

Report to the Congress

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

March 1982

Volume I



THE SECRETARY OF THE TREASURY

WASHINGTON 20220

March 31, 1982

To the Congress of the United States:

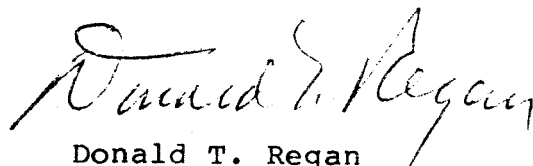
On behalf of my colleagues and myself, I submit herewith the Report of the Commission, established pursuant to Public Law 96-389, to conduct a study to assess and make recommendations with regard to the policy of the U.S. Government concerning the role of gold in the domestic and international monetary systems.

The specific findings and recommendations presented in this report represent in each case the views of the majority of the Commission, with an identification of minority views or recommendations where appropriate. As should be expected in a group of individuals with such diverse backgrounds, philosophies and responsibilities as the members of the Commission, there have been differing opinions regarding many if not all of the issues and questions raised by the Commission. Thus, not every member subscribes to each observation or conclusion contained in the report, but with this reservation and the specification of minority views, the report represents the product of the Commission as a whole.

In forwarding this report, we acknowledge the wide public interest in the issues examined by the Commission and are grateful for the cooperation the Commission received from many individuals in testifying before us and submitting written statements of view. The statements received by the Commission from the public, in response to its request for testimony and written views, are summarized in an annex to the report. The detailed records of all Commission proceedings, including meeting transcripts, written testimony, staff memoranda and all papers circulated to the Commission, are catalogued in an annex to the report and will be available for public inspection at the Treasury Department library, the National Archives and Records Service and the Library of Congress.

We hope that this report on the role of gold in the domestic and international monetary systems will be of help to the Congress and the public in evaluating the spectrum of proposals advanced with the objective of restoring greater monetary and economic stability in the United States, an objective we strongly support. We regard it as an honor and a pleasure to have had the opportunity to contribute in this capacity to the continuing effort to find solutions to the nation's economic problems.

Respectfully,



Donald T. Regan

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ACKNOWLEDGMENT

The Members of the Commission express their sincere appreciation to Dr. Anna J. Schwartz for her assistance to the Commission in its examination of this important and complex subject. Her work in organizing the Commission's deliberations, in providing timely and expert analyses and in assisting the Commission in the preparation of this report demonstrated a high degree of professionalism and dedication, for which the Members are deeply grateful.

TABLE OF CONTENTS

Page

Volume I

INTRODUCTION AND RECOMMENDATIONS	1
Chapter 1 -- BACKGROUND TO THE ESTABLISHMENT OF THE GOLD COMMISSION	23
Chapter 2 -- THE PAST ROLE OF GOLD IN THE U.S. MONETARY SYSTEM	51
Chapter 3 -- TYPES OF MONETARY STANDARDS	111
Chapter 4 -- EXISTING GOLD ARRANGEMENTS AND PROPOSALS FOR CHANGE	135
Staff Appendix: The Gold Market Statistical Compendium	149 185

Volume II ANNEXES

ANNEX A -- Supplementary and Dissenting Views	1
ANNEX B -- Summaries of Statements Submitted to the Commission	383
ANNEX C -- Some Implications of Legal Tender Status	523
ANNEX D -- Continuing Audit of the United States-Owned Gold	531
ANNEX E -- Contents of the Commission's Permanent Record	555

Report of the Gold Commission

Introduction and Recommendations

Establishment of the Commission

We, the members of the Gold Commission, were appointed by Secretary of the Treasury Donald T. Regan on June 22, 1981, pursuant to section 10 of Public Law 96-389 (94 Stat. 1555), to "conduct a study to assess and make recommendations with regard to the policy of the U.S. Government concerning the role of gold in domestic and international monetary systems."* The Commission was directed to transmit its report to the Congress no later than October 7, 1981, one year after the date of enactment. Due to the change in Administration and the delay in appointment of members, it was not until July 16, 1981, that we met for the first time. We were in general agreement that a satisfactory report could not be prepared by the October 7 date. Accordingly, we requested an extension of the Commission's life. Legislation to that end was introduced to the Congress and enacted as P.L. 97-47 on September 30, 1981. The date for the report of the Commission was thereby changed to March 31, 1982.

