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GOLD AND SILVER PRODUCTION INCENTIVES

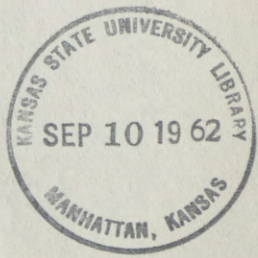
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HEARINGS
BEFORE THE
SUBCOMMITTEE ON
MINERALS, MATERIALS, AND FUELS
OF THE
COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS
UNITED STATES SENATE
EIGHTY-SEVENTH CONGRESS
SECOND SESSION
ON
S.J. RES. 44

A JOINT RESOLUTION TO ENCOURAGE THE DISCOVERY,
DEVELOPMENT, AND PRODUCTION OF DOMESTIC GOLD

MARCH 15 AND JUNE 8, 1962

Printed for the use of the
Committee on Interior and Insular Affairs



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HEARINGS
OF THE
SUBCOMMITTEE OF
THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

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GOLD AND SILVER PRODUCTION INCENTIVES

THURSDAY, MARCH 15, 1962

U.S. SENATE,
SUBCOMMITTEE ON MINERALS, MATERIALS, AND FUELS
OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m. in room 3110, New Senate Office Building, Senator John A. Carroll (chairman of the subcommittee) presiding.

Present: Senators John A. Carroll (Colorado), Alan Bible (Nevada), Frank E. Moss (Utah), Lee Metcalf (Montana), Joe Hickey (Wyoming), Frank Church (Idaho), Ernest Gruening (Alaska), Henry C. Dworshak (Idaho), and Jack Miller (Iowa).

Senator CARROLL. The committee will be in order.

This is an open exploratory hearing by the Subcommittee on Minerals, Materials, and Fuels of the Senate Interior Committee to consider proposals and ideas for increasing production of gold and silver within the United States, thereby reopening our once prosperous gold and silver mines, the great majority of which have been forced to close as a direct result of governmental action and policies.

The reason, then, for this hearing is to try to find a way of helping to solve one of the most pressing problems of our time and certainly one of its greatest anomalies. I refer, of course, to our rapidly diminishing reserves of gold while at the same time our highly productive gold mines within our country have been closed and are continuing to close as a result of action by the Federal Government. This means that thousands of skilled miners are out of work, and whole communities suffer.

As an example, I have just this week receive a petition signed by some 200 men and women in the Cripple Creek, Colo., area where the Carlton gold processing mill, the last one operating in Teller County, Colo., shut down. I will read the petition into the record, because it describes a situation that is typical:

As the problems of the mining industry are not all of its own making, and forces outside the industry have brought about the closing of the last gold processing mill and producing mines in Teller County, we urge you to declare the Cripple Creek Mining District a disaster area.

It is unfair to miners and their families to be placed on unemployment rolls, in the face of this Nation's expanding economy.

This county's economy is at its lowest level in years and indications are that it may be worsening instead of improving.

We must have relief. The remainder of the Nation is establishing record sales, increased employment, record payroll earnings, and expansion of industry.

This petition is signed by nearly 200 men and women in the area, and the situation is all too typical of conditions in the once prosperous mining areas throughout Colorado and the West.

I will direct that this petition, and typical selections from the very large number of other letters and telegrams that the subcommittee has received, appear in the record of these hearings at the conclusion of the oral testimony, if there is no objection.¹

As to the alarming outgo of gold from the United States, I am informed by the Library of Congress that our net loss—and I emphasize the word “net”—during 1961 was some 20 million ounces, valued at \$820 million.

Presented perhaps more forcefully: We, the people of the United States, lost 10,000 tons of gold last year.

And this at a time when our own gold mines—hundreds of them—are closed down and our gold miners—many thousands of them—are out of work.

While this hearing is general in nature, and we hope to receive many new ideas and suggestions; we do have before us a specific measure, Senate Joint Resolution 44, sponsored by the distinguished junior Senator from California, Senator Engle, for himself and Senator Case of South Dakota, Senator Church of Idaho, Senator Gruening of Alaska, and Senator Kuchel, senior Senator from California. This measure would authorize incentive payments for newly mined domestic gold of up to \$35 an ounce. The measure was referred, as is our usual procedure, to the several agencies in the executive branch that are directly concerned with our gold supply: These were the Department of the Interior, which has responsibility for mines and mining generally, and the development of the mineral resources of our publicly owned lands; the Department of Treasury, which, of course, has responsibility for administering our monetary policies; the Department of State, which is concerned with our international relations; and the Bureau of the Budget, which coordinates the activities of other agencies and is supposed to speak for the administration in general.

All of these agencies reported adversely on Senate Joint Resolution 44 for reasons that do not take into consideration the plight of our gold miners, both mineowners and mineworkers. While they oppose the incentive idea, none of the executive agencies come up with any constructive suggestions.

I will direct that the text of Senate Joint Resolution 44, and the reports on it of the Department of State, Treasury, Interior, and the Bureau of the Budget, appear in the record of these hearings at the end of the oral testimony.

Silver also is a monetary metal. It also is in short supply. This shortage, also, is a result in no small part of Government activity. And again, although silver metal is in short supply in the United States, we do have ample reserves of silver in our West, and many thousands of skilled miners ready, willing, and able to mine it.

All we need is to find some way of solving, by Government action, the dilemma into which Government action has gotten us.

Therefore, we are going to consider ways and means of increasing our silver supplies and reopening our silver mines.

We have a long list of witnesses to be heard, some of whom come from great distances. I most certainly do not wish to attempt to impose cloture in any way upon any Senator or any Member of Con-

¹ See appendix to this hearing record.

gress, but as chairman of the subcommittee, I do plead with the Members to be as brief as possible so that we may hear the men from the firing line, so to speak.

I will therefore heed my own admonition, and break off at this point.

However, I will order Senate Joint Resolution 44 and the departmental reports thereon placed in the record at this point.

(The exhibits are as follows:)

[S.J. Res. 44, 87th Cong., 1st sess.]

JOINT RESOLUTION To encourage the discovery, development, and production of domestic gold

Whereas during World War II, mining operations in many gold mines throughout the United States were discontinued pursuant to Government order; and

Whereas during World War II and subsequent thereto, the cost of mining operations has greatly increased; and

Whereas the price of gold in the United States was fixed during the period of low operation cost at the rate of \$35 per ounce by the Federal Government and that price has continued until the present time; and

Whereas as a result of the foregoing conditions more than 95 per centum of the gold mines scattered throughout the United States have been forced to close; and

Whereas the gold reserves of the United States Government have been depleted by approximately \$5,000,000,000 during the past three years bringing such reserves to a dangerous level; and

Whereas action should be taken without further delay to stimulate the production of domestic gold and to rebuild the gold reserves of the Government to a safer level: Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to encourage the discovery, development, and increase production of domestic gold, the Secretary of the Interior (hereinafter referred to as the "Secretary") shall, under rules and regulations prescribed by him, make incentive payments to producers of gold mined, after the date of approval of this joint resolution, in the United States, its territorial possessions, or the Commonwealth of Puerto Rico, upon evidence satisfactory to the Secretary of a sale by any such producer of such gold to the United States. The amount of any such payment shall be determined by the Secretary, but in no case shall such amount exceed \$35 an ounce.

SEC. 2. No payments shall be made under this joint resolution during any period in which the gold reserves of the United States Government equal or exceed \$23,000,000,000.

SEC. 3. Nothing contained herein shall be construed to repeal, supersede, or modify existing provisions of law relating to the monetary system of the United States.

SEC. 4. This joint resolution, and the authority conferred thereunder, shall terminate five years after the date of its approval.

SEC. 5. There are hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this joint resolution.

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., May 11, 1961.

HON. CLINTON P. ANDERSON,
Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.

DEAR SENATOR ANDERSON: Your committee has requested a report on Senate Joint Resolution 44, "To encourage the discovery, development, and production of domestic gold."

This joint resolution directs the Secretary of the Interior to make incentive payments up to \$35 an ounce to domestic producers of gold. The amount of the incentive payments would be determined by the Secretary. The authority to

make the payments would terminate in 5 years, or earlier if the gold reserves of the U.S. Government equals \$23 billion.

The executive branch is opposed to the enactment of any legislation that would establish or imply a second price for gold, different from the \$35 per ounce price now in effect.

As a technical matter, the Department of Interior recognizes that enactment of the joint resolution would provide an incentive for reopening many mines which cannot now operate profitably and might assist in keeping in production some mines now on the margin. It would provide additional revenues to the profitable mines and for the producers of gold as a byproduct in the mining of base metals, the principal sources of our present gold production.

With an incentive of \$35 an ounce, gold production might be doubled, but at this doubled rate it would take about 42 years to replace from domestic sources the monetary gold reserve loss since 1957. It can be seen therefore that one of the objectives of this resolution, to augment the gold reserves of the United States, would not be accomplished in an appreciable way.

The payment of incentives of the sort proposed by the resolution would result in a situation that gold costing the Government \$70 an ounce would be offered at \$35 an ounce to foreign monetary authorities and American industrial users of gold. Enactment of legislation providing for payment of a subsidy of this sort would lead to uncertainty about the U.S. price of gold and the stability of the dollar in world markets, and so could result in an increased drain on U.S. gold reserves.

Although the Department of the Interior recognizes that the resolution would be beneficial to gold miners, the executive branch has concluded, in view of the paramount national interest in the monetary function of gold, that the enactment of this legislation would not be desirable.

The Bureau of the Budget has advised that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

JOHN M. KELLY,
Assistant Secretary of the Interior.

DEPARTMENT OF STATE,
Washington, D.C., May 11, 1961.

HON. CLINTON P. ANDERSON,
*Chairman, Committee on Interior and Insular Affairs,
U.S. Senate.*

DEAR MR. CHAIRMAN: Your letter of February 7, 1961, requested a report from the Department on S.J. Res. 44, "To encourage the discovery, development, and production of domestic gold." The resolution would provide for incentive payments during a five-year period of not exceeding \$35 an ounce to domestic gold producers on conditions determined by the Secretary of the Interior except that no payments could be made during any period that the gold reserves of the United States equaled or exceeded \$23 billion. The resolution states that it shall not be construed to repeal, supersede, or modify existing provisions of law relating to the monetary system of the United States.

While the Department has some doubts about the economic desirability of U.S. Government subsidies for gold production, its comment is limited to the international aspects of the proposal. The Department believes that the enactment of this resolution would be likely to be misunderstood in foreign countries where it might be regarded as a modification of the existing U.S. monetary system. The President and other Government spokesmen have made clear the intention of the United States to maintain the value of the dollar. An action interpreted abroad as a modification of this firmly stated policy could lead to renewed uncertainty about U.S. intentions with consequent speculation against the dollar and conversion of dollar assets into gold, resulting in an increased drain on U.S. gold reserves. The Department does not believe that incentive payments to domestic gold producers would be a desirable method of trying to solve the balance-of-payments problem.

The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this report for the consideration of the committee.

Sincerely yours,

BROOKS HAYS, *Assistant Secretary,*
(For the Secretary of State).

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., May 8, 1961.

HON. CLINTON P. ANDERSON,
Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.

MY DEAR MR. CHAIRMAN: This is in reply to your letter of February 7, 1961, inviting the Bureau of the Budget to comment on Senate Joint Resolution 44, to encourage the discovery, development, and production of domestic gold.

The resolution provides for incentive payments over a 5-year period of up to \$35 per ounce on sales to the United States of domestically mined gold so long as the gold reserves of the U.S. Government are less than \$23 billion.

The Treasury and State Departments, in separate reports they are making to your committee, recommend against the enactment of Senate Joint Resolution 44 because of the uncertainty and speculation with regard to future gold prices which would result in foreign countries, where the legislation might be regarded as leading toward a modification of the U.S. monetary system. The bill is regarded as an undesirable approach to the basic problem of our balance of payments.

The Department of the Interior, in the report it is making to your committee, indicates that domestic production could not be sufficiently expanded in the next few years to appreciably affect our reserve position in gold.

In these circumstances, the Bureau of the Budget recommends that this measure not be enacted.

Sincerely yours,

PHILLIP S. HUGHES,
Assistant Director for Legislative Reference.

TREASURY DEPARTMENT,
Washington, May 8, 1961.

HON. CLINTON P. ANDERSON,
Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.

MY DEAR MR. CHAIRMAN: Reference is made to your letter of February 7, 1961, asking for the views of this Department on Senate Joint Resolution 44, to encourage the discovery, development, and production of domestic gold.

The proposed legislation would provide for incentive payments to domestic gold producers in amounts not exceeding \$35 per fine troy ounce. The amounts and terms of such payments would be determined by the Secretary of the Interior. The authority would terminate after 5 years and no payments could be made during any period that U.S. gold reserves equaled or exceeded \$23 billion.

The Treasury Department does not believe that the institution of a system of incentive payments to gold producers would represent a desirable approach to the basic problem of our balance of payments. The enactment of a measure providing for such payments would be definitely harmful by encouraging uncertainty and speculation with regard to future gold prices.

Accordingly, the Treasury is opposed to the enactment of Senate Joint Resolution 44.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Very truly yours,

JOHN M. LEDDY.

Senator CARROLL. The first witness on the agenda is the distinguished and able senior Senator from Nevada, Senator Bible, ranking majority member of the Subcommittee on Minerals, Materials, and Fuels.

Senator Bible?

STATEMENT OF HON. ALAN BIBLE, U.S. SENATOR FROM THE STATE
OF NEVADA

Senator BIBLE. Thank you, very much, Mr. Chairman.

I, too, will follow your admonition and be very brief. We have very many experts here to attempt to guide us out of this maze that we find ourselves in in the field of gold and the field of silver. Certainly it is obvious that the costs of mining today have increased to such a point that \$35 an ounce for gold is unrealistic. The solution is not an easy one but it is one that I am very happy that you are probing and exploring today and I hope we can come up with something realistic.

On the subject of silver, I would like to make just a few comments. As you well know, the sales of free silver stock have been stopped. I think it was stopped at a date far later than it should have been. But since the stopping of sales of free silver, the market has risen from something like 0.81½ cents to first a \$1.04 plus and I think the current quotation is in the neighborhood of \$1.01, maybe just a little better than \$1.01. This move in itself increased as of today of some 0.10 cents an ounce on the price of silver has been of some assistance to the silver industry. I would think that this subcommittee, and then the full committee should speak out very strongly on the present legislation which is pending before the Banking and Currency Committee. Senate bill 2885, which is a bill designed to repeal the Silver Purchase Act and to do certain other definite things. It seems to me that now is not the time to repeal the Silver Purchase Act. I think the industry needs a longer look at the effect of the stopping of the sales of free silver.

One cannot obtain an objective viewpoint and a correct conclusion based on just 2 or 3 months' operation. I would think that it is very untimely to attempt to repeal the Silver Purchase Act at this time, particularly because of the fact that the mismanagement on the part of the Treasury is largely responsible for the state in which the silver industry finds itself.

Secondly, I would think there is no need whatever in giving to the \$1 and \$2 silver certificates the status of Federal Reserve notes.

As you well recognize, Mr. Chairman, the President of the United States without congressional enactment called in the silver certificates of \$5, \$10, and \$20 denominations and replaced them with Federal Reserve notes. If I am correctly advised, and I hope this hearing will throw some light on this, this would result in approximately an 8 to 10 year supply of silver, which is adequate without attempting to pull away the reserve back on the \$1 and \$2 notes. That should not be done as is attempted to be done in the bill now pending before the Banking and Currency Committee. I think it is also evident that the repeal of the silver transaction tax would bring about an orderly market because it would permit trading in futures. These are matters that are embraced within Senate 2885, and I recognize that this is not the committee which has jurisdiction over this particular bill, but I think since we are probing the problems of gold and silver, in the area of silver, at least, this subcommittee and, in turn, the full committee should speak out very strongly along this line insofar as S. 2885 is concerned.

I thank you very much, Mr. Chairman.

I will listen to these expert witnesses with a great deal of interest.

Senator CARROLL. I think Senator Bible makes the very important point that, in the addition to the exploratory nature of this hearing, it is also a good time to put to rest the ghost of a possible repeal, in this session of Congress of the Silver Purchase Act.

In the judgment of men who have intimate, personal knowledge of the situation, such action would not be the course of wisdom. It is my personal belief that the Silver Purchase Act will not be repealed in this session of Congress. At least that is my strong hope. We have here the sponsor of Senate Joint Resolution 44, the junior Senator from California, Senator Clair Engle. With the permission of the subcommittee I would like to call him at this time and then we will go back to some of the other members of the committee.

Senator Engle, will you come forward, please?

STATEMENT OF HON. CLAIR ENGLE, U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator ENGLE. Thank you very much, Mr. Chairman, and the statement that I have conforms to the admonition of the Chair with reference to brevity.

I welcome the opportunity to appear today in behalf of the bill Senate Joint Resolution 44, which is designed to encourage the discovery, development, and production of domestic gold.

When I introduced this joint resolution last year, I was joined by Senator Kuchel of California and Senator Case of South Dakota. This year I am pleased to see the active interest that Senator Gruening of Alaska and Senator Church of Idaho have taken in the legislation and to have their names added to the bill as cosponsors.

There has been a great deal of talk in the last couple of years about our declining gold reserves. Last year President Kennedy put into effect several programs to check the flow of dollars. These programs will certainly serve to put a brake on our gold outflow. But we still have to get at the other end of the problem—our steady decline in the production of gold.

With gold mines shut down at the same time that U.S. gold reserves are dwindling and being threatened by the continuing flow of dollars to foreign lands, one sure way to help the gold shortage is to get more gold.

If the brake fluid in your car has leaked to a dangerous level, you stop the leak and add more fluid. Our program for gold is as simple and as logical as that.

The supply of gold which our country needs for its reserves—a supply going to increase significantly until something is done to make it economically feasible for our gold mining industry to stay in business.

Gold is the only commodity I know of that has not increased in price since 1933. On the other hand, virtually every cost which the gold mining industry must contend with has continued to rise over the years.

The proposal embodied in Senate Joint Resolution 44 authorizes the Secretary of the Interior to make incentive payments, over and

above the price of gold, to domestic miners for a period of 5 years—long enough to restore U.S. gold reserves to \$23 billion, their approximate level 4 years ago.

The incentive payments would vary from mine to mine, depending upon what amount would enable each mine to get into production, but in no case would payments exceed \$35 an ounce above the \$35 market price. This provision recognizes that one mine can get into production at \$45 whereas another might take \$55. The legislation would not establish a two-price system for gold, nor would it affect the monetary price of gold—which would remain at \$35 an ounce. It would not disturb the value of the dollar. No payments under the program would be made during any period in which our gold reserves reach the \$23 billion level.

My proposal is aimed at restoring our gold reserves. President Kennedy has a clear-cut program for controlling the outflow of gold.

I have just read a Federal Reserve Board report that our gold reserves took a sharp drop last week, the worst decline since last November. I think we ought to face the fact that our gold reserves are in a critical situation and that we may suffer possible devaluation of our currency.

It is regrettable that the Treasury, State, and Interior Departments, and the Bureau of the Budget have seen fit to report unfavorably on Senate Joint Resolution 44. These Departments oppose incentive payments. They have not, however, come up with any alternative suggestions for stimulating the domestic production of gold.

I hope the committee will act favorably on my proposal. I sincerely believe that it will be effective in relieving the most depressed industry in the country and in replenishing our fast-disappearing gold reserves.

Senator CARROLL. I would say to the junior Senator from California, prior to coming to the U.S. Senate you were chairman of the House Committee on Interior and Insular Affairs, were you not?

Senator ENGLE. That is correct. I was also chairman at one time of the House Subcommittee on Mines and Mining.

Senator CARROLL. Is this the first time that there has been before the Congress an incentive measure of this nature?

Senator ENGLE. It certainly is not. I was the author of a great many of those. I was the author of the premium price plan for strategic and critical minerals and metals during the Second World War. I was the author, along with Congressman Charley Russell, who subsequently became Governor of Nevada, of a bill at the end of the Second World War. We have had incentive payments in the mining industry before.

As a matter of fact, we still have them to some extent today, as I am sure the chairman is well aware. We have had constant objection from the Departments to the incentive payment program.

We have also had them in some instances from the mining industry itself, because the mining industry doesn't like particularly the surveillance of agencies of the Federal Government over their operations. But I don't know of any other way to do it.

In Canada they do have an incentive program for gold production, as I am sure this committee knows. So this is not unprecedented. But it seems to me, with our gold supply dropping from \$23 billion

to less than \$17 billion at the present time that we need some kind of measures to get that gold supply back up.

As I said in this statement, if your brake fluid was leaking to a dangerous level you would not only stop the leak but you would put some fluid in at the top. That is precisely what we are talking about.

Mr. Chairman, before I forget it, may I ask unanimous consent that the statement of Congressman Harold Johnson, who succeeded me in representing the Sierra Nevada district, the second district of California, be made a part of the record.

Senator CARROLL. Without objection it is so ordered.

Senator ENGLE. Congressman Johnson is here but he may have to leave.

Senator CARROLL. We are happy to have him here. I assure you, his entire statement will be included in the record.

(The statement is as follows:)

STATEMENT OF HON. HAROLD T. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM
THE SECOND DISTRICT OF CALIFORNIA

Mr. Chairman, the Second Congressional District of California contains the mother lode and major California gold-producing counties which made our State famous in the days of the 49'ers. For myself and on behalf of the gold-mining industry of California, I want to express my sincere appreciation for the opportunity to be heard and discuss with you the critical conditions which exist in the gold-mining industry.

Gold was one of the first metals used by man and has been valued above all others because of its beauty, scarcity, and imperishability. It has become the standard of our world monetary systems. The search for gold has led to the settling of new lands. As I mentioned a moment ago, discovery of gold in California gave tremendous impetus to the great westward movement in our own country.

During the last half of the 19th century, the United States was the leading producer of gold in the world. Yet today it produces only 3 percent of the world's gold.

What happened to change the picture so drastically? Several things happened. The goldfields of Africa developed rapidly and this restless nation became the world's leading producer of gold in 1905. The United States held on to second place until about 1930, when it was displaced by Canada, and then a few years later the Soviet Union became the world's second largest producer of gold, relegating this country to fourth place.

This was a relative comparison, because the U.S. production continued to climb through the years, spurred by President Roosevelt's proclamation of January 31, 1934, increasing the price of gold from \$20.67 to \$35 per ounce. Production reached an alltime record of 4,869,949 ounces in 1940. This record was achieved even though at that time—two decades ago—profit margins had become so narrow that extremely efficient operations were required.

Gold mining became a casualty of World War II. War Production Board Order L-208 and other official restrictions denied gold mines equipment, supplies, and manpower. Mines were closed down. When order L-208 was lifted on July 1, 1945, 2½ years of idleness had left its toll. Many of the mines had watered up. Equipment had deteriorated from lack of use, and rehabilitation required great investment. Companies with closed mines had suffered financial losses from which they never were able to recover. Higher prices for equipment and supplies, and higher wages, combined with the difficulties of recruiting efficient labor forces, made former operators reluctant to reopen mines, especially when profit margins were even narrower than those existing in 1940.

During the war years of 1943-45, for the first time on record, over half of the domestic gold output was recovered from base metal ores and a pattern was established. Today, 28 percent of our gold production still is the byproduct harvest of the base metal industry. The Nation's second largest individual gold producer is a copper mine.

In spite of these difficulties, production staged a modest comeback from the depths of 1945 when the yield was only one-fifth of the 1940 record, until the

critical year of 1947 when domestic production reached 2.1 million fine ounces. From that time on, the trend has been downward due to continuously rising costs of gold mine operations and cutbacks in base-metal production.

Today production has plummeted to the lowest peacetime levels of the century. The 1961 production of gold declined to 1,526,757 troy ounces. This is approximately 150,000 troy ounces less than 1960 and the month-by-month pattern throughout 1961 was a declining one.

Mr. Chairman, we hear much of depressed industries. I think you would have to agree that the gold mining industry of the United States is one of the most depressed industries in our Nation's economy. Throughout the gold-producing areas of the United States, and especially in the gold-producing areas of California, the number of producers has declined steadily as more and more go out of business. Two decades ago there were 9,000 lode and placer mines in operation in this country. By 1960 there were only 400. World production has been following the opposite trend—upward. In 1961, the year in which the United States reached an alltime, peacetime low for this century, alltime record yields were realized throughout the world. World output of gold continued to rise for the eighth successive year, reaching a new record high estimated at 47 million ounces.

Mr. Chairman, the trends are shown by the following production chart:

Year	U.S. mine production (fine ounces)	World production (fine ounces)	Year	U.S. mine production (fine ounces)	World production (fine ounces)
1945.....	954,572	26,100,000	1954.....	1,837,310	35,100,000
1946.....	1,574,505	27,500,000	1955.....	1,880,000	36,300,000
1947.....	2,109,186	28,900,000	1956.....	1,827,000	38,400,000
1948.....	2,014,257	29,600,000	1957.....	1,794,000	39,600,000
1949.....	1,991,783	31,000,000	1958.....	1,739,000	40,600,000
1950.....	2,394,231	32,700,000	1959.....	1,694,000	42,800,000
1951.....	1,980,512	33,500,000	1960.....	1,667,000	45,000,000
1952.....	1,893,261	34,300,000	1961.....	1,527,000	47,000,000
1953.....	1,958,293	33,700,000			

Source: "Minerals Yearbook," Department of the Interior, Bureau of Mines.

You will note that when our national production of gold started its postwar downturn, world production continued to climb. About the same time other major gold-producing nations realized the seriousness of this situation and took action.

Canada, for instance, adopted a subsidy program which went into effect January 1, 1948. The immediate result was a 15-percent increase in production. Production of gold in Canada has been stable throughout the postwar years with the result that today the United States is importing large quantities of Canadian gold. The United States imports as much gold as it produces domestically. U.S. mines could produce much of this supply if our domestic mining industry was given the opportunity.

In this country, however, the opposite approach was taken. In 1947, the Treasury Department established new regulations under the Gold Reserve Act of 1934 with a view of curbing international gold transactions by domestic producers who could receive premium prices at international "free markets." This was done at the request of the International Monetary Fund, although most other major gold-producing countries of the world did, and still, permit a limited amount of this premium business in order to meet costs of operations.

I might note here also that the International Monetary Fund, in its annual report of April 30, 1948, took a dim view of subsidies being initiated in Canada. The Fund expressed a fear that the subsidy would "undermine the exchange relationships." After 12 years of operation, it appears that the Canadian program improved the Canadian balance-of-payment situation.

On the other hand, it would seem to me that the requirement which the United States has placed upon itself by restricting domestic production of gold to such a point that the United States must import the great preponderance of the gold it uses, has harmed the U.S. balance-of-payment situation.

This, then, is the situation the mining industry finds itself in.

I would like to emphasize that this is not the result of a reduced demand for gold. The steadily increasing amounts of gold being imported into this country are proof of this.

Gold imports to United States

Year:	Ounces	Year—Continued	Ounces
1955-----	2, 930, 000	1958-----	8, 120, 000
1956-----	3, 730, 000	1959-----	8, 485, 000
1957-----	7, 701, 000	1960-----	9, 323, 000

Source: "Minerals Yearbook," 1960.

Consumption in this country is increasing steadily. In 1960, net consumption of gold in domestic industry and the arts rose for the sixth successive year to 3 million ounces, a gain of 19 percent over 1959, according to data compiled by the Bureau of the Mint. The quality of gold thus absorbed by domestic consumers exceeded production from domestic mines by 1.3 million ounces.

Traditional and established uses of gold in jewelry, watches, and decorative articles, and in dental supplies, scientific, chemical, and other equipment continued to absorb large quantities of gold. New industrial applications of gold continued to be developed.

Gold was used for gold coatings in steering jets for space vehicles to reflect cosmic radiation. The steering jets, manufactured by Bendix Corp., and plated with gold 0.000040 of an inch thick, reflect 95 percent of all radiation to which an orbiting vehicle's surface is exposed. The small jet controllers, used to keep spacecraft from tumbling and rolling, are first sprayed with an epoxy and then placed in a vacuum chamber where vaporized gold is deposited on their surfaces. The coating is later baked for 30 minutes to complete the treatment.

Increased quantities of gold were used in matrix elements for semiconductor preforms. The material is electroneutral, wets readily to silicon and germanium, has excellent oxidation resistance, and its high thermal conductivity permits rapid heat dissipation from the junction. Gold-plated pressure-seal jackets were used in constructing large valves for a nuclear power station for protection against acid corrosion under high pressure at elevated temperature.

Increased use of gold coatings in architectural panels was reported by Hanovia Liquid Gold Division, Engelhard Industries, Inc., and greater use of gold alloys in manufacturing diodes, rectifiers, and transistors was noted. In a centrifuge built for testing instruments, electronic parts, and other assemblies at the Naval Underwater Ordnance Station, gold sliprings were used to obtain long life, superior power and signal connections, and lower noise level. A new radiation-resistant material, consisting of pure gold laminated to rubber-coated nylon, was developed for use in electronic devices and missiles.

A gold solution sprayed on vulnerable surfaces and baked to form a thin metallic film reduces the rate of heat transfer on engine shrouds, drag-chute containers, tail-cone assemblies and blast shields. A gold solution is applied to porcelain-enamel, stainless steel, fiberglass laminates, and other heat-resistant materials. Transparent conductive film of gold deposited electrically on safety glass was developed to overcome the hazards of obstructed vision caused on occasion by fog and frost on windows in transport vehicles.

In view of the increasing importance of gold for scientific and defense uses, I would call to your attention once again the fact that the Soviet Union and Africa, whose political future is anything but stable, are the leading producers in the world.

If there is a demand for this precious metal, why is production steadily decreasing? An artificial price of \$35 per ounce has been maintained since 1934. None of us has to be told how much the cost of operation, labor and materials has increased since 1934. Thus, the gold industry is faced with fixed prices and rising costs, with constantly declining reduction resulting. At the same time, we have had a substantial increase in the demand, due to these new industrial uses, many of them required for the defense of our Nation.

Whereas gold mines in some countries have been aided by subsidies, tax concessions, currency devaluation, and/or sales of their product at premium prices on the "free market", domestic miners have been held down to a price which brought prosperity to the industry through the 1930's but which does not reflect inflationary trends of later years.

One of the most distinguished gold mining experts from the Mother Lode district I represent, L. L. Huelsdonk of Downieville, Calif., has declared that the U.S. Treasury still sells gold to industrial consumers at approximately \$35 per ounce whereas the cost of producing gold has increased 300 percent since that price was established.

The \$35 an ounce price—while it may have to be maintained for world monetary and economic reasons—is not realistic when it comes to the actual production of gold.

Barron's (July 6, 1959) quotes a Soviet economic journal statement that the cost of Russian gold runs to about 660 rubles per ounce. This is equivalent to \$165 at the official rate of exchange, \$66 at the tourist rate.

It would seem appropriate at this point to comment on what some of the other gold producing nations are doing to keep their gold industries alive.

The nearest and most important country, of course, is Canada. The Emergency Gold Mining Assistance Act was first enacted in 1948 and has operated continuously ever since. It has been extended until 1963.

To be classified as a gold mine under the act, a mine must meet the following requirements:

1. The value of gold produced must be 70 percent or more of the total value of output of the mine.

2. The mine or operation must produce at least 50 troy ounces of gold in a designated year.

3. The cost of production, computed on all ounces of gold produced from the mine during a calendar year or less, must exceed \$26.50 per ounce.

In a designated period, e.g., a quarter, the mine must sell all its production to the mint to qualify for aid. Exporting the gold is considered the same as sale to the mint for the purposes of the act. The mine cannot both sell to the mint and to the free domestic market in the same designated period if it is to receive aid.

The formula for calculating assistance payable under the act consists of two factors: "the rate of assistance" and "the assistance ounces." The rate of assistance factor is based on the cost per ounce of gold produced while the assistance ounces factor is a specified proportion of the total ounces of gold produced.

The rate of assistance factor is determined by taking two-thirds of the amount by which the cost to produce an ounce of gold exceeds C\$26.50 up to a maximum of C\$12.33. The number of assistance ounces factor equals two-thirds of the total ounces produced. The amount of assistance payable is calculated by multiplying the rate of assistance by the assistance ounces.

To the foregoing, the 1958 extension of the act added an extra 25 percent of the amount payable in computing the final amount to be paid. This extra 25 percent is continued in the present bill.

The Minister of Mines and Technical Surveys, Paul Comtois, says that the Canadian gold mining industry employs over 16,000 men directly in dependent communities with population in excess of 70,000 persons. In 1958 the industry expended C\$106 million in salaries and wages, fuel, electric power and supplies and equipment, and produced a total of C\$155 million in gold, most of which was sold to the United States.

A summary of the payments made during 1959 under this program follows:

Cost per ounce	Number of mines	Percentage of total production	Assistance payable	Assistance payable per ounce produced
A. Lode gold mines:				
\$26.50 to \$34.....	10	53.35	\$3,548,901.97	\$3.32
\$34 to \$41.....	12	24.45	2,776,600.43	5.69
\$41 to \$45.....	7	10.52	1,837,545.39	8.68
\$45 and over.....	11	11.57	2,337,313.88	10.27
Total.....	40	99.89	10,500,361.67	5.26
B. Placer gold mines.....	2	.11	23,590.05	10.27
Total.....	42	100.00	10,523,951.72	5.26

Source: Department of Mines and Technical Surveys, Government of Canada, report on administration of the Emergency Gold Mining Assistance Act.

Australia, whose production (1.08 million ounces in 1960) nearly equals that of the United States, has extended its Gold Mining Assistance Act for 3 more years. At the same time, the maximum assistance was raised from \$7.70 an ounce to \$9.10 an ounce. Gold output in the Philippines (410,618 ounces in 1960) is supported at the price of 150 pesos per ounce, equivalent to \$75. In the

Union of South Africa, the world's leading producer of gold, tax concessions are extended as additional amortization allowances to deep mines. The Ghana gold fields are benefited directly through a program of financial assistance to mining companies for development of new properties and expanding operations and through a 3-year mines training course supported by the government to educate Africans in mine operation. Ghana also is reported considering a subsidy program.

Columbia, the major South American gold producer which had a 433,947 ounce yield in 1960, also has a subsidy program in effect.

In international gold production subsidy or incentive payments are not uncommon. In fact, it appears that this is the only way that production levels can be maintained.

Certainly, in our own national picture, subsidies are no strangers. In addition to the more common agricultural subsidies, there are Federal assistance programs for many industries, including transportation by air, rails and sea, and many others.

The Joint Economic Committee prepared a report on "Subsidy and subsidylike programs of the U.S. Government" during the second session of the 86th Congress. In reporting the scope of subsidies, this report included a list of the types of subsidies granted by the Federal Government. These cover seven full pages, listing everything from school lunch programs to disaster loans for small businesses.

So broad and complex is the scope of the subsidy program, that the committee report (p. 18) states "It is probably impossible to make an estimate of the total subsidy payments of the Federal Government during any single year that would receive general acceptance."

The committee did, however, attempt to make an estimate covering agriculture, business, labor, homeowners, tenants, and civilian and national defense stockpiles. These added up to \$7,460 million in 1960.

In the minerals subsidy review, the Joint Economic Committee listed many commodities, from aluminum to zinc. Gold was not among the minerals whose industries were receiving benefits through tax amortizations, loan guarantees, subsidy or other assistance programs.

This study concluded: "It is apparent from the foregoing discussion that, in the course of our history, the Federal Government has engaged in a great variety of subsidy and subsidylike programs. Originally they were limited substantially to assistance to transportation interests, to encourage foreign trade and domestic expansion and development; more recently subsidies have expanded to the point where few segments of our economy are completely unaffected by them. Diverse as these subsidy programs are, it is unrealistic either to condemn or to praise Federal subsidies as such. Each particular program which is determined to contain an element of subsidy must be judged independently, taking into account the economic, social, and political conditions prevailing at the time."

And in conclusion, I would like to point out an indirect subsidy we are making to the economies of foreign nations. Some of this economic assistance, I am sure, will find its way to the mining industries.

I speak now of our Public Law 480 grants to other countries. Two examples are the recently approved agreement with Brazil whereby that nation acquires some \$70 million worth of grain from this country. All of the grain will be paid for in Brazilian currency and all the Brazilian cruzeiros will stay in Brazil.

Twenty percent of the \$70 million—some \$14 million—will be given back to the country as a direct grant for economic development. Sixty-five percent—\$47,500,000—will be loaned back to Brazil for economic development.

A similar situation exists in India where \$1 billion in farm commodities has been authorized for delivery. Of the \$1 billion, India is "paying" for these farm commodities, \$420 million is being given to India as an economic development grant. Another \$427 million is being loaned to India for similar economic development.

The cost of this gold mining incentive program, which would benefit one of our own industries, would help our own economy, would be slight compared to these tremendous and great grants and loans.

In return for our investment, this country would be aiding unemployment in reviving a badly distressed industry, would be stabilizing our own economy and would be building up our own gold reserves.

Senator CARROLL. On the premium legislative program, in either the 80th or 81st Congress, I recall a House bill dealing with gold. I don't know whether it passed the Senate. Did that bill involve incentives for gold? The purpose of my question is, if that bill had been adopted, what would be the state of the gold mining industry today from a production standpoint?

Senator ENGLE. At one time or another we have had legislation either to raise the price of gold or to subsidize the production of gold or to create a free market domestically for newly mined gold. None of these bills have ever gotten anywhere.

The latter suggestion, for instance, was one that I made because actually the commercial and professional and artistic uses of gold today in the United States exceed the annual production of gold in this country. As a consequence the Treasury is, in effect, subsidizing the professional, commercial, and artistic use of gold throughout the Nation because those users of gold get it out of the Treasury at a price less than it costs today to produce it.

Senator CARROLL. I thank the Senator very much.

Are there any questions, gentlemen?

Senator CHURCH. Mr. Chairman, just one question.

Senator, the statement you have made is an excellent one. You focused attention upon our dwindling supply of gold. Don't you think the picture is changing in gold even as it changed with silver, and that as we draw down upon our gold reserves, owing to the steady drain caused by the imbalance of payments that we are soon going to reach the point where the gold reserve in the Treasury is insufficient to meet the statutory requirement for backing the currency? Therefore, it is going to become mandatory that we furnish incentive to increase domestic mining in order to refurbish the necessary reserves in the Treasury, that the law itself calls for.

Senator ENGLE. If we take the amount of claims of foreign holders of dollars against our gold today and add it to the required amount of money for reserves behind our currency, we are already short.

Senator CHURCH. That is true.

Senator ENGLE. The Government doesn't think that these holders of these dollar claims will step in and make the claims. They are just betting that they won't. A good many of those people are in nations where even today they are the beneficiaries of the various programs that we have. I would suppose that they would think that they had a certain amount of leverage. But the plain fact is that the total claims against our gold today plus the requirements for the backing of our currency leaves our gold supplies at this moment inadequate.

Senator Gruening put a statement in the record and I am sure he will elaborate a little more today with reference to the precise situation on that point.

Senator CHURCH. I think that deserves a great deal of emphasis because that picture is rapidly deteriorating. If we continue to see a gold outflow in the neighborhood of some \$3 billion a year we are going to reach the point where even the statutory requirement for backing the currency is going to be severely tested.

I think this means that we should look ahead and provide the necessary incentive to increase domestic production of gold. The national

interest is certainly going to require it. It already does but the situation is going to become more severe as time passes.

Senator ENGLE. I am certain that is correct. I would also add that there are people in the Treasury Department and elsewhere in the Government who believe we ought to eliminate the gold requirement behind our currency altogether. Perhaps they will welcome the time when we face that issue.

I don't know. In my opinion, this country is not yet prepared to take that kind of a step.

Senator DWORSHAK. Senator, have you estimated the potential amount of gold that could be produced under the stimulus of this joint resolution?

Senator ENGLE. It is very difficult to estimate. What I put together was really something to try out because you can't really tell. The gold mining industry is in such serious straits we don't know how many of those mines would open up, even under any kind of an incentive program. But I thought after a year or two look at it, we could take a reading on it and see. I put exterior limits on both the price and the amount; that is, if the amount got to \$23 billion we would stop the incentive payment which would never be more than \$35 in addition to the monetized price. We would have to take a look.

I suppose you would have to survey the industry. Maybe some of these gentlemen who are here can give us a much better estimate of that. All I know is that every gold mine in the Second Congressional District I represented, represented today here by Congressman Johnson, has closed down.

Senator DWORSHAK. I was just pointing out that if we are losing \$2½ to \$3 billion worth of gold yearly, do you think that this subsidy approach might stimulate and increase the production to the extent that it would largely offset this \$3 billion every year?

Senator ENGLE. That is exactly the question I cannot answer because only a survey of the industry in great depth would give you that information.

Here is what I do hope, however: that it would undertake to increase the production of gold and that while we are working at that end of the problem the President of the United States is also undertaking to stop, if he can, or to slow up, at least, the outflow of gold and to redress the balance tradewise.

Senator CARROLL. May I say that Senator Dworshak has asked a very good question. You have read the report of the Department of the Interior in opposition to this resolution?

Senator ENGLE. Yes, I read it.

Senator CARROLL. There is one paragraph in that report that I think the other witnesses ought to address themselves to, because it goes to the heart of the matter.

I quote from a section of that report:

With an incentive of \$35 an ounce, gold production might be doubled, but at this doubled rate it would take about 42 years to replace from domestic sources the monetary gold reserve lost since 1957. It can be seen, therefore, that one of the objectives of this resolution to augment the gold reserve of the United States would not be accomplished in an appreciable way.

I don't entirely agree with that conclusion, but I think this is the point that Senator Dworshak has put his finger on. If it would take that length of time, we might not be able to restore the \$5 billion that

we have lost from our gold reserves in the last 4 or 5 years. But we can stimulate the economy of the gold mining industry. We can restore these mines and we can put people to work.

Certainly, as Senator Church, of Idaho has indicated, we need more gold in this country. We have got to have it.

Senator ENGLE. Let me say this. It certainly indicates that this proposal is modest enough.

Senator BIBLE. It also indicates, Senator Engle, as you say there are no gold mines producing in California today, twice nothing would still be nothing.

Senator ENGLE. Our gold production today is byproduct production from other types of mining, by and large. Except for the home State in South Dakota, I do not know of a single major gold mine in this country open today. That is a fact.

The fact is that we get byproduct production of gold and that is all. Today, as I said, the commercial, professional, and artistic uses of gold in this country exceed the total domestic production of gold.

Senator CARROLL. Senator Miller?

Senator MILLER. I would like to ask you a couple of questions, if I may.

First, why did the sponsors of the bill select \$23 billion as the stopping point?

Senator ENGLE. I wrote the bill and the reason I selected it is because that was the level at which we had our gold reserves when this drain commenced. We want terminal facilities someplace. We didn't want an open-ended program. It seemed to me if we could get our gold reserves back to where they were before this drastic and dangerous outflow occurred, that that would be a good place at least to put the terminal facilities at this time. That is why that particular figure was selected.

Senator MILLER. Do you think that is a realistic level? Just because it was a level a few years ago, I am wondering if the present situation warrants such a level.

Senator ENGLE. I would say this. That when the gold reserves started to go below \$23 billion and came on down to \$22, \$21, and so on, then is when the administration and our Treasury people and our fiscal experts began to get uneasy about it. So, if they were comfortable at \$23 billion, I thought we would just go back to \$23 billion or at least make that terminal facilities on a bill which is admittedly a trial effort to see what we can do to get more gold in.

Senator MILLER. Thank you. The second question: Do you know how much the incentive payments are that are being made by Canada?

Senator ENGLE. I don't know, but that is ascertainable. They are in several forms, it seems to me. I think they have a tax incentive as well as a direct incentive. I would leave that to the experts. I have been informed that over the years Canada has subsidized and aided its gold production.

Senator MILLER. What I was getting at was, if, for example, the Canadian incentive amounts to one-half the regular price of gold, whereas your bill provides for up to twice the regular price of gold, would it be suitable with the proponents of the legislation to parallel the Canadian approach by keeping it at one-half rather than double the price? In other words, let us say Canada had \$35 an ounce and

their incentive payments amounted to \$17.50; why should we go over \$17.50? Why not just parallel Canada?

Senator ENGLE. That, perhaps, would be all right if our situation was the same as Canada's. As far as I am aware, the Canadian money is not in bad shape at the present time. Our purpose is to prevent and to stop the depletion of our own gold.

It seems to me that whatever needs to be done to do that, we should do, whether it necessarily parallels what Canada does or not.

Senator MILLER. The third matter relates to the letter from the Executive Office of the President, the Bureau of the Budget, in which Mr. Hughes, the author of the letter states that the bill is regarded as an undesirable approach to the basic problem of our balance of payments. I don't know what Mr. Hughes is getting at. I suspect that the administration and President Kennedy, in particular, are trying to do something about the balance-of-payments problem, certainly very largely through their present efforts to get other nations to bear a fairer share of the aid to developing nations.

If that is so, that is the approach of the Bureau of the Budget, perhaps we should try to do something about the foreign aid situation. Then I have this problem. The President has come out and asked for about \$4.4 billion in foreign aid and said every single cent is absolutely essential. The taxpayers are going to have to pay for this. Maybe that could be cut down if these other nations would foot a fair share of the bill. But apparently, as of now, they are not going to.

If we come along and impose an incentive system on gold, the taxpayers are going to have to foot that bill, too. The Senator, I am sure, is acutely aware, as all of us are, of the very serious deficit situation that we are in now. I read articles by economists, certainly people who know far more about the problem than I, pointing out that one of the reasons for our balance-of-payments problem is because of our deficit situation, and the lack of confidence on the part of international bankers in our currency. It seems to me that if we follow this particular approach that we are just going to aggravate the situation.

Either the taxpayers have to pay more taxes to foot the bill or we are going into the hole still further and aggravate our deficit situation still more. I suspect this is what the Bureau of the Budget is driving at.

I don't know very much about this. This is the first time I have had the privilege of sitting on this subcommittee in this session. If the Senator has any replies to this problem that I have just posed, I would certainly welcome it.

Senator ENGLE. Yes, I would comment to this extent. It is my belief that the Bureau of the Budget in this language is referring to the proposition that the administration has apparently adopted the approach that the way to redress the balance with reference to our deficit is to increase our foreign trade. The administration so far as I am aware is unwilling to reduce substantially the amount of programs presently going into this foreign aid field.

In any case, the President's budget message on that subject that came up yesterday, where he asked for \$4.8 billion, is an indication that they do not regard it as in the national interest to substantially, at least, cut back these aid programs. Now we are not in a deficit posi-

tion tradewise at the present time. The deficit we face dollarwise comes from our expenditures overseas in these aid programs and in our military programs.

Now, if the administration says we can't cut those back much or very much, but the way to redress the balance so that we won't have a \$3 billion deficit is to increase our foreign trade program to at least \$3 billion. That is what they are talking about. That is why Mr. Hodges is up here, the Secretary of Commerce, testifying as he was yesterday or the day before that before the Ways and Means Committee, and that is why the President from time to time has pressed very vigorously on this new trade program. That is the way they think they should do it. But from my point of view, when we are down under \$17 billion in gold, we ought to do something to get the supply back up even while we are doing these other things, as best we can, in order to safeguard ourselves against the situation that Senator Church has mentioned.

This is my comment. I think their approach is to say, Let us pour it on and get more trade, and thereby redress that balance which occurs not because we have an imbalance in trade but because of our dollar expenditures overseas in these foreign aid programs and in these military programs which today they do not think they can substantially and safely cut.

Senator ENGLE. I don't want to argue the point, but you asked me how they approach it. I believe this is their approach. What I am saying is that we are prepared to do something to stop the leak in the spigot of the barrel, but we want to put something in the bunghole besides.

Senator MILLER. I, too, would not like to be argumentative about this but I would like to pursue this point further. The Senator knows that the reciprocal trade program necessitates substantial appropriations for trade adjustment assistance to industries and employees adversely affected by a reduction in tariffs. If we go along with the administration's program, that is going to be tax money to be spent to provide for that assistance, and if we go along on this line it is going to be more tax money, too.

I am deeply concerned about the serious deficit situation that this country is being faced with. The Senator knows that we already have a request to increase the national debt ceiling from the present \$300 to \$308 billion. I just wonder how we are going to get around this problem of increased deficit if we implement both the Senator's bill and the President's reciprocal trade program, or does the Senator suggest that we implement both and not worry about the deficit situation?

Senator ENGLE. I am worrying about the deficit. That is why I have this bill in. I think we will do a little of all three. I suspect that the Congress will cut to some extent some of these foreign aid programs as it has in the past. I suspect also that the Congress will undertake to support and implement as best it can, a program to increase the trade of the United States, as we did last year when we passed our bill on tourism. That bill is in effect now to try to bring in more travelers and increase our position there.

I think they will work on both of those to some extent. I think it is also necessary to do the thing we are trying to do in this bill, and

that is, add to our gold reserves and get them back up to acceptable levels so that our currency is not jeopardized.

How much you do of each is a matter of degree. Some Members will vote against the whole foreign-aid program. Some will offer amendments to cut it more than others. Some will go whole hog. But the tradition and the history of the case is that Congress has cut it back somewhat. Then I think in the affirmative side, trying to develop trade that Congress will undertake to implement as intelligently as it can the program sponsored by the President. But in the meantime, let us get some gold out of those hills and get it into Fort Knox so that our dollar doesn't get shaky.

Senator MILLER. Thank you.

Senator CARROLL. May I say, gentlemen, that we have witnesses who have traveled across the country. There are one or two that have to get out of here to catch a plane. I promised them that they would be heard early so that they can get their plane back home.

The American Mining Congress is meeting in Colorado tomorrow. They want to be there to attend and to discuss with that group what they have heard here today.

I am next going to recognize Senator Allott. Senator Bartlett has asked for permission to have 5 minutes, if he might. I don't want to limit him and other members of the committee who want to be heard on this matter.

Senator Gruening?

Senator GRUENING. I would like to have the privilege of questioning Senator Engle on some vital matters if he is going to stay on.

Senator CARROLL. Why don't you go right ahead now?

Senator ENGLE. Mr. Chairman, I would be glad to come back at a later time in deference to these people out of town. These hearings are going to go on for a while. I know they have come a long, long way, and it is a great disappointment to them. We can discuss these matters among ourselves at a time when they have already had a chance to testify.

I would be glad to do that or any way the Chair wants.

Senator CARROLL. Senator Gruening, if you care to ask some questions and clarify the record, there is no reason why you should not do it now.

Senator GRUENING. I don't want to interfere with the engagements of these out-of-town men, but I do think it is important at this point that we discuss the adverse reports of the Departments with a man as knowledgeable on the subject as Senator Engle, who has lived with this problem for years. I think it is important that this be brought out.

Senator CARROLL. You may proceed.

Senator GRUENING. I note in these various reports—the Interior Department's is apparently a reluctant report—and says, well, the executive branch is opposed to the enactment of legislation, and then the Interior Department goes on to say that mining is a fine thing. The figure that it would take 42 years to double the output seems to be obviously fallacious because the Department talks about doubling present production. As Senator Engle pointed out many of the gold mines are closed. If we had incentive payments a lot of these mines would be open and we would be dealing with an entirely different

figure than the figure of the Interior Department of 42 years which strikes me wholly unrealistic.

Senator ENGLE. Senator Bible made that plain, that twice zero is zero.

Senator GRUENING. Then I have a later report from Assistant Secretary Kelly and he seems to me to indicate in the second letter that obviously the Interior Department would like to act but it is the Department of the Treasury that makes the decision for the administration.

Now what is the decision of the Treasury Department based on? We have here its letter. After analyzing the legislation, it says merely that—

the Treasury Department does not believe that the institution of a system of incentive payments to gold producers would represent a desirable approach to the basic problem of our balance of payments. The enactment of a measure providing for such payments would be definitely harmful by encouraging uncertainty and speculation with regard to future gold prices.

Accordingly, the Treasury is opposed. If that is all the reason it has for opposing the bills its opposition rests on a very slender structure. Where is the evidence that this legislation would encourage uncertainty and speculation? We could certainly protect ourselves against that.

How do you feel about that?

Senator ENGLE. That is precisely why I wrote the bill the way I did. I discussed this at great length with Treasury people not only in this administration but in previous ones. They have always been afraid that we would jostle the position of the dollar in the international monetary markets. It has been pegged at \$35 to the ounce since 1933. They just didn't want the position of the dollar jeopardized. That is why they objected when I put in a bill several years ago to increase the price of gold to \$70 and Senator Murray who was then chairman of this great Committee on Interior in the Senate was the coauthor of that legislation.

The Treasury would not go for it because they said it would immediately, in effect, devalue the dollar. What this bill says is that the monetized price of gold will stay precisely where it is and we will subsidize the production of gold only to the extent necessary to make it possible for a miner to produce profitably; whether it is \$40 or \$45 or \$50. So there is not any way for the subsidy to act as a barometer to which you could tie a different price of gold or the monetized value of the dollar in the international market. The very flexibility in there prevents that from happening.

If you tied it to a solid figure like \$70 an ounce, they could say you have cut the value of the dollar in half. This is just a subsidy. Some fellow will come along and say I can mine the gold out of my mine for \$45 and the Interior takes a look at it and says, have at it and will give you a \$10 subsidy. He tries it. At the end they will take a look at the books and see how he came along. If he makes an unconscionable profit they would cut him back. He won't at \$45.

We had precisely this kind of arrangement under the act during the war for the production of strategic and critical minerals and metals. Senator Dworshak and a great number who have been around for years remember that. My answer to them is that we emphatically do not affect the monetized price of gold and we do not affect in the inter-

national market the position of the dollar any more than the traditional situation we have had with reference to silver has changed the position of the silver dollar.

Senator GRUENING. In other words, you agree with me that this argument of the Treasury Department is not well-founded. That is the sole basis on which the Treasury Department opposed it and that is the leading agency in opposing this legislation. The others all follow suit.

Senator ENGLE. That is correct.

Senator GRUENING. Now let us go to the State Department. The State Department in its report says that it limits its comment to the view that enactment of the resolution is likely to be misunderstood in foreign countries where it might be regarded as a moderation of the existing U.S. monetary system. It goes on to say that the President and the Government spokesmen have maintained clearly the intention of the United States to maintain the value of the dollar and action interpreted abroad as a modification of this firmly stated policy would lead to renewed uncertainty and so forth.

That is the same fallacy, is it not?

Senator ENGLE. Yes. As a matter of fact, it seems to me that they have the case in reverse. If we undertake to add to our gold reserves, which is another evidence that we intend by all costs to sustain the position and the stability of the American dollar it does precisely the opposite of what the State Department thinks it would do.

As a matter of fact, we had a run on our gold. President Kennedy made it so plain in the first few months of his administration that we were going to sustain the American dollar that they stopped it. For a period of months they reversed it.

As a matter of fact, we were pretty stable. I quoted in my statement the recent problems that we have developed and we hope they are only temporary. But it is my view that whatever steps we take and whenever our administration says we intend to support the position of the American dollar, whether they do it through a heavier trade program or whatever it is, or going out, for instance, just to say we are going to get in a little more gold in order to be sure that this dollar is solid, as a matter of fact, we do exactly the reverse of what my friend Brooks Hays, who was then Assistant Secretary of State and wrote the letter referred to, says in his letter.

Senator GRUENING. Mr. Chairman, I want to suggest, when we get to executive session, that we take these matters up again with the departments whose reports were made almost a year ago, since when our gold supply is further diminished.

I think we can prove that the executive departments are completely mistaken in their premises, and that this incentive payment bill will not do the things they allege. By it we are simply subsidizing the miners so they can produce more gold. We are not raising the price of gold. It will still be \$35 an ounce.

Senator CARROLL. May I say to the Senator from Alaska that we have invited each of these agencies to send a representative to hear the testimony that is being presented today. This is the first of these exploratory hearings. I suspect we will call them again and we will then have a full chance to cross-examine. But, as I interpret the report from the Treasury Department and the State Department, what they are talking about is the psychological effects upon the

speculative features of the dollar, especially in some of the big banks of Europe. I think we will have testimony here—which is, I believe, a matter of common knowledge—that the amount of outstanding loans held by these foreign banks, if converted into gold, would cause a serious drain upon this country. One comment was that it would cause financial chaos to us and to them, as well.

So, I think there is too much attention being paid to the psychological aspect of this. What we are talking about is something entirely different.

Can we produce gold, can we get this industry back on its feet? Can we get the gold miners working again? By so doing, despite what Interior says about it taking 42 years, can we get enough gold moving to make it worth while? I think Senator Miller has made some very important points. We should consider all these together. If there are no further questions on this point of Senator Engle, we thank you.

Senator ENGLE. Thank you very much, Mr. Chairman. I certainly appreciate your courtesy.

Senator CARROLL. You have had years of experience. You have made an excellent statement in this hearing.

Senator ENGLE. Thank you.

Senator CARROLL. Will the Senator from California yield for the purpose of permitting Senator Allott speak for 5 minutes?

STATEMENT OF HON. GORDON ALLOTT, U.S. SENATOR FROM THE STATE OF COLORADO

Senator ALLOTT. I have a 3-minute presentation. I have an Appropriation Committee meeting I will have to leave for immediately.

Mr. CHAIRMAN. I am not a member of this subcommittee, but my interest in this question goes a long way. The hearing today by this committee of an exploratory nature is certainly confronted with serious obstacles.

Senate Joint Resolution 44, which forms the basis of the inquiry offers a subsidy bill which would authorize the Secretary of the Interior to purchase gold at \$70 per ounce over the spot of 5 years. This administration is of the same opinion as earlier once in its adamant stand against changes in gold policy.

The Departments of State, Interior, and Treasury reported unfavorably upon the resolutions as has the Bureau of the Budget. I have been interested in resolving the mining industry's problem and, in the 86th Congress, introduced S. 1539—I ask, Mr. Chairman, that a copy of this bill, which is very short, may be placed in the record at this point.

Senator CARROLL. Without objection, it is so ordered.
(The bill referred to, S. 1539, follows:)

[S. 1539, 86th Cong., 1st sess.]

A BILL To prohibit sales of gold by the Government for commercial use or for the arts, or for the purpose of lessening the price and value of gold

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That all gold held or bought by the United States Treasury, or mints, or assay offices, or by the Federal Reserve banks, shall be construed to be monetary gold. Such gold shall not hereafter be sold for commercial use or for the arts, and no gold shall hereafter be sold by the

Treasury, or by the Federal Reserve banks, or for the account of the Treasury or of such banks, directly or indirectly, in the United States, its territories or possessions, for the purpose of depressing the market in gold or lessening the price and value of gold.

Senator ALLOTT. My bill would have prohibited the sale of gold by the Government for commercial uses or for the arts. It would have enabled gold produced domestically to compete for the industrial and artistic market and to establish competitive prices reflecting the expense of producing gold under current labor and operating costs.

As a result it was my hope that the gold mining industry would be able to receive a price for the product commensurate with the cost of production and the stimulus would be injected into the depressed mining industry. S. 1539 of the 86th Congress received no more enthusiastic reception than Senate Joint Resolution 44. The Treasury reported that such a bill would tend to undermine the confidence in our monetary system. If this subcommittee faces all the challenges confronting it, not the least will be the charge often made that hearings of this nature are an exercise of futility. It is no mean task to overcome the predisposed flatfooted unyielding position adopted by the agencies.

The challenge is severe. No ordinary information can be developed. The customary ground has been plowed through more than once. At the very least a solution to the gold problem needs skill, experience and keen understanding. Here today are witnesses of that caliber who will be offering testimony. Among them is my good friend from Colorado, Merrill Shoup. He is highly regarded and respected and there is ample justification for this.

I have read his statement which was furnished to me yesterday and I commend to my colleagues, particularly, Mr. Chairman, the attached charts of his statement. I find in them thoughtful appraisal of present dangers and shortcomings of our monetary policy, as well as a clear recital of the Colorado Cripple Creek gold industry problem.

Mr. Chairman, often the greatest triumphs have been achieved in the face of severest adversity. This hearing offers an opportunity to prove this truism but more important in so doing, offer hope to our western mining industry. It is my understanding that in the capacity of observers departmental representatives are in attendance. I trust that at the conclusion they will leave with a more optimistic outlook.

I would like to comment specifically on one thought which I have discussed with Mr. Shoup and which I hope will be injected into these hearings, and that is the potential and postdanger in the event of further depletion of our gold reserves in this country, and the possibility that Russia itself might some day establish a monetary system backed by a substantial gold reserve which in the face of the depletion of our reserves should have a very disastrous effect upon this country.

I want to thank you very much, Mr. Chairman, for the opportunity to make this brief statement. Since I will have to leave almost immediately, I am sure that the Committee and the gentlemen will understand.

Senator CARROLL. Thank you, Senator Allott, for your fine presentation.

Now the Chair will recognize Senator Church who has a very important committee meeting to attend and who has already been extremely helpful to us in this matter. Incidentally, he is one of the leaders in the fight for what has happened beneficially to silver. We would like to hear from Senator Church.

STATEMENT OF HON. FRANK CHURCH, U.S. SENATOR FROM THE STATE OF IDAHO

Senator CHURCH. Thank you very much, Mr. Chairman.

I intend to return a little later and follow these hearings through the day because I regard them as of very great importance to the mining industry of the West. I want in that connection to express my appreciation to you, Mr. Chairman, and to all the members of your subcommittee, for the concern for the gold mining industry which prompted the scheduling of these hearings. I am grateful, also, for the chairman's courtesy in inviting me to sit with the subcommittee at this time.

As you know, I am sponsor of Senate Joint Resolution 44 which would authorize the Secretary of the Interior to make incentive payments up to \$35 an ounce for newly mined gold. Although this has seemed to me to offer the best chance of breaking the stalemate on the gold question, I hope the subcommittee will use these hearings as a means of compiling the broadest possible record so that any new arguments which may be presented in favor of this resolution and any case which can be made for alternative approaches will be available in the record of these hearings for future study.

When I became sponsor of Senate Joint Resolution 44 I made a brief statement on the Senate floor of my reasons for supporting this measure.

I would like, Mr. Chairman, to ask your permission to include that statement at this point in the record.

Senator CARROLL. Without objection it is so ordered.

(The statement of Senator Church referred to above follows:)

[From the Congressional Record, Washington, Feb. 8, 1962]

**ENCOURAGEMENT OF DISCOVERY, DEVELOPMENT, AND PRODUCTION OF GOLD—
ADDITIONAL COSPONSOR OF JOINT RESOLUTION**

Mr. CHURCH. Mr. President, there was a time when gold touched directly the lives of nearly every westerner. Thousands of our people were actively engaged in search for it, or in actual mining operations. Many thousands more had financial interests in gold properties or in prospecting ventures. The rest of us, in former days, followed avidly the account of new strikes, saw gold in daily use as a medium of exchange, and carried gold coins—sometimes handed to us with great ceremony by our grandfathers—in our pockets.

There was also a time, Mr. President, when gold was one thing our country seemed to have enough of. We were bankers to the world, and the legendary hoard at Fort Knox seemed inexhaustible.

Now the western gold mines, with few exceptions, are closed. Our gold reserves have been drawn down to the danger point. And gold, itself, the precious metal extracted from the earth, is seen by most of us only in our wedding rings.

Mr. President, there is a plain and simple reason why gold is in short supply. The price of gold has been fixed, by Government order, at \$35 an ounce, while everything required to find and produce it—from the prospector's time to the flotation cell—has doubled or tripled in cost.

Just as the cause for the scarcity of gold is plain, so also is the remedy; let the price of gold rise in a free market to reflect its real worth.

But we are told that this cannot be allowed to happen, because it would mean devaluation of the dollar. Now it would seem to me that it is gold, not the dollar, which is being devalued. Keeping the price of gold at \$35 an ounce has not insured that \$35 will buy the same suit of clothes, or the same month's supply of groceries, or even the same week's stay in a hospital that it would have brought in the thirties. Yet concern for the dollar seems destined to keep the price of gold fixed, and forces us to seek an alternate method for breaking the stalemate. And there is an alternative. We can restore production, and bolster our sagging reserves by paying an incentive for newly mined gold.

This is precisely what Senate Joint Resolution 44, which was introduced in the Senate last year by the junior Senator from California, Mr. Engle, would authorize. Under the terms of this resolution, the monetary value of gold would remain unchanged at \$35 an ounce, but the Secretary of the Interior would make incentive payments, up to an additional \$35 an ounce for new production. The modest sums required for the incentive payments would come from general tax revenues. A part of this investment would be returned to the Treasury through the increased taxes paid by the rejuvenated gold mining industry; for the rest, the taxpayer would own his share of steadily increasing gold reserves in the Treasury, and the whole country would benefit from an easing of our balance-of-payments difficulties, and the consequent strengthening of our position in international trade and finance.

Mr. President, Senate Joint Resolution 44, which is pending in the Interior and Insular Affairs Committee of the Senate, deserves attention and favorable action. I ask unanimous consent that my name may be added to those of the junior Senator from California, Mr. Engle, the senior Senator from California, Mr. Kuchel, and the junior Senator from South Dakota, Mr. Case, as a sponsor of this joint resolution.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Senator CHURCH. In that connection, Mr. Chairman, I also have from Idaho constituents, who are leaders in the gold mining field, letters and telegrams, all in support of S.J. Res. 44. They are not bulky and they are very pertinent to the question.

For that reason I should like to ask permission of the committee to include them in the record at this point.

Senator CARROLL. Without objection it is so ordered.

(The documents referred to above follow:)

LEWISTON, IDAHO, March 14, 1962.

Re Senate Joint Resolution 44.

HON. FRANK CHURCH,

Senate Office Building, Washington, D.C.:

Companion Grace Pfost rehabilitated and ready to run on 100 tons per day basis; Center Star mine, substantial producer of gold and silver until 1958 remains idle; proposed incentive would make operation possible thereby alleviating critical unemployment in Elk City area. Appreciate your untiring efforts in this most important cause.

CENTER STAR GOLDMINE, INC.,
H. C. LYNCH, *President*,
GENEVIEVE WARD, *Vice President*.

SEATTLE, WASH., March 14, 1962.

Senator FRANK CHURCH,
Subcommittee on Minerals, Materials, and Fuels,
Washington, D.C.

DEAR SENATOR CHURCH: In regards to your committee hearing on Thursday, March 15, pertaining to incentive payments for gold production, am sure that you and members of your committee have the full support of millions of miners and stockholders in the Northwest. Good luck.

JACK DUNN.

MOSCOW, IDAHO, March 14, 1962.

Senator FRANK CHURCH,
Senate Building, Washington, D.C.:

We are deeply interested in favorable action on S.J. Resolution 44. It will be of great assistance in reestablishing the mining industry; a basic industry of the State of Idaho. We must have the help of Congress to again make gold mining profitable and create jobs to alleviate the serious unemployment situation in our State.

Democratic Central Committee, R. Cecil Lovel, chairman; Doris Lawton, vice chairman; J. R. Inscore, State committeeman; K. Pell, State committeewoman, Albert Olsen Treasurer.

MARCH 15.

U.S. Senator JOHN A. CARROLL,
*Chairman, Subcommittee on Minerals, Materials, and Fuels,
Washington, D.C.*

MR. CHAIRMAN AND MEMBERS OF THE HEARING PANEL: I am Ernest Butler, Culdesac, Idaho, a bona fide gold miner and president of the Wonder Mining Co., Golden, Idaho.

I would like to give to the committee a concrete example of the deplorable condition one gold mine is in because of the extreme low, set price of gold.

The Wonder Mine is one of many hundreds of mines situated in an area near Golden, Idaho, in the heart of a rich gold country in central Idaho, better known as the Elk City-Golden-Buffalo Hump goldfield. This area is one of the Nation's larger gold-producing areas.

The Wonder Mine is no different than any other lode mine in the surrounding area—all are closed down and idle, some completely abandoned, because some feel all hope is gone that there will be a price rise in gold. However, many operators are still waiting for a realistic price for gold.

The Wonder Mine was discovered in 1906. Through the years, a sizable amount of work was done in making several tunnels and raises, exposing a considerable amount of gold ore. In the 1910's ore was shipped by horseback to a processing plant. In the 1940's just before the Executive Order L-208 came to close the gold mines, the Wonder Mine was producing well. This mine, although equipped with ball mill, jig, classifier, concentrating tables, etc., could not continue to operate and compete with rising costs. We were only trading dollar for dollar, so we decided to wait till gold prices were sufficient to make a reasonable profit.

I would ask you, what is one to do with a large investment that cannot operate except at a loss, with the added burden of expense for upkeep and maintenance which is a dead loss? It seems there is enough logical reason why something should be done about the \$35 an ounce gold prices to meet the current prices of today.

Gold mining is a business. We need the gold and men need the work. Some men have already saluted gold mining with these passing words, "A memento to a past industry." The gold mining industry has taken on a glamor that sets it above and aside from any other form of mining. Glamor or no glamor, the gold miner still exists, and like the coal miner, chrome miner, and copper miner, must eat and buy clothes for himself and his family. Trying to mine gold at the present time is no picnic, and making a livelihood is impossible, so the miner seeks gainful employment elsewhere.

I don't need to mention that our gold mines are not depleted and fabulous treasures of gold are still stored in the earth yet to be discovered and mined. We must be reminded also that it is the gold prospector who has helped to discover rare metals. Give the miner an incentive gold price and he will add greatly to support our Nation's economy.

The price of gold was set at \$35 an ounce by President Roosevelt in his first term at a time when bread was selling for a dime or less a loaf; today that loaf is 30 cents. At that time a man worked at 35 cents or 50 cents an hour; today a skilled tradesman makes 8 or 10 times as much per hour. In 1935, you could buy a car for \$1,000 or less; today the same make of car will cost you \$4,000 or more.

You are businessmen and you know that a business cannot operate at a loss or at 1934 prices. A manufacturer cannot do it, the farmer cannot do it, and certainly a gold miner is no magician, and he cannot do it either. As a result of these economical conditions, our gold mining industry has collapsed.

We must bear in mind that gold has helped to build our great West and has saved our Nation in the past from financial ruin when it was on the verge of collapse. If called upon, it can do so again.

Considering all these facts, the depressed gold mining industry bogged down by the present unrealistic set price of gold, the great loss of revenue to local, State and Federal Governments, the huge loss and deterioration of mining investments without compensation, the loss of employment potentials—thousands of men and women would find new jobs if the gold mines started operating.

This is more than enough said that we are justified in asking for a substantial gold price.

Respectfully,

ERNEST BUTLER,
President, Wonder Mining Co.

Senator CHURCH. Mr. Chairman, we have here in the hearing room several prominent spokesmen for the mining industry in Idaho. They are Mr. A. J. Teske, executive secretary, Idaho Mining Association; Mr. Robert Dwyer, spokesman for Day Mines, Inc.; and Mr. Ralph Hardy, president of Sunshine Mining Co.

These gentlemen will be testifying in due course. I know them all personally. I certainly do commend their views to the attention of the subcommittee.

Thank you very much, Mr. Chairman, for the opportunity to make this brief preliminary statement. I look forward with great interest to the testimony we are going to be hearing today.

Senator CARROLL. Thank you, Senator Church. We will be delighted to have you return. We need your help on this important hearing.

Without objection I will offer for the record at this time the very fine statement of the able senior Senator from California, Senator Thomas H. Kuchel. It will be put in the record at this point.

(The prepared statement of Senator Thomas H. Kuchel follows:)

STATEMENT OF HON. THOMAS H. KUCHEL, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

I regret that I cannot be with you this morning to hear the industry witnesses regarding various proposals which would rehabilitate the gold mining industry of our Nation. Action in this area is imperative and long overdue.

My own State of California is inseparably linked with the production of this precious resource from the time of the 49'ers to the present. But we need help. The fixed price of \$35 an ounce has been detrimental to the continued production of this rare commodity.

California's gold output has fallen from 1,456 (molecular weight) fine ounces with a value of \$50,948,000 in 1940 to an estimated 122 (molecular weight) fine ounces with a value of \$4,277,000 in 1960. This is tragic. It has meant a loss in jobs and a waste of capital investment and mine facilities. The national picture in recent years is no brighter. U.S. gold production declined from \$63,950,000 in 1956 to \$56,133,000 in 1959. Meanwhile, the Soviet Union today produces at least five times more gold than the United States. It uses this precious metal to carry out its nefarious task in the underdeveloped areas of the world.

Senate Joint Resolution 44, which I have coauthored with my colleague from California, Mr. Engle, and Senator Case of South Dakota, would go far to encourage the discovery, development, and production of domestic gold. It would not change the current price for gold paid by the U.S. Treasury. But it would, when the gold reserves of the U.S. Government fall below \$23 billion, authorize the Secretary of the Interior to grant an incentive payment up to an additional \$35 per ounce to encourage domestic gold production. This incentive payment would be temporary. It would vary depending on the amount needed to get a particular mine into production. It would exist for the short period of 5 years.

I believe we have offered one possible and reasonable solution to the present tragic impasse. I welcome the opportunity to learn of others and congratulate

the chairman of the Subcommittee on Minerals, Materials, and Fuels for arranging for the presentation of this testimony by representatives of our gold mining industry.

Senator CARROLL. Now we come to Senator Bartlett, senior Senator from Alaska, who, during his many years of public service, has been in the forefront of the fight to keep our domestic mining industry a going concern, both in his own State and elsewhere in the United States.

The subcommittee is glad to have you, Bob, and we know what you have to say will be based on fact and well thought out.

Senator Bartlett.

STATEMENT OF HON. E. L. BARTLETT, U.S. SENATOR FROM THE STATE OF ALASKA

Senator BARTLETT. Thank you, Mr. Chairman, and members of the committee. I do not have a prepared statement. I do have a wish, which I know cannot be granted, and that wish is that this committee, and this committee only, would make the ultimate determination on this bill regardless of any other Members of Congress or regardless of the administration.

It might be asked why I am not a cosponsor of this bill. I suppose if the truth were to be told my reasons might relate to an expression made by Senator Engle.

During the years gone by, ever since 1945, I have introduced legislation seeking to encourage the production of gold. I guess it is I have been washed through the sluice boxes so often that I am sort of sitting there on bedrock now healing my wounds. In that connection I want to say most positively that if there were no balance-of-payments problem at this time, if that had no pertinence, still we would find the administration opposed to doing anything for the gold industry.

At least experience so discloses, because the Truman administration was against anything of this kind when there was no balance-of-payment problem and so was the Eisenhower administration. Both were opposed to doing anything for gold even in the earlier days when there was no balance-of-payment problem.

Senator Miller sought to interpret, and perhaps he did so correctly, the reasons behind the Bureau of the Budget's report and, as I recall, their desire to have foreign countries contribute more to foreign aid. My prediction is that these efforts will fail and that a consequence will be that more gold will come out of Fort Knox.

I would say that even if the production were to be quadrupled under this bill, the taxpayers are not going to lose money because of it.

In the lifetimes of many in this room the price of gold will be \$70 or more per ounce. I think it is inevitable.

As for the State Department's reasons for opposition, as brought out by Senator Gruening, I would think that the fiscal experts of the foreign governments, concerning whose feelings we are so tender, would know a gold subsidy payment on the part of our Government for what it is, and they would not be as confused as the State Department suggests.

Mr. Chairman, I am going to be followed at some time during these hearings by people from Alaska much more knowledgeable than I on this subject. So I am not going into technical matters.

One of the witnesses from Alaska is James A. Williams, director of the Division of Mines and Minerals in the Department of Resources of the State of Alaska and another is James Crowdy, who has headed a big gold mining company in Alaska for quite some time.

Let me illustrate what has happened to gold mining in Alaska. The last year before the war, 1940, the dollar value of gold production in Alaska was \$26,493,740. Last year, 1961, it had declined to \$3,972,900. This output is practically all passive protection. We have no real quartz mine operation.

After 1963, if something is not done, our gold production will be virtually zero because it comes now to a very substantial extent from the operations of U.S. Smelting, Refining & Mining Co., at the Fairbanks and Nome dredging operations. They are phasing out. They will be concluded substantially at the end of next year and the great gold mining industry of Alaska will be a thing of history if nothing is done.

I think for many reasons this is bad. As a former gold miner myself I know this is a clean industry. It is constructive. Gold helps the Nation. Economists often tell us, and often write, that gold is not of any consequence anymore. I have read that so often, all of us have. Yet, when it begins to flow out of the country by the billions these same economists cry out in horror and say we have to do something to stop the outflow of gold.

I can't reconcile those viewpoints. I do know that our troops often suffer in this situation. They can't take their families overseas with them as they were formerly permitted to. Their buying practices are circumscribed in service abroad because of the outflow of gold. We can redress that.

Under this resolution, production of gold won't be doubled. It will be increased much more than that. I do wish that another formula could have been drawn in this resolution because I am confident that an unwilling administration, if this measure were to become a law, would give too often the minimum instead of the correct amount.

Now I shall conclude, Mr. Chairman and members of the committee, since I know you have many witnesses and most of them from out of town, by saying that something of justice and something of equity ought to operate here.

Here in this land of free enterprise, in this land of competition, here is the only industry to the best of my knowledge where the Government says, "Your ceiling price established in 1933 must prevail. You sell to the Government. You can't sell elsewhere. We won't give you more than \$35 an ounce, but you are going to pay all your production costs according to the ordinary standards for every other industry prevailing in 1962."

I have never heard of the American Government acting similarly in any other instance and it is unfair, it is wrong and it ought not to be tolerated. Merely because there are so few gold miners, merely because the gold mining industry doesn't have a lot of effective lobbyists, merely because the voice of the industry and the miners can't be heard effectively is no sound reason in this country why justice cannot

be served, and justice will never be served, I suggest, so long as the Government says, "We will give you no more for your product than we did in the days of long ago, during the days of the Great Depression, but you must pay wages and for materials according to present-day standards."

In conclusion, Mr. Chairman, I say, aside from everything else there is something terribly basically wrong with that.

Thank you.

Senator CARROLL. Senator, may I say to you that you have made a clear statement. You heard the question of Senator Gruening and his comments to Senator Engle concerning the attitude of the State Department and the Treasury Department to the effect that the reason we perhaps should not go into this is because it would have an adverse psychological effect upon foreign exchange markets.

The Department of Interior says we really cannot mine fast enough. Neither Department, as I study the reports, says that we don't need more gold. What was the reason given when you were a Member of the House in the 80th Congress?

I think the committee on which you served in the House then was known as the Public Lands Committee. It is the Interior Committee now. Didn't the administration say, in effect, that it didn't want to mine gold? As you pointed out very ably there then was no psychological effect on the foreign exchange markets. What was the reason given then?

Senator BARTLETT. It was all very vague to me and to those associated with me, or rather those with whom I was associated, I should say, with more modesty. There was hazy talk that such action would disturb the international monetary markets. It would do so in dark and mysterious ways that were never explained to us.

Boiled down, my conclusion always was that the opponents said: There are not enough of you fellows to do more than to raise your voices and we don't have to pay too much attention to you. If there were as many gold miners as there are farmers, for example, you would have a better chance to be heard.

I know, Mr. Chairman, that many monetary experts have said that the price of gold ought not to be raised. Whether they are right or wrong, who knows. Sometimes I think we laymen are as well informed on that as the men who specialize in the subject. But in any case, passage of this resolution wouldn't disturb the monetary situation. It would merely put more gold in our Government's tills, and as I suggested, in the long run it is not going to cost the taxpayers anything.

Senator CARROLL. May I ask if, from your memory, you can recall—this is before the Marshall plan, before we put \$17 or \$18 billion in Europe—there was some idea to reactivate the gold mining industry. What was the excuse given then for opposing such a plan? Was it that we didn't need gold?

Senator BARTLETT. The fiscal boys didn't want gold. I think this is a correct statement of their thinking in those days. As I say, it was dreadfully hazy. You came away from a meeting not comprehending. I don't blame myself entirely for lack of comprehension because I was in big company indeed. We would come out shaking our heads.

To boil it down, to restate what I already said, there was a total lack of interest in the problem on the part of the so-called monetary ex-

perts. That has been my experience here since 1945. If it was not this excuse it was that one. Now it is balance of payments.

Senator BIBLE. Just one question, Senator Bartlett, and I recognize you as one of the real authorities in this field.

What would happen if you had a free market for gold?

Senator BARTLETT. I will state a personal conclusion. That is all I can state and that is all anybody else can state. I think that the price of gold would be accelerated somewhat. I don't think it would go up nearly as much as the more optimistic would hope for. Often we read that the price of gold in Bombay or Calcutta or wherever it is, is \$70 an ounce, or at least this was the case a few years ago. So if we had a free market our gold would be bought anywhere for \$70 an ounce.

I think this is not true. I think that gold placed upon the open market by all the gold-producing nations in the world would prevent any increase in price to that extent. I do know, as you do, that today jewelers, for example, who need gold, pay a premium price for newly mined gold, ranging perhaps from, let us say, \$37.50 an ounce to perhaps \$47.50. This is nugget jewelry. I think it would add somewhat to the \$35 price if we had a free market.

Senator MILLER. I would like to ask my good friend from Alaska a question.

In the forepart of your statement I believe you said something to the effect that if the price was increased through the incentive payments the cost there really would not be a cost to the taxpayers?

Senator BARTLETT. In the long run.

Senator MILLER. Yes, sir. Because you foresaw the time when this price would be up to \$70 an ounce. As I look at this, if we want to go from \$17 billion to \$23 billion, this means an increase in \$6 billion of gold, and if we doubled the price for incentive purposes that is going to cost the taxpayers \$6 billion. Do you suggest that because in the long run we are going to have inflation of our currency that will go up to \$70 an ounce, in other words, that the value of the dollar will go from 46 cents, where it is today, down to 23 cents? I am wondering if that is the basis for your suggesting that this is not going to cost the taxpayer any money.

Senator BARTLETT. Assuredly it is not because the inflation of the currency has occurred notwithstanding any change in the price of gold whatsoever.

You can pick up an article today by a learned economist and this article will say that there will be a tremendous devaluation of the currency if the price of gold is raised. Then you can turn to another magazine, and a seemingly equal learned economist will say that an increase in the price of gold won't disturb the value of the dollar. Who knows? I don't.

Senator MILLER. I appreciate that answer. I do think that this brings out a point about the Treasury and Interior Department's position, where you have conflicting views on the part of top economists.

It seems to me that the best you can say for the situation is that it leads to uncertainty. The uncertainty in the minds of international bankers, who are after all following our currency pretty carefully, could cause some increased difficulty with our balance of payments.

Senator BARTLETT. This certainly would be true, Senator. I agree with you that there would be an uncertainty, take whichever side you

would care to, if this bill proposed to increase the price of gold. But it does not. It does not. It leaves the purchase price on the part of the U.S. Government exactly the same. Its effect is to bring into the Treasury newly mined gold.

Maybe I am right when I say that eventually it won't cost the taxpayers anything. Maybe I am altogether wrong. Maybe I am half right and half wrong. However that may be, we are going to have American gold in the U.S. Treasury and that, despite some statements that have been made, as a solid redeemable asset at any time.

Senator MILLER. Thank you very much, Mr. Chairman, I just want to make this comment. I recognize that the bill does not call for an increase in the price of gold. But if the bill proceeds on a philosophy that sooner or later we are going to have inflation, regardless of whether this passes and that in our lifetime the dollar is going down from 46 cents to 23 cents, I can see where the passage of the bill on this assumption, or with this philosophy lying behind it could cause some problems as far as the confidence in our currency is concerned in the international market.

That is the point I wanted to bring out. The Senator says he doesn't know whether this is going to happen and none of us knows. But I suggest it is a pretty dangerous basis on which to foot this bill to suggest that we may well have this type of inflation.

