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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

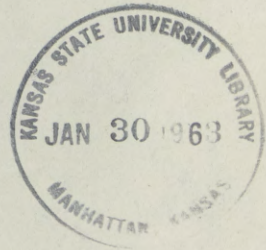
ON

S.J. RES. 44

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

APPENDIX

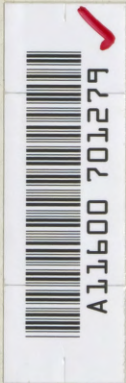
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APPENDIX

(The following statements and communications were received subsequent to the close of the hearings on gold and silver incentives. Because of the pertinency of the documents, and the possibility of action in the Eighty-eighth Congress to stimulate production, they were ordered printed as an appendix to the hearing record.)

STATEMENT OF DR. W. J. BUSSCHAU, CHAIRMAN, GOLD FIELDS OF SOUTH AFRICA, LTD.; WEST WITWATERSRAND AREAS, LTD.; WEST DRIEFONTEIN GOLD MINING CO., LTD.; FORMER PRESIDENT, TRANSVAAL AND ORANGE FREE STATE CHAMBER OF MINES; AND DIRECTOR, SOUTH AFRICAN RESERVE BANK

My name is William John Busschau, and I reside at 9 Murray Street, Johannesburg, South Africa. I graduated from Natal University with a B. Com. and a M. Com. degree, and from the University of Oxford (England) with a D. Phil. degree. I am also a chartered accountant (South Africa) and have been in the gold mining business since 1936. As chairman of Gold Fields of South Africa, Ltd., I am in charge of the operations of a group of mines which collectively produce more than 10 percent of the annual gold production of the world (excluding Soviet Russia) viz, over 4.6 million ounces in the year ended June 30, 1962. The largest mine in the group, the West Driefontein gold mine, is on the basis of its current output and profits the greatest gold mine in history, and indeed produces more gold than the United States or any other country in the free world except South Africa itself and Canada. My doctoral thesis at Oxford was published under the title of "The Theory of Gold Supply" by the Oxford University Press, and I have published also "The Measure of Gold" and "Gold and International Liquidity" as well as numerous articles dealing with the relationship between gold and paper currencies with special reference to the price of gold. I am at present a vice chairman of the Monetary Commission of the International Chamber of Commerce, and as a director of South Africa's central bank, the South African Reserve Bank, am concerned with current problems of international currency arrangements. I have represented the South African Government in negotiations with the International Monetary Fund, and am a former president of the Transvaal and Orange Free State Chamber of Mines, which is an employers' organization representing the gold, uranium, and coal mining industries in South Africa.

I am glad to have this opportunity of commenting on the evidence given to your subcommittee on Friday, June 8, 1962, by Mr. Robert V. Roosa, Under Secretary of the Treasury for Monetary Affairs, and his associates (pp. 176-220 of the hearings of March 15 and June 8, 1962, U.S. Government Printing Office, Washington, No. 82666, referred to below as "Hearings"). This evidence does, I believe, contain inaccuracies of fact, and misleading statements and misinterpretations which in the interests of the subcommittee should be revealed.

Mr. Roosa ("Hearings," p. 192) suggests that South African producers receive the equivalent of a subsidy through the tax laws. He says: "As I have indicated, in the case of South Africa it is very hard to gage what the subsidy, if anything, is, but it is all indirect in the form of their tax treatment." In other words, he appears to believe that there may be a subsidy concealed in the tax, but it may be nothing. It would appear desirable that the subcommittee should be better informed on this point.

TAXATION ON GOLD MINING IN SOUTH AFRICA

Gold production in South Africa was approximately 12.2 million ounces in 1938, rose to 14.4 million ounces in 1941, then affected by wartime shortages of materials and later by labor shortages, it declined to 11.5 million ounces

in 1951, and then with new mines coming into production rose fairly steeply to a record figure of over 22.9 million ounces in 1961. Looking back over the figures of the last 10 years (years ended June 30, 1953, to 1962) one finds that the gold and uranium mines belonging to the Chamber of Mines increased from an annual rate of under 12 million ounces to over 23.5 million ounces, while over the same period the annual working profit also rose steeply. In relation to these figures it should be noted that "new mines" (i.e., mines which commenced production after the end of World War II) contributed in the end year of the period more than half the total output of gold, and almost two-thirds of the working profit as compared with less than 7 percent in each case in the first year of the period. The old mines (i.e., those which existed at the end of World War II) have gone into a sorry state of decline, since like producers elsewhere they have felt the rising costs in the postwar inflation, and total production has risen because the production from quite "new mines" has out-balanced the decline in production from the "old mines." That the net trend has been upward is not due to fiscal action by the South African Treasury (and certainly no thanks is owing to the U.S. Treasury) but due to the provision by nature of high grade ore in the new mines which have been developed largely through improved methods of prospecting for and of mining the metal.