Commission Meetings

We held 9 meetings, at two of which we heard testimony concerning gold from 23 witnesses, representing a wide spectrum of views on the potential roles of gold. They commented on the use and effectiveness of gold in past domestic and international monetary systems, and offered varying proposals for a restored role for gold, or favored the continuation of the present system with no role for gold. In addition to the hearings, the Treasury Department invited written statements on the role of gold from organizations and individuals. Summaries of the testimony we heard and of the statements submitted to us are reproduced in Annex B to the Report.

*Congressman Chalmers P. Wylie -- Since many observers feel the Gold Commission became a "runaway" Commission in the Report, I would like to call special attention to the verbatim charge of Congress in creating the Commission. As the transcripts will show, many, many hours were spent debating issues which were extraneous to the Congressional assignment for the Gold Commission. The job assigned to the Gold Commission by Section 10(b) of Public Law 96-389 was as follows: "The Commission shall conduct 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, and shall transmit to the Congress a report containing its findings and recommendations not later than one year after the date of enactment of this Act."

Contents of the Report

The body of our Report reflects the range of issues we discussed during our deliberations.

Chapter 1 surveys economic developments of recent years that were the background to the establishment of the Gold Commission.* A distinguishing feature of the period since the mid-1960s was rising and persistent inflation without precedent in peacetime in the United States. Public attention to the activities of the Commission reflects a desire for some institutional arrangements to ensure a reasonable approximation of price stability in an economy whose resources are relatively fully employed in a balanced and sustainable way. The chapter presents the factual record of the performance of the economy, and reviews explanations that have been offered to account for the lack of success of several attempts to curb inflation in the decade and a half from 1965.**

Chapter 2 examines the historical evidence on the experience of the United States with gold. In 1834, though legally on a bimetallic standard, de facto the United States adopted a gold standard. The chapter deals with successive changes since then in the character of our country's monetary system.

In Chapter 3, we explore the strengths and weaknesses of alternative monetary standards, including different versions of a gold standard, commodity standards other than gold, and the present inconvertible paper system. International aspects of the alternative standards receive attention.

*Congressman Chalmers P. Wylie -- Chapter 1 surveyed economic developments from a monetarist perspective and did not emphasize adequately the role of Federal budget deficits and fiscal policy in creating the economic problems of the last fifteen years. Since section 3 of Public Law 96-389 specifically stated that "Congress reaffirms its commitment that beginning with Fiscal Year 1981, the total budget outlays of the Federal Government shall not exceed its receipts" this omission of references as to the role of fiscal policy as a cause of inflation should not be overlooked. Indeed, the fact that the Federal Government is running a deficit of \$100 billion while paying a comparable sum in interest on the total Federal debt detracts from the credibility and utility of this Report.

**Congressman Chalmers P. Wylie -- This chapter does not mention that the total Federal debt increased from \$317 billion at the end of 1964 to \$1,004 billion at the end of 1981. It also does not mention that the net interest paid by the United States Treasury on the total Federal debt in 1982 may well exceed 30 percent of the total Federal debt for 1964. In short, Chapter 1 does not present the factual record of budget deficits and thus does not adequately explain the performance of the economy during the last fifteen to twenty years.

In Chapter 4, we review the current role of gold and consider possible changes. In relation to domestic monetary arrangements, the changes would affect the conduct of Treasury or Federal Reserve operations or both. Such changes, if adopted, would also affect private sector conduct. In relation to the international monetary system, the changes would affect foreign exchange rate arrangements, the settlement of the balance of payments, and the International Monetary Fund.

For each possible change in the current role of gold, we discuss the main elements of the change, transitional problems, if any, potential legal and international implications, and assess the advantages or disadvantages it presents.

Chapter 4 also brings together material on the historical market for gold that was dominated by central banks until 1968, changes in the location and operation of gold markets since then, the allocation of the stock of gold between monetary and nonmonetary uses, determinants of the demand for and supply of gold, and approaches to the determination of the equilibrium price of gold. In addition, the chapter provides a retrospective view on the record of gold production over past centuries and its relation to trend movements in commodity prices. A statistical compendium gives time series of world and U.S. production and stocks of gold, world and U.S. industrial use of gold, and the nominal and real price of gold.