Senator BARTLETT. May I make myself clear here. In that respect I am talking on my own. I have not consulted with the author of the bill or the sponsors. I personally don't think that it would lead to further devaluation with an increase in the price of gold. I think nothing would cause a weakening of the value of the dollar at an accelerated pace. It is just about as fast as it could occur. I want to suggest, and again this is a unilateral declaration, that no matter what our Government wants to do, no matter what the banking institutions of this country might want to do, it is inevitable, because of pressures from other parts of the world, that the price of gold is going to be increased.

I don't know when but it is surely going to come about. It has happened throughout history. There is nothing that I can see before us now that is going to stop a repetition of that.

Senator CARROLL. I think I ought to say at this point, that as I understand the testimony of Senator Engle and the cosponsors who have commented on this bill, it is not because they expect inflation to reduce the value of the dollar, but rather the question seems to be whether an increase in the supply of gold will strengthen the dollar abroad. The stronger the dollar is abroad, the stronger we are economically. Of course, the stronger we are economically, the more we can do militarily and economically.

Senator BARTLETT. This is the nub of the whole thing.

Senator CARROLL. I, speaking for myself, would not want us to get the impression that I anticipate some inflationary results from this resolution. We would recoup the money. I can't think of another industry that has been caught in a bias where it has been squeezed out of existence by a fixed price with increased costs. This has happened in my State. I assume it has happened in Alaska. I assume from what I heard from the Senator from California this is what happened to them also.

The real question is, Do we need more gold and, if so, where do we get it? This is the question I want to hear from the experts.

Senator DWORSHAK. Coming from a great mining State like Idaho I share the concern of my colleagues from the West over the essential need of expanding the production and the value of both silver and gold. But in order to get at proper perspective of what we are dealing with, I want to refer at this time to the "Minerals Yearbook of 1960." I find on page 512 that the total production of gold in 1960 in the United States was 1,666,000 ounces, and the value at \$35 an ounce would be approximately \$55 million for our annual production. It has been suggested that possibly we can double the production of gold under an incentive or subsidy plan. That would be just a little more than \$100 million as to the value of the annual production if doubled over 1960. The record shows that in the first 6 weeks of this year we lost approximately \$100 million worth of gold. So in 6 weeks this year we lost as much gold dollars as would be produced in a single year if our output were doubled. So let us explode the myth that there is any relationship whatsoever between the problem that confronts us over establishing the price of gold and our balance of payments, because there is no relationship. It is so remote and so limited that we do a disservice to the mining States when we pursue that line of logic.

Senator CARROLL. Are there any further comments?

Senator GRUENING. I merely wish to join the chairman in highly commending my colleague's testimony and bringing out most eloquently the basic injustice of a situation where alone among all the industries in the United States, under a system that boasts of being a free enterprise system, the gold mining industry is not only restricted in price but limited absolutely in market. This is a form of economic tyranny which is without parallel or precedent. If there were no other reasons, if the international situation and the value of the dollar and all the rest were not pertinent, it still would require rectification. In this bill that is before us, I think the incentive payments should be higher. And the time limit eliminated, but I feel it is time in this particular case to do for gold mining what we are doing most lavishly with the agricultural industry. We are spending billions of dollars in subsidizing agriculture, additional billions in storing commodities which deteriorate. When we store gold at Fort Knox, it costs us very little except for custodial services; and, in contrast with wheat or corn, very little storage space is required. I think that is one of the great contributions which Senator Bartlett has made to this discussion.

Senator BARTLETT. In parting may I say, after thanking all of you for permitting me to appear, that I shall demonstrate the deplorable situation which Alaska, the land of gold, has reached, by informing you that the value of sand and gravel in Alaska last year was a million dollars or more in excess of the value of gold. That ought to be corrected.

Let me add, Mr. Chairman, that I was one of the most successful gold miners in Alaska's history: I was able to pay my bills.

Senator CARROLL. Thank you very much.

Congressman Rivers, you may proceed.

Senator GRUENING. May I say that Representative Rivers is extremely knowledgeable in the field of gold. He has lived in Alaska all his life. He was a gold miner. He has introduced legislation on this subject, some of which might properly be called to the atten-

tion of this committee when it considers this bill and possible modifications thereof in executive session.

Senator CARROLL. Thank you, Senator Gruening.

**STATEMENT OF HON. RALPH J. RIVERS, A U.S. REPRESENTATIVE
AT LARGE FROM ALASKA**

Congressman RIVERS. Mr. Chairman, the privilege of appearing before this committee in support of appropriate legislation to stimulate new gold production is much appreciated.

My longtime background and interest in the subject of gold mining stems from youthful years in Alaska when, at the age of 12, I exerted myself in recovering small quantities of placer gold with a shovel, a gold pan and a rocker. After high school I participated in the discovery of a gold-bearing quartz vein which stirred up excitement but fell short of being rich enough to become a mine.

The ensuing disappointment led to my going to the University of Washington and becoming a lawyer instead of a miner. Nevertheless, my interest in gold mining remained. I saw gold mining prosper after the increase in the Treasury price of gold from \$20.67 to \$35 per ounce in 1934, and in recent years I have seen costs rise to such prohibitive heights as to force hundreds of gold mines out of business, leaving behind deteriorating plants, ghost towns and unemployment, for lack of any increase in price to offset the doubling of the cost of production.

From the highest annual production of gold in the United States in the amount of \$170,205,000 in 1940, gold output has dropped to \$53 million in 1961. 37 percent of 1960 production was derived as a byproduct of base-metal ores. From a production of about \$25 million per year in Alaska in the 1930's, the gold production in my State was down to about \$4 million in 1961 and our dredges and other diggings will have to close down in the near future unless relief is soon forthcoming.

From a high in the U.S. gold reserves of \$24 billion in 1948, we now find our reserves down to about \$16.8 billion. Of this decline about \$6 billion has occurred in the last 4½ years. Although this has been caused principally by the outflow of gold to foreign countries, of which we have recently heard so much, the situation has been aggravated by the decline of gold production in our country.

Another contributing factor has been the sharp increase in recent years of the use of gold for artistic, professional and industrial purposes. The nonmonetary uses of gold have gone up from a value of \$91,087,920 in 1958 to \$129.5 million in 1960. This latter figure is over twice the amount of new gold produced in the United States in 1960, and it is estimated that the demand for gold for nonmonetary uses will continue to increase in the years ahead.

Of course, some gold is salvaged each year and reissued by private refiners and dealers. In 1960 the amount was \$53,495,015. The amount issued by the Treasury in 1960 for nonmonetary uses was \$76,004,985, being \$23 million above domestic production in 1960.

As against the \$16.8 billion presently in our declining gold reserves, we hold about \$12 billion as backing for our everincreasing amount of paper currency, and about \$4.8 billion is all that remains as backing for outstanding foreign dollar credits redeemable in gold on short-

term demand, of about \$18 billion. Thus, while the Russians have been increasing their gold supply against the day when they decide to back their trade rubles with gold, our gold reserves have dwindled below the danger point, which presents us with another hazard in the cold war. The need in the United States for more gold is clear. The question: what to do about it.

President Kennedy and the Treasury say that an increase in the Treasury price of gold would seriously disrupt our international monetary arrangements with the countries of the free world. Accordingly, I am willing to accept the President's statement that there shall be no increase in the price of gold under his administration. Therefore, the only approach which remains open to help the gold miners and stimulate gold production is legislation authorizing and directing incentive payments for newly produced gold along the line set forth in Senator Engle's Senate Joint Resolution 44. Like approaches are embodied in several House resolutions and bills, including my bill, H.R. 6375.

Senator Engle's Senate Joint Resolution 44 attracted my closest attention before I drafted and introduced H.R. 6375. From this resolution I borrowed the basic idea of a program for incentive payments to be made from appropriated funds administered by the Secretary of Interior, entirely divorced from the Treasury Department, having nothing to do with the official price of gold, and nothing to do with our international or intranational monetary relationships. The provisions of Senate Joint Resolution 44, however, do not seem to me to be adequate. Accordingly, to strengthen said resolution to better meet the need, I offer the following suggestions.

First, I would suggest the elimination of the 5-year cutoff provision because I do not see how such a short-lived program could encourage the discovery, development, or increased production of domestic gold. While I agree that such program would bolster existing gold mining operations for the 5-year period, I feel that it would not attract new capital to open new mines or reopen mines presently closed down.

Second, it seems to me that to require each incentive payment to be determined by the Secretary of Interior on a discretionary basis would not be administratively feasible. Some properties containing known values could be opened or reopened with new financing but such financing could not be obtained until the amount of subsidy was determined.

Other properties would need more exploration and engineering as well as additional capital. If it were decided that one mine were to get an incentive payment of \$10 per ounce and another \$30 per ounce, the operator getting the \$10 would be unhappy because a neighboring operator was getting more. I believe that under this discretionary method, the Secretary of Interior would get bogged down in audits, mine rehabilitation estimates, engineering problems, stock market scrutinies, and explorations to determine the value of the pay streak.

In his remarks in the Congressional Record of February 2, 1961, on page 1556, Senator Engle explained that this variable incentive recognizes "that one mine can get into production at \$45 whereas another might take \$55." I interpret this as meaning that one mine would need a \$10 per ounce incentive payment and another a \$20 per ounce incentive payment, over and above the \$35 per ounce obtained on sale to the Treasury.

Nothing is said as to the basis for making incentive payments to gold mines already in operation and nothing about mines producing

gold as a byproduct of base-metal ores. In this regard I would like to suggest that the Secretary of the Interior, upon proof of a sale of gold to the Treasury, would make incentive payments as follows:

To producers from newly developed mines, \$35 per ounce;

To producers from reopened mines, \$35 per ounce;

To producers who are and have remained in operation, \$20 per ounce;

To producers of gold derived as a byproduct from base-metal ores, \$20 per ounce.

On the theory that a newly developed or reopened mine would be a going concern at the end of 10 years from date of commencement of production after enactment of this legislation, it could be provided that at the end of said period, the incentive payment would drop down to the \$20 per ounce incentive level.

It seems to me that if Senate Joint Resolution 44 were amended as I have suggested above, it would set forth a clear-cut program to alleviate a serious domestic situation without in anywise interfering with the existing Treasury price of gold or the Treasury's international monetary arrangements. Neither would this resolution afford any grounds for disturbing our foreign friends and allies in their recognition of the dollar as the principal reserve currency of the free world, especially in the light of President Kennedy's promise that:

The U.S. official price of gold can and will be maintained at \$35 an ounce.

The resolution by its own terms disclaims any intent to devalue the dollar, and would, if enacted, obviously strengthen the dollar by bolstering up our supply of gold.

In addition, it is consistent with President Kennedy's program to stimulate our economy and increase employment and our gross national product.

I visualize that this resolution would double our production of gold in the next few years, restore employment for thousands of people, revive dead mining towns, breathe new life into those towns which are on the decline, give rise to outlying mining camps and settlements, and thereby create enough purchasing power and produce enough revenue to the Government through the creation of new taxable wealth to materially offset the cost to the Government of the incentive payments involved. Therefore, my conclusion is an earnest plea that Senate Joint Resolution 44 be favorably reported to the full committee, after being amended as above suggested.

Mr. Chairman and members of this subcommittee, I extend my sincere thanks for your attention and consideration.

Senator CARROLL. Thank you, Congressman.

Now we have the representative of Senator Francis Case of South Dakota.

Will you come forward, please?

STATEMENT OF LOREN CARLSON, ADMINISTRATIVE ASSISTANT TO HON. FRANCIS CASE, SENATOR FROM SOUTH DAKOTA

Mr. CARLSON. I am Loren Carlson, administrative assistant to Senator Francis Case, cosponsor of this bill. I appreciate the opportunity to appear here in his behalf since he is unable to be present here today. I know he appreciates very much that your subcommittee is holding hearings on this resolution and I have with me a short

statement which he has prepared and asked that I present for him.

Senator CARROLL. We will be very glad to hear from you on his behalf.

Mr. CARLSON. Mr. Chairman, people of no less standing than officials charged with managing the Government's finances at various times are today more concerned about the outflow of gold than any other problem confronting the Nation. There is one clear remedy to the gold shortage; that is, to have more gold.

People who know nothing of the mining industry assume that gold is being produced because it pays to produce gold. Today it does not, for ordinary mining conditions, and ordinary management. I happen to have the honor of coming from a State where extraordinary managerial ability and experience of loyal and efficient workmen combined with an ore deposit to make possible the continued operation of the Homestake Gold Mine, the last of the great operating mines in this country. But how long even the Homestake can continue to operate is probably mathematical.

The freezing of gold at \$35 an ounce in 1934 and the maintenance of that fixed price coupled with the requirement that the gold from lode mines must be sold to the Government at that price in the face of mounting cost for drilling steel, chemicals and all the other costs that go into deep, underground mining, have created the most adverse cost-price squeeze that can be imagined.

If the Government is going to persist in its monopoly and fixed-price position, the least it can do, it seems to me, is to adopt some such legislation as is proposed by Senate Joint Resolution 44, introduced jointly by Senators Engle and Kuchel of California, and myself. It would help to keep alive the producing mine or two now left and would offer the encouragement needed if other mines are to reopen and to increase the domestic production of gold.

At this point, I submit for your careful reading and ask inclusion in your printed record, the article which appeared in the New York Times of last Friday, March 9, 1962, reporting the worst outflow of gold in many months, bringing stocks down to a \$16 billion figure where a few years ago they totaled over \$22 billion. That means a loss of over \$6 billion in 5 years. The situation is serious, and merits immediate and favorable consideration.

Senator CARROLL. Thank you.

(The document referred to follows:)

[From the New York Times, Mar. 9, 1962]

U.S. GOLD STOCK DIPS \$60 MILLION

1962 Loss Now \$160 MILLION AGAINST \$394 MILLION IN THE SIMILAR 1961 PERIOD

BANK RESERVES DECLINE—NET FREE RATE REACHES LOW OF YEAR FOR THE NATION'S RESERVE INSTITUTIONS

The U.S. monetary gold stock sustained its biggest weekly loss of 1962 in the week ended Wednesday when a \$60 million erosion occurred, according to a report by the Federal Reserve Bank of New York yesterday.

This raised the total gold loss since January 1 to \$160 million compared with a loss of \$394 million during the 1961 period.

The monetary gold stock is reduced when foreign central banks purchase gold for dollars at the rate of \$35 an ounce. The Treasury is committed to selling gold at this price to official foreign agencies.

Dollars are accumulated abroad by central banks when the total outflow of funds from the United States exceeds the total inflow, giving rise to a balance-of-payments deficit. The U.S. balance of payments has been in deficit chronically since World War II.

FIVE-YEAR LOSS \$6 BILLION

The U.S. gold stock now totals \$16,730 million. The loss over the last 5 years has exceeded \$6 billion. The loss in 1961, however, was about half the \$1,700 million loss in 1960, and Treasury officials are hopeful that the worst years of loss have passed.

The U.S. gold stock is vital to the Nation's economic health since gold is the ultimate international money with which nations settle their debts. It is a universally accepted medium of exchange and, in effect, measures a Nation's ability to meet its debts.

The Federal Reserve Bank of New York also reported yesterday that net free reserves of the Nation's member banks on an average daily basis had declined to a new low for the year during the week ended Wednesday.

Net free reserves reflect the lending capacity of the banking system. As the free reserve level declines, money conditions tend to become tighter. If declining reserves persist, credit costs—meaning interest rates—rise.

NET FREE RESERVES DIP

Average daily net free reserves of \$350 million were down considerably from of the \$466 million level of the preceding week, as were actual free reserves as the week ended Wednesday of \$491 million compared with \$604 million on the preceding Wednesday.

Money market observers were not reading any special significance into yesterday's reported reserve declines, however. The Federal Reserve Open Market Committee usually buys or sells securities in order to keep the banks' free reserves at a desired level, but the results sometimes are off target.

Through January, for example, free reserves hovered above \$500 million on weekly average. Beginning in February, however, the target level apparently had been reduced to about \$400 million. But the latest weekly decline does not necessarily mean that the Federal Reserve authorities are moving more directly toward tighter money conditions.

Occasionally, substantial fluctuations in other factors that bear on the banks' reserve will take place. Last week, for example, there was a massive movement of cash out of the banks' vaults and into the hands of the public.

This development often takes place at the end of a month, when the Federal Reserve will attempt to compensate for the changing pressure on reserves by adjusting its open market operations. From time to time, the calculations are not exact and reserves rise or fall disproportionately with respect to the target level.

This seems to have happened a month ago. During the week ended January 31, average net free reserves were \$470 million. On February 7, however, the level had declined to \$384 million. By February 14, the reserve had gotten it back up to \$427 million. In the next 2 weeks, some sharpshooting by the Open Market Committee returned levels of \$421 million and \$424 million.

If, of course, the next few weeks show free reserves persisting at levels substantially below \$400 million, the inference then can be drawn that the tightening reflects policy rather than the vagaries of the open market.

The central bank in New York reported that business loans at major New York City banks fell by \$14 million in the week ended on Wednesday, compared with a decline of \$7 million a year earlier. At major Chicago banks there was no change last week; a year before there was a decline in business loans of \$5 million.

Senator CARROLL. Senator Dworshak raised the point about the outflow of gold. We must remember that this gold outflow has been occurring over a period of 5 years. Let us not get the impression that it all happened in the last year. During calendar year 1961 the gold loss amounted to \$800 million, which was a lower rate than the previous 4 years. However, I have a notation here that after 3 weeks in a row without change, the U.S. gold reserve dropped

\$60 million in the past week, the biggest loss since November. The stockpile is now down \$160 million for the year and stands at \$16.730 billion.

I thank Mr. Carlson very much for his statement. We are delighted to hear from both him and Senator Case, and we are glad to have Senator Case's comments. We would like to have him read the record. We need his advice and counsel on this important matter.

Mr. CARLSON. I am sure he will be following this and I know he appreciates your efforts.

Senator DWORSHAK. Mr. Chairman, I have asked the member of the staff to contact the Treasury to get an accurate report of the loss of gold annually for the past 5, 6, or 7 years.

Senator CARROLL. Yes, we will have that in the testimony of some of our witnesses. It is very important that we know these facts. We will ask more questions along that line as we go on.

I believe it is important for the record to show why we need more gold. I want to know how much the foreign banks are holding of our money and under what terms it is callable and what would happen if they would call for payments in gold. I want to know more about the need for gold protection. I want to know why the gold mining industry is being shut out.

Now we have Senator Gruening.

Senator, we would be delighted to hear from you at this point.

STATEMENT OF HON. ERNEST GRUENING, U.S. SENATOR FROM THE STATE OF ALASKA

Senator GRUENING. Mr. Chairman, slightly more than 1 month ago, in a speech on the floor of the Senate, I discussed the effectiveness of our national measures to stop the outflow of gold. I suggested that it was time to subsidize the Nation's gold mines in the public interest. I repeat that suggestion today, and I urge the enactment of legislation which will help increase our gold bullion reserves and assist a national industry in trouble.

It is a privilege for me to appear before the Subcommittee on Minerals, Materials, and Fuels, to urge consideration of Senate Joint Resolution 44, which I believe would provide part of the answer to the perplexing problem of halting the drop in the gold supply of the United States.

President Kennedy in his state of the Union message on January 11, 1962, discussed our balance of payments. As he outlined U.S. efforts to safeguard the dollar, the President expressed his belief that:

Confidence in the dollar has been restored.

We did not—and could not achieve these gains through import restrictions, troop withdrawals, exchange controls, dollar devaluations, or choking off domestic recovery.

We acted not in panic but in perspective. But the problem is not yet solved.

The President is right. The problem is not solved and there is an urgent need to assist in the domestic recovery of the gold mining industry. Our gold supply is running out. The March 5, 1962, figure is nearly \$500,000 below the February 4, 1962 figure. But let me cite some yearly figures.

The highest our gold bullion reserve figure has ever been came on the day of August 26, 1949. The reserve was \$24,613,983, 166.11. The reserve has gone down ever since. I will cite specific amounts for 1960, 1961, and 1962 as given to me by the U.S. Treasury Department's Office of Domestic Gold and Silver Operations:

<i>Date</i>	<i>Gold bullion on deposit</i>
January 31, 1960-----	\$19, 143, 560, 721. 00
February 3, 1961-----	17, 436, 295, 334. 22
February 5, 1962-----	16, 790, 080, 826. 75
March 5, 1962-----	16, 789, 592, 877. 47
March 8, 1962-----	16, 729, 503, 830. 71

From figures such as these we may see clearly that the problem has not been solved.

I think that part of this problem arises because the price of gold has remained at \$35 per troy ounce since 1934. This constancy has not helped a nation's gold industry meet constantly increasing production prices. And this constancy prompted Mr. Alvin Kaufman, mineral economist of the Bureau of Mines, to express the following opinion in the December 1961 issue of Mining Engineering:

The decline in gold output resulted from a lack of incentive to produce because of rising costs and the fixed price of \$35 per ounce, as well as from a decline in reserves.

It so happens that gold is about the only mineral which is conserved after being extracted. All other metals find their way into industry and to a considerable extent their extraction, however necessary to the uses of modern civilization and technology, constitute a depletion. Not so with gold. Indeed, we have gold more certainly and more securely once mined from our subsoil and placed in our reserve. In short, gold extraction is—uniquely among all minerals and subsoil resources—gold conservation, with all its beneficent strengthening of the United States financially, economically, and psychologically.

Secretary Udall, in presenting the 1963 Interior Department budget called for \$27 million "for conservation and development of mineral resources." How better could this and an additional sum be used than for the extraction of gold. In addition, he seeks \$14,786,000 "to maintain a strong national supply base."

Earlier in this session of Congress I joined as a cosponsor of Senate Joint Resolution 44, which was introduced by Senator Engle. This legislation encourages the discovery, development, and production of domestic gold through an incentive payment program for newly mined gold.

The resolution proposes the payment of incentive payments not exceeding \$35 per ounce of new gold. I am not certain that this is a sufficient amount, but I do know that mining officials agree that an increase in the price of gold would greatly stimulate state economy so I am glad to have this opportunity to support legislation which would stabilize our national gold mining industry.

Senate Joint Resolution 44 further proposes that there be no payment during any period in which the gold reserves of the U.S. Government equal or exceed \$23 billion. That maximum is far above our current gold bullion on deposit which was \$16,789,592.47 on March 5, 1962.

The resolution would terminate the incentive program 5 years after date of approval. I believe that might not be sufficient time and I urge the subcommittee to consider a more flexible wording. There need be no expiration date fixed at this time.

Mr. Chairman, I am interested in gold mine production figures which appear in the Minerals Yearbook. What was it, for example, which kept Canadian gold production at a plus 4 million ounce figure while U.S. production dropped from an average of 1,905,511 to 1.5 million—estimated—in 1961?

I looked into the matter. I learned that Canada offers a number of incentives to help its mining industry. Among them are such helps as:

- (1) No capital gains tax;
- (2) exemption from Federal taxes for the first 3½ years of production for new mines;
- (3) realistic program of road assistance to promising areas and properties;
- (4) cheaper mining costs; and
- (5) a subsidy to gold miners.

Most important in regard to gold mining, of course, is the assistance offered to Canadian gold miners in actual subsidy payments offered per ounce under the Emergency Gold Mining Assistance Act.

So I reply, in answer to those persons who cry that a subsidy would upset the U.S. balance of payments that a subsidy has not ruined Canadian economy but on the contrary, seems rather to have helped the gold mining industry and the nation's economy.

The Emergency Gold Mining Assistance Act was enacted in 1948 for a period of 3 years and it has been extended. According to figures supplied by the Canadian Department of Mines and Technical Surveys:

The amount of money paid to gold mines to March 31, 1961, for the years 1948 to 1960 inclusive, under the provisions of the Emergency Gold Mining Assistance Act is \$144,166,822.96 on a production during these years of 38,578,245.244 ounces.

Similar U.S. production during these years was 24,579,000 ounces. Thus Canadian production is nearly 14 million ounces more than the United States in the 12-year period. Obviously, Mr. Chairman, an incentive program works.

Under the Canadian formula used today the rate of assistance factor was determined by taking two-thirds of the amount by which the cost per ounce exceeds \$26.50, with a maximum rate of \$12.33 per ounce. The number of assistance ounces was two-thirds of the total gold produced and sold to the Royal Canadian Mint. It would

be easier, I believe, to administer an assistance plan were it based on a flat rate per ounce of new production.

Our good friends, the Canadians have met their problems realistically and without shaking repercussions. I see no reason why we may not be equally capable.

The Anchorage Daily News of February 20, 1962, carried an excellent editorial applauding the fact that Senate Joint Resolution 44 had not been shoved aside. It points out that the legislation—

overcomes the objections of the economists who fear to turn our gold market open to the world in Alaska—
and that it:

* * * would mean a resurgence into the hills and creeks by hundreds of prospectors which Commissioner Phil Holdsworth has said will result not only in discovery of gold deposits, but will turn up other valuable metals as well.

Subsidies, we know, are nothing new for our Government. Why should it not make as much sense to subsidize gold miners—and at far less cost—as to subsidize the farming industry?

In the case of gold there would be no billion dollar annual storage charge; in fact, there would be no storage costs. Gold does not perish and it does increase in value.

I ask that the full text of the editorial be reprinted in the text following my remarks.

I have talked to many experts. They, too, are worried about our gold supply. One of them thought the Federal Government should consider a stabilization operation. Very simply such an operation would work as follows:

The U.S. Treasury would offer incentive payments for each ounce of new domestic gold mined. That gold would be set to one side. It would be sold for \$35 a troy ounce on the free world market if individual hoarders or one or more nations attempted to increase the world price of gold.

We would in essence issue a world declaration stating that this newly mined domestic gold is earmarked to keep the market firm and out of the hands of speculators. I understand this type of stabilization worked successfully in 1934 and 1960. We could, if you care to make this comparison, tell any speculator, "Try to break the world market and we'll break you."

Sometimes it may be necessary to play rough. This might be such a time. I support the resolution, although I feel it can be im-

proved by amendment, not only because it will restore a great national industry which is active in the State of Alaska but because it will go a long way toward correcting our balance-of-payments deficiency.

With me to testify is Mr. James Williams of Juneau, Alaska, director of the Division of Mines and Minerals of the Department of Natural Resources, State of Alaska. Mr. Williams can report on the condition of the mining industry in Alaska, and I know he can suggest ways in which that tragic situation might be improved.

We also have present today Mr. James K. Crowdy, president of the New York-Alaska Gold Dredging Co. Mr. Crowdy is an experienced miner both in Alaska and elsewhere.

In closing, Mr. Chairman, I appreciate this opportunity to discuss legislation which means so much to the economic well-being of our Nation.

Total U.S. gold stocks on hand from 1957 through 1961 have been supplied through the Office of Domestic Gold and Silver Operations of the Department of the Treasury:

Date	Amount
December 31, 1957-----	\$22,857,000,000
December 31, 1958-----	20,582,000,000
December 31, 1959-----	19,507,000,000
December 31, 1960-----	17,804,000,000
December 31, 1961-----	16,947,000,000
March 8, 1962-----	16,729,503,830

I should like to complete my testimony by placing in the hearing record a history of gold and silver production in our Nation from 1792 through 1956 as compiled by the U.S. Bureau of Mines.

Mr. Chairman, I also have an amusing little item from the Washington Post of Thursday's Associated Press dispatch from New York, saying:

The missile worker of the future may be the man in the gold suit—literally.

Chemists have discovered that a suit surfaced with 24-carat, gold-metalized plastic film helps give a lightweight fabric super resistance to heat and chemicals.

So increasing our gold supply may be very vital to our national defense.

I have also a joint resolution passed by the Legislature of Alaska on this subject. It is not very long. I ask that it be included in the record.

Senator CARROLL. Without objection, it is so ordered.

(The documents referred to follow:)

Metals—Series M 246-248: Gold and silver, 1792 to 1956

[In thousands of fine troy ounces, except price in cents per fine ounce]

Year	Gold, production	Silver		Year	Gold, production	Silver	
		Production	Average price, New York			Production	Average price, New York
	246	247	248		246	247	248
1956	1,832	38,948	90,830	1893	1,739	60,000	78,200
1955	1,880	37,198	89,099	1892	1,597	63,500	87,600
1954	1,837	36,941	85,250	1891	1,605	58,330	98,800
1953	1,958	37,571	85,188	1890	1,589	54,516	104,600
1952	1,893	39,452	84,941	1889	1,595	50,994	93,600
1951	1,981	39,765	89,368	1888	1,604	45,793	94,000
1950	2,394	42,459	74,169	1887	1,603	41,722	97,800
1949	1,992	34,675	71,930	1886	1,687	39,694	99,500
1948	2,014	38,096	74,361	1885	1,538	39,909	106,500
1947	2,109	35,824	71,820	1884	1,490	37,744	111,300
1946	1,575	22,915	80,151	1883	1,451	35,733	111,000
1945	955	29,024	51,928	1882	1,572	36,197	114,000
1944	998	34,474	44,750	1881	1,679	33,258	113,000
1943	1,364	41,461	44,750	1880	1,742	30,319	115,000
1942	3,457	54,091	38,333	1879	1,882	31,566	112,000
1941	4,751	67,048	34,783	1878	2,477	35,022	115,000
1940	4,870	70,436	34,773	1877	2,269	30,778	120,000
1939	4,673	64,373	39,082	1876	1,932	29,996	116,000
1938	4,267	61,706	43,225	1875	1,619	24,530	124,000
1937	4,117	71,409	44,883	1874	1,620	28,868	127,800
1936	3,783	61,153	45,087	1873	1,742	27,650	129,700
1935	3,237	48,519	64,273	1872	1,742	22,236	132,200
1934	2,779	32,782	47,973	1871	2,104	17,789	132,500
1933	2,292	23,129	34,727	1870	2,419	12,375	132,800
1932	2,269	22,762	27,892	1869	2,395	9,281	132,500
1931	2,225	29,857	28,700	1868	2,322	9,281	132,600
1930	2,139	47,725	38,154	1867	2,502	10,441	133,000
1929	2,059	60,860	52,993	1866	2,588	7,734	133,900
1928	2,148	57,872	58,176	1865	2,575	8,701	133,700
1927	2,107	59,626	56,370	1864	2,230	8,508	134,500
1926	2,233	62,487	62,107	1863	1,935	6,574	134,500
1925	2,307	66,710	69,065	1862	1,896	3,480	135,000
1924	2,444	64,071	66,781	1861	2,080	1,547	133,000
1923	2,405	70,356	64,873	1860	2,225	116	135,000
1922	2,293	61,208	67,528	1859	2,419	77	136,000
1921	2,345	46,171	62,654	1858	2,419	39	134,000
1920	2,383	56,537	100,900	1857	2,661	39	135,000
1919	2,753	51,899	111,122	1856	2,661	39	134,000
1918	3,213	68,059	96,772	1855	2,661	39	134,000
1917	3,900	70,662	81,417	1854	2,902	39	135,000
1916	4,417	78,858	65,601	1853	3,144	39	135,000
1915	4,754	72,354	49,684	1852	2,902	39	133,000
1914	4,418	69,623	54,811	1851	2,661	39	134,000
1913	4,311	71,187	59,791	1850	2,419	39	132,000
1912	4,466	66,034	60,835	1849	1,935	39	
1911	4,686	61,108	53,304	1848	484	39	
1910	4,585	57,597	53,486	1847	43	39	
1909	4,798	57,313	51,502	1846	55	39	
1908	4,435	50,876	52,864	1845	49	39	
1907	4,227	52,500	65,327	1844	55	19	
1906	4,703	57,362	66,791	1843	58	19	
1905	4,265	56,272	60,352	1842	43	19	
1904	3,911	56,000	57,221	1841	30	19	
1903	3,560	54,300	53,570	1840	24	19	
1902	3,870	55,500	52,160	1839	23	19	
1901	3,806	55,214	58,950	1838	24	19	
1900	3,830	57,647	61,330	1837	16	19	
1899	3,437	54,764	59,530	1836	26	19	
1898	3,118	54,438	58,260	1835	39	19	
1897	2,775	53,860	59,790	1834		8	
1896	2,568	58,835	67,060	1834-44	363	193	
1895	2,255	55,727	65,280	1792-1834	677		
1894	1,911	49,500	63,000				

[From the Washington Post, Mar. 15, 1962]

GOLD SUITS BEST FOR MISSILE WORKERS

NEW YORK (AP).—The missile worker of the future may be the man in the gold suit—literally.

Chemists have discovered that a suit surfaced with 24-carat, gold-metalized plastic film helps give a lightweight fabric super resistance to heat and chemicals.

HOUSE JOINT RESOLUTION NO. 76 IN THE LEGISLATURE OF THE STATE OF ALASKA

Relating to incentive payments for the mining of gold

Be it resolved by the Legislature of the State of Alaska in Second Legislature, Second Session, assembled:

Whereas the present national reserve of gold is not adequate to meet legal currency requirements; and

Whereas the gold of the Nation is seriously overmortgaged in view of these currency requirements and the short-term dollar balances held by foreigners for which gold could be demanded; and

Whereas, if the gold reserve of the United States continues downward, a serious loss of confidence in the dollar will result; and

Whereas any attempt to stem the outflow of gold by use of an embargo would adversely reflect on the credit of the Nation; and

Whereas an increased stock of gold is needed to provide sufficient "liquidity" for expanding world trade; and

Whereas a raise in the price of gold will result in increased development of Alaska's natural resources and that of other States, and provide additional employment for our people and general prosperity for the State at this critical stage in its development as a State; and

Whereas there is now pending in the United States Senate, Senate Joint Resolution 44, which proposes incentive payments of not to exceed an additional \$35 per ounce for new gold produced in the United States in order to "reverse the trend of a dwindling gold reserve": Be it

Resolved by the Legislature of the State of Alaska in Second Legislature, second session, assembled, That the President and the Congress of the United States are urged to approve and give effect to Senate Joint Resolution 44 of the current Congress to protect our national credit and assist in the needed revival of the gold mining industry which has yet to overcome the curtailment forced on its production during World War II and the depressed conditions caused by the Federal ceiling on its market price.

[From the Anchorage Daily News, Feb. 20, 1962]

A BILL TO HELP GOLD MINING

It is gratifying to note that Senate Joint Resolution 44 has not received the pigeonhole treatment and is again on the active list of proposed legislation of the National Congress.

Senate Joint Resolution 44 is a measure by Senator Engle of California to revive the waning U.S. gold industry by subsidizing the price of the metal as it is taken from the ground.

Alaska Senator Ernest Gruening spoke in behalf of it on the Senate floor recently and he called the attention on his colleagues to the fact that it was nearly 30 years ago in 1934 that the price of gold was last adjusted.

Since that time the costs of production and manufacture of all products and commodities have increased manifold but the price for raw gold has continued by Government order at \$35 per ounce.

This factor coupled with the blow to gold mines in the early war years when they were declared nonessential to the war effort and ordered closed had serious consequences on the gold mining industry of the Nation. Especially hard hit was Alaska whose many smaller operations never came back into being. Now even the large dredging operations in Nome and Fairbanks are tapering off and unless something is done, will also be a thing of the past in a few years.

How hard Alaska has been hit in this once important resource can be seen in these gold production figures. In 1960, the latest figures available, production was \$6,300,000. In the post-gold-rush days and even as late as the beginning of World War II gold production ran around \$25,000,000 yearly or more.

Meanwhile, many new uses have been found for gold. It is used in the development of nuclear powerplants and in components of nuclear powerplants and in components of space vehicles. It is one of the most adaptable and durable of all metals.

Senator Engle's measure overcomes the objections of the economists who fear to turn our gold market open to the world. His bill would subsidize gold mined within the United States to the amount of an additional \$35 an ounce. This would double the price miners now get and would again open up the industry because it would again become profitable to mine gold.

For Alaska it would mean a resurgence into the hills and creeks by hundreds of prospectors which Commissioner Phil Holdsworth has said will result not only in discovery of gold deposits but will turn up other valuable metals as well.

Subsidies, we know, are nothing new for our Government. Why should it not make as much sense to subsidize gold miners (and at a far less cost) as to subsidize the farming industry?

But outright subsidy is not the whole answer. New techniques must be found, an entirely new method of recovering gold is needed. Like so many other industries that have found themselves faced with decadence, gold mining must make an abrupt departure into the jet age. To this end our State planners should lose no time in setting up a mineral research department dedicated to overcoming the barriers of archaic mining methods.

Senator CARROLL. May I ask the Senator, based on the history of gold production in our Nation from 1792 to 1956, as compiled by the U.S. Bureau of Mines, could you tell me what our gold production was in the year 1956? Was that a peak production year? I don't want to belabor the point but the purpose of my question is where did we get all of this gold—\$22 billion? Is it something we produced or did we get it as the result of the war?

Senator GRUENING. I believe it was a holdover from the days when gold mining was a more viable industry than it has been since the price was fixed and costs rose steadily.

Senator CARROLL. I was wondering if the gold reserve at the peak of 1957, \$22.875 million, is gold that flowed to us from other countries or our domestically mined gold? I thank the Senator for a very excellent presentation. It will be most helpful to us.

Senator GRUENING. I think maybe we can ask that of the Treasury representative.

Senator CARROLL. Are there any questions?

Senator MILLER. Mr. Chairman, I want to make one observation and that is that Senator Gruening's fine statement partially answered a question I propounded to Senator Engle of California, when I asked him how much incentive we ought to give. I draw attention to the fact that we might parallel Canada.

I notice in Senator Gruening's statement that he points out that under the provisions of the Emergency Gold Mining Assistance Act, some \$144 million was paid by Canada on a production of some 38 million ounces, which is about \$4 an ounce in the form of a subsidy or incentive payments. Under this bill we might go up to \$35 an ounce instead of just \$4 as Canada has done. If we did in the same period of time with the same production we have a bill for the taxpayers to pay of \$1.350 billion.

My point is that I think we ought to try to parallel Canada a little more than this bill provides.

Senator CARROLL. You mean with tax incentives and that sort of thing?

Senator MILLER. That's right. If Canada sees fit to put \$4 an ounce incentive, I am naturally concerned about the suggestion as set forth in the bill that we use \$35 an ounce incentive.

Senator GRUENING. I think Senator Miller's point is well taken. I want to suggest that we have here Mr. James Crowdy, who is experienced in mining in Canada as well as in Alaska and when he testifies, I think it would be very useful if he would develop the aspects which are raised by your question. Obviously, the Canadians do other things besides the subsidy payment which we do not do and which might be somewhat complicated, such as repealing the capital gains tax for gold mining and building roads to assist the miners and other matters.

We would do very well to study what Canada has done in the whole program and not merely with regard to subsidy payments, because their record is in contrast to what has happened in the United States.

Senator MILLER. May I say to the Senator that I recognize that other types of help is offered by Canada? I am not so sure how much help repealing the capital gains tax would provide because gold production would be ordinary income. I don't think capital gains would have much of an impact. But some of these other things such as road assistance and exemption from Federal taxes during the first 3½ years of production represent a help to at least get started.

Most of our mines, as I understand it, don't need to be started. They have long since started. It was a case of where they closed down.

Senator GRUENING. They have to restart.

Senator MILLER. That's right. This would amount to something in excess of \$4 an ounce. I still suggest that it would amount to greatly less than the proposal set forth in the bill to go up to \$35 an ounce.

Senator CARROLL. Are there any further comments? If not, Mr. Shoup, will you come forward, please?

STATEMENT OF MERRILL E. SHOUP, PRESIDENT, THE GOLDEN CYCLE CORP.

Mr. SHOUP. Senator Carroll, gentleman from the Congress, I am most appreciative of the opportunity to appear and tell you some of our troubles in the gold mining industry.

I am appearing really, with two hats. I am going to cover first of all, Cripple Creek.

Senator CARROLL. May I interrupt, Mr. Shoup, to say to you that you have submitted copies of your testimony to the members of the committee. You may read your statement or you may summarize it.

Mr. SHOUP. In the interest of time, I will summarize it.

Senator CARROLL. We would like to have the benefit of your comments on some of the questions.

Mr. SHOUP. Yes, sir.

My name is Merrill E. Shoup, and I reside at 17 Broadmoor Avenue, Colorado Springs, Colo. I graduated from Dartmouth College in 1921 with an A.B. degree, and from Tuck School, Dartmouth Col-

lege in 1922 with an M.C.S. degree. Subsequently, I was an instructor in economics, banking and business at Dartmouth College from 1921 to 1922, and an instructor in economics at Brown University from 1922 to 1924.

I studied law at Harvard University, the University of Colorado, Denver University and the University of Southern California, and I was admitted to the Colorado Bar in 1927. I am president of two small national banks, a director of three, the president of the second largest beet sugar company in the Nation, a railroad director, and the chief executive of many other enterprises.

I appear before this committee to submit a statement concerning Senate Joint Resolution 44 and related gold problems in behalf of the Golden Cycle Corp. and particularly for the Cripple Creek, Colo., gold mining district. The Golden Cycle has been the principal operator in this district in both mining and milling for more than 65 years, and I have been associated with the corporation for the past 30 years, having been its president since 1938.

Max W. Bowen, executive vice president of the corporation assisted in the preparation of this statement. Mr. Bowen has been engaged in the ore mining and milling business continuously since graduating from the Colorado School of Mines, with the degree of "Engineer of Mines" in 1924.

It is our understanding that these particular hearings are concerned only with the gold production segment of the gold industry and not the monetary end of the gold problem, so this statement will be confined to the production end only of the gold industry.

The decline in production of gold in the United States and more particularly in the Cripple Creek District, began after the United States entered into World War II when priorities were being imposed, but the Gold Closing Order L-208, dated October 8, 1942, greatly accelerated this decline.

This was the second largest gold mining area in the United States, second only to Homestake in South Dakota. Our trouble started after the United States entered World War II when priorities were being imposed and the gold mining closing order dated October 8, 1942, greatly accelerated this decline.

We were shut down, all of the gold mines, in 1942, by a directive from the War Production Board that stated that since gold mining was a nonessential industry, that the gold mines of the United States and Alaska would all be closed in October 1942, and the miners engaged in operating the gold mines would be transferred to other kinds of mining, copper and so forth.

The order was a complete mistake. It didn't accomplish anything, except it was the first body blow to the gold mining industry of the United States. During that time our Government helped the gold mining industry in other nations under the guise it was for the war effort, but the domestic gold mining industry was to all intents and purposes delivered a body blow from which it never recovered.

Subsequently, we were deprived of our property. We all suffered tremendous losses. Subsequently we brought suits to be reimbursed for our shutdown costs and no relief was granted in any way, shape, or form, the Supreme Court having finally decided since we were shut down under the guise of the war effort, that we could not recover.

In Cripple Creek we resumed operation. We operated on sort of a very restricted basis during the war and converted our facilities to the production of lead and zinc for the war effort. We had to continue using some gold mining ore because of the construction of our mill and the type of operation but from the period of 1937 when we produced \$5,586,000 worth of gold, we finally reached the point in 1961 where we produced less than a million dollars in gross value with 39,000 tons of ore, and the main reason for causing the shutdown is that the labor cost had increased 157 percent since 1935, power cost 67 percent, timber cost 170 percent, machinery cost 196 percent, mill supply cost 205 percent.

We had reached the point in Cripple Creek where we no longer could operate with the same price we got for our gold in 1933 of \$35 per ounce, with, in many cases, doubled and trebled costs.

The amazing thing, looking back, you don't blindly shutdown a mining camp where you employ hundreds of people, where you give good employment. Cripple Creek at one time had 50,000 people. Today it has less than a thousand. The remaining miners have been thrown out of work. We have a distress area which we didn't want to get into as long as we could continue operating. I am sure that the cost to the State government and other agencies to care for these miners, many of whom are past the productive working stage as far as starting new mining is concerned, will yield a great deal more than any kind of subsidy which might be given to the gold mine industry.

Senator CARROLL. Do you mind if I interrupt you?

Mr. SHOUP. No, sir.

Senator CARROLL. Concerning the resolution for the subsidy or incentive payment, what do you think would have been needed to keep this Cripple Creek mine going?

Mr. SHOUP. I don't want Senator Miller going out of his seat, but we are talking in terms of \$70. I don't think any of us really like subsidy. To me, this gold is just as important a war measure as uranium was at the time we needed it. How did we get uranium? We provided an incentive, subsidy, if you will, a bonus, large enough to get the job done.

We certainly got the job done because today they are curtailing the uranium program because it has built up tremendously. Not only have we gotten what we needed for our needs, but it has built up a tremendous reserve. That is a war measure. I want to tell you that gold is just as important a sinew of war as anything else we have in our cold war as far as Russia is concerned.

I am going to put in a personal interview I had. I was a delegate to the International Sugar Conference at Geneva 2 years ago last September. The U.S.S.R. and the United States of America sat side by side. At the end of the second day, the Russian delegate found out I was interested in the gold industry. He told me the next morning, and said, "I would like to talk to you about gold." He said, "We, in Russia, do not understand what you are doing in the United States. You are treating your gold as though it were a cancer or plague that you can't cure whatever you are trying to cure until you get rid of it."

He said, "As far as Russia is concerned, we are accumulating gold and we are stimulating its production. One of these days we will put

our gold ruble back competing with gold and make it wholly convertible, and from then on, as far as our worries about you being the country that will bother us in trade is concerned, we will have no more."

I only throw that out for what it is worth. That is something that was said to me. I am just as sure as we are gathered here today that Russia is accumulating gold. One of the greatest weapons which she will have in her arsenal is a lot of gold. There will come a day, if we don't stop this outflow of gold from the United States, when that nation which has the strongest currency, which has the best money, is going to be No. 1 as far as trade is concerned.

Gentlemen, all you have to do is go back over history. During the time those nations which at the time that they were the top nation in the world, had the gold, had the solid currency, they were leaders of the world. I don't know what gold and sound money has to do with being the leader of the world, but you take England from the period she was on the gold standard, and you can go back through history. It is nothing new today. Our dollar—and let us face it—is in fourth or fifth place as far as the world currency is concerned. The West German mark is better; the present franc is better; the Swiss franc—they are stronger currencies than the U.S. dollar in the world's market.

To answer a couple of these arguments, the argument—

Senator CARROLL. May I take you back just a moment?

You have described very graphically, I think, the Cripple Creek mine and the closing of it. The town has gone out of existence. What incentive would you have needed to keep this mill going? I mean with a reasonable profit, meeting all the costs you have indicated here.

Mr. SHOUP. Had we had during the years since 1942 a price for gold which was realistic we could have gotten along. We would have needed an incentive of at least \$35. We have exhausted all of our resources. We have to do additional exploration and development work. This is my personal opinion. I am talking about a subsidy in terms of \$70.

Senator HICKEY. Senator Carroll, along that line, may I ask one question?

Senator CARROLL. Surely.

Senator HICKEY. Mr. Shoup, from the background that you have, could you tell us if there is a known reserve catalog in the West with regard to the potential of gold available for mining?

Mr. SHOUP. That could be assembled, I imagine, but I wouldn't know offhand.

Senator HICKEY. I think Senator Engle indicated that it was to some degree impossible to say that we had X amount of gold available in any area. Is that true in Colorado?

I think you in Colorado have done more exploration in both the gold and silver mining fields than any other State I know of. I wondered if as much as you have done has disclosed to you any known reserve upon which we might have figures.

Mr. SHOUP. Cripple Creek has produced \$650 million. We know that we have on today's basis or price, at least another \$100 million but we cannot afford to mine it. We have no reason not to believe that the same geological conditions do not continue at depth. We shut

the district down on ore in shafts that were 3,400 feet deep. We have no reason to believe that we can produce a tremendous additional amount of gold. But it is the economics of the cost to sink the shafts to pump the water to get the gold out.

Senator HICKEY. One other question. You mentioned the situation which I think is a serious one, not only in the gold mining field, but many others, and that is the fact that your knowledgeable miners, the men who are truly technicians in the field, are getting to the age of retirement and you haven't developed any new ones.

Mr. SHOUP. That's right.

Senator HICKEY. This, too, will present a considerable problem, will it not?

Mr. SHOUP. Yes. The men who became the best miners we ever had were good, strong, husky farm boys who came from Nebraska and Kansas. A good miner, as far as the gold mining industry is concerned, is going to be a thing of the past. We have these men who have the know-how, who have the skill and the knowledge, but they have no place to go.

Senator HICKEY. And they are being depleted by age and attrition?

Mr. SHOUP. That's right.

Senator HICKEY. Nearly as quickly as anything else.

Mr. SHOUP. That's right.

Senator CARROLL. The purpose of my question, and I didn't quite get the answer, is that if this resolution were enacted and became law, would this restore mining in the Cripple Creek area?

Mr. SHOUP. Yes, a subsidy less than \$70. I am talking about if we really wanted to build up the production. From \$35 to \$70 would be most helpful. We could reopen and go ahead and get back to nearly normal production.

Senator CARROLL. How many people do you think this would put to work in that area?

Mr. SHOUP. In normal times we had a thousand men working up there. To start with, maybe 500, as we get back in production.

Senator CARROLL. These are practical questions. How long would it take to get into operation?

Mr. SHOUP. We shut down Cripple Creek on December 31 and we have left it in a standby condition. It wouldn't take us very long. We have the most modern gold mill up there which we constructed in 1942. We put it on a standby condition. We put the mines on a standby condition. We could resume operations in 30 days.

Senator CARROLL. How long ago was it you closed it?

Mr. SHOUP. December 31, 1961.

Senator CARROLL. Just last year?

Mr. SHOUP. We did that. We ran at least 5 years longer than we should have because you have the people working, you don't want to make a ghost town out of a town that is already depressed. We had people who wanted to work. You don't lightly shut down a mining district.

We had driven a drainage tunnel in Cripple Creek in 1941 and 1942 which keeps the water down, but in so many mines when you shut down, the water deteriorates the shafts and you never reopen them.

Senator BIBLE. Mr. Chairman, you were probing a field in which I would like to ask a further question. I would like to have Mr. Shoup comment on the Interior position where it says with an incentive of \$35 an ounce the gold production might be doubled but this would take 42 years to replace the monetary reserve gold loss since 1957.

Mr. SHOUP. Yes. I don't know where they got that statement.

Senator BIBLE. We can ask them.

Mr. SHOUP. I don't go along with it at all. If we put the proper kind of incentive to get the gold, it will come out a lot faster than in 42 years.

Senator BIBLE. Have you any considered judgment if you did put on an incentive of \$35 an ounce how much gold we would bring out in how many years? They say if you double it, it would take 42 years to replace the gold reserves loss since 1957.

Mr. SHOUP. At least the first year you would quadruple.

Senator BIBLE. Orienting it to their statement, in your judgment, if this resolution were to pass and you were to get the money to go with it, if you had an incentive of \$35 an ounce, how long would it take to replace from domestic sources the monetary gold reserve loss since 1957? They say it would take 42 years. How long would you say it would take?

Mr. SHOUP. I would cut that by a fourth.

Senator BIBLE. You say in approximately 10 to 12 years?

Mr. SHOUP. Yes.

Senator BIBLE. If you had an incentive payment of \$35 an ounce, you could have the equivalent of the loss of the monetary gold reserves since 1957?

Mr. SHOUP. Yes.

Senator BIBLE. May I ask one further question, Mr. Chairman, because we have a real expert witness here? You opened up one thing that I thought might be helpful and you might have asked this question when you were talking to the delegate from U.S.S.R. Did you by any chance ask him at that time how much the U.S.S.R. had in the way of gold reserves?

Mr. SHOUP. No, sir; all he said was we are stimulating the production of gold in any way we can and we are accumulating all we can. What he meant in terms of dollars, I don't know.

Senator BIBLE. You don't know how much they had in the way of gold reserves?

Mr. SHOUP. No.

Senator CARROLL. You have talked to men who have been in the business. You have gone through this for years. What incentives did you have to keep up the production of gold?

Mr. SHOUP. What did I have?

Senator CARROLL. Yes, in regards your mine.

Mr. SHOUP. What incentive did we have? Hoping that this whole gold problem would be solved sometime. Miners are a hardy breed to kill off. They are optimists. I agree with Senator Gruening that the price of gold is going to go ultimately up. It is not, "will it go up?" The question is when. We felt that ultimately it would.

I think the United States is going to be forced to adjust the gold price not by its own volition, but it is going to be forced to do it by

virtue of pressures from outside nations, if we are in the last analysis to save our dollar. We have a situation today where with the foreign claims against our \$16.9 billion gold, it takes 25 percent gold to back our present \$12 billion Treasury notes. If you subtract the 12 from the 16, I believe we have \$22 billion worth of claims against the \$3 or \$5 billion worth of gold—as a bank or anything else, if you owe \$22 billion and only have \$5 billion, you are insolvent.

The country is insolvent today as far as its gold is concerned with its foreign claims. That is a problem that will get bigger. That is one that we have to settle with the rest of the world. We don't have sole control over that. I think our Nation has lost a lot of control over its own money.

If you are a man in a foreign country or a banker and you have dollar claims against the United States and you get nervous about what is going to happen to the dollar, you can exchange your dollars for gold. You and I, as individuals, can't do that. This \$35 bargain price at which the foreigners can acquire our gold, is a thing that is denied to we American citizens. We can't do that.

Senator CARROLL. You heard Senator Gruening's presentation about the Canadian program.

Mr. SHOUP. That's right.

Senator CARROLL. Would such a program work in your industry now?

Mr. SHOUP. It would certainly help.

Senator CARROLL. Would it be enough to get you to go back in the business?

Mr. SHOUP. We would start back in production with some kind of an incentive that gave us some hope to see the end of the road. As I said, we left all our properties on a standby condition.

Senator CARROLL. You mean tax incentives coupled with a subsidy?

Mr. SHOUP. The tax incentive is not too much right now. I don't know what the subsidies in the way of roads and facilities mean for new properties in Canada. As the Senator said, we have to rehabilitate old ones.

Senator CARROLL. Have you any depletion allowance at all?

Mr. SHOUP. Yes, we have a depletion allowance.

Senator CARROLL. What percentage is that?

Mr. SHOUP. I believe that it is 15 percent of the gross or 50 percent of the net, whichever is lesser. We have not had much net in the last few years.

Senator CARROLL. If that was substantially increased, would that be of help in putting you back in business?

Mr. SHOUP. We have to get where we are making some money before depletion does any good.

Senator CARROLL. In other words, you have to get back in production.

Mr. SHOUP. That's right. And have some income before we can use the depletion to offset the income.

Senator MILLER. I have two questions. When you began I had understood you to say \$35 an ounce incentive is what you were advocating. After some of the appropriations I have seen passed over here, I am not ready to get out of my chair yet on that one, although my feet are pressing. I understood you to say something about \$70.

Mr. SHOUP. It is my own personal opinion. I go along with Senate Joint Resolution 44, but it is my own personal opinion that, really, to rehabilitate the gold mining industry, I personally have been thinking in terms of more than a \$35 an ounce incentive. I am thinking as much as \$70.

Senator MILLER. You suggested to Senator Bible that the Interior Department's estimate of doubling production should be one-fourth.

Mr. SHOUP. Instead of 42 years.

Senator MILLER. You would say somewhere around 10 or 12 years if it was \$35 an ounce?

Mr. SHOUP. Yes, sir.

Senator MILLER. Suppose it was \$70 an ounce. Do you have an estimate to make on that?

Mr. SHOUP. I think 3 or 4 years.

Senator MILLER. The second question I have is this.

Senator CARROLL. Let the record show that we have just received permission from the Senate to continue these hearings.

Senator MILLER. I might say your statement regarding the cold war and the gold situation is one which I largely share. Along that line, suppose we passed a bill here to provide for \$35 or \$70 an ounce incentive. Would you recommend such a bill be passed if the amount of the appropriations necessary to pay for that would be reflected in a further deficit in our national budget?

Mr. SHOUP. Of course, I am just a mere layman. Our Government has gotten so big. It is not for me to say how much of these appropriations are highly essential. I would think an appropriation to cover a deficit to produce the gold to back our money and save our dollar is the best deficit we could incur if we had to incur a deficit. In my point of view, it would be money, whether it comes from taxpayers or how, because we all owe this debt, would be money well spent.

Senator MILLER. Mr. Shoup, this is my problem. I foresee that if we should aggravate the deficit by that amount—let us say that the appropriations necessary to pay for this bill are \$500 million—if that is going to aggravate our deficit by another \$500 million, it seems to me we are just on a treadmill, because, in turn, that aggravation of the deficit will be reflected in shaking the confidence of the international bankers in the value of our currency. They will call for more payments.

Mr. SHOUP. I don't go along with that argument that international bankers will get worried. First of all, the objection over the years has been that if we devalue our dollar or raise the price in terms of monetary value, that would help Russia. We say the monetary value of gold is \$35, and we double that; it is \$70. The argument is that Russia will sell her gold to the American Government and get the \$70 an ounce. But on this incentive on newly mined gold, which cuts it down to a small thing, I think the international bankers would construe any efforts made by our Government to accumulate gold and strengthen the gold reserves behind our currency, would be regarded not as something that would disturb their confidence in our dollar, but would restore the confidence in the dollar.

There are a lot of sneering remarks made about gold—it is only good for filling teeth. But the mere fact remains that today with our gold loss, which is right back—the greatest loss per month we have, and

you go to that \$45 price that scared London last year; I don't know what was behind that. I think the real worry we have about our American dollar in terms of what international bankers think, is that they feel we do not appreciate that the value of that dollar, as far as international trade is concerned, is largely determined by the amount of good, hard gold behind it.

Our money managers, as far as swapping paper money in the United States, do it with I O U's. But not one country does business with another country on the basis of solid hard gold. I think instead of weakening the position of the dollar, it would strengthen the position because it would serve notice on the rest of the world that we valued gold; we knew what it was worth as far as backing our dollar.

We are going to take every step, not only to try to cut down the outflow and keep our budget balanced, so far as our gold claims are concerned, we are going to stimulate the production. I think it would have just the reverse effect from what the Treasury Department says it would have.

Senator Carroll asked that question. I have been coming to these gold hearings for 20 or 25 years. I will make this statement. This has no politics. This is neither Democrat nor Republican. This trend which has been going on, the Republican administration has not been any more helpful than the Democratic administration. It has no politics, gentlemen. Some people accused me of getting in politics. This matter has no politics whatsoever.

Senator DWORSHAK. You are referring to the production of gold?

Mr. SHOUP. Yes.

Senator DWORSHAK. You are not talking about the loss of gold dollars?

Mr. SHOUP. Senator Carroll made this point.

Senator CARROLL. I didn't follow that. Do you mean there are politics in that?

Mr. SHOUP. We would get to roadblocks saying there is something wrong about this. We already had a hard time of putting our finger on whether it was the Secretary of the Treasury, whether it was Interior or just what this terrible thing was. I have had the same feeling as you gentlemen, it is bad, but we don't know why. I am going all over the lot, but I want to make this a part of the record.

Senator CARROLL. Your full statements will be made a part of the record.

Mr. SHOUP. Regarding the production of domestic gold, the U.S. Department of the Interior, under date of May 11, 1961, in a communication addressed to the chairman of the U.S. Senate Committee on Interior opposed S.J. Res. 44 on the grounds that, among other things—

enactment of legislation providing for payment of subsidies could lead to uncertainty about the U.S. price of gold and the stability of the dollar in world markets, and so could result in an increased drain on U.S. gold reserves.

The Department of the Interior recognized that the resolution would be beneficial to the gold miners. The official position of the executive branch, however, including also the Treasury, the State Department, and the Budget Bureau, was that—

in view of the paramount national interest in the monetary function of gold, that the enactment of this legislation would not be desirable.

I know, Senator, the time is getting very late. I have to get out to get to the mining meeting in Denver. So, with that, I would like to put in the record two statements.

One is to the Cripple Creek. It is a long statement. Then I would like to put in a second one which I believe I furnished copies, where I am taking over some ideas on the monetary situation insofar as our loss of gold affects the soundness of our dollar.

I gave a talk, entitled, "Our Disappearing Dollar," to a local Rotary club. That thing spread. Today it is no good. It is not written in any technical language. It is an ordinary, commonsense matter. I have sent out 18,000 of these pamphlets. That surprised me.

Senator DWORSHAK. How did you tell them how to stop the dwindling of our dollars to one sentence?

Mr. SHOUP. I can't boil it down in one sentence.

Senator CARROLL. Your statements will be placed in the record, but we will file the pamphlet with the committee for its perusal.

Mr. SHOUP. I appreciate that.

Senator CARROLL. Without objection, it is so ordered.

(The statement referred to follows:)

STATEMENT OF MERRILL E. SHOUP, PRESIDENT, THE GOLDEN CYCLE CORP.

Mr. Chairman and gentlemen of the committee, my name is Merrill E. Shoup, and I reside at 17 Broadmoor Avenue, Colorado Springs, Colo. I graduated from Dartmouth College in 1921 with an A.B. degree, and from Tuck School, Dartmouth College, in 1922 with an M.C.S. degree. Subsequently, I was an instructor in economics, banking, and business at Dartmouth College from 1921 to 1922, and an instructor in economics at Brown University from 1922 to 1924. I studied law at Harvard University, the University of Colorado, Denver University, and the University of Southern California, and was admitted to the Colorado bar in 1927. I am president of two small national banks, a director of three, the president of the second largest beet sugar company in the Nation, a railroad director, and the chief executive of many other enterprises.

I appear before this committee to submit a statement concerning Senate Joint Resolution 44 and related gold problems in behalf of the Golden Cycle Corp., and particularly for the Cripple Creek, Colo., gold mining district. The Golden Cycle has been the principal operator in this district in both mining and milling for more than 65 years, and I have been associated with the corporation for the past 30 years, having been its president since 1938. Max W. Bowen, executive vice president of the corporation, assisted in the preparation of this statement. Mr. Bowen has been engaged in the ore mining and milling business continuously since graduating from the Colorado School of Mines, with the degree of engineer of mines in 1924.

It is our understanding that these particular hearings are concerned only with the gold production segment of the gold industry and not the monetary end of the gold problem, so this statement will be confined to the production end only of the gold industry.

The decline in production of gold in the United States and more particularly in the Cripple Creek district, began after the United States entered into World War II, when priorities were being imposed, but the Gold Closing Order L-208, dated October 8, 1942, greatly accelerated this decline. Ore mined in the Cripple Creek district is primarily gold ore with a very minor amount of silver, but with on other commercially recoverable metal. It was for this reason that priorities during World War II worked such a great hardship on this district. The Golden Cycle Corp. was granted permission to continue its gold mining and milling operations in a very limited way after Order L-208 was imposed in 1942, provided it would convert a portion of its Golden Cycle mill to the milling of base metal ores. This was done and a large contribution toward the war effort was made through the production of lead, copper, and zinc concentrates during the war years. However, the decline in gold production was so great that the district was never able to gain back its position as the second leading gold-producing district in the United States. The statistics and graphs are given in

an article, "How About Gold? Where Mined and Future Production Outlook," by A. H. Koschmann and M. H. Bergendahl, U.S. Geological Survey, Denver, Colo., published in Mining World, January 1961, substantiates the general statements made above. A copy of this article, marked "Exhibit A," is inserted at the end of my statement.

The Cripple Creek district gold production (recovered and sold), second only to Lead, S. Dak., amounts to more than 19 million ounces (\$665 million) from 1892 through December 1961. The total production for United States, including Alaska, through 1958, amounted to approximately 296 million ounces. Colorado produced 40,424,205 ounces, so it is seen that the Cripple Creek district produced approximately 6.4 percent of total U.S. production and 21.2 percent of Colorado's gold production. Colorado has produced approximately 19 percent of the U.S. production. The same governing factors apply to the gold industry as a whole as they do to the industry in Colorado and likewise to the Cripple Creek district, with one exception. The Cripple Creek district depends solely on gold values, while in most other camps in the United States, gold may be associated with silver and/or base metals. For this reason we will confine our remarks and data in remaining statements to the Cripple Creek district.

The tabulation on exhibit B at end of my statement give the production of the Cripple Creek district from 1937 through 1961 grouped into 5-year periods. the first 5 years (1937-41) covers the good production following the increase in the price of gold in 1934, from \$20.67 per ounce to \$35 per ounce. This period runs into the "war priority period," but the L-208 period begins in latter part of 1942. The draft period and transfer of gold miners to other classification of labor also had a decided effect upon the gold mining industry. It is seen by these figures that during the war period (including L-208 period), the production dropped greatly and as base metal ores were milled during 1943-46 inclusive, the gold production was a minor part of the value of the ore during this period. During the periods after 1946, the entire tonnage was produced from the Cripple Creek district. The Carlton mill began treating ore in the Cripple Creek district in May 1951—the Golden Cycle mill in Colorado Springs having been abandoned in February 1949—and during the year 1951-53, inclusive, treated a large tonnage of dump ore, consequently the total tonnage of ore treated was higher than the succeeding years, but the average grade of the ore treated was lower. The mining and milling costs during these 25 years were continually on the increase, consequently the margin of profit was decreasing and as a result of these two conditions it was imperative that only the higher grade ore be mined in order to maintain a meager profit.

Between 1935 and 1960—		Percent
Population of Cripple Creek district decrease.....	80	
Number of employees—mine and mill decreased.....	85	
Labor cost increased.....	157	
Power cost increased.....	67	
Timber cost increased.....	170	
Drill steel cost increase.....	151	
Machinery cost increased.....	196	
Mill supplies cost increased.....	205	

During the period 1935-1961 the number of regular operating mines decreased from 40 to 4 and only 2 of the 4 were making daily shipments to the Carlton Mill.

EFFECT OF WORLD WAR II AND L-208

The gold mines that were operating when the United States entered World War II encountered increasing difficulty in operating which condition was climaxed by the closing order L-208, October 8, 1942. These mines did no more exploration work than necessary to maintain production during these difficult times; consequently, when the closing order L-208 was imposed upon them, most—probably only one or two exceptions, notably Homestake Mine at Lead, S. Dak.—of the gold mines had exhausted all their known and/or developed ore reserves. The continually rising costs in the mining industry precluded most of these mines from ever resuming operations. Those few that were able to resume operating after the rescinding of the closing order L-208, had "gutted" their mines by mining the better grade ore only—again with only a very few exceptions—consequently, they had exhausted their reserves and likewise their working capital to the point where they were forced to abandon their mines completely on account of sheer adverse economic conditions which have prevailed in recent years.

EFFECT OF THE LOSS OF MINERS AND CAPITAL INVESTMENT

Prior to World War II there was an abundance of gold miners in the United States and the "financial climate" was quite favorable for capital investments being made in gold mining projects. During the depression years of the early thirties both the mining labor and capital investments in mining showed a decided trend toward gold mining and more particularly after the price of \$35 per ounce was established in 1934, for newly mined gold. However, this trend was quickly reversed when L-208 was imposed upon the gold mining industry. Gold miners were given their choice of transferring to mines producing metals needed in the war effort or being drafted into the Armed Forces. Likewise capital investment went into war effort business. The net result of these two conditions is that neither the miners nor the capital investments returned to the gold mining industry. Without either, it was very difficult to reopen mines which had been closed for years and resume a profitable operation.

LOSS AND LACK OF DEVELOPED ORE RESERVES

It has been previously stated that during the war years, particularly after L-208, that most gold mines were unable to spend much time or money on developing ore reserves and also the mines found it advantageous to mine out all developed ore reserves as completely as possible after L-208 during the cleanup period allowed. This, then, made it necessary for those mines which were closed by L-208 to start developing ore before production could be resumed upon the reopening of the mines. In the meantime their working capital had been depleted to the point that many gold mine operations soon discovered that they could not compete with postwar industry and finally had to give up and abandon their gold mining operations and seek other fields of operation.

INCREASED OPERATING COSTS

It is seen from the foregoing tabulations, on page 4, of various figures related to the Cripple Creek gold mining operations, that all costs have increased from 67 percent for powder to over 200 percent, during the past 25 years. These figures are for the Cripple Creek district. The increases in costs in other gold mining districts in the United States probably are considerably higher than listed above. However, during this same period the price received for gold from the U.S. mint—our sole purchaser—has remained at \$35 per ounce less a small mint charge of approximately 21 cents per ounce or a net payment by the mint of \$34.79 per fine ounce of gold shipped.

May we ask the question? How many industries in the United States—or any other country—are still in existence that have been receiving the same unit price for their products for the past 25 years? The answer is "None," only the gold mines and very, very few of them can exist under the stated conditions.

INCREASED HARDSHIP ON THE CRIPPLE CREEK DISTRICT

The towns of Cripple Creek, Victor, and several other sizable communities came into existence as a result of the gold discovery in this area in 1892. These communities thrived for many years attaining at one time a total population estimated in excess of 50,000 people. However, recent estimates, November 1961, give a total population of approximately 1,000 people. The population in 1935 was several times the present. This community has depended almost entirely upon the mining and related activities for its economic livelihood. Many families began moving out of the district at the beginning of World War II and this "exodus" was greatly accelerated by the imposition by the U.S. Government of the gold closing order L-208 in 1942. The men in families, of draft age, had to get into other lines of work or enlist or be drafted into the Armed Forces. The continuing decline in the gold mining industry has caused a continuing decrease in the population in the district.

We do not contend that the closing of the mines and mill will cause a complete abandonment of the district by the present residents, but we do believe that a great economic hardship will occur to the county agencies, the school district, and most serious of all, to the individuals. They will be forced by economic circumstances to sell their homes—and may we ask to whom?—and move to other communities to start anew, unless a great improvement in the gold mining industry takes place in the immediate or near future. This improvement can only be brought about by immediate action of the Government in providing an incentive

payment for gold which will encourage resumption of the operation of the mines which have ceased working since the beginning of World War II and also encourage investment capital to again return to the gold mining industry. This will benefit not only all gold mining communities throughout the United States, but will help restore, in time, the U.S. dollar to its rightful place in the financial world that it formerly enjoyed.

The 1960 annual report to the stockholders of the Golden Cycle Corp. contained the following paragraph:

"A number of bills will be introduced in this session of the Congress dealing with this problem, and we will endeavor to keep stockholders informed as to their merits. The management believes the gold producer will ultimately receive more for his product, but when and what form it will take we cannot predict. During 1960 the economics of gold mining in which we have a heavy investment in both mining and milling in the Cripple Creek Mining District steadily worsened. If conditions show no substantial improvement in 1961, we will be faced with the decision as to whether or not we should shut down all our gold mining operations until a return to normal conditions. This contingency makes it vitally important for us to conserve the corporation's assets to handle the uncertainties ahead."

Conditions worsened during 1961 to the point that the management closed down its mining and milling operations on December 31, 1961, and placed the mines and mill in a standby condition. However, this does not solve our problem for to maintain these properties in a "standby condition" will cost the corporation approximately \$100,000 annually with no revenue whatsoever being derived currently from these properties. We are inserting, at end of statement, as exhibit C, a copy of the letter mailed to our stockholders on December 2, 1961.

Again, may we repeat, that all other gold mining areas, as well as areas mining other metals along with gold will be similarly affected by the depressed condition of the gold mining industry as in the Cripple Creek District, assuming, of course, that they are or have been trying to continue their existence.

We have attempted to show the "dire plight" in which the gold mining industry finds itself at this time and have explained in detail the principal contributing factors to this condition, not the least of which is and has been the attitude of certain segments of the U.S. Government from the date of the abortive gold closing order L-208 up to this present time. We might add here that those Government officials who perpetrated this order had to admit that the order fell far, far short of the intent of same and its accomplishments were nearly nil, so far as the war effort was concerned. We believe that to earn the right to criticize our Government's policies one must make suggestions or recommendations to remedy this wrong which has been thrust upon the gold mining industry.

RECOMMENDATIONS

Numerous bills have been introduced in the House and Senate designated to help the "seriously sick" gold mining industry. We realize and appreciate the fact that it is at the present impractical to change the world price of gold. However, we believe very definitely that the same results can be achieved, so far as the domestic gold production is concerned, by an incentive payment by the Secretary of the Interior Department, as provided by Senate Joint Resolution 44, rather than by the Treasury Department to avoid any interpretation of this incentive payment being an actual increase in the price of gold. The amount of the incentive payment must be realistic and should be based upon the consideration of "our less than 40-cent dollar." This would mean that the minimum incentive payment should be sufficient to bring total payment up to \$87.50 per fine ounce or an incentive payment of \$52.50 to be added to the present mint price of \$35 per fine ounce. However, it is questionable whether or not this would be sufficient to stimulate a great increase in domestic gold production, for as previously stated, many gold producing mines have been closed for such a long period, that the capital expense of rehabilitating the mine may require at least a \$70 per fine ounce incentive payment added to the mint price of \$35 per fine ounce, thereby making a total payment of \$105 per fine ounce to make resumption

worthwhile. We, therefore, make certain recommendations, the chief of which are:

(1) Removal of restrictions on ownership, purchase or sale of gold by American citizens.

(2) Cessation of Treasury sales of gold for industrial purposes. Such requirements should be met by the market at freely negotiated prices.

3. Payment of an incentive payment for all newly domestically mined gold, by the Secretary of the Interior Department, or such agency as may be designated by Congress, in the amount of \$70 per fine ounce of gold.

We submit the above information to your committee with the hope that it will assist you in your attempt to solve the critical gold problem and we solicit your earnest consideration of Senate Joint Resolution 44, as well as certain recommendations suggested above.

EXHIBIT A

[From the Mining World, January 1961]

HOW ABOUT GOLD?

WHERE MINED AND FUTURE PRODUCTION OUTLOOK

(By A. H. Koschmann and M. H. Bergendahl, U.S. Geological Survey, Denver, Colo.)¹

With the Nation's gold crisis making headline news around the world, it's time to take a good look at gold in the United States. This article summarizes briefly: (1) gold production and geographic distribution of gold districts; (2) trends of production; and (3) postulates from available data the potential gold production in the United States. Geological features of gold deposits will not be discussed.

Gold was first mined in the Southeastern States beginning about 1792 (Loughlin, Ferguson, and others, 1929, table I), but the bulk of the gold production has come from the Western States, following the discovery of placer gold in California in 1848.

Exploration and mining activity boomed and production increased rapidly; in 1850 it reached 2 million ounces and in 1853, 3 million ounces. It then declined steadily and in 1862 again dropped below the 2-million-ounce level. Placers were the chief source of our domestic output until 1873 (Loughlin, Ferguson, and others, 1929), when they were exceeded by the output of lodes, a relation that has continued to the present. Placer production remained at a relatively low ebb during the 1880's and early 1890's, but there were several periods in later years when placer production, though exceeded by lode production, formed a significant proportion of the domestic output—in 1896 when large dredges were introduced in California, in 1904 when large deposits of rich gravels were discovered in Alaska, and in 1934 when the price of gold was increased to \$35 an ounce.

Most of the domestic gold output since 1873 has come from dry and siliceous ores. Lode mining began shortly after placer mining but it was not until about the middle 1860's, when the Mother Lode and Grass Valley lodes in California and the Comstock Lode in Nevada became important producers, that lode mines became significant sources of gold. Lode production increased rapidly following the discovery of gold in the Cripple Creek district in 1892, and by 1898 production from this district, together with the increased placer production in California, had raised our annual gold production to more than 3 million ounces. Production continued to rise with the discoveries of Tonopah, Nev., in 1903, the placer deposits of Alaska in 1904, and Goldfield, Nev., in 1905. By 1905 gold production for the first time exceeded 4 million ounces, a level maintained until 1917. Because of a shortage of manpower during World War I production then declined rapidly, falling almost to the 2 million-ounce level by 1920, where

¹ Publication authorized by the director, U.S. Geological Survey.

it remained until 1934. Many gold mines were reopened during the depression in the early 1930's. When the price of gold was raised in 1934 to \$35 per ounce, production increased rapidly and in 1937 again passed the 4-million-ounce mark. Additional gold was derived as a byproduct from increased production of base metals in the late 1930's, and in 1940 gold production reached an all-time high of 4,869,949 ounces. Shortly after the United States entered World War II, the gold mines were closed and gold production in 1944 and 1945 dropped below the 1-million-ounce mark, the lowest since 1849.

Until 1943 byproduct gold, obtained from base-metal ores, formed only a small, though significant, fraction of the total production of this country. Only in World War II (years of 1943 to 1945 inclusive), when base-metal production increased and gold mines were closed, did byproduct gold contribute more than 50 percent of our annual domestic production, and since 1951 it has steadily out-ranked placer production. Byproduct gold is recovered principally from copper ores, chiefly from porphyry copper ores, which began production on a substantial scale about 1907. West Mountain (Bingham) district, Utah, was the leading gold producer in the country in 1943, 1944, and 1945. In 1946 the Lead district, South Dakota, regained the lead, a position it has held since. The West Mountain district, Utah, has since held second place.

The gold mines were permitted to reopen in 1945, but in general the postwar economic boom has not been conducive to gold mining. Immediately after the war, gold production rose to 2 million ounces, but increased mining costs combined with the fixed price of gold have provided little incentive to reopen many of the mines, and gold production has declined since 1951.

The prediction of future or potential production of a mineral commodity is generally based on estimates of its reserves. However, reserve data have been compiled for only a few gold deposits; for most of them our present knowledge and data are too scant to warrant reserve estimates. Therefore, potential production will be estimated in terms of probable production over a period of years, using, as a basis for extrapolation, production trends that have obtained since the end of World War II.

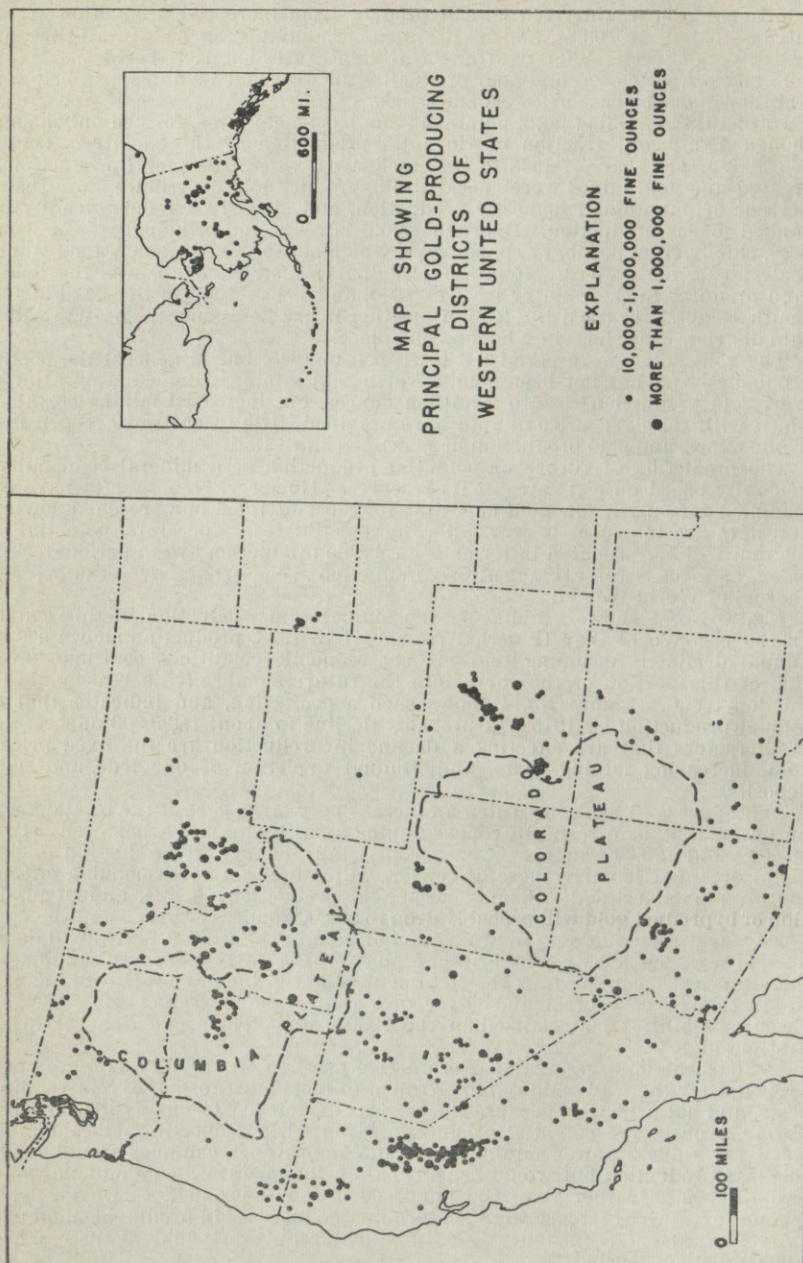
Figure No. 4 shows graphically the annual gold production in this country. In the post-World War II period from 1947 to 1958, production shows a slight annual decline. Assuming that present economic conditions continue, projection of this portion of the curve into the future should give a reasonable production trend. Figure No. 4 shows such a projection, and indicates that our annual production by 1975 will probably decline to about 1,400,000 ounces. The main factors that are effecting a decline in production are the fixed price of gold, increasing mining costs, and gradual depletion of our lode and placer deposits.

Byproduct gold has constituted an increasingly large part of the total domestic output, mainly as a result of copper mining and, in late years, has been between 600,000 and 700,000 ounces. Consequently, any change in production of base-metal ores, particularly those of copper, will exercise a corresponding effect on the production of gold. Should base-metal production decline, annual production of byproduct gold will probably drop to 500,000 ounces or less.

Any significant increase in production of gold in the United States will depend on (1) an increase in the price of gold, (2) greatly improved mining and metallurgical techniques for the treatment of low-grade ore, or (3) an increased production of base-metal and silver ores that yield byproduct gold. Some of these possibilities materialized in the 1930's, and gold production reached its all-time high.

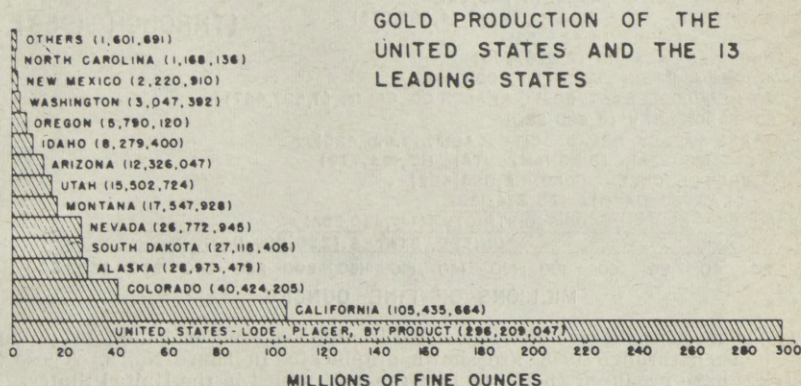
Most of the gold mines that were active prior to World War II were not reopened after the war. Many mines failed to reopen because of excessive mining costs, and not primarily because the ore was depleted. The many inactive mines must be considered potential producers if and when economic factors again become favorable. Lower mining costs and improved techniques would tend to increase production but would benefit mainly the operators who mine large low-grade deposits, rather than the hundreds of small producers. Obviously, the amount of a price increase would determine the increase in production, and under most favorable circumstances, as in 1940, production could again reach the 4,000,000 ounce level.