Gold mining in South Africa is taxed according to a formula :

$$y = 60 \frac{360}{x}$$

where y = the rate of tax on profits and

x = the ratio of profit (i.e., taxable income) to revenue expressed as a percentage.

If the ratio of profit to recovery were 12 percent, the rate of tax on profits would become 30 percent; while if it were 24 percent the rate of tax would be 45 percent, and if the ratio were 60 percent the rate of tax would be 54 percent.

A simpler formulation of the tax is as follows :

Tax payable = 60 percent of (taxable income minus a tax-free allowance of 6 percent of revenue)

In other words, a gold mine pays no tax if its taxable income is below the figure represented by 6 percent of its revenue, and on its profits in excess of 6 percent of revenue it pays 60 percent of the excess.

In calculating taxable income no allowance is made as in other countries for depletion, but expenditure on shaft sinking, equipment, etc., is amortized by redemption allowances as follows :

Old mines are allowed to deduct an amount equal to 27½ percent of their unredeemed capital expenditure.

New mines may deduct the capital expenditure they currently incur.

It will be seen that new mines have special treatment in that capital expenditure may be redeemed earlier in time, but the spokesmen of the industry have complained in recent years that the effect of the taxation which results in an average rate of taxation of over 50 percent plus the onerous lease payments made to the Government represent such a burden that new enterprise is being retarded, and the South African Government is reported to be studying ways of encouraging the development of further new mines. Under the tax system as it stands there is no subsidy to gold mining. Mines with low profits pay no tax, while others pay very heavy tax. It is straining the proper use of words to describe this system as a method of subsidy. Up to the date (June 8, 1962) when Mr. Roosa gave his evidence, the South African gold mining industry had not asked its Government for any subsidy. Instead it has steadily urged that gold should be revalued in terms of all currencies (including the U.S. dollar) as a measure desirable to revive international trade, and it continues to believe that this would bring proper relief to sorely pressed gold producers.

MR. ROOSA AND A SUBSIDY TO AMERICAN PRODUCERS

As compared with the position of U.S. producers of gold, South African producers are in a somewhat more fortunate position than their counterparts in the United States, since the local price of gold increased by about 43 percent over the prewar level when South African currency was devalued in terms of gold in 1949 coincidentally with the devaluation of sterling. Since 1949 costs

have probably risen less in South Africa than in the United States because of a lesser degree of inflation.

Mr. Roosa flatly rejects the idea of a subsidy to American gold producers, because he claims ("Hearings," p. 180) "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"; and "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."

Things do not become "unique" simply because Mr. Roosa claims they are. Money metals have not in history not caused disruption simply because one currency has fixed for a while a buying and selling price for that metal. Mr. Roosa in questioning admitted that countries belonging to the International Monetary Fund have assigned par values in terms of gold to their currencies; e.g., they do relate their currencies to gold, and as the dollar also has a par value, this gives a relationship to the dollar. Contrary to what Mr. Roosa would like the subcommittee to believe, gold has a value quite apart from its par value in dollars—in other words, exchange rates derive from the gold contents of currencies (their par values) and not from themselves.

Mr. Roosa in his evidence does not give any valid reason for believing that because the U.S. Treasury has for a short period in the flow of history maintained a fixed price for gold there would be "disruption" if instead it like other currencies dealt in prices it fixed daily within the limits imposed by the IMF agreement.