Aims of the Gold Commission

Part of our mandate is to assess the role of gold in the domestic and international monetary systems. Assessments differ among members of the Commission not only with respect to the costs and benefits in the past when our monetary system was linked to gold but also with respect to the prospective costs and benefits, were such a link restored. Given the size of the Commission that the Congress specified, and the diversity of our views, that result may not be surprising. We decided that the best service we could render the country would be to set forth in an objective way the complex issues involved and give a fair hearing to different points of view.

Another part of our mandate is to make recommendations. Though it became apparent to us during our deliberations that we would not be able to achieve a unanimous set of recommendations, on some issues, it was possible to form majorities. Even so, a majority vote in favor of a specific recommendation did not signify that all so voting had the same purposes and/or interpretations in mind. Moreover, if each of us had been reporting singly instead of as one of a body of colleagues, individual members would not necessarily have expressed themselves in precisely the way the recommendations are stated. Differences in wording, emphasis and perceptions would have been evident. In some instances our recommendations touch on technical matters, such as legal and tax considerations, that need to be studied more exhaustively than it has been possible for us to do. Such technical questions should be given attention in any Congressional hearings in connection with our recommendations.

Recommendations and Dissenting Views

We report our recommendations on the following subjects:

1. The program of Treasury medallion sales
2. Treasury issue of gold bullion coins
3. Treasury issue of gold-backed notes or bonds
4. The gold stock owned by the United States
 - a. The public accounting for the gold stock
 - b. The relationship between gold certificates held as an asset of the Federal Reserve System and the gold held by the Treasury
 - c. The appropriate size of the gold stock
 - d. The price at which to value the gold stock
 - e. Managing the gold stock
5. Domestic monetary policy arrangements*
6. International monetary policy arrangements*

With respect to most of these subjects, we first present the range of views expressed in our deliberations, followed by the Commission's recommendation. Dissenting views are given in footnotes.

1. The program of Treasury medallion sales

In July 1980, the Treasury began the sale of half-ounce and one-ounce gold medallions in accordance with the American Arts Gold Medallion Act of November 10, 1978 (P.L. 95-630). The legislation provided that not less than 1 million ounces of gold be struck into medallions each year for a five-year period and sold to the public at a price covering the market value of their gold content plus all costs. A different American artist is commemorated on each of the two sizes of medallions. In 1980, Grant Wood was honored on the one-ounce and Marian Anderson on the one-half ounce medallion. In 1981, Mark Twain was honored on the one-ounce and Willa Cather on the one-half ounce medallion. Under the 1980 program covering the period July 15, 1980, through February 28, 1981, less than 300 thousand medallions of each size were sold, containing 434 thousand gold ounces. Under the 1981 program, from July 15, 1981, through March 5, 1982, about 60 thousand medallions of each size were sold, amounting to 95 thousand gold ounces.

The price of the medallions varies daily with the market price of their gold content, based on the settlement price at the end of the previous day for spot gold traded on the Commodity Exchange of New York, plus a surcharge in 1980 of \$12 and in 1981 of \$14 per ounce to cover

*Congressman Chalmers P. Wylie -- Omission of the phrase "the role of gold in" before "monetary policy arrangements" in items 5 and 6 clearly was technically appropriate considering the material included in that section but inappropriate given the charge to the Commission by the Congress as to what should have been discussed.

Governor J. Charles Partee -- I wish to be associated with this view.

the cost of production and marketing. The surcharge averaged under three percent of the underlying gold price.

The Bureau of the Mint sells the medallions directly to purchasers through mail orders placed at U.S. post offices. Delivery is made within six weeks.

The Treasury Department is planning a simpler and wider distribution of the medallions to be introduced this year through a network of dealers. Although details are not yet finally decided, the expectation is that sales to dealers will be made on the basis of the daily New York gold price, plus a three percent markup to cover costs including publicity by the Mint. The dealers would add a comparable fee in selling to the public and develop a secondary market for the medallions.

Recommendation. The Gold Commission supports the improvement of the program of medallion sales along the general lines that the Treasury plans.*

2. Treasury issue of gold bullion coins

In addition to gold medallions we discussed proposals for a Treasury issue of gold bullion coins of specified weights to be offered to the public at a price near market value.