FIGURE 1



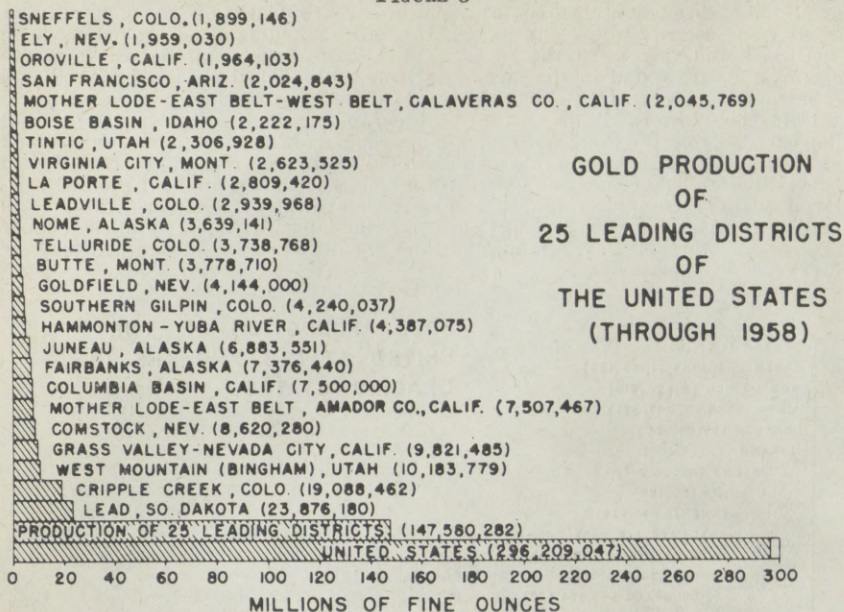
Most of the principal gold districts, shown on figure No. 1, are not distributed at random throughout the country, but are concentrated in the mountainous areas of Western United States, where faulting and igneous intrusions have disturbed and dislocated the rocks. Many large base-metal deposits, on the other hand, are found in the large relatively undisturbed areas of central and eastern United States. Gold is not even a byproduct of these base-metal ores. Within the Western States certain physiographic provinces are barren of gold deposits, notably the Colorado Plateau, a large part of the Columbia Plateau and most of Wyoming. Among the ore deposits in disturbed areas of Western United States the occurrence of gold is erratic and many rich deposits have yielded relatively little or no gold; foremost among these are the large silver-lead deposits of Coeur d'Alene, Idaho, Aspen, Colo., and Magdalena, N. Mex.; and the copper deposits of Morenci, Ray, Miami, and Superior in Arizona, and Santa Rita, New Mexico.

FIGURE 2



Gold is one of the most widely distributed metals in nature. It most commonly occurs in its native form and is easily recognized by its color and malleability. Three general sources of gold are recognized: (1) Placers, (2) lodes in which gold is essentially the only metal present in economically valuable amounts (dry and siliceous ores), and (3) base-metal ores which yield gold as a byproduct. The United States has produced through 1958 about 296,209,047 ounces of gold, which, at the present price of \$35 an ounce, would be valued, in round numbers, at \$10,367 million, about one-half of the value of the present gold holdings of the U.S. Government. Gold was first mined beginning about 1792 in the Southern Appalachian States, but these deposits, though rich, were relatively small and were quickly depleted. The bulk of our gold production has come from the Western States, including Alaska. Production of the principal gold-producing States is shown graphically in figure No. 2.

FIGURE 3



The 25 most productive districts, listed in order of rank, and the total production of each through 1958, are shown graphically in figure No. 3. These 25 districts have produced about one-half the gold mined in the United States.

In the United States, 505 districts have produced at least 10,000 ounces of gold apiece, and many more districts have a smaller production. Of the principal districts, 268 have produced between 10,000 and 100,000 ounces, 192 have produced between 100,000 and 1 million ounces, and 45 have produced more than 1 million ounces. Three districts: Lead, S. Dak., Cripple Creek, Colo., and West Mountain (Bingham), Utah, listed according to rank, have each produced over 10 million ounces and Lead has produced over 20 million ounces. The 505 principal districts are distributed among the States as follows:

California-----	95	Alaska-----	43	Washington-----	15
Nevada-----	70	Arizona-----	42	North Carolina-----	15
Montana-----	52	Idaho-----	39	Others-----	56
Colorado-----	46	Oregon-----	32		

FIGURE 4

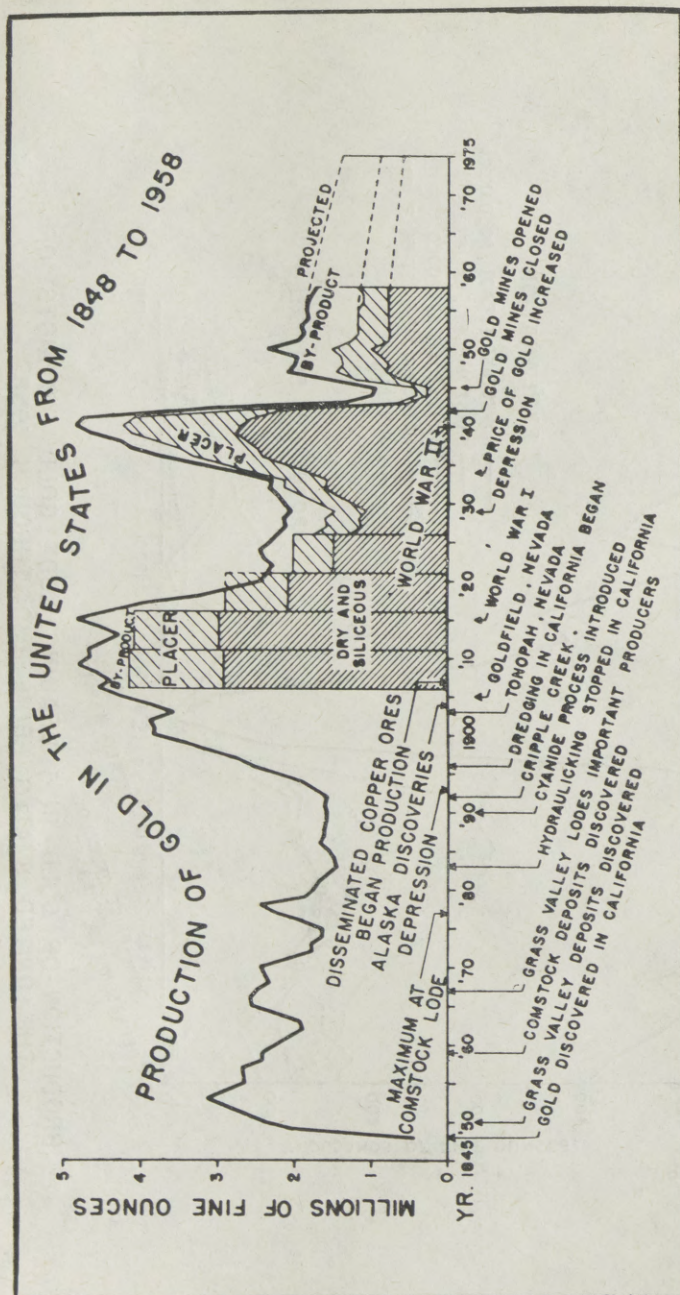
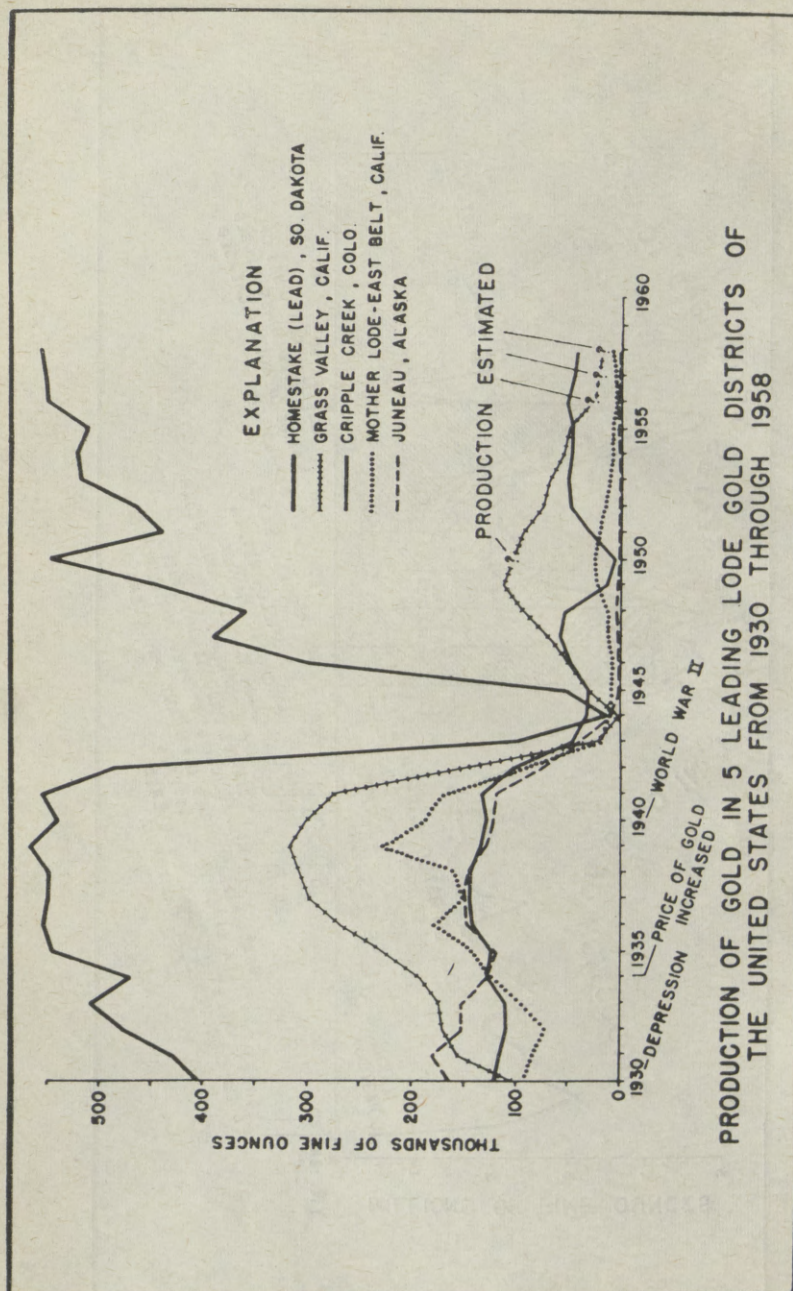


FIGURE 5

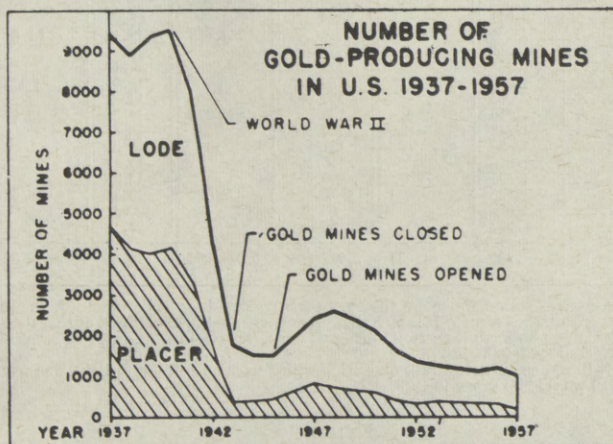


Gold production in the United States has been affected by a number of factors: Increases in production have resulted from new discoveries, technical advances in mining, milling, and metallurgy, and increases in the price of gold and of other metals from whose ores gold is derived as a byproduct; decreases in gold production have resulted from depletion of ores, increased mining costs, falling base-metal prices, and labor shortages. Figure No. 4.

About 400 of the 505 principal districts are at present either dormant or have an annual production of less than 100 ounces. Of the 25 leading districts listed in figure No. 2, 8 are dormant, 5 produce less than 100 ounces annually or have sporadic production, and only 12 maintain activity comparable to that of the prewar period.

The Lead district (Homestake) is steadily increasing its production and stands in marked contrast to the shrinking output of the other four leading districts, as shown in figure No. 5.

FIGURE 6



Trend in terms of active mines that produced gold from 1937 through 1957 is shown in figure No. 6. In 1940, when gold production reached an alltime high, a total of 9,569 mines produced gold and silver, of which the vast majority were gold mines. During the war years, 1943-45, the number of producing mines dropped to a low of 1,552 mines. The placer mines dropped from a high of 4,699 in 1937 to a low of 362 in 1943, and lode mines dropped from a high of 5,393 in 1940 to a low of 1,112 in 1945. After the war, 778 placer mines were reactivated by 1947, but the number declined and reached a low of 228 in 1957. Lode mines present a comparable record, rising to 1,961 in 1948, but then declined to 830 in 1957.

EXHIBIT B

Year	Total gross product	5-year periods	Total tonnage treated	5-year periods	Average value per ton	Average value ton—5-year period	Total Teller County taxes ¹
	(Millions)	(Millions)					
1937-----	\$5.586	{ \$27.325 }	{ 510,612 }	{ 2,662,760 }	{ \$10.94 }	{ \$10.26 }	{ \$192,012 }
1938-----	5.577		{ 524,177 }		{ 10.83 }		{ 187,452 }
1939-----	5.593		{ 545,323 }		{ 10.26 }		{ 180,526 }
1940-----	5.244		{ 550,521 }		{ 9.53 }		{ 154,104 }
1941-----	5.325		{ 532,127 }		{ 10.01 }		{ 187,337 }
1942-----	3.907	{ 12.227 }	{ 378,434 }	{ 31,422,199 }	{ 10.33 }	{ 8.60 }	{ 186,922 }
1943-----	2.235		{ 288,363 }		{ 7.75 }		{ 193,352 }
1944-----	2.265		{ 221,549 }		{ 10.23 }		{ 171,440 }
1945-----	1.847		{ 227,063 }		{ 8.14 }		{ 174,250 }
1946-----	1.973		{ 306,790 }		{ 6.43 }		{ 190,887 }
1947-----	2.501	{ 5.796 }	{ 420,026 }	{ 3,761,478 }	{ 5.95 }	{ 7.61 }	{ 223,026 }
1948-----	2.041		{ 229,074 }		{ 8.91 }		{ 227,863 }
1949-----					{ 18.12 }		{ 245,104 }
1950-----							{ 244,469 }
1951-----	1.254	{ 9.579 }	{ 112,378 }	{ 686,275 }	{ 11.16 }	{ 13.96 }	{ 271,701 }
1952-----	1.979		{ 152,853 }		{ 12.94 }		{ 284,942 }
1953-----	2.003		{ 177,097 }		{ 11.31 }		{ 311,386 }
1954-----	1.916		{ 133,933 }		{ 14.31 }		{ 322,618 }
1955-----	1.842		{ 100,548 }		{ 18.31 }		{ 357,638 }
1956-----	1.839	{ 6.304 }	{ 121,844 }	{ 379,096 }	{ 15.09 }	{ 16.63 }	{ 370,864 }
1957-----	1.645		{ 116,408 }		{ 14.13 }		{ 409,328 }
1958-----	1.525		{ 99,971 }		{ 15.25 }		{ 411,023 }
1959-----	1.135		{ 70,177 }		{ 16.17 }		{ 411,233 }
1960-----	1.077		{ 52,659 }		{ 20.45 }		{ 412,627 }
1961-----	.922		{ 39,881 }		{ 23.12 }		{ 419,408 }
Total-----	61.231	61.231	5,911,808	5,911,808	10.36	10.36	-----

¹ Although the taxes as stated above are the total taxes collected for Teller County, the mines and mill have paid a large percentage of same. It is seen that taxes have more than doubled during the 25-year period.

² World War period—also includes period during which L-208 (Gold Closing Order) was in effect. Also base metal ores treated 1943-46 inclusive.

³ The Carlton Mill was constructed 1949-51, during which time no milling facility was available, as the Golden Cycle Mill was closed down in 1949.

EXHIBIT C

OFFICE OF THE PRESIDENT

THE GOLDEN CYCLE CORP.,

Colorado Springs, Colo., December 2, 1961.

TO OUR STOCKHOLDERS:

Effective December 31, 1961, or as quickly as possible thereafter, all Golden Cycle gold mining and allied operations in the Cripple Creek District will be discontinued, and the facilities placed in stand-by condition and thus maintained until such time as the government-controlled economics of mining gold in the United States make feasible the resumption of operations.

Halting of operations at the Carlton Mill and associated gold mining properties will not, it should be emphasized, affect the operation of other properties owned by the Corporation.

The difficult decision herein announced has been reached with deep sorrow and regret and only after exhausting all possible alternatives. The inescapable fact with which your Corporation has been confronted is that there cannot be profitable operation of the Golden Cycle gold mining properties until such time as production costs can be drastically cut (a practical impossibility), or until the Federal Government reviews and revises its inflexible policy under which all newly-mined gold produced in this country must be sold to United States Treasury for a price of \$35 an ounce.

For a considerable period of time, every effort has been made to convince the Federal Government of the absolute necessity of providing incentive payments of not less than \$70 an ounce for newly-mined domestic gold in order to permit the domestic gold-mining industry to continue production. The fact that we are now forced to cease operations at Cripple Creek, one of the nation's oldest and most productive gold-mining districts, demonstrates as no other actions or words could, the veracity of the claims made regarding the untenable economic position into which Federal policy has driven the United States gold mining industry.

Your Management has, for a number of years, sought to obtain governmental action which would enable the gold mining industry to keep its head above water. We intend to continue aggressive efforts along these lines and suggest that if you wish to make your voice heard, you write, wire, or otherwise express your views to your Senators, Congressmen, and other appropriate officials of the Federal Government. Your Management will keep you informed as to any progress made toward alleviation of the current situation.

In the absence of Government action, we have had no alternative but to halt operations, full well realizing that closing of the Carlton Mill will mean the cessation of all gold mining in the Cripple Creek District because operators there will find it economically impossible to ship their ore to the nearest operating smelters at either Salt Lake City, Utah, or El Paso, Texas.

It may seem incomprehensible that one of the nation's oldest and most productive and most famous gold mining areas is being shut down at a time when gold is badly needed and when tremendous sums of money are being paid by the Federal Government throughout the world to bolster economies of foreign countries, while no thought seems to be given to the sorry plight of the domestic mining industry, all segments of which are experiencing difficulties as a result of government actions, or the lack thereof.

Should the Federal Government see fit to take affirmative action to make economically feasible resumption of operations at Cripple Creek, Golden Cycle will be in a position to reopen on relatively short notice.

The decision which is regretfully reported to you in this letter has been delayed by our search for other solutions to the problem of tremendously increased costs against a price fixed at a too-low level by the exclusive buyer of our product. The very fact that only one buyer is available to us excludes, of course, taking those corrective steps normally available to a producer whose price is determined by the normal influences of a competitive market.

It is pertinent, we believe, to reiterate at this time certain statements made in the Annual Report of the Golden Cycle Corporation for the year ended December 31, 1960, on pages 5 and 6:

"A. We must go back to the gold standard and stop the further watering of dollars as we would stop the watering of stocks. Gold has been the measure of value for more than 28 centuries, gold is power, and nations with gold have always led the world, and gold is the one medium of exchange which everyone in the world understands.

"B. We must not ever consider for a moment eliminating the 25 percent gold backing now behind our paper money, but instead must start rebuilding the 25 percent reserve to 100 percent to stop the further spread of inflation and bring our dollar back to where it is worth 100 cents.

"C. We must return to the citizens of the United States their constitutional right to own gold and must make paper and gold completely and freely convertible.

"D. We must make an immediate appraisal of our overseas military and foreign aid commitments to cut down our expenditures.

"E. The Federal Government must balance its budget, retire debt, and reduce the banking system holdings of government bonds.

"F. We must use every effort to increase our exports and decrease our imports. To increase our exports, American business will have to become more efficient and American labor will have to stop its yearly demands for automatic pay raises unless it can become more productive.

"G. The campaign to induce investment abroad should be terminated and an investment abroad must not be favored by preferential tax treatment or other subsidies.

"H. There must be a gradual but productive rise in the reserve ratio, until currency and deposit liabilities are fully covered by gold. This may require revaluation of the price of gold, but any revaluation of the price of gold should occur only in connection with a return to full reserve currency.

"I. *At least until a return to full reserve currency is obtained a bonus of \$70 per ounce should be paid on all newly mined domestic gold.*

"Only by elimination of fiat money, the return to a complete gold standard, and the rejection of money managers can the American people regain control of their finances, stop the ever-increasing inflation, and enjoy the economic future to which this Nation is entitled.

"3. A number of bills will be introduced in this session of the Congress dealing with this problem, and we will endeavor to keep stockholders informed as to their merits. *The Management believes the gold producer will ultimately re-*

ceive more for his product, but when and what form it will take we cannot predict. During 1960 the economics of gold mining in which we have a heavy investment in both mining and milling in the Cripple Creek Mining District steadily worsened. If conditions show no substantial improvements in 1961, we will be faced with the decision as to whether or not we should shut down all our gold mining operations until a return to normal conditions. This contingency makes it vitally important for us to conserve the Corporation's assets to handle the uncertainties ahead."

It would be foolhardy to hope that, in present economic circumstances and with a continuing all-out defense effort, there will be a lessening of inflationary trends or a decrease in those costs of production which are beyond our control. We, therefore, face, until such time as the Federal Government takes corrective steps, the following inescapable facts:

1. The Corporation is operating its mining and milling operations in the Cripple Creek Mining District at a heavy loss which cannot be cut without Government action, and which cannot sensibly be continued.
2. We are dissipating our asset, gold, wastefully by selling it to the United States Treasury for less than the cost of production.
3. To date, every effort to obtain action by the Congress to provide the essential incentive payment to producers of newly mined domestic gold has failed.
4. While great subsidies are being freely paid by the United States Government to producers of agricultural and other commodities already in huge surplus, and to store the continuing output of the subsidized producers of surplus commodities, gold, for which ample storage facilities already exist at Fort Knox, and for which there is an urgently pressing need, receives a deaf ear. An incentive payment of some \$70 an ounce on gold would be, by comparison to numerous other Federal programs designed to maintain other essential domestic industries, an infinitesimal outlay.
5. The gold problem in this country is of increasing gravity as our reserves shrink, and steps taken to halt the shrinkage have thus far been futile. There is, in the minds of Management, no doubt that the Government must ultimately take whatever steps are necessary to stimulate domestic gold production, if this nation is to maintain its world position. We are convinced that the Administration will not take the initiative in paying the domestic producer of newly mined gold a price which will enable him to continue operations until external pressures, from other nations in the world, reach a magnitude too great to be ignored.

The tragedy of today's situation is emphasized when consideration is given to the fact that the Golden Cycle Corporation has been in existence since 1895, the Cripple Creek Mining District has poured forth its gold for our nation continuously for some 70 years, and now a Government policy forces closing down. The Cripple Creek Mining District produced gold having an aggregate value of at least \$700 million. This in nowise takes into account the benefits resulting from the employment provided, purchases of equipment and supplies, etc.

Gold reserves in the Cripple Creek Mining District are far from exhausted, though the Government has destroyed the means for its profitable mining and milling.

It is with both sorrow and hope that this statement is sent to you—sorrow that short-sightedness in Government has forced our decision, and hope that this condition will be corrected so that those who are willing to invest time, money, and effort in the development of our great nation's natural resources may get on with the job at a time when the gold we can produce is sorely needed by our nation at large.

Respectfully,

MERRILL E. SHOUP, *President.*

FURTHER STATEMENT OF MERRILL E. SHOUP

Mr. Chairman and gentlemen of the committee, my name is Merrill E. Shoup, and I reside at 17 Broadmoor Avenue, Colorado Springs, Colo. I graduated from Dartmouth College in 1921 with an A.B. degree, and from Tuck School, Dartmouth College, in 1922 with an M.C.S. degree. Subsequently, I was an instructor in economics, banking, and business at Dartmouth College from 1921 to 1922, and an instructor in economics at Brown University from 1922 to 1924. I studied law at Harvard University, the University of Colorado, Denver University, and the University of Southern California, and was admitted to the Colorado bar in

1927. I am president of two small national banks, a director of three, the president of the second largest beet sugar company in the Nation, a railroad director, and the chief executive of many other enterprises.

I appear before this committee representing the American Mining Congress, of Washington, D.C., the Colorado Mining Association, of Denver, Colo., as president of the Golden Cycle Corp., and 10 other gold mining and milling operations in the Cripple Creek Mining District, and as a patriotic citizen vitally interested in the U.S. gold problem.

I understand this hearing was primarily called in connection with Senate Joint Resolution No. 44, the general purpose of which is to encourage the discovery, development, and production of domestic gold. However, due to the fact that the U.S. Department of the Interior, under date of May 11, 1961, in a communication addressed to the chairman of the U.S. Senate Committee on Interior and Insular Affairs, opposed Senate Joint Resolution No. 44 on the grounds that, among other things, "Enactment of legislation providing for payment of a subsidy of this sort could lead to uncertainty about the U.S. price of gold and the stability of the dollar in world markets, and so could result in an increased drain on U.S. gold reserves." The Department of the Interior recognized that the resolution would be beneficial to gold miners. The official position of the executive branch, however, including also the Treasury, the State Department, and the Budget Bureau was, "in view of the paramount national interest in the monetary function of gold, that the enactment of this legislation would not be desirable."

I believe it appropriate that I place in the hearing record a statement answering these objections. The gravest peril confronting this Nation today is our disappearing dollar and its effect upon 185 million Americans, and, in substantiation of this statement, I am incorporating and attaching hereto as part of my testimony copy of an address I have made before various groups and organizations in our country entitled, "Our Disappearing Dollar,"¹ copies of which have been distributed to thousands of American citizens. This address covers not only the necessity for an increased price for gold, if the United States is going to retain the last vestige of its gold mining and milling industry, but also the effects upon our American economy of our flight from the gold standard.

I am also incorporating and attaching hereto as part of my testimony copy of an article entitled, "Indigent Uncle Has To Borrow Gold," originally published by the Economic News and republished in the Colorado Springs Gazette-Telegraph March 4, 1962.¹ This article covers the gold problem, including the status of the U.S. gold stock, net foreign short-term claims, U.S. gold stock versus net foreign short-term claims, U.S. required gold reserve, U.S. gold stock after deducting net foreign claims, and required gold reserve for U.S. money-credit system versus actual gold stock after foreign claims, in a far more intelligent manner than I, as a layman, could do. I am sure that even economists can find no fault in its presentation, although many of them will not agree with its contents. I quote one short paragraph from this article, but commend the complete reading and study to all members of this committee, which follows: "Let us be happy and live within our means even if we have to borrow the money to do it with'."—Artemus Ward. "Of all the happy-go-lucky profligates who ever lived our indigent Uncle Sam has become the greatest, if one measures such greatness by the total amount of a debtor's demand I O U's in relation to his cash resources. Never before in the history of the world has any debtor (individual, corporate, or government) obligated himself for so much payable virtually on demand, that he could not pay if called upon to do so."

I further call your committee's attention to an excellent editorial from the Mining Record, published in Denver, Colo., and attached hereto, entitled "More Gold Loss," which clearly sets out our ever snowballing increase in our gold loss.

At the annual meeting of the American Mining Congress, which includes in its membership practically the entire mineral and mining industry of the United States, at Seattle, Wash., in September 1961, the following declaration of policy on gold was adopted:

"Gold: We recognize that gold is the basic international monetary commodity, and we oppose as inimical to the best interests of the Nation any proposal to repeal or to reduce the required gold backing of our currency. We believe that confidence in the dollar is more likely to be restored by raising than by lowering or abolishing the gold reserve requirement. Treasury policy of selling gold

¹ Filed with the committee.

to foreign central banks and to selected fabricators at home at \$35 an ounce has resulted in a gold drain that today threatens the integrity of the reserve and the value of the dollar.

"We therefore recommend the following essential steps toward reestablishment of a workable gold standard:

"1. Removal of restrictions on ownership, purchase or sale of gold by American citizens.

"2. Cessation of Treasury sales of gold for industrial purposes; such requirements should be met by the market at freely negotiated prices.

"3. Redefinition of the already depreciated dollar in terms of gold, and convertibility to and from gold."

I'd like to summarize my views on this vitally important matter.

(1) Exchange of the world's goods is a continuous thing. It is either accomplished peacefully or by force. In order to accomplish the peaceful exchange of goods, it is necessary that there be a currency available as a medium of exchange in which all individual people have confidence. People have had confidence in gold for several thousand years, in spite of the suggested substitutes and efforts to discredit gold made throughout history by the tyrants, dictators and would-be world managers.

(2) Trustees of our Treasury's gold have, since 1949, sold our gold to foreigners at the bargain price of \$35 an ounce with the result that our remaining gold reserves are now insufficient even to meet the remaining foreign claims on our gold. Solution to our having insufficient assets to meet our liabilities is to be found in building up our assets and reducing our liabilities, not in giving away our remaining insufficient assets.

(3) For some 30 years American citizens have agreed to and lived with the mandate of the money and economic managers of our Government in Washington who have denied individual American citizens and taxpayers the right to buy gold from their own Treasury at \$35 per ounce, while foreigners have had these rights and benefits. Meantime, and during this interval, wars, tensions, and inflation have proved that the hopes and dreams of successfully substituting money management by fallible human beings for the money management of the gold standard is tantamount to pursuing a will-o'-the-wisp.

(4) We must go back to the gold standard and stop the further watering of dollars as we would stop the watering of stocks. Gold has been the measure of value for more than 28 centuries, gold is power, and nations with gold have always led the world. Gold is the one medium of exchange understood by everyone in the world.

(5) We must never consider for a moment eliminating the 25 percent gold backing now behind our paper money, but instead must start rebuilding the 25 percent reserve to 100 percent to stop the further spread of inflation and bring our dollar back to respectability and a worth of 100 cents.

(6) We must return to the citizens of the United States their constitutional right to own gold and must make paper and gold completely and freely convertible.

(7) We must make an immediate reappraisal of our oversea military and foreign aid commitments to cut down our expenditures.

(8) The Federal Government must balance its budget, retire debt, and reduce the banking system holdings of Government bonds.

(9) We must use every effort to increase our exports and decrease our imports. To increase our exports, American business will have to become more efficient and American labor will have to stop its yearly demands for automatic pay raises unless it can increase its productivity proportionately.

(10) The campaign to induce investment abroad should be terminated and an investment abroad must not be favored by preferential tax treatment or other subsidies.

(11) I feel strongly that there must be a gradual but progressive rise in the reserve ratio, until currency and deposit liabilities are fully covered by gold. This may require revaluation of the price of gold, but any revaluation of the price of gold should occur only in connection with a return to full reserve currency. At least until a return to full reserve currency is obtained, it is my conviction a bonus of \$70 per ounce should be paid on all newly mined domestic gold.

(12) Only by the elimination of fiat money, the return to a complete gold standard, and the rejection of money managers can the American people regain control of their finances, stop the ever-increasing inflation, and enjoy the economic future to which this Nation is entitled.

(13) The gold standard automatically enforces restrictions on inflationary schemes of the politicians. We must not let the all too small remaining 25 percent gold backing of our paper money be removed. If it is, the last vestige of protection for our present 40-cent dollar will be removed, and then we can be as sure as we are that the sun will rise in the morning that our dollar can sink to a value of 5 cents to 10 cents. I need not tell you what this will do to life insurance proceeds, retirement funds, fixed investments and pensions. Those of us who have worked to pay life insurance premiums with dollars of value ranging from 100 cents to 40 cents do not want our wives, children, or other beneficiaries to receive 5-cent dollars for their support. The American people, if they have any interest in their future, must arouse themselves and make known to their Congressmen, Senators and other public officials their determination to halt any further tinkering with the gold reserve behind our paper money.

Senator CARROLL. You have been very helpful.

Are there any other questions?

Senator DWORSHAK. At this point, Mr. Chairman, I ask permission to insert in the record a brief statement, prepared by the U.S. Treasury Department showing the loss of gold reserves in calendar years from 1957 up through January 1962, and the domestic production of gold, 1957 through 1961.

I hesitate to make this comment because I should be the last one in the world to corroborate anything that the Interior Department says in a report to a committee of Congress, but because of the doubt in the mind of my good friend from Nevada, I suggest that he read these figures and he will ascertain that in 6 years the period referred to by the Interior Department, our loss of gold was a little more, but approximately \$6 billion.

Senator BIBLE. I didn't question that.

Senator DWORSHAK. The domestic production of gold was valued at \$53 million in 1961. If that output were doubled it would not take 42 years to replace from domestic sources, the monetary gold loss since 1957. It would take 55 years.

Senator BIBLE. My only position if I might be indulged for a moment, Mr. Chairman, is simply to question the Interior's conclusion—and this is why I tried to bring it out through Mr. Shoup who is a qualified witness—I don't think it necessarily follows if you double the price you double the production.

It seems to me in Nevada if you doubled the price you would bring a lot of mines into production. This is the only point I was making. You will have more mines producing at \$70 an ounce than at \$35 an ounce. It does not follow in a mathematical ratio of 2 to 1. My only theory was that the period would be far shorter than 42 years.

This is something that Mr. Shoup encouraged.

Senator DWORSHAK. Based on the figures made available by the U.S. Treasury Department, it would take 55 years.

Senator BIBLE. That may be true, but they are based upon a false premise, as I see it, because they are based upon the amount of gold that was in production at \$35 an ounce. To say that at \$70 an ounce you would only double that amount, I think is a fallacious premise.

Senator DWORSHAK. They didn't say that. They said if it were doubled.

Senator BIBLE. They said if it were doubled it would take 42 years.

Senator DWORSHAK. I think it might quadruple. I would like to see it.

Senator BIBLE. Mr. Shoup's testimony, I think rather vindicates my position because I understood him to say that if we were to make an incentive payment of \$35 an ounce, instead of taking 42 years to produce \$6 billion worth of gold, it would take approximately 10 to 12 years. Is that correct?

Mr. SHOUP. Yes.

Senator BIBLE. This is my position. I don't think we are too far apart.

Senator CARROLL. Without objection, this list of the years and reserve balances and net losses or gains of domestic production of gold, will appear in the record at this time.

(The information referred to follows:)

Loss of gold reserve by calendar years

	Reserve balance	Net loss or gain
1957.....	\$22,857,000,000	\$799,000,000+
1958.....	20,582,000,000	2,275,000,000—
1959.....	19,507,000,000	1,075,000,000—
1960.....	17,804,000,000	1,703,000,000—
1961.....	16,947,000,000	857,000,000
January 1962.....	16,848,000,000	99,000,000

Domestic production of gold

	Ounces	Dollars
1957.....	1,800,000	\$63,000,000
1958.....	1,759,000	61,656,000
1959.....	1,635,000	57,225,000
1960.....	1,679,800	58,793,000
1961 (Bureau of Mines estimate).....	1,516,652	53,082,000

Senator CARROLL. I am delighted Mr. Shoup has noted that this is not a political issue. I am especially glad to have the Senator from Idaho put in the losses from 1957 to 1960 as they were most substantial. It is not a political issue because it occurred under both administrations.

I spoke to the Rotarians, Mr. Shoup, on this point recently, and I said in 8 years of the previous administration there were five deficits out of 8 years. I also said that we raised the debt ceiling \$23 billion. In speaking to these folks I remarked that these are not political matters because they involve events beyond the control of a political party. As we have indicated, in the last year, the first year of the present administration, we began the first quarter pretty well with a gold reserve of \$17 billion. Then came the third and fourth quarters and we found ourselves with an \$800 million outflow of gold.

The question in connection with this resolution is, Can we strengthen our own financial position in the world by strengthening the dollar through mining more gold? This is the basic issue, is it not?

Mr. SHOUP. It certainly won't hurt.

Senator CARROLL. This is the point. It has been noted, however, that if we do this, it will cost a considerable amount of money.

If this reemphasizes the deficit, it may put us in a more shaky position in the foreign exchange markets of the world. There are a lot of "ifs" in this and these are the "ifs" we are exploring. We

are delighted to have you here and to have the benefit of your practical experience.

I want to ask you one question. I have asked this of several persons. Do you know what our total gold production has been since 1933 through the war?

Mr. SHOUP. Since when?

Senator CARROLL. From 1933 or 1934 through the war.

Mr. SHOUP. No, I couldn't give you that offhand.

Senator CARROLL. In other words—I will ask the question in a different way—how did we come into possession of \$23 million of gold in 1957? Was it all our gold or was it moved from other countries into our own vaults?

Mr. SHOUP. When we were the banker of the world we accumulated a lot of gold. There was a long time we imported far more than we exported.

Senator CARROLL. This was during World War II?

Mr. SHOUP. Yes.

Senator CARROLL. A lot of the gold came to us.

Mr. SHOUP. It came from England and other countries.

Senator CARROLL. Now that we have strengthened the economy of Europe through the Marshall plan and the money we are spending through foreign aid and military, this has enhanced their own position. They can call upon gold for payments.

Mr. SHOUP. Yes, sir.

Senator CARROLL. Are there any other questions along this line?

Senator GRUENING. I want to comment on two points that Mr. Shoup raised. One, his conviction that the Russians are hoarding gold or saving gold or accumulating gold, and his belief that gold is an important weapon. I share that view.

Now, when we need an important weapon in the other aspects of international conflict, such as nuclear warheads, we pay whatever is necessary.

Mr. SHOUP. That is right.

Senator GRUENING. Would you not agree that is what we should do with gold, we should pay whatever is necessary?

Mr. SHOUP. I am thoroughly convinced that gold is one of the most important weapons we have in this war. That is what I meant when I said whatever the cost is, it is cheap. We didn't question what it took to buy uranium when we needed it. We don't question what it takes to buy things that we need for astronauts. The accumulation of gold and gold is so important in the economics, we have to keep a strong Nation to back up our military and we have to have a sound currency and it just goes on and on. To me, gold is a weapon of war.

Senator CARROLL. May I further interpret your statement?

We have stockpiled billions of dollars worth of other commodities.

Mr. SHOUP. That's right.

Senator CARROLL. Feathers, strategic war materials; we have wheat running out of our ears. But when you once do something for gold, you don't need to store it. This is not a perishable commodity. This is something that may lend stability to our whole financial system.

Mr. SHOUP. That's right.

Senator CARROLL. This would also help people in an industry which has been cruelly pressed down.

Mr. SHOUP. That's right.

Senator CARROLL. You would agree with that?

Mr. SHOUP. Yes, sir.

Senator CARROLL. Is there anything further?

You have been very patient. It is now 20 minutes to 1.

Mr. SHOUP. I appreciate your letting me testify.

Senator CARROLL. I understand I have made a mistake. The American Mining Congress is not meeting in Colorado. It is the Colorado Mining Association which will be meeting tomorrow.

Mr. SHOUP. Yes, sir.

Senator CARROLL. I thought we were so important in our State that we controlled the larger group.

Mr. SHOUP. I want to go out there for the meeting.

Senator CARROLL. Give them my regards.

Mr. SHOUP. Thank you very much, sir.

Senator CARROLL. I have just received the statement of J. F. Little, of Denver, Colo.

Joe is a veteran Colorado gold mine operator and is the publisher of the Mining Record. I would like to state that I have very high regard for his views. His statement will be placed in the record at this point.

Immediately following Mr. Little's statement will come that of L. L. Huelsdonk, vice president and general manager of Best Mines Co., Inc. Senator Kuchel has submitted his statement.

(The statements referred to follow:)

STATEMENT OF J. F. LITTLE, DENVER, COLO.

Mr. Chairman and members of the subcommittee, I have been a metal mining attorney for over 30 years, during which time I have represented many metal mining clients. I have also been a metal mineowner, a metal mine operator, a member of many metal mining organizations and committees, and an officer of the newspaper known as the Mining Record.

Along with other metal miners of this country, I want to express my appreciation to Senator Carroll and to the members of this committee for their kindness in affording us the opportunity to express our views on Senate Joint Resolution 44.

While this resolution and this hearing are directed primarily to what can be done to encourage gold mining, I think we should look behind the expressed purposes of this hearing to a much more serious matter, and that is the financial future of this country. I have seen copies of letters written to Senator Anderson, chairman of the Senate Committee on Interior and Insular Affairs. One of these is from John M. Kelly, Assistant Secretary of the Interior, dated May 11, 1961. Another letter is from Phillip S. Hughes, Assistant Director for Legislative Reference of the Bureau of the Budget, dated May 8, 1961. There is also a letter from Brooks Hays, Assistant Secretary, Department of State, dated May 1, 1961, and, finally, a letter from John M. Leddy, Assistant Secretary of the Treasury, dated May 8, 1961. All of these letters are opposed to this resolution. The writers of these letters ignore the extremely critical state of our gold obligations. Not one of these letters proposes any solution. We cannot close our eyes to a condition which is rapidly growing worse.

I have before me the Federal Reserve Bulletin for the month of February 1962. This bulletin shows our total gold stocks at the end of the year 1952 were \$23.187 billion. At the end of January 1962, they were \$16.815 billion. This represents a loss of \$6.372 billion in gold in 9 years' time. While we frequently hear about this gold loss, mention is seldom made of the huge increase in the short-term liabilities of this country which are payable to foreigners. Most of these liabilities are, or readily can be, made payable in gold. According to this issue of the bulletin, at the end of December 1956, these short-term liabilities totaled \$14.939 billion. At the end of December 1961, they totaled \$22.558 billion. That is an increase of \$7.619 billion in 5 years' time.

Again, under current laws, we must have a 25-percent gold reserve behind Federal Reserve notes and deposits. These notes and deposits total roughly \$48 billion. So, we must have about \$12 billion in gold as this 25-percent reserve. Yet, according to the most recent reports, we do not now have enough gold to pay the short-term liabilities owned by foreigners and which are payable in gold. Hence, we are insolvent.

I understand that Congress will shortly be asked to aggravate this crisis by authorizing the substitution of Federal Reserve notes for silver certificates. This will require approximately \$500 million in gold, which we do not have, as the 25-percent gold reserve behind these additional Federal Reserve notes.

What does it take to arouse Congress to the seriousness of this situation? How long will it be before some foreign bank or other holder of our short-term liabilities demands payment of these liabilities in gold while the United States still has gold to pay at the rate of \$35 an ounce, which, incidentally, is the cheapest price for gold in the entire world? That demand by that foreign bank may set off a run on our gold stocks which can only end by the loss of all our gold or our ignominious repudiation of our obligations and our suspension of payments in gold. This latter course is simply a confession of national voluntary bankruptcy.

Gentlemen of the committee, this is no longer a question of what can be done for the little gold miner. He was licked long ago. He has been the victim of a vicious discrimination by his own Government. I realize that this Congress has simply inherited a situation, and is not the cause of it, but we must realize that the American gold miner over the past 30 years has been deliberately driven out of business by laws and regulations of the Federal Government. You Members of Congress today are not faced with the simple prospect of putting the miner back in business. You have the far more important problem of providing new sources of gold—our primary monetary metal—and you can only do so by providing a price for gold which will enable gold mining to start again in this country and pay present costs of production. You must remember, too, that gold mining cannot be resumed by turning a key or flipping a switch. Even after you convince the gold miner that the Government will not only provide a price, but keep its promise to maintain that price, it will be at least 1 year before gold mines can be cleaned out, pumped out, repaired, equipped, and developed to the point where they can make any substantial contribution to our depleted gold stocks. Meantime, keep before you the fact that during all of this period we will be losing more gold and our short-term liabilities will be increasing.

I reiterate what John M. Kelly, Assistant Secretary of the Interior, said in his letter to Senator Anderson on May 11, 1961: "With an incentive of \$35 an ounce, gold production might be doubled, but at this doubled rate it would take about 42 years to replace from domestic sources the monetary gold reserve loss since 1957." No statement that I could make could better illustrate the magnitude of our gold problem than this statement of Mr. Kelly.

As I see it, no act of yours could now worsen the situation of the gold miner—he has had it. Ahead he can see that the continuing loss of our gold and the increase of our gold liabilities will eventually force the reopening of the mines of this country, but the longer that is delayed, the worse our situation will become.

I cannot agree with the statements in some of the letters I have mentioned, that an incentive price for gold will have an adverse effect in foreign countries, since, as matters now stand, we are losing our gold with no hope of replenishment. The adoption of this resolution, and its performance by the Government, would provide new sources of gold for this Nation, and thus strengthen our position in the eyes of the world.

Finally, I think the committee should know that this talk about the stability of the dollar and the argument that any change in the price of gold would encourage uncertainty and speculation with regard to future gold prices may be misleading. The Engineering & Mining Journal for February 1962, quotes the price of gold coins per fine ounce at the free or black market value of the U.S. dollar in foreign markets as of January 31, as follows: Manila, \$43.75; Hong Kong, \$48.15; Bombay, \$57.60; Beirut, \$42.75; Paris, \$43.05; Buenos Aires, \$42.85. The committee should remember that these prices are in spite of the fact that the U.S. Mint still sells gold at \$35 an ounce. We can only guess at what the price of gold would be were it not for these depressing sales of this critical monetary metal by our own Government.

My main criticism with this resolution is that the bonus should be \$70 an ounce so as to bring the price of gold more in keeping with our devalued dollar and the prices of other commodities and wages.

STATEMENT OF L. L. HUELSDONK, VICE PRESIDENT AND GENERAL MANAGER,
BEST MINES Co., INC.

My name is L. L. Huelsdonk. I am the vice president and general manager of Best Mines Co., Inc., a gold mining operation at Downieville, Sierra County, Calif.

I understand that the purpose of this meeting is to hear testimony relative to legislation pertaining to incentive payments to gold producers. Without deviating directly from this objective, I should like to preface my remarks with a few observations which may not be considered the business of gold miners, but which I believe will clearly attach the soundness of incentive payments for gold production to the economic welfare of this country. I present these views in the light that we are all in agreement that our first thoughts should be for the preservation of the United States as a guileline in whatever we do.

If it is rightfully necessary to forfeit our domestic gold mining industry by hanging the producers one by one from a mortgaged tree of monetary semantics, then the executions should be completed as swiftly and mercifully as possible. But, on the other hand, if gold is as important to the well-being of governments as history has repeatedly demonstrated, and recent difficulties have borne out, then the hangman's branch should be cut from the tree so that a full production of domestic gold can contribute to the tangible soundness of our monetary base.

It is certain that such unsettled views cannot be reconciled in a short period of time, and it is just as certain that during a long interim of controversy, the impending claims against our gold will not lie down and be quiet. Therefore, it is reasonable to assume that the international monetary complexities which have milked over \$5 billion from American gold reserves within the last 4 years will continue unabated unless equitable adjustments are made or until our monetary gold is lost.

In this connection an appendix has been added to this statement which points to the overall wisdom of maintaining monetary gold reserves, even to whatever small measure an increase in domestic production can contribute through incentive payments during a period of arbitration. In the interest of time and in considering monetary eventualities are irrelevant to your committee work, this appendaged analysis can be considered as supplementary information and left for your convenience.

In order to get down to specifics, I should like to use the Ruby Mine as an example to demonstrate the extent to which the gold mining industry in the United States has been exterminated.

This was a medium-sized gold mine, operated by our interests from 1934 until its closure by governmental order in 1942. Employment varied from 40 men in the winter months (when the mine was snowbound) to 70 men in the summer season. The operation was both gravel and quartz with a milling capacity of 300 tons of gravel and 30 tons of quartz.

The deterioration is only a small part of the total damage that will handicap the reopening of this mine. The main working level, which connects into the Lowry shaft 12,000 feet to the east is 70 percent in heavy ground which is now severely caved. A second exit tunnel 5,000 feet in length connecting with the Golden Bear shaft to the north is in a similar condition, as are many thousands of feet of winzes, raises, gangways, crosscuts, stopes, chutes, etc. Of four underground hoist installations, only one hoist was recovered. Three are buried in tons of rubble. Blower stations, locomotive charging stations and transformer

stations have been destroyed. This damage was primarily the result of the Government's closing order when a minimum of 8 men were requested and only 3 were allowed for the maintenance of this mine during the war.

However, the point is that this account can be reproduced a thousandfold within today's immobilized gold mining industry in California alone. See chart marked "Exhibit J (1) and (2)." Exhibit J(2) shows that in 1940 a total of 1,866 gold mines, which were directly employing about 10,000 men in California, produced \$50,540,000 worth of gold. In 1960, 205 mines operated with only 250 employees and with a production record of only \$4,362,050, which is about as low as the smallest year of production during World War II when all American gold mines were closed by Government decree. A more detailed examination of production records will show that bucketline dredges (because of their high unit yield with low labor ratios) accounted for 70 percent of California gold production in 1960.

The problem facing the straight gold mining industry of the United States is the fixed price of gold in relation to the continual increase in the cost of supplies and labor to produce it. Cost items have risen so rapidly over the intervening years that economies resulting from mechanization and modern efficiency could not keep pace. Research for new uses can do nothing to advance the position of the domestic gold mining industry, because the Government (by law) prohibits the producer from participating in the profits from its commercial use. He must sell his gold to the Treasury Department at the 1934 price of \$35 per ounce, less melting, refining, handling, and other charges, from where it is resold to industrial, artistic, and professional users for the same low price that the miner is paid. From there on out, it is sold as processed gold in the consumer market at high, unrestricted, inflationary prices. For instance, a dentist may charge \$80 for a tooth inlay containing 1 gram of gold which was supplied by the miner through the Treasury Department for \$1.12. In considering that the work and overhead costs of the dentist are worth \$50, then the gold has been resold for over \$1,000 per ounce.

Since the end of World War II the Treasury Department has sold about \$1.2 billion worth of monetary gold domestically and thereby has subsidized indeterminable commercial gold profits to the tune of many billions of dollars at the expense of the domestic gold producers. See graph and figures marked, "Exhibit K (1) and (2)." It might be interesting to note that these domestic sales have amounted to \$188.5 million more than domestic production during the same period.

This somewhat challenges the Treasury's claim that incentive payments for gold production would establish two prices for gold. There are now many prices for gold. Besides fantastic prices in jewelry, the arts, and professions; gold in its natural state, in retort sponge, in specimens and in numismatics has many and varied prices. Black market prices also exist throughout the world.

Because of gold's malleable and noncorrosive properties, it is being used increasingly in the missile, space, and atomic energy fields. This is evidenced in the 1960 Treasury sales of \$105 million worth of the country's monetary gold reserves as these programs were stepped up. Since production for 1960 was only \$58¼ million, this represents a net domestic imbalance of \$46 million which should concern any prudent American when he is idly sitting on the resources that can close this gap by the simple payment of minimum incentives that would revive the domestic gold mining industry. This, of course, poses the big question, What is needed pricewise as a minimum incentive to do the job?

For an economic viewpoint based on a 1940 constant dollar, overall prices have risen about 230 percent and therefore, the price of gold logically should be about \$80.50 per ounce to be accordant.

U.S. gold stock

	Billions of dollars		Gold value per ounce	
	Nominal dollars	Constant dollars	Nominal dollars	Constant dollars
1940.....	22.0	22.0	35.00	35.00
1945.....	20.1	15.6	35.00	27.30
1949.....	24.6	14.6	35.00	20.69
1950.....	22.8	13.2	35.00	20.30
1955.....	21.8	11.3	35.00	18.20
1960.....	17.8	8.3	35.00	16.15
1961 (October).....	¹ 17.3	7.5	¹ 35.00	15.26

¹ See below:

$$\frac{17.3}{7.5} = 2.3 \times 35.00 = \$80.50$$

$$\frac{35.00}{15.26} = 2.3 \times 35.00 = \$80.50$$

Also in comparing the October 1961 prices of nonferrous metals with average prices for the 1939-40 period we find the following:

Metal	1939-40	October 1961	Percent increase	Gold on comparable basis
Gold.....	\$35.00 per ounce.....	\$35.00 per ounce.....	000	\$35.00
Silver.....	37.00 cents per ounce.....	91.00 cents per ounce.....	245	\$5.75
Copper.....	11.13 cents per pound.....	30.60 cents per pound.....	275	96.25
Tin.....	50.00 cents per pound.....	122.00 cents per pound.....	244	\$5.40
Lead ¹	5.12 cents per pound.....	11.00 cents per pound.....	215	75.25
Zinc ¹	5.72 cents per pound.....	12.00 cents per pound.....	210	73.50
Nickel.....	25.00 cents per pound.....	81.25 cents per pound.....	325	113.75
Aluminum.....	19.00 cents per pound.....	26.00 cents per pound.....	137	47.95
Mercury.....	\$104.00 per flask.....	\$190.00 per flask.....	182	63.70

¹ 1961 special incentives for small operators not included in percentage increases.

By excluding gold which had no increase because of Government prohibition, the above table shows a coincidental unweighted average price increase of 229 percent for these metals, a figure which closely parallels the economic appraisal outlined in the preceding 1940 constant dollar chart. By comparing the same metals with E. & M.I.'s ¹ weighted index of nonferrous metal prices based on 1947-49 as 100, we find 1940 equal to 52 and October 1961 equal to 120, which reflects a weighted average price increase of 230 percent, or closely analogous to the economic pattern. (Incidentally, it might be noted that the metals such as lead, zinc, and mercury—with price increases under the economic pattern—are in trouble.)

¹ October 1961 issue Engineering & Mining Journal, p. 17.

However, a survey of present gold mining operations in the Western States which was recently conducted by Philip Bradley, chairman of the California State Mining Board, indicated that mining supplies, equipment, and labor has risen on an average of between 300 and 400 percent from that of the 1939-40 period and that present straight gold mine overall operating costs seem to pace closely these increases.

To summarize, it might be said that while the economic picture indicates that a price of \$80.50 an ounce for gold would bring the volume of production to a level comparable to that of 1940, the miners' argument seems to underscore a price tag of between \$105 and \$140 per ounce. In considering the handicaps under which the straight gold mining industry has been forced to work (such as curtailed and part-time operations), high efficiency has been lost. Most of the few surviving operations were forced long ago to forego productivity efforts in favor of costly selective mining methods in order to withstand the erosion of "fixed price" profits. This simply means that they were forced on a cost-per-ounce basis by "highgrading" the richer and leaving the marginal sections of their ore bodies. It also means that a large percentage of gold ore reserves are being lost, not only to them but as a resource of the country, because it is doubtful if any future price of gold will justify the added expense of remining these caved and gutted areas.

In reviewing the miners' position, we must remember that the gold mines cannot be turned on like water faucets. Twenty years of idleness has destroyed plants and facilities and has antiquated equipment and machinery. Heavy capital expenditures will be necessary and valuable time will be consumed in rehabilitation. Amortization will become a problem commensurate with time-limited incentive payments. Workmen will have to be recruited and trained. (A gold miner who was 46 years old when the gold mines were closed is now 65. No new ones have been developed.)

It also must be considered that operating costs will probably continue to rise and, therefore, a fair, fixed price for gold today may be unrealistic tomorrow.

In view of all the problems facing the reopening of the gold mines, it would seem that a price for gold above that which is indicated by economic appraisalment would be necessary if a substantial amount of America's former gold production is to be regained.

Because of gold's somewhat indeterminable domestic position, it is most likely that eventual trial-and-error findings will be necessary to measure its delicate value—and it would seem that closely evaluated incentive payments at this time would provide the most practical yardstick.

In conclusion it might be suggested—if gold is needed—as indicated in our defense and space programs—that a gold procurement and distribution agency be created to contract directly with the mines for gold rather than rob the Treasury of our monetary reserves. See exhibit L (1) and (2) which indicate the wisdom of preventing the further withdrawal of our Treasury gold by clearly showing the seriousness of our reserve position. Such an arrangement could be set up with gold priced at \$35 per ounce with procurement and distribution costs charged to the defense and space programs. Surplus gold could be sold to the Treasury Department for \$35 per ounce (also as a defense measure). Refer back to exhibit K(1) and K(2) which show, contrary to opinion, the tremendous need for gold during wartimes.

Mr. Chairman, I wish to thank you and your committee for the consideration you are giving the gold mining industry at this hearing and hope some rewards will come out of your efforts.

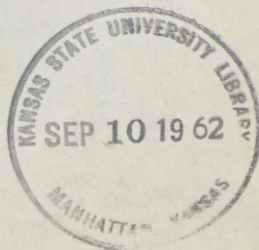


EXHIBIT J (1)
GOLD PRODUCTION IN CALIFORNIA

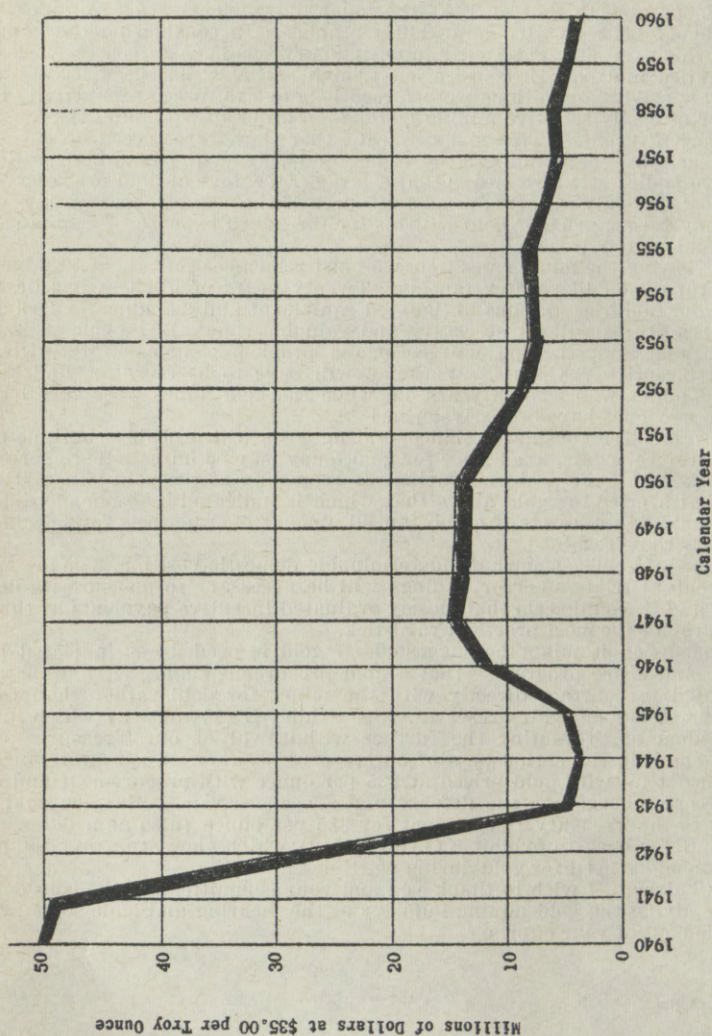


EXHIBIT J (2).—*Gold production in California*

Year	Number all mines and prospects. No limit as to production			Ounces	Value at \$35
	Lode	Placer, including dredges	Total		
1940	1,030	836	1,866	1,444,000	\$50,540,000
1941	835	724	1,559	1,408,793	49,507,755
1942	434	428	862	847,997	29,679,895
1943	139	82	221	148,328	5,191,480
1944	109	66	175	117,373	4,108,055
1945	87	99	186	147,938	5,177,830
1946	150	172	322	356,824	12,488,840
1947	210	210	420	431,415	15,099,525
1948	241	195	436	421,473	14,751,555
1949	242	190	432	417,231	14,603,085
1950	243	186	429	412,118	14,423,130
1951	173	121	294	339,732	11,890,620
1952	141	108	249	258,176	9,036,160
1953	150	123	273	234,591	8,210,685
1954	131	110	241	237,886	8,326,010
1955	130	82	212	248,000	8,680,000
1956	116	73	189	199,000	6,965,000
1957	100	60	160	173,000	6,055,000
1958				185,600	6,496,000
1959				146,141	5,115,000
1960 ¹			205	124,630	4,362,050

¹ In 1960, 9 lode mines and 11 placer (4 of these are dredges) produced 100 ounces or more. Those producing 1,000 ounces or more: 4 lode and 2 placer. 70 percent of production for 1960 was from 2 dredge operators.

Sources: U.S. Bureau of Mines, Treasury Department, State division of mines.

Number of gold mine employees

Number of employees

Prewar: 1940 (counting only mines employing 4 or more) ----- 9,962

Postwar:

 1946 (counting only mines employing 4 or more) ----- 2,300

 1955 (counting mines employing 1 or more) ----- 1,100

 1960 (counting mines employing 1 or more) ----- ¹250

¹ In 1960, 205 mines employed 250 men, or an average of 1.2 men per mine.

EXHIBIT K(1)

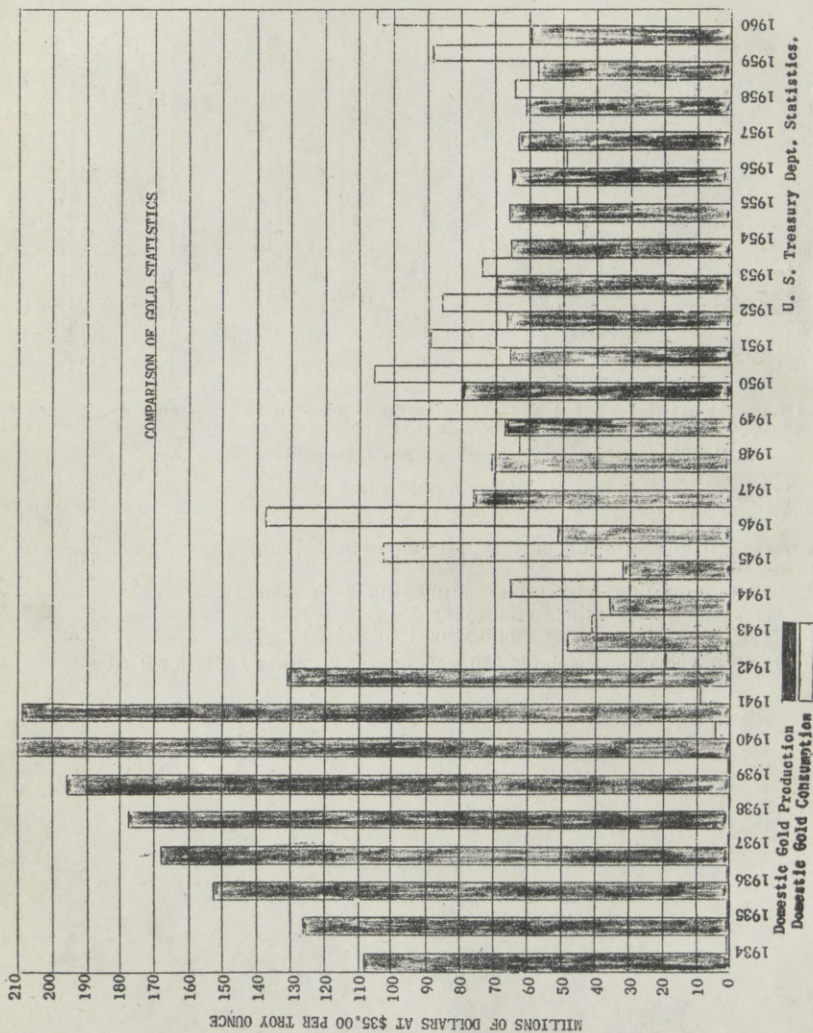


EXHIBIT K(2).—*Comparison of gold statistics*

[Values at \$35 per fine ounce, U.S. Treasury Department]

Year	U.S. production	U.S. Mint sales to industry, arts, and professions	Private smelter sales to industry, arts, and professions under Treasury Department licenses	Total sales to industry, arts, and professions
Prewar period:				
1934.....	\$108,191,400	\$775,155	None	¹ \$775,155
1935.....	126,324,900	383,347	None	¹ 383,347
1936.....	152,508,800	722,857	None	¹ 722,857
1937.....	168,158,900	514,248	None	¹ 514,248
1938.....	178,143,400	244,004	None	¹ 244,004
1939.....	196,391,000	316,365	None	¹ 316,365
Total.....	929,718,400	2,955,976	-----	¹ 2,955,976
World War II period:				
1940.....	210,108,700	241,057	\$3,763,785	¹ 4,004,842
1941.....	209,174,600	1,104,500	7,956,415	¹ 9,060,915
U.S. war and L-208 period:				
1942.....	130,963,210	7,996,775	11,711,735	¹ 19,708,510
1943.....	48,808,270	17,502,973	23,507,820	¹ 41,010,793
1944.....	35,778,330	41,589,833	23,694,090	² 65,283,923
1945.....	32,511,255	82,763,912	19,688,760	² 102,452,672
Total.....	667,344,365	151,199,050	90,322,605	¹ 241,521,655
Postwar period:				
1946.....	51,182,390	123,253,662	13,880,195	² 137,133,857
1947.....	75,789,130	44,851,003	24,998,190	¹ 69,849,193
1948.....	70,891,800	38,000,289	24,739,120	¹ 62,739,409
1949.....	67,268,215	78,727,710	21,963,165	² 100,690,875
1950.....	80,104,780	80,383,098	25,691,610	² 106,074,708
1951.....	66,315,410	67,539,694	21,172,515	² 88,712,209
1952.....	67,445,000	68,413,021	18,424,804	² 86,837,825
1953.....	68,950,000	55,026,722	18,904,537	² 73,931,259
1954.....	65,065,000	29,588,860	14,854,140	¹ 44,443,000
1955.....	65,689,050	24,741,535	20,758,465	¹ 45,500,000
1956.....	65,282,000	23,640,645	25,359,355	¹ 49,000,000
1957.....	63,000,000	21,136,850	29,613,150	¹ 50,750,000
1958.....	61,565,000	27,008,450	37,155,335	² 64,163,785
1959.....	57,225,000	82,403,755	5,859,245	² 88,263,000
1960.....	58,793,000	76,004,985	28,995,015	² 105,000,000
Total.....	984,562,775	840,720,279	332,368,841	² 1,173,089,120
Grand total.....	2,581,625,540	994,875,305	422,691,446	1,417,566,751

¹ Year that production exceeded sales.² Year that sales exceeded production.

EXHIBIT L(1)
U. S. GOLD RESERVE $\frac{1}{2}$ REQUIREMENTS AND POTENTIAL CLAIMS

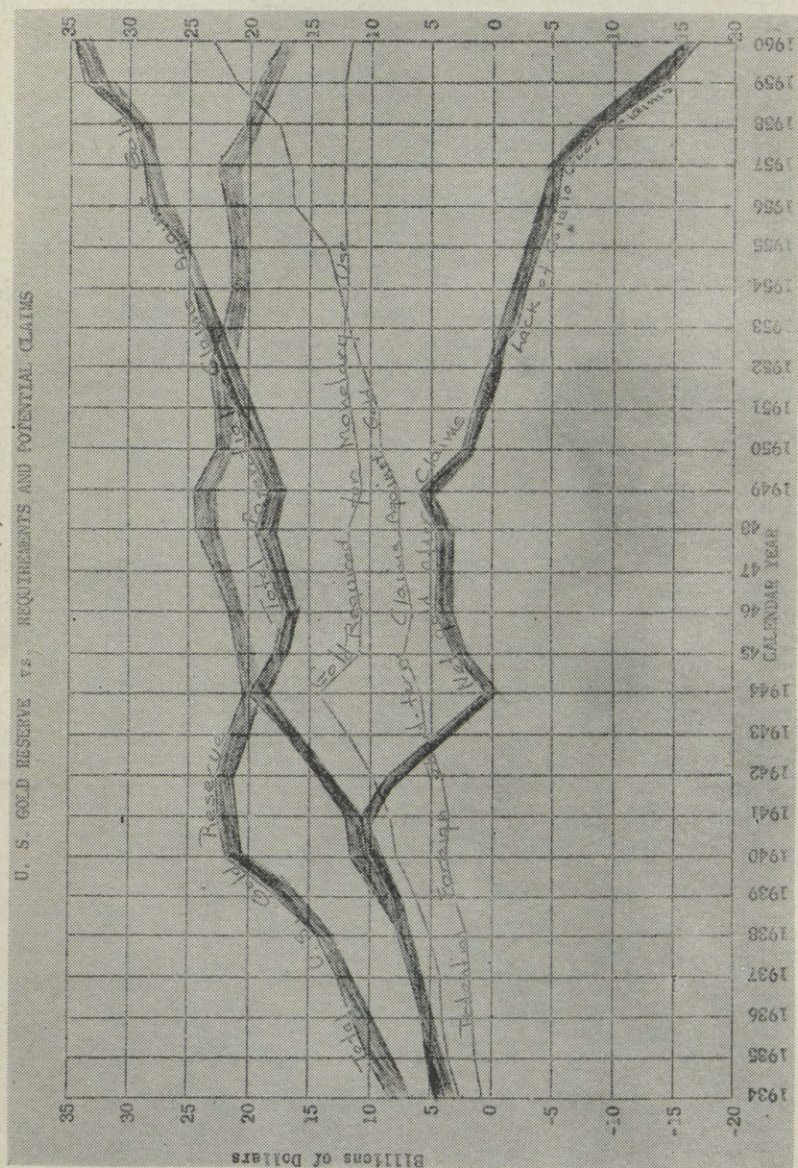


EXHIBIT L (2).—*U.S. gold reserves versus requirements and potential claims, 1934-60*

[In millions of dollars]

End of year—	U.S. gold reserve	(A) U.S. required gold reserve	(B) Foreign short-term dollar balances	Total of A and B	Percent claims to gold	Net gold reserve
1934.....	8,259	2,729	670	3,399	41.2	4,860
1935.....	10,124	3,610	1,301	4,911	48.5	5,213
1936.....	11,422	4,101	1,623	5,724	50.1	5,698
1937.....	12,790	4,170	1,893	6,063	47.4	6,727
1938.....	14,591	5,099	2,158	7,257	49.7	7,334
1939.....	17,800	6,354	3,221	9,575	53.8	8,225
1940.....	22,042	7,897	3,938	11,835	53.7	10,207
1941.....	22,761	8,310	3,679	11,989	52.7	10,772
1942.....	22,739	9,977	4,205	14,182	62.4	8,557
1943.....	21,981	11,902	5,375	17,277	78.6	4,704
1944.....	20,631	14,350	5,820	20,170	97.8	461
1945.....	21,083	10,868	7,074	17,942	85.1	3,141
1946.....	21,706	10,731	6,481	17,212	79.3	4,494
1947.....	22,868	11,294	7,135	18,429	80.6	4,439
1948.....	24,399	11,894	7,756	19,650	80.5	4,749
1949.....	24,563	10,753	7,623	18,376	74.8	6,187
1950.....	22,820	11,055	9,222	20,277	88.9	2,543
1951.....	22,873	11,720	9,302	21,022	91.9	1,851
1952.....	23,252	12,055	10,731	22,786	98.0	466
1953.....	22,090	12,151	11,771	23,922	108.2	-1,832
1954.....	21,793	11,812	12,923	24,735	113.5	-2,942
1955.....	21,752	11,975	13,580	25,555	117.5	-3,803
1956.....	22,058	12,120	16,428	28,548	129.4	-6,490
1957.....	22,857	12,101	16,580	28,681	125.5	-5,824
1958.....	20,582	12,036	17,637	29,673	144.2	-9,091
1959.....	19,507	12,182	21,472	33,654	172.5	-14,147
1960.....	17,549	11,500	23,000	34,500	196.6	-16,951

Source: The Financial Analysts Journal, November-December 1960.

GOLD

(Appendage to statement by L. L. Huelsdonk, Best Mines Co., Inc., Downieville, Calif.)

By law the miner must sell his gold to the Government and in turn the Government must sell the same gold to the domestic user and the foreigner for the same low price it pays the miner. This forces the gold miner to become a partner with the Government in subsidizing the domestic usage of gold and the importation of foreign goods.

Since the end of World War II, the Government has sold to the industrial, professional, and artistic users of gold \$188.5 million more than our mines produced in the same period. These sales, added with the tremendous withdrawal of gold from foreign claims and a lack of domestic production, has caused the United States to lose over \$5 billion worth of monetary gold reserves in the past few years.

In 1945, through the Bretton Woods Agreement, the U.S. dollar was set up to act as gold and with gold as an international standard to set the par values of foreign currency at the given weight and fineness of gold on July 1, 1944. However, with no provisions incorporated for adjusting our foreign exchange rates in relation to the degree of our inflation, our dollar became divided into two different values. This upset the original intent of maintaining the dollar as an international standard with gold, simply because American inflation has decreased the value of the domestic paper dollar—while gold redemption (at a given weight and purity) has maintained a stable value for the foreign-held dollar.

The development of this double-valued dollar has caused much economic trouble in this country as evidenced in our gold losses and in our dwindling ability to compete internationally—not from a productivity basis—but through an exchange depreciation of our domestic paper dollar. This exchange depreciation burdens our exports with rising price barriers sufficiently high to continually force

more and more of our industries, with the domestic jobs they support, to move abroad.

In other words, if a foreigner earned 35 of our dollars in 1944, he had a choice to buy either an ounce of our gold or 100 pounds of our goods. Today, he can still buy an ounce of our gold with his \$35, but, because our dollar prices have doubled, he can buy only 50 pounds of our goods. Hence—we are still selling the foreigner the same amount of gold for devalued dollars as we sold to him for predevalued dollars—so, as a matter of fact, we are giving away one-half of our gold with each sale. This is why he buys our gold instead of our goods.

The steady devaluation of our domestic dollar through price inflation forces our industries to move much of their production abroad, rather than keep it at home in a hopeless attempt to defend an export position against the rising tide of international competition. This exportation of our domestic production will increasingly replace domestic labor with foreign labor and widen the road to our unemployment offices, if positive steps are not taken—because foreign-held dollars are privileged to buy American gold and, therefore, foreign goods, at 1944 dollar price levels—while American goods steadily increase in price.

This situation may be emphasized by referring to the International Financial News Survey, October 6, 1961, volume XIII, No. 39, page 315—(Source: Department of Commerce) where it is stated in part:

“Sales of goods manufactured abroad by subsidiaries and branches of U.S. companies totaled nearly \$24 billion in 1960. This was about \$2.5 billion more than in 1959, and \$5 billion more than in 1957, the first year for which data on such sales are available. * * *

“The growth of 12 percent from 1957 to 1960 in sales of manufactures of foreign-based U.S. companies contrasts with an increase of less than 5 percent in total exports of manufactured goods from the United States. * * *

“For transportation equipment alone, there has been a strong growth in sales of such equipment manufactured by U.S. plants abroad, in contrast to a decline in exports from the United States. In 1960, transportation equipment accounted for 40 percent of the increase in total sales by U.S. branches and subsidiaries; most of the sales of this equipment were in Europe and Latin America.”

It might be noted that these sales of goods which were produced by our U.S. companies in their factories based abroad amounted to \$4.4 billion more in 1960 than the total of all exports produced in this country for the same year.

Such information points out the fact that if our industries had been able to compete without the necessity of foreign-based plants, that the overall employment of 3 million people¹ accommodated by \$24 billion worth of sales could have remained in this country to help alleviate our unemployment.

It might be noted also—by projecting the present accelerated expansion rate of our industrial bases abroad²—that over \$106 billion worth of such yearly sales are probable within the next 10 years and that over 13 million foreign workers will be employed by our companies overseas.

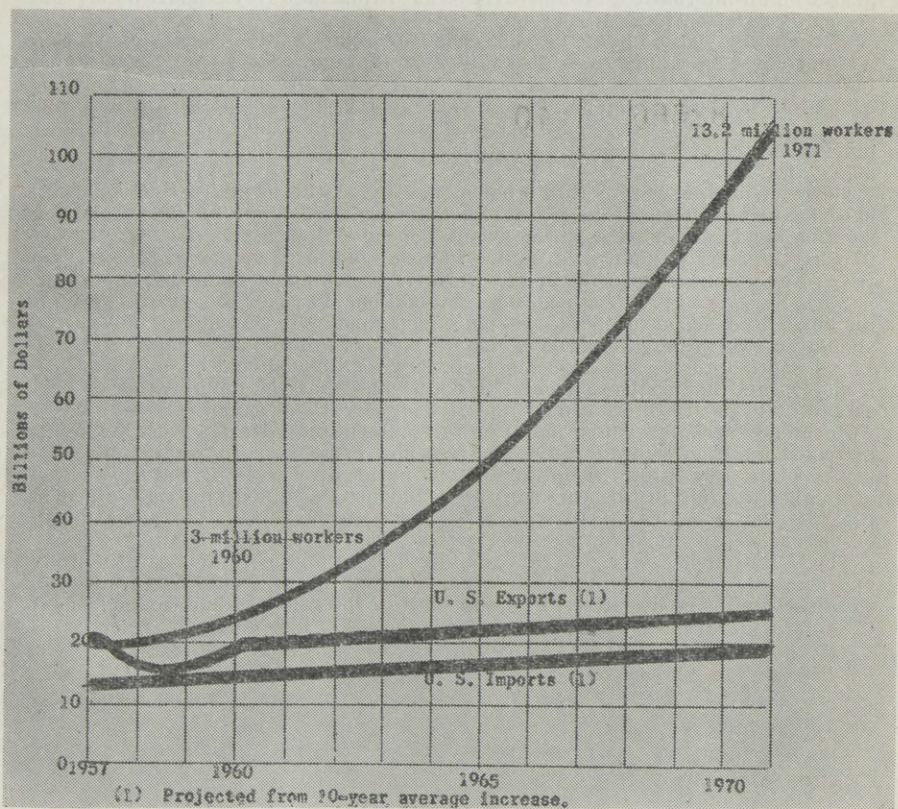
Projection of sales of goods manufactured abroad by U.S. companies

Calendar year	Billions of dollars	Increase over previous year (billions of dollars)	Percent increase of previous year	Calendar year	Billions of dollars	Increase over previous year (billions of dollars)	Percent increase of previous year
1957 ¹	19.0	-----	-----	1965	49.04	6.68	15.77
1958	19.83	.83	4.36	1966	56.55	7.51	15.31
1959 ¹	21.50	1.67	8.43	1967	64.90	8.35	14.77
1960 ¹	24.00	2.50	11.63	1968	74.08	9.18	14.14
1961	27.34	3.34	13.92	1969	84.10	10.02	13.53
1962	31.21	4.17	15.25	1970	94.95	10.85	12.90
1963	36.52	5.01	15.90	1971	106.64	11.69	12.31
1964	42.36	5.84	16.00				

¹ Source: Department of Commerce, press release, Washington, D.C., September 26, 1961.

² U.S. Department of Commerce, Office of Business Economics.

² See figures and graph.



A continuation of this practice is nothing but economic suicide for the United States, since this foreign economic benefit is being gained at the expense of our economy—less only a relatively small balance of payments in our favor from the operational profits—which under the present conditions will be mostly plowed back into foreign expansion.

Since the amount of potential demands for our gold by foreigners far exceeds the amount of gold that we own, a menace to our national solvency rests in the tempers of foreign official banks and governments. It is their decision that can draw out our gold—not ours. We have no direct nor positive defense.

The only positive solution to this dilemma is to equalize and stop the growing difference between the values of our domestic paper dollar and that of our foreign-held gold dollar. By doing this, the billions of our foreign-held dollars would be released from the influence of our gold bargains and become free to purchase American goods on an equal level. This would return American industry on an international competitive basis within its own boundaries and consequently provide American jobs.

Without the virtue of equality in exchange, dollars of the same denomination are not equal in value. The disequilibrium that now exists can be corrected in only two ways: Either by lowering the value of the foreign-held dollar in terms of gold until it equals the purchasing value of the domestic dollar in the terms of U.S. goods—or by lowering prices and wages in America (via deflation) until the value of the domestic dollar is raised to the value of the foreign-held gold dollar.

However, an answer to this problem has taxed the brains of our financial experts and economic advisers—but to date no positive, simple, or understandable solution has been devised. In the meantime, the United States has lost at least 97 percent of her straight gold mining industry and over 20 percent of her gold reserve at a time when gold in the world is becoming increasingly important.

Since the overall problem is an international one, in order to solve it properly, an immediate embargo should be placed on gold and all capital movements should be temporarily stopped. Since all members of the International Monetary Fund hold dollars and gold in their reserves, they should be enjoined, in a monetary and financial conference, to determine what the dollar value of gold should be to insure international liquidity on a real and tangible reserve basis. All currency exchange rates should be reexamined and adjusted with flexibility arrangements that will guarantee the free flow of gold for international settlements while preventing the buildup of one nation's reserves by the destruction of another's. Only in this way can full confidence be gained and maintained in the free convertibility of currencies; and only through the free convertibility of currencies can the advantages of free trade be fully and fairly enjoyed.

The initiation of such a program would require a long period of careful study and preparation—so, during the interim, the gold mines should be encouraged, through bonuses or incentives, to produce all of the gold possible to supplement the shortage that now exists for the growing needs of new monetary reserves.

SUMMARY

Our monetary and fiscal policy in Washington has been forsaking the exactness of real money in a compromise with the inexactness of economic theory for so long that it now has the world confused to such a degree that dollar prestige is being challenged from many quarters. This is true mainly because the pressure of political expediency has continually forced our monetary management to alter the value of our domestic dollar in the terms of gold without changing the value of gold in the terms of our domestic dollar. Such a paradox compels us to sacrifice our gold reserves under the Bretton Woods Agreement whereby the United States must uphold an obligation to maintain an international gold bullion standard by redeeming the dollar claims of foreign banks and governments 100 percent in gold upon demand regardless of how low the domestic purchasing power of the dollar sinks. For the reason that this arrangement incorporates the foreign use of the dollar as a gold liability of the United States at its 1945³ value, any loss in its domestic purchasing status since that time is automatically made up to the foreigner by a compensating weight of American gold upon redemption. This is a simple fact which makes American gold the dollar-bargain for foreign nations. It is the prime reason why foreigners convert their dollars to gold and (as their dollar claims against our gold build up while we increase the ratio of our money supply with indebtedness and lose gold) their doubts grow as to our ability to continue conversion without dollar devaluation.

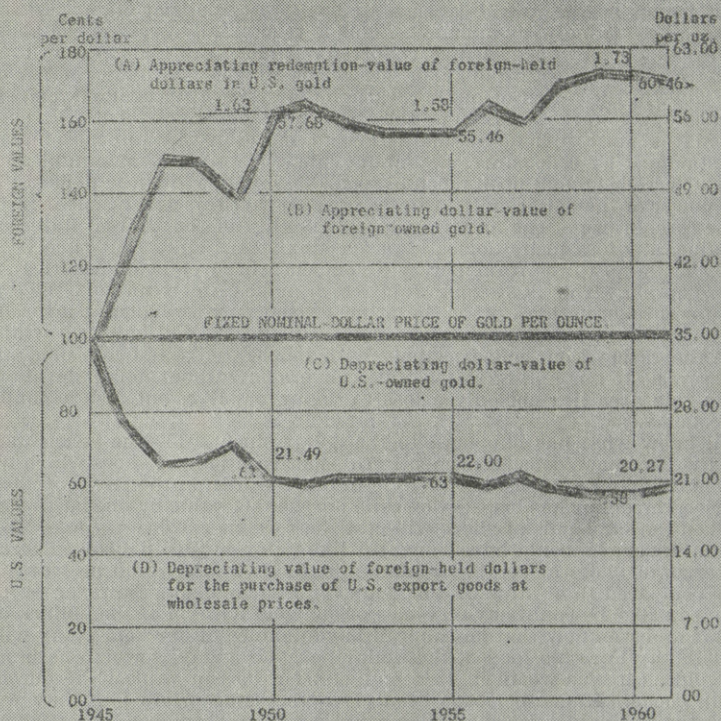
Within this area lies not only a loss to dollar prestige, but also a challenge to our economy.

We all know what has happened to the dollar since 1945—the year Congress ratified the Bretton Woods Agreement. In America a pair of shoes which would cost \$10 at that time will cost \$20 today. In other words, in the terms of shoes at retail price, the dollar has lost its domestic purchasing value by one-half. By the same token the same pair of shoes will cost the foreigner \$20 today and, like the American citizen, he could have bought a like pair for \$10 in 1945. Therefore, in the terms of shoes at retail, the dollar he holds today would be worth only 50 cents compared to a value of 100 cents for him in 1945. However—we also know that in 1945 he could buy an ounce of our gold with 35 of the dollars in his possession and we know that he can still buy an ounce of our gold today with 35 of his dollars. For this reason, the dollar he holds today is worth as much to him in gold as it was worth in 1945 as against a loss in value if he purchases American goods. Had Americans been given the same privilege to buy American gold, the two values for the dollar could not have developed, because domestic prices would have been forced to remain at a constant with gold. However, since this was not the case, the following chart will indicate what is happening and why it cost the United States \$1.73 in gold for each dollar we spent in 1960 for foreign philanthropy.

This chart is based on wholesale price indexes, which, according to International Financial Statistics, closely parallel export price averages.

³ The year the Bretton Woods Agreement was ratified.