Mr. Roosa's contentions about the fixed price should be viewed in relation to the facts:

(a) As shown to the subcommittee in a table, exhibit L(2) ("Hearings," p. 85) the total sales of gold since 1946 by the U.S. Treasury and mint to industry, arts, and the professions exceeded U.S. domestic production. The maintenance of the fixed dollar price, therefore, could have no significance to the world's monetary system or the U.S. monetary gold stocks insofar as it affected U.S. gold production since this production on balance did not come to repose in any monetary gold stock. (Incidentally the maintenance of the price could have benefited the manufacturers of goldware at the expense of gold miners, but that is not relevant to the point at issue here.)

(b) On year-end figures (as shown in the table on p. 87 of "Hearings") the U.S. gold stocks continued to increase to the end of 1949 from 1934. This no doubt gave the United States some added "international liquidity" in the peculiar sense that Mr. Roosa and his colleagues use the phrase. It meant that the U.S. buying price of gold had some significance, and the United States earned considerable resentment because gold-producing countries claimed that their gold was being sold too cheaply to the United States.

(c) On the same set of figures the United States has year by year since the end of 1949 steadily lost gold; i.e., it has been a seller of gold on balance. From a high figure of over \$24 billion its stock has fallen to almost \$16 billion; i.e., by about \$8 billion. The fact that the U.S. Treasury's selling price was fixed at a time when U.S. gold production was sold outside does not seem to have much significance to gold producers, within or outside the United States.

(d) Over the period 1950 to 1961 world gold production was in the order of 400 million ounces; i.e., \$14 billion of which less than 190 million ounces or less than \$7 billion (i.e., less than half) went into monetary stocks. In other words the addition to other monetary gold stocks was less than the loss from American gold stocks; or, expressed differently, despite Mr. Roosa's claims about the "unique role" of the dollar the maintenance of the fixed price has resulted in a continuance of gold hoarding on a large scale.

Against the facts listed above, the claim by Mr. Roosa (on p. 181 of "Hearings") to the effect that the dollar is the "principal reserve currency of the world" and "the reserve currency on which all other currencies depend" makes strange reading. The Swiss currency would not appear to have depended on the U.S. dollar, nor indeed has the South African currency. The only sense in which other currencies may have depended on dollars is that despite having drawn something like \$8 billion worth of gold from the U.S. stocks, these countries have had to increase their holdings of dollars and through the various arrangement of Mr. Roosa's new system "hold them for the moment as unencashable."

Technically the U.S. dollar has only a limited convertibility—a convertibility that has become even more restricted in practice than it is in theory, and the fact that this limited convertibility occurs at a price which is at present unchanged from day to day gives the dollar no superiority in practice to currencies, which are both de jure and de facto convertible or at least de facto convertible, externally and internally (like the Swiss franc) although the price of gold may in terms of the currency concerned show only slight variation from day to day. U.S. Treasury officials have for too long declaimed (without proof) that fixing the price of gold at \$35 per ounce gives the international monetary system stability. The opposite is in fact true: the keeping of the dollar price of gold at \$35 per ounce has been a major source of instability in the international monetary system, since it has meant that the metallic reserves of the countries concerned have been too low (in terms of dollars) to allow trade and capital to move freely, and this basic fact has meant the continuance of restrictions, the granting of so-called aid and recurring balance-of-payments crises. While there appears to be no substance to Mr. Roosa's claim that the dollar's uniqueness in not fixing a daily price for gold means that a subsidy to U.S. gold miners is undesirable, attention should be paid to his other contention, viz, that the payment of a subsidy would encourage the expectation that the dollar would be devalued and havoc would then be created.

Mr. Roosa says (p. 180 of "Hearings"): "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"; and later (p. 210 of "Hearings"): "* * * 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."

In terms of Mr. Roosa's evidence (on p. 187 of "Hearings") the payment of the subsidy would cause dollars to be sent abroad by U.S. citizens, foreign individuals would sell their dollars, and foreign central banks would exercise the right (they now by act of grace do not) to encash dollars into gold, and Mr. Roosa admits that in these circumstances the United States would, in Mr. Roosa's words, be "unable to maintain the \$35 price."

