be prescribed by the Secretary, the Secretary shall establish a formula for determining on an hourly basis the Official Conversion Rate of gold.

(2) The Secretary shall collect information on gold sales from the organized gold exchanges in London, England, Hong Kong, New York, New York, Chicago, Illinois, San

Francisco, California, and the standard metropolitan statistical area in which Los Angeles, California, is located. The Secretary shall use such information together with such formula to determine the competitive market price of gold.

(3) In using such information with such formula, the weight given to the information received from any such gold exchange shall be equal to the ratio, expressed as a percentage, which the total amount of gold sold on such exchange during the period involved bears to the total amount of gold sold on all such gold exchanges during such period.

(b) The competitive market price of gold as determined under this section shall be the Official Conversion Rate between dollars and gold.

PURCHASES AND SALES OF GOLD

SEC. 5. (a) The Secretary shall exchange gold bullion or gold coin from any source for its equivalent weight in gold coins minted under this Act. At the election of the person offering such gold bullion or gold coin to the Secretary, any difference in units of weight shall be paid in dollars at the Official Conversion Rate.

(b) All purchases and sales of gold by the Secretary shall be made at the Official Conversion Rate prevailing at the time of entering into the agreement to buy or sell gold even if the delivery of such gold does not occur at the time of entering into such agreement.

(c) The Secretary shall use the proceeds of the sale of gold coins to redeem and cancel the gold certificates held by the Federal Reserve System, but payment for such certificates shall be at their par value. The Secretary shall make payments for purchases of gold coins and gold bullion from the Exchange Stabilization Fund. When all gold certificates held by the Federal Reserve System have been redeemed and canceled, the Secretary shall use any additional proceeds from the sale of gold coins to redeem and cancel United States Government obligations held by the Federal Reserve System.

(d) Neither the United States nor any State—

(1) shall impose an excise or transaction or capital gains tax upon the use of gold or upon banking services that involve the promise to pay with gold; or

(2) shall restrict the convenient transfer of any ownership or equity interest in gold, such as checking or savings accounts, or certificates of deposit or promissory notes stated in terms of gold.

(e)(1) If any party to a legal action before any court or administrative agency of the United States or of any State or territory within the jurisdiction of the United States elects to receive any judgment, award, or penalty in gold, the rate of conversion of gold into dollars or dollars into gold shall be the rate that prevailed at the time that the claim or cause of action accrued. The Official Conversion Rate on public record at such time shall be conclusive evidence of such rate. In all claims or causes of action accruing prior to the effective date of this Act, the plaintiff shall have the burden of proving by a preponderance of the evidence the appropriate conversion rate of gold into dollars or dollars into gold. Neither gold nor dollars shall be an exclusive lawful tender in payment of debts.

(e)(2) The following sections of title 31 of the United States Code are repealed: 314, 315b, 371, 392, 395, 396, 404, 444, 451, 455, 457, and 463. All other sections which may not be consistent with this statute shall be repealed.

PROMOTION OF GOLD COINS

SEC. 6. The Secretary shall take all appropriate actions to encourage the public to recognize and use the gold coins minted under this Act.

REGULATIONS

SEC. 7. Not later than six months after the date of the enactment of this Act, the Secretary shall promulgate such regulations and take such other actions as are necessary to carry out the provisions of this Act.

DEFINITIONS

SEC. 8. For purposes of this Act—

(1) the term "production fee" means a fee equal to the cost of minting and selling a gold coin, including

labor, materials, dies, use of machinery, overhead expenses, and the current market value of any metal, other than gold, contained in such gold coin; and

(2) the term "Secretary" means the Secretary of the Treasury".