COMPARISON OF VALUES BETWEEN NOMINAL U.S. DOLLARS AND 1945 CONSTANT DOLLARS WITH GOLD FIXED @ \$35.00 PER OUNCE UNDER THE TERMS OF THE BRETTON WOODS AGREEMENT (based on the U.S. wholesale price index. -- 1945 = 100) 1/ 2/ 3/



(A) Stimulus to the foreign purchase of U.S. gold.

(B) Also constant-dollar value for domestic industrial, artistic and professional purchasers of gold at \$35.00 per ounce.

(C) Also constant-dollar value received by domestic mines in the purchase of machinery and supplies at wholesale. (Approximate constant-dollar value in terms of labor costs - \$12.70 per ounce)

(D) Impediment to foreign purchase of U.S. exports. (Also depreciating value of nominal dollar for the domestic purchase of goods at wholesale.)

1/ Source: Bank for International Settlements - 1945 to 1951

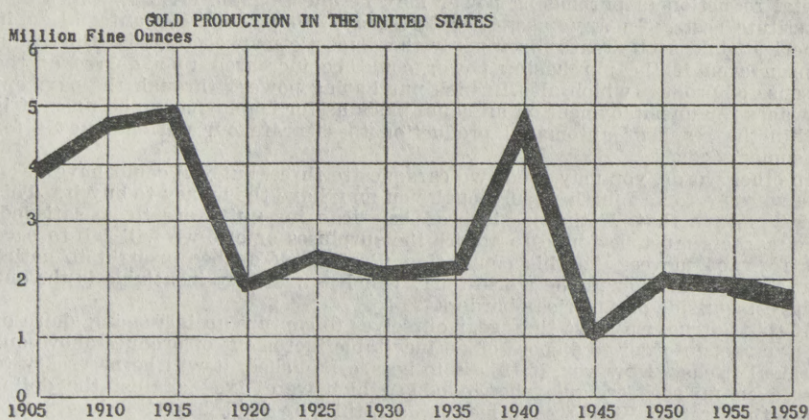
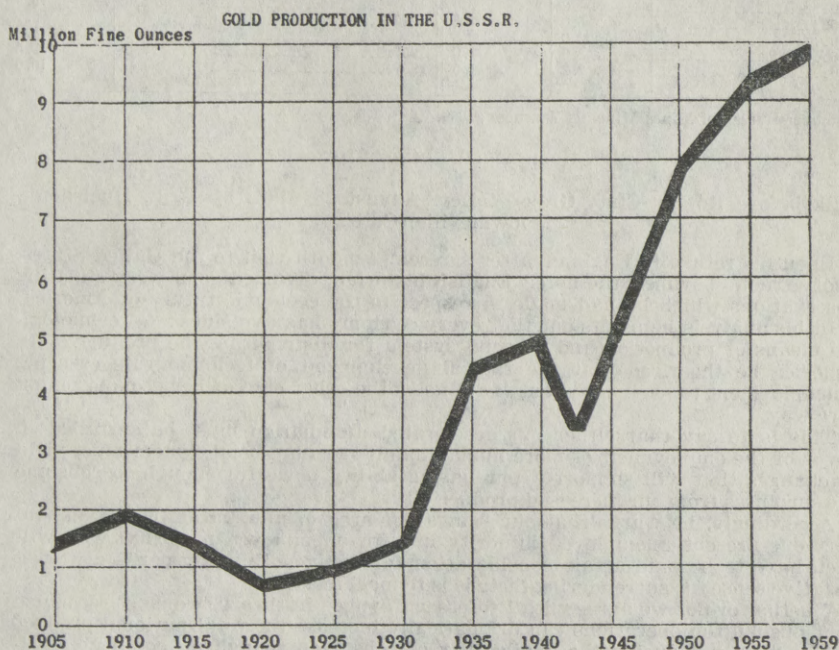
IMF - INTERNATIONAL FINANCIAL STATISTICS - 1951 to 1962

2/ Wholesale price index closely parallels export price index.

3/ 1945 used as base, since this was the year the Bretton Woods Agreement was ratified to guarantee the foreign-held dollar a constant value through redemption in U.S. gold at a given weight and fineness -- while Americans (except professional, artistic and industrial users of gold) were bound to an irredeemable, depreciating domestic dollar. (On this date - 1945 - both foreign-held and domestic dollars had equal value.)

In conclusion it might be pointed out that the United States—prior to World War II—was the second largest gold producer in the world. Today Russia holds that position and is now producing at least five times more gold than this country, owing to the fact that American gold mines are closed down because they are being forced to sell their gold at the 1934 price of \$35 per ounce—in the face of mining costs which have risen over 300 percent.

VIII



Source: Bureau of Mines Minerals Yearbook 1959

Gold production

Year	United States million fine ounces	U.S.S.R. million fine ounces	Year	United States million fine ounces	U.S.S.R. million fine ounces
1905.....	4.0	1.5	1935.....	2.3	4.5
1910.....	4.8	2.0	1940.....	5.0	5.0
1915.....	5.0	1.5	1945.....	1.2	5.0
1920.....	2.0	0.8	1950.....	2.1	8.0
1925.....	2.5	1.0	1955.....	2.0	9.5
1930.....	2.2	1.5	1959.....	1.8	10.0

Source: Bureau of Mines Minerals Yearbook, 1959.

GOLD AND UNEMPLOYMENT

Talk before Rotary Club, Grass Valley, August 28, 1961, by L. L. Huelsdonk, Downieville, Calif.

Upon his return to England, after a recent 4-month visit to the United States, Prof. Arnold Toynbee, the noted English historian, divulged some very startling observations which he had made in respect to the economic future of America.

In his analysis he points out that every economy has two sides: "a technological means of production and a social system for distributing the product." In America he theorized that the radical development of technology is creating unemployment to such an extent that one or the other side of her economy must give way.

This is to say that either our accelerated automation must be curtailed in favor of the employment of more human hands—or our social system must yield to changes that will support a purchasing ability powerful enough to consume the surpluses from our increased productivity.

Accordingly, he warns that our "onward march of automation will soon convert our present unemployed minority into an unemployed majority, who will then have to be paid a fair consideration for doing nothing by earning it in a negative sense for surrendering their jobs to machines."

Whether or not we agree with Professor Toynbee in theory, we must recognize that pushbutton operations can dramatically increase the total national product by drastically reducing the availability of jobs even though an equally coincidental reduction in purchasing power may be questionable because wages also constitute costs. In any case, it is foreseeable that mounting automation in America could soon greatly oversupply the domestic market and that this could happen even if the purchasing power could be increased to a degree at the expense of profits (which also furnish purchasing power) through the payment of wages for unemployment on an equal basis as for employment—because, it is within the reach of automated production to saturate our national needs for consumer goods.

In other words, you may need two cars, desire three, but you could have absolutely no use for a fourth, even though you may have the money to buy it. This simply means that, if the passions of American ingenuity are to be satisfied, new markets must be found to absorb the surpluses or else we will fail to pace our forward moves. In this connection, Professor Toynbee brought to notice that the only market in the world today which is virtually insatiable is the one that rests outside of American borders.

If this is true, we must then gear ourselves to capture an increasing share of this market in order to dispose of an inevitable increment of produce above our national needs. However, if this is to be accomplished, it will be necessary to first even up the foreign-exchange odds which were fixed against the dollar when the Bretton Woods Agreement was ratified in 1945, because—in order to compete internationally from our shores—this adjustment will be necessary or else our industries and the jobs they support will be forced to migrate to foreign areas where exchange and low-cost advantages are being offered.

And this again brings up the same fearful question, except from a slightly different direction: Should labor be paid, in a castle-building sense, for folding its arms—this time, however, as reparations for having its jobs exported rather than replaced? It can be argued that, if the farmer can be paid for not growing crops, surely it would be fair to pay labor for not working.

Although Professor Toynbee observed that the strain on America's economy has become appreciably more severe in recent years, he diplomatically sidestepped the issue of foreign-exchange pressure on the dollar by saying: "The strain that I have in mind goes deeper, and would, I believe, continue to increase, even if the present pressure on the dollar were to ease."

As to this, it is hard to understand the professor's reasoning in view of the fact that he also predicted that the only market capable of absorbing our imminent surpluses will lie beyond our borders.

By taking such a circumstance into account and assuming that American industry is to remain at home and produce surpluses which she must sell abroad, foreign-exchange pressures are all-important because even today they are countering the efficiency of American automation simply because the foreigners hold a privilege that has been denied Americans: They have been granted a right by the Bretton Woods Agreement to buy gold from America—with inflated American dollars—at the uninflated 1944 dollar price!

This places a checkrein on the marketing of our surpluses by "high-pricing" our exports in the inflated terms of the dollar; while "low-pricing" our imports in the stable terms of gold at the 1944 dollar price level.

For instance, in 1944 a foreigner could buy either an ounce of our gold or, let us say, 100 pounds of our goods with 35 of our dollars. By the same token, although gold was denied to us then, as it is now, we could also buy 100 pounds of our own goods in 1944 with 35 of our own dollars. However, today it is a different story. The foreigner can still buy an ounce of our gold with 35 of our dollars, but, like ourselves, he can buy only 50 pounds of our goods, because domestic inflation has devalued our dollar by taking away half of its purchasing power through rising prices. In other words, American goods that sold for \$35 in 1944 would be priced at \$70 today. Hence, the foreigner, who still has the privilege of buying an ounce of our gold for \$35, will not willingly use twice as many of his dollars to buy American goods when the ounce of gold that he can get for \$35 will buy other currencies that enjoy exchange rates that have been adjusted to compensate for inflation. England might be used to illustrate this point, since she was the nation to trigger the wholesale exchange adjustments that began in 1949 when she devalued her pound. In 1944 a pound sterling was worth \$4.03 when comparable goods could be found in England and America priced at 8.69 pounds sterling and \$35 respectively. At that time these prices were equivalent to an ounce of gold in each country. However today, it can be assumed, to simplify our example, that inflation has doubled prices in both countries. This sets a 1961 price of 17.38 pounds for British goods that cost only 8.69 pounds in 1944 and it sets a current price of \$70 for the 1944 domestic purchasing equivalent of 35 American dollars. In each case the 1961 commodity prices have risen from the equivalent of 1 ounce of gold to the equivalent of 2 ounces of gold, because the dollar price of gold was frozen by international agreement at Bretton Woods.

Exchange-wise this appears to be an even break for all concerned, except the gold mines. However, in considering that England devalued her pound (lowered the value of her pound in terms of gold and the dollar) in 1949 by 30 percent to \$2.80, we must face the fact that what she really did was to lower the price of her exports by 44 percent in terms of gold and the dollar, while raising the pound sterling price of her imports by a like amount.

In other words, while keeping her internal prices up, she made it possible for us to buy 44 percent more of her pounds with dollars, thereby handing us a 44 percent discount on her exports, while conversely she obliged herself to use 44 percent more of her pounds to buy our dollars, which forced up the pound price of our exports by 44 percent.

This means that an article in England that was selling at 8.69 pounds in 1944, and now sells at the inflated price of 17.38 pounds can be bought by an American for the dollar equivalent of only 9.73 pounds. It also means that an article in the United States that was selling for \$35 in 1944 and now sells at the inflated price of \$70 would cost the Englishman \$100.80 in the terms of his pounds. This, surely, does not give the American competitor an even break.

Now, in considering that practically all of the currencies in the world except the dollar have been devalued, either officially or de facto, since the ratification of the Bretton Woods Agreement, it is easy to see how monetary exchange pressures are threatening the dollar and how such pressures can neutralize the efficiency of American automation when surpluses must be sold abroad.

In looking at our position in respect to other nations, it must be remembered that it is against the law for American citizens to buy or own gold anywhere in the world (with few exceptions¹ while it is lawful for foreign central banks and governments to buy gold from the U.S. Treasury and that this gold is being sold by America for \$35 per ounce even though inflation has diluted the value of the dollar to such an extent that an ounce of gold should now command at least double that amount.

Such a situation makes the dollar vulnerable to foreign exchange rate juggling and burdens it with two different values because our monetary and fiscal policies have forsaken the discipline of gold at home in favor of inflation; while preserving the value of the dollar for foreign governments and official banks through the firmness of gold convertibility at a constant, given weight and fineness. As previously outlined, this gives the dollar a low value for the purchase of American goods and a high value for the purchase of foreign goods.

A lack of economic agreement as to which of these two values or if either of them is sound, places the actual monetary value of the dollar in the category of an opium smoker's dream.

To bring uniformity to the dollar, if its value is to be ascertained by the weight of gold at \$35 per ounce as set by the Bretton Woods Conference in 1944, dollar prices in the United States must be lowered by an amount equivalent to the price-inflation that has taken place since that time or until American goods can be sold to the foreigners on equal terms with gold. Even then it is doubtful if such severe medicine would do the trick. It must be remembered that the purchasing power of the dollar increased approximately 50 percent in a few years after the 1929 "crash" and even then it was necessary to raise the price of gold to stop a foreign run on Fort Knox.

In any event it would mean an austerity program unparalleled in history. It would mean a deflationary move that would bring protests and objections and threats from many quarters. But come it will of its own accord, if objective steps are not taken soon to equalize these two inflation-born values which are now haunting our economy.

The alternative is a move which many economists (who claim that the value of gold is determined by the dollar) like to refer to as "devaluation"; but what really is—from an objective viewpoint—an equalization of the dollar's two values into a unified front that can face international competition. We are being naive in thinking that our dollar has not already been devalued in relation to our exports as well as domestically. We are paying \$20 for a pair of shoes today that cost only \$10 in 1944 and by the same token, these shoes would cost the foreigner \$20 today. So, his dollar is also devalued, if it is used to purchase American exports. However, since we are still selling the same amount of gold to the foreigner for these devalued dollars as we sold to him for pre-devalued dollars, we are in truth giving away one-half of our gold with each sale—and this is the main reason why he buys our gold or builds up his dollar holdings as claims against it in lieu of purchasing our goods.

All we have to do to correct this lopsided situation is to properly price our gold to correspond with the present value of our dollar in relation to the exchange rates of other currencies. This would not be "devaluation"—we already have devaluation. This would merely be an adjustment to eliminate the characteristics of Dr. Jekyll and Mr. Hyde from our dollar. Of course, such a move would not be without repercussions or inequities; because the situation has grown for such a long time—but it would be far better than a run on our gold reserves to satisfy foreign claims that are building up beyond our ability to convert. And it would also be better than suffering under a prolonged depression, which would be nature's way of equalizing this economic mistake of man's.

In order to do this properly an immediate embargo should be placed on gold and all capital movements should be temporarily stopped. Then the United Nations should be enjoined in a monetary and financial conference to determine what the dollar value of gold should be to insure international liquidity on a real and tangible reserve basis. All currency exchange rates should be reexamined and adjusted with flexibility arrangements that will guarantee the full flow of gold for international settlements while preventing the buildup of one nation's reserves by the destruction of another's. Only in this way can full confidence be gained and maintained in the free convertibility of currencies; and only through the free convertibility of currencies can the advantages of foreign trade be fully and fairly enjoyed.

¹ Artistic, professional, and industrial users.

The initiation of such a program would require a long period of careful study and preparation; so during the interim the gold mines of the world should be encouraged, through incentives, to produce all of the gold possible to help supplement the shortage that now exists for the growing needs of new monetary reserves.

Under a fair exchange standard American industry could once again compete internationally without moving to foreign shores, because our produce could then be sold on an equitable basis at profits resulting from the efficiency of our productivity.

However, today, in spite of enjoying a rate of productivity far superior to any nation in the world, America lacks a competitive ability that will employ her own people—and the blame rests solely with her difficult dollar position. This is true because a large and increasing percentage of American industry is being forced to jump the exchange hurdles by establishing production abroad and even though the ownership of this production may be counted as American assets and the profits from foreign operations may accrue to American account, the jobs involved have been taken from American shores. Simply speaking—if American industry is forced to hire foreign workers to fill its orders—regardless of the circumstances—American jobs have been lost.

We are being told that we have a "hard core of unemployment" caused by automation and that the workers whose jobs have been taken are unskilled and will have to be retrained for other work. This may be true to some extent, but the likely truth is that we have been giving American jobs to foreign workers faster than automation has been retiring workers. Conversely, the foreign industrial nations (such as West Germany) have been filling our exported jobs with their workers, while having labor shortages in the face of their own increased rate of automation.

In order to realize the degree to which we are exporting jobs, we have only to notice the accounts of our increasing participation in foreign industrial enterprises. A larger share of our domestic industrial profits are being gained each year from foreign bases. Our domestic industry is not only building thousands of facilities abroad that hire millions of foreigners to produce things that should be made here, but they are also licensing thousands of foreign companies to make American products with foreign labor that should be hiring American workers.

It should be emphasized here that an equalization between the values of our domestic paper dollar and our foreign-held gold dollar (through a proper raise in the price of gold to adjust the exchange rate of the dollar commensurate with other currencies) would make it possible for our industries to stay at home and hire American workers and be able to sell on a competitive basis with the rest of the world.

I would like to close with this thought: If civilization is to profit from the gains of automation, the world must return to monetary saneness through stable exchange rates based on an honest standard because undisciplined money will always grow fast enough to raise costs above the benefits of automated efforts.

Senator CARROLL. Without objection, we will stand in recess until 2 o'clock when the first witness will be Congresswoman Gracie Pfof, and we will come to you other gentlemen quickly.

(Whereupon, at 12:40 p.m. the hearing in the above-entitled matter was recessed, to be reconvened at 2 p.m. of the same day.)

AFTERNOON SESSION

Senator CARROLL. The subcommittee will come to order.

Our first witness this afternoon is Congresswoman Gracie Pfof of Idaho. We are delighted to have Congresswoman Pfof with us. She is not only one of the leading Members of the Congress but she is very knowledgeable in this field also.

We are delighted to hear from you.

STATEMENT OF HON. GRACIE PFOST, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF IDAHO

Mrs. Prostr. Thank you very much, Mr. Chairman.

As is true in your own State of Colorado, Mr. Chairman, the gold production in Idaho is a very, very important item and very important to the economy of the State. I appreciate very much your taking the time to hold these hearings and particularly appreciate the courtesy that you have shown to me in allowing me to appear before your committee this afternoon. It is not often that I come over to the Senate side of the Capitol to make a personal plea for legislation, but I am doing so in this case because of the importance of the bill to the State of Idaho as well as other mining States.

At the same time, I want to say that I deem it a pleasure and an honor to join Senator Frank Church, one of the sponsors of the bill in the Senate, in urging the subcommittee to act favorably on the measure. As you know, I sponsored identical legislation in the House.

The bill being considered by the subcommittee is, basically, designed to boost the domestic production of gold through a system of incentive payments to miners. The amount of this incentive payment would not exceed \$35 an ounce, although the exact amount of it would be set by the Secretary of the Interior.

Under the legislation, therefore, it would be possible for a miner to receive up to \$70 an ounce for the gold he mines, since the price of gold is now pegged at \$35 an ounce.

The legislation would not establish these payments for an indefinite period. But, rather, it would authorize the Secretary of the Interior to make the payments for only so long as it takes to bring the Nation's gold stocks up to a level of \$24 billion. In other words, the program would provide for about a \$5.7 billion buildup in our present gold reserves, since these reserves, as I now understand it, stand at \$17.3 billion.

Now, the question always arises in discussions of the gold bill—would passing such legislation have an impact on the international monetary system in terms of the price of gold in the world market?

The answer, and I want to stress the point, is an emphatic "No." The bill would have no effect on the monetary system nor influence gold prices in the world market. The bill is strictly a mine production bill, that is all and nothing more. What it seeks to do is simply encourage and increase domestic gold production by providing the gold miner with a more satisfactory and more realistic return for his efforts. This would specifically apply to mines now in operation. It would, at the same time, help the owners of many small mines which have been closed for years to reopen for business, thus providing jobs where they are sorely needed. And, it would also stimulate efforts in finding new domestic sources of the metal.

Gold is an important segment of Idaho's economy. The State ranked 10th last year in gold production with 5,760 troy ounces. This is considerably less output than in previous years. During the years 1950 to 1954, for example, the State's average gold production was 37,718 ounces. I bring these figures to the subcommittee's attention to show that we have the resources and the capabilities for much greater gold production in Idaho, but what is needed is an incentive

program, such as the one outlined in this bill, which will act to stimulate new production.

The fact that while helping to reopen mines shut down for many years, it would put many jobless miners back to work, makes it doubly important. Certainly this ties in with the aims of the Kennedy administration in helping distressed areas get back on a sounder, surer economic footing.

But, there are other reasons why this legislation is needed by the Nation at this time. Domestic gold production has been tapering off at an alarming rate since the production peaks set during the late 1930's and during 1910 and 1915. Domestic gold production during 1960, at 1.7 million ounces, was about the lowest since 1952. Yet the drain on our gold reserves has steadily been increasing over the years.

Gold consumption in the arts and industries in the United States has increased by 38 percent—to 2.5 million ounces valued at \$88 million—and this is 57 percent more than domestic mine production. Much of this gold has gone into traditional usage—manufacturing, jewelry, watches, dental supplies, decorative and household articles, as well as the growing electronics and missile fields. Gold solutions, for instance, are sprayed on open parts of missiles and then baked on to form a thin metallic film which successfully reduces heat transfer to vital engine parts and guidance mechanisms.

Gold is also used in the delicate mechanisms in computers, aircraft, and in satellites. We can expect, moreover, than an even greater amount of gold will be utilized in these scientific fields in the years ahead as the Nation advances further into the space age.

It becomes urgent, therefore, that our gold production be expanded to meet the Nation's growing needs for the metal both now and in the future. The gold is there. This bill, I believe, would provide the tool for getting it. I therefore urge the subcommittee to report the legislation, thus assuring that the Nation's gold stocks will be replenished as speedily as possible.

Again, I want to thank the chairman and the members for giving me time to appear before you today.

Senator CARROLL. Congresswoman Pfof, this is a very fine and useful statement about a very difficult subject. We need your help. We need the help and advice of many people who understand this issue. The purpose of this hearing is exploratory. I see your colleague, Senator Church, who said he would be here. The Congresswoman from Idaho has made a very fine statement, as Senator Church did this morning.

Senator CHURCH. Fortunately, I know of Congresswoman Pfof's views on this legislation and since we see eye to eye on most things, I can say it is not at all unnatural for us to be sponsoring identical bills on the two sides of the Congress.

On the matter of gold incentive payments, I am sorry I did not have the benefit of hearing your statement but I will certainly read it in the record.

Mrs. PFOF. The chairman is very prompt and we were able to start right on time. I realize with both of the Senators here from Idaho this speaks, I think, in itself of the importance of gold production in Idaho, what it really means to the economy. I think further I might mention in most of the mining areas in Idaho, not all, but

several of the counties, have been termed distress areas. Therefore, a boost in the mining production, Mr. Chairman, would be a tremendous boost to those distressed areas in Idaho. I am hoping that you people on this side will be able to get something accomplished so far as the passage of this bill is concerned, and only this morning, as well as other times, I have been able to confer or, rather, I have conferred with the chairman of our Subcommittee on Mines and Mining on our side. We are very desirous of coordinating our efforts in trying to get a bill through, but we recognize the uphill fight we have with all of the departments giving us reverse or negative reports.

Senator CARROLL. This morning we discussed several alternatives. I don't know whether Senator Church was here at the time. Mr. Merrill Shoup from Colorado was testifying. I had asked the question previously whether gold mining had depletion allowance. He said yes, it had a 15-percent depletion allowance. Then I asked if that depletion allowance could be increased on a comparable basis with others that are 27½ percent, and whether that would be helpful. He said it would be if they could get the mines into production first.

Depletion allowance applies when there is production. Then we discussed the possibility of applying some of the concepts of the Canadian program, such as tax incentives. There has been a fear expressed by the State Department and the Treasury Department that for this Government to move into a program to stimulate gold production at this time might have a psychological effect upon foreign exchange. That is to say we are apprehensive about the stability of the dollar and therefore we are seeking this means to bolster it. This is implicit in their statement, I think. I don't agree with this entirely. I think Senator Bartlett of Alaska pretty well torpedoed that one by pointing out that they were raising the same objection long before there was a foreign exchange problem, back in the 80th and 81st Congresses. They were then objecting to the increased output or production of gold in this country.

Mrs. Prostr. I feel that opponents of the legislation are seeking these various means of discouragement. I personally agree with you, Mr. Chairman.

I don't believe the mere fact that we spearhead a little additional production in gold is going to change the world monetary system as some people feel that it would. I can't believe that we are geared to where the production would be that great. I do think, speaking on increasing the depletion allowance, that it might be beneficial to such companies as Bunker Hill and other companies who are producing gold as a byproduct of their other productions. Naturally, I presume if you should increase the depletion allowance it would help them slightly.

But certainly the depletion allowance would not help those miners who are not working, and there are several mines that would go back into production in Idaho if they could afford to do it. But they can't mine gold in Idaho today in most areas, the primary product itself, at the price of \$25 an ounce, as I am sure each of you interested members of the committee know.

Senator CARROLL. You will recall the action President Kennedy took a few months ago regarding silver. Has this helped your economy in Idaho?

Mrs. FOST. Yes. The increase in the price of silver has given a real boost to northern Idaho. We have been most appreciative of this. But that is only helping the one segment and we need the other.

Senator CARROLL. The point is that there are measures which can be taken to help the mining industry. Senator Church is one of the leaders in that fight—

Mrs. FOST. Yes, indeed.

Senator CARROLL. To get President Kennedy to make that concession I think it was the first concession that was made in years.

Mrs. FOST. That is right.

Senator CARROLL. I remember in my own home State, even after they got that, they were looking around the corner, expressing to people that would happen in the future concerning a possible repeal of the Silver Purchase Act. We discussed it this morning. Speaking for myself, it is my considered opinion that they will not repeal the Silver Purchase Act in this session of Congress. They may do it later but I don't think they are going to. Now we are taking another step forward by exploring to see what we can do.

I want to say President Kennedy deserves a great deal of credit for the action he took on silver. We are exploring, if not this particular resolution, some other step to stimulate the gold mining industry of this country. Not only that of the West but of other areas as well.

Mrs. FOST. I certainly want to commend you people for your diligence in pursuing these problems. From the West our greatest resources, our natural resources, and our people. If we can only develop the natural resources that are there we will be able to keep happy people in the West where they want to live. I certainly want to commend you people for spending your time and efforts in trying to get the mining production back on its feet, not only gold which you are tussling with today, but the other strides that are made. I couldn't agree with you more on the statement you made regarding the President's activity on silver. I think it is one of the first real forward steps we have had for many years. At least since I have been in the Congress.

Senator CARROLL. I do not know if this is a proper question and you don't have to answer unless you want to. Is there any feeling or do you sense any movement in the House to repeal the Silver Purchase Act?

Mrs. FOST. I have known of none and no one has approached me regarding it. So therefore I don't know what the sentiment is going to be. I am getting some letters from Idaho regarding it, a few, maybe a half dozen.

Senator CARROLL. You are on the Interior Committee?

Mrs. FOST. Yes; I am.

Senator CARROLL. And the chairman of that committee is Mr. Aspinall from Colorado.

Mrs. FOST. From your own State of Colorado.

Senator CARROLL. I suspect that if there was a move to repeal the Silver Purchase Act he would know about it, and so would you.

Mrs. FOST. If there was any concerted effort in that direction I am quite sure I would be aware of it.

Senator DWORSHAK. I have just one question.

I agree with Congresswoman Pfof that stimulating production of gold along with silver would be a valuable asset to our domestic economy. I am aware of the interest displayed by you in encouraging expansion of mining in every manner in Idaho. I wonder if the Congresswoman is aware of the roadblock we may encounter. Some of our good old gold diggers in Idaho might locate gold deposits in primitive areas likely to become wilderness and mining will be prohibited. Then what would we do?

Mrs. PFOST. So far the bill has not passed. I cannot speak for what would happen in the wilderness area if gold were discovered. I sort of have a feeling that back in the years when there was a great deal of movement in that area in prospecting that if there were some terrifically rich deposits that they probably have already been discovered.

Senator CARROLL. Would you permit an interruption here? If such an eventuality came to pass and you found a great lode in this area would you go to your Senators and have them go to the President to release it?

Mrs. PFOST. The Congress then would have the authority under the Wilderness Act, as Chairman Carroll has just said, to allow mining to proceed if it were of such value. I do feel, however, that mining in our primitive area in Idaho is relatively minor because I asked the question during the hearing period in Idaho about how many mines were operating and the answer was none within the primitive area itself. So for that reason I would assume it would probably be a very minor problem.

Senator CARROLL. Senator Hickey this morning asked Merrill Shoup, of Colorado, an oldtimer in this game who is a very practical man and who has operated in Colorado for many years the Golden Cycle Mining Corp., what are our gold reserves, and if there had been any study to block out underground gold as the Government blocked out the uranium reserves.

He thought there was ample gold that could be mined under this bill. This legislation is difficult enough in all of the iffy problems that could come from the primitive areas. Are there any further comments?

Senator DWORSHAK. We just have to be realistic, Mr. Chairman.

Mrs. PFOST. We may have to be realistic but we do have single-purpose mining today, as the Senator knows, in Idaho, in our primitive areas. I am not highly familiar with the rest of the country.

In Idaho at the present period it is of minor importance within the primitive area. I certainly do not want to minimize mining in Idaho as a whole but within the primitive areas itself, even though the mining people are afraid of what may happen, by the same token at the moment it is not posing any problem because the primitive area, you know, is not anxious to have mines operating either unless they are really good mines.

Senator CARROLL. I was going to say that the three agencies of the Government concerned have rejected this concept—they think it is a wild one, and that is why I do not want to get it caught up in the wilderness bill, too.

Mrs. PFOST. You are so right. You people have fought the wilderness on through on your side and have come out with a bill. We are still in the throes of trying to come out with something over on our

side. Time will tell just what the development will be. Thank you again.

Senator CARROLL. Thank you so much for coming.

Mrs. PFOST. I appreciate your courtesy.

Senator CARROLL. May I suggest we have seven or eight witnesses yet to hear. I am not going to try to prevent any one from making a full presentation, but if you want to summarize your statements and talk from your own practical experience, expert experience, we would be delighted to have you do that. I want to move along. We are going to terminate this hearing today. This is the first portion of this hearing. We will be holding them periodically later on.

The next scheduled witness is James A. Williams of Alaska, director, Division of Mines and Mining, Alaskan Department of Natural Resources.

Senator Young would like to be here during Mr. Williams' presentation.

Mr. WILLIAMS. I would be glad to wait.

Senator CARROLL. Would you be willing to step aside and have some one else present testimony first. I suppose Senator Young wants to hear from Mr. Crowdy, too. Supposing then we call Robert Dwyer, who is here from Idaho, and Robert Hardy, and—who else is here from Idaho? Mr. Teske? Would you gentlemen like to come forward? Are you all of the same opinion? Do you want to come forward together?

STATEMENT OF ROBERT DWYER, SPOKESMAN FOR NORTHWEST MINING ASSOCIATION OF IDAHO

Mr. DWYER. Northwest Mining Association, Senator.

Senator CARROLL. What is the Northwest Mining Association?

Mr. DWYER. It is a very old organization of miners and representatives of the mining industry. Its members chiefly come from the five Northwestern States, Alaska, Idaho, Montana, Oregon, and Washington. It was originally organized in 1894.

Senator CARROLL. Mr. Dwyer was at one time minority counsel for this subcommittee and he was with us last year for a while.

Mr. DWYER. That is correct, Senator.

Senator CARROLL. Now you have gone, I hope, to richer fields.

Mr. DWYER. I am not so sure they are richer, Senator.

Senator CARROLL. You may proceed in your own way, Mr. Dwyer.

Do you have a lengthy statement that you wish to summarize or what would you like to do?

Mr. DWYER. I have a printed statement, Senator, which I have given to committee counsel and I assume it will be included in the record.

Senator CARROLL. Without objection it will be included in the record and you may proceed to summarize as you will.

Mr. DWYER. Thank you.

(Mr. Dwyer's prepared statement follows:)

STATEMENT OF ROBERT P. DWYER ON BEHALF OF NORTHWEST MINING ASSOCIATION, SPOKANE, WASH.

Mr. Chairman, gentlemen; it is a distinct pleasure to appear before you today and the Northwest Mining Association is most grateful for the opportunity to be heard.

For those of you not too familiar with this organization, its membership is composed chiefly of those engaged in the mining industry in the Northwestern States, that is Alaska, Idaho, Montana, Oregon, and Washington. It also is one of the oldest of mining associations, having been established in 1894.

The Northwest Mining Association vigorously supports Senate Joint Resolution 44 and urges that it be adopted.

In this respect, may I mention at the annual meeting of this association conducted in Spokane, Wash., in early December 1960 the following resolution relative to gold production was adopted:

"The Government give immediate recognition to the increased costs of producing gold within the United States by means of an increase in the price paid to domestic producers for newly mined gold."

I would also remind you that at the last western Governors' conference, May 14-17, 1961, at Salt Lake City, Utah, the Governors of all the Western States unanimously adopted the following gold resolution:

"Now, therefore, be it

Resolved, That the Western Governors urge an incentive or bonus payment that will assure to domestic producers a fair economic return and; be it further

Resolved, That they express their opposition to changing the present law requiring the Treasury to hold gold to value of 25 percent of the outstanding notes and deposit liabilities of Federal Reserve banks until a careful and exhaustive study is made of the relationship of gold to the value of the dollar, with particular reference to the effect of this relationship on the economics of the Western States where the major portion of domestic gold is mined."

As might be expected, the resolution was submitted by a bipartisan committee of Governors consisting of Governors Egan, McNichols, and Smylie.

The bill in its preamble recognizes that the domestic producer operates under a fixed ceiling which was established by Presidential proclamation at \$35 per ounce in 1934. You will recall that it was then that the monetary price was elevated from \$20.67 to the current figure. Unfortunately, however, for those engaged in the industry the expense of doing business did not remain fixed. Costs have inexorably risen over the years primarily because of inflation resulting from World War II and the Korean conflict. The result of these conditions, again as stated in the bill before you, is that more than 95 percent of the gold mines scattered throughout the United States have been forced to close. This once thriving industry is now virtually extinct and unless it is to escape total extinction this bill or something comparable must be passed.

To illustrate the untenable position of the gold miner, I might mention a personal experience. In the summers of 1938 and 1939, while going to college, I worked in gold mines in the Republic-Ferry County area of northeastern Washington. The bulk of the properties then being operated were comparatively low grade, with most of the ore bringing from \$7 to \$10 a ton. At least 8 to 10 mines within a radius of about 5 miles were in operation. Today not one of those mines is producing. The ore is still within the same mines, but the cost fixed-price squeeze forced their closure. As I recall, wages were then approximately \$5 per day. Today, with so-called fringe benefits, wages are at least \$25 per day. This one item of the overall cost of production has increased at least five times while the price paid for the product has remained the same. It is small wonder then that operating gold mines are hard to find.

It is suggested that lines 12 to 14 of section 1 of the bill be modified so that the amount of bonus is fixed by law and not left to the discretion of the Secretary. Aside from ease in administration such an approach would aid in determining the amount of the required appropriation.

I have particularly refrained from mentioning the monetary aspects of the gold situation and also have refrained from citing statistics.

It appears to be evident to the members of the Northwest Mining Association that gold producers in this country are practically nonexistent. Unless something is immediately done in the way of aid, the few remaining producers will be out of business within a relatively short period.

Thank you.

Mr. DWYER. At the outset may I say it is with extreme pleasure that I am here before you today to speak on this bill, and I assure you that members of the association which I represent are most grateful to have a spokesman before you on this legislation.

As the bill indicates, at least in the preamble statements, the committee recognizes the serious plight of the gold mining industry. As earlier indicated by spokesmen this morning, it is probably the only industry in the United States which operate under a price ceiling and at the same time has no control over various cost factors governing its production. The result is obvious to all. The industry is caught in a cost-price squeeze, and there are only a handful of real gold producers in the United States today.

Mr. Shoup's company is a typical example. His firm was in this field for years and was a primary gold producer. As of now they are closed and on a standby basis. The reason: Rising costs with a fixed price for the product that they propose to market. Should this situation continue there will be fewer in this business of mining gold. We have by way of production just a handful of gold miners today. According to Bureau of Mines statistics, the most recent of which I saw were for the year ending in 1960, Homestake Mining Co. is No. 1 producer. No. 2, Kennecott Copper. Kennecott Copper does not operate gold mines. It is in the copper business. The gold it markets is a byproduct of its copper production. So in essence the gold miner as we knew him 25 years ago is nonexistent. Should the present cost-price squeeze continue there will be no gold mines operating as such.

Senator CARROLL. May I interrupt at this point?

Mr. DWYER. Senator, that completes a summary of my statement.

Senator CARROLL. On page 2 of your statement you say that 95 percent of the gold mines scattered throughout the United States have been forced to close.

Mr. DWYER. If I may, Senator, that statement is taken from the language of the bill itself, in one of the whereas clauses.

Senator CARROLL. Does this mean that copper production went up last year?

Mr. DWYER. Copper has done well.

Senator CARROLL. Copper also has a byproduct, some gold, does it not?

Mr. DWYER. Yes, sir.

Senator CARROLL. Would they benefit from this resolution by the gold production?

Mr. DWYER. Yes.

Senator CARROLL. Would the silver mines, who also have a byproduct of gold, also benefit from this?

Mr. DWYER. Yes, sir.

Senator CARROLL. In your opinion, how much do you think this would bring back of the 95 percent of the gold mines that have been closed?

Mr. DWYER. An operation such as Mr. Shoup's, as he testified this morning, would immediately come into production. As I recall, he said they could be going full blast within 30 days.

Senator CARROLL. He went out of business just a few months ago. I am wondering how we can really restore some of these old gold mines and bring these miners back to work.

Mr. DWYER. With an adequate price they would go out and find the metal, just as was done in uranium. We had no uranium until the United States offered an incentive to get people to look for it. If I may use the expression, within less than 10 years we now have

uranium "running out of our ears." We don't know what to do with it now. Ten years ago we did not have any. Bonuses were offered. Uranium prospecting and exploration were eligible for loan money. Bonuses were given the producer as hauling allowances, to defray or lower his hauling cost. All these things combined resulted in another rush to find uranium.

As you know, there has been a great deal of activity in the Colorado Plateau and uranium has been found.

Senator CARROLL. What is running through my mind is that in regard to the copper mines and the silver mines which have a byproduct of gold, what is the proportion of gold production in these mines?

Mr. DWYER. I can only refer again to Bureau of Mines statistics which I think for the calendar year ending 1960 disclosed that the No. 2 gold producer in the United States was Kennecott Copper Co. Its gold is a result of its processing of very low grade copper deposits situated in Utah. Because of the large volume of ore processed, possessing a smattering of gold, Kennecott in that particular year ended up as No. 2 gold producer, second only to Homestake in South Dakota.

Senator CARROLL. My point is this: If they are doing well now in copper mining and if we assume this resolution becomes law, won't it be a substantial windfall to Kennecott?

Mr. DWYER. It would certainly increase their income, Senator. There is no doubt about it.

Senator CARROLL. Then I would like to turn the question around the other way. How do we really get these gold mines going which have no byproduct?

Mr. DWYER. The gold mines would go because they could afford to reestablish themselves in the gold business by the maximum bonus payment of \$35 per ounce for newly mined gold. If it helps Kennecott, I say that is one of the side effects of the legislation: it is not the primary objective of the legislation. Kennecott is not in here asking for this. Gold miners are seeking this.

Senator CARROLL. I understand that. I am trying to think of some way to make this more salable and more equitable. If copper mining is doing well now and silver mining is on the increase—and we want it that way—the question is how do we get more gold mined. Are they going to mine the silver and copper and dispose of the byproduct?

Mr. DWYER. That is right.

Senator CARROLL. You are not going to stimulate that much by this type of legislation, I should not think, except that they would enlarge their operation.

Mr. DWYER. Perhaps the legislation could be drafted in such a form that it would apply only to those primarily engaged in the business of mining gold. Byproduct gold would not be eligible. I am sure that could be drafted. Whether it would face a constitutional problem or not, at this moment, I am not in a position to say. The bill by redrafting could certainly be made more salable as far as the general public is concerned.

Senator CARROLL. Thank you very much.

Are there any questions?

Senator CHURCH. No questions, Mr. Chairman. I think you put a very serious question, however, that the committee is going to take into serious account.

Senator CARROLL. It seems to me, based on my recollections of the years when we had a premium price legislation that we have always run across this problem—that we didn't want to paint ourselves into a corner so that there was a windfall for certain people. As we sought to soften that legislation we ran into the opposition of those who were largely instrumental in blocking legislation which we felt could be beneficial to the whole mining industry. But it is a question we can discuss later on in executive session.

Senator DWORSHAK?

Senator DWORSHAK. I note the Minerals Year Book, 1960, shows that gold recovered in copper ore was 540,000 ounces or 32 percent of the total gold production.

Mr. DWYER. I think that is correct, Senator. If I may, Mr. Chairman, with your permission I would like to submit a statement for the record from Mr. William Maloney, secretary of the Mining Association of Montana. The Mining Association of Montana supports this legislation.

Senator CARROLL. Where is Kennecott located?

Mr. DWYER. Its principal gold production comes from Bingham Canyon, Utah, the great open pit operation. The gold in their deposit percentage-wise is extremely small, but that operation operates on such huge tonnage. By the end of the year the apparently inconsequential amount of gold amounts to a substantial sum.

Senator CARROLL. Understand, I am not critical. I am delighted that copper mining is coming up. They have had their ups and downs, too.

Mr. DWYER. I know that. You have earlier said that I was employed by this committee and I know the feeling of the committee members as far as mining is concerned.

Senator CARROLL. Thank you very much.

Senator CHURCH. Mr. Chairman, Mr. Robert Hardy is in the group here. I know he is very much interested in the silver question. The scope of our hearings have been large enough to embrace the silver question as well as the gold question.

Mr. Hardy is the president of a very important mine, Sunshine mine in the Panhandle of Idaho. I would like very much for him to give us a statement of the reasons why he feels that it would be premature for the Congress to move ahead at this time to repeal the Silver Purchase Act as the administration has recommended.

Senator CARROLL. We would be very happy to hear from Mr. Hardy on that point and we would like his opinion on some other points, too.

STATEMENT OF ROBERT HARDY, PRESIDENT, SUNSHINE MINING CO.

Mr. HARDY. Mr. Chairman, I have a prepared statement here but bypassing that for the moment, I think it is fairly obvious that the silver market is in a state of turmoil and almost chaos at the present time because by what amounted to mismanagement of the free silver fund over several years, the Treasury imposed an artificial ceiling and when it was forced to remove that ceiling last fall, there was really no choice.

It was running to the end of its free-silver fund and it had to do something. It was forced to remove that ceiling and the price immediately moved up from the artificial 91 $\frac{3}{8}$ cents that was imposed up as high as \$1.04 $\frac{1}{2}$. Those who had been able to speculate in silver from abroad and buy the silver were then able to come in and have since put enough silver in the market so that the price is currently around a dollar and a half.

I say they were privileged to speculate because a U.S. citizen who attempts to speculate in silver has a severe and drastic 50-percent tax put on the profits of his speculation before any income tax is paid and that is enough to keep him out of the market.

Consequently the silver market now is in a state of turmoil and it will be until the speculative holdings have been disposed of and until they enter into trade and commerce and at the end of the time we should see some straightening out in the marketing of silver. Until that time I think that it is extremely unwise for the current legislation to be tampered with because I do not believe that good legislation can be passed or be even considered in a time of market turmoil. I think it wise to wait and see and find out how this thing is going to come about, what our real problems are and then how are we going to solve them.

When that period is over, I am sure that the Congress will come forth with legislation that will do it credit.

Senator CHURCH. How long do you think this period might last, Mr. Hardy?

Mr. HARDY. It is very difficult to say. Even the extent of the speculative holdings themselves are difficult to determine. We are seeing this effect going on now. The Treasury stopped selling late in November. The speculative silver started coming into the market in December. It is still in there. We are coming right up against a period now just about the middle of March up until the middle of July when the silver market is traditionally soft due to lack of buying. The consumers do not buy much silver during this period, primarily because those in the jewelry and silverware business do not stock up for their Christmas needs until July.

Senator CARROLL. Tell me a little more about speculative silver, what it is, where it comes from, and how it is used.

Mr. HARDY. It is principally in London. The London market being a free market, people over there were able to see that the U.S. Treasury would have to stop selling its silver and the price would go up. Consequently they bought and they stored away silver awaiting that day.

Senator CARROLL. You mean prior to the President's order?

Mr. HARDY. Yes, for at least a year or two prior to that time they were putting silver away.

Senator CHURCH. They did this in anticipation of the fact that our free-silver stocks were constantly being depleted and in anticipation of the time when the sales would have to end.

Mr. HARDY. That is correct. I think everybody could see it except the Treasury. Then there was some silver produced in South America that I know was held off the market for the very same reason. Those people who were able to hold silver off the market have enjoyed a higher price since the Treasury has forced to cease selling.

Senator CARROLL. I follow you clearly up to one point. There has been a sort of stockpiling—building of their own inventory and holding it off the market—after the President's order.

Mr. HARDY. Those who had stockpiled or inventoried have been able to keep running on that and consequently have not been in the market. Those who had speculated and were able to sell at a higher price have been feeding their silver into the market and that is what is causing the turmoil because we don't know what the true market level is.

Senator CARROLL. You mean feeding it from London into this country?

Mr. HARDY. That is right. The United States on the whole is a net importer of silver, excluding for the moment any consumption of silver by the Treasury there is approximately 105 million ounces of silver consumed industrially in this country each year.

Our domestic production runs 30 to 35 million ounces, leaving 70 million ounces coming from someplace. About 10 million comes from scrap recovery and the balance has to be imported.

Senator CARROLL. What is the principal import source?

Mr. HARDY. Canada, Mexico, Peru, Bolivia, and Australia.

Senator CARROLL. Are there any trade restrictions on that whatsoever?

Mr. HARDY. None. No trade restrictions. There are some practical restrictions on silver that is in the market and it is this: During the last 3 or 4 years when the Red Chinese Government has had such an agricultural problem in that they are not producing enough food-stuffs, when they have had to go out and buy from people like Canada and Australia, in order to finance their purchases they have been selling gold and silver in the market. That Chinese silver, most of it was sold in the European market, West Germany, and a lot in London. That silver is not eligible for import into the United States because it comes from Red China. That in itself creates a little bit of a problem because they have to differentiate between what is of Red Chinese origin and the origin of other countries. That is the only restriction I know of upon the importation of silver into the United States.

Senator CARROLL. Is there an overhang on the silver market such as that in the lead and zinc market?

Mr. HARDY. There is now and consisting principally of the speculative silver. When it will run out I cannot say. I hope it will be some time this year. But I have no real knowledge of how much it is or how fast it will be fed into the market.

Senator CARROLL. You heard my expression of a personal opinion this morning?

Mr. HARDY. Yes, sir; I did.

Senator CARROLL. What do you think would be the immediate effect upon our fiscal policy if we repealed the Silver Purchase Act?

Mr. HARDY. I think there are several things that are of concern there. First of all, I believe the shifting of the winds and the trend of policy to divorce silver from our monetary system except for subsidiary coinage is a complete divorcement of what our country has done in the past. When you start dealing in those terms in monetary matters my caution is again to go slow because many times things that

were done in the past had good reason and are not done away with overnight in a hurry.

Examining some of the aspects of the repeal legislation, first of all this legislation was not brought about because of any depression condition of the thirties. This legislation started back in the 1870's when the trend turned from silver as a basic monetary metal to gold throughout the various countries of the world, led by Germany, Great Britain, and others. At the same time there were important deposits of silver discovered, principally in the North American Continent, simultaneously with new methods of recovery and refinement which brought silver into an oversupply position when connected up with the demonetization. That demonetization went on for many years. It was during that time we saw silver fall from its price of \$1.29 which was established in this country not long after the Revolutionary War down into the 25 and 27 cents an ounce range. Purely because there there was more silver floating around than people knew what to do with. This whole thing was, you might say a Government-inspired action which brought silver into the market. It was the intent of the silver purchase acts to cure some of those previous actions and to bring about a more healthy condition in western mining.

The silver purchase acts by themselves merely formalized what had been a good practice in having silver-backed circulating certificates. They formalized that process and brought it about eventually by 1946 so that silver domestically mined could be tendered to the Treasury in that 70 percent would be purchased by the Government at the monetary value and the Government would retain title to the other 30 percent with no value attached to it. That is, it got it for nothing. That is the silver that has been sold off as so-called free silver. The silver purchase acts have a long, historical background and for that reason they should not be done away with spontaneously. They should be examined carefully for what is behind them.

As to the immediate effects of any repeal of the Silver Purchase Act, one that is going on now in advance of repeal is that the \$5-and-upward silver certificates are being replaced by Federal Reserve notes in order to provide silver for coinage. That brings us right to the meat of the matter. Those Federal Reserve notes that are replacing silver certificates must have gold backing so they are adding to the burden on the gold monetary reserves so that the silver certificates can be retired. That, I think, is a very bad effect and one that has a great effect upon any gold legislation.

Senator CARROLL. I think you ought to restate that. I do not think that is generally understood. This morning a witness touched on that but he touched on it lightly.

Mr. HARDY. The silver certificates that are currently being retired in order to provide silver for subsidiary coinage are being replaced by Federal Reserve notes. Those Federal Reserve notes must be backed by 25 percent of their value by gold. The added Federal Reserve notes required by this action is adding to the gold burden, that is, the burden upon our monetary gold.

Senator CARROLL. Are you saying that if the Federal Reserve issues a note it has to have a gold backing?

Mr. HARDY. Yes, sir. That is a requirement of the law.

Senator CARROLL. Do you know what that would mean in simple terms? Let us take a dollar. I have an article here by a very able writer on the Denver Post. The title is "Why Keep Gold Moth-balled?" I will give you a short quote.

Senator DWORSHAK. It is a 25 percent requirement.

Senator CARROLL. He uses the illustration that the present time if you deposit \$1 in a commercial bank, that bank must put 16.5 cents on deposit with the Federal Reserve as a reserve against your deposit. Upon receiving the 16½ cents, the Federal Reserve sets aside one-fourth of that amount or approximately 4 cents in gold, actually gold certificates, as a reserve against the deposit made by the commercial bank.

The 4-cent gold reserve against the original deposit of \$1 is supposed to give you a sense of confidence.

Are we talking about the same thing?

Mr. HARDY. No, sir. I was speaking primarily of the currency, the Federal Reserve notes in circulation which require a 25 percent gold backing.

Senator CARROLL. For every bit of currency, you have to have gold in back of it.

Mr. HARDY. That is correct, sir.

Senator CHURCH. Unless it is a silver certificate, of course.

Mr. HARDY. That is right. Every Federal Reserve note requires 25 percent backing. Every additional one you issue requires that much more gold.

Senator CHURCH. What you are saying is that as you redeem the silver certificates by calling them back into the Treasury and take the silver that now backs those certificates and put it to coinage uses, you are increasing the total amount of Federal Reserve notes that have to be issued to replace those certificates and thus increasing the burden on your deposits of gold in the Treasury?

Mr. HARDY. That is right.

Senator CHURCH. And this at the very time that we are faced with a serious outflow of gold from the Treasury.

Mr. HARDY. That is right.

Senator CHURCH. We are aggravating the problem of the consequences of the outflow against the time when the reserve reaches that point or falls below that point of the statutory requirement. You are aggravating that problem all the time as you bring in silver certificates and issue Federal Reserve notes in their place?

Mr. HARDY. That is correct, sir.

Senator CARROLL. I think this is very, very helpful for the record.

Mr. HARDY. There is another very practical effect, too, of this current action of the Treasury. The silver that it is getting thereby and retiring the silver certificates, costs the Treasury \$1.29 an ounce. So it is using that \$1.29 silver for subsidiary coinage which has a monetary value of \$1.38. It gains 9 cents.

Senator CARROLL. Why is it costing \$1.29?

Mr. HARDY. That is what the Government paid for it. Under the latest amendment of 1946 they bought 70 percent of the silver at \$1.29. That silver went into the monetary reserve against which silver certificates were issued. The other 30 percent went into the free silver fund and was sacrificed at 91 cents in the last few years.

Senator CARROLL. They also paid \$1.29 for that?

Mr. HARDY. No, sir; they paid nothing for it. They paid \$1.29 for 70 percent of the silver and nothing for 30 percent. They are currently paying in effect \$1.29 for the silver used in coinage. That silver can be obtained on the market for \$1.01½. If you want a way to stimulate the production of silver in aid to the domestic miner, that is the solution right there. That is the substance of the statement I had here today.

Senator CHURCH. Mr. Chairman, I think two points ought to be made very clear in the record now that we have the benefit of Mr. Hardy's testimony that do not relate to the question of Treasury policy and its wisdom, but rather related to the question of whether we should repeal the Silver Purchase Act now within the framework of the stated Treasury policy.

In other words, if we set aside the question of whether or not the Treasury policy is the proper one and assume for purposes of the discussion that the Treasury policy is acceptable, even if we start with that premise there is no reason at all to repeal the Silver Purchase Act this year, is there? It is not necessary to the implementation of Treasury policy to repeal the act this year and our failure to repeal the act won't interfere in any way with the Treasury policy this year or next or the year after. Isn't that correct?

Mr. HARDY. That is correct. I apologize for getting off that subject on to the other. Just considering the recommended legislation submitted by the Treasury, there is nothing in that that will help out or retard anything the Treasury is trying to do at the present time. But in there are some very dangerous things. For instance, the Treasury asks that the legislation authorize the issuance of \$1 Federal Reserve notes. The reasoning for that is not quite clear because if the Treasury under its present authority and policy continues to retire \$5 and upward silver certificates for the purpose of coinage, it has at least an 8 to 10 year supply of silver right there. Now, why does it want \$1 Federal reserve notes? Does it want to suddenly issue a whole bunch of \$1 Federal Reserve notes and replace all \$1 silver certificates and thereby compounding the gold problem and saying the gold problem is incurable, we will have to do away with all our gold. I don't know what their answer is. But there is no sound reason for this.

Senator CARROLL. It has been said at a previous hearing—I have forgotten the name of the witness—that the Treasury has silver running out of its ears.

Mr. HARDY. I don't agree. That silver doesn't belong to the Treasury. That belongs to the people who own the dollars. The Treasury is only the custodian.

Senator CARROLL. If they retire those silver certificates without issuing that Federal Reserve \$1 reserve note you spoke of, wouldn't that silver be available?

Mr. HARDY. I don't know how they would retire it without some means like a Federal Reserve note. They would have to borrow the money in order to purchase the silver certificates from the citizens.

Senator CHURCH. Under existing law it is possible for the Treasury to call in the \$10 and \$5 silver certificates, issue Federal Reserve notes in their place, use the silver thus released for the coinage purpose for the next 6 or 8 years before any change in law would be required to implement Treasury policy.

Mr. HARDY. That is right.

Senator CHURCH. In other words, there is no pressing need for any change of law even within the framework of their stated policy?

Mr. HARDY. That is right.

Senator CHURCH. Secondly, it would be quite unwise to change the law at least until we know how the market is going to settle down and what the final price is going to be on a stable silver market. It would be almost foolhardy to move into the change of a fundamental law until we know what the market situation is going to be and we have only had 3 or 4 months to test the situation.

Mr. HARDY. I think that is perfectly right.

Senator CHURCH. Mr. Chairman, so neither from the standpoint of need in order to implement Treasury policy, nor from the standpoint of desirability until the present market settles, would it be a wise course for the Congress to undertake the repeal of the silver purchase act at this time.

Mr. HARDY. I agree, sir.

Senator CHURCH. I think, Mr. Chairman, I think it would be most helpful if this committee could make a very strong statement to this effect, based upon the evidence gathered at these hearings. That there is simply no reason either for purpose of implementing Treasury policy as it has been declared by the President, certainly no desirability until the market price stabilizes, for the Congress to undertake the repeal of the Silver Purchase Act.

This certainly doesn't jeopardize the Treasury program. It is just to wait until we know how the market is going to settle down. We probably will know that within a few months' time, but I think we should give the market a year from the time the Treasury Department terminates its sales until we go through one cycle before we can get any idea of what the final silver price will be.

Mr. HARDY. That is right.

Senator CARROLL. The reason I agree with the Senator's estimate, and the reason I put the question in view of your very fine statement here today is, supposing the Treasury decides we need more silver for coinage, and the silver they now have is supporting silver certificates, the other horn in the dilemma is that if they issue Federal Reserve notes it creates a drain on the gold reserve, and how do they get the silver?

Mr. HARDY. That is very simple. May I read my statement?

Senator CARROLL. Surely.

Mr. HARDY. I think it explains it. I will skip the introduction.

The announcement of Treasury cessation of sales of silver to industrial users last fall brought welcome relief from an artificial and unreasonable ceiling, thereby aiding producers somewhat. However, the remainder of the program announced should be examined thoroughly for its effect upon producers as well as upon our monetary and economic systems.

Despite all the mouthings of theoretical economists, our country will grow only through the production of new wealth. A phrase such as "Gross national product" is entirely meaningless unless it differentiates between the cost of services and actual production, for only the latter counts in the long run. Therein lies the rub, for our monetary practice is currently geared to dispose of its solid backing and to discourage any production.

We see in currently expressed policies a movement designed to do away with silver certificates, replacing them with Federal Reserve notes so that the silver may become available for coinage. The effects are threefold. First of all, the burden upon the gold monetary reserve is increased when it is already in peril. Secondly, the silver thus minted is costing \$1.29 per ounce when it could be obtained in the open market currently for around \$1.02 an ounce. And lately, production of silver is discouraged at a time when not only are domestic miners in dire economic trouble, but the country also needs the production of new wealth.

The solution to all three could be very simple. If the Treasury were required to purchase the silver it needs for coinage from domestic miners at any price up to \$1.29 the effects would be to ease the added burden to the gold reserve, to stimulate domestic silver production, and to aid domestic miners.

And, simultaneously, the dollar gain to the Treasury from minting of silver coinage would be increased materially.

Senator CARROLL. If they did this, what effect would it have on the speculators in the silver market?

Mr. HARDY. If it were purchased from domestic production, it would have none.

Senator CARROLL. You mean the domestic production today is adequate to meet the demands of the Treasury?

Mr. HARDY. No, sir; it is not. Let me go back a little bit. Perhaps I answered too hurriedly that it would have none. There would be an immediate effect upon the world market of any withdrawal of domestic production from the world market so that we might see some increased speculation for a short time. But that would be soon wiped out. As far as any domestic silver speculation it would not have any effect if that were going directly to the Treasury. The only effect would be, what price would the Treasury have to pay to get the silver? Domestic production is currently 33 to 35 million ounces a year. The Treasury requirements are 50 to 55. That 20-million-ounce increase there is the stimulation to production and aid to domestic miners that would come about.

Senator CARROLL. For the record, what fixes the price of \$1.29 today.

Mr. HARDY. What fixes the price today at \$1.29? That is the price fixed by statute as the monetary value of the standard silver dollar. That price was initially fixed during the days when Alexander Hamilton was Secretary of the Treasury.

Senator CARROLL. What would the repeal of the silver purchase act do to that price? Would it affect it in any way?

Mr. HARDY. No, unless the Congress decides to do away with the standard silver dollar. That is not contemplated in the current repeal proposal.

Senator DWORSHAK. How much silver is there in a silver dollar?

Mr. HARDY. It is a ratio of a dollar to a dollar twenty-nine. Approximately 70 percent.

Senator CHURCH. Mr. Chairman, I have a letter here from the witness, Mr. Hardy, in which he summarizes six very cogent reasons, I think, against congressional action at this time on S. 2885, which is the bill to repeal the silver purchase act. I think it would be very helpful to incorporate the text in the record at this point.

Senator CARROLL. I am sure it would.
Without objection, it will be inserted in the record.
(The letter referred to follows:)

SUNSHINE MINING Co.,
Spokane, Wash., March 6, 1962.

Hon. FRANK CHURCH,
Senate Office Building,
Washington, D.C.

DEAR SENATOR CHURCH: With reference to S. 2885, a bill to repeal silver legislation, I have the following comments to make:

1. The proposed legislation is untimely in that the current crisis was brought about by Treasury mismanagement of the free silver fund, resulting in an unsettled market. Good legislation cannot be enacted during such a period.

2. The proposed legislation does not limit the conversion of silver certificates to the needs for coinage, but would allow the Treasury to proceed at will and without regard to expressed intentions.

3. The \$1 Federal Reserve notes are wholly unnecessary at this time since a supply of silver for the next 8 years can be obtained from conversion of \$5 and higher silver certificates.

4. As the silver market now stands, it would be much less expensive for the Treasury to purchase silver on the open market for its coinage needs.

5. It is readily evident that the conversion from silver certificates to Federal Reserve notes is an expediency which results in further prejudice to the gold backing of Federal Reserve notes. Such a measure is unwise and irresponsible when our gold reserve is in danger.

6. Repeal of the silver transactions tax would assist in bringing about an orderly market, for it would permit trading in futures.

I am writing to the Honorable A. Willis Robertson, chairman of the Senate Banking and Currency Committee, and to the Honorable Brent Spence, chairman of the House Banking and Currency Committee, asking for an opportunity to be heard or submit a statement concerning the proposed legislation.

With best personal regards.

Sincerely yours,

ROBERT M. HARDY, Jr., *President.*

Senator DWORSHAK. How far has the Treasury gone on legislation which would eliminate the requirement that the currency must have 25 percent gold in back of it?

Mr. HARDY. There was a bill introduced in the House last year, the so-called Multer bill, and it was variously understood that Treasury backing was forthcoming. That was more or less like a straw in the wind to see what would happen. The uproar was sufficient to back the Treasury off so that it has never come forth with an official position to my knowledge. However, it is also generally understood that the Treasury would support it if they thought it was politically practicable.

Senator DWORSHAK. Do you find quite a lot of support in financial quarters in New York City that it is not necessary to have any gold backing?

Mr. HARDY. Yes. You see that from some of the so-called top-flight bankers in New York City who have recommended that the gold backing be removed. It caused a bit of wonderment around the rest of the country why they believed that unless they can see some immediate advantage to New York banks which causes me to be very suspicious of that line of reasoning.

Senator DWORSHAK. Would that have a tendency to dilute the prestige of the American dollar abroad without any monetary backing?

Mr. HARDY. I think if the 25-percent gold reserve were repealed, you would see an immediate withdrawal of what gold reserve we have

left by foreign creditors demanding their short-term requirements be fulfilled. I think we would end up with a paper dollar which we might as well paste on the walls.

Senator DWORSHAK. We do not have enough gold to redeem the short-term credits held abroad.

Mr. HARDY. That is why we won't have any left.

Senator DWORSHAK. We are short about $2\frac{1}{2}$ billion right now.

Mr. HARDY. Yes, sir.

Senator DWORSHAK. If we used all the gold that is currently earmarked for backing the Federal Reserve currency, if you eliminate, we have only about \$4 billion worth of free gold to take care of \$18.5 billion of short-term credits.

Mr. HARDY. I just recently saw a tabulation compiled by the Morgan Guaranty Trust Co. of New York. Some of their people are the leaders in this movement to do away with the gold reserve. This tabulation was in the form of a chart which showed the trend of foreign short-term credits versus our monetary gold reserve. If I remember correctly, by extrapolating on those graphs on a straight line basis on the trend on the past several years, it shows that by the end of 1962 the foreign short-term credits held against the United States will be \$25 billion. The trend on the gold reserve will reduce that to \$15 billion at the end of 1962. If we take out what is required for our currency backing, we have about a 1 to 10 ratio there to satisfy those foreign credits.

Senator DWORSHAK. Apparently we would require about \$12 billion for currency backing.

Mr. HARDY. Right around 12 to $12\frac{1}{2}$. I am not sure of the actual figure.

Senator DWORSHAK. What you are telling us is that if we had a run started by the holders of short-term credits abroad for redemption in gold by the United States we would be in a position of a bank that didn't have enough money to meet the depositors' demands and we would be caught in financial debacle which would literally expose to the world that our Government is bankrupt.

Mr. HARDY. Sir, if the Federal bank examiners had to examine the status of our monetary fund right now they would close the doors.

Senator DWORSHAK. At that point, Mr. Chairman, this morning probably my remarks were construed as not being friendly to the proposal to stimulate production of gold. I did not take the time to emphasize that I feel that there is no relationship between the production of gold and the loss of our gold dollars because, as the chairman pointed out, the loss last week was \$60 million of gold which is \$7 million more than the value of the gold we produced in this country in 1961.

That is correct, is it not?

Mr. HARDY. Yes, sir.

Senator DWORSHAK. What I have been trying to emphasize is the fact that the only way we can curb the loss or the outflow of gold dollars is to reduce the short-term credits abroad. The way to do that is to have a favorable balance of payments which would result only from curtailed spending abroad by the United States through foreign aid, the maintenance of troops which cost currently about \$3 billion a year. Unfortunately Congress has as much responsi-

bility, if not more, than the various agencies in this dispute department which are fully unaware of the asinine fiscal policies which are currently being followed which inevitably will cause bankruptcy of our Government. I think if Congress stood up instead of dealing with a lot of problems which are quite remote, and are not as significant to the survival of our Nation as is the retention of gold dollars at home, we are in for a lot of trouble. Do you agree with me?

Mr. HARDY. Sir, I think there will be a lot of pallbearers at the funeral of the dollar.

Senator CARROLL. You say policies currently being followed.

Senator DWORSHAK. The prolongation of most of the policies that have been pursued for several years. It is the Congress that supposedly under the constitution controls the purse strings. I see my friend from Alaska smiling. He and I have stood shoulder to shoulder in our efforts every year to cut the indefensible billions of dollars which are—gold dollars—siphoned away to take care of this foreign aid program. My friend, the Senator from Nevada, who was present this morning, is a member of the Appropriations Committee on which I likewise serve and he has defended or supported on many occasions his efforts to cut down appropriation bills. That is the only way we can begin to solve this problem, not just talk about it, but actually do something about it.

Senator CARROLL. I say to Mr. Hardy that I hope our creditors do not take serious note of this discussion because there will be a gold rush that will transcend the one in California.

Senator DWORSHAK. It is coming some day.

Senator CARROLL. While it is true that these loans that were made are payable in gold if they call upon them—one bank in Germany holds, I think, \$6 billion—they are not about to destroy themselves. They are interested in the stability of the dollar, too, because notwithstanding some comments here this morning, the dollar is still the strongest currency in the world. I think it is just as strong as the German mark and the French franc.

Mr. HARDY. I think you find the Swiss franc very heavy.

Senator CARROLL. In 1952 we had \$23 billion in gold reserves. However, gold is not static, it is transitory. Through the stability of our system and the value of our dollar we have been able to achieve the rebuilding of war-torn Europe. But I don't think we need to become panicky. This is one of the reasons why I fight for stability of the silver and why I think there ought to be an expansion in the field of gold mining. It seems to me if we can stockpile some of the things that we have—I referred to them this morning, feathers and other things, why can we not stockpile gold?

We would ask why are you stockpiling? It is classified material. But we were stockpiling goods that were just running out of our ears, running into the millions of dollars. It seems senseless to me that we could not have done a little stockpiling of gold. We could have sustained this industry.

In the early part of last year the flow of gold from this country had stopped until the third and fourth quarters and then it went up to 857 million, far better than preceding years, when we ran deficits of 1 and 2 billion. They are moving to stop it. I agree with my friend here from Idaho that our military commitments in Europe have been

too much. We have been seeking to cut some of them—to get our allies to assume greater responsibility in this field now that they are in an economic position to do so. In my mind there is little reason for despair.

Mr. Hardy, you have made a great contribution to this hearing. You have explained things in simple terms. This is the sort of testimony we need. We will call the Treasury and have them take this apart piece by piece if they can.

Senator GRUENING. I would like to ask Mr. Hardy one or two questions.

Mr. Hardy, do you think it would be in the national interest to increase our reserve supply of gold?

Mr. HARDY. I think it is absolutely imperative.

Senator GRUENING. Do you know any better method, considering all the other complications, than in subsidizing the miner to produce the gold so that he can do it and not lose his shirt?

Mr. HARDY. Sir, there are so many problems concerned with any other way of increasing the supply of gold, such thing as a devaluation that has so many worldwide effects that it is difficult to comprehend what they might be. I think that increasing the supply of gold by some form of incentive—I don't know exactly what the best form is other than what has been discussed, an outright subsidy because I am not particularly a student of that—I think that is probably the only means available at this time. But I sound this word of warning. If you are going to go out and pay \$70 an ounce for gold, you should put a bar on the use of that gold for anything except backing of the currency. Don't let it go into foreign channels.

Senator GRUENING. I think that is more or less implicit in the purpose of the legislation—at least I hope it is. The purpose of this legislation is to uphold our reserves and make it possible for our miners to do so, which they certainly cannot continue to do as long as the price remains at \$35.

Mr. HARDY. That is right.

Senator GRUENING. Are you in accord with that general view?

Mr. HARDY. Yes, sir. I know this and this is something that I might digress a little bit on. There was a lot of talk here this morning about how much production would be brought about by doubling the price of gold and doubling the production.

The two things are not connected in any way whatsoever. What will bring about the production of gold is sufficient price to pay for the cost of extracting it. We know there are only a few mines producing in the country today at \$35 an ounce. The reason is that their costs may be only \$30 an ounce. The mines which are not producing have seen their costs appreciate to maybe where they are \$40 an ounce. So when you get the return above what it costs, whether it be \$40, \$45 or \$50, you are going to have more production. You can't stop it then if you are going to pay for it. It is going to come flowing in.

I caution you, don't try to relate the percentage increase in the price with a percentage increase in the production. They don't go together by any form of economics.

Senator CARROLL. Do you have any idea how much production we could get if we passed this bill?

Mr. HARDY. If I had access to the data that showed me what the gold content of ore in the ground might be at specific properties versus the cost of operation at those properties, I would come out and give you an estimate that would be very authoritative. I do not have that. I would guess this. The reason you have seen gold production going down is that rising curve of cost. So whereas it was in the \$20, \$25, \$30 range a few years back, it is now in the \$35, \$45, \$50, \$60 range. So that anything you get above that current range of cost is going to bring you back to the production of 20 or 30 years ago in not much time at all. Exactly what that might be I cannot tell you because I am not particularly a student of that phase of this thing.

Senator CARROLL. I think that is an intelligent answer. It depends upon the problems of the particular mine.

Mr. HARDY. That is right.

Senator GRUENING. Do you see any logic in the argument of the Department of the Interior in reporting adversely on this legislation when it says with an incentive payment of \$35 an ounce gold production might be doubled but at this doubled rate it would take about 42 years to replace from domestic sources the monetary gold reserve loss since 1957? Doesn't this completely fail to take into account the mines that have been closed and estimating the very much diminished production that now exists, taking no account that new mines would reopen and produce more gold?

Mr. HARDY. I think that statement is complete poppycock. I think it was written by somebody who doesn't know what he is talking about.

Senator GRUENING. I agree with you. Thank you very much.

Senator CARROLL. There is one more question, if I may. Since the President's recent order on silver, you have been doing much better?

Mr. HARDY. I didn't quite understand that.

Senator CARROLL. Since the President's recent order concerning silver you have been doing much better?

Mr. HARDY. By and large, the silver-mining picture has been helped by getting an increase of 10 percent for their product. That has currently helped a little bit. However, it has not compensated for the rise in costs of mining over the period of time of this increase. The increase is effective from 1946, that is when the 91-cent price started. The current price being a dollar one and a half, some 16 years later, you will find that the costs have gone up much more than 10 percent in that time.

Senator CARROLL. Except for the explanation that you have given, if the Treasury would buy from the domestic silver-mining producers at \$1.29?

Mr. HARDY. Up to that figure.

Senator CARROLL. Does it mean they could buy under that figure?

Mr. HARDY. Yes, sir. I am sure that they would be able to buy, depending on the supply picture in this country, if they bought just from domestic miners. Initially if they had a consumption of 50 to 55 million ounces a year against a production of 30 to 35. They would probably pay \$1.29. As production increased then it might come down. In other words, if domestic miners became capable of producing 60 to 70 million ounces a year, some of their product would have to be sold in the industrial or world market and the price would come down below \$1.29.

Senator CARROLL. Supposing the Treasury said we are not going to press for the repeal of the silver act at this time.

We don't want to convert to the Federal Reserve notes. But we need silver for coinage. If they had to go out in the market today what would they have to pay for that silver?

Mr. HARDY. The figure today is \$1.015. Any appreciable demand in the market might force it up in the range immediately of \$1.10, \$1.15, and if they kept up the demand beyond what was available in the world it would go to \$1.29. It is hard to say.

Senator CARROLL. Wouldn't that help the silver speculators?

Mr. HARDY. No, sir.

Senator CARROLL. Is there any way you can peg that price to protect your interests and the Government's interests?

Mr. HARDY. We are talking about domestically mined silver. The world silver would not be available at the Treasury's price. In other words, if the Treasury were buying domestic silver for this purpose they would not be going out into the world markets to buy silver. They would buy it from the domestic producers.

Senator CARROLL. What would then happen to those industries that need silver? Would there be enough for both the Treasury and industry in this country? Wouldn't they have to get silver from some place?

Mr. HARDY. There might not be enough initially but eventually the supply would balance out if even it had to rise a little bit. After all silver exists in the ground and a price will bring it out.

Senator CARROLL. These are questions on which we have to be informed.

Mr. HARDY. Yes, sir.

Senator CARROLL. I was under the impression that we did not mine enough silver for our own consumption, and never have.

Mr. HARDY. In the postwar years the domestic production of silver has been insufficient to fill the industrial consumption needs of the United States. It has had to come from abroad. That is true. When you combine the Treasury needs on top of industrial consumption our domestic production has fallen far short. It has been about one-fourth of the consumptive need. But there is no reason why that domestic production couldn't be greater. It has been greater in the past and it could be again. All it requires is a price to get it out of the ground.

Senator CARROLL. And the industrial needs have been met by the Treasury?

Mr. HARDY. During the past 2 years over half the industrial needs of the United States have come out of Treasury silver.

Senator CARROLL. At what price?

Mr. HARDY. Ninety-one cents.

Senator CARROLL. What has been the world price?

Mr. HARDY. At that time when the Treasury was selling at that price, London was selling at 93, 94, and 95 cents range.

Senator CARROLL. Was the Treasury buying domestic silver?

Mr. HARDY. No, sir. Domestically produced silver was going into the industrial market. The Treasury was not acquiring silver except for one small segment. A number of gold placer mines with a minor silver content. During the years that the Treasury was selling so

heavily in the open market they were acquiring some silver, about 400,000 to 500,000 ounces a year from the placer gold that was submitted to them as required by law.

Senator CARROLL. Was the Treasury purchasing silver on the world market?

Mr. HARDY. No, sir. That was the only silver they were getting. Yes, there was one other source.

Senator CARROLL. I have in mind the \$1.29 silver price.

Mr. HARDY. The Treasury was not buying any silver on the world market except it was receiving returns of lend-lease. Just to illustrate what happens in the market when suddenly you remove a source of supply. It is not generally known but shortly after the Treasury ceased selling last November, there were some companies or some consumers in the United States that were caught short. They just didn't read the signs correctly. Many bought up and had inventory for months ahead. But a few were caught short. They needed silver immediately I presume for the Christmas trade because they went to the Treasury and got some 600,000 ounces for which they paid \$1.29. About 25 cents over the world price right then because they had to have the silver today. They could not wait a couple of weeks to get it from Europe. That is just an example of what happens when something suddenly is removed as a source of supply.

Senator CARROLL. I want to say to you, Mr. Hardy, you have been most helpful to this committee.

Mr. HARDY. It has been a pleasure to be here and I appreciate the opportunity.

Senator CARROLL. Will you be available later on? We are going to hear from the Treasury Department. We are going to go into this thing. It is my own feeling that we ought to leave the Silver Purchasing Act alone this session. I agree with your conclusion that in view of the state that the market is in today we should not stir up any more trouble.

One further question: In your silver production, how much has gold as a byproduct?

Mr. HARDY. Very little. There is not much connection between gold and silver production. About 60 to 65 percent of silver is produced as a byproduct of copper, lead, and zinc. About 30 percent of the silver produced is primarily from mines which produce silver as a principal product. The rest of it comes from minor sources associated with gold and other things. There is very little connection between the actual production of silver and gold. They just don't exist in any great amounts together.

Senator CARROLL. You think the President's step last November was in the right direction?

Mr. HARDY. Yes, sir.

Senator CARROLL. Unless it is undone by other action that has been recommended.

Mr. HARDY. That is right.

Senator CARROLL. I am delighted to have you say that because I had a lot of calamity howlers in my State. For the first time in years there was a constructive step taken. They ignored that. They howled about the fear of the future. I am glad to have a man with your experience say that all is not as dark as it seems.

Mr. HARDY. That is right.

Senator CARROLL. Senator Church has informed me that he wanted to be here to hear the testimony of Mr. Teske, the Secretary of the Idaho Mining Association. He had a previous appointment with the President and he asked your indulgence. He will read your testimony and we are delighted to hear from you, Mr. Teske.

After this we will hear from the gentlemen from Alaska.

STATEMENT OF A. J. TESKE, SECRETARY, IDAHO MINING ASSOCIATION

Mr. TESKE. Thank you, Senator Carroll and members of the committee. My purpose in appearing before this committee today is to bring to its attention the desperate plight of Idaho's gold mining industry and to urge early and favorable action on legislation that will alleviate this situation.

I would like to read a letter from the Governor of our State:

The hearing on Senate Joint Resolution 44 which you, Mr. Chairman, have scheduled for March 15 before the Senate Subcommittee on Minerals, Materials, and Fuels is most timely.

This resolution, which would authorize the Secretary of the Interior to make incentive payments to domestic producers of gold, is a matter of utmost concern to the State of Idaho. Over the past 15 years the inexorable squeeze between the \$35 fixed monetary price of gold and steadily increasing costs of production has diminished gold mining activity in this State almost to the vanishing point. Production of 4,870 ounces in 1961 was the lowest in Idaho's century-long history as a Territory and State.

I commend to your attention the enclosed copy of a resolution adopted by the western Governors' conference at its meeting in Salt Lake City last year. This resolution was proposed by a special committee consisting of Governor McNichols of Colorado, Governor Egan of Alaska, and myself. It recommends a program of incentive payments for new gold production such as is embodied in the legislation under consideration before your committee and it was approved without dissent by the western Governors. I share with the other western Governors their grave apprehension over the progressive erosion of the gold mining industry, not only in Idaho but throughout the Nation. The device of incentive payments, it seems to me, is the most practical and effective means at hand to stimulate the restoration of this vital segment of our national economy.

Senator CARROLL. That will be placed in the record.

Mr. TESKE. Thank you.

(The resolution referred to follows:)

WESTERN GOVERNORS' CONFERENCE

May 14-17, 1961, Salt Lake City, Utah

RESOLUTION ON GOLD

Whereas an increase in the dollar price of gold will interfere with international monetary policy; and

Whereas it appears a long period of time will be involved before the international gold situation resolves itself; and

Whereas a bonus or incentive payment for newly mined gold from domestic mines would not interfere with international monetary policy; and

Whereas a bonus payment would reopen closed gold mines and directly employ upwards to 50,000 men and indirectly support an additional 450,000 jobs; and

Whereas, the production of gold is vital to the maintenance of the gold reserve of the United States; and

Whereas it seems reasonable to assume that the gold mines will need improved prices for their gold in order to go back into production; and

Whereas incentive or bonus payments will not result in the establishment of a multiple price for gold in this country; and

Whereas the depleted state of our current gold supply has prompted the recent proposal in Congress to remove the 25-percent backing of our currency: Now, therefore, be it

Resolved, That the western Governors urge an incentive or bonus payment that will assure to domestic producers a fair economic return; and be it further

Resolved, That they express their opposition to changing the present law requiring the Treasury to hold gold to the value of 25 percent of the outstanding notes and deposit liabilities of Federal Reserve banks until a careful and exhaustive study is made of the relationship of gold to the value of the dollar, with particular reference to the effect of this relationship on the economics of the Western States where the major portion of domestic gold is mined.

Mr. TESKE. You are all aware, I am sure, of Idaho's long and enviable record of gold production. In a very real sense, Idaho owes its existence as a sovereign State to the gold wealth hidden in its mountains and streams. It was the discovery of gold in 1861 that brought the first wave of pioneer settlers to the Idaho territory, and the new wealth from this embryo of mining activity formed the nucleus from which was developed the sound and progressive natural resource economy which the State now enjoys.

Accurate data on Idaho's contribution to the gold coffers of the Nation over the past 100 years are not available, because of the lack of adequate records of early-day production. The total, however, is estimated to be in the range of 8½ to 9½ million ounces.

Today Idaho has virtually no gold mining industry. Production last year, according to U.S. Bureau of Mines estimates, hit an all-time low of 4,870 fine ounces, and only about 40 percent of this was from gold mining operations. The balance was recovered as a by-product of base-metal production. As recently as 10 years ago, Idaho was producing gold at a rate of more than 75,000 ounces annually and it was twice that figure in 1941, the year before the War Production Board issued its notorious L-208 gold mine closing order. That directive, as you know, failed miserably in its objective of diverting gold miners to the production of metals deemed more essential to the war effort, but it was eminently successful in reducing Idaho's and the Nation's gold mining industry to a state of deterioration from which it has never been able to recover.

The basic and continuing problem of the gold mining industry, of course, is the Government's insistence on maintaining the fixed monetary price of gold at \$35 an ounce through a period of unprecedented inflation. The increased production costs resulting from this inflation have rendered submarginal most of Idaho's and the Nation's remaining known gold reserves. Furthermore, they have stifled all incentive for new exploration and development.

Apparently this Nation is bent on repeating the same disastrous mistake that was made following World War I. That world conflict elevated our economy to an inflated plateau, you will recall, but official policy refused to take cognizance of that fact and a concerted effort was made to maintain the monetary price of gold at the prewar level of \$20.67 an ounce. When this error was compounded by the liberal credit spree of the late 1920's, the stage was set for the economic cataclysm of 1929 and the subsequent great depression.

It took an international catastrophe to bring into proper focus the folly of the Government's gold policy at that time. Subsequently and belatedly, in 1934, the monetary price of gold was raised to the present level of \$35 an ounce. Under this price incentive, Idaho's

gold production mounted to 150,000 ounces in 1941, the highest level in 70 years.

Present Government policy, it seems to us, is based on the same discredited premise that the gold foundation of the Nation's monetary system has not been seriously undermined and eroded by the inflationary spiral that has persisted since the onset of World War II.

Past experience, coupled with the continuing current problem of declining gold reserves, would seem to dictate the necessity for a realistic reappraisal of our gold-based monetary policy before economic necessity forces the issue.

It is our sincere and firm conviction that the only effective solution to the problem is an upward adjustment of the monetary price of gold to a level that is commensurate with the inflated level of our national economy.

I realize the consideration of such action is not within the province of this committee. I mention it in passing, however, as the primary basis for the Idaho Mining Association's endorsement and support of Senate Joint Resolution 44.

We believe the incentive payments for newly mined domestic gold which this resolution would authorize would greatly stimulate domestic production. The effect would be not only an easing of the tightening supply pinch, but also a reactivation of many idle gold properties with attendant employment opportunities and generally increased economic activity.

According to a recent survey of Idaho's gold mining potential, incentive payments of \$35 an ounce could increase the State's annual production to 180,000 ounces annually and the industry would provide about 1,600 jobs.

I don't think it has been done on a national basis, but I do have here and I would like to introduce into the record a study made in Idaho by a very eminent consulting mining engineer who has spent many years in the gold mining fields. He has served at the University of Idaho. He has reviewed each of the areas not so much as to what would be produced from new discoveries, but from previously operated reserves.