The subcommittee appears to have been unsuccessful in eliciting from Mr. Roosa exactly the nature the "havoc" he postulated would take. It appears that countries which in the assumed circumstances were unlucky enough to be holding dollars would be "caught" by the devaluation of the dollar, and incur "losses." The assumption here apparently is that the dollar would be devalued in terms of gold revaluation, nor is such a possibility envisaged by Mr. Roosa himself. be worth less in terms of gold and in terms of other currencies, foreign holders of dollars (central banks and individuals) would show losses in balance sheets and accounts drawn up in their national currencies. Now such a unilateral devaluation of the dollar has not been envisaged by any of the leading advocates of gold revaluation, nor is such a possibility envisaged by Mr. Roosa himself. Since giving his evidence on June 8, 1962, Mr. Roosa has clearly stated (in an article "Assuring the Free World's Liquidity" in the Business Review Supplement of the Federal Reserve Bank of Philadelphia, September 1962, referred to below as "B.R."):

"Raising the price of gold by devaluing the dollar would certainly be followed by similar action on the part of other countries. An increase in the gold price would thus not help the U.S. balance of payments" (B.R., p. 5).

The President of the United States made a similar statement in his Telstar broadcast of July 23, 1962. Mr. Roosa cannot have it both ways—either the "havoc" must come because there has been a unilateral devaluation of the dollar or because there has been a general devaluation, i.e., a revaluation of gold. In view of the position taken by Mr. Roosa (and by Mr. Kennedy), he cannot any longer maintain that "havoc" will come the former way.

The subcommittee may well reconsider how Mr. Roosa's "havoc" would arise under the latter assumption, viz, that there would be an all-round revaluation of gold on a uniform basis. In these circumstances the exchange rates between the countries concerned are completely unaffected, and no losses would arise as in the former case from any holding of dollars. Insofar as gold is held the value of such gold would be enhanced in each national currency, and this profit could be placed to the reserves of the central banks concerned to justify in this way (in reverse) the overexpansion of credit they had previously made. All the paper currencies would, as indeed they should, then be worth less in terms of gold. Much more important, and in spite of the bold assertions of Mr. Roosa

and Mr. Kennedy that "there would be no difference" all the central banks would be in a better position to expand credit coincidentally with the potential growth of their economies, remove the restrictions which at present hamper international trade and capital movements, and restore the economic strength of the free world to full vigor. After the general revaluation of gold (through successive separate devaluations) which occurred from 1931 to 1934 there was no "havoc" but a general restoration of international economic activity.

What would emerge from a general revaluation of gold is how wrong Mr. Roosa and his predecessors at the U.S. Treasury have been in their pronouncements on the subject. What would also emerge is that dollars are not as good as gold, since countries whose reserves are in dollars, not gold, would forgo an appreciation they would have received if they had held gold instead. Currency history has shown that nothing is really as "good as gold" as international money. Gold does not depreciate in terms of itself, but modern currencies have shown a regrettable tendency to do so.

Mr. Roosa's own formula of "internationalizing reserves" simply amounts to nations "taking in each other's washing." They would hold each other's currencies as if they were unencumbered assets and not debts. These arrangements help the U.S. balance-of-payments problem only in a prima facie way if the United States is on balance a borrower, but such action is not a proper answer because if in this way gold is retained it is accompanied by a corresponding debt, and no net advantage arises.

The subcommittee might well consider further the nature of "key currencies." Historically, a "key currency" is one of a leading trading nation in which other countries find it convenient to trade, but their willingness to do so depends on their being able to regard it as being "as good as gold." The phrase was so used in relation to Bank of England balances or notes before 1914, because there was no doubt that payment would be made in gold. Until the last few years the phrase was also applicable to the U.S. dollar, but in view of the present state of the U.S. economy, foreigners are justified in not regarding the dollar to be "as good as gold." Indeed, this is the reason Mr. Roosa is so active in making complicated arrangements which have the effect of central banks (with large dollar balances) refraining from cashing them.

The rest of the free world looks to the United States as the guardian of its security and prosperity. It is a great pity, therefore, that the U.S. Treasury officials represent the proposition of a general revaluation of gold as a kind of unpatriotic assault on American integrity instead of considering it as a sensible measure of cooperation designed to revive the economies of the free world.