OFFICE OF
POLICY DEVELOPMENT

1981 NOV 30 A 10:29

1259 Deer Park Rd.
Port Angeles, Wash. 98362

Dr. Martin Anderson, Assistant to The President for Policy Development
The White House
1600 Pennsylvania Ave, N.W.
Wash., D.C. 20500

Dear Dr. Anderson,

You may have seen a letter of mine dated Oct. 3, which proposed to sell federal gold as legal coinage by weight and fines, at World market prices. I'm happy to note that this idea has taken form in the Senate in S. 1704, sponsored by Sen. Symms, Goldwater, and others. H.R. 3789 in the House may be considered a companion bill, though it has weaknesses that need work.

ordered 12-7-81

I consider it of paramount importance that something of this nature be done this Winter, to save our "bacon" as it were. We must fend off the inflationary effects of the new deficits, indeed avoid the present heavy federal pressures in capital markets, to sharply reduce interest rates. The proceeds from sales of federal gold could do just this, giving private business and labor a new lease on life and an opportunity to show what free market economics can do.

With the present monopoly control exerted over our paper "money" by the Fed., we are in a well-devised trap, damned if we do, and damned if we don't. The issuance of gold as real money of actual value would challenge that kind of control and give the Fed. some honest competition. That's long overdue as I see it. A gold issue by weight and fines, and at World market values would force the Fed. and Congress to a more disciplined course in money matters. That too, is long overdue. That sort of discipline is far more powerful than any amendments calling for balanced budgets, I should add, because the powers of the marketplace are quite invincible in the final analysis. No government, no issuer of paper scrip has ever prevailed when in conflict with the natural rules of the market.

It's time we worked to get our money out of politically motivated controls, and into the marketplace itself. Then at least we would be more assured of honest treatment. The medium of exchange should be a material of actual value as a commodity, quite equal in value for money or other uses. This is our only means of defense against government-fostered inflation. Also, this form of money would give us a right of free choice in currency, a right taken from us in the past. On the basis of dire need and a basis of practicality, the whole idea is looking very good. Please pursue it.

Sincerely,
John O'Neil
John O'Neil

SPOTLIGHT ON CONGRESS

OVER THE YEARS, The SPOTLIGHT has featured articles on wholistic and alternative methods of therapy—not necessarily to endorse them, but because patients have the right to choose other methods than the cut-burn-poison variety that is all the medicrats have to offer.

Rep. Robert A. Roe (D-N.J.) believes that patients have inalienable rights. It's not enough to enforce standards relating to the health and safety of patients in hospitals and skilled nursing facilities, he believes; the enforcement of patients' rights is important too.

Roe's bill, H.R. 545, would amend the Social Security Act to provide that in facilities where the average length of patients' stays is longer than a month, patients' rights would have to be made available. Policies, written by the facilities' governing boards, would be provided to the public, patients, guardians and relatives of patients, and staffs would have to be trained to carry them out.

Rights that Roe has recommended include a patient's being:

- Told his rights, before admittance or during his stay;
- Informed of available services in the facility and their costs, and if there are any changes, being notified at least a month before any adjustments are made;
- Told his medical condition and permitted to participate in the planning of any treatment, and to refuse to take part in experimental research;
- Helped in implementing his rights without fear of reprisal, including filing complaints and grievances and recommending changes in facility policies; being
- Allowed to run his personal financial affairs and given an itemized account of financial transactions;
- Able to refuse a transfer within the facility or a discharge unless it is for medical reasons or for the benefit of himself or other patients, and he must be given a month's notice (unless it's an emergency) to allow him to prepare for his move;
- Free from any mental or physical abuse, and free from "chemical or physical constraints" unless a doctor gives a written authorization for a required by state law or third-party contract;
- Recognized as an individual with personal needs and given considerate, respectful treatment;
- Exempt from performing any facility services; being
- Able to associate in person, by phone or correspondence with anyone he chooses;
- Allowed to engage in activities of a social or religious nature;
- Permitted to keep personal items unless such storage would violate the rights of other patients; and being
- Provided privacy when spouses visit, and if both members of the couple are patients in the facility, being allowed to share the same room.

Should a patient's health deteriorate to the point of incompetence, a condition determined by state law, his rights are transferred to the patient's guardian, next of kin, sponsoring agency or relative.