He makes an honest appraisal. He points to the ones that he will produce. He comes up with the figure that as compared with 5,000 ounces last year, they could produce 180,000 ounces, which is not an increase of double as implied by the Interior Department's statement, but an increase of 35-fold.

He further estimates if the price was increased to \$100 an ounce, the forthcoming gold production would be in the range of 360,000 ounces annually with 3,000 people employed.

If the Senator has no objection, I would like to offer this for the record.

Senator CARROLL. Without objection, it will be placed in the record. (The survey referred to follows:)

[Boise, Idaho, Jan. 3, 1962]

MINING ENGINEER SEES ECONOMY UPSURGE WITH REVISED GOLD PRICE

IDAHO SURVEY SHOWS MANY POSSIBILITIES—PRICE OF \$100 OUNCE SEEN REQUIREMENT TO REESTABLISH WORK

Gold mining in Idaho, now a near-vanished industry, could be built into a thriving segment of the State's economy if the pegged price of the precious metal could be doubled or increased to \$100.

This conclusion was drawn by Ernest Oberbillig, a Boise consulting mining engineer, following a study of gold mining in the Gem State since 1861.

Oberbillig noted, also, that the future of gold mining, even where the price increased, depends on several other problems, including wilderness area legislation, "which would lock up a large part of Idaho's potential new gold districts," dredge laws, and freight rates.

ONCE ECONOMY MAINSTAY

In a paper entitled, "A Century of Idaho Gold Mining," Oberbillig said that gold, "initially the mainstay of our pioneer economy has now diminished almost to the vanishing point."

Oberbillig listed three periods of gold production in Idaho. First was what he called "Idaho's Golden Decade" from 1861 to 1871 when gold production ranged from 120,000 ounces to 600,000 ounces a year. The second period was from 1872 to 1942, during which period, production ranged from a low of about 20,000 ounces in 1926 to a high of about 150,000 ounces in 1941. The third period is from 1943 to 1960, during which time production sank to as low as slightly more than 5,000 ounces in 1960.

Oberbillig estimated the gold production in Idaho during the "Golden Decade" as 4,105,000 ounces. Actual production from 1872 to 1942 was 5,131,704 ounces and from 1943 to 1960, it was 570,727 ounces.

THIRD OF A BILLION MINED

The total gold yield in the last 100 years, therefore, totals 9,807,431 ounces. Its value at the present gold price of \$35 an ounce is \$343,260.085.

Oberbillig noted that the 1861-71 period was one of discovery and "cream-skimming," with production mostly from placer gold. Quartz mining came into importance in the 1872-1942 period, along with hydraulic methods and finally dredges. He said the "general improvement in milling machines continued until, by the advent of World War II, 90 percent recovery of gold was common."

"The curtain was dropped with a bang on this scene by the gold closing order, L-208, on October 8, 1942," Oberbillig said.

The last period, 1943-60, includes the years in which the closing order was in effect and the higher cost of operation virtually choked off the exploration for gold.

Oberbillig continues in his report:

"One of the greatest events of this past century of gold mining in Idaho was the 1933-34 increase in the price of gold. An April 1933 Presidential order took this country off the gold standard price of \$20.67 per ounce, and the price finally fixed by Congress, January 29, 1934, was \$35.

HELPED PRODUCTION

"This latter price in relative value of gold was one of the most important factors contributing to the production increase from 1932 to 1941.

"Considering the possibility that gold may be forced upward in dollar value (as it was in 1933-34), or a production bonus paid, the question now is: How much gold could we expect from Idaho, and where would it be mined?

"To answer this question, we will follow the advice of the oldtime miner: To find gold now, go where you found it once and look again. To predict the possibility of future gold production, we will analyze the last good years—1940 and 1941.

"The total yield for Idaho's 12 'gold' counties in 1940 was 146,480 ounces and 149,816 ounces in 1941. The counties are Blaine, Boise, Clearwater, Custer, Elmore, Gem, Idaho, Latah, Lemhi, Owyhee, Shoshone, and Valley. Top produce, were Idaho with 37,016, Elmore with 28,505, Boise with 23,438, Custer with 12,803, and Valley with 10,346 in 1941.

OTHER METALS INVOLVED

"Taken up individually these counties are:

"(1) Blaine County: Lode gold from this county depends largely on the operation of the lead-zinc ores of the Warm Springs District on Wood River. Without this, the lode gold would be derived chiefly from the 'Hailey Gold Belt' or Camas district, and would be handled in small operations.

"(2) Boise County: This area, and in particular the Boise Basin, has accounted for the largest gold production of the State since 1860.

"Three dredges in 1940 accounted for nearly 90 percent of that county's production by washing 4,277,746 cubic yards of gravel to recover 21,407 ounces.

"It is understood that this dredge cleanup of the basin, extending into the late 1940's, was planned to be the final washing. But test work now reveals that rims, gulches, and undredged strips remain with potential values as large as the amount of gold recovered in the last dredging. Furthermore, the last dredging was hasty, with washing and concentrating equipment overloaded. So probably as much gold was washed over the jigs as was saved. Apparently the 'sleeper' here is that monazite and other rare metals would now 'pay the freight' on another basin dredge operation, so, the gold values, or a large part of them, may be the added incentive to rework the basin again. The resulting possible gold output might nearly reach the 1941 level.

"SEEN AS ACCESSORY

"This circumstance of rare metal sands being the primary future value, with accessory gold values assisting the proposed dredging, may be the controlling factor in other operations—both in other Idaho placer belts, and in other States.

"(3) Clearwater County: This area yielded placer gold at the old historic camp of Pierce in 1941 and could be expected to come back with higher gold prices. Another placer of probable commercial value is located on Musselshell Creek. This area could yield significant quantities of gold and monazite and other placer sand minerals. It would be reasonable to predict 7,500 ounces annual output for this county.

"Quartz operations here are not likely to yield much.

"(4) Custer County: The Yankee Fork district accounted for the largest part of the gold production from this county in 1941. But developed reserves of lode gold ore here now are limited, and the placer ground appears to be nearly exhausted. A well-mineralized belt, such as the Yankee Fork-Estes Mountain area, can be expected to include more gold lodes yet to be discovered.

"The Empire Copper Co. operations at Mackay could be revived and contribute substantial gold production along with Copper Basin.

"ELMORE HAS ORE

"(5) Elmore County: During 1941 the Talache operation of the Atlanta lode, with its 23,027 ounces production, was the chief gold operation of the State. While the lode was reasonably well explored and worked during the last campaign, it is understood that substantial reserves of ore remain. These will not pay to work at \$35 gold but a \$70 price would make them workable.

"A further heretofore practically unworked reserve in this camp is the auxiliary veins in Quartz Gulch and the Yuba River mines.

"Rocky Bar mines can and will come back with a higher gold price.

"The south fork of the Boise River has in the past sustained a dredge operation and can be expected to do so again.

"(6) Gem County: The Pearl gold district in this county has been the scene of persistent efforts by the Gem State Consolidated Mines, which company has a modern 40-ton-per-day flotation-jig mill. Lack of development work has retarded this operation, but the three veins here could, after adequate development, feed their mill to capacity and yield 8,000 to 10,000 ounces per year.

"MILLS AVAILABLE

"Also the Estel family have built a 60-ton mill below the Gem State, so adequate milling facilities now exists in this gold camp.

"(7) Idaho County: Idaho County, with its aggregate of operations both lode and placer over an extensive well-mineralized area, accounted for 37,016 ounces of fine gold in 1941. Districts responsible for this splendid output were Marshall Lake, Elk City, Florence, Orogrande, Golden, Warren, and Buffalo Hump.

"These districts and camps will be described in the order given above.

"Marshall Lake district: This gold camp includes the Golden Anchor Mine, which was the No. 6 producer of the State for 1941 with 6,111 ounces. Replacement of a milling plant and 3 or 4 months underground rehabilitation would place the Anchor back in the producer list. The vein here is about 4 feet wide with ounce rock. The only unfavorable mining condition is that it is a 'wet'

mine, with fairly heavy ground in places. Another property here, which is expected to swing into production, is the Dr. Gerber Mine, located below the Anchor on Bear Creek. The Good-Enough and Sherman-Howe could, under a careful development campaign, open up into producers.

"MEETS BASIN PROSPECT

"Elk City: This area could also fall into the same future pattern predicted for Boise Basin; monazite and other heavy sand minerals would contribute the larger part of future dredge income, with gold playing a lesser but still essential part in the operation. Placer gold output from this district, under such a future program, is anticipated to reach nearly to prewar totals.

"Florence Basin: This area has the distinction of having the only operating gold dredge in Idaho at this time.

"The *Mickey Mouse* Warren dredge was moved to the basin and set up last summer; a few weeks' operation was logged late in the fall. Florence Basin was one of the first 'Gold Rush' days placer camps, and it contributed bountifully for the first few years of the 1860's. Never before has this area been worked with modern equipment, and if their present plans materialize, the Idaho Mining & Milling Co., will add two other boats to this No. 1 unit. Some 10,000 ounces or more per season could result from this unified expansion.

"RECENT WORK LISTED

"Orogrande: This belt has been worked recently by dredging (1952-55) and covers in addition the Penman Mine, a good 1941 producer. The Oregrande Frisco open pit appears to provide an abundance of low-grade ore, and it may again be productive with higher gold prices.

"Golden: (Ten Mile and Fall Creek) At Golden and Fall Creek there are several possible future gold producers in the 'lode' type of operation. Notable among these is the Center Star Mines where underground and mill rehabilitation work has been progressing quite well. This property is ready to handle 75 tons per day of 0.3 to 0.4 ounce ore. Other old producers here, such as the Lone Pine, New York and Wonder mine, could be reopened on short notice and contribute some bullion.

"Warren: There is certainly a parallel here with the Boise basin, where more gold is yet to come from more careful dredging with new boats designed efficiently to save the fine gold and 'sand' minerals.

"Buffalo Hump: This area, notable because of the 'rush' and activity in the early years of this century, requires a complete appraisal and examination with probable development work before any predictions could be offered for its future.

LESSER AREAS LISTED

"Lesser areas and camps should be mentioned: Newsome, Salmon River bars, Dixie, French Creek, Snowshoe, Lucille and Snake River. All of these have produced gold—some quite a pile—and could repeat the performance.

"(8) Latah County (Palouse River): The Northwest Gold Fields operated a dredge in 1940 and 1941 on the Palouse River above Harvard, and were No. 7 for Idaho producers for 1941. It is believed this operation 'cleaned up' here and left only small unworked gulches and corners. Production anticipated from this area will be small.

"(9) Lemhi County: Placer gold in 1941 nearly equaled lode gold; and the total of both was nearly 9,000 ounces from this highly mineralized county.

"Apart from the Leesburg placers on Napias Creek, no large auriferous gravel areas have come to light. The next largest placers of this county are in the Kirtley Creek district, where both Kirtley Creek and Bohannon Creek have been intensively worked.

"Future Lemhi County gold production probably will come mainly from the lodes and not the placers. The Mineral Hill district and principally the Grunter Mine produced 2,893 ounces in 1941.

"There are four mines in this north trending belt: Starting from the south side of the Salmon River, they are Pine Creek, Grunter, Kentuck, and Monolith mines. This gold belt at Shoup will merit critical examination. Post-World War II work on the Monolith mine developed substantial reserves and erected a mill capable of treating 60 tons per 24 hours.

APPRAISAL SUGGESTED

"Other lode deposits worthy of close appraisal for future gold operations in this county are in the Gilmore area, Blackbird Creek, Yellow Jacket, Leesburg, and Gibbonsville districts.

"(10) Owyhee County: In 1941 this county showed 5,099 ounces of lode gold, most of which came from milling old tailings. This was essentially a scavenging operation.

"Both the lode and placer gold potential of the Silver City-Delamar area, in this writer's opinion, is limited for two reasons: The lode gold veins are narrow and have been relatively low grade, and the placer ground has been essentially washed.

"However, an interesting detritus type of hillside placer has been worked in the Silver City area, and it could 'blossom out' again with higher gold prices. Furthermore, the area is intensely mineralized and could have several undiscovered, highly-productive lodes.

PRODUCE GOLD NOW

"(11) Shoshone County: Here the industry may be expected to continue to show gold production of more than 2,000 ounces annually as a byproduct to the lead-zinc-silver ores. The Beaver district could again be active, both as a placer and lode camp.

"The Murray-Pritchard area north of the Coeur d'Alene district has produced about 300,000 ounces of gold since 1884. Most of this production came from placers. Reworking of parts of these placers and even reopening some of the quartz mines here would probably follow a rise in gold price.

"(12) Valley County: The Bradley lease of the United Mercury Mines Co. properties at Stibnite was listed as the No. 3 gold producer in 1941 when 9,230 ounces were produced. However, this was a decrease from the last normal 400-ton-per-day operations in 1940 when 12,402 ounces was the listed output. In August 1941 the gold mill was converted to a tungsten plant, with minor emphasis placed on the gold circuit. Because of the above-described 1940 gold operation performance, some mining predictions were made that, with normal resumption of gold mining after World War II, a 1,500 to 1,800-ton daily operation here would yield 40,000 to 60,000 ounces per annum * * *

"Upper Big Creek and Logan Creek include several large mineralized shear zones—any one of which could develop into a 1,000-ton-per-day operation and yield 30,000 ounces annually.

VALLEY COUNTY REPORTED

"Gold placers in Valley County are mainly limited to Smith Creek and Upper Big Creek. Undoubtedly, Smith Creek will be operated, but the Big Creek placers are considered more speculative.

"The Ramey Ridge section of Big Creek includes some very likely narrow quartz veins, and probable production may be expected here.

"The Pistol Creek area has some notably lengthy, but narrow, quartz veins which persist in gold throughout. Development of these quartz veins could create several small steady operations.

"Along the Johnson Creek fault for a distance of 10 miles south of Yellow Pine, the antimony ores carry gold values, and the silicified zone in the vicinity of the recent large tungsten strike on Golden Gate Hill also carries low but notable gold values.

"If the gold price does not rise above its present level, and cost of mining does not come down, Idaho gold production will probably level off at 8,000 to 10,000 ounces annually, except for possible Florence Basin gold and small, scattered holdouts.

PRICE COMPARED

Oberbillig prepared a table to show that if the price of gold were increased to \$70 an ounce, Idaho's yearly production could be expected to increase to 179,000 ounces and the industry would employ 1,600 men. If the price were increased to \$100 an ounce, he estimated the yearly production would increase to 359,500 ounces and 3,000 men would be employed.

"When considering the future of gold mining in this State, several problems of tomorrow's mining flashes through one's mind:

"(1) Wilderness area legislation restricts and 'locks up' a large part of Idaho's potential new gold districts. The areas involved in this legislation embrace geological structures known to be mineral bearing; development of these areas has awaited the building of roads which were continually promised.

"(2) Dredge laws enacted by the State legislature must be rewritten in the light of permitting reasonable dredging without harrassment by fish and game officials and the rest of the 'wildlifers.'

"(3) Freight rate advances and smelter cost increases have nearly prohibited the shipment of gold concentrates to a smelter. Future emphasis must be on concentrate treatment methods to reduce the gold to bullion at the mill.

"(4) The dredge for tomorrow will be built with careful design to provide for adequate screen capacity and jig-bed area to save more of the fine gold and 'Black sand' minerals.

"(5) Narrow-vein quartz lode mines must be worked more efficiently and better mechanized than in the past, because we no longer have good miners experienced in this type of operation.

"(6) The chief interest for future lode gold mines will be for the large, low-grade ore bodies which can be worked by the open pit system to employ efficiently the advanced equipment now available."

Mr. TESKE. To continue with my testimony, we would prefer that the amount of the incentive payment be set specifically by statute rather than left to the discretion of executive authority, as the resolution under consideration provides.

It seems to us that much of the incentive to resume production would be lost if the program is subject to the uncertainties of executive determination.

We earnestly recommend that you consider an amendment to eliminate this uncertainty.

The need for prompt and effective action to stimulate a revival of our gold-producing industry is urgent and, we believe, essential to the continued stability of the dollar in world markets.

Thank you for this opportunity to appear here today and express the views of Idaho's mining industry.

Senator CARROLL. Thank you for a fine statement.

I have one question. You say that according to a recent survey of Idaho's gold mining potential, incentive payments of \$35 an ounce could increase the State's annual production to 180,000 ounces annually, and the industry would provide about 1,600 jobs. My question is over what period of time would this take place?

Mr. TESKE. The source of that material was the item introduced into the record. The author did not enter a time element in his study, but I would assume it would be within a few years because these are not deposits that have to be discovered. These are deposits of gold that were left because they were no longer economic to operate. They were simply abandoned. They are known to exist.

Senator CARROLL. Basically Idaho is a silver producing State?

Mr. TESKE. Yes, sir; we are the Nation's leading producer.

Senator CARROLL. Have you had some gold mining in the area?

Mr. TESKE. Yes, in the old days it was the gold mining that started the State of Idaho. We were a leading producer in the early seventies and eighties and into this century. Since then it dropped off and our highest production was 150,000 ounces in 1941, under the incentive of the price raise of 1933.

Senator CARROLL. Thank you very much.

Were you leaning forward to make some observation on this testimony? I saw you lean forward as if you wanted to comment.

Mr. HARDY. At one time you said how long would that take to bring about that production and it occurred to me that the time element was one of season and one of rehabilitating and opening an operation. I would say it would take a minimum of a year to achieve any substantial increase and from 2 to 3 years after the beginning to bring about the total increase he was talking about because of the problems in opening, rehabilitating, starting operations and getting things going, not the least problem of which would be getting the experienced miners back on the job. They have been dissipated all over the country.

Senator CARROLL. Thank you, gentlemen, you have been very, very constructive. We appreciate your coming this distance to talk to us.

We will now go back to Mr. Williams of Alaska and Mr. Crowdy of Alaska.

Do you gentlemen want to be seated together.

Gentlemen, the time is dwindling. I am not trying to prevent you from making a full presentation. Mr. Williams, I see, does not have a lengthy statement. Mr. Williams, would you like to proceed first?

**STATEMENT OF JAMES A. WILLIAMS, DIRECTOR, DIVISION OF
MINES AND MINERALS, DEPARTMENT OF NATURAL RESOURCES,
STATE OF ALASKA**

Mr. WILLIAMS. Mr. Chairman, I would like to read my statement. I believe I can do it in 6 or 7 minutes. I have a few comments which I will make here as I go through it, as a result of earlier testimony.

My name is James A. Williams. I am the director of the division of mines and minerals, Department of Natural Resources, State of Alaska. I am a registered professional mining engineer, and also presently chairman of the Western Governors Mining Advisory Council, an advisory body on mining matters to the Governors of the 13 Western States. I have been directly connected with mining in Alaska since 1939 except for a period of military service. I speak today for the administration of the State of Alaska.

We urge passage of Senate Joint Resolution 44. A \$35-per-ounce subsidy to the gold miner will increase production, provide a stimulus to exploration and discovery of new ore deposits, and create an economic boost for the mining States, particularly Alaska. The subsidy will increase Alaskan gold production after 1963 by an estimated 150,000 ounces per year.

I speak mostly in ounces, Mr. Chairman, to minimize the possible confusion since we are talking about gold under two possible prices.

Mr. Crowdy, who will follow me, is an experienced Alaskan operator and differs with my estimate of how much we will produce. I will continue here.

There is no point in repeating in detail here the well-known story of shutdown mines and lost gold reserves resulting from increased costs and the fixed price of gold. Suffice it to say that practically no industry could operate profitably today on prewar prices for its product. Plenty of gold deposits remain in Alaska, but production depends on profits. Production will increase with the price or with the subsidy.

A peak production year for both the United States—4,870,000 ounces—and Alaska—748,000 ounces—was 1940, with Alaska producing 15.3 percent of the Nation's total. Estimated production for 1961 was 1,526,000 and 114,000 ounces, respectively, showing Alaska to be presently producing only 7.5 percent of the Nation's total gold.

This would seem to indicate that Alaskan gold mining has been reduced more than that of the other States, but one should remember that 35 percent—in 1960—of the Nation's gold comes as a byproduct of base-metal mining.

This figure of 37 percent differs with Senator Dworshak's figure. He quoted 32 percent. But I did get the 37-percent figure out of the same source that you did.

Senator DWORSHAK. Is that from copper?

Mr. WILLIAMS. Yes, sir. I had occasion to recheck that just last night.

Senator DWORSHAK. It is 32 percent on page 512 of the Minerals Yearbook.

Mr. WILLIAMS. Perhaps we can confer on that a little bit later.

Alaska's production is presently all from placer operations. Alaska produces more gold from mines that are primarily for gold than any other State except South Dakota, where production is practically all from one underground producer. With its small amount of basic industry, Alaska has the most to gain—will receive the largest boost—percentage-wise, in its economy, from a gold subsidy.

A \$35 subsidy will probably result in a doubling of the present annual production. This business of production being doubled has been kicked around considerably today. I would like to assure the committee that I did not come up with this estimate of double production just merely by the fact that the \$35 subsidy would double the price. We went into this in considerable detail on the operations which we thought would continue, the number of new operations which we thought would start. We calculated from the average value of the ground mine during the last few years and figured what could be mined under present mining cost with the new value that the ground would assume with a subsidy.

We also went into the matter of productivity in dollars per worker and what it would be at a new price.

So we did go into this considerably. Other witnesses have testified that it will be a great deal more than that and I believe Mr. Crowley will so testify. If my low estimate turns out to be wrong, I will be quite happy to be wrong on the matter.

This will mean a production of more than 200,000 ounces per year in Alaska. The greatest effects will be in the numerous small placer operations that will start almost immediately, and in the surge in prospecting and exploration that should result in new discoveries.

The importance of new discoveries should not be overlooked. New base metal ore bodies will be discovered as well as gold.

As noted above, base metal operations produce substantial amounts of gold. Further developments will also be seen in offshore mining. A sudden interest in offshore gold mining in Alaska has resulted in the filing for many offshore prospecting permits. The subsidy will help these expensive ventures.

This is a brandnew development. A number of applications for off-shore work have been filed in Alaska.

The 5-year limit imposed by Senate Joint Resolution 44 may deter larger operations from making a start. The subsidy will keep the large dredges at Nome in operation, but probably not the dredging operations in the Fairbanks district, which have been the greatest producers in the past.

A few of the idle lode mines in the Willow Creek district which need the least development work will probably start, and it may make the difference in whether a developing lode prospect in the Chandalar is successful in becoming a producer. Under the present circumstances and price, production in Alaska will decline to less than 45,000 ounces after 1963. Hence, a \$35 subsidy will make a difference of at least 150,000 ounces per year in Alaskan production.

Of course, dollarwise if we go down under the present circumstances to 45,000 ounces, that is worth a million and a half dollars at the old price. With the subsidy, 200,000 ounces, it will be worth 14 million. So it will make a dollar difference in our production after 1963 from $1\frac{1}{2}$ to 14 million.

Although the Fairbanks district dredges will probably not be continued by the U.S.S.R. & M. Co. under even a \$35 subsidy, it is assumed that these and others will be available for new ventures which may be started. This will reduce the capital outlay necessary for at least some of the probable new operations.

However, a labor/value ratio study of 1958 census data indicates that the capital expenditures in Alaskan gold mining are higher per man-hour, and the value of shipments lower, than in gold mining in the other States. This will, of course, remain true after the incentive bonus is added, and so will not attract industry as much as might be expected. Even doubling the value per labor unit will not place the industry substantially above other Alaskan mining industries and will leave it substantially below other mining in the United States.

We estimate the increase in employment will be from the 1961 level of 790 workers (including prospectors) to more than 1,500 workers. Thus the impact within the industry will be a doubling of present production, with a quadrupling of its dollar value, plus a doubling of the working force.

When we say present production we are talking about 1961 production and not 1963 production as I mentioned a while ago.

Outside of the industry, the existence of a healthier gold economy would cause benefits to other industries such as increased volume of transportation, local sales, et cetera, and economies in operations for all industry.

Aside from the directly attributable benefits of increased demand for local services and supplies, there will be other broader benefits. In almost every case, gold mining has taken place in areas of the State which are currently suffering from chronic and serious unemployment problems.

On the one hand, this may mean that the impact of the subsidy will not be to increase the State's population through an increase in the employed workforce, but it should mean a significant drop in the social costs of unemployment benefits and welfare payments.

Employment opportunities beyond those afforded directly in gold mining would be increased. If 800 new jobs are created in mining through the bonus, it could conservatively be expected that other new jobs would be created in service and supply activities. Together these jobs will have a significant impact in aiding Alaska's present efforts toward area redevelopment.

To summarize: With the indications that the effect on Senate Joint Resolution 44 will double Alaskan gold production, it is reasonable to assume the Nation's production will also be doubled. This will accomplish the desired results of strengthening the gold-mining industry and improving the position of the U.S. gold reserves.

Thank you.

Senator GRUENING (presiding). Thank you very much, Mr. Williams, for an excellent statement. I have one or two questions I would like to ask you.

If you were amending this bill to make it more workable from the standpoint of the Alaska gold-mining industry, you would remove the 5-year limit, would you not?

Mr. WILLIAMS. Yes, Senator, I would.

Senator GRUENING. I believe that it would be wise policy for us to increase steadily our gold reserve, that the 5-year limit should not be applied and that we have no limit fixed in the legislation. I wish you would tell me why you consider the dredging operation in Nome would continue but the dredging operations in Fairbanks would not. Is it the difference in the quality of the ground?

Mr. WILLIAMS. Not in the quality of the ground, Senator, but in the ease with which it can be dredged. In Nome, there is no stripping of muck required as in the Fairbanks area. The Fairbanks area deposits are buried beneath a steep layer of frozen mud which the Nome deposits do not have. There are more thawing problems in the Fairbanks area than in the Nome area. The Fairbanks mining is more expensive.

Senator GRUENING. If the objective of this legislation is to be achieved, or if it becomes national policy to increase our reserves of gold, then in order to get the maximum amount in Alaska and to have the dredging operation in the Fairbanks area, which were the greatest producers in the past, would we not need a larger subsidy than \$35?

Mr. WILLIAMS. Yes.

Senator GRUENING. Could you make a guess or rough estimate as to what would be the minimum subsidy that would produce the maximum of gold extraction? Would \$50 make a difference between Fairbanks and Nome or would it have to be \$60 or \$70?

Mr. WILLIAMS. I think it would have to be at least \$60 or \$70. I tried hard to contact Mr. Crawford, of the U.S.S.R. & M., to ask him the specific question but he was out of touch visiting with relatives and on such short notice we could not make this contact.

Senator GRUENING. You assume on the basis of your calculations that this \$35 subsidy would about double the production of gold, and then you deduce from that it would be the same for the Nation. Is that not likely to be more in the rest of the Nation where the cost of operation is lower than in Alaska?

Mr. WILLIAMS. Very likely it would be.

Senator GRUENING. Of course, I realize that these estimates are somewhat conjectural and cannot be absolutely accurate.

Senator CARROLL. I want to commend Mr. Williams for an excellent statement because he has broadened the scope and horizon of the benefits that can come from reactivating the gold-mining industries. These benefits would flow through the channels of trade and all through the community. It has been an excellent statement.

Senator GRUENING. Thank you very much, Mr. Williams.

Mr. WILLIAMS. I might make one comment. The question has been asked a couple of times, Senator, about whether a survey had ever been made as to existing reserves or amounts of gold. I remember several years back that the U.S. Geological Survey, and possibly the U.S. Bureau of Mines working with them, was making a survey of gold reserves in Alaska and I understood at that time that was a national project. I have never seen anything published on it.

Senator HICKEY. That was my question. You say that such a study has been made.

Mr. WILLIAMS. I am saying, Senator, that several years ago I remember a geologist of the U.S. Geological Survey making a survey of gold reserves in Alaska and I understood at the time that was part of a national project.

I believe, but I do not know, that the Bureau of Mines was assisting in this. I do not know if the results were ever published. This is something that you could undoubtedly find out from the Department of the Interior.

Senator HICKEY. Mr. Chairman, could we make a request from the Department, and, if there is such a publication, I would like to make it a part of this record.

Senator CARROLL. There is no reason why that should not be done. I ask that this be called to the attention of the Department.

Mr. WILLIAMS. What I should like to say about this survey if it is available is that it would show only known reserves of the better known properties or mining operations. It would not show the reserves of properties that have not been developed or that have not yet been discovered. Part of my statement here on the effects of the subsidy is that it will greatly stimulate prospecting and exploration which will bring more reserves to light.

Senator HICKEY. Exploration and development?

Mr. WILLIAMS. Yes, sir.

Senator GRUENING. Thank you very much.

Mr. WILLIAMS. Thank you, sir.

Senator GRUENING. Mr. Crowdy, we are very happy to have you here. It is very nice of you to come down for this hearing. I wish you would proceed with your statement and then be prepared to answer a few questions.

STATEMENT OF JAMES K. CROWDY, PRESIDENT, NEW YORK-ALASKA GOLD DREDGING CORP. OF NYAC, ALASKA

Mr. CROWDY. Thank you, Senator Gruening.

Mr. Chairman, I am James K. Crowdy, president of the New York-Alaska Gold Dredging Corp., at Nyac, Alaska. Our corporation has been mining in Alaska continuously since 1926 and I, personally, have been in active charge of the operation for the past 35 years.

We maintain a company town of about 100 people with all the necessary facilities. Actually, we have employees who have been with us for 20 or 30 years.

The gold holdings of the United States are suffering a constant erosion and these losses are cause for deep concern to everybody. Various means have been taken to halt the outflow and while the drain has been slowed, it certainly has not stopped nor will it be under present conditions.

One obvious loss, about which nothing has been done, is the sale of Treasury gold stocks for use in industries, arts and professions. These sales have since the war consistently exceeded our gross national gold production. In fact, the total annual sales have been generally increasing while production has been steadily decreasing from year to year.

I have a table here that breaks down the prewar period, the World War II period and the postwar period, covering U.S. gold production up to 1954, and showing the sales from the Treasury, plus the private smelter sales. It is very interesting to note in this connection that from the time that the price of gold was increased to \$35 an ounce in 1934 to the outbreak of the war in 1940, U.S. production was \$929,718,000, but the total sales to the industries, arts and professions out of that \$929 million only amounted to \$2,955,000.

Now we come to the war period from 1940 to 1945, inclusive. The U.S. gold production at that time, in spite of the L-208 cutback, but principally due to the 1940 and 1941 production prior to the L-208 cutback, the gold production amounted to 667,344,000. The total sales to arts and industries during that period rose to \$241 million.

During the postwar period from 1946 to 1954, and I am cutting off at that point because it is on this particular chart, we produced \$613,800,000 U.S. gold, and the sales from the Treasury plus the private smelter sales amounted to \$770,282,000. In other words, just during that one period we have sold more to arts and industries than we have produced from our gross national product. Now I will proceed with my statement. U.S. gold mines cannot continue to operate in the face of a 1934 price for their product and 1962 costs. Actually, using a 1939 base, one ounce is now only worth about \$15. A house which now takes 900 ounces of gold to purchase used to be bought for 285 ounces in 1939. It now takes 100 ounces of gold to buy one of the so-called low price cars, when in 1939 the same brand could be purchased for 30 ounces.

There is a way, however, in which we can slow down the rate of loss and increase our own buying power at the same time. That is by paying a bonus to producers of newly-mined domestic gold. Such a bonus would not have any effect on our international accounts, as gold would for official purposes be priced at \$35.

To properly stimulate the industry, the bonus should be sufficiently large to bring the purchasing power of the producers' dollar (derived from sales at the bonus price) to a point where it bears some relationship to the 1939 ratio. The bonus should also be for a sufficiently long period to encourage investment in new mines and give a reasonable hope of return.

The incentive to producers would be immediate and effective and within a few years domestic production should again equal the 1940

figure of 6 million ounces at \$35 or \$210 million. There would be an added benefit to base metal and other mines producing gold as a by-product. The gold content at a higher price would help absorb some of the high costs and low market prices currently prevailing for lead, zinc, et cetera.

The production of one additional ounce of gold leads to an increase of about \$231 (6.6 times \$35) in the money supply. The direct effect of the new gold production is to increase bank reserves by the same amount as the value of the gold, i.e., \$35 per ounce. Since the procedure used by the Treasury to purchase gold will create a new demand deposit of \$35 per ounce for the gold mined, this is a net addition of reserves to the banking system. With new reserves, the banks are then able to create additional money through the multiple expansion of loans and demand deposits. The multiplier 6.6 expresses the present relationship between the actual reserves now held by commercial banks and demand deposits, indicating the volume of expansion that has taken place with existing reserves. When new money is thus created with the proper gold backing, this is not inflation.

It is entirely possible that annual production would eventually reach as much as 7,140,000 ounces at \$35, or \$250 million. If we were assured of a constant domestic production of \$250 million, or \$1 billion every 4 years, this in itself would largely offset the international drain on our gold and would mean an increase in our adequately backed money supply of \$1,650 million every year, using the 6.6 factor.

When gold was pegged at \$35 in 1934, it took about 6 years for annual production to increase from \$108 million to \$210 million. Today's modern methods and machines would shorten this development time considerably. It is always possible but probably unlikely that many small easily worked and high grade deposits are left; but certainly there are numerous areas that can be developed for large scale mechanized mining where the values are of a lower grade, but which a suitable bonus incentive payment would make practical to operate.

We have, therefore, two steps that can be taken. First, prohibit the sale of gold from Treasury stocks to the industries, arts, and professions for less than \$35 plus the bonus per ounce.

Second, pay a bonus to the domestic gold producers based on the number of ounces produced in each year.

In conclusion, why not utilize our own resources to the fullest extent and give employment to American workers?

Senator GRUENING. Thank you very much, Mr. Crowdy. That is an excellent statement.

I have a few questions that I would like to ask you. The previous witnesses have discussed principally the relationship of increased gold supplies to the reserve. You have brought in a very important new factor in your discussion of the use of gold in industries, arts, and professions. I think that is a very important factor.

Do you think that from that standpoint, if we leave out the question of reserve, which I think practically all of the witnesses are in agreement, should be built back up, that from the standpoint of arts and the industry a subsidy which would increase the production of

gold would be useful. I mean from the standpoint of industrial uses?

Mr. CROWDY. It would be useful in the sense, Senator, that it would force the arts and industries to buy gold from other sources other than U.S. domestic sources.

Senator GRUENING. Is that going on now? Are they buying from other sources?

Mr. CROWDY. I don't believe so.

Senator GRUENING. You think we are supplying enough for the domestic uses?

Mr. CROWDY. Actually, our domestic production is less than our sales for the arts and industries.

Senator GRUENING. In other words, they would have to buy from foreign sources at present.

Mr. CROWDY. At present, they are simply buying more from the Treasury than we are putting into the Treasury every year.

Senator GRUENING. They are taking this money from the Treasury?

Mr. CROWDY. That is correct.

Senator GRUENING. In other words, the lack of adequate production increases the drain on the Treasury. What you are pointing out is that our Nation's gold reserves are being diminished by domestic commercial and industrial users, is that correct?

Mr. CROWDY. That is correct.

Senator GRUENING. That would seem to me a very regrettable situation.

Mr. CROWDY, you have had some experience in mining in Canada?

Mr. CROWDY. Yes, sir.

Senator GRUENING. There has been reference made to the more generous and apparently wiser policy which the Canadians pursue on gold mining. I wish you would tell us what they do and what you feel about it.

Mr. CROWDY. Senator, that question was brought up particularly by Senator Miller. I think first of all I should say this: The Emergency Gold Mining Assistance Act in Canada is exactly what it says. It is an emergency assistance. It is no in any way an incentive bonus. It was designed primarily to keep existing mines in operation and to help them rather than to provide any incentive for new mines.

The top figure that is paid is in the neighborhood of \$12 an ounce. But the formula for arriving at that is that the cost over \$26 an ounce is two-thirds of the cost over \$26 per ounce production, and the bonus is paid on two-thirds of the production.

Let me make that a little bit clearer. If it costs \$36 an ounce to produce, they would be entitled to \$6.6 per ounce, and if they had produced 10,000 ounces on 6,666—

Senator CARROLL. If I may interrupt, what would that mean? Could you translate that in terms of the subsidy.

Mr. CROWDY. That would mean they would pay a bonus in this particular case of \$6.60 on 6,666 ounces. Although the total production would be 10,000 ounces. In other words, it is two-thirds of the difference in cost between \$26 and whatever the cost is, up to \$12 over that, on two-thirds of the production.

I have not worked that out as to what it actually works out to.

Senator CARROLL. Would that be greater or less than the proposed \$35 subsidy?

Mr. CROWDY. It would be far less. The average bonus paid to Canadian gold mines I do not think amounts to more than \$3 or \$4 an ounce. As I stated a minute ago, that is not an incentive bonus. It is a bonus as it simply states for the Emergency Gold Mining Assistance Act.

Senator CARROLL. What would this mean to the producer?

Mr. CROWDY. It would mean to the producer \$4 an ounce on the average.

Senator CARROLL. Do you think that would be adequate? Don't forget Canada has tax incentives and other things.

Mr. CROWDY. In addition to that it has a 3½-year tax-free period after you start operating. They do have a very generous program.

You can bring that machinery in from the States without any sales tax on it. They eliminated sales taxes on a lot of stuff like that. A bonus such as that would not do us in the gold mining industry any good. As I say, it is not an incentive. It is not sufficiently large.

Senator CARROLL. If you will permit me one or two more questions: Are you for this resolution or are you for your bonus formula?

Mr. CROWDY. I am very much for this resolution, sir.

Senator CARROLL. Do you think the bonus formula you have mentioned would not be adequate?

Mr. CROWDY. I was simply stating what the Canadian formula is at the request of Senator Gruening.

Senator CARROLL. I thought as I read your statement that you were talking in terms of a bonus that might be similar to parities that are in the farm program.

Mr. CROWDY. No, sir.

Senator GRUENING. What is the annual production of your Nyac operation?

Mr. CROWDY. Our Nyac is a very variable one. Prior to the last really good year that we had was in 1957 when we produced approximately \$700,000. That would be 20,000 ounces.

Our production now is down to probably 5,000 ounces. I have forgotten exactly what it was last year.

Senator GRUENING. Unless there is some relief for the steadily rising costs of everything, am I wrong in assuming that your company like many others will have to close down?

Mr. CROWDY. Yes, sir. This year we have three dredges which we operated for a long time. This year we are reduced down to using one dredge. Unless something is done by the end of this year we will be forced to close.

Senator GRUENING. So your 100 people will be thrown out of work?

Mr. CROWDY. That is correct.

Senator GRUENING. And their families will be left without employment and unless they can find other employment they will have to take unemployment compensation and when that runs out they face real hardship.

Mr. CROWDY. That is right.

Senator GRUENING. Which will be a drain on the State and the national resources for that reason.

Do you think that the \$35 is enough to stimulate a real increase in production?

Mr. CROWDY. I think that the \$35, if coupled with a longer period or a not-limited period would certainly be of great assistance. In our own particular case it would give us enough so that we would reactivate our other two dredges. In fact, we would probably put a fourth dredge in because we have a large area of low-grade ground available.

I don't know, as Mr. Williams pointed out, the U.S. Smelting Co. might not be able to get by with that much. I don't know just what their problem is other than the thawing and that sort of thing.

Thirty-five dollars, I would put it this way, would certainly appear to be a minimum. We happen to be fortunate enough to have a rather low costs in our operation comparatively speaking, due principally to the fact that we operate our own hydroelectric powerplant. So I think possibly our situation is better than most of the other mines in that respect.

Senator GRUENING. I take it that in addition to being a very competent mining man you have some knowledge of the economics of gold? You have heard the discussion that went on when I was questioning Senator Engle. Do you think that the view of the State Department that this would cause uncertainty if we increase the subsidy to the miners and therefore is undesirable, is a sound view?

Mr. CROWDY. Frankly, Senator, I can't see any basis for any thoughts along those lines at all. This is primarily to help the mining industry and at the same time to reduce the amount of our gold outflow. Granted we cannot reduce it as much as it is going out or as rapidly as it is going out, but at least we can slow it down to where we are strengthening our dollar rather than weakening it.

Senator GRUENING. Do you think something called world opinion would be unfavorably affected and for that reason we should not help out our mining industry? That seems to be the State Department view.

Mr. CROWDY. I don't see how it has anything to do with it at all. Canada has paid a form of a bonus over a period of years and it was certainly a good, long time that the Canadian dollar was much stronger than our own dollar.

Senator GRUENING. So you would dispose of the State Department's reasons for opposing this legislation by saying that there is no basis for it?

Mr. CROWDY. Absolutely.

Senator GRUENING. I share that view.

Now we come to the Treasury Department's views. The Treasury Department opposed the legislation on the ground that it would cause speculation. Do you think that is a sound assumption?

Mr. CROWDY. In what respect do you mean speculation?

Senator GRUENING. They don't say. They say it would tend to cause speculation.

Mr. CROWDY. Stamps do the same thing.

Senator GRUENING. Do you think that would be damaging to the national interest?

Mr. CROWDY. Certainly not.

Senator GRUENING. The Interior Department view is that this increase would not produce enough to make much difference. It would take 42 years to equal the present amount.

Mr. CROWDY. That one I disagree with entirely. They are assuming if you simply double the now greatly reduced production. I assume that we can after a suitable period of 3 or 4 or 5 years get ourselves back to the point where we were in 1940.

As I pointed out in our statement, it took us from 1934 to 1940 to increase our production from 108 million to 210 million. The stimulus for that increase in production came from an increase in gold price from \$20.67 to \$35 made in 1934. I think the same thing is going to happen this time. I think it will be accelerated because of more modern equipment. You can go around in a helicopter now where we used to go by dog team. You have a lot more modern, lighter, more easily transported tools for exploration purposes. You have magnetic methods of prospecting. You have all sorts of tools now that we did not have in the early days.

Therefore, I feel that it is perfectly logical to assume that we will at least get back to our 1940 level, which was the high point in production, and do it in a more or less reasonable time.

Therefore, any assumption that we are simply going to double the existing production today I think is wrong. If we get back to 200 million a year, it certainly is not going to take 42 years or 55 years or whatever it is to get back the losses we had. We should slow them down. If we continue to operate the way we have been doing in our present fiscal policy we are still probably going to keep on losing gold. But at least we will cut the loss down.

Senator GRUENING. I would not agree with the reasoning that because more or less was produced that would not justify not giving this incentive. Assuming it was only twice as much or less, I would consider incentive payments still desirable. I think I can sum up by saying that in your opinion and in the opinion of Senator Engle whom I consider to be perhaps the most knowledgeable person in the Congress on this subject, having dealt with it for many years, there is no validity in the presentations of the three departments that reported adversely.

Of course, the Bureau of the Budget has followed them. So I would assume that there has just been a decision on high in the Treasury Department that it does not want to subsidize gold mining and the other departments try to find some arguments to justify that decision.

That would be my conclusion. Would you agree with that?

Mr. CROWDY. Sir, it sounds reasonable. I don't certainly agree with the feelings of the three departments as an individual. I can't see it. As a private citizen it is a little different than being in the Government.

Senator GRUENING. Did not the gold miners of the United States suffer a handicap as contrasted to those in Canada due to the suspension of gold mining during the war which was not done in Canada?

Mr. CROWDY. Yes.

Senator GRUENING. So in the case of many small American operators they had to dispose of or sell their machinery and then if they wanted to resume after the war, prices had gone up and they had to repurchase that machinery. Did not some of that machinery go to the war effort?

Mr. CROWDY. I think most of it did. The tractors cost \$12,000 before the war and now \$40,000.

Senator GRUENING. Was your operation forced to shut down during the war?

Mr. CROWDY. We ran one small dredge part of the time because there were older people who lived in Nyac. We have employees who have been with us for a long time. We don't observe an age limit. As a result we were also looking for strategic minerals and they let us run one dredge on a very limited basis, the smallest one we had.

Senator GRUENING. Thank you very much.

Senator CARROLL. Thank you, gentlemen, we are indebted to you for coming here all the way from Alaska to help us in this matter. We know it is of importance to you. We value your advice, counsel, and testimony and we thank you very much.

Mr. CROWDY. Thank you for the opportunity.

Senator CARROLL. We have two more witnesses this afternoon. Then, after Mr. Martin, we will have Mr. Croseclose, who is an economic and financial consultant from Washington.

Mr. Martin, will you identify yourself?

**STATEMENT OF TOM MARTIN, SILVER MINE OPERATOR,
MONTEZUMA, COLO.**

Mr. MARTIN. I am Tom Martin, Montezuma, Colo. I am a silver mine operator. Montezuma is a town that once was 10,000 people in a surrounding area of about 15 square miles of 50,000 people, all engaged in mining. Our particular operation is at an altitude of 10,500 feet.

Most of these are high-altitude operations. Our silver is mainly derived from byproducts of lead and zinc, which is traditional in this area. The lead and zinc market, as you know, has been very bad.

Senator CARROLL. Would this new subsidy bill help you if it became activated?

Mr. MARTIN. No, sir, as it was originally intended, I am sure it was. But after the various elements started picking the bill apart—and that is why I would hate to see it happen to any legislation that was passed here—they took the meat out of it to a place where they gave us something or made it look like they gave us something but when it came right to the thing, it has not opened any mines. That was the solution we were trying to accomplish by this.

Senator CARROLL. Has it helped mines which were already opened?

Mr. MARTIN. It has not and will not help me.

Senator CARROLL. What is the name of your mine?

Mr. MARTIN. Burke Martin mines.

Senator CARROLL. Are you in operation now?

Mr. MARTIN. Just a little exploration in the summertime, but in 1956 and 1957 when we finalized our operation we hired 50 men. In our valley there, there were probably another 100 exploring. These mines are traditional in our family. Our granduncle came out here in the eighties and staked out the claims and made them pay, up until the silver panic. He held onto the land and we paid taxes on this area continuously ever since.

Several things have been brought out, and I won't cover them.

Senator CARROLL. Do you have any gold as a byproduct of these mines?

Mr. MARTIN. Not enough to get paid for. We are always hoping. You know gold is where you find it.

Senator CARROLL. Is your principal interest in silver?

Mr. MARTIN. Yes.

Senator CARROLL. Did you hear the discussion today with Mr. Hardy?

Mr. MARTIN. Yes; I did.

Senator CARROLL. What is your opinion of that discussion?

Mr. MARTIN. I think he covered it very well. I did talk to a gentleman in the Treasury Department within the last few days and they take the position—of course, they will tell you their position—that they have enough silver on hand for coinage for 30 years.

Mr. Hardy, of course, contends that this is not their silver. This belongs to the people.

Senator CARROLL. They said they have enough for 30 years.

Mr. MARTIN. Yes.

Senator CARROLL. This silver backs the silver certificates.

Mr. MARTIN. That's right. I think we are going to be dealing in two classes of silver and somebody should clarify this from the Treasury Department. As far as the Interior Department and their 42 years, I think this is a nebulous projection that should go down with the 43 beans in the cup of coffee. This is something that you don't know.

You heard Merrill Shoup, one of our greatest mining men of the West, testify on what they had done and how much they had progressed over the years, but we here today are too easy to forget the traditions and heritage of the past. The mine that he is talking about here, you and I know from Colorado history, was found by a cowboy in an area where there wasn't even supposed to be any gold. The geologists claimed it could not be there. So gold is—like the old adage—where you find it. How much of it, you can't say whether it is 42 years or 43 years or anything else. If you pay these boys the incentive bonus that they want, they will produce it. They are waiting for something to do, the ones of them that are left.

The other problem that we have out here, and I think it is a national problem, I think the miners themselves are a national asset. They are a natural resource. Maybe today we have enough of one metal or another, but in the 10 years that follows—and we have seen this thing travel the full swing of the pendulum—what are we going to do for miners in the years to come?

In our area the mothers say, "Don't go underground because there is no future in it." They have taken the dignity from the mining business. These mines that we are talking about, the big ones of our great past at Leadville, were done with private capital. There was no Government subsidy behind it. We realize this. But there is no incentive today for private capital to go in and operate and develop a mine where the Government can come along and import and run them out of their own business.

Actually, it makes crooks out of them because they have raised money to do a job and the Government is actually the culprit behind the action. I know sometimes this is an unintentional thing, but as the oldtimer said when I left Montezuma recently to come out here, he said, "You tell them for me that if they are going to let the mines die, let them die, but let us know so that we can go to the funeral."

If it is going to be this way, pass a bill to make it illegal to go mining.

Senator CARROLL. What he wants to do is to nail down the lid of the coffin. They have been delaying this for years, as you know. This has been a subject that has been under dispute since I came to the Congress after the war. A bill is presented, the miners get all hopped up, and then nothing comes of it.

At this hearing we have been very careful to say that this is exploratory.

Mr. MARTIN. I have nothing to gain in gold, but I would recommend if they do take an action it should be over a longer period of time to give the public confidence and give the mine operator a chance to operate it and work like any other business.

Senator CARROLL. Are you referring now to the silver?

Mr. MARTIN. I am referring to any legislation in mining. Certainly, it could be terminated. But not a 5-year clause. Let us put it into the time that it works and then we change the law.

Senator CARROLL. I agree with that concept.

Mr. MARTIN. The reports we get are erroneous. Fifteen years ago when I came to Montezuma the report came out that the world's known supply of zinc was only 17 years. That certainly made the zinc business a pretty good business to go in. Now somewhere else in this building they are holding the hearing wondering where it all came from.

Senator CARROLL. There might have been a little propaganda to influence the Congress. There has been an awful lot of that going on in the past years.

Mr. MARTIN. A year ago one of the Department experts came in and made the statement that the prices of zinc would go up, and we know what happened to the price of zinc, of course—this did influence legislation.

Senator CARROLL. It is my opinion, with reference to silver, that I do not believe they will repeal the Silver Purchase Act this session.

Mr. MARTIN. We are happy to hear this.

Senator CARROLL. That may not help you directly.

Mr. MARTIN. This would help me.

Senator CARROLL. This committee had the lead and zinc bill under consideration. We came up with some recommendations which were not accepted, which included tariffs and quotas. You heard me refer today to the overhang in the market. This is affecting lead and zinc. We know what it has done to our mines in Colorado in the last 4 or 5 years.

Mr. MARTIN. We are only hoping that they won't dump this stockpile onto the open market and depress the price even more.

Senator CARROLL. Tom, we appreciate your coming. Did you come all the way back here just to testify in this hearing?

Mr. MARTIN. Yes, sir.

Senator CARROLL. We are very fortunate to have you.

Mr. MARTIN. There is one thing I would like to read into the record, if I may.

Senator CARROLL. You are not going to read a whole book at 20 minutes to 5?

Mr. MARTIN. No, sir. We have our problems today, but back during the time of Abraham Lincoln, when he was President, he had problems similar to ours. I would like to read into the record his interview with Skyler Colfax on the morning of April 14, 1865.

Mr. COLFAX. I want you to take a message from me to the miners whom you visit. I have very large ideas of the mineral wealth of our Nation. I believe it practically inexhaustible. It abounds all over our western country from the Rocky Mountains to the Pacific, and its development has scarcely commenced. During the war, when we were adding a couple of million dollars every day to our national debt, I did not care about encouraging the increase in the volume of our precious metals. We had the country to save first. But now that the rebellion is overthrown and we know pretty well the amount of our national debt, the more gold and silver we mine, we make the payment of that debt so much easier.

Now I am going to encourage that in every possible way. We have hundreds of thousands of disabled soldiers, and many have feared that their return home in such great numbers might paralyze industry by furnishing suddenly a greater supply of labor than there would be a demand for.

I am going to try to attract them to the hidden wealth of our mountain ranges where there is room enough for all. Immigration, which even the war has not stopped, will land upon our shores hundreds of thousands more per year from overcrowded Europe. I intend to point them to the gold and silver that awaits them in the West.

Tell the miners for me that I shall promote their interests to the utmost of my ability because their prosperity is the prosperity of the Nation and we shall prove in a very few years that we are indeed the treasury of the world.

Senator CARROLL. That is an excellent statement, isn't it?

Mr. MARTIN. I want to thank you for the opportunity to appear here.

Senator CARROLL. We thank you, Tom Martin, for coming here, and I hope to be down in Montezuma County sometime this spring or summer. When I am there, come and see me. I would like to talk to you more about this.

Mr. MARTIN. You drop by and we will have some deer meat and beans.

Senator CARROLL. That is a very fine invitation. Thank you.

Mr. MARTIN. Thank you.

Senator CARROLL. The next witness is Mr. Elgin Groseclose. Will you come forward, sir?

Mr. Groseclose, you have been very patient.

STATEMENT OF ELGIN GROSECLOSE, ECONOMIC AND FINANCIAL CONSULTANT OF WASHINGTON, AUTHOR OF "MONEY AND MAN"

Mr. GROSECLOSE. Thank you very much for the privilege of appearing here before this committee. Because of your indulgence and the lateness of the hour, I will not read my statement, but will ask that it be placed in the record.

Senator CARROLL. Without objection, it is so ordered.

(The statement referred to follows:)

STATEMENT OF ELGIN GROSECLOSE, PH. D., OF GROSECLOSE, WILLIAMS & ASSOCIATES, FINANCIAL ANALYSTS AND CONSULTANTS

Members of the committee and counsel, I thank you for the privilege of appearing before this committee. Your hearings, I am advised, relate to Senate Joint Resolution 44, to authorize a subsidy on newly mined domestic gold up to \$35 an ounce but they are also exploratory in nature and will entertain any views or suggestions to improve the health and welfare of the domestic mining industry. I shall speak to the latter of your concerns. My firm of Groseclose, Williams & Associates, financial analysts and consultants, has a number of clients engaged principally in the production of gold and silver, and I have for over 30 years made especial study of the problems of gold and silver. We are not, however, registered legislative representatives of any of these client companies, and the

views I express represent my own thinking on the subject. I am a member of the Resolutions Committee of the American Mining Congress. I have been in consultant practice in this city since 1944. Prior thereto I served in various governmental capacities, my last post being that of Deputy Director of the Office of Economic Affairs of the Department of Commerce. I obtained practical banking experience with what is now the Morgan Guaranty Trust Co. of New York. I have taught at the College of the City of New York and the University of Oklahoma, and was the first financial editor of *Fortune*. During the war, I was privileged to serve as Treasurer General of Iran by appointment of the Iranian Parliament. I am the author of "Money and Man," originally published in 1934 and recently revised and republished; "Introduction to Iran," published in 1947 by Oxford University Press, as well as numerous lesser works in the field of money, banking, and finance.

DEPRESSED STATE OF GOLD MINING INDUSTRY

The depressed condition of the gold mining industry hardly requires documentation. I need only point out that in the case of gold as in the case of a number of other basic products such as petroleum, iron and steel and copper, the United States was formerly the dominant producer but today holds a minor position. In the case of iron ore the United States in 1910 accounted for approximately a third of total world production and at the end of World War II nearly two-thirds of the world total. Currently, the U.S. share is less than a fourth. From World War I to World War II, the United States accounted for some two-thirds of the world petroleum output; since the end of World War II this share has been declining and currently is less than 40 percent. From 1900 to 1920 the United States produced between 55 and 65 percent of world copper output, but at the peak of World War II only 36 percent and currently around a fourth. The trend in the case of gold is even more abrupt and disconcerting. From 31 percent of world gold production in 1900, U.S. production has dropped to less than 4½ percent of total free world production in 1961. The latter percentage does not consider Russian production, the amount of which is not known, but is estimated to be from 5 to 10 times U.S. production.

In the case of gold the decline in production has been both absolute and relative. U.S. gold production of 1,526,757 million ounces in 1961 compares with 4,862,087 million ounces in 1940 and 12,400,000 ounces in 1900. Russian production is estimated as being between 10 and 17 million ounces in 1961.

GOLD AND GOVERNMENT POLICY

An important factor in the decline in U.S. gold production since 1940 was the official policy adopted at the outbreak of the war to discourage gold mining as nonessential to the war effort. Regulations issued by the War Production Board denied to gold miners access to machinery, equipment, and supplies requisite for mining and compelled many of them to close down their mines. The gold mining industry has never recovered from this blow.

As to the wisdom of this action, I will only comment that at the time I was serving as Treasurer General of Iran, then a key country and the bridge to Russia. We were faced with a problem of rising unrest stemming from a manipulated inflation of the paper money under the influence of a foreign occupation. I found gold to be the veritable sinews of war and worth many battalions in maintaining order and calm. We brought in gold, used it wisely, and succeeded in curbing the inflation. In the current panic over the size of our strategic materials stockpile, let us not sell out, as some seem eager to do, our strategic reserve of gold.

One further feature of the domestic gold mining industry to which I would invite the committee's attention is that gold mining has been and is essentially small business in nature. It is small business in contrast to the large aggregations of capital required for the production of petroleum, iron, copper, and to some extent lead and zinc. The depression in the gold mining industry has driven thousands of small mines and individual mine operators out of business. It is well settled public policy to foster small business. A particular agency of Government, the Small Business Administration, has requested a budget of \$306 million (including additions to its revolving fund) to aid and assist small business enterprise. The plight of the gold mining industry, therefore, deserves the especial consideration of this committee, not only because it affects the economy generally, but because it affects many of our most enterprising citizenry whose

characteristics of daring, enterprise, and resourcefulness are the very spiritual qualities which must be cultivated and maintained if our economic system of predominantly private enterprise is to persist.

THE MONOPOLY OF GOLD

The depression in the domestic gold mining industry arises primarily from the fact that trade in gold is a Government monopoly and the view held by public authorities that there is sufficiency of gold in being and in production to meet the demand therefor. Gold, being the standard of value by statutory enactment, is a Government monopoly in that all transactions in gold are at the mercy of Treasury decree or regulation; generally speaking, domestically produced gold must be delivered to the Treasury at the set price of \$35 an ounce; domestic trade in gold is so restricted as to be prohibited; the possession of monetary gold is forbidden the American citizen or resident, regardless of whether the gold is situated here or abroad; the Treasury, under its monopoly powers, sells gold domestically only to licensed buyers at \$35 an ounce for industrial or ornamental use. Treasury policy, however, is to sell gold freely to foreign central banks at \$35 an ounce for monetary purposes.

The price of \$35 an ounce was set by Presidential edict on January 31, 1934, and has remained the monopoly price ever since. In the 28 years since 1934, however, the price of the things required for the mining of gold—labor and equipment—as measured by the index of wholesale commodity prices—has increased by some 144 percent, and it is the consequent rise of mining costs against the ceiling of fixed selling prices that has made gold mining increasingly unprofitable. More and more mines have become marginal producers and have had to close down by reason of continued operating losses, while investment in exploration of new veins and deposits to offset the exhaustion of older supplies has been discouraged by reason of the same rising trend of mining costs and the unfavorable prospects of recouping the investment.

Since gold is a Government monopoly, we must therefore look not to the market forces but to the thinking of those within the Government who operate this monopoly for an explanation of the price at which gold is maintained. At the end of the war the United States was in possession of approximately 577 million ounces (\$20.2 billion) or two-thirds of the visible gold stock of the world. By September 1949, the U.S. gold stock had increased to 705 million ounces (\$24.7 billion), or over 70 percent of the world total. In the dozen years since the U.S. gold stock has diminished by nearly a third and today stands at less than 480 million ounces (\$16.8 billion) and just 40 percent of the world total.

Despite the steady outflow of gold, the money managers remain confident, or apparently confident, that we have ample supply. Another factor bearing upon governmental thinking has been the increase in total world gold production, particularly South African production.

Free world gold production, largely because of the activity in South Africa, grew at around 5 percent a year during the period 1953-60. Last year, the increase was around 3 percent. This would seem like a satisfactory growth rate except for the much more rapid rate of expansion of monetary obligations based upon gold.

These aspects of the gold question, however, lie in the field of monetary considerations and since monetary legislation is beyond the purview of this committee, I will confine my comments to one aspect of the operation of the Government monopoly which might be the subject or recommendation for legislation by your committee.

TREASURY SALES OF GOLD AND SILVER

Certain parallels exist between gold and silver. Both are metals of money. Both enjoy a demand in the arts, the crafts, and in technology. The same year that witnessed the establishment of a Government monopoly in gold brought legislation that closed the free market for silver by means of a prohibitive tax, and put the silver industry under Federal influence and control, although less rigidly so than in the case of gold. Subsequently, in 1946, Treasury control was modified somewhat by legislation that required the Treasury to acquire all domestic silver offered at 90½ cents an ounce and in turn to sell silver to fabricators at its discretion at not less than this price. On November 28, 1961, the Treasury wisely concluded to discontinue the sales of Treasury-held silver to the domestic market and it has now recommended to Congress that the prohibitory tax on

silver transactions be repealed. As a consequence of these salutary actions, the free market has been allowed to give an indication of the nonmonetary value of silver and the New York price for silver is now some 10 cents above the former Treasury selling price.

I would commend to the committee consideration of how some comparable action might be taken in regard to gold. In this connection I would submit as part of my testimony a table drawn from official sources, showing domestic production of gold in this country since 1930 and in a parallel column the domestic consumption in the arts and industry as reflected by gold issued by the Treasury to licensed fabricators. I would invite the committee's attention to the fact that except for the war-affected period 1943-46 and the period 1949-53, domestic production of gold has until recently been sufficient to meet the domestic demand for industrial and artistic use. Since 1958, however, private consumption of gold has exceeded domestic production in such substantial quantities as to require comment.

We do not possess any reliable data on the consumption demands for gold in various industrial applications. Some studies have been undertaken in Canada, we understand, but the results are inconclusive and further investigation of this subject is desirable.

INDUSTRIAL DEMAND FOR GOLD

We know, for instance, that gold is finding increasing demand as a protective coating for ceramic materials and metals. Gold coatings on missiles and aircraft sections are said to be unequalled for reflecting infrared radiation. For engine shrouds, drag chute containers, tail cone assemblies, and blast shields we are told that a gold solution sprayed on the vulnerable surfaces and baked to form a thin metallic film is highly effective in reducing the rate of heat transfer. The basic material to which the gold film is applied may be porcelain enamel, stainless steel, fiberglass laminates, and other heat-resistant substances. Congressman Harold T. Johnson of California, testifying in behalf of the gold-mining industry, has pointed out that gold in minute quantities is used on safety glass to reduce fogging, that gold alloys are found in silicon transistors and diodes, that gold plating improves the efficiency of microwave vacuum tubes, and that radioactive gold is used as a source of heat in a thermionic converter to produce an electric current for use in space vehicles.

Now, if gold were used in substantial quantities in national defense activities, there would be every reason for stimulating the domestic gold industry to assure domestic sources of supply. An analysis of the mint statistics of gold issues to fabricators suggests that the major source of the demand for gold is from other sources and for other uses.

The statistics indicate that this demand arises from a fear of the stability of the dollar, and for insurance against another dollar devaluation. The statistical evidence is that certain fabricators are profiting from buying Treasury gold at \$35 an ounce and reselling it in the form of ornaments at several times that price. I am aware that the Treasury seeks to discourage such practices, that it refuses, for instance, to issue gold for the manufacture of medals in which the dominant value derives from the metal rather than the labor or workmanship. Nevertheless, the statistics are all too persuasive. Note that during the war years, up until 1946, when despite victories on land and sea an underlying uncertainty prevailed, Treasury sales of gold to fabricators ran from roughly 2½ million ounces annually to upward of 4½ million ounces. This was before the space age, and the discovery of the utility of gold in spacecraft components.

It is of interest to observe the ways of bureaucracy. While Washington officialdom did not hesitate to declare the gold miner as nonessential, it took no similar view toward the fabricator of jewelry, ornaments, and the like. Perhaps, like the lady who, at the outbreak of war, rushed out to buy a brooch of precious stones in the form of an American flag, officialdom considered manufacture and sale of gold ornaments to give a boost to public morale. My personal conviction is that there was, and persists, in the Treasury a too reckless complacency regarding our gold stock, and a too reckless disregard of its strategic importance.

Note that private takings of gold leaped again following the siege of Berlin and the outbreak of the Korean war, and continued until that conflict was settled. Again in 1959, Treasury sales of gold to fabricators began to spurt, and have since remained greater than new supplies coming in from the mines. This rising demand has paralleled the trend of demand for U.S. gold from for-

eign central banks. By 1958 the outflow of U.S. gold to foreigners had become so great as to be characterized as a hemorrhage with an outgo of over \$2¼ billion—in physical terms, 65 million ounces, or some 35 years' annual domestic production. Since 1958, an additional 108 million ounces of gold (\$3.8 billion) has been drained from the Treasury by foreigners.

INCONSISTENCY OF TREASURY POLICY

It is of major significance in this connection that last year foreigners were not content merely to take title to gold and leave it in the vaults of the Federal Reserve. Last year they began increasingly to demand physical possession of the gold, and to satisfy this demand the Treasury had to ship abroad some 22 million ounces (\$775 million). Foreigners demanded this gold largely because, with the reopening of the gold market in London, private buyers have been increasingly heavy takers of gold.

This brings us to an interesting consideration of public policy. Years ago, our lawmakers wisely concluded that it was beyond the powers of legislation and bureaucracy to control the sumptuary habits of the American people, so far as spirituous beverages were concerned. It is paradoxical that the same administration that relaxed the grip of the prohibition laws upon the American people should impose even harsher legislation upon their right to acquire and possess gold. It is paradoxical that the present and the preceding administrations should attempt to impose or enforce even more restrictive prohibitions upon the individual's right to acquire and possess gold. It is extraordinary that a government of the people should withhold from its own people a privilege, the enjoyment of which, by foreigners, it assists if not actually encourages.

RESTORATION OF GOLD MARKET

Accepting the situation as it is, however, for the time at least, let us examine the possibilities of restoring a certain equity in our public business. If there is profit to gold fabricators, as there appears to be, in fashioning ornaments of gold, or providing leaf or dust for technology, why should not the American miner be permitted to participate directly in this business? What is the paramount national interest in providing the jewelers of Maiden Lane with ample gold supplies at \$35 an ounce? Would the national security suffer if they were required to go into the free market for their needs? Why should the Treasury play favorites and sell gold freely to these fabricators at \$35 an ounce, but not to the public generally? Why not put this business on an equitable basis by removing Treasury completely from the market, and requiring the fabricators to buy directly from the miner at such prices as arm's-length bargaining produces?

Among all economic devices for the promotion of the well-being of a people the most effective is the free market. Ever since the enactment of the Sherman antimonopoly act in 1890, the free market has been a principal object of Government concern and activity. The establishment of a Government monopoly of gold in 1934 was a disastrous retreat of principle, iniquitous and unwarranted, and has brought on economic evils in our economy which have compounded over the years, requiring a multiplication of bureaucracy and enforcement agencies to combat. We can make a beginning, at least, toward a restoration of a free gold market by requiring Treasury to cease its partiality and favoritism in subsidizing the gold fabricating industry at the expense of the gold mining industry, by discontinuing sales to industry and permitting a free market for industrial gold.

MEASURES IN AID OF SILVER

I now would make a few comments in regard to silver. The position of silver producers has been improved somewhat by the action of the Treasury on November 28, 1961, in suspending sales of its general fund silver to fabricators. This action, long urged, and long overdue, was brought about not by Treasury concern for the mining industry, but by the near exhaustion of its general fund stock, and its own heavy requirements for coinage. The stock, at the time the decision was made, was down to 22 million ounces, while the Treasury's coinage was taking some 55 million ounces annually.

Now, to meet its coinage needs, the Treasury is withdrawing \$5 silver certificates from circulation, replacing them with Federal Reserve notes, and using the silver for its coinage purposes. During December and January—the only

months for which we have data—some \$75 million of \$5 and \$10 silver certificates have been returned from circulation—equivalent to some 58 million ounces of silver. Treasury has requested legislation to authorize it to retire \$1 and \$2 silver certificates, replace them with Federal Reserve notes, and dispose of the silver in its discretion.

Now, silver legislation has historically been regarded as monetary legislation coming under the jurisdiction of the Banking and Currency Committee. But a new situation has presented itself that brings the subject within the purview of this committee. The Treasury has long taken the view that silver is not true money, but merely a commodity. This view is now explicit in its formal request to Congress for legislation (now introduced as S. 2885) authorizing it to dispose of the remaining monetary reserve silver and to replace outstanding silver certificates with Federal Reserve notes.

The present administration has become exorcised over the magnitude of the stockpile of strategic materials. Probably the stockpile will be reduced, but there seems no disposition anywhere to abandon the principle or the practice of stockpiling strategic reserves. The principle indeed is as old as Joseph who served the Egyptian pharaoh. In the case of silver, however, the Treasury's prodigality is astounding. It is willing, in the poet's words, to fling it to the winds like rain. This is all the more astounding in view of the strategic importance of the Treasury silver stock as demonstrated in two World Wars when over 200 million ounces in one war and over 400 million ounces in the other were sent to Asia in the interest of the national security. In World War II, in addition to the 400 million ounces sent to Asia, over 900 million ounces were released to domestic industry for essential wartime uses.

The use of silver in space age technology is significant and of rapidly rising importance. Among the various metals in the strategic stockpile I would believe that none serves a broader or more critical range of needs than silver.

In view of Treasury eagerness to disperse our silver reserve, it would seem within the authority of your committee to recommend legislation which will assure the maintenance of a sufficient reserve for the needs of the national defense. Such a reserve should not, in my opinion, be less than that presently held in the monetary reserve.

U.S. gold production and industrial consumption in fine ounces

Calendar year	Production	Consumption (net)	Calendar year	Production	Consumption (net)
1930.....	2,100,395	734,223	1946.....	1,462,354	4,391,057
1931.....	2,213,741	286,901	1947.....	2,165,318	1,397,143
1932.....	2,219,304	¹ (313,938)	1948.....	2,025,480	1,285,514
1933.....	2,276,711	¹ (280,222)	1949.....	1,921,949	3,109,785
1934.....	2,741,706	¹ (1,762,700)	1950.....	2,288,708	2,795,593
1935.....	3,163,229	¹ (927,462)	1951.....	1,894,726	1,985,057
1936.....	3,760,128	¹ (83,081)	1952.....	1,927,000	2,752,873
1937.....	4,112,177	91,840	1953.....	1,970,000	2,142,860
1938.....	4,245,377	¹ (9,259)	1954.....	1,859,000	1,269,800
1939.....	4,620,602	213,160	1955.....	1,876,830	1,300,000
1940.....	4,862,979	380,172	1956.....	1,865,200	1,400,000
1941.....	4,832,087	1,057,189	1957.....	1,800,000	1,450,000
1942.....	3,583,080	1,351,280	1958.....	1,759,000	1,833,251
1943.....	1,880,758	2,466,953	1959.....	1,635,000	2,521,800
1944.....	1,022,238	2,779,951	1960.....	² 1,666,772	3,000,000
1945.....	915,403	3,112,695	1961.....	² 1,526,757	³ 3,046,000

¹ Net return of secondary gold.

² Source: Bureau of Mines.

³ Based upon mint sales of 2,154,469 ounces.

Source: U.S. Bureau of Mint.

Mr. GROSECLOSE. I would, because of some points brought out by some of the previous witnesses, like to develop a couple of points in a little more detail because I think they are rather significant to the deliberations of your committee.

Before I take up those points, I would like, with your permission, to file a statement on the part of a distinguished gentleman, a distinguished figure in the gold industry, Dr. Donald McLaughlin, chair-

man of the board of the Homestake Mining Co., who was unable to be here and asked me to present this statement of his to the committee with a request that it be filed as part of the record.

Senator CARROLL. Without objection, it is so ordered.

In other words, you are going to present it into the record without reading?

Mr. GROSECLOSE. I will not read it.

(The statement referred to follows:)

STATEMENT OF DONALD H. McLAUGHLIN, CHAIRMAN OF THE BOARD, HOMESTAKE MINING CO.

My name is Donald H. McLaughlin, chairman of the board of the Homestake Mining Co. Our company operates the Homestake Mine in the Black Hills of South Dakota, which is the largest gold producer in the United States. In this capacity, it is natural to expect me to be very much concerned about the welfare of the gold mining industry and particularly about the way that it has been handicapped by current national policies on gold.

Gold is the accepted monetary commodity of the world, and as money is dominant in determining the revenues received by the gold miner for his product in spite of restrictions placed upon the ways in which it is allowed to function.

I am convinced that our country and indeed the free world would be best served by the restoration of the gold standard, with the already depreciated dollar and hopefully the other major currencies redefined in terms of gold and made fully convertible. As this would undoubtedly result in a higher price for gold in dollars such a move would of course be beneficial to American gold miners, but such benefits to a small industry would be nominal compared with the advantages gained by the free world in again having dependable money backed by gold on a basis that could be supported.

This is not the place, however, for a presentation of arguments on this question, though it should be recognized that until the problem is faced and the monetary function of gold reestablished on an enduring basis, other steps to relieve recurring crises and to ease the plight of the gold miners are likely to be no more than treatment of symptoms and not a cure for the disease.

If present monetary policies with regard to gold continue unchanged—and I must admit it seems unlikely that any significant steps will be taken by the U.S. Government and its agencies until they are forced by truly drastic conditions—it is a certainty that the gold mining industry in the United States will be completely destroyed. Under existing policies, continued inflation is inevitable, with steady increases in cost of all services and materials used in the operation of a gold mine, but the gold produced must be sold to the Treasury without delay for 35 paper dollars per ounce, the price established in 1934, when the purchasing power of the dollar was more than double that of today.

The effect of this policy on the Homestake operation is clearly revealed by the following statistics. In 1941, the gross receipts for the gold produced from mining and milling 1,499,988 tons of ore amounted to \$19,529,080. With the exception of the war years when the gold mines were shut down by unwise and arbitrary governmental action, the gross revenue has been maintained at approximately \$19 million per year. In 1960, gross revenue from gold amounted to \$19,464,547, from mining and milling 1,767,135 tons. In 1941, net income from the mine amounted to \$8,615,876. By 1960, this net had decreased to \$2,921,180 from ore of approximately the same grade. In this 20-year period, earnings derived from the Homestake mine itself have dropped from \$4.45 per share to \$1.45 per share.

In 1941 Homestake paid wages in the amount of \$4,589,126. (Incidentally, this wage scale was among the highest in the nonferrous mining industry in the United States.) Homestake wages in 1960 amounted to \$9,336,343, with a considerably smaller work force (employment averaged 2,180 in 1941; 1,750 men in 1960). In 1941, supplies, equipment, and material cost Homestake \$1,230,668, but by 1960 this figure had risen to \$3,655,487. Local and valorem taxes (county, school districts, and municipalities) in 1941 amounted to \$337,739, but by 1960 had jumped to the rather shocking figure of \$798,400. In 1941, welfare costs, including hospitalization, pensions, sickness benefits, recreation, etc., cost Homestake \$207,897. In 1960, these items had reached a rather staggering total

of \$1,105,897. These basic figures clearly show what has happened to the Nation's largest gold mine since the outbreak of World War II with its catastrophic disruption of world and domestic economy and the depreciation of the dollar.

These figures speak for themselves. They would be worse—indeed the Homestake mine would now be shut down—if it had not been for technical advances in both mining methods and metallurgical practices. Thanks to them the rate of increase in the cost of producing gold has been held down to some degree, in spite of added expense from deeper mining as well as from higher wages and increased prices paid for machines, explosives, and practically everything that enters the mine. If it had not been for these improvements, we would have already been out of business. It is a record in which we take great pride, but we have about reached the limit of what we can do to offset in part the effect of factors over which we have no control. The curve of rising costs, if inflation continues at the present rate, will inevitably intersect the flat line representing gross receipts, and at this point in the not too distant future our profits and operations will end if no relief is obtained.

I have consistently urged that the right solution to our difficulties is the change in our basic monetary policies with regard to gold that I previously mentioned, through which gold mining would benefit with the rest of the economy.

Unfortunately, such wise action is unlikely in the near future and I doubt if any changes in current policies with regard to gold will be made until they are forced under drastic conditions that might be humiliating.

Under these circumstances, therefore I have reluctantly come to the conclusion that special aid in some form or other is a necessity if gold mining in the United States is to survive, even at its present reduced rate.

Bonuses and premiums have no place in a truly free economy, but in one such as the present, where wheat, for example, is purchased by the Government at a supported domestic price and sold abroad for 54 cents a bushel cheaper, we are faced with economic procedures that make survival of gold mining practically hopeless under the strange restrictions that prevail unless aid of some sort is forthcoming.

A number of bills were proposed during the last session of Congress for the purpose of giving some relief to the gold miners. As temporary measures, I was willing to endorse them, for their provisions were simple and clear and could have been applied to the industry with a minimum of administrative routine.

The same comments apply to Senate Joint Resolution 44 which I believe is before the subcommittee.

I would like to emphasize the importance of an incentive payment to operating mines as well as to new ventures, in the case of the Homestake, for example, any additional dollars received per ounce of gold would make it possible to mine and mill lower grade ore than that now required for profitable operations. The total gold obtained from the deposit over the years would be substantially increased, the life of an enterprise that means so much to the entire community in western South Dakota and the adjacent States would be prolonged, and a valuable natural resource would not be lost by being forced, as we are under current policies, to leave the low grade ore in the mine that would probably never be extracted once the mine was shut down.

From such incentives, the total gold output of the country would undoubtedly be increased. Opportunities for increasing our national output of gold do exist, and premium payments of the order indicated in the bills that are submitted would make competent men willing to undertake the risks of prospecting and exploration, and the orderly development of the new mining enterprises.

The additional gold in the monetary stock of the Government, even at the higher price proposed for domestically produced gold, would unquestionably strengthen our position in the inevitable adjustments that must be made in the not-too-distant future and would reduce the danger that we might have to enter into international negotiations with a gold reserve so depleted that we would be in a position of extreme weakness.

Mr. GROSECLOSE. I would like to direct your attention briefly to one point he makes, because I think it answers a question that was raised by some of the Senators as to the economic effect of the declining value of the dollar upon gold mining.

He said the effect of this policy on the Homestake operations is clearly revealed by the following statistics. I believe they are the only statistics in the record relating to an individual company.

In 1941 the gross receipts for the gold produced from mining and milling 1,499,988 tons of ore amounted to \$19.5 million. With the exception of the war years, when the gold mines were shut down, the gross revenue has been maintained at approximately \$19 million per year. In 1960 gross revenues from gold amounted to \$19,464,000, from mining and milling 1,760,000 tons.

In 1941 net income from the gold amounted to \$8,600,000. By 1960 this net had decreased to \$2,921,000 from ore of approximately the same grade. In this 20-year period, earnings derived from the Homestake mine itself have dropped from \$4.45 per share to \$1.45 per share.

This is the leading, the most profitable gold mine in the country.

Now so far as my own statement, with your indulgence, Senator, I will state briefly who I am.

My firm of Groseclose, Williams & Associates, financial analysts and consultants, has a number of clients engaged principally in the production of gold and silver, and I have over 30 years made a special study of the problems of gold and silver. We are not registered legislative representatives of any of these client companies, and the views I express represent my own thinking on the subject. I am a member of the resolutions committee of the American Mining Congress. I have been in consultant practice in this city since 1944. I obtained practical banking experience with what is now the Morgan Guaranty Trust Co., of New York. I have taught at the College of the City of New York and the University of Oklahoma and was the first financial editor of *Fortune*. During the war, I was privileged to serve as treasurer general of Iran by appointment of the Iranian Government. I am the author of "Money and Man," originally published in 1934 and recently revised and republished; "Introduction to Iran," published in 1947 by Oxford University Press, as well as numerous lesser works in the field of money, banking, and finance.

Senator CARROLL. With that distinguished background, may I ask you if you heard some of the questions I put to Mr. Hardy?

Mr. GROSECLOSE. Yes, I did.

Senator CARROLL. Do you care to comment on his responses?

Mr. GROSECLOSE. I thought he made very able responses. If you have any particular question, I would be glad to give a further comment, Senator.

Senator CARROLL. One of the questions we may have to face immediately—but I hope not—would be the repeal of the Silver Purchase Act. Do you agree that would be unwise at this time?

Mr. GROSECLOSE. I think it would be unwise at this time or at any time, Senator. My views go somewhat beyond those of Mr. Hardy. I have pointed out many times in statements before congressional committees that the silver reserve is important in wartime. It is one of the most valuable strategic reserves we possess. In World War I we had to make 200 million ounces of our silver available to the British Government because it had dissipated its silver reserves, in order to assist it to hold its Indian dominions. In World War II we had to make available over 400 million ounces of silver to the countries:

of Asia in order to hold their loyalties and economies together and to make available their contributions to the war effort. We also had to make available to industry over 900 million ounces of silver.

It is important to maintain a substantial silver reserve against these times of national emergency. We cannot assume we are going to have eternal peace, much as we strive and pray for it. We cannot assume, looking at the history of mankind that we can continue to have peace. There will be times of crisis, and we need a substantial silver reserve for these times of crisis.

Senator CARROLL. Do we have such a substantial reserve now?

Mr. GROSECLOSE. Actually, as Mr. Hardy pointed out, the United States has a reserve probably not exceeding 22 million ounces. We have something like 1,700 million ounces as reserves against the silver certificates. But they are always subject to call by the holders of these certificates unless the Government, as it did in 1934, abrogates and repudiates its promises.

Senator CARROLL. You heard me use the expression, "we have silver running out of our ears"?

Mr. GROSECLOSE. I have heard that expression.

Senator CARROLL. One witness testified today that we have about 7 or 8 years' supply. Another one has testified that according to the Treasury Department we had a 30 years' supply. Of course, we understand that this as a backup for the certificates. This could be converted to the wartime use. Would you say this is a substantial supply of silver?

Mr. GROSECLOSE. You have the problem of making it available in time of war through some action. I anticipate, assuming that we have a period of peace of a decade ahead, which I think is quite reasonable, if we can manage to get along with the Russians for a decade, that you will find silver prices moving up to \$1.29 an ounce in the open market, at which time holders of silver certificates can draw down monetized silver for industrial purposes.

Senator CARROLL. How can we permit the Federal Government to purchase the silver it needs for coins without having a windfall for the speculators, perhaps from the London market. How can we save the Federal money on that end and still stabilize the silver mining industry on the other without an enormous outlay of money? How can we do this, compatible with the public interest, helping both the Government and the mining industry?

Mr. GROSECLOSE. One of the recommendations I have made in my formal statement is that the Treasury should be required to go into the open market for its coinage requirements or at least if it uses its monetary reserve silver for that purpose that the Treasury should replace an equivalent amount through purchases in the open market.

I cannot see where that would create a speculative surge if it asks for the tender of silver at bid prices or acquires it by orderly operations in the market. The Government is quite used to dealing in the open market. It does it all the time.

Senator CARROLL. What is the price in the open market today?

Mr. GROSECLOSE. It is about \$1.01½. Actually we do not have an open market in New York. It is very closed. If the transactions tax were repealed, you would have futures trading. I do not believe that speculation tends to create a chaotic condition. I think speculation is equally a stabilizing condition in the market. Many econo-

mists differ on the effect of futures trading. We have futures trading in London, and I do not think it creates a chaotic condition. It is the psychology rather than the techniques which create violent surges in the market.

Senator CARROLL. If you went into the open market, that would kick the price up, would it not?

Mr. GROSECLOSE. I do not know whether it would "kick" it up. It would tend to move it up.

Senator CARROLL. The price would vary according to how much they bought?

Mr. GROSECLOSE. Yes, and how they bought it.

Senator CARROLL. There would be an upward movement?

Mr. GROSECLOSE. Yes.

Senator CARROLL. This would help the domestic mining industry?

Mr. GROSECLOSE. Yes.

Senator CARROLL. But it also might help those who speculate in silver futures. In other words, how can this be done equitably?

Mr. GROSECLOSE. You will have to first define what is a speculator. When people buy more cars, and you find a share of GM going up, the people who own General Motors stock benefit. It is a question of whether you call them speculators or investors.

Senator CARROLL. Mr. Hardy claims it is the silver on the London market.

Mr. GROSECLOSE. I agree with what he is talking about, but I would not use the same language.