As regards a subsidy to American gold producers, there may be other valid objections to it from the standpoint of the U.S. Government, but Mr. Roosa's threat of "havoc" appears to have no validity whatsoever. Mr. Roosa did not appear well informed on Soviet gold production, but there is an aspect of this that the subcommittee might well consider. (In this connection the subcommittee might well refer to a statement made by Mr. Roosa to a congressional committee on July 11, 1962.) It has been stated from time to time that the Soviet Union subsidizes gold production, and it has also been said that the revaluation of gold would aid the Soviet Union. If Russian production is already subsidized then the benefits which could flow from a higher gold price are already being enjoyed as far as production is concerned. The United States by refusing even to discuss a revaluation of gold, and not subsidizing its own production, is inhibiting the growth of its own and the free world's production. Dr. Per Jacobsson in characteristic overoptimism has recently stated that there will be a large increase in gold production in the years immediately ahead. Such a view is unlikely to find support among those intimately concerned with gold production, and the disproportion between gold stocks and the volume of paper moneys is likely to increase still further. In these circumstances it would seem sensible to consider fully the implications of a revaluation of gold as a measure improving international liquidity and of assuring adequate gold supplies for the future.

Mr. Roosa in his evidence to a congressional committee on July 11, 1962, appeared to imply that the only people who asked for a higher price of gold were those connected with South African gold mining and the Russians. On this the subcommittee should be clear. No South African advocate of a higher gold price has any connection with the Russians, and no country is more firmly anti-Communist than South Africa.

COUNTY OF SAN BERNARDINO,
San Bernardino, Calif., June 14, 1962.

Senator JOHN A. CARROLL,
*Senate Office Building,
 Washington, D.C.:*

By action taken June 11, 1962, the board of supervisors reaffirmed its previous stand taken in support of legislation which would provide a subsidy for domestic gold production.

The board takes this opportunity to extent to you its sincere appreciation for your efforts in this respect and to urge that you continue your support of this bill which is deemed vital to the American gold mining industry and which would materially increase the U.S. gold reserves.

The board stands ready to assist you in every way possible with respect to this matter.

BOARD OF SUPERVISORS OF
 SAN BERNARDINO COUNTY,
 By: RUDOLPH L. CORONA,
Deputy Clerk.

CALIFORNIA MINING JOURNAL,
Santa Cruz, Calif., June 22, 1962.

Hon. JOHN A. CARROLL,
*U.S. Senate,
 Washington, D.C.*

DEAR SENATOR: In recent mail we have received a copy of your statement before the subcommittee hearing on "Minerals, Materials, and Fuels," and photostatic copies of reports by the Director, Office of Domestic Gold and Silver Operations; also a copy of the record dealing with gold subsidies in other countries.

The sender chides us for our years of blaming Congress for present monetary conditions and especially for its lack of the proper treatment of gold. He underlines your statement, paragraph 1, page 2, which reads:

"In preparing for these hearings, it becomes 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."

Our critic states we should put the blame with the Treasury and especially Secretary Dillon and his gold policymaking Mr. Roosa, from whom you and co-Members are taking policy. We won't accept his charge. It was Congress which approved the Bretton Woods Agreement, framed by Communists Harry Dexter White and Alger Hiss. That agreement is proving to be a conspiracy to shift U.S. gold into the International Monetary Fund. This is now Treasury policy, Kennedy policy, and with Congress making no objection it is the policy of your Congress.

When President Kennedy went along with Eisenhower's selection of Mr. Dillon as Treasury Secretary he played into the hands of the cabal to send our gold out of the country. You are all worrying about the gold drain, trying to convince us that a \$35 bonus is the answer. Clair Engle's provision in Senate Joint Resolution 44 calling for the bonus for 5 years or until such time as the reserve is pushed back up to \$23 billion is the big laugh. With the way your Congress is approving the Kennedy spending program the \$35 bonus wouldn't be a drop in the bucket. While we are fully aware that the domestic gold producer needs a price comparable to our 40-cent dollar and we are aware that our Government (with congressional approval) has given him a very unjust deal, the gold miner isn't the only part of our economy to be considered. All of us need the gold that is now leaving the country. And now that you are fully aware that the Treasury has usurped the duty and power of Congress—coining money and fixing its value—why not take the proper steps to correct the mistake?

Sincerely yours,

J. P. HALL, *Publisher.*

DAY MINES, INC.,
Wallace, Idaho, June 4, 1962.

HON. CLINTON P. ANDERSON,
Chairman, Senate Interior and Insular Affairs Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR ANDERSON: A month ago the Western Governors' Conference was held in Anchorage, Alaska. Since then a majority of our Western Governors have approved the enclosed resolutions. I particularly call your attention to the first two covering the subjects of gold and silver. I feel that you will be much interested in the attitude of the Governors.