Among those who support the proposal, two conceptions of the character of the demand for such coins are evident. Some of us expect the demand for such coins to be an investment demand, similar to the demand for Krugerrands, Maple Leafs, Mexican pesos, and other foreign coins that have found a market in this country. Others expect the demand for such coins to be (or have the potential to be) a demand for their use as money. Their value would change from day to day as the value of the gold content of the coin fluctuated in the free gold market.

Some advocates of this proposal see such coins as facilitating development of a dual monetary system, which would impose an additional degree of discipline on discretionary operation of monetary policy.**

*Governor J. Charles Partee -- The procedures by which gold medallions are marketed can be substantially improved as an interim measure, but the program should be discontinued when and if the Commission's gold coin recommendation is implemented.

Mr. Arthur J. Costamagna -- I voted for this recommendation on the understanding that the new program would not increase fees charged to the consumer.

**Congressman Henry S. Reuss -- I disagree. A dual monetary system would impose chaos, not discipline, on monetary policy.

Governor Henry C. Wallich wishes to be associated with Governor Partee's and Congressman Reuss' views above.

However, those opposing the proposal believe that ample supplies of gold in forms other than Treasury coins are available to satisfy the demand for gold in the private sector.*

So that the new issues may compete with foreign coins, some proponents advise that the former be designated legal tender and as coin of the realm bearing the great seal of the United States and the motto "In God We Trust." In addition, they advise that changes in the dollar value of these coins should be exempt from capital gains taxation.

A Treasury issue of gold bullion coins involves technical matters, on some of which the Commission has adopted recommendations. Congress should explore the following considerations more thoroughly than was possible in our deliberations.

(a) Consideration of a quantity limit on the issue of the coins. This reflects concern that the demand for the coins might exhaust the Treasury gold stock. One approach would be to specify a quantity limit in any legislation to permit coinage. An alternative means of limiting the demand would be to set a seignorage fee well in excess of costs of minting.** Some who believe the demand for coins would be a demand for money oppose a limit. They would view large scale demand as an indication of public dissatisfaction with the management of the (dollar) money supply and as leading to de facto establishment of a gold coin standard.*** According to this view, establishment of an arbitrary quantity limit or a high seignorage fee would interfere with this expression of public preferences. A few others of both persuasions

*Congressmen Henry S. Reuss and Chalmers P. Wylie -- We find this sentence to be an inadequate summary of our views in opposing the gold bullion coin and refer the reader to our dissenting views for an authoritative statement of the harm for the economy if this proposal were to be enacted.

**Congressman Chalmers P. Wylie -- A little known fact about gold bullion coins and other gold coins is that the gold alloys used in coinage are several times harder than silver, nickel, and copper alloys. The consequence of this is that entirely different machinery has to be used for making gold coins than regular coins. This waste and cost should be avoided.

***Congressman Chalmers P. Wylie -- Inadequate demand for the gold medallions produced by the Treasury for the Arts Medallion program has left the Treasury with many millions of dollars of unsold medallions. Concern about waste in government forces me to caution readers about the fiscal perils of forcing the Mint to turn our official gold bullion into gold bullion coins when there isn't any evidence of enough demand to absorb the official medallions we have been producing for the public for several years. At least, the gold medallion program should be discontinued, if we are to start producing gold bullion coins in accordance with Commission's recommendation.

Governor Henry C. Wallich wishes to be associated with Congressman Wylie's view.

favor Treasury purchases of gold to replace gold it has coined.* Those who believe the demand for coins would be an investment demand assume that it would not be quantitatively significant, and on this ground would neither oppose nor support a legislated limit.

(b) Enabling legislation to mint coins. Section 5 of the Gold Reserve Act of 1934 (31 U.S.C. sec. 315b) prohibits the minting of United States gold coin.

(c) The implications of legal tender status for newly minted coins. Treasury Counsel prepared for us a statement on this matter related to U.S. currency (see Annex C). Legal tender status essentially requires that, in any contract that does not otherwise specify the means of payment, a debt can be discharged by the tendering of any form of U.S. legal tender, and the creditor must accept that form of payment in full discharge of the debt. However, whenever a contract specifies a specific means of payment, such as gold, and the debtor breaches that provision and is taken to court by the creditor, the court, as in most cases of contractual breach, normally awards damages rather than specific performance of the contract provision.