Senator CARROLL. Would you call them foreign speculators?

Mr. GROSECLOSE. I would call them foreign holders. Some are speculators but some are investors. It is against the law for Americans to hold silver—or rather the law discourages trade by Americans. I know when I was in Hong Kong last fall I talked to some of the bankers there who were recommending to their clients to buy silver on the expectation it was going up. That buying could be called speculation or it could be called investment on the part of the clients. That silver which they held is undoubtedly coming into the market at the present time. It is tending to hold the price down to somewhat less than what most informed observers thought the price would reach. Most observers felt the price would stabilize at \$1.10.

Actually apparently they guessed wrong as to the amount of "speculative" holdings that were in the market, because the market has stabilized at \$1.01½. I think with Mr. Hardy that the price is going to move up because of the conditions of supply and demand. We are using much more silver than we produce.

Senator CARROLL. Do you agree with Mr. Hardy's concept that if we remove the backing from silver certificates and issue Federal Reserve notes, this will require the backing of gold and thus constitute a drain on our gold?

Mr. GROSECLOSE. It constitutes a drain on our gold and depletes our silver reserve. There is one aspect of the comments in connection with the silver certificates that I do not believe was brought out. And that is, one reason why the Treasury wants authority to issue Federal Reserve notes of \$1 denomination is that there is an increasing demand not only for \$1 notes but for \$1 cartwheels. They have had a reserve supply lying around in the Treasury for years. Today they are having

to clean up a lot of those old silver dollars and put them into circulation because of the increasing demand.

Some people think this demand comes from Nevada in inlaying bars and for other purposes. My own belief is that it is because there is an increasing need for them and an appreciation of good coinage. In any case, the circulation of \$1 notes is also increasing, and they are going to have to retire some of the \$5 certificates and replace them with \$1.

It has been very popular to imbed real silver dollars in furniture, but I do not think that is the cause of the increased demand.

Senator CARROLL. Let us go back to the gold for a moment. What is the portrait of the President on the \$5 bill?

Mr. GROSECLOSE. Are you talking about a silver certificate or a Federal Reserve?

Senator CARROLL. You go ahead. The time is running out. We may call you back again because it is your type of advice that we are going to need occasionally.

Mr. GROSECLOSE. Thank you, Senator. I am always at the service of the committee. Since I live in Washington, I would be happy to come at any time. I directed my testimony mainly to the mining aspects since I understood you were not dealing with the monetary aspects. I wanted to bring out one point which Mr. Crowdy brought out, and that is the industry takings of gold. He pointed out that industry has been consuming more gold than our mines have been producing. As you know, the Treasury discontinued sales of silver to the market last November. My recommendation, which I would commend to the committee, is that some legislation or some pressure be put on, that the Treasury discontinue sales of gold to industrial fabricators. My reason for that is this.

Senator CARROLL. You said your recommendation is what again?

Mr. GROSECLOSE. That the Treasury discontinue sales of gold to licensed fabricators. We call it industrial gold, but the fact is that most of this gold as far as we can find out is for jewelry of various sorts. I would like to read, if I may, my statement in order that it may be before you. This is on page 7:

Now if gold were used in substantial quantities in national defense activities, there would be every reason for stimulating the domestic gold industry to assure domestic sources of supply. An analysis of the mint statistics of gold issues to fabricators suggests that the major source of the demand for gold is from other sources and for other uses.

I will now continue with my statement.

DEPRESSED STATE OF GOLD MINING INDUSTRY

The depressed condition of the gold mining industry hardly requires documentation. I need only point out that in the case of gold as in the case of a number of other basic products such as petroleum, iron, steel, and copper, the United States was formerly the dominant producer but today holds a minor position. In the case of iron ore, the United States in 1910 accounted for approximately a third of total world production and at the end of World War II nearly two-thirds of the world total. Currently, the U.S. share is less than a fourth. From World War I to World War II, the United States accounted for some two-thirds of the world petroleum output; since the end of

World War II, this share has been declining and currently is less than 40 percent. From 1900 to 1920, the United States produced between 55 and 65 percent of world copper output, but at the peak of World War II only 36 percent and currently around a fourth. The trend in the case of gold is even more abrupt and disconcerting. From 31 percent of world gold production in 1900, U.S. production has dropped to less than 4½ percent of total free world production in 1961. The latter percentage does not consider Russian production, the amount of which is not known, but is estimated to be from 5 to 10 times U.S. production.

In the case of gold, the decline in production has been both absolute and relative. U.S. gold production of 1,526,757 million ounces in 1961 compares with 4,862,087 million ounces in 1940 and 12,400,000 ounces in 1900. Russian production is estimated as being between 10 and 17 million ounces in 1961.

GOLD AND GOVERNMENT POLICY

An important factor in the decline in U.S. gold production since 1940 was the official policy adopted at the outbreak of the war to discourage gold mining as nonessential to the war effort. Regulations issued by the War Production Board denied to gold miners access to machinery, equipment, and supplies requisite for mining and compelled many of them to close down their mines. The gold mining industry has never recovered from this blow.

As to the wisdom of this action, I will only comment that at the time I was serving as treasurer general of Iran, then a key country and the bridge to Russia. We were faced with a problem of rising unrest stemming from a manipulated inflation of the paper money under the influence of a foreign occupation. I found gold to be the veritable sinews of war and worth many battalions in maintaining order and calm. We brought in gold, used it wisely, and succeeded in curbing inflation. In the current panic over the size of our strategic materials stockpile, let us not sell out, as some seem eager to do, our strategic reserve of gold.

One further feature of the domestic gold mining industry to which I would invite the committee's attention is that gold mining has been and is essentially small business in nature. It is small business in contrast to the large aggregations of capital required for the production of petroleum, iron, copper, and to some extent lead and zinc. The depression in the gold mining industry has driven thousands of small mines and individual mine operators out of business. It is well settled public policy to foster small business.

A particular agency of Government, the Small Business Administration, has a requested budget of \$306 million (including additions to its revolving fund) to aid and assist small business enterprise. The plight of the gold mining industry, therefore, deserves the especial consideration of this committee, not only because it affects the economy generally, but because it affects many of our most enterprising citizenry whose characteristics of daring, enterprise, and resourcefulness are the very spiritual qualities which must be cultivated and maintained if our economic system of predominantly private enterprise is to persist.

THE MONOPOLY OF GOLD

The depression in the domestic gold mining industry arises primarily from the fact that trade in gold is a Government monopoly and the view held by public authorities that there is sufficiency of gold in being and in production to meet the demand therefor. Gold, being the standard of value by statutory enactment, is a Government monopoly in that all transactions in gold are at the mercy of Treasury decree or regulation.

Generally speaking, domestically produced gold must be delivered to the Treasury at the set price of \$35 an ounce; domestic trade in gold is so restricted as to be prohibited; the possession of monetary gold is forbidden the American citizen or resident, regardless of whether the gold is situated here or abroad; the Treasury, under its monopoly powers, sells gold domestically only to licensed buyers at \$35 an ounce for industrial or ornamental use. Treasury policy, however, is to sell gold freely to foreign central banks at \$35 an ounce for monetary purposes.

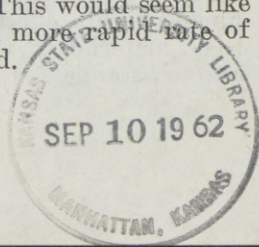
The price of \$35 an ounce was set by Presidential edict on January 31, 1934, and has remained the monopoly price ever since. In the 28 years since 1934, however, the prices of the things required for the mining of gold—labor and equipment, as measured by the index of wholesale commodity prices—has increased by some 144 percent, and it is the consequent rise of mining costs against the ceiling of fixed selling prices that has made gold mining increasingly unprofitable. More and more mines have become marginal producers and have had to close down by reason of continued operating losses, while investment in exploration of new veins and deposits to offset the exhaustion of older supplies has been discouraged by reason of the same rising trend of mining costs and the unfavorable prospects of recouping the investment.

Since gold is a Government monopoly, we must therefore look not to the market forces, but to the thinking of those within the Government who operate this monopoly for an explanation of the price at which gold is maintained.

At the end of the war, the United States was in possession of approximately 577 million ounces (\$20 billion) or two-thirds of the visible gold stock of the world. By September 1949, the U.S. gold stock had increased to 705 million ounces (\$24.7 billion), or over 70 percent of the world total. In the dozen years since, the U.S. gold stock has diminished by nearly a third and today stands at less than 480 million ounces (\$16.8 billion) and just 40 percent of the world total.

Despite the steady outflow of gold, the money managers remain confident, or apparently confident, that we have ample supply. Another factor bearing upon governmental thinking has been the increase in total world gold production, particularly South African production.

Free world gold production, largely because of the activity in South Africa, grew at around 5 percent a year during the period 1953-60. Last year, the increase was around 3 percent. This would seem like a satisfactory growth rate except for the much more rapid rate of expansion of monetary obligations based upon gold.



These aspects of the gold question, however, lie in the field of monetary considerations; and, since monetary legislation is beyond the purview of this committee, I will confine my comments to one aspect of the operation of the Government monopoly which might be the subject or recommendation for legislation by your committee.

TREASURY SALES OF GOLD AND SILVER

Certain parallels exist between gold and silver. Both are metals of money. Both enjoy a demand in the arts, the crafts, and in technology. The same year that witnessed the establishment of a Government monopoly in gold brought legislation that closed the free market for silver by means of a prohibitive tax, and put the silver industry under Federal influence and control, although less rigidly so than in the case of gold. Subsequently, in 1946, Treasury control was modified somewhat by legislation that required the Treasury to acquire all domestic silver offered at 90½ cents an ounce, and in turn to sell silver to fabricators at its discretion at not less than this price. On November 28, 1961, the Treasury wisely concluded to discontinue the sales of Treasury-held silver to the domestic market and it has now recommended to Congress that the prohibitory tax on silver transactions be repealed. As a consequence of these salutary actions, the free market has been allowed to give an indication of the nonmonetary value of silver, and the New York price for silver is now some 10 cents above the former Treasury selling price.

I would commend to the committee consideration of how some comparable action might be taken in regard to gold. In this connection, I would submit as part of my testimony a table drawn from official sources, showing domestic production of gold in this country since 1930 and in a parallel column the domestic consumption in the arts and industry as reflected by gold issued by the Treasury to licensed fabricators.

I would invite the committee's attention to the fact that except for the war-affected period 1943-46 and the period 1949-53, domestic production of gold has until recently been sufficient to meet the domestic demand for industrial and artistic use. Since 1958, however, private consumption of gold has exceeded domestic production in such substantial quantities as to require comment.

We do not possess any reliable data on the consumption demands for gold in various industrial applications. Some studies have been undertaken in Canada, we understand, but the results are inconclusive and further investigation of this subject is desirable.

INDUSTRIAL DEMAND FOR GOLD

We know, for instance, that gold is finding increasing demand as a protective coating for ceramic materials and metals. Gold coatings on missiles and aircraft sections are said to be unequalled for reflecting infrared radiation. For engine shrouds, drag chute containers, tail cone assemblies, and blast shields, we are told that a gold solution sprayed on the vulnerable surfaces and baked to form a thin metallic film is highly effective in reducing the rate of heat transfer. The basic material to which the gold film is applied may be porcelain enamel, stainless steel, fiberglass laminates, and other heat resistant

substances. Congressman Harold T. Johnson of California, testifying in behalf of the gold mining industry, has pointed out that gold in minute quantities is used on safety glass to reduce fogging, that gold alloys are found in silicon transistors and diodes, that gold plating improves the efficiency of microwave vacuum tubes, and the radioactive gold is used as a source of heat in a thermionic converter to produce an electric current for use in space vehicles.

Now if gold were used in substantial quantities in national defense activities, there would be every reason for stimulating the domestic gold industry to assure domestic sources of supply. An analysis of the mint statistics of gold issues to fabricators suggests that the major source of the demand for gold is from other sources and for other uses.

The statistics indicate that this demand arises from a fear of the stability of the dollar, and for insurance against another dollar devaluation. The statistical evidence is that certain fabricators are profiting from buying Treasury gold at \$35 an ounce and reselling it in the form of ornaments at several times that price. I am aware that the Treasury seeks to discourage such practices; that it refuses, for instance, to issue gold for the manufacture of medals in which the dominant value derives from the metal rather than the labor or workmanship. Nevertheless, the statistics are all too persuasive. Note that during the war years, up until 1946, when despite victories on land and sea an underlying uncertainty prevailed, Treasury sales of gold to fabricators ran from roughly $2\frac{1}{2}$ million ounces annually to upwards of $4\frac{1}{2}$ million ounces. This was before the space age, and the discovery of the utility of gold in spacecraft components.

It is of interest to observe the ways of bureaucracy. While Washington officialdom did not hesitate to declare the gold miner as non-essential, it took no similar view toward the fabricator of jewelry, ornaments, and the like. Perhaps, like the lady who at the outbreak of war rushed out to buy a brooch of precious stones in the form of an American flag, officialdom considered manufacture and sale of gold ornaments to give a boost to public morale. My personal conviction is that there was, and persists, in the Treasury a too reckless complacency regarding our gold stock, and a too reckless disregard of its strategic importance.

Note that private takings of gold leaped again following the siege of Berlin and the outbreak of the Korean war, and continued until that conflict was settled. Again in 1959, Treasury sales of gold to fabricators began to spurt, and have since remained greater than new supplies coming in from the mines. This rising demand has paralleled the trend for U.S. gold from foreign central banks. By 1958 the outflow of U.S. gold to foreigners had become so great as to be characterized as a hemorrhage with an outgo of over \$2 $\frac{1}{4}$ billion—in physical terms, 65 million ounces, or some 35 years' annual domestic production. Since 1958, an additional 108 million ounces of gold (\$3.8 billion) has been drained from the Treasury by foreigners.

INCONSISTENCY OF TREASURY POLICY

It is of major significance in this connection that last year foreigners were not content merely to take title to gold and leave it in the vaults of the Federal Reserve. Last year they began increasingly to demand

physical possession of the gold, and to satisfy this demand the Treasury had to ship abroad some 22 million ounces (\$775 million). Foreigners demanded this gold largely because, with the reopening of the gold market in London, private buyers have been increasingly heavy takers of gold.

This brings us to the interesting consideration of public policy. It is paradoxical that the present and preceding administrations should attempt to impose or enforce even more restrictive prohibitions upon the individual's right to acquire and possess gold. Then I make the recommendation that if there is profit to gold fabricators, as there appears to be, in fashioning ornaments of gold, why should not the American miner be permitted to participate directly in this business? What is the paramount national interest in providing jewelers with ample gold supplies at \$35 an ounce? Would the national security suffer if they were required to go into the free market for their needs? Why should the Treasury play favorites and sell gold freely to these fabricators at \$35 an ounce but not to the public generally? Why not put this business on an equitable basis by removing Treasury completely from the market and require fabricators to buy directly from the miner at such prices as arms-length bargaining produces?

That, in essence, is my major recommendation.

Senator CARROLL. Could the Government do that without losing control of the gold?

Mr. GROSECLOSE. It will be argued, as the Treasury does, as I infer from their letter to the committee, that this would create speculation and all these things. We know that England exercises a rather firm control on its monetary system and still maintains a fairly free gold market. We know in Germany they have a fairly free gold market. I think it is extraordinary that this country, which disposes of the greatest supply of gold in the world, should restrict and prohibit its own citizens from buying some.

Senator CARROLL. What is the basis of German currency? Is it gold?

Mr. GROSECLOSE. It is gold, yes. I cannot give you the exact reserve ratio.

Senator CARROLL. Do they mine gold in Germany?

Mr. GROSECLOSE. Not in any great quantity.

Senator CARROLL. Is there any in England?

Mr. GROSECLOSE. Not that I ever heard of, Senator. English gold comes largely from South Africa.

Senator CARROLL. Do the British have a fixed price on gold?

Mr. GROSECLOSE. No, there is a free gold market in Britain. The British maintain control over the pound. But they are not required to deliver gold. In the thirties they modified the structure of the pound by requiring the Treasury to deliver gold only in 400-ounce quantities.

Senator CARROLL. What do you think about the proposal of a subsidy of \$35 an ounce?

Mr. GROSECLOSE. Senator, I have not directed my comments in my statement to the question of subsidies, because there are so many questions fore and aft on the subject. Subsidy is part and parcel of American political policy. We know it has become a white elephant in certain cases. From all I understand, the success of the subsidy has

not been too great in Canada. To me, it is a measure of last resort. Actually, the fundamental problem lies elsewhere. It lies in our monetary policy, and selling gold at \$35 an ounce when it costs more to produce it.

Senator CARROLL. Do we need more gold?

Mr. GROSECLOSE. Definitely. We need substantially more gold than we have today. We are the greatest monetary power in the world. Half the world's trade is done today in dollars. Dollars represent the major reserve of the currencies of much of the free world. It is important that we have enormously more gold in reserve than we presently dispose of if we are going to discharge those functions of being banks to the world and monetary reserve.

Senator CARROLL. How can we acquire that gold, if some of the Department reports are true that the production, notwithstanding the subsidy, would take many years? The Department of the Interior says it will take 42 years, conservatively. But suppose it would take 10 years. It has been stated that the outpouring of gold this year was more than we had produced in some 30 years.

Mr. GROSECLOSE. Physically, we shipped abroad nearly \$775 million of gold last year. At \$35 an ounce, that is roughly in excess of 20 million ounces.

Senator CARROLL. Which is more than we produced in how many years?

Mr. GROSECLOSE. We are producing a million and a half ounces of gold a year; \$700 million is 20 million ounces. That is around 12 years' supply, or rather production. How much gold would be produced by subsidy? I have heard the discussions here today, and it is a matter of mining techniques. I am a layman on that subject. I won't venture any opinion, except to point out that in addition to the increase in price we have new technology in all the time, which I think would favor a much greater production of gold than would be indicated by statistically doubling the price.

In other words, an increase of price of gold to \$70 an ounce would more than double the output, in my opinion as an economist, not as a mining engineer.

Senator CARROLL. Your principal point is that you think that the Government's gold supply could be handled more intelligently with respect to fabricators?

Mr. GROSECLOSE. That is right. I think that is the most practical thing we can do within the framework of the political situation we have and the monetary situation. We could at least reopen a limited private market for gold, which would give the miners a better break. It would give some indication of the true value of gold in an open market, and it would relieve some of the sense of oppression of the American people that they are being deprived of the possession of gold when every other citizen in the world is free to own gold.

Senator CARROLL. That is a very fine point. I know that those engaged in the jewelry business—and they exist by the hundreds and thousands—employ many, many people. You can see what the economic problem there would be. But I am interested in what you say about the free gold of Germany and of Great Britain. This is a very important point. We will look into that at greater length. You may continue with your statement.

Mr. GROSECLOSE. Among all economic devices for the promotion of the well-being of a people the most effective is the free market. Ever since the enactment of the Sherman antimonopoly act in 1890, the free market has been a principal object of Government concern and activity. The establishment of a Government monopoly of gold in 1934 was a disastrous retreat of principle, iniquitous and unwarranted, and has brought on economic evils in our economy which have compounded over the years, requiring a multiplication of bureaucracy and enforcement agencies to combat. We can make a beginning at least, toward a restoration of a free gold market by requiring Treasury to cease its partiality and favoritism in subsidizing the gold fabricating industry at the expense of the gold mining industry, by discontinuing sales to industry and permitting a free market for industrial gold.

MEASURES IN AID OF SILVER

I now would make a few comments in regard to silver. The position of silver producers has been improved somewhat by the action of the Treasury on November 28, 1961, in suspending sales of its general fund silver to fabricators. This action, long urged, and long overdue, was brought about not by Treasury concern for the mining industry, but by the near exhaustion of its general fund stock, and its own heavy requirements for coinage. The stock, at the time the decision was made, was down to 22 million ounces, while the Treasury's coinage was taking some 55 million ounces annually.

Now, to meet its coinage needs, the Treasury is withdrawing \$5 silver certificates from circulation, replacing them with Federal Reserve notes, and using the silver for its coinage purposes. During December and January—the only months for which we have data—some \$75 million of \$5 and \$10 silver certificates have been returned from circulation—equivalent to some 58 million ounces of silver. Treasury has requested legislation to authorize it to retire \$1 and \$2 silver certificates, replace them with Federal Reserve notes, and dispose of the silver in its discretion.

Now, silver legislation has historically been regarded as monetary legislation coming under the jurisdiction of the Banking and Currency Committee. But a new situation has presented itself that brings the subject within the purview of this committee. The Treasury has long taken the view that silver is not true money, but merely a commodity. This view is now explicit in its formal request to Congress for legislation (now introduced as S. 2885) authorizing it to dispose of the remaining monetary reserve silver and to replace outstanding silver certificates with Federal Reserve notes.

The present administration has become exercised over the magnitude of the stockpile of strategic materials. Probably the stockpile will be reduced, but there seems no disposition anywhere to abandon the principle or the practice of stockpiling strategic reserves. The principle indeed is as old as Joseph who served the Egyptian pharaoh. In the case of silver, however, the Treasury's profligacy is astounding. It is willing, in the poet's words, to fling it to the winds like rain. This is all the more astounding in view of the strategic importance of the Treasury silver stock as demonstrated in two World Wars when over 200 million ounces in one war and over 400 million ounces in the other were sent to Asia in the interest of the national security. In

World War II, in addition to the 400 million ounces sent to Asia, over 900 million ounces were released to domestic industry for essential wartime uses.

The use of silver in space age technology is significant and of rapidly rising importance. Among the various metals in the strategic stockpile I would believe that none serves a broader or more critical range of needs than silver.

In view of Treasury eagerness to disperse our silver reserve, it would seem within the authority of your committee to recommend legislation which will assure the maintenance of a sufficient reserve for the needs of the national defense. Such a reserve should not, in my opinion, be less than that presently held in the monetary reserve.

U.S. gold production and industrial consumption in fine ounces

Calendar year	Production	Consumption (net)	Calendar year	Production	Consumption (net)
1930.....	2,100,395	734,223	1946.....	1,462,354	4,391,057
1931.....	2,213,741	286,901	1947.....	2,165,318	1,397,143
1932.....	2,219,304	¹ (313,938)	1948.....	2,025,480	1,285,314
1933.....	2,276,711	¹ (280,222)	1949.....	1,921,949	3,109,785
1934.....	2,741,706	¹ (1,762,700)	1950.....	2,288,708	2,795,593
1935.....	3,163,229	¹ (927,462)	1951.....	1,894,726	1,985,057
1936.....	3,760,128	¹ (83,081)	1952.....	1,927,000	2,752,973
1937.....	4,112,177	91,840	1953.....	1,970,000	2,142,860
1938.....	4,245,377	¹ (9,259)	1954.....	1,859,000	1,269,800
1939.....	4,620,602	213,160	1955.....	1,876,830	1,300,000
1940.....	4,862,979	380,172	1956.....	1,865,200	1,400,000
1941.....	4,832,087	1,057,189	1957.....	1,800,000	1,450,000
1942.....	3,583,080	1,351,280	1958.....	1,759,000	1,833,251
1943.....	1,380,758	2,466,953	1959.....	1,635,000	2,521,800
1944.....	1,022,238	2,779,951	1960.....	² 1,666,772	3,000,000
1945.....	915,403	3,112,695	1961.....	² 1,526,757	³ 3,046,000

¹ Net return of secondary gold.

² Source: Bureau of Mines.

³ Based upon mint sales of 2,154,469 ounces.

Source: U.S. Bureau of Mint.

That concludes my statement, Senator Carroll.

Senator CARROLL. That was a very fine statement. Thank you very much for your patience in waiting here all day and we will be in touch with you again.

Mr. GROSECLOSE. Thank you very much, Senator. Thank you for the privilege of being here.

Senator CARROLL. Have you also studied the fiscal policy of other nations and the effect of the short demand and the drain upon our gold reserves?

Mr. GROSECLOSE. Yes, I have made a considerable study of that over the past 10 years, particularly in connection with our balance of payments and our foreign aid program. I have a study of the deterioration of our balance of payments. This is the first decade in American history in which we lost gold on balance.

Senator CARROLL. Did you hear the observations I made based on the information I received from a representative from the Department of Interior, that in the history of our Nation our production of gold was about \$10 billion in terms of dollars?

Mr. GROSECLOSE. Yes.

Senator CARROLL. And that we had on hand at Fort Knox about \$25 billion. This meant that gold was flowing into us. I assume

that gold was flowing into us as the result of the war and our tremendous expenditures.

Mr. GROSECLOSE. No. Gold has flowed into this country in every decade because of our economic power. I have a table which I could submit for the record.

Senator CARROLL. Do you think that World War II and the way we financed it all over the world had nothing to do with that?

Mr. GROSECLOSE. World War II did result in our bringing in gold. The devaluation of the dollar in 1934 brought in about \$15 billion of gold during that decade. We have brought in gold in every decade because of the vitality of our economy. That has been the major source of our total gold supply.

Senator CARROLL. Are you saying that in the decade preceding 1934 we increased the gold supply, and it is only in the last years that it has been flowing out on us?

Mr. GROSECLOSE. Yes. Our gold supply increased until 1949. Then coincident with the initiation of the foreign aid program we have steadily lost gold in practically every year since then. One of the major sources of this drain has been this excess of outgo. I have a tabulation that I could submit for the record.

Senator CARROLL. I would be happy to put it in the record at this point.

(The tabulation referred to follows:)

Changes in U.S. gold stock by periods

Years (inclusive) ¹	Net gain or (loss) (in thousands)	Percent gain (loss)	Years (inclusive) ¹	Net gain or (loss) (in thousands)	Percent gain (loss)
1873-80-----	\$216, 841	161	1921-30-----	\$1, 669, 384	58
1881-90-----	343, 722	98	1931-40-----	² 15, 428, 225	340
1891-1900-----	387, 801	60	1941-50-----	4, 267, 629	21
1901-10-----	601, 659	58	1951-60-----	(4, 822, 922)	(20)
1911-20-----	1, 229, 439	75			

¹ Midyear figures, except for 1960, for which Mar. 31 figures are given.

² Decade of gold revaluation.

Source: Treasury statements.

Mr. GROSECLOSE. Changes in New York gold stock by periods, giving the changes in the gold stock by the periods from 1873 down through 1960.

Senator CARROLL. What is the source of that?

Mr. GROSECLOSE. The source is Treasury statements. It is a table I compiled in my office from Treasury statements. In every decade we have had a net gain of gold until the decade of the fifties, 1951-60, when we lost \$4,408 million net.

Senator CARROLL. Considering the state of Europe after World War II and the spreading movement of communism over Europe, we supported Europe with the Marshall plan and the so-called foreign aid program.

Mr. GROSECLOSE. I think we had to give Europe our support. I think from my personal observations and from talking to officials, the greatly overlooked element in that support was our moral support. We speak a great deal about the money invested through the Marshall plan. But the psychological support was even greater.

Senator CARROLL. I am referring to its relationship to the present outflow of gold. The decisions that we had to make then are like chickens coming home to roost now. We restored their economy. Our deficit is based, I think, largely on our military expenditures. Our balance of trade is favorable, is it not?

Mr. GROSECLOSE. I heard that statement made today, that we have a favorable balance of trade. If you take out of our exports financed by our foreign aid, we are hardly selling as much as we are buying. We have a trade balance of about \$5½ billion net, say \$20 billion exports, \$14½ billion imports. But our total oversea costs are in the neighborhood of \$8 or \$9 billion.

Senator CARROLL. Isn't that largely because of military spending?

Mr. GROSECLOSE. About \$3 billion is military spending.

Senator CARROLL. Isn't that what creates the deficit?

Mr. GROSECLOSE. That, in my opinion, is what creates the deficit. A lot of that spending is in the form of merchandise, and that comes out of this merchandise balance. They estimate that 80 percent goes out in the form of merchandise, which means that of this \$20 billion of trade, some \$7 billion goes out as gifts through our aid programs. If the 20 percent is not trade, it represents gold. That is why the gold is going out. We have been giving more abroad than they can possibly absorb. That is why they are taking down gold.

Senator CARROLL. There is a difference of opinion on that.

Mr. GROSECLOSE. Yes, I realize. This is not a discussion of foreign aid.

Senator CARROLL. You have been most helpful. Thank you again for your patience in waiting here all day, and we will be in touch with you.

Mr. GROSECLOSE. Thank you.

Senator CARROLL. I want to make a statement here. I am privileged to include in the record at this point a statement of the Honorable Wayne Aspinall, chairman of the Interior and Insular Affairs Committee of the House of Representatives. Congressman Aspinall is a leader in this field, and we are very happy to have his comments, and as and when we reach a conclusion in this committee, I will be more than glad to cooperate with him in the solution of this difficult problem.

(The statement referred to follows:)

STATEMENT OF HON. WAYNE N. ASPINALL, CHAIRMAN, INTERIOR AND INSULAR AFFAIRS COMMITTEE, HOUSE OF REPRESENTATIVES

I know that I do not have to tell this committee that gold producers need help or that silver producers need some stabilizing assurance for the future. You know these conclusions, and the facts supporting them are being furnished by industry representatives here today.

My primary concern is to reemphasize to you that we must find a solution to this problem. I think that working together jointly we will find it.

The Mines and Mining Subcommittee of the House Interior and Insular Affairs Committee has held hearings on proposals to help gold miners, and we are glad to make our records and files available to you and to your staff for such help as they may provide.

It is unfortunate that gold and silver miners are engaged with a product that is not only an industrial commodity but has intrinsic monetary value. It is unfortunate because, in these days of our complex world society, monetary values become a tool in the worldwide economic struggle which precludes many from

accepting the fact that some relief must be afforded to the gold producers particularly.

This does not mean that we cannot find a solution. We can, and I think we shall.

In Colorado, both in my congressional district and in other parts of the State, closed gold mines testify to the difficulties that the producers have encountered. Reopening these gold mines will mean much to the economy of Colorado and of the Nation.

We will be watching for the results of your hearing here, and I look forward to pooling our joint resources in order to find an early solution to this vexing problem.

Senator CARROLL. I might say to the Senate staff, that Congressman Aspinall offers the full cooperation of his staff, and I know our staff will give them the fullest cooperation, too. We need both Houses working together to solve this most difficult problem.

I have received several statements from Senators and Congressmen who are vitally interested in this question. I will order them placed in this record at this point.

A number of other statements and communications have been received and no doubt will continue to come in. They all will be grouped in an appropriate place in the printed record.¹

(The statements from the Senators and Congressmen follow:)

STATEMENT OF HON. WARREN G. MAGNUSON, A U.S. SENATOR FROM THE STATE OF WASHINGTON

Mr. Chairman, I share with my colleagues, Senators Engle and Kuchel, of California, and Senator Case of South Dakota, their deep concern over the distress of the gold mining industry and warmly support the proposal they have made in Senate Joint Resolution 44 to provide relief to the industry through incentive payments.

The State of Washington, which I represent, has a direct interest also in the adoption of this resolution. In 1960, mine production of gold in Washington was greater than that of California, the original El Dorado of the West.

What the comparative production record of the two States was in 1961, I do not know because production in Washington is now limited to so few mines and producing companies that the Bureau of Mines has not disclosed the precise data. We do know, however, that it declined in 1961, as it did in Alaska, California, Idaho, Montana, Nevada, South Dakota, and Utah, and in the Nation as a whole.

Our national gold production of 1,526,757 ounces last year was the lowest of any peacetime year since 1884—78 years ago. And the 1961 record was the sixth lowest since gold was discovered in California in 1848—114 years ago. The years 1883 and 1884 and the World War II years of 1943, 1944, and 1945, when gold production was virtually shut down by the diversion of manpower to more strategic metals, were the only years in which domestic gold production was less than 1961.

The decline since the war years has been continuous. In 1940 the miners of the United States produced nearly 5 million ounces. In 1941 production was 4,751,000 ounces. Even during the darkest days of the depression—in 1929—the United States and its miners produced more than 2 million ounces of gold. From 1906 until 1917 there was not a year in which production was not well in excess of 4 million ounces, and during World War I it was almost double what it is today.

This decline, in my opinion, has serious implications to the future of the Nation and the free world. The U.S.S.R., according to the Bureau of Mines, is estimated to have produced 11 million ounces of gold in 1960 and 9 million during each of the 4 preceding years. The leading producer of the free world is the Union of South Africa with more than 21 million ounces, followed by Canada with more than 4.6 million in 1960, and with production exceeding 4

¹ The statements referred to appear in the appendix.

million for each of the past 10 years. Moreover Canada's product has increased each year while that of the United States has each year showed a decrease.

Does this imply that the gold ores of the United States are now virtually exhausted while important new discoveries have been made in Canada? It does not.

There are extensive deposits of gold ore in many States, including Washington, which with suitable incentives it would be profitable to mine. There are other mineral deposits in many States which contain gold in sufficient quantities to warrant, with proper incentives, profitable extraction.

Our decline in gold production is caused by the fact that the price of newly mined gold per ounce simply is not sufficient to pay development, labor, haulage, and other costs in any but a very few mines, most of which were opened and developed in earlier times.

Congress cannot change the price. The President, on his own volition, cannot change the price.

Under the Bretton Woods Monetary International Agreement, later ratified as a treaty, the dollar was made interchangeable with gold "at the weight and fineness in effect on July 1, 1944." That, in effect, stated that the Government could not pay more for gold now than it did then—\$35 per ounce—unless all other nations party to the agreement should agree to permit the United States to pay more. It is hardly to the interest of foreign governments to do this, particularly those which have claims against the United States—claims which are only payable in gold.

So to rehabilitate our gold-producing industry, revive our mines, and restore employment in these mines, a method of making incentive payments to producers without changing the statutory price of gold must be adopted.

Canada, which is bound to the International Monetary Agreement the same as we are, has done this.

With permission of the Subcommittee on Mines of the Committee on Interior and Insular Affairs, I would like to include in my remarks a statement prepared for me, at my request, by the Embassy of Canada on Canada's Emergency Gold Mining Assistance Act, and her Gold Export Act. They are self-explanatory and the record shows that since these measures were adopted production of gold in Canada has steadily mounted to Canada's profit and that of the free world.

"THE EMERGENCY GOLD MINING ASSISTANCE ACT

"During the period following World War II, a substantial rise in the general level of prices and wages confronted the gold mining industry with serious economic problems. The industry was unable to increase the market value of its product, since producers were required to sell their gold to the Royal Canadian Mint and the price paid for gold by the mint is based on a fixed price of \$35 per ounce, U.S. funds.

"In 1948, the Emergency Gold Mining Assistance Act was enacted for a period of 3 years to assist Canadian gold mines to meet rising costs of production and thus continue in operation to provide support for their dependent communities. Notwithstanding strenuous and successful efforts of the gold mines to increase their operating efficiency, costs of production continued to rise for reasons beyond their control. In addition, the freeing of the Canadian dollar and its subsequent appreciation relative to the U.S. dollar resulted in a decrease in the price received by the mines from the mint.

"Prior to the expiration of the act at the end of 1950, it was evident that the conditions which led to the passage of the act were still operative and the difficulties faced by the industry were, if anything, more acute. Consequently the act was extended for another year, and under similar circumstances has been further extended to the present on short-term basis.

"An amendment to the act in 1960 extended the application of the act for 3 years to the end of 1963 without change in the method of determining the amount of assistance payable to eligible gold mine operators. A section of the act was also amended to insure the maintenance of the policy of the Government to pay assistance on gold bullion only when it is sold to the Royal Canadian Mint and not on gold bullion that is exported and sold elsewhere. Assistance is paid on gold exported as contained in ore or concentrates which cannot be economically treated in Canada.

"Since the inception of the Emergency Gold Mining Assistance Act in 1948, the amount of assistance payable to the operators of a gold mine has been calculated by a formula consisting of two factors: The rate of assistance which

is based on the cost per ounce of gold produced from the mine, and the assistance ounces which are a specified proportion of the total ounces of gold produced. Under the formula prescribed for the years 1955, 1956, and 1957, the rate-of-assistance factor was determined by taking two-thirds of the amount by which the cost per ounce exceeded \$26.50 with a maximum rate of \$12.33 per ounce. The number of assistance ounces was two-thirds of the total produced. The amounts of assistance payable for the years 1955 to 1957 was the amount obtained by multiplying the rate of assistance by the number of assistance ounces. By an amendment to the act in 1958, the amount of assistance payable to an operator for 1958 and subsequent years has been computed by adding 25 percent to the amount obtained by application of the formula.

"The regulations were revised in 1960, principally for the purpose of consolidating and codifying certain administrative rules with respect to depreciation, preproduction expenses, and capital expenditures on exploration and development as costs of production of gold.

"Since January 1959, the sale on the open market of a part of the gold produced by a gold mine operator does not in itself render the operator ineligible for assistance payments under the act on the balance of gold produced from the mine and sold to the Royal Canadian Mint during a quarterly period or the full calendar year. Prior notification of the intention of the operator to sell part or all of the mine production of gold on the open market is not required. However, full disclosure of the production, sale, and transfer of gold by the operator is required in an application for assistance.

"THE GOLD EXPORT ACT AND DISPOSAL OF CANADIAN GOLD

"The Gold Export Act, passed in 1932, authorizes the Governor in Council to make regulations regarding the export of gold from Canada. On March 21, 1956, the regulations which prohibited the export of gold in any form except under license issued by the Minister of Finance were revoked. Thus, since March 21, 1956, producers have been free to sell their gold wherever they desire."

Senator Engle's resolution, in which he is joined by Senator Kuchel and Senator Case of South Dakota, bears strong similarity to the Canadian Assistance Act.

In brief, it provides that the Secretary of the Interior shall make incentive payments to producers of gold mined, the amount of payment to be determined by the Secretary but in no case to exceed \$35 per ounce, and that such payments shall be made until such time as the gold reserves of the United States equal or exceed \$23 million.

I am happy to support this resolution.

The resolution does not include the provisions of the Gold Export Act which Canada also has adopted as an incentive to gold production. U.S. producers are not permitted to sell gold in the world market or export it. In fact, the only incentive now provided the domestic industry is a depletion allowance for tax purposes, which producers of many other minerals also enjoy.

The absence of a Gold Export Act in my opinion makes it doubly important that Senate Joint Resolution 44 be adopted in this session of the Congress.

Thank you.

STATEMENT OF HON. KARL E. MUNDT, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman, I want to urge your committee to give favorable consideration to Senate Joint Resolution 44, a bill which will help restore the gold mining industry in the United States. As you know, what was once the world's largest gold mine is located in South Dakota—the Homestead Gold Mine at Lead, S. Dak. Yet, this large mine, with its great resources is having a struggle to maintain a solvent economic operation, and, in fact, it would very likely not be able to continue in business if it were not for the fact that they mine other minerals and metals for which there is a profitable market.

This is true, also, I am informed, in most of the gold-producing areas of our Nation. Statistics show that our domestic gold production is declining, and has been declining, while, at the same time, world production is making tremendous strides forward.

The other side of the picture is this: While we produce less and the rest of the world produces more, our own demands for gold continues to increase to the

point where we are importing gold. During the years 1955 to 1960 the amount of gold imports has more than trebled.

It would seem to me that it is only in the interests of our Nation and our people to follow a different program which will do much to stabilize our general economy and the special development of our gold-mining industry.

There has been a growing tendency during the last decade to demean our own industries and our own interests in favor of the interests of less developed nations. While we have some responsibility in helping other countries establish sound governments and sound economies, we have a greater responsibility in seeing to it that our own country develops and prospers. If we fail in that, our promises of assistance to others will never be fulfilled because of our inability to deliver on those promises.

Today's production of gold in this country has reached a new low. Every month sees a decline in the amount of gold produced. We steadily move toward disaster in our gold-mining industry. Gold-mining deserves consideration as a depressed industry toward which the Government has certain responsibilities. This is mainly true because the action of the Government has resulted in the depressed economic status in which gold mining now finds itself.

There has been a very unrealistic attitude on the part of the Government in establishing its policy on gold, but that is not the primary concern of this committee. Those of us interested in the industry have to carry our fight to other areas, but, it is within the authority and power of this committee to right, in a small way, some of the injustices imposed on the gold-mining industry by our Government and that is what I hope you will do.

There have been some efforts by certain Government economists to suggest that gold and gold holdings have little effect on a Nation's economy. In truth, however, gold is still the international medium of exchange and it is the precious item countries clamor to get.

It has been stated by experts that Russian production of gold is climbing very steadily. Should this increased production ever put Russia in the position where it can offer gold-backed currency to the world, with substantial proof of adequate reserves of gold, then the free world monetary system would suffer a shock and our own economy would not miss the reverberations by any means.

The United States must move back to its former status as the leading producer of gold instead of producing only 3 percent of the world's supply as it does today. The prestige argument alone makes it imperative that we pass legislation to revive the gold-mining industry.

It appears to me that Senate Joint Resolution 44 is a sound approach to assist this ailing industry. It is consistent with other programs which Congress has enacted in similar circumstances, and it provides justice for an industry which national policies have injured.

It is not logical for us to fall behind in world production. It is not safe for us to abandon the mining industry so that mines will be shut down. It is short-sighted and reckless to allow gold production to fall to the point where we must import gold.

Congress has the means in Senate Joint Resolution 44 for correcting a great wrong and I urge your committee to expedite action which will be a boost to the mining industry and also for our own national self-interest.

STATEMENT OF HON. WALTER S. BARING, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF NEVADA

Mr. Chairman, I am making this statement before your committee because the Senate Joint Resolution 44 being discussed today is of great interest to me, for I have, myself, on the House side introduced four gold bills in the 87th Congress in an effort to offset the alarming exodus of gold from our rapidly depleting Treasury reserve, and in an effort to bring some life into the defunct domestic mining industry. My bills are as follows: H.R. 1991 and H.R. 2212, both of which would provide incentive payments of \$35 per fine ounce for newly mined gold, H.R. 2211 to place gold on a free market and H.R. 6281 which would amend the Internal Revenue Code of 1954 to increase the percentage rate applicable to domestic gold ores for purposes of the deduction for depletion.

Gold output in the United States has drastically dropped since the post World War peak, and the need for sound legislation to maintain the dollar as the paramount world currency and to restore confidence in the gold dollar as the world standard unit of value, is of utmost importance.

I feel sure that the United States and the free world would be best served by the restoration of the gold standard. This would no doubt result in a higher price for gold in dollars and such a move would be beneficial to American gold miners. I think, however, that besides the fact that such a move would be beneficial to small industry, the true advantages are gained by the free world in again having dependable money backed by gold in a manner that could be supported, because it would rebuild our Treasury's reserve back up to the constitutional limit.

The cost of mining gold in the United States has been so prohibitively high due to increased labor costs and fringe benefits as well as the rising costs in supplies, equipment, and materials used in the mining of gold. The curve of the rising costs will inevitably intersect the gross receipts and in the not too distant future the final death blow will be dealt to the gold-mining industry in this country if no relief is obtained.

The real solution to our problems in this area would be to change our monetary policies, as stated above, as far as gold is concerned, for not only would the gold-mining industry benefit but the entire economy would be stimulated.

I feel that there are other long-range benefits which would be realized through increased gold production. The mining-industry would be able to train and maintain a skilled reserve of exploration and mining manpower in order to keep abreast of the expanding Russian-Red Chinese geological know-how. Increased gold production could lead to discoveries of other commercially profitable mineral deposits and further, it would permit the development of tax-supporting communities on an industrial basis in remote and undeveloped areas of this country.

I feel that the time is ripe right now to act on legislation such as Senate Joint Resolution 44 and I will lend it my full support.

Senator CARROLL. The committee will be in recess subject to the call of the Chair.

(Whereupon, at 5:20 p.m., the committee recessed subject to the call of the Chair.)

GOLD AND SILVER PRODUCTION INCENTIVES

FRIDAY, JUNE 8, 1962

U.S. SENATE,
SUBCOMMITTEE ON MINERALS, MATERIALS, AND FUELS
OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 3110, New Senate Office Building, Senator John A. Carroll (chairman of the subcommittee) presiding.

Present: Senators Carroll (presiding), Anderson (chairman of the full committee), Bible, Church, Moss, Gruening, Long, Hickey, Kuchel, Dworshak, and Allott.

Also present: Stewart French, chief counsel; and H. H. Schnibbe, administrative assistant to Senator Carroll.

Senator CARROLL (presiding). The meeting will come to order.

This is an open public hearing by the Subcommittee on Minerals, Materials, and Fuels of the Senate Interior Committee on ways to increase production of domestic gold and silver, increasing our reserves in the National Treasury and reopening our once prosperous mines and putting our unemployed miners back to work. It is a continuation of an exploratory hearing on March 15. Specific legislation before the subcommittee is Senate Joint Resolution 44, sponsored by Senator Clair Engle of California for himself and Senators Case of South Dakota, Kuchel, Church, the able and distinguished Senator from Alaska, Senator Gruening, which would authorize incentive payments for newly mined domestic gold of up to \$35 an ounce.

At the March 15 hearing, only industry spokesmen and non-Government experts appeared as witnesses. This was primarily because all of the executive agencies concerned with gold—Treasury, State, Interior, and the Bureau of the Budget—had reported adversely on Senate Joint Resolution 44, and the subcommittee wanted to get the views and comments of the men who produce gold, or who could produce it, and of men who were not bound by policies evolved many years ago from desks in Washington in different times and conditions.

Many new facts and new ideas were brought out at this March 15 hearing. I caused a set of the galley proofs of the transcript to be submitted for study and consideration to each of the agencies that had opposed aid for the American gold producer and miner.

Today we will hear from spokesmen from these agencies and will, I hope, receive their comments on the industry's views and suggestions. In preparing for these hearings, it became apparent that the Department of the Treasury is the policymaking agency of the Government of the United States, above all others, that makes and pronounces policy on gold.

Therefore, we are fortunate to have with us this morning Hon. Robert V. Roosa, Under Secretary of the Treasury for Monetary Affairs, who is representing Secretary Dillon. Secretary Roosa is accompanied by Mr. Robert Knight, General Counsel of the Treasury, and an able staff of experts. We also have Phillip Samuel Hughes, Assistant Director of the Bureau of the Budget for Legislative Reference, and three technical experts from the Department of the Interior: Charles Merrill, Chief of the Division of Minerals, Bureau of Mines; J. P. Ryan, gold commodity specialist, Bureau of Mines; and George Fumich, Director of the Office of Minerals Exploration.

Before calling Secretary Roosa, I want to put into the record a memorandum on what action other countries have taken to aid their miners to produce gold from reserves in their own countries. This study was prepared by Dr. Leland Howard, Director, Office of Domestic Gold and Silver, Department of the Treasury, at the subcommittee's request.

Also, I will insert into the record a letter from Dr. Howard in response to a request from the committee counsel, Stewart French, outlining the legal basis for the present price of \$35 an ounce for gold—the price at which the U.S. Treasury will buy and sell gold. This price was fixed nearly two decades ago by President Franklin D. Roosevelt when times were vastly different from the present.

(The documents referred to are as follows:)

LETTER FROM DR. LELAND HOWARD OUTLINING LEGAL BASIS FOR PRESENT
PRICE OF \$35 AN OUNCE FOR GOLD

TREASURY DEPARTMENT,
Washington, D.C., May 18, 1962.

MR. STEWART FRENCH,
Chief Counsel, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.

DEAR SIR: This is in reply to your letter of May 11, 1962, in which you request certain additional information concerning gold, in connection with your forthcoming hearings on Senate Joint Resolution 44 scheduled for the 23d of May.

Section 43 of the act of May 12, 1933 (48 Stat. 51-53) permitted the President to fix the weight of the gold dollar, but in no event to reduce its then present weight by more than 50 percent. Section 12 of the Gold reserve Act of 1934 (48 Stat. 337) amended this section to add that the weight of the gold dollar not be fixed in any event at more than 60 percent of its then present weight. This power was to expire 2 years after the date of enactment of the Gold Reserve Act, unless the President should sooner declare the existing emergency ended, but the President was authorized to extend the period for not more than 1 additional year after such date by proclamation.

On January 31, 1934, the President by proclamation (No. 2072) fixed the weight of the gold dollar at 155/21 grains nine-tenths fine, which was the equivalent of \$35 per fine troy ounce and on that same day the price of gold purchased and sold by the Mints and Assay Office under the Gold Reserve Act was fixed at \$35 per fine ounce, minus or plus one-fourth of 1 percent. Purchases were also subject to mint charges.

On January 10, 1936, by proclamation, the President extended the powers with respect to the weight of the gold dollar until January 30, 1937. These powers were further extended by the act of January 23, 1937, the act of July 6, 1939, and the act of June 30, 1941, until June 30, 1943, when they expired.

The Secretary of the Treasury under sections 8 and 9 of the Gold Reserve Act has the authority, with the approval of the President, to purchase and sell gold "at such rates and upon such terms and conditions as he may deem most ad-

vantageous to the public interest." This authority, however, is limited by the Bretton Woods Agreement Act and the obligations undertaken by the United States as a member of the International Monetary Fund. Article IV, section 2 of the Articles of Agreement of the International Monetary Fund provides:

"The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin or sell gold at a price below par value minus the prescribed margin."

The Fund has prescribed a margin of one-quarter of 1 percent plus actual or computed costs of melting, shipment, and custody, if any, or in the alternative a margin of 1 percent to include all of these handling costs. Under this provision, the United States has an obligation to the International Monetary Fund not to purchase gold at more or sell gold at less than \$35 plus or minus the margin prescribed by the Fund, under either alternative, unless the par value of the dollar should be changed. Under section 2 of the Bretton Woods Agreement Act (22 U.S.C. 286c), approval of Congress is required for any such change in the par value of the dollar.

I have had a review made of the various gold subsidy programs throughout the world. These programs are submitted to the International Monetary Fund for approval and the material in the attached memorandum was prepared from the annual reports and staff papers of that organization.

Very truly yours,

Dr. LELAND HOWARD,
Director, Office of Domestic Gold and Silver Operations.

MEMORANDUM PREPARED BY DR. LELAND HOWARD ON ACTION TAKEN BY OTHER
NATIONS TO AID GOLD MINERS

MEMORANDUM

Re gold subsidies.

CANADA

The Canadian subsidy, first announced on December 11, 1947, provided for a payment to individual gold mines, determined by taking half of the amount by which the current cost of gold production of any mine exceeded \$18 an ounce and applying this to the amount by which production in the current year exceeded two-thirds of the production in the base year, July 1, 1946, to June 1, 1947. This subsidy was effective January 1, 1948, and was initiated for a 3-year period. It was extended in 1949 to not less than one-third of the gold produced each year, which would permit assistance to a few mines producing at levels substantially below that of the base year.

In 1951 the plan was changed so that the number of ounces on which it would be paid was based on either the number of ounces produced in the benefit year (1951) in excess of one-half of the number produced in 1948, 1949, or 1950, the year to be selected by the mines, or one-half of the number of ounces produced in the benefit year, whichever was the greater. The 1951 assistance was equal to half of the difference between \$22 per ounce and the actual cost of production of gold from the particular mine, up to \$45. Canadian producers electing to sell gold at premium prices were not eligible for the subsidy. This act was extended to January 1, 1954.

In February 1955, the subsidy was extended in a modified form for the calendar years 1955 and 1956. Under this formula, a subsidy was provided for eligible mines equal to two-thirds of the excess of the cost of production over Can-\$26.50 per ounce up to a maximum of Can-\$12.33 per ounce. This applied to two-thirds of the output of the assisted producers, reduced the subsidy previously available to lower cost mines, and increased that available to higher cost mines.

This was extended through 1957 and 1958 without change.

In August 1958 the subsidy was extended through the calendar years 1959 and 1960, with a 25-percent increase in the amount of assistance for the years 1958, 1959, and 1960. The increase of 25-percent in the amounts payable to individual mines was intended to offset a continuing rise in production costs and

the effects of the free exchange rate of the Canadian dollar. The subsidy was paid to mines that produced only gold and that had production costs high enough to justify assistance; it was not payable to base metal mines which produced gold as a byproduct. Gold mines ineligible for assistance and base metal mines were permitted to sell their gold on the free market. Mines receiving assistance are required to sell their output to the Royal Canadian Mint for the equivalent in Canadian dollars of United States \$35 per fine ounce. Since the Canadian dollar has been at a premium over the United States dollar in recent years, the price paid by the mint for gold has been proportionately reduced; during 1958 it fluctuated between Can\$33.58 and Can\$34.62 per fine ounce. The total amount of subsidy paid for the year ended March 31, 1959, is estimated at Can\$11.6 million compared with Can\$8.6 million for the previous year.

In June 1960, Canada extended the subsidy through the years 1961, 1962, and 1963 and made administrative changes so as to insure that subsidy payments were made only on gold bullion sold to the Royal Canadian Mint.

AUSTRALIA

In March 1948, Australia initiated a subsidy determined for each gold mine individually according to its cost or reserves, values and dependent population, which was canceled in 1949.

However, in October 1954 they introduced a plan whereby certain gold producers whose annual output exceeded 500 ounces would be eligible during the fiscal years 1954, 1955, and 1956 for a subsidy per fine ounce equal to three-quarters of the excess cost of production over A£13 10s. provided that the subsidy would not in any case exceed 2 Australian pounds per ounce. Producers whose annual output was less than 500 ounces would be eligible for a flat rate subsidy, A£1 10s. per ounce.

For a period of 3 years from June 30, 1959, the rates of assistance were increased to A£3 5s. (3 Australian pounds, 5 shillings) maximum for large producers and flat subsidy for small producers to A£2 8s. (2 Australian pounds, 8 shillings).

This program is still in effect.

FIJI

Fiji has only one gold producer. An annual subsidy of £150,000 was paid to this company in each of the fiscal years 1959, 1960, and 1961, on condition that the company should carry out capital development, costing an equal or greater amount, on mine buildings, plant, and underground workings (exclusive of staff or employees' housing) during the period of the subsidy; the company was required to refund to the Government all sums received by way of subsidies in excess of the cost of such capital works; and in the event of production in any one year falling below 75,000 ounces, the subsidy was to be reduced below £150,000 at the rate of £2 per ounce of the shortfall.

COLOMBIA

The Colombian subsidy plan provided for a temporary subsidy of not more than 20 pesos per fine ounce on not more than 30 troy ounces per month to certain small gold mines and gold pan miners whose production did not exceed 180 ounces of fine gold during the first 6 months of 1953 and who elected to sell their output to the Bank of the Republic at the official price of \$35 per fine ounce, plus the established subsidy. The output of the mines to be benefited was, at the time of its adoption in 1955, about 20 percent of the total amount of gold produced in Colombia and the total subsidy payable was limited to a monthly appropriation of 80,000 pesos.

This program is still in effect.

PHILIPPINES

In June 1954, the Government of the Philippines introduced a subsidy payment related to the presumed economic need of each category of mine for a period of 2 years. Mines producing gold as their principal product had the option of selling newly mined gold to the Government through the Central Bank at the official price and receiving the appropriate subsidy or selling gold on the domestic free market without any subsidy.

From September 1955 until December 31, 1955, the rates of assistance were reduced, gold producers were required to sell to the Central Bank a minimum of 50 percent of their gold production at their new rates of assistance with the option of selling their entire output at the same prices.

This act was modified and extended to July 18, 1957, to extend the categories of producers to be assisted so as to cover all producers, and to channel a greater quantity of newly mined gold into the central reserves. The right to receive assistance was extended to mines producing gold as a byproduct of other metals. At least 75 percent of the newly mined gold produced by each mine was required to be sold to the Government through the Central Bank at the current official price per ounce plus the assistance. The remaining 25 percent could be sold either to the Government or in the domestic free market without benefit of the assistance. The rates of assistance were not changed. The Philippine monetary authorities, by a resolution of February 19, 1957, also authorized the use of blocked peso deposits of nonresidents for the direct purchase of gold bullion up to 25 percent of the output of local mining companies. Such purchases in the domestic free market had to be sold to the Central Bank at the official price of \$35 per ounce, payable in U.S. dollars, and the proceeds remitted abroad.

In June 1961, the Philippines introduced direct production subsidies to gold producers. All gold producers were classified into two categories—marginal and overmarginal—depending on whether or not their net profits fell short of base profits, which are calculated separately for each mine. In order to be eligible for the subsidy, gold producers are required to sell their entire output to the Central Bank at the official price, which is defined as the peso equivalent of U.S. \$35 per ounce, or any other price set by the Government. Marginal producers receive, in addition to the official price, an assistance of ₱65 per ounce and overmarginal producers, ₱50 per ounce. However, the total amount received is not to exceed ₱170 per ounce for marginal producers and ₱155 per ounce for overmarginal producers.

SOUTHERN RHODESIA

A gold subsidy was introduced during 1948 in Southern Rhodesia which was canceled after the devaluation of sterling and certain other currencies in September 1949.

MAY 17, 1962.

Senator CARROLL. With respect to the incentive, or subsidy payments to domestic producers proposed in Senate Joint Resolution 44, Dr. Howard's memorandum shows that a number of other gold-producing countries have followed this route, and have met with some success. In any event, their own efforts to aid their own gold, miners, in their own countries, have not upset the rest of the world, as our monetary experts in Washington insist that similar efforts on America's part to help American gold miners would do.

Senate Joint Resolution 44 would in no way affect the Government fixed price of \$35 an ounce, any more than subsidies paid by other nations have increased the price.

It is highly pertinent that Senator Gruening and others have suggested that Senate Joint Resolution 44 might be amended to provide unequivocal assurance that the United States would continue to buy or sell gold at \$35 an ounce, if such a price is deemed to be in our national interest.

As I stated, we have with us this morning high-ranking officials, on the policymaking level, of the administrative branch of our Government. We hope very much that we can arrive at an agreement on some course of action that will solve our present dilemma of "starving in the midst of plenty" where gold is concerned.

Secretary Roosa, we are glad to have you with us. Would you be good enough to present your aides and staff to the committee.

STATEMENT OF ROBERT V. ROOSA, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS; ACCOMPANIED BY FRED B. SMITH, DEPUTY GENERAL COUNSEL; CHARLES HARLEY, ASSISTANT DIRECTOR, OFFICE OF INTERNATIONAL FINANCE; LELAND HOWARD, DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS; AND ISAIAH FRANK, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

Mr. ROOSA. Thank you, Senator Carroll.

Senator ALLOTT. Mr. Chairman?

Senator CARROLL. Senator Allott.

Senator ALLOTT. I wonder, since I will have to leave at 10:30, in order to attend the markup of the appropriations bill on defense, could I ask at this point that S. 1539, 86th Congress, the bill which I have previously offered, which would prohibit sales of gold by the Government for commercial purposes, be introduced into the record, and also a very pertinent letter in the Congressional Record on page 9222 from Mr. Becraft, of Denver, on this general subject to be introduced into the record.

Senator CARROLL. Without objection, it is so ordered.

(The documents referred to are as follows:

[S. 1538, 86th Cong., 1st sess.]

A BILL To prohibit sales of gold by the Government for commercial use or for the arts, or for the purpose of lessening the price and value of gold

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That all gold held or bought by the United States Treasury, or mints, or assay offices, or by the Federal Reserve banks, shall be construed to be monetary gold. Such gold shall not hereafter be sold for commercial use or for the arts, and no gold shall hereafter be sold by the Treasury, or by the Federal Reserve banks, or for the account of the Treasury or of such banks, directly or indirectly, in the United States, its Territories or possessions, for the purpose of depressing the market in gold or lessening the price and value of gold.

Boulder Fluorspar Co.,
Denver, Colo., May 9, 1962.

Hon. GORDON ALLOTT,
U.S. Senator from Colorado,
Senate Office Building,
Washington, D.C.

DEAR SENATOR ALLOTT: As you are of course well aware, one of our important national problems which is causing great concern today is the balance of payments and the accompanying decrease in our gold reserves, and we are told that we must check the outward flow of gold. Another serious problem is the large number of unemployed, many of whom have been without jobs over long periods of time.

It would seem that many millions in gold could be retained at home, many jobs could be provided, and many millions in taxes could be added to the national income, if our metal and mineral mines and mills could be put into operation again.

Without some protection, our domestic mines cannot compete with the low labor costs of most of our foreign competitors, and so some regulations are required to reserve a portion of the domestic market for our own producers. A quota system which would assure our domestic producers a share of our own market, say at least one-third, would probably be most equitable and the simplest plan to administer, together with an adequate tariff to equalize costs. If an adequate tariff is deemed objectionable for political or other reasons, then a subsidy to be paid to the producers could be provided to equalize the differential

of the foreign wage rates. The plan which you introduced to cover the fluorspar industry a couple of years ago should be a satisfactory solution.

Data published by the Bureau of Mines show that for the year 1960, fluorspar with a value of \$14,392,888 was imported, while the Bureau's estimated figure for 1961 was \$11,593,000. These figures are not large when compared with the import of some of the metals, such as lead and zinc, but the problems of the individual fluorspar producers, and especially the smaller operators, are just as serious to them as are those of the large producers, and relief is just as vital, or probably more necessary on account of their limited capital resources.

Operations on our properties, located near Jamestown in Boulder County, were closed down at the end of 1958, due to the market conditions resulting from heavy imports at reduced prices.

Practically all domestic fluorspar production, other than that from captive mines, has already been forced to close down in the face of the foreign imports, principally from Mexico, Spain, and Italy. If this condition is not soon remedied, the cost of unwatering the mines, and of rehabilitating the mines and the mills will become so great as to make resumption of operations uneconomical, with the result that these essential natural resources may be permanently lost to our national economy, with the accompanying loss of the stockholders' equity, the loss of jobs, and the loss of future possible tax revenues. The loss of jobs is of course very serious indeed to the local economies, and in the meantime, the labor force of experienced miners and mill operators is being scattered, and no younger men can be trained in the meantime to handle these highly skilled jobs.

If the present policies are continued much longer, our domestic metal and mineral industries will cease to exist, and in future years, our great Nation with all its resources, will be dependent solely on imports for our requirements of many of these vital materials, leaving us subject to whatever deliveries and prices which the foreign producers decide to impose on us, because it may then be impossible to revive our own production facilities. That would not be a pleasant situation for the United States to face, but it may become a reality within the next few years if steps are not taken promptly to put our mineral production industries on a firm footing. It must be realized that time to forestall this potential condition is rapidly running out. Prompt action is urgent.

We of course know that you understand and appreciate the above facts, that you have been a consistent champion for a strong mining industry, and that your efforts have been continued in the face of strong opposition by forces which apparently fail to understand the long-range damage to the country which will result from the continuation of their policies. We congratulate and thank you for your past efforts which we are sure will be continued, and assure you of our continued support in the future. With best wishes,

Very truly yours,

FRANK W. BECRAFT,
President.

Senator BIBLE. Mr. Chairman, at this point may I, likewise, ask to have introduced as a part of the record the resolution of the Western Governors' Conference which was held on May 2-5 in Anchorage, Alaska.

This is a resolution regarding incentive payments to domestic producers.

Senator CARROLL. Without objection, it is so ordered.

(The resolution referred to is as follows:)

WESTERN GOVERNORS' CONFERENCE RESOLUTION

Anchorage, Alaska, May 2-5, 1962

Resolved, That the following recommendations of the Western Governors' Mining Advisory Council with respect to the subject of gold be approved and adopted by this conference:

Stability of the monetary system of the United States is vital to this country and to the countries of the free world. An essential to such stability is an increase in the gold production of our Nation, now at an alltime low.

It is self-evident that the gold miners of this Nation need higher prices to produce. An increase in the dollar price of gold would interfere with inter-

national monetary policy, but incentive payments for newly mined gold from domestic gold mines would not. Such an incentive would reopen closed gold mines and restore lost jobs.

The Treasury policy of selling gold to foreign central banks and to licensed consumers at home at \$35 an ounce has resulted in a gold drain that today threatens the integrity of the U.S. reserve and the value of the dollar.

Gold is the basic international monetary commodity and any proposal to repeal or reduce the required gold backing of our currency is inimical to the best interests of the Nation.

We, therefore, recommend that:

(1) The western Governors urge incentive payments that will assure to domestic producers a fair economic return; and

(2) The western Governors oppose any decrease in the legal requirement of 25 percent gold backing of Federal Reserve paper bills plus Federal Reserve net deposit liabilities.

Senator CARROLL. I have a letter here from Senator Cannon, our colleague from Nevada.

Have you seen this letter?

Senator BIBLE. I have not seen it.

Senator CARROLL. If there is no objection I will have the letter placed in the record but I wanted the senior Senator from Nevada to see it first.

Senator BIBLE. He is suggesting the adoption of this resolution from the Nevada Advisory Committee Board. I am very familiar with it.

Senator CARROLL. Without objection, it will be placed in the record. (The letter referred to is as follows:)

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
July 7, 1962.

HON. JOHN A. CARROLL,
Chairman, Subcommittee on Minerals, Materials, and Fuels,
U.S. Senate, Washington, D.C.

DEAR JOHN: I have been following with great interest the hearings which you have been conducting on Senate Joint Resolution 44, which would provide an incentive payment for gold production. In connection therewith, I am enclosing a resolution adopted by the advisory mining board in my State, which I would appreciate having included as a part of your hearing record.

This resolution substantially expresses the sense of the mining industry in Nevada, and I am in sympathy with its intent.

I trust that an affirmative proposal will be forthcoming from your committee, which will assist in improving our gold-mining industry and our gold reserve situation.

Sincerely yours,

HOWARD W. CANNON.

CONCURRENT RESOLUTION

It is the sense of Congress that the establishment of a strong gold-mining industry is of great importance to the fiscal system of the Nation as well as to the gold-consuming industries and public depending upon an ample gold supply commensurate with our society and standard of living.

In recent years, the settlement of unfavorable trade balances has caused a concern in the alarming reduction in the level of our gold reserves which in turn tends to weaken the absolute value of the dollar in the eyes of the free world.

It is further the sense of the Congress that a gold-mining industry supplying newly mined gold to the U.S. Treasury at a rate above present levels would tend to produce an overall beneficial effect, including that of dollar prestige as well as creating employment opportunities.

It is further the sense of Congress that the President be requested to evaluate various means of stimulating the gold-mining industry to achieve increased production of gold from the Nation's natural resources, and if authority is not now bestowed upon the President, to make legislative recommendations as deemed appropriate to carry out the objectives of this resolution.

Senator CARROLL. Secretary Roosa, will you proceed?

Mr. ROOSA. Thank you very much, Mr. Chairman.

My associates accompanying me this morning are, first, Dr. Howard, to whom you have already referred, on my left; and on my further left, Mr. Fred Smith, who is representing Mr. Knight, the General Counsel. He is the Deputy General Counsel in the Treasury. And on my far right, Mr. Charles Harley, who is the Assistant Director of the Office of International Finance. On my immediate right, Mr. Isaiah Frank, who is the Deputy Assistant Secretary of State for Economic Affairs.

I noted with interest, Mr. Chairman, the introduction of these additional items into the record this morning.

Senator CARROLL. May I interrupt to note for the record the presence of the following Senators; Senator Bible; Senator Moss, of Utah; Senator Gruening, of Alaska; Senator Dworshak, ranking minority, of Idaho; Senator Kuchel, of California; and Senator Allott, of Colorado. Senator Anderson was here for the opening statement. Others will be in and out, and we will correct the record to have it reflect their presence.

Go right ahead.

Mr. ROOSA. Yes, sir.

I just say in introduction that I would welcome an opportunity to discuss any or all of those matters subsequently. They are not specifically dealt with in the very brief prepared statement which I wanted to refer to initially here, and I might just review that first, indicating that, as you have already mentioned, Mr. Chairman, on March 15, this subcommittee heard a number of industry and other nongovernmental witnesses on Senate Joint Resolution 44, a resolution to encourage the discovery, development, and production of domestic gold, and the other objectives which you have already mentioned.

We are very grateful in the Treasury that the chairman of this committee thoughtfully supplied us and other executive departments with a copy of the record of those hearings in order to make possible a careful study by our staffs and those of other agencies before we were scheduled to appear before you today.

It is my understanding that Senate Joint Resolution 44 would authorize the Secretary of the Interior, under rules and regulations prescribed by him, to make incentive payments to producers of gold mined in the United States, its territorial possessions, or the Commonwealth of Puerto Rico. The amount of any such payment would be determined by the Secretary of the Interior, but would not in any case exceed \$35 an ounce. Any such amount would, of course, be an addition to the official price of \$35 per ounce which has since 1934 been paid on delivery of gold to the Treasury for acquisition by the United States.

In response to a letter from Senator Anderson, chairman of the Committee on Interior and Insular Affairs, the Treasury Department stated over a year ago that it opposed the enactment of Senate Joint Resolution 44.

And, despite our best efforts to be as cooperative as we could, we studied the March hearings carefully, we have discussed these matters further with public officials and with representatives of the gold mining industry, and have, indeed, carefully reexamined the role of gold in our own monetary system, but we have not changed our view.

It seems to us that the usual reasons for urging gold subsidies in other countries or for urging subsidies to other industries in this country are not applicable to gold in the United States.

This cannot be viewed simply as a case of a marginal or depressed industry seeking relief from the compelling pressures of economic change. Gold is a unique metal. The dollar is a unique currency. Ours is the only currency that maintains the link between money and gold; we do that by standing ready to purchase and sell gold at the fixed price of \$35 an ounce.

The monetary system of the entire free world is hinged to the interconvertibility which we maintain between gold and dollars at that price. Any form of subsidy to American gold production would impair that relationship.

An understandable, compassionate effort, in the spirit of which we can all share, to assist a relatively few people to keep or obtain employment in the gold mining industry—desirable as employment there would be, or their employment, in any event—that effort, instead of helping those in the gold mining industry, would, in our considered and deliberate judgment, disrupt the monetary system upon which not only their own livelihood, but also that of all the rest of us, depends.

Senator CARROLL. Would you prefer to finish your statement first, or do you mind interruptions?

Mr. ROOSA. The statement is only another page. Perhaps I should just finish, sir, and then we can range over the entire area.

To us, it seems there is no compensating advantage in the promise that subsidies would produce a vast enlargement of the existing gold stock. The fact is that even if productive capacity could achieve the most optimistic estimate of the Department of Interior, American facilities could not in less than a century add—these are additions—to our gold production the amount of gold contemplated by the present terms of Senate Joint Resolution 44. But even if that total could by some alchemy be produced within a single year, it could not begin to offset the losses to the world economy that would be created by devaluation of the dollar. And in blunt, simple terms, if the U.S. Government should add an unprecedented subsidy to the official \$35 price for gold, such action would be construed by the rest of the world as evidence that devaluation was underway.

I would be glad to discuss further any aspects of this question relating to the function of gold in the world's monetary system, along whatever lines the chairman and members of this committee may wish to pursue.

But I would stress, before we begin, that I can give you full assurance, based on intimate, continuous, extensive contact with financial officials of most of the leading countries of the world that a step of the kind contemplated by this resolution would be regarded as synonymous with a declaration of intent to devalue the dollar of the United States.

That is why the Treasury Department is opposed to this resolution. Senator CARROLL. On page 2 of your statement you say:

Ours is the only currency that maintains the link between money and gold. Why is that? And how did that come about?

Mr. ROOSA. It emerged, Senator, in the evolution of the changing monetary system in the 1930's, beginning in 1931, when the United Kingdom suspended gold payments.

Senator CARROLL. The United Kingdom did what?

Mr. ROOSA. The United Kingdom suspended gold payments on a fixed buying and selling arrangement, and has not restored those payments since that time.

Now, in the nature of the free world's monetary system, as it has evolved thus far, the role of key currency—principal, key currency—devolves upon the leading country.

Now, until 1931, so far as monetary systems were concerned, that role had for a century been principally that of the United Kingdom. The United States had been gradually moving in to share in some of the responsibilities.

Since that time the roles have been reversed. The United States has, particularly since the mid-1930's, been the principal reserve currency for the entire world monetary system, apart from a few of the Iron Curtain countries.

Senator CARROLL. Will you please restate that?

Mr. ROOSA. Its been the principal reserve currency for the entire world, apart from some of the Iron Curtain countries. The reserve currency on which all other currencies depend, on which the maintenance of continuous financial facilities for assuring the payment of obligations incurred in trade, for the movement of capital, the arrangements on which all of those transactions depend are ultimately linked to the relation between the principal reserve currency and gold.

Senator CARROLL. How many years has this been going on?

Mr. ROOSA. In the sense that the United States should occupy the principal role, and I should indicate that sterling, having shifted from the principal role, is still occupying a secondary role in this respect but a role still linked to the dollar, for roughly 26 or 27 years now.

Senator CARROLL. For example, what is the key currency for the Soviet Union? Do they have a link between their currency and gold?

Mr. ROOSA. Yes.

Actually, the odd thing is that the Soviet Union wants to play it safe both ways. They define the value of the ruble, as, of course, all other currencies define their value, in terms of the dollar.

But, then, in addition, they define the value of the ruble in terms of—I do not have in mind the figure, but the indicated equivalent in ounces of gold.

As you know, they changed the value of the ruble in the fall of 1960 and have declared its value for purposes of international exchange to be equal roughly to \$1.10.

Senator CARROLL. You mean to say that the Soviet Union also determines the value of the ruble according to the value of the dollar?

Mr. ROOSA. No, sir.

I am only implying that in response to your question the way in which every country that engages in any external trade has to define the value of its currency is in relation to what it is willing to maintain as a price relationship between its currency and something else.

Now, all other currencies define that relationship, and I am speaking now in terms of the free world, because this is not true of all the Iron Curtain, but in terms of the free world that relationship is defined as a fixed parity declared, in the case of all members of the Monetary Fund, declared to and published by the Monetary Fund, a fixed parity between their currency and the dollar.

In the case of the United States, it would be circular reasoning, since we are the key, principal currency, to define the dollar in terms of the dollar. We are the currency that maintains the relationship between gold and the monetary system of the world.

We are the only ones who stand ready to maintain the relationship between gold and our own currency, and we do that by maintaining a fixed price.

Senator CARROLL. I did not quite understand.

All I am asking is whether or not the Soviet Union also uses gold as a backing for its currency.

Mr. ROOSA. Yes, indeed.

Yes, sir, the Soviet Union—

Senator CARROLL. Is that the link in their currency?

Mr. ROOSA. Yes, indeed.

The difference, however, is that they do not stand ready to buy and sell gold on demand, and, of course, they do not maintain the freedom to use rubles as against other currencies. The conditions of normal commerce are not maintained by the Soviet Union with respect to the use of their currency.

Senator CARROLL. You say they do not stand—

Mr. ROOSA. They do not stand ready to buy and sell gold.

Senator CARROLL. Stand ready?

Mr. ROOSA. At the price which they have declared. It is a fictitious declaration.

Senator CARROLL. But do they buy?

Mr. ROOSA. They produce and they sell. I am not aware of any purchases that they have made in recent years.

Senator CARROLL. What is their productive capacity? Do you have any figures on that?

Mr. ROOSA. I am sorry, sir, no one knows.

Senator CARROLL. What are they producing?

Mr. ROOSA. There are estimates, but no one knows. We do know what they sell each year into the outside world, and that figure ranges between \$200 million and \$300 million a year.

Senator CARROLL. Between \$200 and \$300 million a year?

Mr. ROOSA. \$200 million and \$300 million; yes, sir.

Senator CARROLL. Is that freshly minted gold being sold by the Soviet Union on the world market?

Mr. ROOSA. Yes, sir.

Whether it is out of new production or accumulated stocks, it is impossible to tell.

Senator CARROLL. Do you know what our production is or was in the last year?

Mr. ROOSA. Yes. Ours is running roughly at the rate of \$60 million a year.

Senator CARROLL. Then is it a safe assumption to say that they are producing or at least putting on the market three times as much as we are?

Mr. ROOSA. Certainly, in terms of what they are putting on the market, that is true, yes.

Senator CARROLL. What other areas of the world are producing gold in large quantities?

Mr. ROOSA. Principally South Africa, sir, and that has been increasing over the past several years at the fixed price of \$35, and their output—I can insert the correct figures and precise figures in the record—their output is now running between eight and nine hundred—yes; the figure for 1961 was \$803 million.

Senator CARROLL. \$803 million from South Africa?

Mr. ROOSA. Yes; and that is still increasing.

Senator CARROLL. Is there any other producer in the world aside from South Africa that is as large a producer as the Soviet Union, with its production of between \$200 million and \$300 million a year?

Mr. ROOSA. I should repeat that we are not sure how much of their sales comes from production and how much from past accumulations, but, with that qualification, there is no country that puts on to the market during the year as much as the Soviet Union, apart from South Africa. Canada is next in line with roughly \$150 million a year.

Senator CARROLL. Now, let us talk about South Africa for a moment.

What do they sell their gold for on the market?

Mr. ROOSA. Of course, there are various ways in which gold can be sold. The principal distribution of South African gold is into the monetary reserves of the world, and that would go at the price of \$35 an ounce with handling charge adjustment. But the possibility always exists, and at times it has been a substantial factor, in periods of real unrest, if, for example, this hearing today were to lead to real unrest about the value of the dollar, there could be a speculative flurry which would lead to a substantial increase in hoarding demand, and it is possible that some of the South African production can then be diverted, at least for a time, into private hoards. There is an estimate which we try to keep current as to what is the disposal of the aggregate of all gold becoming available in the known world markets each year.

That runs roughly, for disappearance either into hoards or going into industrial uses, something in the magnitude of about \$600 million a year.

In 1960, the year of the great fright over possible devaluation here, that total rose to \$1 billion, almost consuming the entire world supply in that year.

Senator CARROLL. Is there not another price, a world price, entirely apart from the one you refer to that has gone as high as \$70 an ounce?

Mr. ROOSA. Yes, sir; there are these varieties of clandestine markets.

There used to be more of them before the general return of convertibility in the industrialized countries. Back 10 years after the close of the last war there used to be rather active markets. They were of varying degrees of legitimacy or legality, in Tangier, Macao, and so on. These are markets which the continuing demand for gold gives rise to; it is part of the reason why gold in some way, in some manner, must serve as the base of monetary systems; that human desire in countries that are not stable, that are subject to unrest, fear of overturn, to get some kind of easily disposable commodity that can

be a sure store of value gives rise from time to time to hoarding demand.

Although the disappearance through these markets is never very large in relation either to current production or to the existing monetary gold stocks, it will vary, depending on the unsettlement in the world, and these markets are always there.

They are not as important as they used to be.

Senator CARROLL. You say that they are not as important as they used to be.

Mr. ROOSA. No, sir.

Senator CARROLL. You are saying that the greater portion of gold production is going into the stable market at a stable price?

Mr. ROOSA. Yes.

Senator CARROLL. Do you have any idea how much gold, percentage-wise, is going into these other markets, which have market prices of up to \$70 an ounce?

Mr. ROOSA. It is relatively small, but I would not want to venture a percentage guess. I should say that a price of that type is a price in a foreign currency, not in dollars. When the foreign currency amount is then converted into dollars—at the official rate of the foreign currency—the conversion would appear to give, say, a \$70 price.

I would suspect—the characteristic of these markets is such that we do not, because of their nature, have data on them, and you have to make your inferences by adding up the total of known uses and then assume that the remainder goes in this way.

Senator CARROLL. To put it more specifically:

How much of the South African gold do you think is going into the established channels, and how much of it is going into the other channels at \$70 an ounce?

Do you have any idea at all on that?

Mr. ROOSA. It is very hard to put a percentage on it. I would say this: In terms of the initial sale by South Africa as it leaves the control of South Africa to go into the next round, there is virtually none.

As to what happens in the second, the third, and the fourth round after it has been sold, I cannot be sure. I would think, however, from the scale and from what we know of the operation of these various markets, that the absorption currently is no more than 10, perhaps no more than 5, percent of total current production.

Senator CARROLL. What about Soviet gold?

Mr. ROOSA. That is why I have to be careful, because we do not know what their total disposals are, and we only know what we can see and record, and it is quite possible that there is some Soviet gold that goes into these markets. I suspect very little because we do know that they have regular patterns of selling gold which they sometimes interrupt as they did in the fall of 1960 for a little while.

But, normally, they follow fairly regular patterns of sale, and it seems unlikely that they would be placing very much reliance on these clandestine markets.

If they were, they would certainly be able to meet more of their external expenses by selling gold in this way.

Senator CARROLL. Do South Africa, or Canada, or some of the other larger producers have any form of subsidy for their miners?

Mr. ROOSA. Yes.

Senator CARROLL. Will you please explain what those subsidies are?

Mr. ROOSA. Well, both Canada and South Africa have subsidies either in the form of direct or indirect incentive payments or in the form of preferential tax treatment.

The tax treatment is applicable to broader categories of mining than subsidies to gold as such.

As to the details of these arrangements, I believe some of them are covered in the memorandum from Dr. Howard.

Senator CARROLL. I realize that mine was a rather broad question. We are certainly not trying to cause a flurry in the gold markets of the world or give anybody the impression that we are about to devalue the dollar.

If you think any of these questions would create such a condition, you may refuse to answer them.

Mr. ROOSA. All right, sir.

Senator CARROLL. For many years now, I have been hearing about this \$70 an ounce proposal. Of course, you know what has happened to the gold mining industry in the West.

South Africa and Canada have subsidies. Why would the psychological effect of us trying to help our few thousand miners who are left create trouble in the gold markets of the world?

Why would it be construed as a devaluation of the dollar when we are really trying to help an industry that has almost disappeared from our continent?

I wish you would talk to that point.

Mr. ROOSA. Yes, sir.

I can understand entirely the basis and the way in which you put the question. It certainly seems simple and reasonable that this industry, just as any other where there is an opportunity to do something with respect to its price that would restore jobs and increase the chances of people maintaining their existing employment, deserves the most sympathetic and searching attention we can give it, and that, too, is why Canada and South Africa have, in part, done this.

They have also done it because both countries run very heavy deficits in their balance of payments all the time.

And, having gold as a natural resource, which they can extract—in the case of South Africa the arrangements for subsidy are not the kind they have in Canada, and there are actually a number of mines, including one new one, which is able to produce without subsidy except for the general tax laws, and there the position is, consequently, a bit different.

But, in any event, the consideration of subsidy arises from both the concern over the individuals, those involved in the industry, and the need to acquire foreign exchange by producing this particular kind of asset instead of selling motorcars or something else, in order to pay for the goods that are regularly imported.

In the case of both of these countries, the reason that they can do this is that within their own monetary structure gold is a commodity, and it is as a commodity, just as lead, zinc, or silver, that these subsidies are paid, and they mine the commodity in order to acquire foreign exchange.

Their governments do not maintain this type of fixed buying and selling price that we do, and, in this respect, they can, those involved

in their gold mining industry consider that they gain an advantage which, simply because of broader, wider, overpowering considerations, cannot be available in the country that is maintaining the fixed relationship between gold and its currency.

Now, you ask why. Why, if there were some payment made to the individuals in the industry or some way of providing incentive inducements to the activation and maintenance of mining, why should that minor, little thing be interpreted so gravely?

Because it would be taken by those who are our creditors, those who hold dollars and have the alternative of claiming gold, as evidence that we had made a judgment, a governmental judgment, that the price of gold is wrong; that in some way, directly or indirectly, we must find a manner of revising the effective price at which gold is purchased when it is brought out of the ground in this country, in order to continue evoking the supplies that we as a government judge to be needed to meet the world's requirements.

And, since we are the country that maintains the monetary role of gold, not the commodity role but the monetary role of gold, it takes on an entirely different cast in the minds of everyone using dollars.

Senator KUCHEL. Will the chairman yield a minute?

Senator CARROLL. May I follow through with one question and then I will be very happy to yield.

Could we not also say that rather than diminishing the supply of gold, we are trying to increase it?

Now, if we increase our own supply of gold in this country, I should think it would lend strength to the system.

Mr. ROOSA. The system, sir, rests on two legs: the supply of gold and its price.

The crucial element in the system, so far as our role is concerned in it, is the maintenance of the price. Let me just digress for a minute.