Any facility found to violate patients' rights must pay a fine, not to exceed $500 per violation "except that the civil penalty for a violation of a patient's right . . . to file a complaint . . . free from restraint, interference, coercion, discrimina-

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HOUSE

—Opposed by Liberty Lobby's Board of Policy
+Recommended by Liberty Lobby's Board of Policy

	Introduced	Hearings	Reported—Subcommittee	Reported—Full Committee	Passed	Rejected	In Conference	Out of Conference	Introd
—HANDGUN "CONTROL," H.R. 874	●								
+FREEDOM OF INFORMATION ACT, S. 587									
+REPEAL MONETARY CTL. ACT, H.R. 3599	●								
+REGULATORY REFORM, S. 1080									
+ILLEGAL ALIEN CRACKDOWN, H.R. 156	●								
+CAPITAL PUNISHMENT, S. 114									
+STOP BUSING, H.R. 327	●								
+TAXPAYER RIGHTS, H.R. 464	●								
—GENOCIDE TREATY, EXEC. TREATY O									
+PUT FED UNDER TREASURY, H.R. 4358	●								
+INTERNAL SECURITY COM., H. RES. 18	●								
+GOLD IN MONEY SYSTEM, S. 6									

IMI bulletin

The Economic Benefits of the Gold Reserve Act of 1981

by Robert J. Geis

This edition of the Bulletin *of the Institute on Money and Inflation is devoted (in large part) to an article by Robert Geis, an economist with Dean Witter Reynolds InterCapital.*

The in-depth analysis Mr. Geis applies to the subject of the Gold Reserve Act points up the major economic and public policy arguments in support of a new gold standard. Further, it also supplies us with a good example of the new innovative economic thinking that will provide the foundation for substantive reform of economic policy in general, and monetary policy in particular.

A refreshing piece of legislation, the Gold Reserve Act of 1981, has recently been introduced in the United States Senate by North Carolina Senator Jesse Helms.[1] At once the bill merits attention because of the goals it seeks to legislate: (1) the primacy of the U.S. dollar in the world economy; (2) a restrained price framework, worldwide; (3) restoration of dollar demand; and (4) the reinstatement of domestic faith in the currency—i.e., of the essential ability to plan for the future.

Accordingly, the reform of current U.S. monetary policy is the legislation's objective. (1) Depoliticizing the Fed; (2) curbing mismanagement of money supply aggregates; (3) eliminating the printing press; and (4) replacing the process of estimating liquidity needs with a fixed and tangible standard as a concrete and visible guide to those needs.

Senator Helms' bill is a call for the reenactment of the gold standard. Non-inflationary growth through a monetary standard independent of human fiat and subjective changes with, simultaneously, unquestionable demand value by all peoples is the characteristic of such a standard. The uniformity of the metal's supply, under such a standard, blocks debt monetization; it breaks inflation tendencies. Adherence to the standard over time restores credibility in monetary policy in the capital markets. Internationally, it signals to the world that a disciplined balance sheet is the top priority of the United States; dollar speculation loses its patina. The balance of payments is adjusted on an imperceptible basis through continuous monitoring of the gold signal, rather than through sudden and painful "internal adjustments."

A currency convertible into gold provides its issuing country these results. Senator Helms' bill, then, rightly calls for a dollar "as good as gold." Towards this end the following points shall occupy us here: (I) The concept of gold as the error signal, (II) A lesson from history—Great Britain and Bretton Woods: the difference between the gold standard and the gold-exchange standard; (III) Adherence to the standard and stop-gap measures; (IV) The marketplace and the price of gold—an answer to the critics.

I

One reservation on a return to the gold standard concerns the finitude of the metal's supply. To wit: at some point economic growth in nations on the standard would have to plateau. Gold is not limitless in supply, and therefore liquidity for expanding economic needs would at some point cease.

The problem is a straw man. The question of world gold supply is continuously misstated in the current debate. Gold is meant as a hard, fast, and tangible guide to national and international money supply. It is a guide to each nation on the standard when the amount of currency in circulation is too little or too much. It is, in fine, a signal to let their treasuries know when the currency is becoming inflated or deflated and so for central banks to take measures accordingly.