Yours very truly,

HENRY L. DAY.

RESOLUTION OF THE WESTERN GOVERNOR'S CONFERENCE ON GOLD

Be it 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 all-time 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 international 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.

RESOLUTION OF THE WESTERN GOVERNORS' CONFERENCE ON SILVER

Be it resolved, That the following recommendations of the Western Governors' Mining Advisory Council with respect to the subject of silver be approved and adopted by this conference:

The world production of silver continues too small to meet the industrial and monetary demand. The U.S. Treasury free stocks of silver were reduced from 123.5 million ounces on January 1, 1961, to 28.5 million ounces by the end of the year. In recognition of this situation, on November 28, 1961, the President in effect created and established the framework of a new national silver policy in his directive to the Treasury Department to cease the sale of its disposable silver stocks to industry and to retire \$5 and \$10 silver certificates to meet subsidiary coinage requirements, and recommended: (1) That the Silver Purchase Acts of 1934, 1939, and 1946 be repealed; (2) that the portion of the Internal Revenue Code relating to the transaction tax on silver be repealed; and (3) that Federal laws be amended to permit the Federal Reserve banks to issue \$1 and \$2 notes to replace existing silver certificates. The President summarized this policy as follows: "Our new policy will in effect provide for the eventual demonetization of silver except for its use in subsidiary coinage."

This announced new policy departs radically from tradition and will have far-reaching effects. There is no question as to the need for a new national silver policy. However, the extent, direction, and timing are critical considerations that must be fully weighed and not ignored with precipitous action.

After cessation of Treasury sales of "free" silver, the world silver market is in a state of turmoil that followed the immediate price rise. Heavy speculative buying abroad in late 1961 created undetermined amounts of silver overhanging the market, which, with other foreign stocks, will keep entering the market for

the next several months. Increased inventory buying prior to the Treasury's action also had an artificial effect on the price of silver. Until these conditions have been tempered over many months and the free market in silver has had ample opportunity to become stabilized, it is recommended that no changes in the Silver Purchase Acts be made. However, to assist in creating a stable and realistic market in silver through encouraging trading in silver futures, it is recommended that the Internal Revenue Code be revised to eliminate the 50 percent silver transaction tax.

The withdrawal of \$5 and \$10 silver certificates should provide sufficient amounts of silver to satisfy the coinage requirements for about 10 years at the current rate. However, the withdrawal of silver certificates should be accomplished at a rate not to exceed the coinage demands. Since no other silver certificates need be withdrawn at this time, authorization of \$1 and \$2 Federal Reserve notes is not necessary. Pending legislation is both inappropriate and unwise.

The primary objective of a silver policy should be to stimulate the increased production of silver which is the only lasting solution to the long-range problem of finding a supply to satisfy the demand. This policy must also take recognition of the fact that the integrity of the dollar is no longer unquestioned in foreign countries and, therefore, it should be so framed as to achieve the utmost benefit from silver's unique capacity to serve effectively both as a monetary metal and as an industrial commodity. Extreme caution is urged before permitting the U.S. silver reserve to be dissipated. It should be noted that the replacement of \$5 and \$10 silver certificates by Federal Reserve notes is placing a further burden on our gold reserve.

We therefore recommend that—

- (1) The portion of the Internal Revenue Code relating to the tax on silver transactions be repealed;
- (2) The Silver Purchase Acts of 1934, 1939, and 1946 remain unchanged until such time as the free market in silver has become stabilized;
- (3) No legislation be enacted at this time to authorize Federal Reserve notes of \$1 and \$2 denomination.

RESOLUTION OF THE 1962 WESTERN GOVERNORS' CONFERENCE ON IMPORT CONTROLS

Be it resolved, That the following recommendations of the Western Governors' Mining Advisory Council with respect to the subject of import controls be approved and adopted by this conference:

It is essential that relief from excessive imports of low-cost foreign minerals be provided if the United States is to reestablish its western strategic and critical mineral mining industry in a reasonably healthy condition. It also is essential that circumvention of the purpose of the proposed relief be prevented by imposition of equivalent protection against related metal or mineral products produced by low-cost foreign smelters and manufacturers.