Now, despite occasional comment to the contrary, the rest of the world, by and large, regards gold as equivalent to the dollar or the dollar as good as gold. That is why they maintain large holdings of dollars instead of gold in their monetary reserves.

The needs of the world for monetary reserves, gold meets part of it; dollars provide part of it.

If there were ever a question that the fixed relationship in price between the two were in doubt, then immediately everyone who is now holding dollars as part of his monetary reserves would decide that the only safe thing to do is to get into gold until the price of the dollar is revised. Then use your gold to come back and buy dollars, perhaps. But we have had in our lifetime one devaluation of the dollar. The question is, if there were ever another devaluation, whether they would ever choose to come back, and whether, in those circumstances, the existing monetary arrangements of the world could even survive.

It is this which troubles all of the financial officials of the leading countries of the world.

They know that if there is a risk of a change in our price, this almost automatically wipes out the usability of dollars as a substitute for gold, because the fixed-price relationship is gone.

This, in effect, removes the usability of more than half of what is now regarded as liquid monetary reserves in the world.

Senator CARROLL. The Soviet Union's production is growing and evidently the production of these other countries is increasing. At the same time, our production has been diminishing. Does this not have a possible psychological effect? If we permit our gold mining industry to continue as it has been, it eventually will expire, become extinct.

I do not want to create problems for you; I know you have many problems.

Mr. ROOSA. Yes, sir.

Senator CARROLL. Supposing that the American taxpayer pays for this, rather than the dollar holders in other countries, by means, for example, of an increase in the depletion allowance for gold. How could that possibly affect the monetary market or the value of our currency?

Mr. ROOSA. The only answer there, sir, is in how is it actually viewed and interpreted by the whole range of the financial community in this country and outside.

I think you would find, without having to go to any foreigners—you see, one of the other sources of vulnerability that exists, when we are the principal reserve currency, is that a lot of dollars now held in the United States by American citizens can move out.

And all you need do is take a canvass of the holders of short-term assets who are American nationals and ask them what that would do to their judgment about the ability of the United States to maintain the fixed \$35 price.

Now I agree with you that if they were to feel about it as you do, this would change the nature of the problem somewhat.

But the fact is that there is about gold a special sensitivity that does not exist with respect to any other metal.

It arises from its monetary function, and it is particularly keen with respect to the United States because of our special role, and, consequently, whether we are talking about Americans who would, in case of doubt, send funds abroad, as they did in the fall of 1960 in substantial amounts, or whether we are talking about foreign individuals, or whether we are talking about foreign central banks who actually have the right under the maintenance of our monetary system to purchase gold from the U.S. Government and are the only ones who do; in any event, a cross section of the thinking of these three groups leads to the conclusion that we would be, if we were to take steps of this kind, unable to maintain the \$35 price.

This is a reading which was taken, again, so far as central banking opinion is concerned, in Europe, in the last 3 weeks. There is no getting around the interpretation that is placed on it.

Senator CARROLL. Do not answer this question if it can get us into trouble. Have we been purchasing a substantial quantity of South African gold? When I say "we," I mean this Nation. Do we move into these markets?

Are we buying gold on the world market through these regular channels?

Mr. ROOSA. I would rather not answer the question as of the moment, but, to go over the record of the past year, we have, partly because

of our balance-of-payments position in this country, been, in terms of our total gold stock, losing gold.

Consequently, in such a period the fact that South African gold is sold and goes into other monetary reserves is, in a way, actually a saving of the drain on our own gold stock, because the demands of other countries who have the dollars for gold are there, and so we have not in calendar 1961 bought gold from South Africa.

The flow of South African gold into other monetary reserves has helped to reduce the drain which would otherwise have occurred on our gold stock, because our gold stock was, in any case, declining with our balance-of-payments deficit, Senator.

Senator CARROLL. Do you regard it as serious that we have lost \$6 billion worth of gold within the last few years?

Mr. ROOSA. Yes, sir. I regard this as perhaps the overriding fact, and in a real sense the overriding, significant evidence of deep and fundamental corrections needed in the American economy.

And I just go one step further and say that what gave rise to this loss was basically a change in the effective competitive position of the United States as against much of the rest of the world.

We are only dealing with symbols—if we think we can change it by somehow producing a mass of gold and putting it back in the locker. The only way we will really change this position, the only way we will recognize the meaning of these symbols, is by earning back the gold, by getting into a position where our balance of payments is again in equilibrium and surplus.

Senator CARROLL. Explain for a moment about earning back the gold. What do you mean by that?

Mr. ROOSA. I mean that we lost this gold from our gold stock because we were, in total, spending more in the world than we were earning in the world from our sale of goods and services abroad, and this meant in the language of the statistics that we were running a balance-of-payments deficit in 1958 of about \$3.5 billion, and then it went on in 1959 and 1960 between \$3.5 billion and \$4 billion. In 1961 we finally got it down to \$2.5 billion.

We hope this year we will get it well below \$2 billion. The present rate is running \$1.5 billion, but we are still in deficit.

And while we are in deficit, this means that one of two things happens:

The only way we pay for it is by creating more I O U's, more dollars that the rest of the world acquires. If the rest of the world is happy to hold all of those dollars, then nothing happens to the gold stock. But we were creating those dollar debts too fast.

They were going out more rapidly than would match the rest of the world's needs for dollars, and they converted into gold, particularly whenever they thought there was any danger that the price of gold in dollars might be changed.

We have, therefore, had these waves of gold outflow that were a part of our balance-of-payments deficit. Now in this current year we have been experiencing continued gold outflow.

It is running a little more than last year. The reasons are somewhat different, and I think they are the result of a pattern of change which is going to be much improved in another year.

But I doubt very much if we will be in a position until, at best, 1964, to begin earning back any significant amount of the gold.

To earn it back we have to be in a position where, on balance, after all things are counted, the rest of the world ends up paying us, and in those circumstances we may begin to get some return flow of gold or of their currencies which we can convert into gold when they reach a point of selling. So that until we earn our way back through a balance-of-payments surplus, we have not really recognized the significance of the gold loss.

And this, of course, has broad and permeating implications for the conduct of all our economic affairs.

Senator CARROLL. We are aware that some of the agencies have said that we cannot restore a \$6 billion loss quickly by the system of rehabilitating our gold mining industry, but it seems, at least to some of us, that we ought to make some effort in this direction.

This little, puny effort, by the testimony of the agencies and by your own statement, how could this little, puny effort upset the economy of the world?

If it is only \$40 million a year, how could this possibly affect the markets of the world, \$40 million more, rather?

Mr. ROOSA. Yes.

I recognize, sir, the difficulty of reading other people's minds, and there are a good many that have to be taken into account here.

All I can say—and, again, I am just using this as an illustration, but the fact that there has been already in a very responsible, and as you indicate so clearly here, considerate manner this much congressional consideration of this point has led to unrest, and has required on my part, and because we know these people well they are readily persuaded, explanations to several of the leading central banks.

There are two or three of the smaller ones who, even so, are just this week and next taking some gold, because they feel this is evidence that something down underneath is giving way in the American determination.

This is a Caesar's wife proposition.

You just cannot have a blemish of any kind in the firmness of the price.

It just happens that, as far as these transactions are concerned, they are very minor, and I do not think we will see them grow, but we do know that they arose out of concern of just this kind.

They are just symptoms of the way in which the world watches the United States for evidence that we in this particular respect will be above, as they view it, above reproach.

Now, they would say that in any way we choose to provide one of two things, either additional employment for the people involved or, better than that, to improve our capacity to sell exports and in that way earn our position back, anything we want to do in those areas is fine. But when it touches gold, it becomes sacred.

Senator CARROLL. We were led to believe some 2 or 3 years ago that the prospect of inflation created some doubt concerning the stability of our currency.

Now, let us take the other side of the coin. In view of what has happened to the stock market, it has been said by some that the stock market break is deflationary.

Has that given us greater strength in the minds of those people abroad who are holding our dollars?

Mr. ROOSA. Well, sir, this is another question on which—on all of these—I am afraid I have talked too long.

But, interestingly enough, those who are involved in financial markets sometimes find opposite events giving rise to the same rumor, and, of course, there has been a fair spate of rumors around the world that now that the stock market has broken—and I am now just giving you the caricature of it—and hasten to answer it so no one listening gets the wrong impression—but the caricature is that the stock market having broken, the economy by this evidence is somewhat weaker than had been thought.

Therefore, there will have to be resort to inflationary methods again.

So, without the evidence of inflation, without any indication that inflationary tactics are going to be utilized, already one interpretation of the stock market decline is that, well, the inflation risk is there, and perhaps a part of it will be—I have read this in London papers within recent days—one risk will be—they do not say “risk” because some of these people devoutly wish it—that the dollar will be devalued.

The same people who, when they saw the evidences of inflation that you spoke of several years ago, were saying the same thing.

Now, as you know, our whole aim has been—and it has been so determined and so comprehensive that it has provided real assurance to the people who matter insofar as gold sales are concerned around the world—our whole effort has been to find the way in which we are going to provide for the sort of sturdy growth the economy needs in a framework of price stability without inflation.

It is a terrifying challenge, but we have to meet it because we not only have to accomplish the growth, the absorption of the unemployed, but we have to balance our international accounts.

And we will not do it if prices begin to rise away from us again.

So that from this point of view, the decline in the stock market is, in essence, a healthy thing.

The stock market, as many who follow it more closely than I have been saying most of the spring, had become so high that it gave a feeling of uncertainty, unsteadiness. No one knew how it was ever going to come down.

If you could blink your eyes and get it down, it would be a nice trick, but no one wanted, either, to face the wear and tear of a market tumble.

Now it has happened, and there has been, of course, a serious impairment of confidence of various kinds during the period that this occurred, but it is my own view that in time this will turn out to be a very healthful and useful readjustment of the base.

Senator CARROLL. Has there been any immediate effect on the flight of gold out of the country?

Mr. ROOSA. This is what we are—and I am glad to use this opportunity as well—what we are trying to make clear, because I think, as this interpretation is understood, and it is fairly well understood abroad, the tendency to become unnerved by the stock market decline will change.

There is that tendency.

Senator CARROLL. I want to state that other members want to ask some questions, but you can see the situation.

Mr. ROOSA. Yes, indeed.

Senator CARROLL. We cannot mine gold even in virgin territory up in Alaska because it may shake the market. We cannot mine much lead and zinc any more because we will offend our friends in Latin America.

The Soviet Union and the rest of the world will continue to produce more and more gold, but we cannot move because we might shake confidence all over the world.

There is something wrong, I think, with this psychological concept, and I believe that somewhere along the line we have got to change it.

The Senator from California was good enough to withhold a question earlier.

I want to move as rapidly as I can to other members of the committee because they have many questions and they feel very deeply about this issue.

Senator KUCHEL. Let me ask several short questions. Does the Treasury Department believe that \$35 an ounce is a fair and reasonable price to pay for gold today in 1962?

Mr. ROOSA. Yes, sir.

Senator KUCHEL. With respect to the subsidy that the Canadian gold miner gets, could you indicate the amount which he receives for an ounce of gold which he mines?

Mr. ROOSA. I will ask Dr. Howard, who knows these things better than I.

Mr. HOWARD. The Canadian subsidy would be much less. The Canadian subsidy probably runs around \$4 to \$6 an ounce. It is based, as a rule, on two-thirds of production of the mine and a certain price, cost of production above a certain base, I think it is \$26.50, but it is very low. It is not much.

Senator KUCHEL. It is very low and not much.

Would you be able to say that it would run, therefore, in Canada on the basis of about \$41 an ounce? Is that what you mean?

Mr. HOWARD. Probably to those mines that get it. Not all of them avail themselves of it.

Senator KUCHEL. Is there any such thing as a world market price placed on gold outside of the International Monetary Fund?

Mr. ROOSA. I think I will try to answer that, sir.

The nearest thing to a world market price is that in the London market.

Senator KUCHEL. How much is that price?

Mr. ROOSA. I do not know the price at the opening this morning.

Yesterday it was \$35.0911. The excess over \$35 represents the shipping charge from the United States, largely. The day before it was \$35.08 and about three-quarters, and it is in this range and slightly below that the price has been maintained for some time.

This is the only significant trading market which has any widespread standing.

Senator KUCHEL. People whom I represent in California in the gold mining business tell me that the gold mining industry there is about dead, and the reason for it—and I think they are good people; I think they are reasonable people; I think they are telling the truth—the reason for it is that they cannot produce gold and sell it to the Government for \$35 an ounce.

Do you agree with that statement?

Mr. ROOSA. I think they are the best judge of their costs, sir, and it may well be true.

This is the history of economic change:

That some producers are able to meet a given price and others are not.

The actual output of gold in the free world at the fixed \$35 price—and, as we have indicated, virtually all of it is being sold at that price—has gone up nearly 50 percent in the last 10 years.

So that the physical output continues to rise in other countries in one way or another, technological innovation and so on which is able to offset these other costs.

As I have indicated, in the case of South Africa it is very hard to gauge what the subsidy, if anything, is, but it is all indirect in the form of their tax treatment.

Certainly in the case of most South African mines, the new and large ones, it does not amount to any difference other than the fact that there are differences in tax laws between countries.

Senator KUCHEL. I am a coauthor of this resolution. The Treasury Department opposes it. Does the Treasury Department have any recommendations that it might make to this subcommittee to help the gold mining industry of America in any fashion, additional incentive legislation with respect to the tax laws?

Does it have any recommendation to make as an alternative to this resolution?

Mr. ROOSA. No, sir.

We explored this matter with, I feel, thoroughness, and the same sympathetic consideration that you bring to it—I hope we have.

It is our feeling that the problem of gold mining, as distinct from all other kinds of mining—you may know that the Treasury Department did, in the case of lead and zinc, give its concurrence to the proposed legislation which has been authorized but for which no money has been appropriated yet to provide some assistance to the smaller, marginal producers.

In the case of any other metal, where there were similar problems, we would take the same approach. But in the case of gold, because of its special nature, we feel there is no alternative; that no special measures can be taken that would be aimed at gold as such; and that it is possible that the general workings of the changes we have proposed in the tax regulations and legislation may have benefit to gold mining as to all other forms of productive industry.

But to deal with gold mining specially and alone, we are unable to come up with the kind of helpful suggestion that in our hearts we would just as much like to do, as I know you do, sir.

Senator KUCHEL. Mr. Secretary, all I can say is that I rather bitterly regret the position of the Treasury Department.

I have listened to the answers which my colleague from Colorado elicited.

This is a difficult problem, I understand that.

This committee does not want to do anything to create any panic situation any place around the world.

But it is very difficult for this Senator to understand the basis and the reasoning on which purchases of gold that are made abroad with

all the elements of cheap labor that are involved, and, at the same time, we turn our back on the American gold industry.

Insofar as I am concerned, I think the consensus of this committee this morning, of the Senators who are here, is just about as I speak, and I do believe that the time has come for the Congress to indicate that it does desire to take some steps to help the domestic American gold mining industry.

Senator CARROLL. Without objection, Senator Dworshak, who is also on the Appropriations Committee, would like to ask a brief question.

Senator DWORSHAK. I want to get back later.

Senator CARROLL. Then we will proceed if there is no objection.

Senator DWORSHAK. Thank you.

Mr. Secretary, the concluding sentence in your statement is:

For these reasons the Treasury Department is opposed to this resolution.

Now, let us assume that the Congress does pass this Senate Joint Resolution 44. On the basis of your testimony, would the Treasury Department recommend that the President veto the bill?

Mr. ROOSA. Yes, sir.

Senator DWORSHAK. The resolution?

Mr. ROOSA. Yes, sir.

Senator DWORSHAK. And then we are just wasting our time holding hearings to determine what can be done if we know in advance that you think that the President would be likely to accept that recommendation and veto the resolution.

Mr. ROOSA. Yes, sir.

I believe the committee must have had that information from some of our earlier communications as well.

Senator DWORSHAK. That is the only point I wanted to make.

Now, I had some other questions that I will be glad to ask after.

Well, in pursuing that line of reasoning, you have testified that we have lost \$7 billion worth of gold in the last decade, and we are losing it at the rate of more than \$1 billion a year now because in the first 5 months of this calendar year the outflow of gold, of Treasury stock, was \$454 million.

That would indicate that with credits abroad far in excess of the \$16,435,000,000 worth of Treasury gold we have, that we are facing a most acute situation.

Maybe the solution is not to dig more gold and to enhance our gold Treasury stocks, but something has to be done.

I have advocated curtailing Federal spending, but I am a lone voice in the wilderness.

We want to have our cake and eat it, too.

Now, I share the concern of my colleague from California. Certainly there should be some responsibility resting upon the Congress, upon this committee, but also upon the Treasury Department and the President, to take some steps before we have a debacle or a financial crash with reverberations throughout the world, which, of course, would wreak havoc upon the economy and the financial stability of this country.

Now, does the Treasury Department have any suggestions of any kind to offer to Congress, or would you suggest that we enact this

resolution and then have it vetoed and then we would be exactly where we started?

Mr. ROOSA. Our recommendations, which we have made in many ways, and with monotonous insistence, are not related to the gold mining industry as such, but to the broader reach of the fundamental problem.

It is our feeling that the attempt to deal with this one particular industry, because of the special characteristics that I have mentioned, is not productive, but that the gold loss to which you have referred is clear evidence of the need for a comprehensive program of recovery in our own balance of payments and strength in our own domestic economy, and the program that we have proposed to that end ranges from the tax legislation still before the Senate Finance Committee to—

Senator DWORSHAK. Would that be inflationary or deflationary? Would a tax cut be inflationary or deflationary?

Mr. ROOSA. As far as the tax cut is concerned, I have no comment, since our proposal before the Senate committee, as it now stands, would be neutral with respect to the overall gain or loss of tax revenues.

Our proposal stresses the need for an investment credit to provide stimulus to additional investment as a principal means both of improving the productive capabilities and doing so within a framework of stable prices.

It is this which has characterized virtually every aspect of the Treasury's program.

A short time ago the President sent to the Congress the report on the first year of our work in the Treasury with respect to the balance of payments, and the one thing that stands out from that is this is a comprehensive kind of approach.

It involves details in many areas, and we are doing our best to find every area and to leave none untouched.

Senator DWORSHAK. That is a very comprehensive reply. Thank you.

I do hope that the administration will follow through and take some action, because, otherwise, I am sure that the Congress would be challenged to do something about it. I thank you.

Mr. Chairman, as a part of my participation in these hearings, I am inserting a letter I have had from Secretary Dillon on the price of gold.

(The letter is as follows:)

THE TREASURY DEPARTMENT,
Washington, D.C., March 21, 1962.

HON. HENRY DWORSHAK,
U.S. Senate, Washington, D.C.

DEAR SENATOR DWORSHAK: Thank you for your letter of March 5, 1962, concerning bills that have been introduced in Congress to provide a subsidy payment of \$35 an ounce to producers of gold.

As you know, one of President Kennedy's first acts in office was to pledge that the dollar would be defended and that the official price of gold would be maintained at \$35 an ounce. That pledge contributed directly to the restoration of confidence in the dollar at a time when an unfavorable balance-of-payment position of the United States and large gold losses had put pressure on the dollar. The President's decision to defend the \$35 price was based on his view of what is in the best interests of the U.S. economy and the free world as a whole.

It is our belief that any change in the gold value of the dollar would affect the entire mechanism of international trade and finance. For this reason, the administration has expressed firm opposition to proposals for incentive payments to domestic gold producers. The uncertainty and speculation with regard to future gold prices which would result from any such measure would tend to destroy confidence in the dollar.

We do not, at the same time, believe that an increase in the amount received for producing gold would cause an appreciable increase in the amount of gold produced in the United States. This conclusion is based upon what happened in the early thirties, when the price of gold was increased by 69 percent and production did not materially increase. In fact, the depletion of mines in the thirties and after makes it seem unlikely that even a comparable increase in production would be stimulated now by an increase in the price of gold. Any increase would, it seems certain, be minute compared to the gold losses we have suffered in recent years. This is aside from the fact that, as stated above, subsidy payments might tend to weaken the dollar and cause new outflows of gold from the United States.

I appreciate your requesting my views on the effect of a subsidy payment. If I can be of further assistance please do not hesitate to call upon me.

Sincerely yours,

DOUGLAS DILLON.

Senator CARROLL. I believe we should point out for the record that merely because we are considering Senate Joint Resolution 44, and the fact that Treasury would recommend a veto, this does not necessarily mean these hearings are not worthwhile.

Mr. ROOSA. No.

Senator CARROLL. We are not wedded to Senate Joint Resolution 44.

We are trying to seek a solution to this problem, and, although you cannot help us, we may help you before we get through.

Mr. ROOSA. Yes, sir.

Senator DWORSHAK. Mr. Chairman, I agree that the record should show that I implied merely that so far as Senate Joint Resolution 44 was concerned, we were going down a blind alley, but I certainly did not preclude the possibility that we could take some other action.

Senator CARROLL. I thank the Senator.

Senator BIBLE?

Senator BIBLE. Mr. Chairman, just a couple of questions. Is it true that the U.S. Government is the only free government that prohibits its citizens from owning and trading in gold?

Mr. ROOSA. No, sir.

The United Kingdom, and there are some members of the Commonwealth, not many, but the United Kingdom and the entire sterling area, insofar as this includes what they call dependent oversea territories, is prohibited from owning, buying, or selling gold, except under license as a commercial transaction, and in the same way it is available here. The regulations in the United Kingdom have been in effect, as far as I can recall, for more than 20 years.

Senator BIBLE. That is the law of the United Kingdom as of today?

Mr. ROOSA. Yes, sir.

Senator BIBLE. The suggestion has been made from time to time to this committee that it would be helpful to the gold mining industry, in rehabilitating the gold mining industry, if the United States would permit the holding and trading of gold as a free commodity.

What is the Treasury position on that?

Mr. ROOSA. Well, sir, we are a very negative lot, I am afraid.

We are opposed to that, too. The reason primarily is this:

That the argument for trading in gold in the way in which you have described it, and I think in every way that I have heard it treated, is essentially an argument in terms of the role of gold as a commodity.

It is our judgment that gold has acquired such a special status as the monetary metal that it cannot be subject to either the procedures or the understandable reasons for trading that would apply to any other commodity.

Now, you can quickly ask why, then, does the United Kingdom have this one market.

Well, the market there is not one in which there is, in the sense in which you describe, free trading. You see, no nationals of the United States, none of the United Kingdom or the dependent oversea territories, can buy or sell in that market.

This market is an orderly, but very small, arrangement for those transactions in gold, largely among very small governments or banking instrumentalities of governments which have maintained their holdings of gold, as we say, *loco* London, in any case.

And their trading between and among themselves can be accomplished in this way through an orderly trading machinery.

The market was reestablished in a sense because it had developed that some of the clandestine markets, Tangier, Macao, and that sort of thing, in years gone by, were having to perform this service as well, and it was not an economical way to do it.

The London market serves that purpose adequately.

There is no need for additional facilities to do that. If we were to widen it up so that the nationals of the United States could participate in the market—if, for example, the bill that was referred to that was introduced yesterday were to become law so that there would not be any sale by the United States out of our own stocks for commercial purposes and all commercial trading were to occur, instead, in such a market, then very soon, just because of changes in the day-to-day supply-demand conditions industrially, you would find a second price for gold.

It might, more often than not, be below than above \$35, no one can tell.

But, at any rate, it is our judgment that because of the overriding importance of gold as a monetary metal, we avoid the risks of misunderstanding and of speculative development by insisting on the maintenance of one price.

And we are gratified that the evolution of the London market, after some of its birth pangs, has resulted now in conditions in which the price also, with allowance for shipping cost, remains in line with the fixed \$35 price here.

Senator BIBLE. Mr. Secretary, another suggestion has been made that to revive the gold mining industry and to build up these gold reserve stocks, that suggestion has been that decreased depreciation allowance be made.

The present depreciation allowance, I think, is 15 percent. This is much lower than any other depreciation allowances.

What is your position on that? What is the Treasury's position on an increase in the depletion allowance for gold in the gold mining industry?

Mr. ROOSA. There has historically been Treasury opposition to taking special action in this respect with respect to gold itself.

But, as you know, there is a thorough review of depreciation practice with respect to all industries now underway. The results of that, I hope, will be ready for public release by no later than mid-July.

We are doing our very best to have it before then.

Until then, I think it would be inappropriate for me to make a comment.

Senator BIBLE. On July 15 will you make some recommendation as to the proper depletion allowance for gold?

Mr. ROOSA. As to the depletion—I am sorry, I misunderstood—on the depletion allowance itself, it is more likely to be the subject of consideration, if there is consideration of this matter, with respect to actual tax legislation of the kind that will be prepared for consideration, we hope, before the end of August.

Senator CARROLL. But, as I understand it, if Senator Bible will yield—

Senator BIBLE. Surely.

Senator CARROLL. Couldn't we increase the depletion allowance for all metals, not only gold, from 15 percent to 35 percent, as suggested in a letter from the Reliance Chemical Corp., in Denver, which I have before me? Couldn't we have some incentive, either depletion allowance or some tax incentive? I understand Canada has one.

Mr. ROOSA. Yes.

Senator CARROLL. If we treated this thing in a general rather than specific way, would not this eliminate some of the fear about the psychological effect?

Mr. ROOSA. Yes, this would, indeed, be a different problem; and I think, in connection with the review of these matters in our tax legislation, we certainly do have an area in which there will be occasion for much more conversation, yes.

Senator CARROLL. We are groping for a solution. Is this a possible solution?

Mr. ROOSA. Yes.

And I think this is, indeed, the promising area for productive study.

But I had stressed in reply to earlier questions that the question of mining as such was one matter.

The question of singling out gold was a different one; yes, sir.

Senator CHURCH. Will the Senator yield there?

Senator BIBLE. Surely.

Senator CHURCH. I do not quite understand how depletion would be very helpful, whatever change might be made in the schedules, if the fact is that we cannot now mine gold profitably at \$35 an ounce.

There is nothing to deplete; is that not true?

Mr. ROOSA. I would rather not, sir, other than indicating readiness on the part of the Department, certainly, as we have all along, to look at this matter, try to get into the specific problems with respect to taxes here.

That is not only not my own field, but it is a matter that is under study as a part of the overall tax considerations. It is now under study by other technicians in the Treasury. I think this is not the best time to be exploring that. We would be glad to suggest that our people visit you on it, Senator.

Senator CARROLL. Because the question has been raised, Mr. Secretary, it has always been the position of the members of this committee to examine mineral problems on a nonpartisan basis.

Is the position now taken by the Treasury any different—on the question of gold incentives and the inquiry that is now underway, is the position of the Treasury Department different in this administration than the position of the Treasury Department in the last administration on these questions?

Mr. ROOSA. Not so far as I know, sir.

Senator CHURCH. This is a continuing position that both Republican and Democratic Presidents have upheld in recent years?

Mr. ROOSA. Yes, sir.

As you may know, one of the final actions which former President Eisenhower took was the action limiting the right of individuals to hold gold abroad which had always been left open, and that limitation has been further clarified and amplified in regulations that we have issued.

Those are the only areas in which there was occasion to take specific action, and they have been consistent in following the same pattern.

Senator BIBLE. Mr. Secretary, just one further question.

The Western Governors Conference—and this is a group composed, I believe, of at least 17 of the western Governors—make this statement relative to the subject of gold and to the general subject that we are exploring this morning:

An increase in the dollar price of gold would interfere with international monetary policy:

I assume that you agree with that.

Then they add:

But incentive payment for newly mined gold from domestic gold mines would not.

You take a different view?

Mr. ROOSA. Yes.

Senator BIBLE. On incentive payments?

Mr. ROOSA. Yes, sir.

Senator BIBLE. Is there any way that we could build up our reserves from domestic mines in such a way that it would not shake the monetary system?

Mr. ROOSA. Not that we have been able to discover, sir, because the interpretation given to this is that the U.S. Government would, in some official way and public way, have indicated that there is something wrong or unsupportable about the \$35 price.

And, as I said, we have to be impeccable and uniform in insisting that we take no action that raises any question about that.

Senator BIBLE. The sum and substance, then, about what you are saying is that you are in complete disagreement with what the western members say?

Mr. ROOSA. Yes, sir.

Senator CARROLL. Senator Anderson?

Senator ANDERSON. You say it would have to be impeccable and uniform?

Mr. ROOSA. Yes, sir.

Senator ANDERSON. Now, what about the cotton situation? We give little extra on cotton by support price. Does that affect the world price?

Mr. ROOSA. Yes, sir; but this is the special, unique problem.

Senator ANDERSON. Oh, but we must be uniform and impeccable, now.

Mr. ROOSA. I am talking about gold only, sir.

Senator ANDERSON. You are just impeccable and uniform on gold?

Mr. ROOSA. We like to be in all matters, but——

Senator ANDERSON. But only in gold?

Mr. ROOSA. But with respect to gold, it is an absolute; yes, sir.

Senator ANDERSON. Why do you use the term "uniform"? You mean "unique," do you not?

Mr. ROOSA. Yes.

Senator ANDERSON. Nothing like it?

Mr. ROOSA. That is right; yes, sir.

Senator ANDERSON. That is right?

Mr. ROOSA. Yes, sir.

Senator ANDERSON. Now, you were asked a question a while ago, and I swear I could not understand what you said. I apologize for that.

Mr. ROOSA. Well, I apologize.

Senator ANDERSON. The acting chairman of this committee asked you a question. He wanted to know whether or not there had been a flow of gold outside the United States as a result of the stock market crash.

That could be answered yes or no, but you did not answer quite that crisply. Could you answer it again?

Mr. ROOSA. No.

Senator ANDERSON. You could not?

Mr. ROOSA. There has not been; no, sir.

Senator ANDERSON. There has not been?

Mr. ROOSA. No, sir.

Senator ANDERSON. Therefore, the flow of gold does not depend upon all these things we have been talking about, does it?

Mr. ROOSA. There are differences.

I understood your question to be whether there was any significance or definable relation between the recent stock market decline and the flow of gold.

Senator ANDERSON. No; I did not ask anything about the relationship.

Has there been a flow of gold as a result of the stock market break?

Mr. ROOSA. Yes; and the answer to that, sir, is "No, there has not."

Senator ANDERSON. Therefore, the flight of gold was not related to the fact that stocks were too highly priced, was it?

Mr. ROOSA. This is perhaps too soon to say, but, in any immediate sense, you must remember that the action to draw gold from the United States is taken by central banks. The central banks base their judgments sometimes on elements that are different from the private community.

There has, of course, been—not gold—but some outflow of funds through foreign selling, much less than one might have thought from the newspapers, but there has been some, Senator Anderson.

Now, those funds, when they flow out, may eventually get into the hands of central banks, who may eventually choose to take gold, but there is a timelag, and we cannot tell about that yet.

Senator ANDERSON. Could this flow of funds have been related in any way to the short-term price of Government money, to the Government bond situation?

The Treasury is sort of keeping the price at 2.70, is it not?

Mr. ROOSA. As close as we can.

Senator ANDERSON. Where it will only cost the Government 2 percent to borrow, you still boost it up to 2.70 in order to keep the money here, do you not?

Mr. ROOSA. Yes, sir.

Senator ANDERSON. How do you explain that? Is that a subsidy?

Mr. ROOSA. The only way I can explain it is that in every other country in the world, except Switzerland, the rate is considerably higher, and—

Senator ANDERSON. But if we are trying to borrow billions of dollars and are talking theoretically, we are trying to balance the budget.

Mr. ROOSA. Yes, sir.

Senator ANDERSON. Now, if the money market goes down to about 2 percent, where it wants to go, would not the Government save millions of dollars a year?

Mr. ROOSA. No, sir.

Senator ANDERSON. No?

Mr. ROOSA. No.

Senator ANDERSON. If you borrow money at 2 percent instead of paying 2.70, does that not save money?

Mr. ROOSA. That is only part of it, sir, in my view.

Senator ANDERSON. I realize it; but I thought in this world that the whole was the sum of its parts.

Mr. ROOSA. Yes.

Senator ANDERSON. And if this part was dragging it downward and making you lose millions of dollars, that was not really helping the whole much, was it?

Mr. ROOSA. No, sir; that is true, but perhaps I might suggest some of the other parts of which these are some.

Senator ANDERSON. All right.

Mr. ROOSA. The part of the total which you have mentioned is that short-term funds, which otherwise would leave the United States, are now being retained here because the short-term rate of interest, on securities in which this kind of money is kept, is being held within reach of the comparable rates of interest in other markets abroad.

Now, there are two ways in which that can be done:

One would be for the Federal Reserve System to maintain a general condition of monetary tightness so that not only these particular rates but the whole structure would be held very high, much higher than it is now—these rates held here; other rates emerging higher.

The other is that the Federal Reserve maintain, as it has, a general, comfortable or easy monetary policy, and that special action be taken with respect to only one part of the market.

Now, in the first case, the cost of all Government borrowing would have been higher.

In the second case, we pay a bit more for Treasury bills, the very shortest instrument, but we pay less on everything else.

So what has happened—

Senator ANDERSON. How would you go about proving that you paid less for everything else? By raising the general level of the market, you think you reduce the level of the market?

Mr. ROOSA. Well, sir, the best way I can do it—and any of these things is very approximate, of course—is that with an increase in this year of \$7 billion in the outstanding Federal debt, we will be paying less in total interest in this fiscal year than we paid a year or so ago.

Senator ANDERSON. Through the periods when we issued the 5's and things like that, but some were opposed to even that.

Mr. ROOSA. Yes, sir.

You see, that is what I am contrasting with, sir.

I think that the best answer—I think that is the best answer. The 5's were a 5-year note, a little less than 5 years. We are now borrowing, if we have to go out into that area, at rates currently that would range between 3.5 and 3.75, and it is this overall effect of the combination of policies we are using now which gives us a lesser aggregate expenditure on the public debt service, even though in one sector the rate is held somewhat higher than it would otherwise be.

And I should also stress, sir, that, even so, if we were to borrow the money we are putting out now in Treasury bills in any other part of the market—and we do have to borrow the money—the rate on that would be still higher.

So that the only thing you can say is that we have been concentrating our effort in Treasury bills at a rather pronounced volume in order to try to hold that rate up. But it, I think, can be argued quite effectively that the total cost of carrying the public debt is less.

Senator ANDERSON. I am not going to argue with you, but I merely express a feeling of my own that you ought to let the short-term rate go where it wants to.

We have had some periods in Government when that was done, when the short-term rate dropped and other rates began dropping in harmony with it.

I do not hold to the theory that you have that—if you raise this short-term rate, you automatically reduce the others.

They follow; they do not lead at all.

Mr. ROOSA. No, sir.

I must have misspoken. I did not mean to say—

Senator ANDERSON. Well, you said it was cheaper to raise the short-term rate in the overall borrowing. That had to mean the others came down. You cannot make it cheaper any other way.

Mr. ROOSA. Yes, sir.

I will just make clear that this is the way in which it is possible to deal with the balance-of-payments problem, some have described it as being done with mirrors, because, instead of having a general tightness affecting all interest rates, we have a general ease in all other interest rates.

That is the effect of the Federal Reserve's generally easy policy, and the very high volume of savings in the country. Then in one sector, the very shortest, which is the most vulnerable from the balance-of-payments point of view, we concentrate some of our borrowing in order that that rate is held a bit higher than it would otherwise be.

But all other rates are kept low, not by this policy, but by the Fed and by the flow of savings. This one particular rate which happens to be the lowest in the whole rate structure, anyway, is kept somewhat higher than it would otherwise be.

Senator ANDERSON. I wish sometimes you would go back and take a look, as I am sure you must have, at what happened in the country when the rate fell to three-quarters of 1 percent.

Mr. ROOSA. Yes, sir, I have lived through that.

Senator ANDERSON. If you can show there was a flight of dollars from the United States in a great proportion, you will find out something that I have not been able to find out.

It may be so, but I think you have to have real good mirrors to do that, that reflect up and down at the same time.

The reason I got interested in this, though, that the Treasury and the banking profession think it is all right to take these short terms that now want to go down, just 2 weeks ago, when it went to 2.60, the Treasury moved right back in quickly to get it back up to 2.70 so we would not lose the dollars.

You think it is all right for the Government to pay more money to these people, mainly banks, to have this short-term money available, but it is a horrible thing if you give a gold miner a chance to live.

Never give a gold miner a chance or a lead and zinc miner, but just take good care of the banks.

I never could follow how that contributes to the welfare of the country.

You were asked question after question. You say, "We are negative on this; we are negative on that." How in the world does a subsidy that might be given to a producer of gold frighten somebody in some other land? You say they think we are going to go off this and change completely and devalue the dollar.

Why?

We did not devalue the dollar when we put it in cotton, and there is more money tied up in cotton, almost, than there is in gold.

Billy Sol Estes got enough to start two or three banks. I do not see why it is so awful to think about the gold miner. We do not have very much in our great State, but I was born and raised in South Dakota where they had a little bit at that time.

Now, you have mentioned the fact that you have something to do with lead and zinc, and in your attitude toward lead and zinc you have been uniformly against anything that would really help the producers of lead and zinc.

A refiners bill went through for one small group of refiners in one State. These bills got a series of unfavorable reports, and the goal that was being sought—the mines are closing down one by one.

When they all close down, you can write off lead and zinc.

When the gold mines all close, you can write that off.

But is that the best way to help the American economy? How much was the predicted deficit for this year, just 8 or 10 months ago, if you can recall that, \$3 billion or \$4 billion?

Now, you admit it is at least \$7 billion, and I think it is going to be \$9 billion, maybe, anyway, for a short time.

It grows pretty rapidly.

What is the estimate for next year?

You have got a balance next year, have you not?

Mr. ROOSA. Yes.

Senator ANDERSON. Do you think we are going to achieve a balance?

Mr. ROOSA. I wish I knew. I think the answer lies, sir, with Congress.

Senator ANDERSON. I do not think the answer lies with Congress at all.

I know Congress is the whipping boy. If anything goes wrong, then, the Congress did that. But if it goes right, look what the administration has accomplished. We get tired of that after a while.

You and I know that the deficit will be \$5 billion, anyhow, next year, and Senator Byrd guesses it is more likely to be \$7 billion, and I think he is more close to being right than any of us.

Now, knowing all these deficits are piling up, why do we not do something to stimulate even a little segment of the American economy? What is wrong with that?

Mr. ROOSA. Well, sir; may I answer both parts of this.

On the deficit, I would just point out that there has not been any time during this fiscal year when the estimates of the deficit which the Treasury has put out have proved to be incorrect by as much as a half billion dollars. The revision that occurred was—

Senator ANDERSON. I just want to make sure I understood that correctly.

Mr. ROOSA. Our published comments on the size of the deficit this year have been that the deficit would be—ever since the President introduced the special measures that came with his message of July 25 and Congress acted on them—our estimate has been that the deficit would be \$7 billion.

Senator ANDERSON. Since July 25, 1961?

Mr. ROOSA. Shortly following after the effects of those measures had been worked through in congressional action.

I think our own estimate came out by the 1st of September, at any rate.

Senator ANDERSON. What was your original estimate?

Mr. ROOSA. Our original estimate was 3.5.

Senator ANDERSON. Three and five-tenths?

Mr. ROOSA. Which preceded the introduction of a whole range of new measures which came with the President's message of July 25.

Those new measures gave rise to an indicated larger deficit, but our estimate of what that would be has proved consistent throughout the year.

Every time I meet with the reporters to announce a debt offering—and that happens about every 2 or 3 months, usually 2 months—I provide for public consumption a full appraisal of the Treasury's estimate of what its cash requirements will be and what the deficit will be. And those estimates through the entire year have been sustained, I say, with only the variation attributable to human failure, in a magnitude of less than a half billion dollars, so that our record through this year, the 1 year for which we have had any general opportunity to exercise control, has, I like to think, been reasonably good.

As of the next year, we cannot make any firm, usable, useful forecast until we know what is coming through the Congress; when we know, for example, whether our proposed tax bill will be approved.

Senator ANDERSON. How much would the tax bill add to the Treasury receipts if it was passed in the shape it came from the House of Representatives?

Mr. ROOSA. The shape in which it came from the House, it would be close to neutral, although—

Senator ANDERSON. It won't add any revenue?

Mr. ROOSA. Oh, no, no addition.

But, on the other hand, if it should be passed in a form different from its present form, we do not know what is likely to happen—

Senator ANDERSON. Do you have any ambition along that line?

Mr. ROOSA. No, sir, none.

I am only pleading that the locus of action is not now with the Treasury in this respect, and in the same way, of course, the whole range of appropriations that the committee has only begun to meet.

So we will not be able to make estimates that correspond to those I have just mentioned probably until late in August or early in September at the earliest.

At this stage the important thing, so far as the deficit is concerned, is this fiscal year and how we are making out, and we are still on track from that point of view.

Now, as to the deficit of this kind and what may happen next year, I still have no basis for judgment other than that included in the budget figures already prepared. We know there will be differences. We do not know how they will come out, what the net of it will be.

But I do know that, as far as the problem you mentioned with expenditures on this scale is concerned, and with the need to help this industry or that industry, that there have been a good many kinds of expenditures for particular industries. And I wanted to make clear in my introductory statement that we are not taking a position one way or the other on those, only gold.

Gold is special because it is the monetary metal, and it is different.

In our view, in the United States it is not a commodity, and, therefore, it is not subject to any of the same criteria, the same approaches that may be relevant for congressional action with respect to other metals or other kinds of commodities, cotton, for instance.

Senator ANDERSON. I do not want to take all of the time here, but I would just cover this again, now.

You do believe that \$35 an ounce adequately represents the cost of production of gold?

Mr. ROOSA. Yes, sir.

Senator ANDERSON. Do you have statistics that permit you to say that?

Mr. ROOSA. The evidence is basically that of the capability of the principal producing mines elsewhere to produce gold at that price.

Now, I would add this further point:

That so long as gold is a worldwide monetary metal, what is important for us is that gold is produced, becomes available, as it does, increases, as I say, in output in 10 years of nearly 50 percent, plus gold coming from other sources and into the known stream; this is in addition to mining, the reprocessing, reclaiming, and so on of gold; there has been an increase of about 75 percent in total annual availabilities of gold over the last 10 years.

So the final criterion is whether the price is producing a supply, and it is, and it turns out in economic life all the time that particular areas

find that that is not the thing they can do best, and they do something else.

I am afraid, with respect to gold mining, that may be the case in this country.

Senator CARROLL. Senator Gruening?

Senator GRUENING. You have indicated, Under Secretary Roosa, that you thought that the present price of gold was adequate for the gold mining industry.

It is correct, is it not, that it was raised in 1934 from \$20.70 an ounce to \$35 and has remained there ever since?

Mr. ROOSA. Yes.

Senator GRUENING. And it is fixed there by Government action?

Mr. ROOSA. Yes.

Senator GRUENING. And the miners are not allowed to sell it for any more?

Mr. ROOSA. Yes.

Senator GRUENING. Is there any other industry that is subject to that kind of limitation?

Mr. ROOSA. No, sir.

This is because gold is gold.

Senator GRUENING. Now, have you noticed some of the increases in price of other essential commodities, bread, for instance?

In 1934 it was 7 cents a loaf, and it is now 21 cents, on the average, an increase of 301 percent. That applies not merely to food, but it applies to clothing and all other things.

Men's shoes, which in 1934 were \$5 a pair, are now \$17, on the average, an increase of 340 percent.

Such articles as transportation, a ride to Mount Vernon on the Wilson Line in 1934 was 50 cents a round trip. Now it is \$2.75 a round trip, a 550-percent increase.

Even in the jewelry industry the price of gold to the purchaser has increased by 30 percent, the same commodity whose price the producer cannot change.

Does that strike you as an equitable arrangement?

Mr. ROOSA. It is a necessary result of the fact that gold is gold, sir, and any modification along the lines you are suggesting must be to revalue gold.

If you wish to argue for the revaluation of gold, then that is up to you, but our position is that the price of gold must, in the interests of what chance there is for price stability and monetary stability in the future, must be kept at \$35.

Senator GRUENING. I confess that I find it utterly impossible to understand how a subsidy to the gold miners, accompanied by the assumption of a simultaneous, flat declaration that this does not change the price of gold, and that there is no purpose to change the price of gold, can have these far-reaching, psychological, adverse effects which you picture.

You said a little while ago that the mere fact that the Congress was discussing this proposed legislation had adverse effects, and created alarm and apprehension in financial circles.

I thought we were a pretty robust nation. All kinds of unforeseen and adverse things happen. The Russians resume atomic testing. Then the United States resumes atomic testing, which has far-reaching consequences which no one can predict. We have terrific storms on

the Atlantic coast which cause millions of dollars' worth of damage. The estimates as to a balanced Federal budget are found to be out of kilter by billions of dollars. There is an unforeseen stock market crash.

We take all these major events in our stride. But the mere fact that we are discussing the modest program of subsidizing our almost extinct gold mining creates great, worldwide alarm. At least, that's your contention.

Are you people in the Treasury not somewhat like the leaf on the tree, the aspen, which exists in Alaska and is so characteristic in Senator Carroll's State, the quaking aspen which quakes and trembles even when there is no breeze and for no accountable reason. You appear to be quaking about an imagined future calamity.

Mr. ROOSA. With respect to gold, sir, I would not deny the analogy. I feel that anything that impairs or raises a question concerning gold is a matter of vital importance. I quake whenever I hear it.

Senator GRUENING. Well, aren't you, not only in presenting your own alarm and apprehensions, aren't you also spreading this alarm and apprehension when you go about intimidating those who inquire, saying "Won't this be a terrible thing if we subsidize these gold miners"? What evidence have you that this would happen?

I am convinced that it wouldn't happen. What is the evidence that this earth-shaking calamity, the devaluation of the dollar, which no one asks for, will be assumed to happen if we are merely paying these gold miners a small amount; a small fraction, of what we are doing, for instance, in behalf of our agricultural industry?

We are spending millions of dollars—actually billions of dollars—to subsidize the farmers, and more billions to store agricultural commodities which, unlike gold, are perishable. That doesn't create any earth-shaking repercussions, but apparently this very small proposed effort, this small move that is contemplated to give these gold-mining people a little more money when they mine the gold, to compensate for the straitjacket the Government has put them in, is going to devalue the dollar, is going to upset the international financial situation.

Frankly, it strikes me as ridiculous. I don't think you can prove your point. I wish you would give us some evidence that this will happen.

You say that when the stock market drops, that that doesn't have adverse effect, but this one slight thing—little, comparatively, in cost—that we would pay the gold miners a bit more for the product they dig out of the ground for their labor—that is going to change the whole world situation.

I find it impossible to follow that. I may be stupid, but I think this lack of comprehension is shared by my colleagues here as well. Could we not, in accompanying this legislation or similar legislation, issue a flat statement that we do not intend to change the price of gold on the world market, that we are merely assisting the miners? Would there be any great difference if in one of the few remaining mines a mineowner, for philanthropic reasons, decided to increase the wages to these miners? Would that upset the whole situation?

How can you correlate a simple action which has been taken for all kinds of other commodities by the United States, directly and indirectly, with the idea that this will necessarily result in something which we at the same time declare will not happen?

Senator CARROLL. Will the Senator yield at this point? Are you familiar with the doctrine, Mr. Secretary, of eminent domain?

Mr. ROOSA. Yes, sir.

Senator CARROLL. You are not for a policy of expropriation, I take it?

Mr. ROOSA. No, sir.

Senator CARROLL. What about turning the mines over to the Treasury Department, and letting the Bureau of Mines run them for us? Certainly, the present position of our gold mining industry is not a pleasant one.

I think we can explore other means of improving the situation, such as increasing the depletion allowance. I am impressed by what the Senator from Idaho had to say. He correctly notes however, that a mine cannot get the depletion allowance until it is producing at a profit.

In Alaska, we have a virgin territory, a new State, and it undoubtedly has bountiful mineral resources awaiting exploration and development. I should think that the world would understand our desire to develop new areas. These are the things about which I think the Senator from Alaska is justifiably concerned. I didn't mean to interrupt.

Secretary Roosa, you seem to derive some comfort from the fact that the general supply of gold in the world is increasing, and that other countries are producing it. Well, obviously other countries have much lower standards of living, pay lower wages, they give subsidies.

Does that strengthen our position in being the only nation virtually that has nothing to encourage the production of gold?

Mr. Roosa. Well, sir; I think I have to come back to the same fundamental point, that our position as a nation with respect to gold is different from all the others; that whether we gain or lose gold is fundamentally important as a result of our own balance-of-payments position and the confidence that we maintain in the certainty of the fixed price.

These are the two dominating factors here. Now I grant you that there is a special problem created by this fact for this one branch of the mining industry. It has harsh implications for nationals and installations inside of the United States.

This is a byproduct of an obligation that this country is carrying for the world, but in my judgment an inescapable one.

Now you ask how we cringingly elicit the judgments that I have reported on here. I can best I think refer back to the last large international meeting in which this was a subject, as always, of attention, and at that time one of the most able central bankers in the world gave a very interesting address—I would be glad to send you a copy of that—in which he pointed out that the entire monetary system of the world depends, in ways that we have to accept because they arise from human psychology, upon gold, the dollar and the interchangeability between them and the fixed price.

As he said, the way in which this distribution occurs reflects the fact that the central banks of the world are always forced, in some part, to hedge their bets because they have to have something in the event the dollar is devalued.

But if they ever thought the dollar was in real danger, then they wouldn't hold any dollars at all. On the other hand, if they felt

there is no chance at all of devaluation, they will hold only dollars.

Senator CARROLL. May I interrupt at this point.

Mr. ROOSA. Yes, sir.

Senator CARROLL. Assuming foreign countries got to the point where they wouldn't hold any dollars, wouldn't it destroy their own banking system? It would create havoc, would it not?

Mr. ROOSA. It would indeed.

Senator CARROLL. How could they take such a position when it would destroy them as well?

Mr. ROOSA. The course of action that would precede that would be that they would first call all gold out of the United States, and this in itself would be rather disruptive, disturbing to say the least, this development.

Thereafter of course the position of the United States would be in the greatest extreme difficulty—I hate to even try to visualize these extremes they are so remote, I trust; we are so sure with the various arrangements we are working out to avoid that chance that I don't want to try to parade the horrors across the room here, but the essence of the point that was made in this speech—it was a speech by the Governor of the Central Bank of Holland, the Netherlands—is one that I find echoed over and over again.

Now I don't want to violate confidences trying to report here for the public record the precise nature of conversations that have occurred, or to indicate who was involved, except to assure you that the appraisal of this question has not occurred in the rather deplorable manner perhaps implied by your suggestion that we were in a rather inferior position as we raised the point, nor has the posing of the issues taken the form of preparation of the answer in advance, as perhaps might have been suggested.

But I can assure you that the problems of psychology, which I have just been describing, and the implications drawn from the move that would be implied in this resolution, would be interpreted by those whom we must respect as evidence that the bastion had fallen.

The rest of the world has hinged its plan on the resolute assurance given again—they were hanging in suspense waiting. On Inauguration Day I was on the telephone to Europe virtually all day to make sure what was happening, because of the rumors that just with a change in administration something might happen to the price of gold. The greatest assurance that the world then had was the President's clear conviction that there was no intention to change the price.

Senator GRUENING. May I suggest that "psychiatry" would perhaps be a more applicable term than "psychology"?

Mr. ROOSA. You may, sir, but those who judge the millions around the world, for whom this is also critical, are unfortunately not those who control the resources.

They all may need a psychiatrist, as may I, but the fact that they are the people who control the resources, that they are by normal objective standards reasonable, intelligent people who conduct the financial affairs of their own countries, suggests to me that there is some basis for disagreeing with the position you are taking, and that in any event the unique nature of gold itself will continue to require that the U.S. Government maintain in every way and on every occasion that it has no intention, it will take no action implying intention, of changing the \$35 gold price.

Senator CHURCH. Will the Senator yield on that last point?

Senator GRUENING. Yes.

Senator CHURCH. Mr. Secretary, I understand or have tried to understand your position. You have expressed it very well all through the morning, and it has been a long one.

The root of your opposition to this incentive plan is your fear that it might lead to suspicion that the dollar is going to be devalued. The thing that I wonder about is whether or not we couldn't take steps at the same time, should such an incentive program be established, to allay this fear.

It would seem to me that as long as the Government of the United States stands ready to exchange \$35 for an ounce of gold, or an ounce of gold for \$35, that this is the reassurance that the world wants, and that if we can make it clear that in order to promote economic growth in the West and take care of an important and traditional industry we want to provide some additional incentive, it will not affect our willingness to continue to stand ready to give \$35 for an ounce of gold or an ounce of gold for \$35 in the world market, that this unfortunate result that you forecast won't occur.

It seems to me that there are many ways we might do this. A simple, definite, and firm statement on the part of the President of the United States that he has no intention to devalue the dollar, nor to in any way change the commitment of the United States in the world markets to continue to purchase gold for \$35 an ounce, I should think would be very reassuring in itself to these people, and that they could differentiate between devaluation and an incentive program that other countries have established to promote this, for reasons entirely apart from the currency.

How do you react to this possibility?

Mr. ROOSA. I have been over it many times, sir, and I wish it were possible to feel sure that this kind of an approach would provide a basis for solving what is clearly a difficult, a very difficult problem for the industry itself.

We have explored this as carefully I hope, as judiciously and I hope as confidently and as sympathetically as could possibly be done, and I can only report that the evidence we have is that it would not go down, but I share fully with you in the desire to try to find some way. It is my own considered judgment that it cannot be found.

Senator GRUENING. Mr. Secretary, I think Senator Church's proposal really goes to the heart of our whole thinking.

You said you were on the phone internationally giving what I presume were verbal tranquilizers to allay potential alarm.

Don't you think that a statement from the President of the United States, whose voice is listened to with the keenest attention and respect all over the world, a flat declaration of policy, that there would be no change in the price of gold, would tend to offset any vague apprehensions that you anticipate?

Have you so little confidence in what a Presidential declaration would do that it wouldn't offset a minor project such as paying the miners more for the gold they are mining?

Mr. ROOSA. I have the greatest confidence in the effect of Presidential declarations, but I think the best way to illustrate the risk is to shift for a minute to another area.

We suffer in many ways from the burdens of having the one currency that does what I have been describing here.

Another is that we cannot resort to some of the easy, obvious, perhaps simple, devices for trying to give ourselves a quick correction to our balance-of-payments problem.

There I am referring, for example, to control over capital movement, which has been suggested. Some distinguished Senators are still suggesting them.

But for the very same reasons we cannot impose exchange controls without thereby so impairing the ready availability of dollars that, for that reason, we suffer a drain on our gold reserves; and so in the same way the President himself has indicated that there will be none.

He has indicated that with respect to gold there will be no change in the price. But in a suspicious world, there are those who will see, in acts of this kind, evidence that somehow or other the word is being either circumvented or, in some way, events are going to become stronger and overpower the determination that was expressed in the word.

The same is true with respect to exchange controls. We can say that we aren't going to have them, and we say that at least once a month in one determined form or another, but a new rumor starts, and people are still suspicious that somehow or other we aren't maintaining, to use the same word, the impeccable approach that the key currency has to maintain. It, therefore, is extremely difficult to understand.

I know how annoyingly, sort of delicate, this seems to be, and yet I can just give you the considered judgment of a technician whose work has been in this field perhaps too long and too intimately, but at any rate thoroughly, that this is the kind of situation psychologically, the kind of situation that would not respond appropriately or suitably in these circumstances to this kind of assurance.

Senator GRUENING. Mr. Secretary, you have expressed alarm at the steady decrease in our gold reserves, which seem to be dropping from month to month.

Have you no concern over the fact that perhaps in another 2 or 3 years we will not have a single gold mine in operation in the United States, and we will be dependent upon our supply of gold, except the little that is produced as a byproduct of other minerals, on foreign supplies? Isn't that a cause for concern?

Mr. ROOSA. All things are relative, sir, and I would be much more concerned over the havoc that would be created if there were to be a run on the dollar or a judgment that devaluation was underway.

Senator GRUENING. Well, this is a presumed havoc. How much do we require to comply with the legal requirement to back our paper money with gold. How much gold in our reserves do we require?

Mr. ROOSA. You are assuming there 100 percent rather than the 25 percent.

Senator GRUENING. No, I am assuming the 25 percent.

Mr. ROOSA. Well, we do back the paper currency with 25 percent now; yes, sir.

Senator GRUENING. How much?

Mr. ROOSA. You mean how much is now used for that backing?

Senator GRUENING. How much is that now?

Mr. ROOSA. It is approximately \$7 billion, a little over.

Senator GRUENING. \$7 billion. So we still have a margin?

Mr. ROOSA. We also have a requirement against Federal Reserve deposits, which is also 25 percent, and that brings the total up to over \$11 billion.

Senator GRUENING. Then we still have a little margin of safety as against those two requirements?

Mr. ROOSA. Yes.

Senator GRUENING. But if we continue to drop, and with our gold mines closed, we will likely reach the danger point where we will not have 25 percent in our gold reserves. What happens then?

Mr. ROOSA. This is inviting me to make a description of events that I trust will never occur, but the legal fact is of course that when we reach the 11½ or whatever the limit might be at that time, the present law does permit waiver of the requirement. It can only be waived for 30 days and then for successive 15-day intervals, but there is no time limit provided by Congress on how many of those there may be.

Senator GRUENING. You mean it unlikely that the immutable laws of the Treasury Department cannot be changed by the Congress if it changes its mind?

Mr. ROOSA. Congress may.

Senator GRUENING. I am glad that Senator Church pointed out that this is the policy pursued by both Republican and Democratic administrations.

The point is, however, that while these policies haven't changed, conditions in the gold mining industry and in the cost of operation have changed drastically, and it would seem to me that the time had come when the situation should cause a reappraisal and not adherence to this rigid idea that if we even consider subsidizing the miners, it is going to create havoc.

That is something that, despite your reiterated and well-presented arguments, I fail totally to grasp, and I think I speak for the other members of this subcommittee.

I don't think we are all stupid, but it is impossible for us to understand why, with the precautions that Senator Church suggests, a clear declaration of purpose by the President, that this subsidy would create this presumed havoc. I think that we have so much influence in the world through our military strength, our financial strength, our economic strength, that we could afford that very slight risk.

Senator CARROLL. May I note that Treasury's position is the most crucial to this whole area under discussion.

Senator GRUENING. It is.

Senator CARROLL. I see no purpose in calling on the Bureau of the Budget, as their letters indicate that their position is along the lines suggested by the Treasury Department.

Senator GRUENING. They make that clear in their report.

Senator CARROLL. This is also true of the Bureau of Mines. I see no reason for going on this afternoon, as the key to the whole matter is Treasury's position.

We are not talking about Senate Joint Resolution 44 necessarily. We are talking about the more general problem of aiding our domestic gold mining industry.

I do wonder how any sensible group of people could think that we are about to devalue the dollar, when such a minor amount of production in terms of the world situation is involved.

Perhaps the solution does not lie in Senate Joint Resolution 44. Perhaps the solution lies in a tax incentive or in increasing the depletion allowance.

However, I think—and I know you will give this serious and fruitful study—the question really is, Are we going to let this industry just die on the vine? In my State the mining industry has virtually ceased to exist.

Fifty-six mines of various types have closed in the last 4 or 5 years. I don't know that even a tax incentive would open up some of these mines. Whole communities have been knocked out.

As I noted previously, we must begin to develop the resources of our newest mining State, Alaska. We have to grow and expand.

Although I cannot fully understand or agree with Secretary Roosa, I would say that he has made some interesting points this morning.

Senator CHURCH. Mr. Chairman, I just want to say that I think the useful function of the hearing today is in defining the exact area of disagreement between the members of the committee and the Treasury Department.

Mr. ROOSA. Indeed, yes.

Senator CHURCH. With respect to the psychological impact that an incentive payment might have upon world markets and the value of the dollar.

But I think that the hearing equally shows that if we are to make some progress on behalf of the mining industry, and pursue the feeling that I think is shared by the majority of the members of this committee, that we have either got to go over or under or around the Treasury Department, and with all deference to the members of the Treasury Department, I think we must explore those possibilities, because that is a part of our legislative function.

Senator GRUENING. And I would like to suggest that the Treasury Department help us in this exploration.

I agree with Senator Anderson that it is rather discouraging that every suggestion is met with a negative reply. Surely there must be some way in which an industry of this kind, restricted uniquely in ways that no other industry is in our free enterprise system, can be allowed to exist.

After all, the Treasury Department has not merely the monetary function but has other vital functions having to do with our whole economy and the prosperity and progress of our people.

It seems to me that when you folks return to your offices in the Treasury as a result of this hearing, though your minds may not have been changed in the slightest degree as to this particular procedure, which is only one as yet suggested, that there are practical other ways of making gold mining possible and adding thereby to our dwindling gold reserves.

I venture to suggest the possibility of writing into this very act a provision that the price shall not be changed, so that at the same time there would be offered the hope of a subsidy or some other form of relief, we state specifically that this has no bearing on the monetary aspect of gold.

I hope that you will take that idea back, think it over, and come up with something else very soon, because it is very late, and within a year or two all our mines will be closed, and once closed, reopening them will be very difficult.

Senator CARROLL. I might suggest that we request an answer from Treasury within 30 days.

Senator GRUENING. I think that is quite soon, but I agree with that direction. Mr. Chairman, I have a few insertions. I am aware that Senator Bible has already placed in the record the full text of the resolution of the Western Governors' conference. I was prepared to do so myself. I would like to insert at the proper point in the testimony the comparative prices of these basic staples, showing how they have increased since 1934 when the price of gold was fixed, and one or two other letters bearing on this situation.

Senator CARROLL. Without objection these will be put on the record at this point.

(The letters and data referred to follow:)

Comparison of gold assets for the following periods

Mar. 30, 1962	\$16,609,145,013.70
Mar. 31, 1961	17,387,999,932.24
Apr. 2, 1962	16,609,237,804.64
Apr. 3, 1961	17,388,238,517.68
Apr. 30, 1962	16,494,523,771.60
Apr. 28, 1961	17,389,617,266.10
May 1, 1962	16,494,511,273.14
May 1, 1961	17,389,752,638.21
May 31, 1962	16,434,718,854.02
May 31, 1961	17,403,054,122.23
June 1, 1962	16,434,231,077.52
June 1, 1961	17,403,137,216.41

	1934	1962	Percent increase
Bread, loaf, 1 pound	7 cents, A. & P.	21.1 cents ¹	301.42
Milk, quart	13 cents	24.9 cents ¹	191.53
Flour, 5 pounds	27 cents, A. & P., Pillsbury	56.2 cents ¹	208.14
Chicken	29 cents per pound, fryers	40.4 cents ¹	193.31
Pork chops, 1 pound	27 cents per pound, A. & P., center cuts	87.4 cents ¹	323.70
White potatoes:			
5 pounds	15 cents Idaho baking		
10 pounds	15 cents, regular, A. & P.	55.8 cents, A. & P. ¹	372.00
Corn, 2 No. 2 cans	23 cents, Piggly Wiggly	1 No. 303 can, 20.2 cents ¹	175.65
Tomatoes, 1 medium can	8 cents, A. & P.	No. 303 can, 15.8 ¹	197.50
Eggs, 1 dozen	29 cents, A. & P.	2 for 85 cents, A. & P. (large size)	146.55
Apples, 3 pounds	13 cents, cooking	1 pound, 13.7 cents ¹	1.94
	17 cents, delicious		
Cheese, 1 pound American	21 cents, A. & P.	49 cents, sliced, A. & P.	233.33
Lard, 1 pound, Crisco	19 cents, A. & P.	36 cents, A. & P.	189.47
Jewelry:			
Gold bead necklace	\$70, Galt & Bros., Inc.	\$100	} 30.00
Gold cuff links	\$50	\$65	
14-carat gold ring	\$50	\$60	
Man's hat	\$5, \$4	\$9.95, \$11.95, Hecht's	239.00
Lamb, 1 pound	21 cents	49 cents, Safeway, shoulder cut	233.33
Men's shoes	\$5, Hecht's	\$17.95, Hecht's, average price	359.00
Wilson Line (ride to Mount Vernon)	50 cents, round trip	\$2.75 round trip	550.00
Rye or bourbon	\$11.95, case of 12 quarts, Star Liquor Co.	\$38, case of 12 quarts, Star Liquor Co.	317.99
Calves' liver	17 cents per pound, Swift's	\$1.39 per pound, Safeway	817.65
New home in Foxhall, 7 rooms	\$8,950 to \$9,250	\$32,500 to \$50,000	2363.1

¹ Consumer Price Index (CPI)—U.S. Department of Labor, January 1962. Prices for 1934 obtained from the Washington Post (September 1934). Remaining prices were obtained from personal phone contact; stores listed above have headquarters in Washington, D.C.

² Approximate.

STAUFFER PETROLEUM CORP.,
Oklahoma City, Okla., May 5, 1962.

HON. ERNEST GRUENING,
U.S. Senator, Washington, D.C.

DEAR SENATOR GRUENING: I want to commend you for your remarks on the floor of the Senate concerning the gold issue along with two articles covering the same by the New York Times and Mr. Lawrence Fertig, columnist for the Scripps-Howard papers.

It seems strange that newspaper editors and columnists can sense the dangers before our Congress can; both of the above-mentioned articles are timely and right to the point.

We only have to go back 30 years to see the changes that have come about. Congress has been instrumental in the increase in prices of corn, wheat, cotton, cattle, hogs, and all other forms of wheat, but the price of gold remains as it was 30 years ago. The gold mining industry has been discriminated against by the very people who need the gold.

I believe you can force this bill, Senate Joint Resolution 44 out of committee to the floor of the Senate for debate, this will bring out the foes and the reason they are against gold.

If gold is such a dirty commodity, then why do all the nations of the world demand we pay them in gold. There is no doubt in my mind but what a conspiracy has been formed to siphon our gold out of this country a little at a time so as not to cause concern with our Government officials who seem to be asleep.

I will appreciate if you will give me the name of the chairman as well as the members of the Senate Committee on Insular Affairs so that we may know who is at the bottom of this unfair and unjust objection to the Government paying the producers a reasonable bonus to get what we are most desperately in need of—gold.

I also congratulate Senators Engle and Kuchel for their joining you in your fight for the best interests of America.

I am, most sincerely yours,

S. M. STAUFFER, *President.*

FAIRBANKS, ALASKA, *May 28, 1962.*

Senator ERNEST GRUENING,
*U.S. Senate,
Washington, D.C.*

DEAR SENATOR GRUENING: After hearing your televised broadcast from Washington with Mr. Jim Williams, State mines and minerals director, I feel compelled to write to you.

My grandfather, Richard O. Lee, has been an active Alaskan pioneer gold miner since 1898 and my father, Dick Lee, has followed in his footsteps. (I believe you know him.) They operate two placer flume dredges on the Solomon River near Nome but will soon be forced to shut down all gold operations. As you stressed, and rightly so, the progressively higher cost of maintenance, equipment, labor, and production in general (even the high charge of assaying), has all but strangled the miners' creed of "Next year we shall have luck," and in it, their "trade."

I know from my folks' experiences, perhaps after a breakdown of the dredge when the bucket line broke, or the crew went into town on a drunk without any notice leaving the dredge floating free, or when there was no cook and my then 75-year-old grandmother willingly stepped in and cooked for 15 crewmen, or maybe the time when the local bank refused to grant a loan for equipment because the outgo was higher than the income of the year, no, years, before, I know of the rending heartbreaks that tear and twist years of dedication to the land, Alaska's land, the industry and one's hopes and dreams. But this inner agony was hidden beneath an uncowed determination and obsessed faith to drive on and on no matter what.

It is indeed a very sad yet awesome thing to see a man beaten by what he believes in most and still carry on with hope and fortitude. But, finally, for all of us are people, disparity scorches the edges of the heart; in his own eyes he has been a failure and is now a beaten man. This is my grandfather, a man I am so terribly proud to be descended from—an American—not native born, true, but an American pioneer as genuine as are the gnarled hands that 65 years ago started building this State from the roots. His entire life has been spent in “hoping”—always that “rainbow just over the hill.” “Never, never give up”—it just wasn’t thought of. He is one of the last pioneers still active in the industry, and I’m sure the reason he’s still going is because of his dauntless spirit and agile mind. He didn’t want or strive for any outside reward or recognition—all was just to make enough the 3 summer months of operation to pay the bills and live self-sufficient the other 9. For the gold miners’ season is very short, not in actual work, the maintenance and repair takes about 6 months, but in actual operations.

Somehow it just doesn’t seem right or just or democratic or even decent to let a domestic enterprise, in addition so vital to the Nation’s economy, deteriorate for over three decades into nothingness. The fact that there are few gold States and that it is a small industry, run on such a short season, should make it so much the more imperative, that it not be let to dwindle. Also, as was brought out by Jim Williams, there is the mechanical factor and time element. It takes time and patience, equipment, and money to open a mine every spring—let alone for the first time. It would seem that the encouragement should begin before all miners, small and large, are forced into other occupations and their mines and operations become mere reminders of a “has been” industry.

I am sure, as you stated, Senator Gruening, that many Senators and Congressmen, not to mention the people of your own State, are behind you all the way as you embark upon a long since sorely needed project.

Don’t give up the fight; I know you won’t. Your most sincere interest and attitude is appreciated far more than you know.

Sincerely yours,

DIANE LEE COTHERN
Mrs. John Leland Cothorn.

Senator CARROLL. May I say I don’t wish to exclude any other person who has been kind enough to come here today. We have the Assistant Director for Legislative Reference of the Bureau of the Budget, Mr. Phillip S. Hughes. You have heard my statement. I assume the Bureau of the Budget would take its cue from the Treasury Department on this issue.

STATEMENT OF PHILLIP S. HUGHES, ASSISTANT DIRECTOR FOR LEGISLATIVE REFERENCE, BUREAU OF THE BUDGET

Mr. HUGHES. Yes, Mr. Chairman. I think the Secretary has very ably and extensively expressed the administration’s position on this legislation. I think we would have nothing to add on the substance but, however, if you wish, I would be glad to be available.

Senator CARROLL. Thank you very much for coming here as a witness this morning.

We have Charles Merrill, Chief of the Division of Minerals, Bureau of Mines, Department of the Interior, accompanied by J. P. Ryan, gold commodity specialist, Bureau of Mines, and George Fumich, Director, Office of Minerals Exploration, Department of the Interior.

Will you gentlemen please stand.

I don’t wish to foreclose anyone from presenting a viewpoint here. You have heard the testimony this morning.

STATEMENT OF CHARLES MERRILL, CHIEF OF THE DIVISION OF MINERALS, BUREAU OF MINES, DEPARTMENT OF THE INTERIOR; ACCOMPANIED BY J. P. RYAN, GOLD COMMODITY SPECIALIST, BUREAU OF MINES; AND GEORGE FUMICH, DIRECTOR, OFFICE OF MINERALS EXPLORATION, DEPARTMENT OF THE INTERIOR

Mr. MERRILL. I am Charles Merrill, Chief of the Division of Minerals, Bureau of Mines.

The Department of the Interior recognizes the dual nature of this problem, the monetary and the technical.

The Department defers to Treasury with respect to its monetary aspect. We came here without a prepared statement, to be at your disposal if there were any technical questions that you wished to ask. We certainly will not feel unrewarded, after having heard this very lucid testimony by Secretary Roosa, if we are not called on further. Thank you.

Senator CARROLL. We are delighted to have you here. I am going to recess these hearings shortly, subject to the call of the Chair.

Senator GRUENING. May I point out in connection with the testimony that we have in the record a letter from Assistant Secretary Kelly, who has that responsibility, who makes it very clear that the Interior Department merely follows the lead of the Treasury Department.

It devotes one paragraph to indicate that, and says how nice it would be if the miners would get more gold, so it is clearly entirely, as you point out, a matter which originates with the Treasury Department, which makes the policy for the administration.

Senator CARROLL. I thank the Senator. Thank you gentlemen for coming here. Is there anybody here who wishes to offer further testimony?

Is it too much to expect that we might hear from the Treasury within 30 days, after you have had a chance to discuss this? I will notify counsel here that if we don't hear from Treasury within a 30-day period, to bring this matter up again.

I have here a statement entitled "Precious Metals Dominate the OME Program." This is a release from the Office of Minerals Exploration, U.S. Department of the Interior, which will be put in the record at this point.

I also have another statement about the OME contract for gold and silver as of June 1, 1962. That will go in the record at this point, also.

I have a letter here from Reliance Chemicals Corp., subject "Gold Production Incentives," which will be placed in the record at this point.

(The documents referred to follow:)

[U.S. Department of the Interior, Office of Minerals Exploration—For release June 1, 1962]

PRECIOUS METALS DOMINATE THE OME PROGRAM

Gold and silver have led the way in the rapid growth of interest in the exploration assistance program during the past 10 months, George Fumich, Jr., Director of the Office of Minerals Exploration, announced today.

From the 1st of July 1961 through April 1962, the OME received 43 applications for gold exploration estimated to cost more than \$3,350,000 and 17 applications for silver exploration estimated to cost \$1,344,000. These applicants, Mr. Fumich said, show a remarkable display of confidence in the future of gold and silver mining considering the present state of the industry.

The 60 applications for gold and silver exploration are among the total of 104 received during this 10-month period which aggregated more than \$11 million in the estimated cost of the exploration work. These figures contrast sharply with totals for the previous year when only 44 applications were received with estimated costs of slightly less than \$2,232,000.

The attached table shows distribution of the 104 applications among the 14 mineral commodities sought and the 20 States in which exploration was proposed. Montana leads with 18 applications and 6 commodities. California follows closely with 15 applications and 5 commodities.

Under the exploration assistance program, Mr. Fumich said, the OME participates in the cost of exploration for certain minerals. Funds provided by the Government are repaid by a royalty on production.

Additional information and application forms for OME assistance may be obtained from the following offices:

The Office of Minerals Exploration, Department of the Interior, Washington, D.C.
OME, Region I, South 157 Howard Street, Spokane, Wash.
OME, Region II, 113 Custom House, 555 Battery Street, San Francisco, Calif.
OME, Region III, Building 20, Denver Federal Center, Denver, Colo.
OME, Region IV, Room 11, Post Office Building, Knoxville, Tenn.

GOLD AND SILVER PRODUCTION INCENTIVES

Distribution by State and community of 104 applications received from July 1, 1961, to Apr. 31, 1962

	Region I				Region II		Region III						Region IV					Total			
	Alaska	Idaho	Montana	Oregon	Washington	California	Nevada	Arizona	Colorado	New Mexico	South Dakota	Texas	Utah	Wyoming	Arkansas	Minnesota	New Hampshire		New York	North Carolina	Wisconsin
Gold.....	4	4	8	2	3	9	2	2	7				1	1							43
Silver.....		2	3		1	1	4	3	2					1							17
Antimony.....			1																		1
Asbestos.....																					1
Beryllium.....																					1
Columbium.....																					1
Copper.....		3	2		3	3	1	1		1			1		1		1				5
Iron.....																					1
Lead.....																					1
Mercury.....		1	3		1	1		1	1				1						1		15
Mica.....																					3
Molybdenum.....			1						1												1
Nickel.....																					1
Tin.....							1														1
Uranium.....																					1
State total.....	5	10	18	3	8	15	8	9	11	1	1	1	6	2	1	1	1	1	1	1	104

OME contract for gold and silver as of June 1, 1962

GOLD

Operator	County	State	Total value	Government part
Little Squaw Mining Co., Spokane, Wash.....	Fairbanks	Alaska.....	\$167,750	\$83,875
Richard W. Rowe, Fairbanks, Alaska.....	do	do.....	12,300	6,150
California Alluvial Mining Corp., Greenville, Calif.....	Plumas	California.....	25,650	12,825
Gold Canyon Mines, Inc., Stockton, Calif.....	Sierra	do.....	39,450	19,725
Northern Continental, Inc., Grand Junction, Colo.....	Phillips	Montana.....	76,300	38,150
Old English Gold Corp., Provo, Utah.....	Nye	Nevada.....	34,900	17,450

SILVER

Cerbat Mining & Milling, Kingman, Ariz.....	Mohave	Arizona.....	\$49,920	\$24,960
Humphreys Exploration Co., Denver, Colo.....	Mineral	Colorado.....	187,600	93,800
Trout Mining Co., Philipsburg, Mont.....	Granite	Montana.....	77,610	38,805

RELiance CHEMICALS CORP.,

Denver, Colo., June 4, 1962.

Subject: Gold production incentives.

Senator JOHN A. CARROLL,

Senate Office Building, Washington, D.C.

DEAR SENATOR CARROLL: I submit for consideration the following as a possible solution and substitute for Senate Joint Resolution 44.

Mining operators are allowed to deduct from gross income as allowance for depletion equal to 15 percent of the gross income but limited to a percentage of the net income.

It is possible for the rate of development and rehabilitation of an old mining property to proceed at a pace so great that the intangible development costs more than offset all the production income.

Under this set of circumstances, the property for the year would show a loss and, therefore, the depletion percentage allowance would be lost.

Suggestions: It is suggested that the depletion allowance for the mining of gold be increased to 35 percent for a period of 10 years without being limited or tied in to a percentage of the net income.

This would permit risk capital to rehabilitate old former producing properties and permit the loss resulting from the necessary intangible development costs to be carried over.

This would be at no expense to the Government, the moneys spent for equipment, development, and labor would benefit the economy of the country as a whole and stimulate the production of gold from the former producing properties.

It is also recommended that the holders of gold royalties be permitted to treat income from gold royalty as a capital gains instead of regular income—a privilege now given to coal and timber royalties.

The entire State of Colorado is dotted with nonoperating gold mines having excellent past records of production and good reserves which can be economically produced at present cost figures if the depletion allowance was increased so as to be an incentive to risk capital.

Sincerely,

IRA L. ABELow.

Senator CARROLL. I want to thank you gentlemen. I know it is difficult, and that in your hearts you would like to find some way to help. I am sure that nobody wants to create problems in this delicate and important field. There may be some way, and perhaps later on some of us may discuss this with the President. It would seem to me that we might find some solution to the problem here.

I frankly don't know the solution, but I think that somewhere along the line we have got to make a start. Perhaps the answer lies in a tax incentive or a depletion allowance.

I do thank you. I know your testimony has been very helpful to this committee. I would be glad to hear from any of you gentlemen who have accompanied Secretary Roosa, if you can cast further light upon this program or give us any further information. If so, we will be glad to hear from you.

Then the Chair will recess the hearing. Senator Gruening, do you have anything else for the record? We will hold the record open. We will now stand in recess, subject to the call of the Chair.

(Whereupon, at 12:40 p.m., the hearing was recessed subject to the call of the Chair.)

APPENDIX

The following petitions, statements, and communications were ordered printed as an appendix to the hearing record:

PETITION

Senator JOHN A. CARROLL,
U.S. Senate Building,
Washington, D.C.:

As the problems of the mining industry are not all of its own making, and forces outside the industry have brought about the closing of the last gold processing mill and producing mines in Teller County, we urge you to declare the Cripple Creek mining district a disaster area.

It is unfair miners and their families be placed on unemployment rolls, in the face of this Nation's expanding economy.

This county's economy is at its lowest level in years and indications are that it may be worsening instead of improving.

We must have relief. The remainder of the Nation is establishing record sales, increased employment, record payroll earnings and expansion of industry.

(Signatures to the petition are as follows:)

Warren Holbrook, Cripple Creek, Colo.	Jim Harrel, Cripple Creek, Colo.
Lewis M. Altman, Cripple Creek, Colo.	Walter C. Simpson, Cripple Creek, Colo.
Dewey Collier, Cripple Creek, Colo.	Mrs. W. Jeane Huber, Victor, Colo.
Alfred R. Orr, Cripple Creek, Colo.	Mrs. James A. Casey, Cripple Creek, Colo.
W. H. Craig, Cripple Creek, Colo.	A. B. Corley, Cripple Creek, Colo.
Robert Stephens, Victor, Colo.	Alfred H. Gieomann, Cripple Creek, Colo.
Claud Chenoweth, Victor, Colo.	Mrs. James Smith, Cripple Creek, Colo.
Mrs. Jacqueline Adams, Victor, Colo.	Arch L. MacGowien, Cripple Creek, Colo.
Mrs. Evelyn E. Stott, Cripple Creek, Colo.	John W. Phipps, Cripple Creek, Colo.
Mrs. Melba Anderson, Cripple Creek, Colo.	Frank L. Banks, Victor, Colo.
Mr. and Mrs. B. W. Bietz, Victor, Colo.	Ted Trent, Victor, Colo.
Ben Nothous, Victor, Colo.	J. Z. Snodglen, Victor, Colo.
Albert C. Polkingham, Victor, Colo.	Ralph L. Adams, Victor, Colo.
Albert Nelson, Victor, Colo.	Mrs. Gertrude Dial, Cripple Creek, Colo.
Mrs. Juanita Devitt, Cripple Creek, Colo.	Alfred Lorenz, Victor, Colo.
Mrs. Avis King, Cripple Creek, Colo.	John F. Schreck, Victor, Colo.
W. A. Stone, Cripple Creek, Colo.	Franklin Sanders, Cripple Creek, Colo.
Racil Watson, Victor, Colo.	Mrs. Dorothy Holbrook, Cripple Creek, Colo.
Jerry Muzik, Cripple Creek, Colo.	Mrs. Mollie Peiffer, Cripple Creek, Colo.
James Smith, Cripple Creek, Colo.	Ray Pumm, Victor, Colo.
Robert Innes, Cripple Creek, Colo.	Harold Ellis, Divide, Colo.
Mrs. Norma Altman, Cripple Creek, Colo.	Charles Chapman, Victor, Colo.
Mrs. Mabel Murphy, Goldfield, Colo.	B. H. Rogers, Woodland Park, Colo.
Mrs. Elizabeth Murphy, Cripple Creek, Colo.	M. Ryan, Cripple Creek, Colo.
Jesse Harner, Cripple Creek, Colo.	Mrs. Elvera Hahn, Victor, Colo.
Mrs. Loretta S. Davis, Cripple Creek, Colo.	Mrs. Howard Stone, Guffey, Colo.
Ralph E. Davis, Cripple Creek, Colo.	James E. Chapman, Cripple Creek, Colo.
Mr. and Mrs. Richard Gregory, Victor, Colo.	Charles Chapman, Jr., Victor, Colo.
	Max B. Mills, Cripple Creek, Colo.
	George Dickerson, Cripple Creek, Colo.
	Frank Bemore, Victor, Colo.