For some who regard the demand for coins to be an investment demand, legal tender status is an adornment for coins, but nevertheless a sine qua non for generating public acceptance of them.**

For some who regard the demand as a demand (or a potential demand) for money, the implications of legal tender status require further consideration.*** Legal tender status for gold coins could compel their acceptance by private creditors for debts or by the

*Mr. Herbert J. Coyne -- While I do not believe using one to two million ounces of our gold stock for a gold coin program would make excessive inroads into these stocks, any open-ended production of coins could in effect amount to unlimited Treasury gold auctions. Clearly most Commission members do not desire this. Thus, I believe the Treasury should purchase gold in the open market to replace any larger amount of gold used in minting a U.S. gold coin or to refrain from minting any larger quantities.

**Congressman Chalmers P. Wylie -- I do not believe an adornment can be a sine qua non.

***Congressman Chalmers P. Wylie -- This will be our first coin without legal tender status. It should have legal tender status or not be called a coin.

I had the Congressional Research Service summarize the laws of Canada and South Africa pertaining to the legal tender status domestically of their own gold coins which are useable in commerce in their country of origin. Their experience should be considered in evaluating questions pertaining to legal tender status for the gold bullion coins. The summaries by CRS can be found in an appendix to the "Dissenting Views of Congressmen Henry S. Reuss and Chalmers P. Wylie."

Treasury in satisfaction of taxes. Formidable problems, involving potential profits and losses to private creditors and debtors, could arise in assigning gold coins legal tender status at a fluctuating market value.

(d) The implications of capital gains exemption for changes in the dollar value of coins (a background paper on capital gains taxes prepared by the Treasury is part of the permanent record of the Gold Commission). Advocating such exemption for coins but not for gold bullion holdings or, for that matter, not for productive investments overlooks the inducement the exemption would provide to shift from such other assets to coins. Those who support the exemption, however, regard it as essential to the use of the coins as money. Legislation to prohibit local government imposition of sales taxes would involve similar considerations. It would clearly also deprive the states of a source of revenue.*

(e) Issues by private mints. The majority of us oppose private minting of official United States coins. We regard the production of "official" coins of a country as a governmental function. The government in effect guarantees the weight and fineness of the "official" coins issued. Private firms are perfectly free to mint gold pieces of any shape and size, so long as they do not purport to be United States coins with a U.S. Government guarantee of weight and fineness. Permission for private firms to mint U.S. coins would open possibilities for fraud and could involve the Treasury in a new and costly regulatory and monitoring function. Problems would be compounded if the Treasury had a convertibility obligation or an obligation to accept the coins in payment of taxes.

(f) Convertibility at Treasury of gold bullion coins. Of those favoring issue of coins, about half support assumption by the Treasury of an obligation to stand ready to purchase coin offered to it at the market price ** on the day of redemption, the conversion producing potential profits (or losses) for the Treasury.

*Congressman Henry S. Reuss -- An October 5, 1981, bill, S.1704, cosponsored by Senator Helms, provides for the minting of gold coins exempt from U.S. and state capital gains taxes -- exactly as in the Gold Commission's recommendation below, which is supported by all of the Reagan Administration's Gold Commission members. Senator Helms' National Congressional Club expended \$4.5 million on the 1980 Reagan campaign (see Congressional Quarterly, March 6, 1982, pp. 499-505).

**Congressman Chalmers P. Wylie -- "Market price" is determined in unique ways for gold which should be studied carefully before obligating the Treasury to convertibility with its potential for losses to the Treasury.

Congressman Henry S. Reuss -- In other words, about one-third of the Commission supports this dangerous proposal which could provide exorbitant trading profits to those foreign interests who fix the gold price.

Recommendation. We favor Treasury issue of gold bullion coins of specified weights, and without dollar denomination or legal tender status, to be manufactured from its existing stock of gold and to be sold at a small mark-up over the market value of the gold content, and recommend that the Congress implement this proposal. Furthermore, we recommend that the coins shall be exempt from capital gains taxes and that the coins shall be exempt from sales taxes.*

*Congressmen Henry S. Reuss and Chalmers P. Wylie -- We object strongly to this recommendation and call the reader's attention to a statement of objection to the recommendation signed by 30 members (two-thirds) of the House Committee on Banking, Finance and Urban Affairs. The recommendation ignores national problems of diminishing incentives for productive investment in plant and equipment, of confusion over what is and is not money, and of depriving states of the revenue needed to cover obligations enhanced by Federal cutbacks.