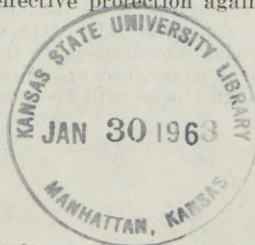
There are two possible methods of relief: (1) subsidies and (2) adequate import duties or quotas. The first method is not favored because the uncertainty of appropriations precludes other than temporary relief. In the second method, such duties or imports may be imposed or increased automatically when the price falls below prescribed peril points, and be removed or reduced when a prescribed price is reached or exceeded.

Certain critical minerals are now ineligible for escape clause proceedings because of the technicality that the duties on them have not been reduced since 1934.

Proceedings under the Antidumping Act are not clear and well understood.

We therefore recommend that—

- (1) Duties or quotas be imposed or increased automatically when the price falls below a prescribed peril point, and be removed or reduced when a prescribed price is reached or exceeded;
- (2) The escape clause technicality be removed and implementation for relief be made pursuant to escape clause proceedings;
- (3) Proceedings under the Antidumping Act be clarified and simplified to provide more effective protection against sales of imports at less than fair value.



RESOLUTION OF THE 1962 WESTERN GOVERNORS' CONFERENCE ON DISCOVERY REQUIREMENTS

Be it resolved, That the following recommendations of the Western Governors' Mining Advisory Council with respect to the subject of discovery requirements be approved and adopted by this conference:

The procedure established by the general mining laws for the location and holding of mining claims has proven successful in encouraging and providing for development of the mineral resources of the public domain. This procedure requires the "discovery" of a "deposit of valuable minerals." The test of a valuable metallic mineral deposit was early established by court decision as a showing which would justify a prudent man in the further expenditure of time and effort. In recent years, however, the interpretation by Government agencies of what constitutes "discovery" of a "deposit of valuable minerals" has changed; Government administrative decisions have recently been based on marketability, a test previously applied only to deposits of the common mineral varieties, such as pumice, clay, sand, and gravel.

We feel that the reason for the distinction between the application of the "prudent man" concept to metallic deposits on the one hand, and the "marketability" test to the common variety deposits on the other, needs to be restated. The value of most deposits of the common minerals can be readily determined, whereas the value of most metallic deposits can be determined only after the expenditure of much time and money. Consequently, to apply a marketability test to metallic deposits will effectively negate the general mining laws which have as their aim the protection of the claimholder until such time as he is able to develop a mineral deposit to the point where he can market the product.

Another continuing problem is the insecurity of a claimholder in his right to develop a deposit. Government agencies can and do challenge the validity of claims on the basis of insufficient discovery after much time and money have been expended upon them by the claimant. The agencies also insist that the sufficiency of discovery be based on conditions existing at the time the determination is made, rather than on conditions prevailing when the location was filed, or the discovery perfected. This requirement is contrary to the fundamental theory of the mining law, destroys the stability of all mineral locations, and makes the validity of the claim depend on changing physical and economic conditions.

We urge that Government agencies return to the original concept of discovery applicable to metallic minerals as developed by judicial decision. Furthermore, they should be instructed in their determination of the sufficiency of discovery to give weight to—and, where appropriate, to base decisions upon—geophysical, geochemical, and geologic evidence as attested to by competent authorities. Sufficiency of discovery should not be based, as apparently it has in some recent cases, solely on the physical evidence afforded by sampling and chemical analyses.

Further, we recommend legislation that would require the Federal Government either to contest or acknowledge the validity of a claim within a certain time after filing of a statement by the claimant indicating that he is ready for such a determination. Such a procedure would grant the claimant the same right the Government enjoys under the Multiple Use Act, and protect the claimant in the further expenditure of his time and effort.

We strongly favor passage of H.R. 1960 (passed by the House, now in the Senate Judiciary Committee) which provides that proceedings by a claim owner against the Government may be brought in the U.S. district court in the district in which the mining claims are situated. Such local review of Government administrative decisions is standard practice in many nonmineral matters (for example, social security). The prevailing rule that the validity of administrative rulings of the Secretary of the Interior with respect to mining claims can be challenged only in a proceeding brought in the District Court of the District of Columbia places an undue burden on the owners of such claims. It also encourages what amounts to legislation by administrative decision.

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