The principle is straightforward enough. In a nation such as ours, when possession was legal under the gold standard,[2] the government would know if

(Continued on Page 2)

[1]The full bill is recorded as the Gold Reserve Act of 1981, S.6, "by Mr. HELMS (for himself, Mr. GOLDWATER, Mr. McCLURE, and Mr. SYMMS)," *Congressional Record*, Volume 127, No. 1, S22-6, 5 January 1981.

[2]Possession is legal now under the International Development Association bill, (effective 31 December, 1974) contravening the 1934 Gold Reserve Act, the difference now being, however, that we are not on a gold standard.

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The Economic Benefits of the Gold Reserve Act of 1981

(Continued from Page 1)

the currency supply was low if the citizenry came to it seeking dollars for their gold. On the other hand, the government would know too many dollars were in circulation if the citizenry came to it to purchase gold. That meant dollars were more than abundant, for the citizenry had dollars to even purchase gold. At this point steps would be taken to reduce the money supply and gold purchases would terminate. The currency would not inflate, but rather dollars would come back into balance with goods and services. The excess which went into gold purchases would effectively be stemmed.[3]

In specific operational terms, open market operations would be calibrated towards increasing dollar supply by purchase of government securities, decreasing it by their sale. In each case the marketplace, the public, through their gold dealings would give the central bank its cue. Accordingly, gold emerges as a barometer of money supply, a quite physical signal to all concerned when money circulation needed correction.

The quantity of the metal would have no bearing on its effectiveness as a gauge. It was already sufficiently distributed so that it could operate as the government's inflation/deflation indicator. The parts of the system were already in place for the nation to adopt a gold standard. The result of its use is what one would expect. Under the gold standard, the wholesale price index at the termination of the standard (1933) was the same as it was upon its inception (1808). In fine, its use enabled people to expect that a rise in prices would always be followed by a decline as the price level corrected itself.

In an international environment gold-limited currency creation was, in a way, more complex than in a national context because fixed parities were involved. The supply of currency pegged to gold had to remain commensurate with the nation's gold supply. The gain or loss of gold reserves would expand or contract the money supply of individual nations, while additions to gold supply regulated world money growth.

Under the mechanism of gold convertibility the exchange rate was fixed and fluctuated only between the gold import and export points. A country in deficit had foreign exchange debts in excess of claims. Gold outflow from the deficit country would correct the imbalance, reducing the debtor country's purchasing base and expanding the creditor nation's. The result was a slightly depressed price level in the debtor nation, a slightly increased one in the creditor's. The consequent difference in relative costs between the two tended to restore the balance of payments equilibrium.

Looked at another way, under the standard a rise in one country's price level would cause a rise in imports, a decrease in exports, and consequent gold outflow. The money stock hinged to gold would necessarily diminish, causing a decrease in the domestic price level. Deflation would be avoided because upon its approach the balance of overseas trade would reverse, bringing in gold. This permitted subsequent expansion in the money stock, allowing a rise in the domestic price level.

Such corrections would be imperceptible when obliging the gold discipline. At the turn of our century, increased gold production took place with an inflation that some have ascribed to that production. Violation of discount policies was the cause of that inflation, however.[4] Japan, during the same period, and at war, on the standard experienced negligible price rises in observance of the gold measure. WWI completely severed the West from gold, on the other hand, and the result was predictable enough: "By the early 1920's the price levels expressed in national currencies at their pre-war parities had risen 60-100%."[5]

The Genoa talks of 1922 related currencies to gold again, and the lesson from Germany makes the point plain: its 1923 inflation rate of roughly 300,000% was brought down to zero in a matter of weeks.[6] Abundance of gold did not bring this about. It was the execution of its meaning that did. The German experience is not in isolation. Post-Genoa the West itself returned to price level sobriety.