Governor Henry C. Wallich -- I would not object to a gold coin issued with a mark-up at least equal to that applying to coins like the Maple Leaf and the Krugerrand, issued in limited quantities, and subject to capital gains tax. In the absence of these specifications, a gold coin could lead to excessive depletion of the Treasury gold stock and harmful diversion of resources to unproductive investment. I also oppose convertibility of the coin at the Treasury.

Governor Emmett J. Rice wishes to be associated with Mr. Wallich's view. With respect to convertibility, no support for convertibility at Treasury of gold bullion coins was ever explicitly voted for the record. An amendment by Congressman Reuss to include specific mention in the recommendation on the issue of gold coins that such coins should not be convertible into dollars on demand at the Treasury was voted down, but one cannot necessarily infer from this that those who rejected the Reuss amendment supported the assumption by the Treasury of an obligation to stand ready to purchase coin offered to it at the market price on the day of redemption.

Governor J. Charles Partee -- I seriously doubt that the proposed gold coin should be exempted from capital gains taxes. Careful and detailed study is needed, not only of the equity considerations involved in such singular treatment, but also of the possibilities for unwanted speculative maneuvers involving the new coin in conjunction with other forms of gold and precious metals holdings. Such uses could in fact destroy the coin's value as a monetary indicator.

Congressman Henry S. Reuss -- This tax exemption proposal was adopted at the February 12 Gold Commission meeting, 8-6. Jerry Jordan, who cast in person and by proxy the decisive votes in favor, has since testified that he was merely recommending that Congress "consider" the tax exemption question. (See transcripts, Joint Economic Committee, February 18; Gold Commission, March 8.)

Mr. Arthur J. Costamagna -- Since a majority (9 to 6) rejected the idea that "such a coin should not be convertible into dollars on demand at the Treasury," by implication, I believe, a majority favored convertibility or redeemability of the gold coins at the Treasury.

3. Treasury issue of gold-backed notes or bonds

Several witnesses at the hearings we conducted suggested that Treasury issue of gold-backed notes or bonds would be a means of introducing gold into our monetary system. A limited issue, for example, of five-year Treasury notes with interest and principal payable in grams or ounces of gold, would provide deferred claims on gold. Initially, according to the advocates, the yield spreads between gold and inconvertible dollar obligations of the same maturities might be wide. Success in restoring long-term confidence in monetary discipline would eventually narrow the yield spreads. At that time, full gold convertibility of all dollar obligations might be contemplated. These witnesses emphasized the savings on interest payments by the Treasury, assuming the price of gold remained stable or rose only moderately, and hence a positive effect on Federal budget deficits.

In our deliberations, it was noted by opponents of gold-backed Treasury securities that a gold-backed Treasury note or bond, if convertible at maturity at the market price of gold at the date of issue, would in effect be a warehouse certificate for gold. Such an instrument would provide the owner the same chance of gain or loss as owning gold, without his incurring the cost of storage and insurance. No obvious guideline exists for pricing the instrument. A Treasury issue of gold-backed notes or bonds, paying even a low rate of interest, would permit speculation on gold with a sweetener of a coupon. Such issues would be comparable to a bond convertible into the common stock of a corporation that has a low coupon because of the possibility of speculative gain. Purchase of Treasury gold-backed issues would indicate an expectation that the price of gold would rise. The Treasury would then be betting against the market, with no assurance of gain and a major risk of Treasury losses. From a debt management viewpoint, no need exists for gold-backed Treasury issues.

Recommendation. We oppose the issue of Treasury gold-backed notes or bonds.

4. The gold stock owned by the United States Government

As of the end of February 1982, the Treasury Department reported that it held 264 million troy ounces of gold. The bulk of the gold is

*Continuation from previous page.

Mr. Herbert J. Coyne -- The majority recommendation was made under the misimpression that making the U.S. gold coin legal tender would have made it money of the realm and usable in the payment of debts. The purpose of designating a U.S. coin "legal tender" is to allow it to compete equally with the foreign coins that are currently supplying the U.S. market. Popular foreign coins are designated legal tender and therefore a U.S. coin must be similarly designated in order to be successful. I recommend that the U.S. Congress consider this market fact when designing the U.S. gold coin.

stored in mint depositories: Fort Knox, Kentucky, and West Point, New York; U.S. Assay Offices in New York and San Francisco; and the Denver and Philadelphia Mints. In addition, the Federal Reserve Bank of New York is the custodian of a part of the gold stock.

a. The public accounting for the gold stock

Citizens have written to us expressing concern about alleged unauthorized large withdrawals from gold depositories. They fear that the actual amounts held by the Government are less than are reported officially. Stories in the press also have referred to missing gold.