- Mrs. Alva Dunn, Cripple Creek, Colo.
 Mrs. Mary Lee Sanders, Cripple Creek, Colo.
 Mrs. Lorene Chapman, Cripple Creek, Colo.
 Mrs. Edythe Schwab, Cripple Creek, Colo.
 Mrs. Lillian Kudlar, Cripple Creek, Colo.
 Rufus A. Jones, sheriff, Cripple Creek, Colo.
 John K. Bloomquist, Victor, Colo.
 Charles McKenzie, Victor, Colo.
 Mrs. Ada Bielz, Victor, Colo.
 H. L. Schneider, Victor, Colo.
 Mrs. Joan Huston, Victor, Colo.
 Mrs. Barbara Cook, Cripple Creek, Colo.
 Maxine Cox, Victor, Colo.
 Mrs. Frances Brown, Victor, Colo.
 Margaret Tikavee, Victor, Colo.
 Mr. and Mrs. George Ward, Cripple Creek, Colo.
 Mr. and Mrs. P. Binganer, Cripple Creek, Colo.
 Lee Brown, Cripple Creek, Colo.
 Leslie Wilkinson, Cripple Creek, Colo.
 Mrs. Royce King, Cripple Creek, Colo.
 R. E. Patton, Cripple Creek, Colo.
 James Deven, Cripple Creek, Colo.
 Paul Larsen, Cripple Creek, Colo.
 Clarence Young, Cripple Creek, Colo.
 Henry C. Hack, Jr., Cripple Creek, Colo.
 Mrs. Crooke T. Crooke, Cripple Creek, Colo.
 Mrs. Margaret M. Hack, Cripple Creek, Colo.
 Mrs. Frances Hunter, Cripple Creek, Colo.
 William Ackelbein, Cripple Creek, Colo.
 Pat Ryan, Cripple Creek, Colo.
 Francis Fox, Cripple Creek, Colo.
 Walter E. Witches, Cripple Creek, Colo.
 Earnest West, Victor, Colo.
 Robert B. Beach, Victor, Colo.
 Nellie Ronniend, Cripple Creek, Colo.
 Donald B. Jaynes, Cripple Creek, Colo.
 T. J. Willard, Cripple Creek, Colo.
 Samuel G. Hawkins, Cripple Creek, Colo.
 Arden Bennett, Cripple Creek, Colo.
 K. B. Yarbrough, Cripple Creek, Colo.
 W. C. Wiedman, Cripple Creek, Colo.
 W. B. Johnson, Cripple Creek, Colo.
 Laurence A. Rankin, Cripple Creek, Colo.
 B. G. Robinson, Cripple Creek, Colo.
 Floyd D. Parker, Cripple Creek, Colo.
 Ray E. Statt, Cripple Creek, Colo.
 John King, Cripple Creek, Colo.
 Dr. W. Denman, Victor, Colo.
 Charles Fromm, Cripple Creek, Colo.
 B. McKahan, Cripple Creek, Colo.
 Mrs. Lucille Mentzer, Cripple Creek, Colo.
 Robert A. Wilson, Victor, Colo.
 G. T. Harhbarger, Victor, Colo.
 George E. Carter, Victor, Colo.
 Mrs. Grace Wilson, Victor, Colo.
 Samuel Klopfenstein, Victor, Colo.
 George Yeager, Victor, Colo.
 Jim Cameron, Victor, Colo.
 E. H. Boedeker, Victor, Colo.
 Mrs. Glenna Smith, Victor, Colo.
 Mrs. Ruth Davidson, Victor, Colo.
 Mrs. Sophia Yeager, Victor, Colo.
 F. S. Cunningham, Victor, Colo.
 David M. Downes, Victor, Colo.
 Donald R. Conley, Cripple Creek, Colo.
 Frank M. Mantell, Cripple Creek, Colo.
 Eugene H. Carico, Cripple Creek, Colo.
 Tony Slaucik, Cripple Creek, Colo.
 Donald L. Rankin, Cripple Creek, Colo.
 Jack Chaffney, Cripple Creek, Colo.
 Mrs. Hazel Elliott, Cripple Creek, Colo.
 Ralph H. Dal, Cripple Creek, Colo.
 George Hammers, Cripple Creek, Colo.
 Henry B. Bailey, Victor, Colo.
 Delbert Schmidt, Cripple Creek, Colo.
 Arthur Tremayne, Cripple Creek, Colo.
 C. S. Wilkerson, Cripple Creek, Colo.
 Sam Zimmerman, Cripple Creek, Colo.
 Frank Brown, Cripple Creek, Colo.
 Ed Holbrook, Cripple Creek, Colo.
 C. A. Turnquist, Cripple Creek, Colo.
 Joe Crampton, Cripple Creek, Colo.
 C. N. Tassmann, Cripple Creek, Colo.
 Melvin Anderson, Cripple Creek, Colo.
 F. W. Gunn, Cripple Creek, Colo.
 Ralph Raub, Victor, Colo.
 E. A. Norden, Cripple Creek, Colo.
 Hereferd Peiffer, Cripple Creek, Colo.
 Charles A. Bunner, Victor, Colo.
 Jon T. Von Derwalker, Victor, Colo.
 Carrol E. Hamon, Cripple Creek, Colo.
 Nick Vendetti, Cripple Creek, Colo.
 R. A. Schwab, Cripple Creek, Colo.
 E. M. Douglas, Colorado Springs, Colo.
 Lester L. Herlyck, Cripple Creek, Colo.
 James White, Cripple Creek, Colo.
 Harry Allen, Cripple Creek, Colo.
 John B. Mohley, Cripple Creek, Colo.
 Al Delaney, Cripple Creek, Colo.
 John W. Anderson, Cripple Creek, Colo.
 James Hutchison, Cripple Creek, Colo.

MANCOS, COLO., March 26, 1962.

Senator JOHN A. CARROLL,
Washington, D.C.

DEAR SIR: In answer to your letter of March 16, 1962, we are pleased to note your favoring the bill to provide payment of a subsidy on newly mined gold. This community has the possibility of getting a mill and the subsidy would assure us of it. This, in turn, would assure the opening of several mines in this area.

We have a lot of low-grade-ore producers in this mining district, but the high cost of transportation and low price of gold has forced them to be idle.

We have lots of unemployment in this area, which would be remedied by these various mines being able to go to work again, so here's hoping that the Silver Purchase Act is never repealed and hoping the subsidy is voted at this next session of Congress.

We, the undersigned businessmen and miners of this area, heartily approve your action on this subsidy bill:

C. C. Davis
Kent Fitzgerald
Raymond Starr
Marshall C. Rogers
James Chadd
Earl Chadd
Frank McCabe
Bob Holston
C. A. Lamb
Manuel Sena
Jose A. Romero
George A. Allen
Len Crawford
Gilmer Pickens
F. E. Dunlap
Sylvan Brown
Kenneth Bauer
Charles A. Hadden
Millie Martinez
L. Lewis
Gerald Johnson
C. W. White
Clyde Sterenson
Jim Waggoner
R. W. Sauck
Samuel J. Merlo
Thomas C. Honey
Lila Coppinger
Fred Martinez
Mike Randall
G. I. Perkins
Benny Garcia
Gilbert Gulberger
Harold L. Perkins
Elmer Dean
Ernest Coppinger
Kelley Smouse
James A. Smith
Van A. Willis
Albert Min
James A. Bauer
Charles A. Menefee
Walter A. Goff
Harry Dunsmoore
Lee Sheek
Jim Lea
Westley Potts
John Carver, Jr.
John H. Bauer

Ross Valdez
H. B. Smithson
John F. Wagner
Elbert B. Gustafson
Milton B. Hurst
Edgar A. Noland
R. H. Norris
Dick Sprenger
Charlotte Frazier
Vernon Ellis
J. E. Elliss, Jr.
Lorna M. Paquin
Guy O. Ream
Louise Sprenger
George C. Schmer
Wayne F. Lindsey
LaHoma Day
Meadie Matthews
Earl Day, Jr.
S. S. Haskley
Roy Freeman
Mason Scheuerman
Kyle B. Colti
John Paquin
Hon. Elizabeth E. Pellet (State
representative)
Gorham Steerman
Besse M. Ripley
Art Towne
Vern L. Eshelman
Herbert L. Davis
Emery Lovett
Merle J. Cox
M. Lundisholm
Milton S. Roberts
Byron E. Brown
Henry Exon
W. E. Lyen
Andy Raestle
Morris A. Esters
C. E. Westcott
Martin Hillebrand
Paul A. Frazier
James E. Holston
Edward J. Kennedy
Elias J. Garlinghouse
Luke W. Cline
John D. Canter
Ted Johnston

STATEMENT OF GRANVILLE S. BORDEN, GEOLOGIST, PIEDMONT, CALIF.

(1) Qualifications-representation: Your witness is a registered engineer under the laws of California, a registered geologist under the laws of Arizona, a member of the bar of the Supreme Court of the District of Columbia.

For 46 years I have been associated with gold mining—starting in Grass Valley, Calif., in 1914. My testimony is given as an unofficial representative of all my fellow Americans because I am convinced that if this proposal is adopted, the consequence will engender stupendous benefactions for America.

(2) Proposal: The proposal for legislation is set forth in the caption.

As a supplement it is proposed that the subsidy of \$17.50 per troy ounce be paid in U.S. tax credit certificates, assignable and acceptable in satisfaction of any Federal tax liability.

(3) Scope of this testimony: This statement consists of recitals of ultimate facts relevant to the proposal which this witness believes to be true. These ultimate facts can be substantiated by relevant evidence which can be adduced by innumerable witnesses.

(4) At minable depths within the skin of the earth's crust and within the 50 sovereign States there are many thousands of tons of gold which are today worthless underground inventories under our present economic and political environment—primarily because the mineral deposits—both lode and placer in which this gold is embedded cannot be mined and the gold contained therein converted into bullion at a cost of \$35 per troy ounce, 1,000 fine. Today within the 50 States there are only a handful of gold mines operating. There is some gold produced as a byproduct of base metal production.

(5) A substantial portion of this underground supply of gold could be converted into bullion at a profit if the producer could be assured of \$52.50 per troy ounce (\$35 plus \$17.50 subsidy).

(6) The benefactions which would ensue from priming the gold mining pump are innumerable, a few are listed below:

(a) The new gold production in Fort Knox would reduce the serious drain of our gold reserves and tend to check the loss of faith—both at home and abroad—in the integrity of our American dollar and also check the forces of inflation.

(b) The subsidy would encourage prospectors, thousands of small businessmen, and many capitalists to engage in the business of exploration, developing and producing gold—especially in the art of dry placer concentration where quite recently substantial technical economies have been perfected.

(c) Each one of these new ventures would create a source of new employment, new sources of trade required in operations, new communities, new demands for supplies and services required by the new communities, and new sources of Federal and State revenues.

By operation of the Federal income tax the major share of the new production finds its destiny in the Federal Treasury where much is appropriated into taxable channels and recaptured, reappropriated, and recaptured ad infinitum.

This is all true because Uncle Sam takes a tax from all employees, all tradesmen in the operations, profits, dividends, and as the new dollars (which would not exist but for the subsidy) circulate in channels of trade and consumption a tax is taken at each point where the new dollars come to rest.

Many State treasuries take a share of the new dollars.

All of this fertilizes and cultivates economic growth, creates new jobs (many in depressed areas), new trade, new communities, and in the words of President-elect Kennedy, new frontiers.

Fears of impoverishment are alleviated; stimuli to new endeavors are created; many citizens become more patriotic and better citizens.

Finally, it does not take a sharp pencil to figure that a subsidy such as that proposed, from a cold dollar-and-cents business deal, would not only pay its own way (leaving all of the intangible benefactions as a byproduct) but also result in a very handsome profit to the United States.

The program could be financed with assignable tax credit certificates non-interest bearing which the producer would convert into cash by paying them in to cover the cash withheld from employees, pay his own income or social security taxes, etc. The main point now is that the subsidy would not tend to impair the budget because the revenues resulting from the subsidy would more than offset the non-interest-bearing tax credit certificates.

In conclusion, it is my prayer that this suggestion be given serious consideration by Treasury, Interior, Commerce, and Labor and if this is done I am positive the administration will sponsor such legislation and make appropriate recommendations to our Congress.

STATEMENT OF THE MONTANA MINING ASSOCIATION, W. G. MALONEY, MANAGER

Time will not permit the writer to appear before your committee on March 15, 1962, in Washington, D.C. Therefore, I respectfully offer the following statement in behalf of the Mining Association of Montana in support of Senate Joint Resolution 44:

Domestic gold mining today is almost extinct. Prior to World War II, the United States ranked second in gold production. Today, Russia holds that position and is now producing approximately $6\frac{1}{2}$ times more gold than we are.¹

Much of our gold today is produced as a byproduct with other metals.

A half century ago the miner's daily wage was from one-sixth to one-seventh of an ounce, based on a monetary price of \$20.67. During this same era, when conditions became more prosperous or inflationary, the miner's daily wage would increase from one-fifth to one-fourth of an ounce. However, after gold was revalued upward in 1934, the daily wage again became one-seventh to one-eighth of an ounce. The gold miner's wage today, including the fringe benefits, is approximately three-fourths of an ounce.

We believe that national policy, through Government regulation, has forced 97 percent of operating gold mines to close down because this policy fails to take into consideration present operating costs and inflationary conditions as they pertain to the price of gold.

Therefore, we respectfully suggest \$35 as a minimum incentive payment to domestic producers of gold in addition to the present established price. This combined price would then allow $37\frac{1}{2}$ percent or slightly over one-third ounce of gold as a daily wage. This incentive should remain in effect until such a time as our country calls a conference of the major monetary nations of the world for the purpose of evaluation and agreement of currencies, making them convertible into gold at a new price, without restriction, or until future economic conditions change for the better.

We believe it apparent, unless an immediate effort is made to stimulate domestic gold production, the gold reserves of the U.S. Treasury will be further depleted almost to the vanishing point.

Thanking you and your committee for this opportunity to present our viewpoint.

STATEMENT OF THE NEVADA MINING ASSOCIATION, INC., RENO, NEV., LOUIS D. GORDON, EXECUTIVE SECRETARY

On January 30, 1934, Congress passed the Gold Reserve Act and, on January 31, 1934, President Roosevelt fixed the price of newly mined gold, produced in the United States, at \$35 per fine ounce, less one-fourth of 1 percent and less mint charges. In his proclamation, the President said: "This price may be changed by the Secretary of the Treasury at any time without notice."

The President also said: "The mints are authorized to sell gold to persons licensed to acquire it and for use in the industries, professions, or arts, but not to sell more than is required for a 3 months' supply for the purchaser. The price at which gold is to be sold by the mint will be \$35 per troy ounce plus one-fourth of 1 percent. This price also may be changed by the Secretary of the Treasury without notice."

The price of gold thus fixed has remained unchanged for a period of nearly 28 years. In the meantime, the cost of producing gold has greatly increased. In Nevada, miners are now receiving from four to five times the wages they were paid in 1934 which does not take into consideration the fringe benefits they are now receiving. In addition, the cost of machinery, equipment, and supplies necessary for the production of gold has, in most instances, more than trebled.

¹ "U.S. Bureau of Mines 1960 Yearbook" on gold gives U.S. production at 1,700,000 ounces; Russia at 11,000,000 ounces.

Due to sales of gold by the Treasury Department to fabricators of the metal, and to foreign demands, our stock of gold on November 9 of this year totaled \$17,276 million, making our gold stock the lowest since the year 1939. With reference to this, it is admitted that were foreign governments and nationals to convert dollars they now hold to gold, which I am advised they have the right to do, our gold stock is insufficient to meet such conversion. In addition, it is now proposed, in some quarters, that all gold backing for U.S. currency be eliminated, or at least greatly reduced, relegating our currency to a near, or complete, fiat status.

It is not my suggestion at this time, desirable as it may be, that the price of gold be increased by the Federal Government. I am advised that such legislation would have no chance of a favorable endorsement by the Banking and Currency Committee of the Senate or House of Representatives, due to our involvement in international agreements, funds, etc., which I deem unnecessary to dwell upon at this time.

However, if gold is needed to maintain the integrity of our dollar, something must be done to stimulate its production and to conserve in every possible way our Treasury stock of gold.

The first serious, and almost fatal, blow to the gold mining industry was struck in October 1942 when the President issued Order L-208. This closed practically all gold mines in the United States and resulted in caving and flooding in numerous mines—making their reopening and rehabilitation impracticable and, in some instances, impossible.

The inspector of mines for the State of Nevada reports that in the fiscal year July 1, 1940, to July 1, 1941, there were 183 gold and silver and 63 gold mines in operation in the State; that 1,929 men were employed in such mines.

For the fiscal year July 1, 1941, to July 1, 1942, 108 gold and silver mines and 30 gold mines were operating, employing 1,212 men.

For the fiscal year July 1, 1942, to July 1, 1943, 6 gold and silver and 4 gold mines were working, employing 95 men. (L-208 became effective in October 1942.)

At the present time, no gold and silver and no gold mines are operating—except for a few lessees working in a limited way, employing no labor, and making a relatively inconsequential production.

Subsequent to the rescission of L-208, the gold mining industry has been the victim of inflation. The price of copper advanced from 13.82 cents in 1946 to 20.96 in 1947. Since then, the price has varied from a low of 19.2 cents in 1949 to a high of 41.8 cents in 1956. It is now 31 cents per pound.

Lead sold for 8.11 cents in 1946. Since then the price has fluctuated from its present low of 10 cents to a high of 18 cents in 1948, but for the period 1949 to 1958, the lowest price was 12.11 cents per pound.

Zinc increased from a price of 8.73 cents in 1946 to a high of 18 cents in 1951. It is now 11½ cents.

These figures are cited to show how impossible it is, and has been, for gold miners to compete in the labor and commodity markets—when the price of their product has remained stationary for a period of nearly three decades.

Factually, the gold-mining industry and the U.S. Government have been subsidizing gold manufacturers and fabricators for a period of some 28 years. Regardless of what it costs the American miner to produce gold, the Government sells it to these fabricators and manufacturers at practically the same price it pays the miners.

As to the price gold manufacturers and fabricators receive for their finished products, it is only necessary for anyone to buy some gold jewelry. I feel sure that they will find that the average retail price of such jewelry is on the order of at least \$200 per ounce.

In my opinion, a temporary solution to the problem would be for the Federal Government to pay gold miners a bonus for newly mined gold, the amount of such bonus to be determined after hearings upon the cost of producing gold in the United States. Such procedure would enable gold miners to make a profit, some of which the Federal Government would receive in the form of income taxes. Secondly, the Government should cease the sale of gold to manufacturers and fabricators. As a matter of equity, it would seem fair to provide that users of gold in the arts and trades purchase their gold in the open market. I fail to see the equity of selling gold to them at the same price the U.S. Treasury pays the miners—especially in view of the fact that such practice has been one cause for the depletion of our gold supply—over a period of nearly three

decades. Thirdly, prevent, in every possible way, the outflow of gold from the United States.

I know of only one major gold mine in the United States now in operation; that is to say, a gold mine with a sizable production. That mine is in South Dakota.

I need not point out to you the condition of the gold-mining industry in California and, no doubt, the gold-mining industry in many other States will present testimony to emphasize the deplorable condition of the industry.

I have attempted to make this statement as brief as possible and feel that further elaboration is unnecessary at this time, as you no doubt have methods of determining the amount of gold sold to private industry since January 1934, the amount released to foreign governments and nationals, the amount now held by our Government, free of commitments, and the cost of producing gold in the United States.

Your attention is respectfully called to the following facts:

U.S. production of gold in the year 1960 (the last year for which complete statistics are available) was \$58 million; consumption of gold by industry was \$105 million.

Nevada's production of gold in 1960 was \$2 million.

Our gold stock as of March 14, 1962, was \$16,710 million.

LAS VEGAS, NEV., April 5, 1962.

Hon. JOHN A. CARROLL,
Senate Office Building, Washington, D.C.

DEAR SENATOR CARROLL: I am enclosing herewith a copy of a letter which I sent to President Kennedy requesting that some action be taken with regard to gold mining and the price of gold.

We shall be sincerely appreciative of any assistance you may be able to render in an effort to make it possible to intelligently reactivate the mining industry.

Sincerely,

GALE NEFF COLTON.

[ENCLOSURE]

APRIL 4, 1962.

President JOHN F. KENNEDY,
Washington, D.C.

DEAR MR. PRESIDENT: During your campaign for election to the position which you now hold, I listened carefully to all of your speeches as well as those of Mr. Nixon for some indication as to what each candidate's stand would be with regard to the gold mining situation in the United States.

From the frequency of the mention of the gold situation in your various campaign addresses, I concluded that perhaps you were the man most aware of the great need for some action to be taken to rectify a deplorable situation.

At no time did you commit yourself as to what remedial action you would institute. However, you did repeatedly state, "We are concerned about the gold situation and the mining situation in the United States." It has always been my understanding that if there is great concern and cause for concern, then this concern must necessarily be followed by positive action.

There are many suggestions being offered by the national representatives from the mining States, none of which have been positively acted upon in an effort to improve the economy and solidarity of our country.

I am writing to you at this time to implore you to give serious action to the diminishing gold reserve in our country and to in some way reopen mining, particularly gold mining, within our own country.

I speak not as an outsider but as one vitally involved in an unprecedented effort to restore prosperity to a ghost town which was at one time a thriving mining community. The area I speak of is Searchlight, Nev., which perhaps you have read of in the past several months. My husband's grandfather founded the town and built it into a community of 10,000 people, solely because of the gold mine which he found and which remains in the family.

I use the term "unprecedented effort" advisedly. We have in our mining camp a group of young Americans who believe firmly that our great country must in due course of time come to the realization that in order to continue as the great country we are, our gold mines must be reopened.

Therefore, these men are each contributing 1 year of their lives without pay in an effort to reestablish a solid mining operation on our property in Searchlight, Nev. Each of the men in the venture with us understands that he will receive nothing except his complete maintenance for this year of his life unless we can return the property to a paying basis. There is no way possible that the mine could ever again become productive if the work being done by these men had to be paid for at the present high salary rates necessitated by the present-day cost of living.

When my husband's father operated this mine many years ago, wages were \$4 a day for capable miners. Gold at that time was \$20 an ounce, or five times 1 day's wages. Equipment and electrical power were correspondingly low in cost. The current rate for a qualified miner is \$40 a day and the price of gold is \$35 an ounce. All other costs of mining are correspondingly high. The town of Searchlight presently has approximately 150 residents, including the men of our camp.

If some feasible plan can be executed by our Government which will permit the reopening of mining, particularly gold mining, any economist can readily see that our present unemployment situation could be drastically reduced, the economy of our country greatly enhanced, and the National Treasury returned to a status that would instill a feeling of security in the youth of our country.

Juvenile delinquency and crime are a direct outcropping of a feeling of insecurity, whether it be confined to family insecurity or national insecurity.

Perhaps this letter will never reach your desk and perhaps you will never get through to the end of it. It is necessarily lengthy. However, I shall continue to listen to each of your addresses to your country for the word of encouragement which a large majority of your fellow citizens are waiting to hear. I realize that any change in the price of gold is considered a great step to take but it takes great men to take great steps.

Sincerely,

Mrs. GORDON (GALE) COLTON.

STATEMENT OF CARL G. PARKER, FAIRBANKS, ALASKA

FAIRBANKS, ALASKA, March 12, 1962.

HON. JOHN A. CARROLL,
Washington, D.C.

DEAR SIR: As an Alaskan gold-mine operator of long standing, I should like the opportunity to place an opinion in the records of the hearing before this committee relative to the stimulation of gold production. The opinions expressed are my own, rather than as a representative of any particular association.

There is one area of general agreement—a very substantial price increase is necessary if gold mining as a primary industry is to expand, or indeed, to continue at a significant level. This is the only course which can initiate a positive and relatively immediate reaction. The “how” and the “how much” are a different matter.

Insofar as the “how much” is concerned, I should like to refer you to a preparation by the Alaska Miners Association, which was ably presented on the floor of the Senate March 17, 1960, by our Senator Bartlett. The condition pointed up in that paper certainly has not improved. It is also quite likely that the increase considered necessary at that time was, if anything, on the conservative side. A copy of that report is enclosed for your information. The association went on record later as supporting the rivers bill, although there may be disagreement with some of the provisions therein.

Insofar as the gold miner is concerned, then, this price increase is held essential, whether it shall be in the form of a subsidy, or the more realistic revaluation of gold in terms of our inflated dollar. We would much rather see a more permanent revaluation than a subsidy, but one or the other must come, and soon, if we are to keep a long-neglected industry alive and ready to meet a more urgent need for its product.

OLIVE CREEK MINES,
CARL G. PARKER.

PRODUCTION AND COST COMPARISONS, ALASKA GOLD MINING INDUSTRY

The following tabulation reflects the trend in Alaskan gold mining for the period shown. Some interesting and fairly accurate conclusions may be drawn from this presentation when used in conjunction with an evaluation of the other variable factors relative to the subject.

*Number of active gold mines*¹

	1940	1958	Percent decrease
Dredges.....	50	23	54
Lode.....	45	0	100
Other placer.....	501	95	81
Total.....	596	118	-----

¹ All production figures from U.S. Bureau of Mines records.

*Production*¹

	1940	1958	Percent decrease
Dredges.....	\$12,418,210	\$5,261,970	58
Lode.....	7,408,506	-----	100
Other placer.....	6,632,234	1,256,255	81
Total.....	26,458,950	6,518,255	-----

¹ All production figures from U.S. Bureau of Mines records.

*Costs*¹

	Percent of Total	1940	1960	Increase ratio (percent)
Heavy equipment and parts (cost per pound).....	26	\$0.34	\$0.90	265
Labor per hour (operators).....	50	1.25	2.92	234
Fuel per gallon.....	18	.21	.316	150
Total.....	94	-----	-----	-----
Average composite rise (percent).....	-----	-----	-----	213

¹ Heavy equipment and parts cost per pound based on costs of machines and repair parts of comparable models, f.o.b. Fairbanks. Labor per hour are rates for placer mines other than dredge. Fuel per gallon is bulk plant price, f.o.b. Fairbanks. Proportion of individual costs to total from a typical small-mine placer operation.

SUMMARY

It would appear that an increase in gold price commensurate with cost increases since 1940 would initiate an almost immediate and very substantial response from the Alaska mining industry. This would be reflected to the greater degree by placer operation other than dredging. While it is doubtful that the larger type of operations would make so complete or so rapid a recovery, they should, within 2 to 3 years, reach a substantial proportion of prewar production. The composite effect would result in a production stabilized somewhere between 70 percent and 85 percent of prewar figures, based on presently known deposits. The increased incentive for prospecting could well result in location of substantial new commercial deposits of gold, as well as valuable discoveries of other minerals of prime importance. Since this estimate is made for production in terms of fine ounces, the impact on the State economy of any such action in terms of dollar value is self-evident.

HISTORY

It is readily apparent that under present conditions, gold mining as an Alaskan industry is approaching extinction. The majority of the mines now producing are rapidly exhausting their workable reserves. Those mines still operative are mainly tag ends of projects developed or operated prior to World War II—very little further development even of existing mines has been hazarded since that time. Many of the smaller operations were unable to recover from the effect of L-208, and the extremely adverse influence was industrywide. A large increase in costs during the enforced idleness had removed a large share of the profit incentive. To combat rising costs, operators were forced to drastically curtail or eliminate that share of profit normally expended for further development. Such an undesirable condition can lead only to final closure. It would appear that the larger dredging operators purchased existence through these methods; there was little if any margin for further economy in an already highly efficient operation. Lode mines, with a higher labor cost proportion, were completely abandoned. In most cases, however, the small placer operator was forced to adapt new and more efficient methods to exist. This latter result will have an important effect in the future of the industry, if there should be an increase in the price of gold.

PROSPECTIVE INCREASE

An answer to the question of how much new production will be stimulated by various degrees of gold price increase must consider many relative factors. Production and cost of figures serve to establish trend only—a theoretical guide to provide a ratio to basic standard—and can be inaccurate and incomplete without consideration of the variance factors. Information of value from this standpoint must be sought from those intimately acquainted with and active in the respective fields concerned. An increase of small porportion will aid only those surviving operations, and will in general merely tend to extend their life for a more or less brief period. A very substantial price increase or aid is needed to generate significant new production. For purposes of comparison, an increase of 100 percent, in line with cost rise, may be assumed.

DREDGING

The field of dredging in the Fairbanks area, a major past producer, is limited by factors other than the economy of the operation in itself. Little actual expansion is probable; a considerable extension in the life of present operations would be effected, however. The relatively large initial capital outlay necessary to start such activity demands a correspondingly large volume of workable gravel, and a relatively unrestricted operation. The Seward Peninsula and other of the outlying areas offer the best chance for expansion or resumption of such activity on a large scale. An estimate made by the general manager of one large dredging operation in Alaska predicts a return to 70 percent of prewar production in that area under such conditions.

LODE MINING

Lode mining faces many of the same restrictions as dredging, yet has a somewhat better chance for expansion, at least for smaller operations. A considerable advance has been made in mechanization, to offset at least in part the high ratio of labor to total mining cost. Better air transport and overland methods allow for penetration of more remote areas. Certainly a good percentage of prewar mines would be reopened. Since such a large part of this production came from one large operation, however, it would be dangerous to attempt any prediction without a specific estimate from this source. It would seem reasonable to assume a resumption of vigorous activity, but to what degree is difficult to foretell accurately.

OTHER PLACER

The smaller individual placer operations will reflect the greatest reaction to such a stimulus. By nature, a more flexible and mobile type of operation, advantage can be taken of modern transportation development to move into once remote areas of known value to initiate entirely new production. The improvement in methods previously mentioned, and the present availability of

types of equipment necessary for this method of mining would allow an almost immediate resumption of production in most of the now inactive mines. This same advance in technique would allow the opening of properties not operable before such progress, profit possibility being equal. It is a self-created margin for the small operator. Many of the "long corners" left by cessation of dredging, not large enough to warrant renewal on such a scale, would be reopened by this method. Added to the feasible expansion of existing operations, a rapid return to near normal prewar production levels is probable, and a considerable increase beyond that level quite possible in the near future.

ALASKA MINERS ASSOCIATION,
FAIRBANKS BRANCH LEGISLATIVE COMMITTEE,
CARL G. PARKER, *Chairman*.

FEBRUARY 23, 1960.

FAIRBANKS, ALASKA, March 15, 1962.

Senator ERNEST GRUENING,
Senate Office Building, Washington, D.C.:

Re your gold price hearings. Alaska Miners Association wishes to go on record favoring increased price gold to \$70 per ounce. Increased price needed to equalize present costs and gold price. Alaska economy requires this action to ease impact of decreasing defense construction income.

ALASKA MINERS ASSOCIATION,
JAMES D. CRAWFORD, *President*.

GRAFE-CALLAHAN CONSTRUCTION Co.,
Los Angeles, March 21, 1962.

Senator MAURINE B. NEUBERGER,
U.S. Senate, Washington, D.C.

DEAR SENATOR NEUBERGER: I noticed an article in the Idaho Statesman on March 16, 1962, on page 12, concerning a hearing about incentive payments for gold.

We have spent \$100,000 investigating the placer property in the Mormon Basin in Malheur County, Oreg., and have developed ground in which there is a million dollars of gold and possibly an additional half-million dollars of gold, but at \$35 an ounce we cannot afford to mine this. If the incentive payment for mining gold was allowed, we would start operations this summer and furnish employment for approximately 25 men.

If you desire any further information, we would be pleased to furnish it.

Respectfully yours,

PAUL GRAFE,
Chairman of the Board.

STATEMENT OF SALMON RIVER MINES CO., INC., CALLAHAN, CALIF.,
E. C. LATCHEM, PRESIDENT

PLAN NO. 1 WITH ANALYSIS AND EXPLANATION

Domestically mined gold consumed in the arts and trades is to be purchased by the U.S. Mint as is done presently, but at an advanced price to balance increased costs of mining. This advanced price would be a flat or firm price of \$45 per ounce. This price of \$45 plus the present price of \$35 would make a total price of \$80 per ounce paid to the miners.

The \$80 per ounce to the industry is the minimum or floor price. Gold now becomes a commodity and nowise constitutes a two-price system. There is absolutely no connection with gold used for monetary or reserve purposes.

Domestic consumption of gold is increasing steadily and is approximately \$129 million per year. Domestic production of gold is approximately \$58 million per year (1960 figures as shown by U.S. Mint report dated Aug. 11, 1961).

Items to be included in bill

- (1) The price of \$80 per ounce to be for a minimum of 14 years.
- (2) A short term of 7 years for depletion.
- (3) Gold so produced must be newly mined domestic gold with supporting affidavits to verify. Violation to carry heavy penalties.

(4) A further depletion allowance should be provided for deep mines to compensate for increased cost of operation. The amount should be 5 percent for mines requiring hoisting or pumping 1,000 feet deep, and 15 percent for deeper mines.

(5) To aid in early maximum production without hindrance, all restrictions on exploration, prospecting, and mining on Government lands shall be removed, and the general mining law of 1872 shall again become effective.

(6) To further aid in resumption of mining, an examining board should be set up by Congress to appraise the amount of damage done and order payment to those mines closed by War Production Board Limiting Order L-208. Congress may have intended to compensate the miners, for Congress recognized in committee that the act designated "L-208" was unmoral, inequitable, and unjust.

Analysis and explanation

This plan refers exclusively to gold actually mined from placer and underground mines, newly found, and rehabilitated old mines of the United States.

Reclaimed or reprocessed gold of all kinds, byproducts and foreign gold, will carry the present gold price of \$35 per ounce.

Control of the gold, including purchase and sale, to remain with the U.S. Mint as done presently. This will assure proper supervision and compliance with rules and regulations.

The present low price of gold provides a subsidy to commercial users at the expense of the gold producer.

The gold mining industry by its own initiative and enterprise, without cost to the Government, will revive the industry to its former important place in our economy. A long-overdue increase in the price of gold will bring it into fair balance with other segments of our economy.

Gold mines starting operations under a favorable price level established by Congress would in large measure find themselves in one or two classes, to wit:

(1) New mines just starting operations will have little difficulty in getting organized, capitalized, and into production.

(2) Old mines: Problems confronting closed old mines are many and exceedingly complex. Twenty years (since L-208 in 1942) of inactivity has created deplorable conditions, especially long established deep mines. Capable, experienced executives and technical forces have passed out of the picture. Records and scientific data are lost for present-day use. Deteriorating stock structures, new laws such as SEC, State laws and regulations are added obstacles to overcome before operations may proceed.

Weak as the industry finds itself at the present time, it still has the enterprise and technical capability to regain its once important place in our economy without Government expense; if granted, this price which will permit profitable operation.

It is urgent that this be accomplished now.

GRANTS PASS, OREG., March 24, 1962.

Hon. JOHN A. CARROLL,
Senator for Colorado and Chairman, Subcommittee on Minerals,
Washington, D.C.

DEAR SENATOR CARROLL: At the suggestion of Hon. Clinton P. Anderson, chairman of the Interior and Insular Affairs Committee, I wish to say that it is a very grave mistake for the Congress to delay action whereby immediate relief may be extended to the downtrodden gold claimholders by way of a subsidy or incentive payment. Such would enhance the chances of the unpatented lode gold claimowners to save their property and property rights, now being struck down by the Department of the Interior administratively thereby entirely ignoring the courts. And this in wholesale fashion.

It appears that the Department and others oppose a general price rise for gold. There is good cause, in my opinion not to enable all those holding gold, or gold claims, to profit by such a rise. The benefit of any measures to increase the value of gold should first go to those who produce the newly mined lode gold. Such benefits would enable the gold miners to meet the threefold rise in costs to produce gold. Moreover such benefits would be an incentive to produce more gold so sorely needed by our Nation.

The low price of gold and high production costs works to the sole advantage of the Government. It is using this criteria to void many worthy lode unpatented

mining claims. See *U.S. v. C. F. Pruess, Sr., Executor, et al.*, A-28641 Contest Oregon No. 213, recently decided on the basis of the above-mentioned criteria and present unsavory economic conditions, and retroactively at that.

I am now preparing a complaint for judicial review of this proceeding but the law is such as to make me go all the way to Washington, D.C., over 2,500 miles away, to file it in the Federal district court. This is an example of another indirect advantage the Government holds over its miner citizens. In July 1961, the House passed H.R. 1960, whereby the citizen aggrieved at the workings of the Government may file such case in the State where the mining claims are located, and where the plaintiff resides, and where the cause of action arose. The House committee indicated that our judicial processes should not be tailored to the convenience of the Government but rather that there be provided a readily available, inexpensive judicial remedy for the aggrieved citizens. They considered such an unfair imposition upon citizens who seek no more than lawful treatment from their Government.

But for reasons not altogether made available the Senate, with the approval of the Justice Department, has not seen fit to pass said law. All advantages are taken by the Government against its miner citizens in its "take-a-way" program to get the lands back into the public domain. I raise a deep-rooted question, can or should the Government be allowed to take away property and property rights administratively thereby ignoring or avoiding the courts jurisdiction to cancel lode mining claims, divest title and right to possession to extract and possess valuable mineral deposits discovered, remove the cloud of such locations against the paramount title of the United States, and cause forfeiture of minerals, mining improvements, structures, and everything the miner has developed, all without just compensation, and by reason thereof the Government stands to derive an unjust enrichment. When the Government proceeds administratively it cuts off and deprives the miner contestee of defending against fraud, and to assert that the Government attempts to impair the obligations of its contract with the discoverer-locator-holder of the minerals. No opportunity is provided the contestee to attack jurisdiction of the administrative agency. The Government acts as accuser, prosecutor, judge, and jury.

I can add to this a case I am associated with whereby it appears the administrative agency, by similar administrative contest proceedings, cut off and deprives the contestee from asserting rights arising out of the Government selling the timber on the claims and its removal by the purchaser while the miner has established good faith mining, done his annual labor and before the claims shall ever have been declared invalid.

These illustrations of actual cases indicate what mischief is arising from the low price of gold and high costs of its production, and how this situation is taken advantage of by the Government for its gain. I daresay that if the committee had a true and full report from the Department of the Interior as to the number of mining claims declared by it null and void (whatever that means in legal effect), it would be astonished. Are we to see the conflict-of-interest doctrine scraped?

My experience, as has been the experience of so many others similarly affected, gives rise to my query: "How long this administrative absolutism?"

Very truly yours,

C. F. PRUESS, Sr.

ELK CITY, IDAHO, March 12, 1962.

HON. JOHN A. CARROLL,
Chairman, Subcommittee on Minerals, Materials, and Fuels, Domestic Gold and Silver Hearing, Washington, D.C.

MR. CHAIRMAN AND MEMBERS OF THE HEARING PANELS: I am very much in favor of raising the price of gold, at least as much as the \$35 per ounce incentive payment as referred to in gold bill, Senate Joint Resolution 44. In fact, it would be better if the price of gold were tripled, making it \$105 per ounce; because, at the present price of gold and present cost of machinery and operation, it is absolutely prohibitive, in fact impossible, to get any kind of financial backing whatsoever for machinery and operation.

As things are now, at the present price, you can walk into any big machinery dealer in the Northwest; start talking about machinery, even used machinery, and they quote you a fairly good, present-day price, along with a nominal downpayment. Sure, they are very happy to give you this information. They want

to make the sale. Then they ask the question: "What are you going to use this machinery for?" You have to tell them the truth (they will find out anyway), so you say "Gold mining." Immediately you are left standing. Everyone is disinterested unless you have the full amount in cash. I know. I have tried at least six different machinery companies.

Most sincerely,

JOE E. WAVRA, *Elk City, Idaho.*

LEWISTON, IDAHO, *March 15, 1962.*

Senator JOHN A. CARROLL,
Senate Office Building, Washington, D.C.:

Incentive payments for new gold production would subsidize destruction of upland meadows and clear streams by starting marginal dredging operations. No effective State control over dredging operations exist in Idaho. Probable effect of bill would be muddy water, reservoirs full of silt, and rocks and fields of unsightly boulders devoid of vegetations, all at taxpayers' expense. Request bill be killed.

MORTON R. BRIGHAM.

STATEMENT OF FRANK LILLY, SPOKANE, WASH., PRESIDENT, AMERICAN CONSTITUTIONAL "HARD MONEY" ASSOCIATION

To the members of the U.S. Senate Subcommittee on Minerals: For your consideration and for the record of the hearings on Senate Joint Resolution 44 I respectfully submit findings of fact on the gold position of the U.S. Treasury.

"If we could first know where we are and whither we are tending, we could better judge what to do and how to do it" (Abraham Lincoln).

"Looking through the record, one is struck by a disconcerting lack of depth in much of our thinking about gold" (First National City Bank of New York).

"Let's look at the record," Al Smith, on the Treasury's past and present gold positions:

[Dollar figures in millions]

	U.S. Treasury gold holding	25 percent reserve gold liability	Gold liability to foreigners	Total gold liabilities	U.S. Treasury gold position
End of 1939.....	\$17,780	\$5,271	\$3,221	\$8,942	+\$8,942
End of 1949.....	24,563	10,795	8,226	19,021	+5,542
End of 1959.....	19,507	11,875	21,302	33,178	-13,671
End of 1961.....	16,889	11,495	25,197	36,692	-19,803

¹ Adjusted from 40 percent.

Source: Federal Reserve reports.

Where we are: The foregoing figures disclose the fact that the Treasury does not now own any gold free and clear of foreign-owned dollars and dollar credits consisting of a total of \$22,558 millions of short-term liabilities and \$2,639 millions of U.S. bonds and notes all of which we are obligated to convert into gold on demand.

Whither we are tending: The figures also disclose the fact that the Treasury's overall gold position has deteriorated greatly, especially since 1949, when in September of that year Great Britain revalued gold in terms of its paper currency and thereby gave gold a working value in its economy equivalent to \$102.17 an ounce on the basis of conversion at legal monetary parity. See report of the Director of the U.S. Mint.

The figures further disclose the fact that our gold liabilities have been "tending" higher and higher. This gold debt is fraught with dangerous possibilities; being subject as it is to the whims and exigencies of foreign political and banking officials, a demand for convertibility could come unexpectedly.

Incidentally, our Federal debt has increased from \$22,538 million in January 1934 when the price of gold was pegged at \$35 an ounce, to a total of \$296,860 million and the annual interest requirement on this debt from \$689 million to \$9,380 million. And, during the same period, the cost of living index rose from 42.8 to 128.4, thereby reducing the purchasing power of the dollar to 35 cents. This figure, by the way, compares with a low of 34 cents reached by the Civil

War "greenback" currency when it could not be converted into U.S. Treasury-held gold.

It should be noted that the price of gold would now be \$105 an ounce if it had advanced in proportion to the cost of living index and that it would now be priced at over \$470 an ounce if it had advanced in proportion to the increase in annual interest requirements on the Federal debt.

What to do: Gold cannot be manufactured, nor can it be created by law. Gold must first be dug out of the ground. Thereafter it can be obtained on trade balances, but a look at the record discloses the fact that we have been losing gold on balance primarily because we have been priced out of many markets by the low wage rates that have cut the cost of production abroad below our production costs. For example, the average hourly wage is only 93 cents in West Germany, 86 cents in England, 82 cents in France, 68 cents in Belgium and the Netherlands, and 65 cents in Italy as compared with a whopping \$2.96 an hour in this country.

In connection with the real value of an ounce of gold, note that 35 U.S. dollars or dollar credits, being convertible, when foreign owned, into an ounce of U.S. Treasury-held gold, will buy labor in the equivalent of \$110.53 in West Germany, \$119.53 in Great Britain, \$125.36 in France, \$151.16 in Belgium and Holland, and \$158.35 in Italy.

How to do it: Balancing of the budget and eliminating the balance-of-payments deficits, would at best only halt the outflow of gold. Increasing our gross national production of goods and the sale of the increase would provide no more than a very "timid" answer. The one sure way to get gold is to dig it out of the ground. This, by the way, is what the Soviet has been doing on an increasing scale since the early 1920's; and, because gold is the all-powerful "weapon" in either a hot shooting war or a cold economic war it is imperative that we overtake the Soviet in both gold production and gold holdings.

Fortunately, the United States, unlike the free world nations of Europe, has very large unmined gold resources in more than half of its States and a logical and feasible first step would be to draw on our unmined gold resources by providing an incentive for increased gold production. There is a precedent in the incentive prices paid by the Government for copper, lead, and zinc during World War II. And President Kennedy set a precedent recently when he unpegged the price of silver and thereby provided a higher price for silver that will be paid by industry which has heretofore been getting Treasury silver at a bargain price. Incidentally, a higher price for domestically produced gold would not disturb the international monetary scene.

The statistical fact indicators on a higher price for U.S. gold are much clearer now than they were early in June of 1933 when I made a statistical fact analysis of our gold position in which I listed \$35.14 an ounce as a indicated future price.

Although President Roosevelt, both before and after his election, repeatedly charged that any expression of alarm over our gold position was "a libel on the credit of the United States," he wisely changed his mind and, after trying out various price increases in purchases made to recoup Treasury gold losses and stop the gold outflow, he finally set the price at \$35 an ounce, which was the approximate London gold price at that time.

By the way, it is a startling fact that gold holdings of the U.S. Treasury on January 1931, 1962, should have totaled \$48,042 million in order to show the same net gold asset surplus of \$4,214 million it had on January 31, 1934, when President Franklin D. Roosevelt issued the order that revalued gold. Foreign-owned dollars and dollar credits convertible into U.S.-Treasury-held gold on demand totaled \$25,336 million on January 31, 1962, and, on the basis of the 40 percent monetary reserve gold requirement that was in effect until in June 1945 the monetary gold requirement would have totaled \$18,392 million. To these two figures add the January 31, 1934, net gold surplus of \$4,214 million and you have a total of \$48,042 million. Bear in mind that foreign gold liabilities increased nearly 40 times over between January 1934 and January 1962—\$670 million to \$25,197 million.

Since a strong net gold asset surplus is the best defense and also the best answer to our economic problems, it is imperative that primary consideration should be given to our long neglected and greatly weakened gold frontier and prompt action taken to strengthen it. What is done about our gold shortage problem and how soon it is done will shape for good or ill the destiny of this Nation. "Annuit coeptis," and the time to make a "beginning" on strengthening our gold position by increasing gold production out of our own ground is now. Time is of the essence.

ARIZONA SMALL MINE OPERATORS ASSOCIATION,
Phoenix, Ariz., March 13, 1962.

Hon. JOHN A. CARROLL,
U.S. Senate,
Senate Office Building, Washington, D.C.:

Am advised that a hearing is called for your committee for March 15 to consider Senate Joint Resolution 44 and other proposed gold legislation. Regret my inability to personally attend this hearing but we would like to get into the record our endorsement of Senate Joint Resolution 44 introduced by Senators Engle, Case, and Kuchel. The gold situation in the United States is such that it demands some legislation and if such legislation is not enacted at an early date the situation will get worse and may require a more drastic solution with ultimate devaluation of the dollar. While Senate Joint Resolution 44 would not in our opinion fully solve the shortage of gold situation it does protect the integrity of the dollar and would at the same time be an important step in the right direction and demonstrate what can be accomplished by a moderate subsidy program for newly produced gold. Furthermore it would greatly relieve the unemployment situation and bring about the opening of many old gold mines which have long since been shut down. On behalf of the more than 3,000 members of the Arizona Small Mine Operators Association I wish to endorse Senate Joint Resolution 44 and ask that a copy of this telegram be incorporated into the record of the hearing.

CHARLES F. WILLIS, *State Secretary.*

AURORA, COLO., March 16, 1962.

Senator CARROLL,
U.S. Senate.

DEAR SIR: The Denver Post printed an article concerning gold mining in which they quoted you as being for subsidizing the mining of gold. I want to go on record now as being totally opposed to such a measure. Our economy is based on the price of gold and if we ever expect to rebalance the budget and get our feet back under us the gold price must be left alone.

Mining techniques have not changed over the past 20 years as the rest of the industries have so they cannot keep their heads above water. Let initiative show the way instead of a handout which would be worse than the condition now existing in the field of agriculture.

The creative ability that made America great was not based on Government handouts. Since we have gone down the road of handouts our neighbors overseas can no longer see us as something to be admired and I don't blame them. Give us a chance to show the world that we still have some of the spirit left that made this country great.

My brother and I have just formed a gold mining company that has as its basis an idea that will produce double what was taken with the old style placer dredges. Besides that the overhead will be at least only 25 percent of former costs of a dredge.

I will be pleased to show you of what I am speaking and the success of our company.

Sincerely,

DAVID G. HOBSON.

LEWISTON, IDAHO, March 15, 1962.

Senator JOHN A. CARROLL,
Chairman, Subcommittee on Minerals, Materials, and Fuels,
Domestic Gold and Silver Hearing, Washington, D.C.

Mr. Chairman and members of the hearing panel, the Prospectors and Miners Association, Inc., Box 722, Lewiston, Idaho, would like to go on record as favoring the passage of Senate Joint Resolution 44.

We represent a membership of several hundred, and it is our unanimous belief that the production of gold would be a good shot in the arm for our Nation's needs right now; to build up the dwindling gold reserves; to make a stronger economy through renewed stimulation of all businesses and industrial enterprises and the relief of unemployment.

There would be an increase of tax returns to local, State, and Federal Governments.

It is with great urgency that we recommend immediate action on the passage of Senate Joint Resolution 44.

Thank you.

GEORGE DENISON.

SACRAMENTO, CALIF., *December 19, 1961.*

HON. ED EDMONDSON,
Muskogee, Okla.

MY DEAR CONGRESSMAN EDMONDSON: At the recent hearings of the Interior and Insular Affairs Subcommittee in Sacramento it was suggested, in view of the lack of available time, that witnesses submit their further comments to the committee by letter. In conformity with that suggestion, I am submitting this commentary, which I trust you will find to be objective.

The suggested course of action outlined herein is to surmount or at least minimize the sales resistance cited by the committee members, which might be generated by any proposal to raise the basic price of gold produced. In the opinion of the writer this factor alone, because of its monetary and economic impact, is the major obstacle confronting the committee in its search for an equitable and practical solution to the rather chaotic, albeit serious, situation which prevails. The suggested course of action outlined herein is based on the following background datum.

(1) It must be recognized that hard-rock gold mining is made up of three basic operations, to wit—development, extraction, and milling. Development work is by far the most expensive. Anyone who contemplates drilling an access tunnel through a footwall of solid serpentine can get an awareness of the staggering costs that would be required. Any mining operation which does not keep the progress of its development work well advanced to continually block out new ore bodies would soon work itself out of business. It is my opinion that aside from the required outlay for development work a hard-rock gold mine could conduct its extraction and milling operations profitably at the \$35 price of gold.

(2) It must be further recognized that in most instances the closed mines worked out all the ore reserves that had been blocked out before shutting down. Accordingly the initial capital outlay upon reopening the mines will be to develop or reestablish the ore reserves or access to tunnels to them. In the vernacular this is where "pump will have to be primed" aside from recapture or dewatering costs.

(3) If some means can be found to subsidize or establish incentive funding arrangements for the costs of development work the need to adjust the \$35 price can be avoided. In the opinion of the writer every possible avenue should be explored in this area before any revision of the established price is considered because of the monetary and economic side effects such a price adjustment would create. The public with some awareness of the inflationary factors involved would accept the suggestion hereinafter outlined more readily and the sales resistance which the committee has anticipated would be largely overcome. It is accordingly being submitted for your consideration and study.

(a) The Government while still maintaining the \$35 basic price for monetary purposes should establish a program for loans to the closed mines for recapture and development work. The production figures of each mine prior to 1942 (L208) can be used for the criteria in establishing the ceilings on these loans. As an alternative the dollar amount of the claim filed by the respective mines in the court of claims action could be included in the criteria.

(b) Credits in units of some predetermined amount would be applied against these loans for every ounce of gold delivered to the mint at the \$35 price. This credit could be 50 cents per delivered ounce or whatever unit the committee, after study, deems to be equitable and fair. The credit would be in lieu of any direct payment in the form of subvention or subsidy.

(c) Subsequent loans for development work could be predicated upon the amount of credits which had been applied against loans previously made. If an operator for example is attempting to rehabilitate a marginal or low grade operation which economically should have remained closed, his production (deliveries to the mint) would not have generated sufficient credits to outstanding loans to justify further advances. The Government has a self-operating limit on any inefficient or marginal operator who attempts to "go to the well for water too often."

(d) If it is determined after study that the development loans should be collateralized it can be a requirement that the operator pledge as security the mineral lands on which his mining operations are conducted. These lands in most instances were originally in public ownership and were conveyed out by land grant or mineral patents. Forfeiture of such holdings through inability to generate adequate credits against any advances made would bring back into public ownership valuable recreational timber or watershed areas presently lying fallow under dormant private ownership. This by coincidence is one of the objectives expressed in hearings on the wilderness bill presently pending before Congress.

As an adjunct to the suggested program it might be of further interest to explore and consider the prospect of charging the jewelry trade or other commercial users a higher price for gold purchased from the mint, thereby enabling the Government to recoup a sizable portion of the cost of the development loan program. I am certain that the gold mining industry would look with favor upon the termination of the virtual subsidy now enjoyed by the commercial users to the detriment and ruinous disadvantages of the gold mining industry.

I am confident that careful analysis of the foregoing suggestion would disclose many advantages while avoiding the many negative factors that raising the basic price would precipitate. I am a director of Idaho Maryland Mines, Inc. (now Idaho Maryland Industries, Inc.) and personally own approximately 750 acres of mineral lands in Nevada County. My suggestion is submitted not as a technical mining expert or operator but as an observer who has watched the gold situation since 1942 with full cognizance of the economic and related factors involved. I am trying to restrain myself to a concise letter form, rather than an enthusiastic essay or debate but respectfully submit that (a) by virtue of added income tax revenues, (b) increased employment, and (c) curtailment of Federal outlay through welfare programs, the net Federal outlay for a development loan program would be within more reasonable and practical limits than any program of outright subsidy.

The self contained limits and restraints of this suggested program makes it possible to administer a program of that type equitably and the common abuses and inequities of the outright subsidy are eliminated.

Respectfully,

H. G. ROBINSON.

STATEMENT OF THE WESTERN MINING COUNCIL, INC., NEWELL H. LEPPERT,
PRESIDENT

San Jose, Calif., March 16, 1962.

Senator THOMAS KUCHEL,
Senate Office Building,
Washington, D.C.

DEAR SENATOR KUCHEL: At a recent meeting, the board of directors of WMC (representing thousands of miners from various parts of the State) passed a resolution unanimously supporting Senate Joint Resolution 44. We ask that you do everything possible to secure the passage of this much-needed legislation.

The passage of this bill would not only benefit the gold producers and preserve the gold mining industry, but this legislation would contribute many benefits to the Nation as a whole. You are already familiar with the fact that we are using more and more gold as a commodity in this space age, and it is impossible to mine gold at the present price due to the increased cost of labor and material. Therefore, I would like to call your attention to some of these benefits to the Nation as a whole.

Employment: Create jobs and bring money into areas already classified as distressed.

Purchasing power: Greatly enhance this by the purchasing of new equipment and materials necessary to get into production.

Taxes: The above items would increase tax revenues at the county, State, and Federal level through property taxes, sales taxes, and income taxes.

Unemployment and welfare: Decrease both of these in present problem areas. It is true that this is an incentive payment, but the returns to the Nation are much higher than direct handouts. There is less chance of abuses, and we will be paying these people not only to produce but to produce something we need. Furthermore, it would not be paid unless they do produce.

Psychological: Help stop the gold drain on our Treasury. The fact that our gold mines are in production and that we have a gold supply available, will bolster the faith in our dollar, both here and abroad. We can then convince the foreign holders of our currency that they gain nothing by converting to gold, as we will always have newly mined gold available when needed. This will give us a "breather" to straighten out our balance-of-trade problem.

Frankly Senator, when we consider all of the factors involved, I can see no reason for anyone opposing this or similar legislation.

Sincerely,

NEWELL H. LEPPERT, *President.*

STATEMENT OF THE UTAH MINING ASSOCIATION, MILES P. ROMNEY, MANAGER

SALT LAKE CITY, UTAH, March 23, 1962.

HON. JOHN A. CARROLL,
*Chairman, Subcommittee on Minerals, Materials, and Fuels,
Senate Committee on Interior and Insular Affairs,
Washington, D.C.*

DEAR SENATOR CARROLL: We would appreciate acceptance of this letter for the record of the hearings held by your committee on March 15 which we were unable to attend.

At least since the turn of the century's Utah's gold production has been predominately from complex base metal ores of copper, zinc, and lead. In fact, the major portion of the ores mined in this period in which either gold or silver was the dominant value was mined for sale to base metal smelters as fluxing ores. These facts are illustrated by the following data, obtained from the annual yearbooks of the Bureau of Mines. As placer production has been insignificant, it is included with the dry ore.

Year	Total ounces gold pro- duced	Total from dry gold and/or silver ores and tailings	Total from base metal ores
1906.....	252,439	63,283	189,156
1910.....	195,052	47,410	147,642
1920.....	97,454	33,370	64,084
1930.....	208,455	60,255	139,200
1940.....	355,494	84,106	271,388
1950.....	457,551	5,322	452,229
1960.....	368,255	3,144	365,111
1961.....	¹ 338,655		

¹ Preliminary.

These production data are presented to illustrate Utah's rather slight potential in the matter of near future increased gold production under higher price stimulus, although some benefits could accrue to Utah's mining industry in the longer range.

1. The lead-zinc mines would benefit from any gain in revenue from increased gold price. The gain would be variable, but generally very small.

2. Such mining districts as Mercur and portions of the East Tintic could experience rejuvenated interest with an increase in the price of gold.

We recognize, however, that many areas of the United States have idled gold mines which might be rejuvenated through an increase in the price of gold. The benefits could be substantial by way of employment, restoration of value to the properties, new business and additional tax income for the related communities, and last, but not least, additional supplies of gold to strengthen the Nation's dollar-backing gold reserves.

We therefore urge the committee's favorable consideration of Senate Joint Resolution 44 and such other measures as might be helpful in increasing gold price or furnishing other incentives for gold mining rejuvenation.

Very truly yours,

MILES P. ROMNEY, *Manager.*

STATEMENT OF JULIUS H. KOLB, JR., OF DENVER AND CRIPPLE CREEK, COLO.

I am Julius H. "Mickey" Kolb, Jr., of Denver and Cripple Creek, Colo., a graduate of Yale University, 1923, in the same class with Senators John Sherman Cooper and Stuart Symington.

I have been in the oil and mining business since 1925 and am what is called a "practical miner" or leasor.

From 1933 to 1942, I leased property of the Stratton Cripple Creek Mining & Developing Co., of Colorado Springs, which company is one of the largest holders of deeded land in the famous Cripple Creek gold camp of Cripple Creek and Victor, Colo. I also had a "split check" lease from the Cresson Consolidated Gold Mining Co. from 1939 to 1942, when the gold mines were closed by Executive order of President Franklin D. Roosevelt.

At that time I paid \$5 a day for "machine men," \$4 to \$4.50 for "good muckers," \$4 for ore sorters. At that time powder, fuse, steel, and other equipment and supplies were very low in price compared to what you have to pay for them now.

We, at that time, received \$33.75 per ounce of gold for our ore, shipped to the Golden Cycle Mill in Colorado Springs. The treatment and freight charges were very low.

I could make a profit on gold ore, shipping as low as twenty to twenty-five one-hundredths of an ounce of gold; and of course more profit was made on any shipments above twenty-five one-hundredths of an ounce of gold.

In September, I again leased from my friend James H. Keener, vice president of the Stratton Cripple Creek Gold Mining & Development Co., 11 blocks which are 600 by 600 feet, and I now have 3 potential gold mines; namely, the Proper, the Kolb shaft, and the Colorado King, composing approximately 2 small mountains of undeveloped ground.

My partners are two graduates of the Colorado School of Mines at Golden, Colo., Dick Swerdfefer and Tom Sluga, and one partner, Elmer Swerdfefer, a graduate of the University of Wyoming at Laramie, Wyo., who has been a practical miner for the last 30 years, having mined for some of the largest gold mining companies and as a lessor for himself.

We did our own work on the property and hired no men, as we are all capable mining men. However, several of the men who used to work for me in earlier days applied for jobs at \$16 per day. Also, I found all supplies, whatsoever, were much higher in price; including all equipment and machinery. The price of gold remained at \$35 per ounce.

We rehabilitated and unwatered the Kolb and Proper shafts. After doing extensive surveying, we decided to operate through the Proper shaft at 225 feet in depth and then proceeded to make a "drive" for one of the "ore shoots" that I knew existed because of previous work done in 1936. We had "raised" or "stoped" to the Sims-Kolb stope approximately 30 feet and we hit the extension of the old ore shoot I once worked through the Kolb shaft, which I "sunk" to 217 feet in order to drive for the "Old Sims" stope mined in very early days. My cost then was \$10 per foot for a 4- by 8-foot shaft, timbers, etc. I have no idea of the cost of "sinking" now, but probably \$30 to \$40 per foot. The rehabilitation and equipment cost thousands of dollars that we did recently on the Kolb and Proper shafts.

Then catastrophe hit. The Golden Cycle Mill situated near Cripple Creek shut down. We were finished, done, and kaput, as we would then have had to ship our ore to El Paso, Tex., or Salt Lake City, Utah, for treatment and refining. We knew we could not make any profit as both smelters or mills were too far away, too expensive freight and treatment charges.

I propose a subsidy on gold of at least \$35 per ounce. Also, I do not think there is any gold mining company in the country (my own opinion) that would object to a 5 percent net yearly earnings return as partial reimbursement to the U.S. Government for the subsidy; which is more than farmers and other subsidized people send back.

The United States needs gold because of the low reserves in gold at Fort Knox. However, another thing which, besides the low gold reserves, causes me equal or more dismay is Russia.

I have read recent articles about gold mining in Russia, in which they are using slave labor (no cheaper labor in the world for making a profit). That enemy of ours is mining gold feverishly and frantically, as it wants to break the economy of the Western bloc with its "cheap gold."

I am not a financial expert, so I do not know what the Communist can do, but the men writing the articles are fearful that Russia can do something drastic to the Western bloc economy.

The communistic bloc is out to get the United States one way or another at sometime, if it can; that fact I believe with all my brain and heart.

I think we should endeavor to obtain all the gold reserves we can. I know at the present price of gold, gold miners cannot exist in the Cripple Creek district, as I talked to several of my old gold mining buddies in Cripple Creek and was told by each one, now it takes thirty-three to thirty-five one-hundredths of an ounce of gold to break even. That grade of ore or better is not easy to discover or to "open up."

However, with a higher price for gold, I know we in the Cripple Creek district could make a profit again. The Cripple Creek Gold Camp has produced several millions of dollars in gold. The "ore shoots" have been found at a depth of 3,600 feet in the Ajax mine. There are hundreds of acres of undeveloped ground. "Sinking" of other mines to a deeper depth, in my opinion, should uncover many more millions in gold. Most shafts in the Cripple Creek area are shallow in comparison to the deeper mines, such as the Cresson, Portland, and Ajax. It takes money, incentive, and encouragement to do this. Seventy dollar gold, I believe, would do the trick and bring in idle capital funds for such work. I think there is as much gold or more in the Cripple Creek hills as has been ever mined. I know of many shallow shafts that could be sunk to deeper ore shoots.

It is my understanding there are nearly 50 percent of the States of the Union which could produce gold but cannot under the present low price and the extreme high prices for labor and supplies.

I submit this statement in all due humility and respect to the committee of the U.S. Senate holding hearings on the price of gold.

STATEMENT OF JEWELERS VIGILANCE COMMITTEE, INC.

NEW YORK, N.Y.,
April 2, 1962.

HON. JOHN A. CARROLL,
*Chairman, Minerals Subcommittee, Interior and Insular Affairs Committee,
U.S. Senate, Washington, D.C.*

DEAR SIR: May I ask for your indulgence in replying to a few pertinent statements recently made before your committee by Dr. E. Groseclose which appear to be exaggerated.

That you may know something of my background—since 1907, I have been in the jewelry trade. In 1942, I closed my business and served with the Consumer Durable Goods Division of the War Production Board for the duration, jewelry being among the industries under my jurisdiction. Did not return to active business, and have been in my present position since 1945.

In connection with comments by Dr. Groseclose on "Gold and Government Policy," criticizing the action of the War Production Board in relation to controls on gold mining: During World War II it was the desire of the Government to interfere with commerce, manufacturing, distribution, and so forth, as little as possible. However, in order to further the war effort, control was placed on the use of strategic materials and labor, and efforts were directed to the conversion to war production of facilities and labor being used in nonessential fields. The regulations issued by WPB which affected access to machinery, equipment, and supplies requisite for gold mining were predicated on the fact that gold was a nonessential material.

Referring to statements of Dr. Groseclose wherein he compares the position of Government that "gold mining during the war was declared nonessential" and that "it took no similar view toward the fabricator of jewelry ornaments and the like," it should be borne in mind that by far the majority of important manufacturers of jewelry converted to the war effort to as great an extent as feasible, producing bullet dies and numerous small parts for munitions, etc. From an expense and labor consideration, the production of items used in the war effort was enabled, in many instances, by keeping part of the facilities; engaged in making jewelry. From an economic and war essential approach, it was clear to the authorities that to entirely close down the jewelry industry would not be sound procedure.

In discussing the subject "The Monopoly of Gold," Dr. Groseclose stated that "generally speaking, domestically produced gold must be delivered to the Treasury at the set price of \$35 an ounce, domestic trade in gold is so restricted as to be prohibited * * *."

Government regulations do not require that domestically produced gold be delivered to the Treasury, and in fact a very considerable part of the gold produced in the United States is sold directly to licensed users. It is true that producers are permitted to make sales to licensed users only, but it should be noted that this trade in the United States is substantial.

As to prices, the amount which the Treasury Department pays to the producer for domestically produced gold is \$35 a troy ounce, less one-quarter of 1 percent handling charge. The producer accordingly gets about \$34.91 an ounce for his gold when he sells it to the Government. The Treasury sells gold to licensed users at \$35, plus one-quarter percent, equivalent to \$35.08 $\frac{1}{4}$ per ounce. On the other hand, the New York market for gold is in the neighborhood of \$35.05 an ounce, so that it is obviously to the advantage of the producer (and likewise to the consumer) to sell directly to consumers rather than to the Treasury Department. The implication that the price of gold is maintained by the Government for the benefit of jewelers seems rather bizarre.

We have tried to clarify certain impressions obtained from Dr. Groseclose's statement, and request that this letter be made part of the record in connection therewith.

With thanks for your consideration,

Sincerely yours,

P. IRVING GRINBERG,
Executive Vice Chairman,

INVALIDITY OF THE NEW GOLD REGULATIONS

Memorandum of law submitted by the U.S. Gold Committee, Inc. [a Colorado corporation], 422 Washington Building, Washington, D.C.

Executive Order No. 10,905 issued by President Eisenhower on January 14, 1961, attempts to prohibit the holding by U.S. citizens and enterprises of gold situated abroad and of securities representing gold on deposit abroad. Subsequently, the Treasury amended the gold regulations to incorporate these prohibitions. The White House announced that existing American holders of gold abroad or of securities representing gold on deposit abroad would be given until June 1, 1961, to dispose of their holdings (Fed. Reg. Jan. 17, 1961, pp. 321-323).

It is believed that the Executive order and amended regulations are illegal as exceeding the authority conferred by the Congress on the President and the Treasury.

The Executive order and the amended regulations purport to be issued under section 5(b) of the act of October 6, 1917, as amended, 12 U.S.C. 95a, and the Gold Reserve Act of 1934, as amended, 31 U.S.C. 442, et seq. But those statutory provisions do not either directly or indirectly authorize the President or the Treasury to prohibit transactions involving gold situated outside the territorial jurisdiction of the United States. The Supreme Court has held on a number of occasions that all legislation of the Congress is presumptively territorial in its effect, and that unless Congress has clearly and specifically indicated that it intends a law to operate in the territory of another sovereign, the law will not be presumed to have such effect even though American citizens are involved. *American Banana Co. v. United Fruit Co.*, 213 U.S. 347; *Foley Bros., Inc. v. Filardo*, 336 U.S. 281-300.

The fact that Congress did not intend to confer the power to control transactions in gold situated abroad is fully confirmed by the consistent administrative practice of the President and the Treasury under the laws in question. Never before, even during the bank holiday and gold crisis in 1933 and 1934, when all available powers were exercised to the fullest extent, did the Executive attempt to control transactions in gold situated abroad. The Executive thus clearly recognized that it had no such power.

Persons affected by the Executive order and regulations can, it is believed, best test their legality by bringing an action for injunctive relief, in the District Court of the United States for the District of Columbia against the officials charged with their enforcement. The existence of such a remedy is well established by many decisions of the Supreme Court and other Federal courts. See,

for example the leading cases of *Laycock v. Kenney*, 270 F. 2d 580; *Stark v. Wickard*, 321 U.S. 288; *Philadelphia Co. v. Stimson*, 223 U.S. 605; *Harmon v. Brucker*, 355 U.S. 579.

GEORGE A. NUGENT, *Chairman.*

APRIL 5, 1961.

ROUVILLE MINING CORP.,
Silverton, Colo., March 10, 1962.

Hon. JOHN A. CARROLL,
U.S. Senator,
Washington, D.C.

DEAR SENATOR CARROLL: As a result of a meeting of the directors and shareholders of the Rouville Mining Corp. I am requested to convey to you our corporation's thoughts and views relative to the great dangers now confronting the metal mining industry of the United States.

In the past we have patiently submitted to legal authority, and have conformed to the laws of our country. However, we can no longer sit idly by and witness the piecemeal destruction of the American mining industry.

We protest any lowering of tariffs on lead and zinc, or offering any part of the stockpiled metals for sale. Dumping more lead and zinc on a market that is already dangerously depressed would probably complete the destruction of the American lead-zinc mining industry. We cannot produce lead for 0.095 cent per pound. Dumping stockpiles and lowering tariffs can only result in chaos.

Our corporation has operated continuously since 1956. We have given employment to miners and mechanics. We have spent money with manufacturers and jobbers. In fact, we have spent many thousands of dollars on this project without 1 cent of reimbursement. We are unable to mine lead at 0.09½ cent per pound, and will have to close down if some sort of relief is not forthcoming at an early date. Our miners will be without jobs and must search elsewhere for work. This simply adds more men to an already overcrowded labor market. When a mine is closed down for any length of time, the cost of reopening in many instances becomes prohibitive and the money invested in it is lost.

The Congress does not seem to be interested in the losses incurred by the stockholders and mine owners, due to low tariffs or other restrictive legislation imposed on them. We feel that the miner should be reimbursed for the losses he is forced to incur due to irresponsible action by some "dreamers" in Washington, who would rather see prosperity in the foreign countries and a return to relief, unemployment, and breadlines in the United States. Whenever the Congress destroys a business, thereby causing its citizens to lose all they have invested in it, they [the Government] should be willing to pay for the losses they have caused.

We protest any attempt to repeal the Silver Purchase Act. The repeal of this act would remove the 0.90½ cent floor price. This floor price would be a lifesaver, if any large amounts of silver were dumped on the market. Silver certificates must be kept in circulation, and must be backed 100 percent by Treasury silver. The silver certificate is the only honest money we have left.

The smoothest job of brainwashing ever attempted was accomplished by the F.D.R. administration when they relieved the American citizen of his gold and the right to own it. This was a loss of one of our great freedoms. Our gold reserve has almost disappeared from the United States. Not one thing has been done to replace it. In fact, restrictive laws have been imposed on gold-mining groups which has forced a closedown of their operations. A few years ago the American dollar was the most respected of all the world's moneys, because of the great reserves of gold and silver that it represented. Let us try to keep it that way. Let us create a favorable climate for all base metal and precious metal mining operations.

Yours very sincerely,

ERNEST S. HOFFMAN, *President.*

JAMES P. WEBB & SON,
Breckenridge, Colo., March 21, 1962.

Mr. JOHN A. CARROLL,
U.S. Senate,

DEAR SENATOR CARROLL: Just a note to you in regards to mining in all of the Mountain States area as this has been my means of livelihood for the past 25 years and as of now the living is pretty slim and has been all through the Republican administration. I am now 64 years young, but I have a son 21 and he has

the Washington mines here in the Breckenridge district which I have been doing the development work on and have 24 tons of ore on trucks in my yard, and no place to dispose of it. The ore is of lead, silver, zinc, and gold, which as you know has to be milled. Mr. Merrill E. Shoup's mill is the nearest to me, and as he states I could give employment to 20 miners if there was a market for the gold and silver and a fair price for the lead, but our market is too low to pay a fair wage to the miners. I have 20 to 30 miners a week hit me up for jobs, but am doing the work myself with hopes there will be a price change in the present metal market. I have had one offer to sell gold to the commies, but no sale; they have offered \$65 a fine ounce, but I would not sell even an ounce to them. I think with a fair price for gold at \$65 to \$70 per ounce, and \$125 for silver, we could live these old mining districts up and keep our own men off the unemployment list. John, you should remember me, at one time I was head of the International Union of Operating Engineers, but have been mostly in the mining game since 1936, with some small construction projects on the side. But things have changed. The small contractor does not have a chance under the present setup. All during World War II, I loaded ore in the Leadville District for the California Gulch Mill and the Ore & Chemical Co. of New York.

And from day to day there were big shots around urging us to get the ores out, be patriotic, buy war bonds; but now to hell with you guys; find something else to do; we don't need your products. We can get them from foreign countries cheaper. But I guess that is the way of politics. I, being an Indian from the Cherokee Tribe in North Carolina, have never asked the Federal Government for anything and have tried to paddle my own canoe and make my own living, but will ask you now to do what you can for mining industry as it has dealt a blow to these mountain counties, where the railroads have been removed and everything has to be trucked in over the highways. John, I hope you and Wayne can help to stabilize the price of metals and if there should be a bill passed for the aid of same, it will do no good unless the money is appropriated to carry the program through.

With best regards,

JAMES P. WEBB.

DELTA, COLO., April 2, 1962.

HON. GORDON ALLOTT,
Senator From Colorado,
HON. JOHN A. CARROLL,
Senator From Colorado,
HON. WAYNE ASPINALL,
Member of Congress From Colorado,
Washington, D.C.

GENTLEMEN: As this letter is economic, rather than political, it is joint. I note that in January 1962 the United States shows a 5 percent decline in gold produced. A keen financier asked me this question: "If the United States lost over \$2 billion of gold in 1961, and they feel that they are running out of time to offset or overcome this situation, why not U.S. gold production now? However, it would take from 6 months to a year to get the mines into production."

I doubt if the United States could get much production under a year, as many mines have a water situation to overcome prior to installing machines, and then the opening up of mills and smelters must be added to the time element.

When one realizes Russia has been strenuously producing gold over the 20 years (about) since we forced closing of gold mines in the United States, it shows up from a monetary standpoint as a slap in the face of western mining when one realizes that the gold is needed over the past several years. Until now the theorists have seemed to think it can be produced something like turning on a faucet. One thing for sure Mr. Kennedy is doing to please the Russian bear—he continues to spend IOU money, although he does not want to produce U.S. gold, apparently. Thus each day Mr. Khrushchev strengthens his gold situation, while the U.S. fiscal policy goes down the drain. With best wishes to you all, I remain,

Yours truly,

CHESTER W. BLAKE.

AMERICAN GOLD ASSOCIATION, INC.,
San Andreas, Calif., June 4, 1962.

HON. JOHN A. CARROLL,
*Senate Office Building,
 Washington, D.C.*

DEAR SENATOR CARROLL: Many thanks for your letter of May 24. I hope that you will take time to read this letter to your committee on the meeting scheduled for June 8.

The act of January 30, 1934, abolished gold coinage and our standard gold dollar. After that gold dollar had been abolished and when no such dollar existed, the President declared that he reduced the weight of the gold dollar from 25.8 to 15⁵/₃₂ grains, a reduction of 40 percent in our standard of value.

When the Government is not obliged to redeem its paper currency in gold upon demand by an American citizen, why call gold a "reserve"? Gold cannot be coined and gold coin cannot be paid out (31 U.S.C.A. 315(b)).

Another statute prohibits the redemption of currency in the United States, except as permitted by regulations issued by the Secretary of the Treasury and approved by the President (31 U.S.C. 409(a)).

An Executive order under another statute (12 U.S.C.A. 95(a)) declares it unlawful for any person to hold gold coin, gold bullion, or gold certificates in an amount over \$100. But the law calls gold a "reserve" and the law then reduces the amount of such "reserves."

What is the meaning of gold to the average American citizen? He knows it, of course, as jewelry and dental repairs. He knows that his Government has a large but dwindling hoard in Fort Knox. He knows that gold moves in settlement of international debts. He may know that a portion of the Government's hoard was earmarked to backstop the domestic currency. However, he does not revolt against the outrageous policy that now denies him the right to claim gold and makes a mockery of his alleged sovereignty. He does not resent the fact that foreign governments, and through them their citizens, enjoy a right which he does not, of dollar redemption in gold.

He did not complain when recently his President assured foreign dollar holders that if a squeeze should develop as a result of our present national insolvency, their claims would be honored even if the Government has to plunder the reserves earmarked by statute to strengthen the domestic currency. We are forced to conclude that although the American citizen still prizes gold, he has no strong feeling about honest money.

Sincerely,

JOHN R. ROSS, *Chairman.*

[From the New York Times, June 12, 1962]

KENNEDY AND BLOUGH MEET IN PARLEY ON GOLD OUTFLOW

(By Marjorie Hunter)

WASHINGTON, June 11.—President Kennedy met with Roger M. Blough of the United States Steel Corp. and other business leaders at the White House tonight to discuss balance of payments and the outflow of gold.

The meeting came within hours after the President, in a speech at Yale University, had called for cooperation between the Government and business in pumping new life into the Nation's economy.

However, the meeting with Mr. Blough and his special committee from the Business Council had been scheduled before the Yale speech.

Details of the 1-hour meeting were not disclosed. It was described by the White House as an "organizational type meeting" for the new committee.

ACCOMPANIED BY DILLON

Accompanied by Secretary of the Treasury Douglas Dillon, Mr. Blough left the White House by a side door. He was asked if they had found any solutions to the balance-of-payments problem.

"No, no statement," Secretary Dillon said quickly, pushing Mr. Blough and Crawford H. Greenewalt, president of E.I. du Pont de Nemours & Co., into a waiting limousine.

This was Mr. Blough's second visit to the White House since meeting with Mr. Kennedy in early April to inform him that United States Steel was increasing its prices.

On April 17, after the steel companies had rescinded the price increases under pressure from Mr. Kennedy, Mr. Blough returned to the White House. It was at this meeting that the President suggested setting up the special committee to examine the balance-of-payments problem.

Pierre Salinger, the President's press secretary, said the committee would examine steps the Government was taking in an effort "to bring the balance of payments into balance." He said this was one of the major objectives of the Kennedy administration.

He said the committee would make suggestions to the President, but that there was no thought of the committee preparing any report. Instead, he said, there will be a "steady cooperation and coordination of advice of the business community."

"The President feels that this kind of cooperation is most important and is the kind of cooperation that can be most helpful between business and the Government," Mr. Salinger said.

He said the President would favor other types of cooperation on this level.

Others attending the White House meeting were Henry Alexander, board chairman of the Morgan Guaranty Trust Co., New York; Allan Sproul, former president of the Federal Reserve Bank of New York; Thomas J. Watson, Jr., president of the International Business Machines Corp.; Henry Fowler, Under Secretary of the Treasury; and Robert Rossa, Under Secretary of the Treasury for Monetary Affairs.

The group had conferred for nearly 6 hours at the Treasury Department before going to the White House.

Presidential efforts to bolster confidence between Government and business have failed to impress Republican leaders in Congress.

In their regular "Ev and Charlie Show" news conference, the Senate Republican leader, Everett McKinley Dirksen, of Illinois, and the House Republican leader, Charles A. Halleck, of Indiana, charged that the President's economic policies were killing the confidence of the business community.

Senator Dirksen said that the President "not only needs to reexamine his policies, but to weigh the capability of his advisers who urged such policies before further damage is done."

He said the recent stock market decline "has supplied the evidence that the Kennedy administration has got America moving again—but in the wrong direction."

President Kennedy's day began at 9 a.m., when he left the Carlyle Hotel in New York City for the flight to the Yale campus. He flew back to Washington in midafternoon.

Before meeting with the business leaders, the President held a 1-hour meeting of his Cabinet to survey progress of the administration's legislative program. The entire Cabinet attended.

[From the Congressional Record, 86th Cong., 2d sess.]

THE FLIGHT OF GOLD

Speech of Hon. James E. Murray, of Montana, in the Senate of the United States, Thursday, April 21, 1960

Mr. MURRAY. Mr. President, the movement of gold away from our shores is one of the more important international events of the last decade. Its consequences and ramifications are so great that they touch not only upon the value of our currency but also upon such matters as the size of our foreign aid program, the maintenance of our military installations overseas, and the extent of our investments abroad.

For some time the flight of gold from this country has been attracting the attention of the financial community. It has been the subject of more and more speeches and research papers, and of mounting comment in the financial press. And no wonder. During 1958 and 1959, more than \$3 billion of gold left this country for points abroad, as the result of a payments imbalance. And the deficit continues in 1960.

Despite the obvious importance of this problem, I have been dismayed—though not surprised—at the utter failure of the administration to seek a basic solution or, indeed, even to make any real effort to cope with it.

The fact that this continuing drain on our gold reserves is serious and its solution is complicated is no reason why we should refuse to face up to it. It will not go away if we simply let it alone. This country cannot afford to play the role of the proverbial ostrich and put its head in the sand while our domestic economy and our foreign and military programs become increasingly endangered.

Not a day goes by when some important alarm is not sounded over our weakening position in the cold war. Speeches are made daily about the missile gap; there is constant debate about our military readiness; expressions of concern over the size of our military forces continue unceasingly. But is not our economic strength as important to our fight against communism as any of these?

Gold continues—as it has for centuries—to be the basic commodity in international finance and the ultimate means for settling accounts between nations. The International Monetary Fund expresses exchange parities in gold. The member countries of the European Payments Union must settle a substantial portion of their deficits in gold. And the International Bank for Reconstruction and Development and the International Monetary Fund frequently require the use of gold. There is no reason to believe that gold will be any less important in these affairs in the years to come.

It is perfectly obvious to all who have considered the matter that our balance-of-payments deficit and the consequential drain on our gold reserves cannot continue at levels similar to those we have experienced in the last 2 years. And it is also perfectly obvious that vigorous action must be taken: First, to formulate a basic policy; and second, to implement it on a variety of fronts.

What is significant about the flight of gold is its relationship to the adequacy of our gold reserves. For, as our reserves decline, we find ourselves at a disadvantage in the world market, which in turn can compel us to resort to controls over imports or force us to adopt multiple exchange rates. Or we can find ourselves pressed into reducing our economic and military aid programs or the size of our military establishments overseas. In short, inadequate gold reserves not only can impede free international trade but also can adversely affect our foreign and military programs.

Numerous bills have been introduced during this session which seek in one way or another to deal with the problem of our gold deficiency. I myself have introduced legislation on this subject. I do not wish to take the time now to debate the different approaches which these various measures manifest. I do want to take the time to ask whether these bills will be permitted to languish and die as have their predecessors in previous Congresses.

I, for one, subscribe to the view that an increase in the price of gold is good technique for solving this problem. A higher gold price would, in my opinion, lead to larger gold production, which in turn would augment our diminishing reserves.

It is no secret, I am sure, that our domestic gold-mining industry is in dire straits. Unlike other countries, we have not granted subsidies to our gold miners, and the consequence has been that the rising costs of labor and supplies and the fixed price of \$35 per fine troy ounce has imposed a squeeze which makes it plainly uneconomical to produce gold today. By way of illustration, the production of gold from U.S. mines in 1957 reached the lowest peacetime level in more than 60 years.

By increasing the price of gold, this depressed industry would once again have an incentive to resume the mining of gold in the United States. Increased production will naturally make available additional gold stocks to be added to our reserves. We will thus have taken a long stride forward in forestalling the growing diminution of our gold reserves.

I am particularly interested in this solution because for many years I have been concerned with the plight of the gold-mining industry in this country. The possibility that increasing the price of gold can at one and the same time aid this distressed segment of our economy and aid in solving the larger problem deriving from the payments imbalance has its obvious attractions.

The great prestige of our country has suffered immeasurably in the last few years. We cannot permit our position on the world scene to be further weakened. One quick and effective method for bolstering our wavering position in world affairs is to slow down, indeed, stop, the diminution in our reserves of gold.

The administration has failed to exert leadership on this important matter just as it has failed in many other important areas. But we cannot permit the continuing erosion of our gold reserves too much longer if we hope to retain our great status at the table of nations.

An increase in the price of gold will have an immediate effect on our international balance-of-payments deficit and, simultaneously, will reactivate and strengthen a distressed segment of our economy which has been too long forgotten. I urge strenuously, and with all the power at my command, that serious-minded men everywhere in our Government give immediate consideration to this grave problem and the sound and relatively simple solution which I have recommended.