II

The British exercise in the gold standard is a worthwhile observation here since it furnishes in one sweep a response to the objections of a liquidity crunch and insufficiency of gold reserves that we have already noted. Roy Jastram in his examination of Britain's use of the standard is the most instructive on these.[7]

In the nineteenth century, operating on a gold supply (relatively) much smaller than that of the current U.S. position, Great Britain was to become responsible for half the world's output of coal and manufactured goods. In the final third of that century her external trade exceeded that of Germany, France and Italy combined and was treble that of the United States.[8] She was the financier for capital to foreign interests,[9] and through a policy of tax reductions reduced her debt to £250 million.[10]

This period of expansion took place without inflationary spirals or currency tribulations. Jastram in his statistical study has shown that gold's value over the entire period of the British experiment was a constant. The purchasing power of gold in the mid-seventeenth century was quite nearly the same in the mid-twentieth. The stability of a currency pegged to gold during that time is fairly obvious. Great Britain, on a limited supply of gold, with the inception of the Industrial Revolution experienced the most rapid non-inflationary economic growth of any nation prior to its growth.

The Genoa agreement that followed WWI was a precursor of Bretton Woods in its advocacy of a gold-exchange standard. The conference mistakenly resolved that a limit-

[3]See Arthur I. Bloomfield, *Monetary Policy Under the Gold Standard: 1880-1914*. New York, N.Y.:Federal Reserve Bank of New York, 1959.

[4]Robert J. Carbaugh and Liang-Shing Fan, *The International Monetary System.* Wichita: University Press of Kansas, 1976, p. 56.

[5]*Ibid.*, p. 58.

[6]Thomas M. Humphrey, *Economic Review*, Federal Reserve Bank of Richmond, Vol. 66, no. 4, July/August, 1980, p. 3.

[7]Britain adopted the gold standard in 1717. Jastram's study, *The Golden Constant* (New York: John Wiley & Sons, 1977), however, covers the years 1560-1976.

[8]K.B. Smellie, *Great Britain Since 1688*. Ann Arbor: University of Michigan Press, 1962, pp. 139-40.

[9]D.C.M. Platt, *Finance, Trade & Politics: British Foreign Policy: 1815-1914*. Oxford: Clarendon Press, 1968, pp. 7-53.

[10]Jude Wanniski, *The Way the World Works: How Economies Fail—and Succeed*. New York: Simon and Schuster, 1978, p. 175.

Mr. Symms introduced the following bill; which was read twice and referred to the Committee on ____________________

A BILL

To authorize the issuance of a special series of bonds which may be redeemed for gold, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Second Liberty Bond Act is amended by inserting after section 22A the following new section:

"Sec. 22B. (a) In addition to the United States savings bonds authorized to be issued under section 22 of this Act, and the United States retirement and savings bonds authorized to be issued under section 22A of this Act, the Secretary of the Treasury, with the approval of the President and subject to the limitation under section 21 of this Act, is authorized to issue United States gold bonds, the proceeds of which shall be available to meet any public expenditures authorized by law and to retire any outstanding obligations of the United States bearing interest or issued on a discount basis. The various issues and series of United States gold bonds shall be in such forms, and shall be issued in such manner and subject to such terms and conditions consistent with subsections (b) and (c) of this section, including any restrictions on their transfer, as the Secretary of the Treasury may from time to time prescribe.

"(b) (1) United States gold bonds shall be issued only on an interest-bearing basis, shall bear interest at the rate of 2 percent per year, shall mature in 50 years from the date as of which issued, and shall be redeemable before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe.

''(2) The Secretary shall issue United States gold bonds in denominations of 1, 5, and 10 kilograms of gold.

''(3) Any payment of interest, or any payment at redemption, shall, at the option of the holder, be paid in gold or its dollar equivalent.

''(4) The Secretary of the Treasury, with the approval of the President, is authorized to provide by regulations that holders of United States gold bonds may, at their option, retain the bonds after maturity and continue to earn interest upon them at the rate provided under paragraph (1).

''(c) The provisions of subsections (c), (e), (g), (h), and (i) of section 22 shall, to the extent not inconsistent with the provisions of this section, apply with respect to United States gold bonds issued under this section.

''(d) The provisions of section 3563 of the Revised Statutes (31 U.S.C. 371) shall not be construed to impair any obligation arising out of any United States gold bond issued pursuant to this section.''.

ed gold supply could not provide postwar world recovery, and it opted for liquidity expansion through dollar and sterling claims against gold. That is, central banks were now permitted to create money against claims expressed in currencies payable in gold, as well as gold itself. On the gold standard they could do so only against the gold cover and claims denominated in the national currency.