Public and Congressional inquiries relating to the accuracy of the accounting records and security of the gold stock were directed to the General Accounting Office (GAO) in the early 1970s. In response, the GAO conducted a partial audit of the gold stored at Fort Knox in September and October 1974. In its report on the audit, the GAO recommended cyclical audits of the gold in the custody of the Bureau of the Mint.

During fiscal 1975, at the direction of the Secretary of the Treasury, the Fiscal Assistant Secretary of the Treasury established the Committee for Continuing Audits of United States Government-owned Gold stored at various depositories, with the responsibility to conduct audits at appropriate intervals. The Committee consists of one representative each from the Bureau of the Mint, the Bureau of Government Financial Operations, and the Federal Reserve Bank of New York, with GAO representatives invited to observe the audits. As of February 1982, 80.5 percent of the U.S. Government-owned gold had been audited and verified. The continuing audit program is planned to provide a complete audit of all U.S. Government-owned gold by the end of the 10-year cycle in 1984.

The Treasury has provided us with a detailed statement of the results of the continuing audit (see Annex D). With one or two exceptions, we are satisfied with the Treasury's continuing audit, find it thorough, and believe it should allay any public concern with regard to the accuracy of the inventory, the related accounting records, and the internal controls governing the depositories. One of us, however, expressed a preference for a speedier completion of the audit.

One member is not satisfied with an audit that spans ten years and contends that 31 U.S.C. 354 appears to require annual audits of the gold inventory. He disputes the Treasury's view that a 100 percent audit in a single year is not feasible, since on its own estimate of manpower requirements, 26 men could do it. The Treasury has provided us with an opinion that 31 U.S.C. 354 requires not annual audits but annual settlements of account, which are being performed regularly in compliance with this provision.

Recommendation. We are satisfied that the Treasury is meeting the requirements of 31 U.S.C. 354 regarding annual settlements of account

and that the Treasury's continuing audit of the Government-owned gold stock provides an adequate basis for full verification of the accuracy of inventory records.*

b. The relationship between gold certificates held as an asset of the Federal Reserve System and the gold held by the Treasury

Some citizens have expressed the view that for the Treasury to claim ownership of the gold stock and the Federal Reserve System to show gold certificates as assets appears to be double-counting of the same asset.

The gold is the property of the U.S. Government. The certificates do not represent Federal Reserve ownership of the gold.

Gold certificates, which are valued at \$42.22 per ounce of gold, and are a liability of the Treasury, are issued to the Federal Reserve by the Treasury against its gold holdings. The certificates represent a Federal Reserve claim on the assets of the Treasury, for which the Treasury has received a counterpart deposit in its account with the Federal Reserve.

All gold held by the Treasury has been monetized in this fashion. New gold certificate credits may be issued only if additional gold is acquired by the Treasury or the statutory price at which gold certificates may be issued is increased. Similarly, gold certificates must be retired by the Treasury upon the sale of gold, with a corresponding decline in the Treasury's deposit balance.

Recommendation. We believe that the Treasury and Federal Reserve are following appropriate procedures in reporting Federal Reserve claims on the Treasury represented by gold certificates and payable in dollars.

c. The appropriate size of the gold stock

At year-end 1949, the U.S. gold stock was a little over 700 million fine troy ounces. At year-end 1967, the stock was about 50 percent smaller -- 345 million ounces. As already noted, it is now 264 million ounces.

One question we discussed was the appropriate size of the gold stock -- a non-interest bearing asset of the Treasury. All of us agree that a zero stock is not the appropriate size and therefore oppose auction sales which are intended to dispose of Treasury holdings over some stated period of years.