The effect of both Genoa and Bretton Woods was that the stabilization or contraction of purchasing power needed for the maintenance of currency value in the debtor countries was never realized. In concrete terms, under Bretton Woods foreign dollar surpluses yearly increased.[11] Those dollars were growing claims against U.S. gold with a yearly growth in America's balance of payments deficit. The greatest dollar utility, though, was not in Europe or Japan, but America. The net effect, then, was that foreign-owned dollars never left Manhattan. Receivable dollars on settlement date by foreign central banks were rerouted right back "sameday" to the U.S. The contraction of purchasing power that the gold standard would gradually have evoked never occurred. On the demand side, business was conducted as if there never had been a deficit in the first place. Loanable dollars were more than available to aggregate demand.

The monetary restraint Genoa and Bretton Woods furnished through a perforated gold cover points to the effectiveness that even a diluted gold accord can bring. In the United States under the 1944 pact price levels rose just under 14% from 1953-1960. For OEEC member countries combined, it then rose just under 20%. Cumulative dilution of credit restraint that adherence to a true gold standard would have prevented combined with excessive U.S. dollar creation made possible by the U.S.'s gold reserves[12] forced shut the gold window in 1971. Senator Helms' gold holiday clause, a prescient stop-gap measure devised by Dr. Laffer,[13] avoids this potential failure of the gold-exchange standard.

III

The monetary laxity that Bretton Woods encouraged is evident in the post-Korean War policies of the U.S. central bank. As custodian of the currency, it allowed a Keynesian-prescribed $6.5 billion deficit in 1953 to get the nation out of a recession. In the eight years of the Eisenhower Administration (a time of peace) five budget deficits outweighed three surpluses for a total deficit of $15.8 billion. The enormity of U.S. gold reserves was a strong temptation to undisciplined monetary policy. Gold was more than plentiful for dollar convertibility, while foreign central banks found it convenient to hold more and more dollars.

One budget surplus punctuated the Kennedy/Johnson years, as sterling and the dollar came under increasing pressure. By 1971 American gold reserves were halved, the culmination of 14 budget deficits in 18 years. On 15 August that year cessation of dollar/gold convertibility was ordered, 'midst calls for gold's revaluation.

Floating rates were adopted on the premise that they would prevent the import or export of inflation or deflation, while permitting the marketplace to price currencies.[14] The International Monetary Fund established SDRs and in economic journals these new "units of accounts" became fashionable. The SDR could not address the same issue that floating rates cannot address: world money supply. It has gone unabated in this era of floats, dirty or clean, while the SDR currency cocktail has been reduced from 15 ingredients to five. This palliative could never have occurred and would never have been necessary under a gold standard. The concept of gold as the error signal makes that plain.

In this context, the counter-argument of inadherence to the gold gauge protrudes sharply enough. Cannot discount violations occur again? And in that instance what is to prevent a run on American gold, and hence another convertibility collapse?

Senator Helms' gold holiday clause anticipates the objection. It provides (1) a deterrent to monetary manipulation because under the clause (2) any distension of the monetary base through disregard of the gold stock would halt dollar/gold convertibility and (3) invoke the pricing mechanism of the marketplace to re-establish the gold price.

#3 depoliticizes the process: it counterbalances fiscal and monetary pressures. It serves notice to the central bank that violation of the standard, however induced, will engage the corrective participation of the marketplace. Excessive gold loss or accumulation (deviations from the monetary base) will be rectified by the severance of gold from its fixed dollar price. During a three month period following the public will revalue gold and the Fed stay within 1% of the monetary base that obtained upon the gold holiday proclamation. At the three month period end dollar convertibility will be satisfied at the new gold fixing.

Decreasing the responsibility of the central bank this way—through the activity of the marketplace—abets monetary discipline. It does so because of the overtones of the gold holiday clause. Monetary anomalies will involve the judgment and measure of the marketplace. Since this proviso will be a matter of public record, the Fed's actions will not only be disciplined by gold, but also by the marketplace.

IV

In tandem with this method of restoring a gold standard if any financial or political catastrophe results in its dissolution, is the Gold Reserve Act's similar declaration of establishing the gold/dollar value through the markets upon re-
(Continued on Page 4)

[11]E.g., though the U.S. had a trade surplus of $4,442,000,000 in 1962, $4,553,000,000 in '63, and $6,681,000,000 in '64, it had an incremental balance of payments deficit of $670 million in 1962, $1,564,000,000 in '63, and $4,215,000,000 in 1964—deficits settled by an increase in dollars abroad.

[12]It had 60% of the world gold reserves at the time.

[13]Arthur B. Laffer, "Reinstatement of the Dollar: The Blueprint," Economic Study. Rolling Hills Estates, California: A.B. Laffer Associates, February 29, 1980, pp. 4-5.

[14]A concise and pointed statement for floating rates is David Meiselman's "In Defense of Floating Rates" (in *The Currency Carousel: A New Era in Monetary Affairs*, Thomas G. Evans. Princeton: Dow Jones & Co., 1977 pp. 127-36). Floating rates, he holds, free nations from international circumstances and central banks of the responsibility to adjust the money supply upon changes in the payments balance sheet. With floating rates inflation abroad need not be imported, he further suggests, and contrarily a nation may not export it if other nations are unwilling to import it.

This Friedmanite advocacy (cf. Milton Friedman, "The Case For Flexible Exchange Rates," *Readings in International Economics*, edited by Richard E. Caves and Harry Johnson. Homewood, Ilinois: Irwin, 1968, pp. 413-37), stems from the general concept that only an untrammelled market can establish genuine currency sentiment. Exchange rates adjust themselves continuously because both supply and demand are functions of price; exchange rates, accordingly, always adjust themselves to maintain balance at all times. Effective contrary views appear in Paul Einzig's *The Case Against Floating Exchange Rates* (New York: St. Martin's Press, 1970), Henry Hazlitt, "Sea of Red Ink: Despite Jamaica, the World's Currencies Remain Adrift," in *The Currency Carousel, op. cit.*, pp. 94-100; Jude Wanniski, "The Case For Fixed Exchange Rates," in *The Currency Carousel, op. cit.*, pp. 119-27.

The Economic Benefits of the Gold Reserve Act of 1981

(Continued from Page 3)

turn to the standard. It immediately cuts gold's valuation from the political arena. It eliminates the charge of artificial pricing and, hence, answers a legitimate concern of trading partners. It has a further advantage. The six month transition period to convertibility required by the Gold Reserve Act would furnish the adjustment period necessary for acclimation by world markets.

The turn of events upon a U.S. announcement of the reinstatement of gold is obvious enough. The price of gold would drop to a much lower demand line as dollar "demandness" accelerated. 70% of world trade is dollar-denominated; and this, combined with the economic primacy of the U.S., would generate a gold exodus.

Following adoption of the Act, but during the six month period prior to the adoption of the new gold/dollar period, the purchasing power of the dollar would expand as the markets perceived its future stability. For under gold, inflation—which saps the purchasing power of the dollar —would be broken.

Shifting from a managed currency to one that has a fixed, non-subjective, value would bring about stability in the financial markets. Interest rates would level off as the dollar's purchasing power stabilized. An increase in that power would mean over time a proportionately decreasing amount of funds would finance a greater number of business ventures. Capital formation incentives would be restored, for now the government would not be printing "at any price." A restored currency would enable people to realize greater production and therefore high standards of living.

Internationally, hard settlements would prosper balance of payments equilibrium. Fixed parities quickened by a gold standard are the proven tools for graduated balance of payments correction. Logarithmic escalation of commodity prices would cease. Under a gold standard inflated prices would level. International economic agreements would be the beneficiary.

The Gold Reserve Act of 1981 is the legislation at hand productive of the benefits we have noted. The record of the gold standard makes this transparent. For this reason, its passage would reinforce the maxim that it is good economics that makes good politics.

(Mr. Geis, the author of this piece, is with the investment policy committee, equity committee and the equities division of Dean Witter Reynolds InterCapital, an asset management company. It has neither subsidized nor necessarily endorses the opinions herein.)

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