A minority prefers that the Treasury maintain the stock at its present level as an important strategic and monetary resource. This

*Congressman Ronald E. Paul -- The Treasury should assign adequate manpower to complete a 100 percent audit of the gold stock every year.

view is consistent with the belief that an increase in the monetary role of gold is not now timely but the stock should be held as a reserve for possible future use, should a restored role for gold then appear feasible, or against other contingencies. In support of this view, it was suggested to us that should an international monetary conference of free world nations be convened to recommend changes in the international monetary system, it would be useful for the United States to hold a substantial gold stock to influence possible future deliberations and to be in a strong position if gold's role were reestablished.

A variant of that view, held by the majority of us, is that some depletion of the gold stock, for example, for the issue of medallions or the recommended program of coinage, is acceptable but to a limited extent only.

Recommendation. We recommend that, while no precise level for the gold stock is necessarily "right," the Treasury retain the right to conduct sales of gold at its discretion, provided adequate levels are maintained for contingencies.*

d. The price at which to value the gold stock

The Treasury currently values the gold stock it holds at \$42.22 per ounce. Since the free market in gold was established in 1968, the price has fluctuated between \$35 and \$850 per ounce. It has recently been priced at under \$350 per ounce.

One argument for revaluing the gold stock at a price closer to the market price is that it would enable the Treasury to raise revenues by sale of part of its gold. The revenue could be used to retire debt, thus saving interest payments on outstanding Treasury securities, or to finance the current Federal budget deficit. All these objectives are attainable simply by selling gold at the market price, and so there is no cogency to this argument for revaluing the gold stock. The same comment applies to the suggestion that an advantage of an international agreement to value gold at the market price is that it might be a step toward gold becoming an accepted

*Mr. Herbert J. Coyne -- I favor the recommendation that was initially voted for by a larger majority of Commission members than the one that was passed. I believe this first recommendation more closely represents the sentiments of the Commission: "We are opposed to auction sales of gold stock held by Treasury and recommend that under circumstances such as those that presently exist, the stock be maintained at its present size."

Governor Henry C. Wallich -- While I would not rule out the sale of the gold stock when a particular situation may urgently require it, as a general rule the Treasury should avoid sale of the gold stock. Under circumstances such as those that presently exist, the gold stock should be maintained at its present size.

Mr. Arthur J. Costamagna -- The Treasury should retain the right to conduct purchases and sales of gold at its discretion.

international medium for payment of balance of payments disequilibria, and that it could also be used for intervention purposes in foreign exchange markets to influence the exchange rate of the dollar.

Another argument is that it is unrealistic to value the gold stock at an outdated fixed price. Doing so distorts the true significance and cost of the U.S. gold asset position.

We regard the choice of a price at which to revalue gold reserve assets as independent of a decision on the price at which to restore a gold standard. One proposal was made during our deliberations for a gradual increase in the statutory price of gold to a price closer to the market price. The proposal was incidental to a plan to require gold certificate reserves be kept behind Federal Reserve notes. No other proposal with respect to the determination of a price at which to revalue gold reserve assets was brought to our attention.

Recommendation. The Commission recommends that the Treasury and the Federal Reserve conduct studies of issues that would be involved in a move towards valuing gold realistically, at something more closely approximating market prices. The change should be subject to the legislative constraint that the proceeds of this new valuation not be monetized by the Treasury or in any way used to enhance the government's spending power. The studies should develop a formula and timetable for valuing U.S. gold stocks in a manner realistically related to gold market value.*

e. Managing the gold stock

One general proposition that we examined is the desirability of finding constructive uses of the gold stock rather than keeping it immobile, as is currently the case. Specific suggestions we considered included:

- (1) The United States should offer swaps, leases and make other commercial arrangements with respect to its gold stock in order to generate a modest revenue flow.
- (2) If revalued, gold should be used for intervention purposes in foreign exchange markets and for the settlement of the balance of payments (see subject 4d. above).

*Governor Henry C. Wallich -- Any revaluation of the gold stock carries with it the danger of an inflationary use, directly or indirectly, of the resulting gold profit. Repayment, from this source, of part of the Federal debt poses the same temptations as would a more direct use of the profit for government expenditure. Revaluation close to the present market price further raises the question of what should be done if the market price should fall below the official price.

Governor J. Charles Partee -- Any such study must give important weight to the need for retaining ample central bank flexibility in meeting the "lender of last resort" function while at the same time avoiding unwanted overall monetary expansion. This requires the maintenance of an adequate stock of portfolio assets that could be sold as any such loans are booked.

